Preserving Brands & Accelerating Growth

Battery Ventures' Industrial Technology "Buy-and-Build" Strategy

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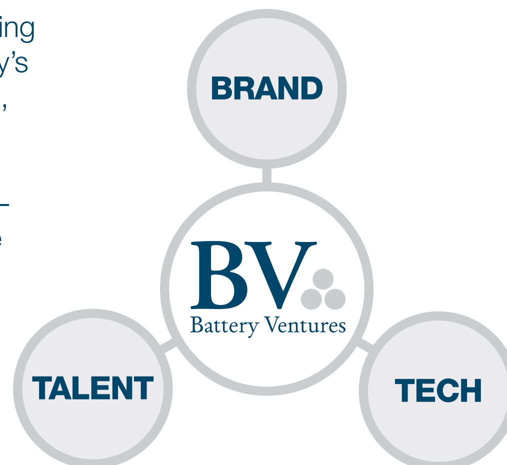
Battery's industrial technology team uses fundamental research to identify promising markets, then strives to create industry-leading businesses through a combination of organic growth and acquisitions. We target industrial technology companies that 1) offer value to customers through high-tech, highly engineered products and services, and 2) generate financial and operational metrics that are significantly superior to those of diversified industrial companies, and are more akin to those of high technology companies.[1] Battery has acquired more than 40 industrial technology businesses and brands over the last decade.

One of the key elements of our investment approach is preserving the brand and legacy of the businesses we acquire. A company's brand is obviously the product of years of investment decisions, hiring choices and internal development projects. We know it's impossible to sustain a leading brand without continued investment in technological leadership and talented personnel—so when we get involved in a company, we acknowledge those investments and work hard to leverage them.



To us, brand is a corporate asset on par with talent and technology.

How do we think about brand for industrial technology companies, specifically? One high-level observation is that while pursuing an acquisition strategy lets a business enhance value, in practice, around half of acquisitions actually fail to create value, according to multiple studies.[2] One reason for this, we believe, is that M&A can disrupt a company's relationships with key stakeholders, from customers to employees, and this impacts sales and market share.

Battery's strategy in industrial-tech acquisitions is to mitigate this disruption through careful communication to all key constituencies involved in the process. And because of the value we place on brands, one of the first messages we send is that a company's core brands will be retained going forward.

When Battery acquired Oldham*, a provider of gas-and-fire detection systems, from Industrial Scientific in 2013, for example, one of our first moves was to put the Oldham name back on the door of the main company facility in France. We wanted to send a clear signal to employees that we respected, and intended to reinforce, the heritage of high-quality products and great customer service on which the original Oldham brand was built. This strategy paid immediate benefits, and we believe was partly responsible for a marked increase in both topline growth and profitability at Oldham within the first year of our ownership.

The chart below highlights some of the specific benefits of retaining brands through the M&A process and promoting a sense of business-as-usual across the spectrum of interested parties.

Benefits to Retaining Corporate Brands in M&A	
Impacted Group	Benefits
Employees	Signals that business and employees will have sustained role going forward Helps to minimize disruption and generate goodwill
Customers	Customer base is comforted by the lack of change, adherence to status quo Helps customer base to buy into benefits of combined capabilities
Sales Channel	Similar to customers, channel is comforted by brand continuity Opportunity to broaden product set and concentrate business with key relationships
Competition	Signals strength in terms of scale, product set, and capitalization Helps to minimize negative messaging from competitors

Academic Research on Corporate Branding Strategy in M&A

Based on our experience, we believe many strategic buyers of industrial-tech companies don't place enough emphasis on individual brand value, despite brands' strategic importance and relevance for the current (and future) performance of companies.[3] Most academic research on this topic focuses on the pre-deal and deal-execution phases of M&A.

However, there is a revealing body of work analyzing post-deal considerations, such as branding, as a driver of deal outcome. One of these studies, published in the MIT Sloan Management Review, looks at the branding strategy for 207 selected deals of over $250 million that closed between 1995 and 2006. The two predominant approaches when it came to brand were "backing the stronger horse", meaning one of the brands remained post-deal (this happened in 40% of the deals), and "business as usual", in which two stand-alone brands remained after a deal closed. This occurred in 24% of the deals studied.[4]

Both of these strategies have pluses and minuses. While "backing the stronger horse", for instance, could be considered a brand upgrade for a smaller company that is acquired, it can also hurt employee morale at the smaller company. And while "business as usual" can re-assure employees at both companies involved in the deal, the study's authors said, it should also be accompanied by "substantive changes in the culture and behavior of the acquiring company." If not, those who work at the smaller company, and customers, may feel resentful.

In nearly two-thirds of deals, branding receives little to no consideration during negotiations.

But most important, the study found that in nearly two-thirds of the deals it considered, branding received little to no consideration during negotiations. The researchers concluded this approach led to "suboptimal" brands emerging from these transactions, "often reflecting a muddled process driven by short-term goals, ego or horse-trading in the final stages of the negotiations." Clearly, this was not good for long-term value creation.

