How We Did It...

Ellen Kullman is the chair and CEO of DuPont.

DuPont's CEO on Executing a Complex Cross-Border Acquisition

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THE IDEA

Executives at DuPont worked for six months on the $7 billion acquisition of Denmark's Danisco. Ellen Kullman details the challenges and opportunities that arose—and offers lessons for others involved in M&A.

by Ellen Kullman

Two days before Thanksgiving 2010, my phone rang. Tom Knutzen, the CEO of Danisco, was on the line. His company, a Danish leader in industrial biotechnology and nutritional ingredients, was in play, and a European chemical group had offered to buy it. His question to me: Was DuPont still interested in acquiring Danisco?

A few months earlier Danisco had altered its rules governing shareholder votes to make a potential acquisition less onerous for a buyer. Just after that change I'd met Tom for dinner in Copenhagen. He'd confirmed that if he were ready for a possible deal, he would call DuPont.

Danisco was already on our M&A radar. It was a joint venture partner, and its two core science-based businesses were potential growth opportunities for DuPont. At the time, Corporate Plans, our strategy group, had a list of 10 to 12 possible acquisition targets, and I was watching three or four closely, including Danisco.

In the fall of 2010 many companies might have put M&A far lower on the priority list, as we all navigated the economic recession. Fortunately, DuPont had emerged from the downturn with a strong balance sheet, and thanks to the prep work we'd done on Danisco through the years, we were ready to value the company. Time, however, was a challenge: Danisco wanted offers from all bidders by

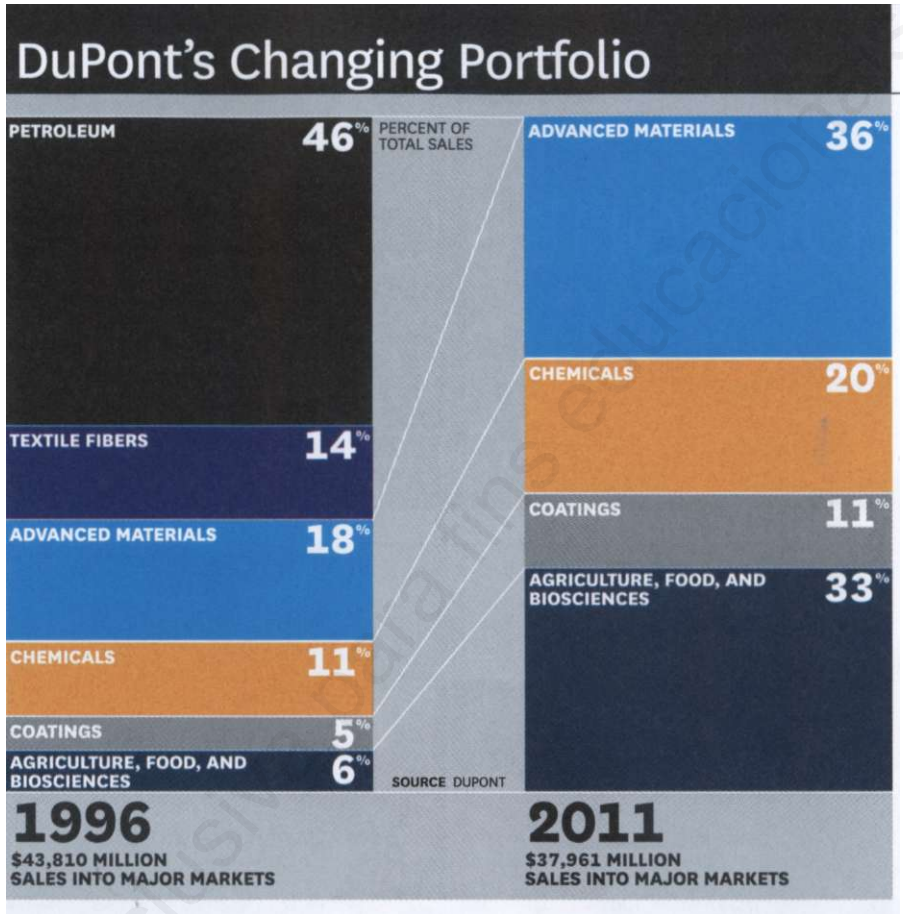
January 7. Another company had already made an offer, so the race was under way as we reached the starting line.

