

IT@Intel: Developing a Robust, Sustainable Merger and Acquisition Process

The Intel IT Mergers and Acquisitions (M&A) team delivers business value through its deep experience and advocacy

Executive Summary

Mergers, acquisitions, and divestures are a common and growing aspect of Intel's business. But there is nothing simple about evaluating and integrating technologies and business capabilities or supporting incoming employees. IT organizations must use their experience to focus on the following areas:

- **Security and privacy.** Cybersecurity and privacy pose a particular risk to the value of Mergers and Acquisitions (M&A) before, during, and after closing the deal.
- **Integration.** Understanding new business capabilities and the challenges of data harmonization are necessary to developing a phased and prioritized approach.
- **Technical debt.** Existing systems are not phased out overnight and must be maintained until integration is cost effective and/or necessary.

At Intel, we have a dedicated IT M&A team that does more than execute on deals. We participate in due diligence discovery, planning, and integration, helping Intel secure greater business value, and sometimes highlighting potential unforeseen costs. We use an M&A lifecycle process to approach each deal with guiding principles of putting employees, suppliers, and the business value first.

The IT M&A team advocates across IT to help deliver customized, secure, and cost-effective solutions, and brings expertise in its operating model, strategy, and capabilities. We are accountable for aligning IT capabilities and business processes, and our robust professional network brings a cohesive approach to each deal.

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Acronyms

M&A Mergers and Acquisitions
TSA transition services agreement

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IT Mergers and Acquisitions Value

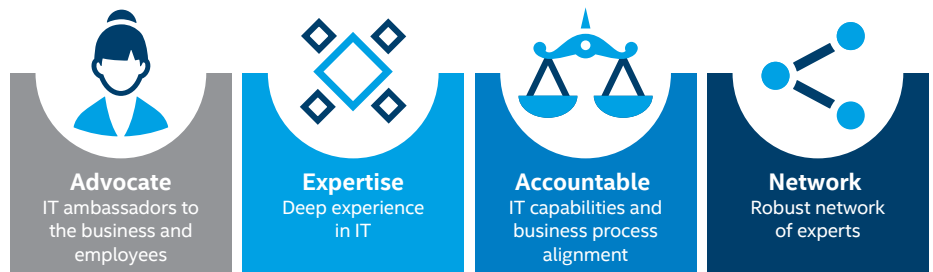


Figure 1. The IT M&A team delivers business value through its deep experience and advocacy.

Business Challenge

Intel is known for its numerous and complex Mergers and Acquisitions (M&A). M&A presents a myriad of challenges for IT organizations whose purview is to secure networks and data, and to protect and support employees, suppliers, and business units by keeping critical systems in good health. Intel IT is often asked how we structure our M&A work. While many companies outsource M&A to consulting firms, we formed a dedicated team focused on M&A activities and its continuous improvement.

When approaching M&A, we evaluate the following:

- Information security and privacy.** Intel does well at protecting against malware, scanning 650,000 devices daily, and using automated malware and vulnerability remediation. We also use host and network intrusion prevention systems, web and email filtering, vulnerability management, and firewalls that meet industry-standard defense and cybersecurity controls. But threats are becoming more complex and sophisticated. Targeted threats actually increase during M&A, making it imperative that both organizations are aligned on policies and overall IT security requirements. Privacy is a key partner to information security and plays a critical role in protecting both entities. We need to be aware of and meet the applicable privacy legislation requirements in the regions involved.
- Enterprise system integration.** Depending on the size of the organization, the variety of systems and capabilities to integrate can range from infrastructure (such as networks and data centers) to enterprise solutions (such as HR, finance, and manufacturing) to specialized applications and collaboration software. Determining how to harmonize the data requires careful evaluation as new business models can be costly and may increase integration timelines.
- Technical debt.** The ongoing cost of sustaining technology impacts the business units and their technology roadmaps. Flexible integration models can introduce new applications and systems, so it is essential that IT stakeholders are aligned with the business units.

Solution

M&A activity can generally be split into three phases: due diligence, sign & close, and integration. IT conducts due diligence alongside other business stakeholders, such as finance. During the due diligence phase, we want to learn as much as we can about the incoming organization's business processes, technology, security, and privacy. We use that information to consider the potential impact on the integration roadmap. We rarely get all of the information we seek in due diligence, but we take whatever we can get with a higher priority on the capabilities and processes involved with privacy and information security.

