Mergers and Acquisitions in a Global Organization
Agenda

1) Introduction to Continental

2) Strategy Drivers

3) Overview of Continental's IT Organization Development

4) Considerations When Deciding IT Organization Structure

5) Merger and Acquisition Activity

6) Merger and Acquisition Success Factors

7) Next Steps
1) Continental – 137 Years of Progress and Achievement

- Continental-Caoutchouc- and Gutta-Percha Compagnie is founded in Hanover, Germany.
- Continental strengthens its position in the ASEAN region and Australia by establishing its Continental Sime Tyre joint venture.
- Continental expands its activities in telematics, among other fields, with the acquisition of the automotive electronics business from Motorola.
- Continental acquires Siemens VDO Automotive AG and advances to among the top five suppliers in the automotive industry worldwide, at the same time boosting its market position in Europe, North America and Asia.

- Takeover of:
  - the European tire operations of Uniroyal, Inc., USA
  - the tire operations of the Austrian company Semperit
  - the North American tire manufacturer General Tire

- Continental reinforces its activities by acquiring Temic, the international electronics specialist.

Timeline:
- 1871
- 1929
- 1979
- 1985
- 1987
- 1998
- 2001
- 2003
- 2004
- 2006
- 2007

- Merger with major companies of the German rubber industry to form Continental Gummi-Werke AG.
- Acquisition of a US company’s Automotive Brake & Chassis unit, the core of which is Alfred Teves GmbH in Frankfurt.
- Through the acquisition of Phoenix ContiTech becomes the world’s largest specialist for rubber and plastics technology outside the tire industry.
1) Divisions and Business Units

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Passenger and Light Truck Tires:
- Original Equipment
- Replacement Europe
- Replacement The Americas
- Replacement Asia
- Two-Wheel Tires

Commercial Vehicle Tires:
- Truck Tires Europe
- Truck Tires The Americas
- Truck Tires Asia
- Industrial Tires

ContiTech:
- Air Spring Systems
- Benecke-Kaliko Group
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control
- Other Operations
2) Strategy Drivers - 2008

**IT Employees**
- Leadership Development
- Technical Skills
- Business Process Knowledge
- Succession Progression Planning

**Organization**
- Centralize/Consolidation Beyond the Company
- Operational Efficiency Focus on Transactions
- De-Centralize Top Line Growth Understand Strategy Support Interactions

**Customers**
- Product Development Cycles
- Global Market
- More features
- Joint Product Development
- Increased Collaboration

**Business**
- Organic growth & Acquisitions
- Carve In – Carve Out
- Cost reductions are necessary
- Focus on one company to our customer
- Knowledge Management
- Efficient – effective processes
- Cross division – cross region functions
- Quality

**Information Technology**
- Rapid pace of technology advancement
- Commodity Infrastructure (SOA)
- Focus on usage – beyond deployment
- Information Security concerns

**Roadmap Project Summary**
- Region Information Officer (RIO)
- Information Security (IS)
- Infrastructure (IN)
- Supply Chain Management
- Customer & Collaboration (C&C)
- Finance & Support (F&S)
- Product Life Cycle Management (PLM)
- HR Solutions (HR)
3) Overview of Continental’s IT Organization Development

1) Situation, Pre-1999

Each plant is an autonomous business unit:

A. Revenue around 900 million
B. P&L and business development targets by plant.
C. Authority and responsibility to meet objectives at plant level.
D. No IT strategy, many different PCs, servers, ERP systems
E. Each location has its own IT staff fully and responsible only for that location’s IT.

Result:

A. Many acquisitions / joint ventures are underway, focus on business growth, new products from Europe are introduced in North America. Business was very good!
B. Systems are unreliable, network communications are unreliable, little knowledge sharing, software updates are rolled out via "sneaker net", and plant performance is a closely graded secret.

Challenges:

A. Costs begin to raise, customer confusion with business proposals, key contacts, problem solving, billing and payments.
B. A high degree of frustration develops over lack of business performance information.
C. Start up locations and joint ventures struggle with business process and systems implementations.
D. Managing / negotiating spend is difficult.
3) Overview of Continental's IT Organization Development

1) **Situation, 2000 - 2004**

   **Business Unit and Divisions by products develop:**
   
   **A.** Revenue grows to over 1.5 billion.
   **B.** P&L and business development targets by Division.
   **C.** Authority and responsibility to meet objectives at Division level.
   **D.** Division / Region IT strategy, many different PCs, servers, ERP systems by Division, IT is focused on deploying systems.
   **E.** The Regional concept develops, an IT staff by Region made up of technical competency centers, responsible only for that Region's IT.

   **Result:**
   
   **A.** Business results begin to stall,
   **B.** Many acquisitions / joint ventures are underway, regional IT staffs are able to support small start ups but integrations are costly and time consuming.
   **C.** Systems consolidations are underway, network performance substantially improves.
   **D.** Improved negotiating strength with suppliers.