I hung up with Tom and called my CFO, Nick Fanandakis. We immediately pulled together a small team to size up the opportunity. What we needed was the speed and agility to gather and analyze a lot of information and, if it was in our best interest, to act quickly. The team prepared a two-sentence expression of interest, and then all the members went home for Thanksgiving dinner, knowing full well it might be the last meal they would enjoy with their families for a long time.

On Monday I met with my seven-person executive team, and we agreed that DuPont should consider acquiring Danisco. We secured approval from the board later that week. For the next 30 days the due diligence group—eventually about 25 people—worked in two cross-functional teams. One studied the issues and opportunities presented by Danisco's biotech business, and the other focused on its nutrition and health division. Members of both teams met regularly with the executive team for guidance. The people in those due diligence groups were experts in their fields, so although we tested their theories, we trusted them to do their jobs.

On Friday, January 7, after hearing from the teams, we agreed on a final binding offer within the range our board had authorized. After a weekend of back-and-forth negotiations, Danisco's board chairman accepted our offer late in the day on January 9. We executed the legal documents, and in the morning we announced the news: DuPont would buy Danisco for 665 kroner per share, the equivalent of about $6.3 billion and a 25% premium on the company's January 7,2011, share price of530 kroner.

Everyone was thrilled. We had executed on our plans to acquire Danisco at a record pace. But I wasn't ready to celebrate yet. It's a long road from an accepted offer to a completed transaction—especially in a complex cross-border acquisition between publicly traded companies. Foreign regulatory regimes, governance procedures, and even local customs often delay or obstruct such deals. This can create windows of time that speculative investors can use to drive stock prices up or down, further complicating negotiations. We thought we might be able to get our deal done by March. As it turned out, the process would take longer than we had expected.



The Evolution of a Science Company

Most people think of DuPont as a chemical company that's been around for more than 200 years—the one that brought the world Kevlar, Tyvek, Teflon, and Corian. But we have shifted our strategy to embrace biosciences as well. Thanks to recent advances such as DNA mapping, nanoscale imaging, and the emergence of computer analytics for scientific data, it's now possible to make high-performance, sustainable ingredients and materials that traditional chemistry can't. We see this as a huge growth area, and we are changing our portfolio accordingly to use the integration of biology, applied materials, and chemistry to create innovations in food, alternative energy, and advanced protection materials and services. (See the exhibit "DuPont's Changing Portfolio.")

In 1998 Chad Holliday, my predecessor as DuPont's CEO, made our new intentions clear. He announced plans to divest Conoco, our oil and gas subsidiary. A year later DuPont purchased Pioneer Hi-Bred, an agricultural seed company. Around the same time, Chad asked a small team to investigate an expansion into industrial biosciences. I was tasked with leading that group, and our first big success was a joint development agreement with Genencor, which later became a division of Danisco, and the development of an ingredient to make renewable plastics for home goods, automotive parts, and apparel.

Even as we focused on organic growth in the mid-2000s, we considered further acquisitions, particularly in the industrial biotech space. Genencor had been one option, but when Danisco bought it outright, in 2005, that target disappeared. We also continued to pursue joint ventures—we produced a soy protein with the agribusiness company Bunge, and we brought second-generation cellulosic biofuels to market with the merged Genencor and Danisco.

When I was told I would become CEO, just days before the collapse of Lehman Brothers, in 2008,1 had to put my game plan for growth in the drawer and instead deal with a global recession. Some parts of our business stayed healthy through 2009, but others were struggling. So my first initiatives involved cutting costs and streamlining our company from 23 business units to 13. Finally, in 2010, things started to improve, and my confidence grew. By July we had started to talk to the board about strategic growth again. Plan A was to do it organically, but we also had a Plan B: acquisitions. Our directors agreed with that flexible approach, and since you can't predict when those opportunities will arise, I asked Corporate Plans for a deep dive on our most promising targets. Thus Danisco was on our short list. Our methodical approach allowed DuPont to catch up with the other companies interested in the acquisition.

