

M&A PLANNING AND INTEGRATION

Human Resource People and Strategy (HRPS) • April 25, 2019

Presented by: Bob Paxton



MASONITE.



Open to extraordinary.™

Masonite Overview



1925

8
MANUFACTURING
COUNTRIES

10K
EMPLOYEES

\$2B
NET
SALES

DOOR
NYSE
LISTED
2013


MASONITE.
Open to extraordinary.

BRAND LAUNCH
2017

Our Purpose: We Help People Walk Through Walls

Masonite's Integrated Supply Chain



- 5 molded facilities globally
- 8 press lines
- Insured replacement value of >\$1 billion

- 9 interior facilities
- 5 exterior steel facilities
- 3 exterior fiberglass facilities

- 10 Dorfap facilities
- Services retail customers
- Pre-hanging and pre-finishing are value added services

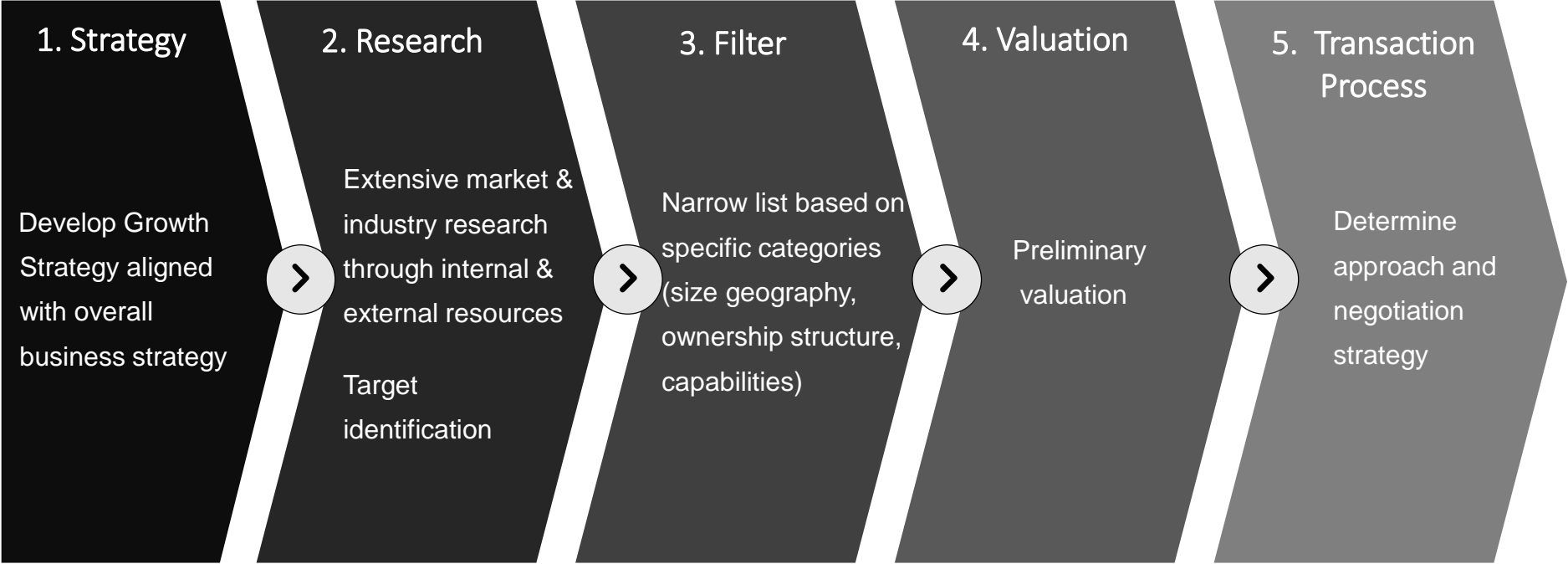
* North American Facilities

20 Transactions Valued at >\$80 Billion



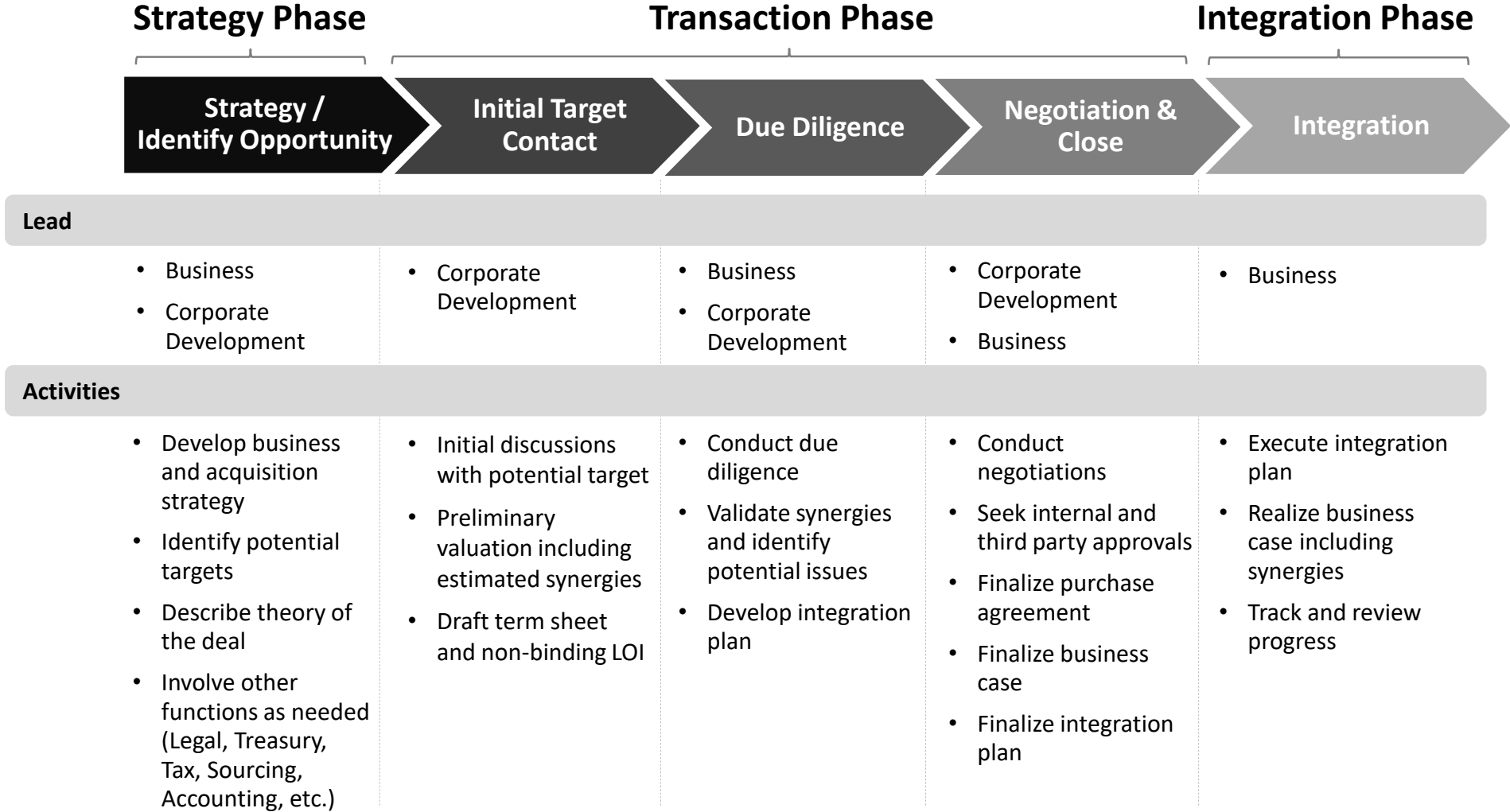
I. Strategy & Deal Sourcing

Typical Acquisition Process



Through All Stages Align with Business Sponsor and Executive Team

Acquisition Process



II. Due Diligence / Valuation

Key Due Diligence Considerations

Objectives:

- 1) Confirm initial assumptions about business & strategic rationale
- 2) Determine incremental potential opportunities
- 3) Identify risks

Timing: required time is dependent on the process. In an auction process due diligence usually takes 4-6 weeks. In a relationship deal the timeline is more fluid.