A separate research project tried to develop a statistical model for predicting M&A success based on marketing and branding variables. The result? The researchers "found a negative relationship between brand integration strategy and M&A performance," meaning that getting rid of acquired brands can hurt performance. This negative effect occurs from negative customer evaluations, organizational concerns, and costs of change. Thus, we propose that companies should only modify or change the existing brand concepts if a careful analysis of pros and cons renders it as necessary."[5]

Industrial Technology M&A and Branding in Practice

Companies in the industrial-technology sector generally boast organic growth of 7-10%, with some large, publicly traded conglomerates logging higher growth rates through acquisitions of smaller players with complementary technologies. This dynamic leads to a fairly active M&A market for companies once they reach critical scale. In 2014, disclosed industrial-technology deal activity hit an all-time high, topping $18.8 billion of transaction value.[6] As shown in the table below, a number of the large industrial-technology players are veritable acquisition machines, regularly acquiring and integrating complementary business and new platforms.

Top 5 Industrial Technology Buyers (2004-2014)[7]

30 DEALS	28 DEALS	26 DEALS	24 DEALS	20 DEALS
Ametek, Inc.	Danaher Corp.	Schneider Electric SE	Emerson Electric Co.	Dover Corporation

Represents transactions involving industrial technology companies as targets.

These serial industrial-tech acquirers use varying strategies when it comes to branding, however.

In some cases, the companies maintain the brands of targets that they buy, then plug them into a larger network to use as platforms for future acquisitions. AMETEK, which makes electronic instruments and electro-mechanical devices, appeared to do this when it purchased Zygo in 2013. In a press release, AMETEK said that Zygo, which makes advanced optical systems, would "retain is brands and manufacturing presence" in Connecticut, but also would be able to "leverage AMETEK's global infrastructure", including its salesforce and sourcing and distribution channels.

On the flip side, acquirers like industrial-tech giant Thermo Fischer Scientific consistently rebrand companies they acquire. In a 2014 blog post, California signage company Signarama boasted about the "worldwide re-branding initiative" it has just completed for Thermo, which Signarama said involved nearly 50 Thermo facilities in 16 countries. Honeywell seems to endorse a similar strategy: In a 2011 brand-strategy document, Honeywell said that while nearly 250 non-Honeywell brands existed in 2003, it had since "transitioned" more than 200 of them; logos were eliminated, and the company strove to create a "consistent theme, style and appearance" across the corporation.

> *Retaining or dispensing existing brands can have big short-term and long-term implications.*

Sometimes these large re-branding initiatives are set in motion before a deal even closes. As a company founder or owner, the future of the brand that you have worked hard to create is an important consideration. While research shows brand is not typically a heavily negotiated deal point, we believe that brands deserve to be more carefully considered in negotiations, since retaining or dispensing with existing brands can have big short-term and long-term implications.

Battery Ventures Buy and Build Execution and Branding Strategy

Through its 40 industrial-tech acquisitions over the last decade, Battery has created six different platforms in which we have implemented our multi-brand M&A strategy and leveraged acquisitions across a larger group. In the case of Industrial Safety Technologies (IST)*, we combined five brands under one corporate umbrella, in each case increasing the organic growth rate of the businesses post-acquisition. We were able to build a global portfolio of complementary businesses serving customers in the gas- and flame-detection sectors while retaining talented employees, and also assuring customers that the brand names they already knew and trusted would 1) not go away, and 2) actually be bolstered by the IST network so they could develop innovative products faster and better serve customers through more widespread service.

Another example of this strategy is Nova Analytics*, a highly profitable, worldwide supplier and integrator of electrochemical, analytical instrumentation products used in water analysis. After buying the company in 2003, our team actively helped management identify acquisition targets and make those deals; the company ultimately completed eight acquisitions of brands such as Secomam, ebro, Global Water and Bellingham & Stanley. These acquisitions helped grow the business from $25 million of revenue to $140 million over seven years. Today the overall business, and the brands Battery invested in, represent some of the core assets of Xylem (NYSE: XYL) an independent public company with $7 billion in market capitalization.

Battery recognizes that pursuing a multi-brand, buy-and-build strategy is a complicated process that requires careful planning and execution to maximize value for all parties. As our track record demonstrates, we believe in the value of quality brands with leading products and talented managers. The bottom line: We work hard alongside our portfolio companies to preserve what we invest in, accelerate growth, and strengthen the future legacy our businesses.

*For a full list of all Battery investments and exits, please click here.

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[1]*William Blair Industrial Technology Sector Update, April 2015.*

[2]*Florian Andreas Bauer, Kurt Matzler, and Claudia Wille, "Integrating brand and marketing perspectives in M&A," Problems and Perspectives in Management, Volume 10, Issue 4, 2012.*

[3]*Shailendra Kumar and Kristiane Hansted Blomqvist, "Mergers and Acquisitions: Making brand equity a key factor in M&A decision-making," Strategy and Leadership, Vol. 32 No. 2 2004, pg. 20-27.*

[4]*Richard Ettenson and Jonathan Knowles, "Merging the Brands and Branding the Merger," MIT Sloan Management Review; Summer 2006.*

[5]*Bauer, Matzler, Wille; page 66*

[6]*Capital IQ*

[7]*William Blair Industrial Technology Sector Update, April 2015*