Cyber Criminals Are Watching for Vulnerabilities

Understanding cybersecurity issues in M&A is critical

Cybersecurity can have a big impact on the sale price and negotiated terms of an acquisition. A breach in security can potentially devalue otherwise high-value assets, and a breach may go undetected for quite a while. Cyber criminals are also actively scanning business news, looking for opportunities to strike during vulnerable M&A activities. Intel IT must be prepared to respond to cyber incidents during and immediately following the transaction.

It is critical that we understand the following:

- The nature and significance of the acquired company's vulnerabilities.
- The potential scope of damage that can occur (or has already occurred).
- The extent and effectiveness of the cyber defenses in place.

To address these threats, we have developed a mature cybersecurity program and have an experienced M&A cybersecurity team in place.

Repeatable M&A Lifecycle

As a dedicated team, we developed a process lifecycle for deploying and sustaining M&A activities. It includes enterprise methodology, IT governance, integration playbook, alignment and communication, performance management and reporting, and continuous improvement (see Figure 2).

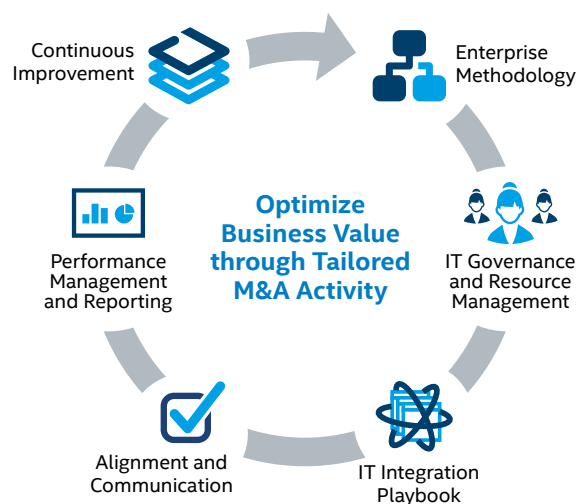


Figure 2. We tailor the IT M&A activity based on the specific business value of each deal.

We focus on optimizing the business value of each specific M&A deal, which includes retaining employees and customers and accelerating product time-to-market. Integrations are tailored to the specific business value and goals of each deal.

Our M&A lifecycle is an evolving process, and IT's role is more than just participating in executing a predetermined deal. We offer a dedicated team of deeply experienced systems analysts and program managers who advocate for M&A activity and serve as ambassadors for both IT and the business. Our team is a single entity accountable for end-to-end integration, which spans small and large acquisitions, as well as divestures.

Prioritizing Work

We approach large IT integrations in three segments—or bundles—and complete them on a timeline determined by the value of the deal and its business objectives. These segments include:

- **Mission critical (Day 1-30).** This is what must be in place at or shortly after closing. It includes integration of an interim IT operating model, roles and responsibilities, policy changes, consolidated financials, and access to internal systems and networks. This often includes an intense focus on security and compliance, such as determining if the acquisition has a privacy policy in place and malware protection on its website.
- **Back office (Bundle 1).** After addressing the mission-critical items, we focus on integrating back office infrastructure and aspects of the business that impact employees. This includes systems such as compensation and benefits, travel and expense processing, collaboration tools, reporting interfaces, and email. We also integrate and automate financial systems and processes.

- **Business capabilities (Bundle 2).** To complete the integration process, we then focus on the business capabilities, such customer relationship management (CRM), order processing, supply chain and manufacturing logistics, financial systems, R&D, and service management.

Integrating Altera

In our acquisition of Altera, a manufacturer of logic devices, we integrated the following during the Bundle 1 phase:

- **Human Resources.** We integrated approximately 3,500 employees in 39 locations into Intel's compensation and benefits back office infrastructure.
- **Finance.** We integrated our financials, including 4,000 fixed assets, approximately 700 cost centers, and multiple bank accounts. Finance often includes restructuring legal entities and reviewing signature authority, requiring close partnership between IT and business leaders.
- **Facilities.** We issued approximately 4,000 new Intel badges (employees and contractors) and equipped 17 new locations with office, security, and IT equipment.
- **Suppliers.** We integrated 2,500 new suppliers, purchase orders, and multiple new contractors. We also evaluated and consolidated 1,500 indirect supplier contracts.
- **IT.** We incorporated 4,000 capital assets, 3,700 laptops, 2,000 R&D servers, and integrated networks at 17 sites.