Key Outputs:

- 1) Inputs for the Valuation Model
- 2) Inputs for Purchase Agreement negotiations

Success Factors for Successful Due Diligence & Integration

1. Senior Support and Broad Organizational Buy-In

- Aligned, visible, and consistent Board and senior management support and commitment to see the integration through
- Ensure the broader organization understands the vision, rationale and plan for the transaction

2. Focus on Key Value Drivers and Clear Vision of End-State

- Clear and focused definition of key value drivers to support investment thesis
- Value drivers based work streams for diligence/integration efforts
- Clear definition of the end-state (organization structure, culture, etc.)
- Establish metrics to track the integration and the impact on key value drivers

3. Dedicated Team Driving the Due Diligence and Integration

- Dedicate strong performers and the right level of resources to build and sustain momentum
- Early assignment of diligence/integration team spanning all key stakeholder groups
- Clear articulation of roles and responsibilities and accountability critical
- Identified talent bench for M&A activity/back-fill

4. Robust Implementation Plans with Quick Wins

- Maintain the pace of integration (small and early wins), weekly updates on progress
- Clear road-map for the end-state objectives is outlined, Day 1 and First 100 days critical (Establish Day-1 readiness and early wins to build momentum)
- Attention to detail –sequencing and indentifying interdependencies/risks is critical

5. Plan for Key Talent

- Identify key talent at risk and/or critical positions that must be staffed early in the process and make plans to address via proactive retention programs

6. Manage the Change (over-communicate)

- Ensure communication plan is established and executed on regular basis
- Find ways to engage broader organization internally, and customers/suppliers externally
- Incorporate in the normal reporting cycle from the outset

Use of Outside Experts in M&A

- Functional experts are commonly used in the M&A process to supplement internal capabilities across various functions
- These functional experts spend a majority of their time on a specific type of work and improve the effectiveness and efficiency of the work required
- With the exception of pre-deal strategy, a majority of the experts are used during the due diligence and integration phases of the deal
- Functional leaders will have responsibility for making the hiring decision, setting the work expectations and reviewing the quality of work from the external experts
- Recommend all expert fees are included in a budget that is compiled by corporate development and reviewed with executive leaders as the deal progresses

Types of Experts

Type of Expert	Expert's Role	Examples	Who Hires
Bankers	Transaction advice and financing	 	CFO / Finance Leadership
Accounting	Quality of earnings	 	Corp Accounting
Tax	Tax structuring		Tax
HR	Employment matters		HR
EH&S	Phase I environmental review and product stewardship		Product Stewardship
Legal	Transaction risk and legal assessment		Legal
Consultants	Strategy and business case review		Business / Corp Dev
Real Estate	Property review		Real Estate Team
Other	Expert networks, former employees		Business / Corp Dev