   **Challenges:**
   
   **A.** Costs continue to raise, customer confusion with business proposals, key contacts, problem solving, billing and payments.
   **B.** Benchmarking, quality improvements are difficult to accomplish.
   **C.** Top management frustration increases with the lack of business intelligence.
3) Overview of Continental's IT Organization Development

1) Situation, 2004 - 2005

Company managed by Divisions:

A. Revenue grows to over 3.0 billion.
B. P&L and business development targets by Division.
C. Authority and responsibility to meet objectives at Division level.
D. Division / Region / Global IT strategy, server & PC standards on a global basis, ERP systems consolidation strategy on a global basis, IT is focused on deploying standard systems.
E. The Regional concept develops, an IT staff by Region made up of technical competency centers, responsible only for that Region's IT.

Result:

A. Business results improve.
B. Many large acquisitions / joint ventures are underway, global IT staffs are able to support large start-ups, carve-ins / outs are completed on time and within budget – highly successful.
C. Systems consolidations are completed, network performance is a must.
D. Improved negotiating strength with suppliers on a global basis.
E. Costs are controlled globally.
F. IT career paths improve, opportunities grow.

Challenges:

A. Business Process improvement is needed, cross division and cross regions.
B. Quality levels are known, substantial improvements are accomplished by special actions / effort.
3) Overview of Continental's IT Organization Development

1) **Situation, 2006 - Present**

   Company managed by Divisions:
   
   A. Revenue grows to over 6.0 billion.
   B. P&L and business development targets by Division.
   C. Authority and responsibility to meet objectives at Division level.
   D. Division / Region / Global IT strategy, server & PC standards on a global basis, ERP systems consolidation strategy on a global basis, IT is focused on deploying standard systems and **processes**.
   E. Global concepts are developed, global competency centers, responsible for global IT, regions exist but mainly for deployment.
   F. Intense drive to low cost, IT Centers are established in low cost countries.
   G. Selective outsourcing agreements implemented.

**Result:**

A. Focus is on business performance improvement.

**Challenges:**

A. Must avoid over centralizing.
B. Communicating in a four dimension matrix organization (Region, Division, Competency Centers, and IT Centers).
C. Managing people across legal entities, country borders.
Global Automotive IT Organization

Automotive CIO

Divisions (DIO)
- Powertrain*
  - Interiors
- Chassis & Safety

Regional Centers
- Philippines
- Romania
- Mexico

Competence Centers
- Product Lifecycle Management
- Supply Chain Management
- Customer & Collaboration
- Finance & Support Processes

Regions (RIO)
- Germany & Eastern EU
- Western Europe
- NAFTA
- APAC

* Latin-America managed by DIO Powertrain

B. Macfarlane

IT NAFTA Region - Macfarlane
4) Considerations When Deciding Organization Structure

1) IT Strategy
   A. Must be closely aligned with the business strategy
   B. Where is IT ownership?
      a) Plant, business unit, division, region, global?
   C. What is the level of IT management expertise, infrastructure, and data collection and reporting capabilities?

2) Business Organization Structure
   A. Autonomous plants or Division / Corporate structure?
   B. Do common systems and processes slow down an organization or do they speed up and organization?
   C. Do common systems and processes provide less flexibility or more flexibility?
   D. Where is authority and accountability, plant level or Corporate level?

3) Business Strategy
   A. What level of M&A activity is taking place?
   B. Design anywhere – produce anywhere?

4) Change management capability and level of management support.
   A. How well is the plan defined?
   B. Does the organization accept change?
   C. Does the organization recognize a need for change?
5) Recent M&A Activity at Continental

1) 2000 - Creation of SY Technologies Joint Venture
2) 2001 - Merger of Siemens Automotive Technologies & Mannesmann VDO
3) 2004 - Acquisition of DCX Huntsville Electronics
4) 2004 - Transfer in of Telematics Unit (Cedar Rapids)
5) 2006 - Acquisition of Ballard Electronics
6) 2006 - Sale of a division (3 plants in North America)
7) 2007 - ACQUIRED BY Continental December 03, 2007
   A. Complete Motorola Integration and Integrate Siemens VDO
8) 2008 Sale of Motor Drive Division
9) 2008 Pending sale of Division
6) M&A Success Factors

The cost of IT integration can be 50 to 75% of the total integration project costs, with a high risk of cost over runs! IT integration is a key factor to the success of the total integration. IT must be involved early.

1) Well thought out plan including detailed cost models, project plans and staffing plans.
2) Personal commitment, flexibility, consistent staff.
3) Management attention & support.
4) Willingness to change.
5) Readiness audit.
6) Implemented common proven systems.
7) Communications.
8) Established integration team.
9) Training on the new systems and processes. - Insist on it and track it!
7) Next Steps

1) Further development of Regional Centers.

2) Clarify budget responsibilities.

3) Leadership development.
   A. 360 Evaluations
   B. Succession – Progression Planning

4) Tracking value creation.

5) Process Improvement.

6) Portfolio / Project management.

7) Development of Key User Organization.