Don't Fall in Love with a Deal

The decision to bid for Danisco wasn't automatic. Of course we liked its Genencor business. We had liked it when it was up for sale in 2005, and its portfolio was even stronger in 2010. We also liked Danisco's focus on science, application development, and customers. The questions were, What value would we put on the whole portfolio? What were its segments, market positions, and models for competing? We had a lot to learn in a very short time.

Between Thanksgiving and the January 7 bid deadline, our due diligence teams performed heroically. It was a war-room approach: People ate and slept at the office and canceled holidays, without being able to tell friends, families, and colleagues why. One executive even participated in a three-hour conference call from the Vatican while watching his daughter's high school band perform for the pope. Everyone pushed tirelessly to understand Danisco's businesses, how they would fit strategically with ours, and how we should value them. We also considered who else might be bidding and what their financial positions might be.

People dropped everything to work on this deal. Focusing that hard on anything can lead to an emotional attachment, but that's a pitfall one must avoid. You can't fall in love with a deal; you have to fall in love with what it does for your company. And even then it has to be at the right price. That's why we let our team members do their own critical thinking, hash out their various opinions, and give us their recommendations. They'd been debating the valuation for weeks, and I'd been asking questions and listening closely. Twenty minutes before the final bids were due, we got one last briefing from all key parties—our bank and legal advisers, Corporate Plans, the M&A organization, and people in the relevant business units. We absorbed everyone's insights, made sure no information or opinions had been held back, settled on our offer, and conveyed it. Although it seemed to take ages, the response time was not long. The Danisco board accepted.

Preparing for the Long Haul

We had not reached the finish line yet. In fact, the longer process had just begun. Owing to the size and scope of Danisco's operations and ours, we had to secure regulatory approvals from more than 10 countries, including the United States, members of the European Commission, and China. We had gone through the U.S. and EU processes routinely for other transactions, but China was new and the timeline uncertain. It took just over four months to complete all regulatory approvals. Again, the deal team showed extreme grit.

Then there were the shareholders. In the U.S., tenders from only 51% are necessary to acquire and control a public company. In Denmark, 80% is required to control and 90% to absorb and delist from the Copenhagen Stock Exchange. That rule, combined with the extended regulatory delays, gave hedge funds, which owned 20% of Danisco's stock, an opportunity. They started driving up the stock price in the hope that we would be forced to increase our offer. By April 15, when we finally had the regulators' blessing, Danisco's stock

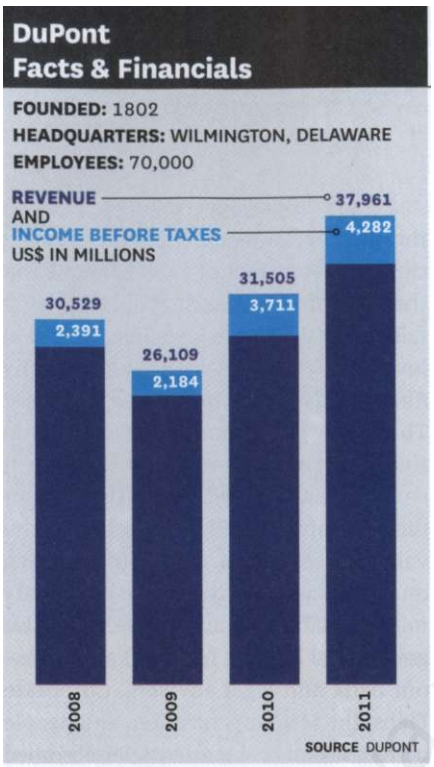
was trading at 668 kroner a share and only 48% of shareholders had agreed to the deal. I was disappointed. At our annual meeting the following week, I told the board that we needed to reevaluate our offer.