Sources of Synergy Value

Synergies can typically be grouped into two different categories

- Cost savings – higher probability
- Revenue enhancing

Cost Savings Synergies

Lean Savings

Procurement/
Supply Chain

Back-office
Reductions

Facility
Consolidation

Financing Cost
Reduction

Working Capital
Efficiency

Fixed Asset
Efficiency

Revenue Enhancing Synergies

New
Geographies

New
Customers

Cross-Selling

Pricing

New
Products

New
Distribution
Channels

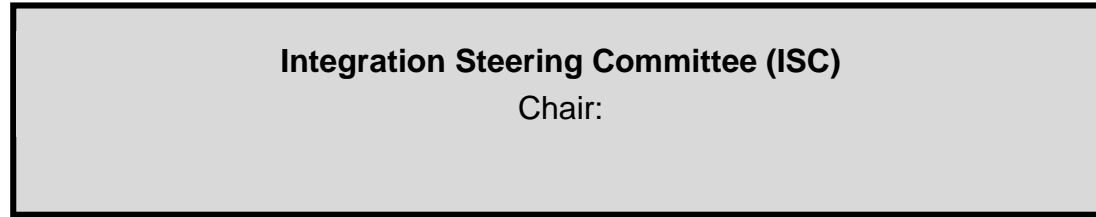
New Ventures
and Alliances

III. Integration

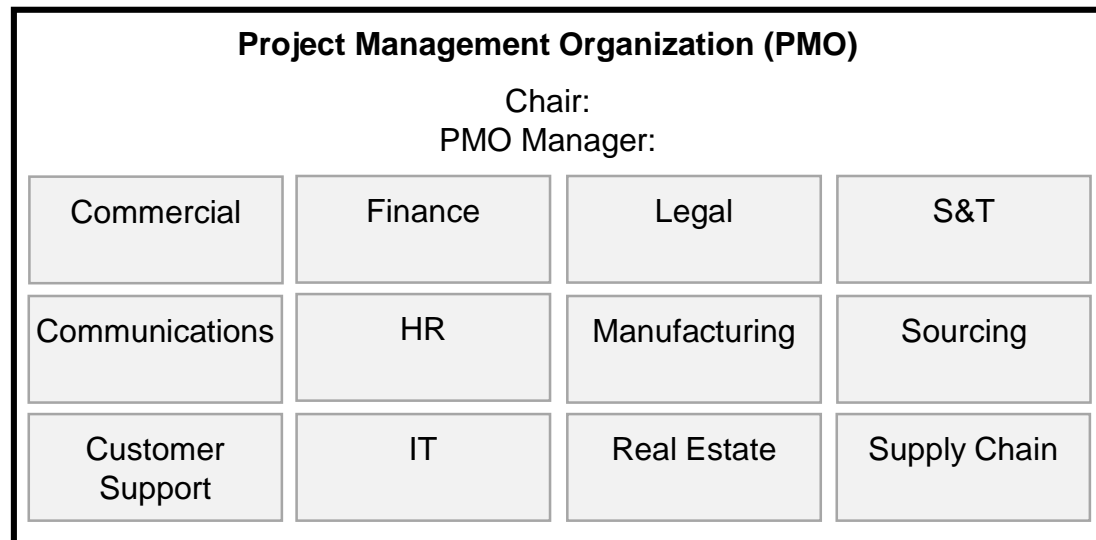
Integration Plan

- **Transaction Owner** is responsible for the deal outcome
- **Business Integration Manager** is dedicated to lead the project management organization that will achieve successful integration
- **Cross-Functional Team** is identified to:
 - Integrate the business
 - Capture identified synergies...aiming for more, faster
 - Manage overall integration costs
 - Mitigate risks to value creation
 - Ensure a seamless Day One, build momentum of the business in the first 100 days and prepare the business for continued growth

Integration Team Structure

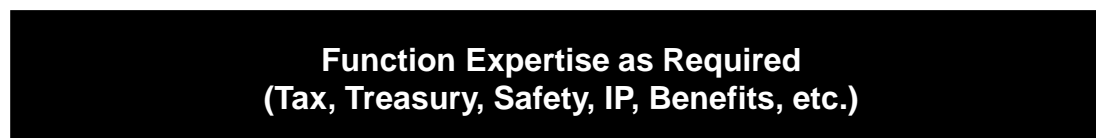


Provide oversight and guidance, review progress, help clear roadblocks and allocate resources. Meets once per month.