Communication is a critical aspect of any M&A activity. In the Altera acquisition, we proactively communicated through 34 transition forums, over 100 targeted emails, as well as multiple transition bulletins, training sessions, and roadshows.

Divestures Present Unique Challenges

Divestures—or separation programs—can be as challenging as acquisitions. They are largely dictated by the buyer's integration plan, giving us much less control. When planning a divestiture, we use the following:

- **Mission critical (Pre-sign).** This is what must be in place at or immediately after close. It requires a full assessment of the IT footprint being divested, transition services agreements (TSAs), partner and commercial agreement alignment, and working with the buyer to develop a "Day 1" plan.
- **Initial separation (Close/Day 1).** These are initial separation activities, such as removing separated employees from IT systems, exporting relevant data, physically moving people, putting TSAs and commercial support in place, and updating IT systems to reflect sold inventory.
- **Final separation (Day 2).** This is the final separation of IT capabilities, such as extracting deal-relevant data from all remaining systems, terminating TSAs, and cleaning up connectivity, assets, and so on.

IT M&A Resource Model

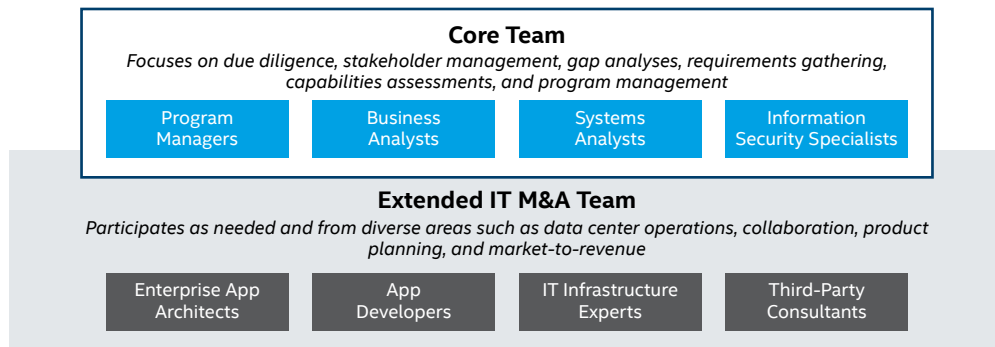


Figure 3. IT M&A is composed of a 100-percent dedicated core team, as well as an extended team of specialists who can provide area expertise as needed.

A Scalable M&A Team

Having the flexibility to address any M&A activity at any time introduces an additional challenge of being able to scale up during peak demands and scale back when there is less activity. Yet, it was important to us that we actively maintain our M&A-focused experience and processes. To overcome this challenge, we formed a 100-percent dedicated core team composed of program managers, business analysts, systems analysts, and information security specialists (see Figure 3). These individuals conduct critical aspects of IT M&A work, such as due diligence, stakeholder management, gap analyses, requirements gathering, capabilities assessments, and program management. If at any time there is not enough M&A work for full-time attention from the core team members, they can pivot to other projects until they are needed.

In addition to the core team, we formed an extended IT M&A team that participates as needed. This group is composed of enterprise application architects, application developers, and IT infrastructure experts from diverse areas such as data center operations, collaboration, product planning, and market-to-revenue. Occasionally, we also bring in third-party consultants.

Conclusion

M&A is never simple, but in today’s business it is increasingly more common. While many organizations outsource this work, at Intel we have achieved great success by forming a dedicated IT M&A team that handles due diligence as well as integration. With a consistent M&A lifecycle process, we have built years of experience in evaluating, prioritizing, planning, and executing the integration of incoming organizations and the separation of divestures. Cybersecurity is a particularly risky area as breaches can result in unforeseen costs, and even devaluation of the deal. Our planned approach brings a clearer understanding of the challenges, opportunities, and risks that help us add value to the business and ease the transition for employees.

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