That didn't mean automatically raising it. One option was to simply hold firm and then walk away if we didn't get support from the shareholders. But it was important for us to consider whether anything had changed since January. Danisco had been posting good financial results. Was there more value in the company than we'd thought? And was there something that we didn't fully understand about the shareholders—not just the hedge funds, but the institutional investors in Denmark who were balking at what we considered to be a fair offer? Nick and I flew to Copenhagen to find out.

Over a couple of days of back-to-back meetings with the Danish investment community, we got a clearer picture and made some key judgments about our path forward. These face-to-face conversations were critical for the actions we took next and, ultimately, for the successful outcome of the deal.

We asked our team in Copenhagen to map out the scenarios. We wanted to segment the shareholders and figure out which groups were likely to tender if we raised our bid to various levels within the board-authorized range. We needed to have real numbers, not theories. After looking at the team's projections, Nick and I discussed and agreed where we should be. I told the team, "If we hold, we'll lose." On April 29 we increased our offer by 5% to 700 kroner a share, or $7 billion, and declared that this was a full, fair, and final offer. If we didn't get 80% of the shareholders, we would walk away. Nick and I flew back to our Wilmington headquarters.

Now we had to wait and see how many shareholders would tender their shares before the deadline, which was May 13. At first I was anxious. I just wanted the deal to be done. Many others felt the same way. There was a lot invested here, not just financially.



After a few days, however, I found myself growing more relaxed. I realized, and emphasized to everyone else, that we had done everything we could. The bid was right. And we would be fine with or without Danisco. We still had Plan A.

Ready to Roll

Nick and I rarely go out for lunch, but we did on the day the tenders were due. We figured we would get 80% to 90% shareholder approval—a reasonable outcome, because it meant the deal would go through, but not ideal, because we might still have to win over an additional 10% from among the holdouts in order to delist and fully integrate Danisco. We were walking back to the office when our Copenhagen contact called Nick. We'd gotten 92% of shares tendered. The bank advisers had counted twice. I was thrilled and proud of our efforts. I will never forget the day.

On May 19 we completed the acquisition. This was a big, bold strategy. The space was interesting, but we needed to figure out how we were going to play in it. We did our homework. We worked on improving the value of our existing nutrition and health business, and we focused on creating broader value for the company. Danisco was a very complementary fit, a culture we knew and people we knew; we could get it at a price at which shareholders would see value for it in a very short time. But it wasn't enough to just get the deal done. If we didn't execute and integrate well, and if we didn't get synergies quickly, it wouldn't be a victory.

We were ready to act. I knew who should lead the new groups, and I made the appointments immediately. In our first postdeal call with the Danisco leadership team, we took great pains to talk about our shared core values and how we might blend our respective cultures. Just four days later we held Welcome Week, during which senior executives visited all the DuPont and Danisco locations affected by the merger, explaining our strategy and our commitment to redeploying redundant employees where we could. The presentations were consistent, but each was also customized to local concerns.

During that week senior executives spoke directly to more than 10,000 employees. We followed this with regular pulse surveys—one of the first best practices we learned and adopted from Danisco—that created a heat map of potential geographic locations where there might be confusion or miscommunication. Within a week those issues were addressed as transparently as possible. By the end of August we had integration projects defined, scoped, and resourced—everything from renegotiating trucking contracts to merging our HR and finance groups.

Our initial target of $130 million in cost savings will be achieved a year ahead of schedule. The pieces are fitting together faster than we expected. The integration of Danisco is a big win for DuPont and its shareholders. Yes, the deal process was long, complicated, and frustrating at times. But the people of DuPont powered through it because we knew this acquisition would enhance our biosciences capability and accelerate the company's readiness for its next 100 years of growth.

The right strategic acquisition, at the right price, is worth the wait.

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Fonte: Harvard Business Review, Boston, v. 90, n. 7/8, p. 43-46, July/Aug. 2012.