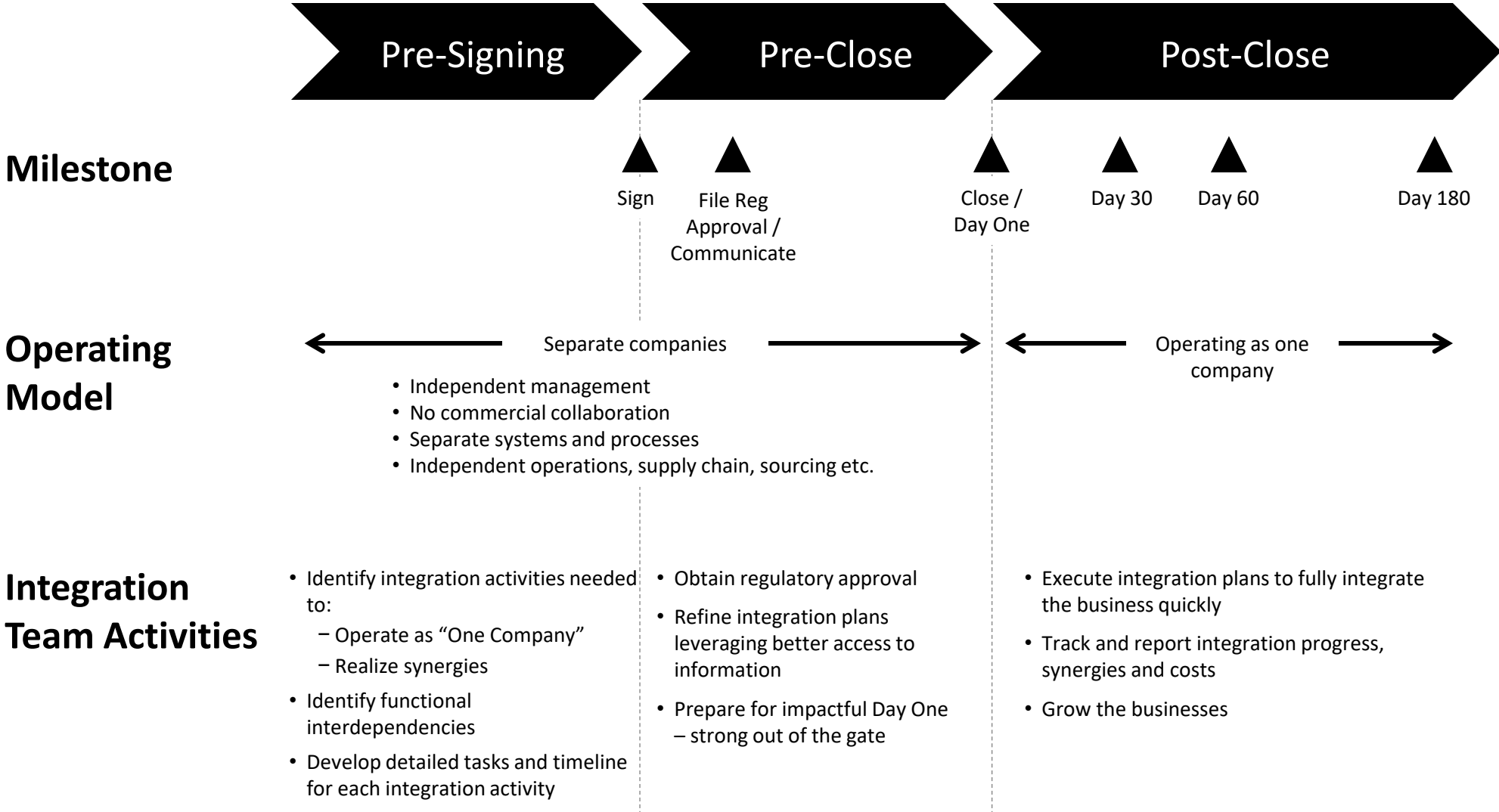


Support Transaction Owner in driving transaction and manage day to day activities and decision making. Integration team meets weekly.

Lead integration in respective functions. Weekly project plan reviews are held with each function.



Integration Planning Timeline



Project Plans

Functional Area	Leader	Initiatives	Projects	Deliverables												Tot Delv	
				Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17		Apr-17
CET Wave 7		5	7	2	3	12	11	17	13	1		2		1		1	63
Commercial		4	8	21	20	25	19	11	15	2	1	3					117
Communications		3	11	15	3	11	3	2	3		2						39
Customer Support		4	4	37	6	21	7	6	18	1		5				8	109
Finance		5	7	9	4	4	4	1	1		1	2				4	30
HR		10	47	69	23	26	21	8	30	8	7	22				1	215
IT		5	9	7	16	7	7	10	15	5	3	9		1	1	6	87
Legal		8	15	10	4	7	2	11	10			1				4	49
Manufacturing		10	11	15	9	15	12	13	19	3	2	3					91
Real Estate		4	15	16	4	4	12	4	6	4					1	6	57
S&T		5	31	6	5	3	8	9	6	5	1	4					47
Sourcing		6	12	4	5	3	7	2	6			2				2	31
Supply Chain		5	11	10	11	4	16	8	11	1	3		0			1	65
Integration Team		74	188	221	113	142	129	102	153	30	20	53	0	2	2	33	1,000
Deliverables Complete				221	113	142	129	88	17		0	2				1	713
Percent Complete				100%	100%	100%	100%	86%	11%	0%	0%	4%	0%	0%	0%	3%	71%

Initiatives: 74 major integration themes

Projects: 188 groupings of work that support the initiatives

Deliverables: 1,000 outcomes tying to realization of synergies or costs to achieve

➡ SharePoint site utilized to maintain project plans and key knowledge management

HR Integration Team Charter

Human Resources

Team Lead XXX

Team Members

- Benefits
- Compensation
- Employment Law/ Labor
- China HR
- India HR
- HRIS
- Corporate HR
- Talent Acquisition

Scope

In scope

- Integration of people processes, policies, systems and talent to support XXX business.

Out of scope

- Redesign of broader XXX organization or Corporate Functions beyond business integration.

Objectives and Initiatives

Objectives

- Achieve people related SG&A synergy targets
 - Headcount reduced by 36
 - Cost to achieve SG&A reduction \$6.6MM or less
- Talent secured for seamless transition of non-roofing businesses into XXX
- Shift go-to-market strategy from independent sales reps to XXX’s sales force
- Harmonization of all legacy XXX people related processes, policies and systems
- Legacy XXX operations in full compliance with labor laws and operationally efficient
- Legacy XXX employees are clear about their roles, aligned with business priorities and are excited to be with and perform at XXX

Key Initiatives

Timing

- | | |
|---|-----------------|
| • Organization Design: FTE Mapping, Org structure, Tracking | Days -30 to 15 |
| • Talent: Staffing, Retention, On-boarding and Objective Setting | Days 1 to 60 |
| • Development: Education and preparation of Distribution Sales for new products | Days 1 to 60 |
| • Benefits: benefits plans harmonized into XXX plans | Jan 1, 2017 |
| • Compensation: compensation plans harmonized into XXX plans | Jan 1, 2017 |
| • HR Systems: HRIS & payroll systems harmonized into Talent Center and Kronos | TBD |
| • Compliance: Audit and change necessary employment practices | Days 1 to 60 |
| • Labor Relations: Understand CBA terms and establish relationships | Days 1 to 60 |
| • Facility Integration: closure of XXX, XXX and other facilities | Nov 2017 |
| • Communications: Day 1, week 1, 100 day and initiative specific plans | Days -30 to 100 |

Interdependencies with other functions

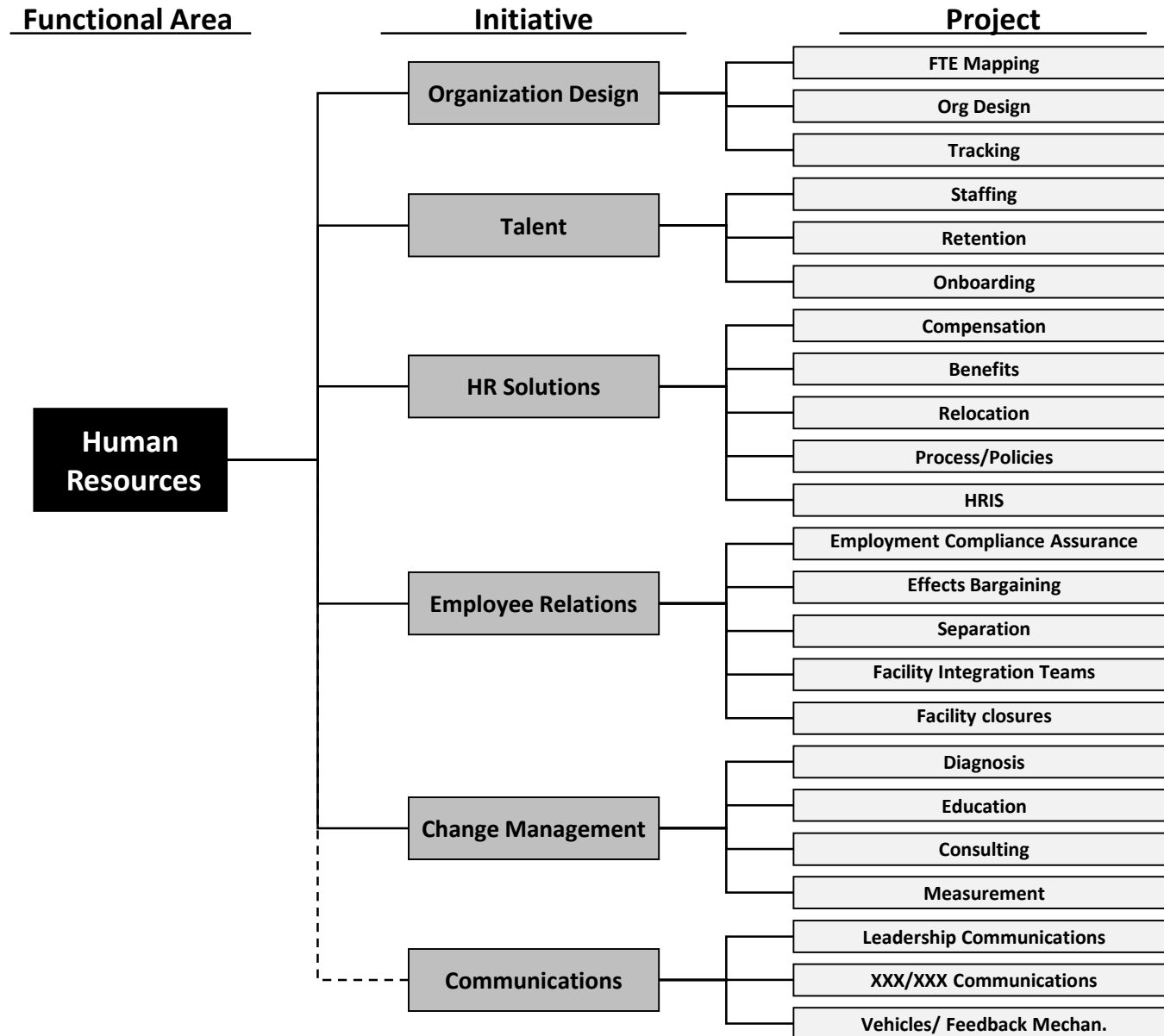
- Communications throughout the process to employees, customers and other key stakeholders
- Finance support including tracking of synergies, one-time costs, reporting
- Functional Integration leads making talent decisions, completing org design, communicating to employees, etc.
- Legal support for sales non-competes and other contractual requirements
- IT Support for integration of HR systems
- Real Estate support in transition office space and footprint consolidation

Key integration / transition risks and mitigation

- Not able to retain key executive talent – extend retention packages for key talent
- Distribution Sales unable to assume new sales accountability – invest heavily in their development as part of commercial integration, stagger cancellations of independent sales reps, selectively secure independent sales rep non-competes
- Issues of non-compliance are more complex or expensive to resolve than previously thought – requested rep and warranties, focused effort of integration
- Corporate HR or IS resources not adequate for harmonization – prioritize projects

Overview of Initiatives & Projects

Function: Human Resources



Organization Design Guiding Principles

1. Each function must take the synergy assumptions from the business case into consideration when designing the organization
2. XXX will lead organization design (YYY will have input in the talent assessment process and staffing process)
3. Organization design should be based on the requirements of the new organization, not the combination of the two existing organization structures (Required Resources = New Structure, not $XXX + YYY = \text{New Structure}$)
4. Organization should be designed around positions, not individuals (populating the new organization will occur in a subsequent staffing process)
5. Each new or changed position will have clear job accountabilities
6. Any exception to organization design principles must be approved by HR & PMO

Sample Output: End-State Organizational Charts

