

The role of IT in M&A

21 July 2009, Toronto

The Open Group: 23rd EA Practitioners Conference

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Introduction to Direct Energy

- **Mass Markets Energy**
 - Natural gas and electricity sales to residential and small commercial customers
- **Commercial and Industrial (C&I) Energy**
 - Natural gas and electricity sales to medium and large sized businesses, public institutions and government
- **Upstream and Wholesale Energy**
 - Natural gas and power production; wholesale energy auctions; procurement and proprietary trading of energy.
- **Services**
 - Residential and business services (HVAC installation, protection plans and repair, energy efficiency advice)

2008 Financials: C\$11.4B revenues; C\$417M profits



M&A history

- 40+ acquisitions over 9 years
- Aug 2000 – Direct Energy
- May 2002 – Enbridge Home Services
- Dec 2002 – WTU & CPL (Texas)
- May 2004 – ATCO Retail
- Jun 2004 – Bastrop Energy Center
- Oct 2004 – Residential Services Group
- Dec 2004 – Frontera Energy Center
- Feb 2006 – Paris Energy Center
- Jan 2008 – Rockyview Energy
- Jun 2008 – Strategic Energy
- more to come

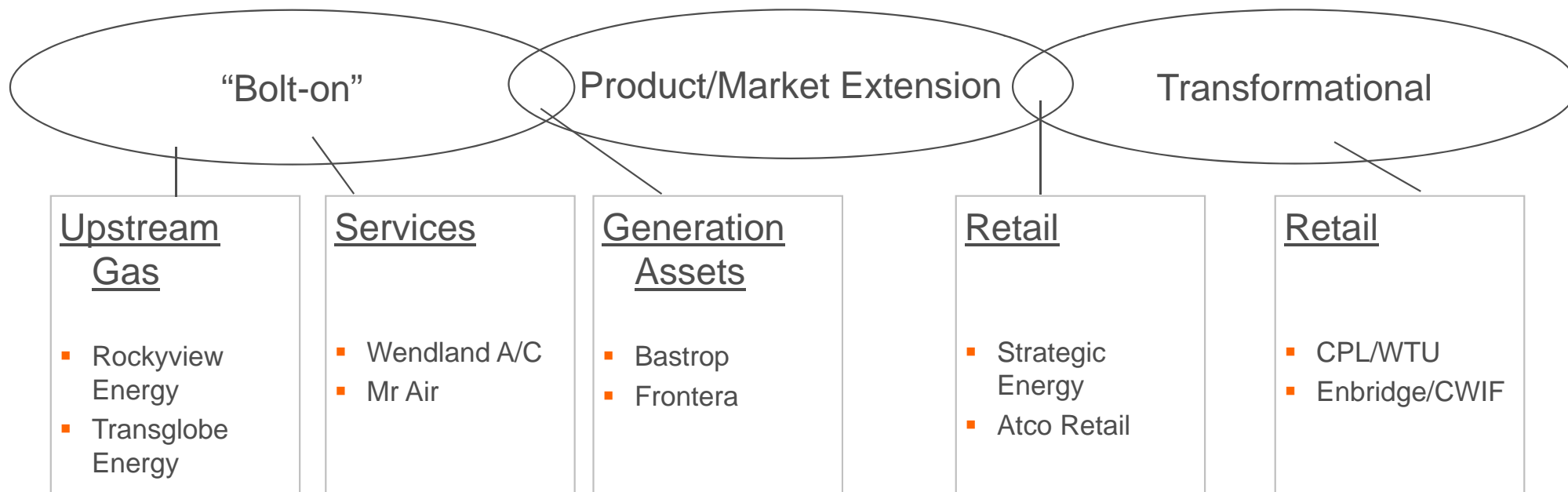




Every deal is different!

Transaction types

Increasing Complexity of IT Integration

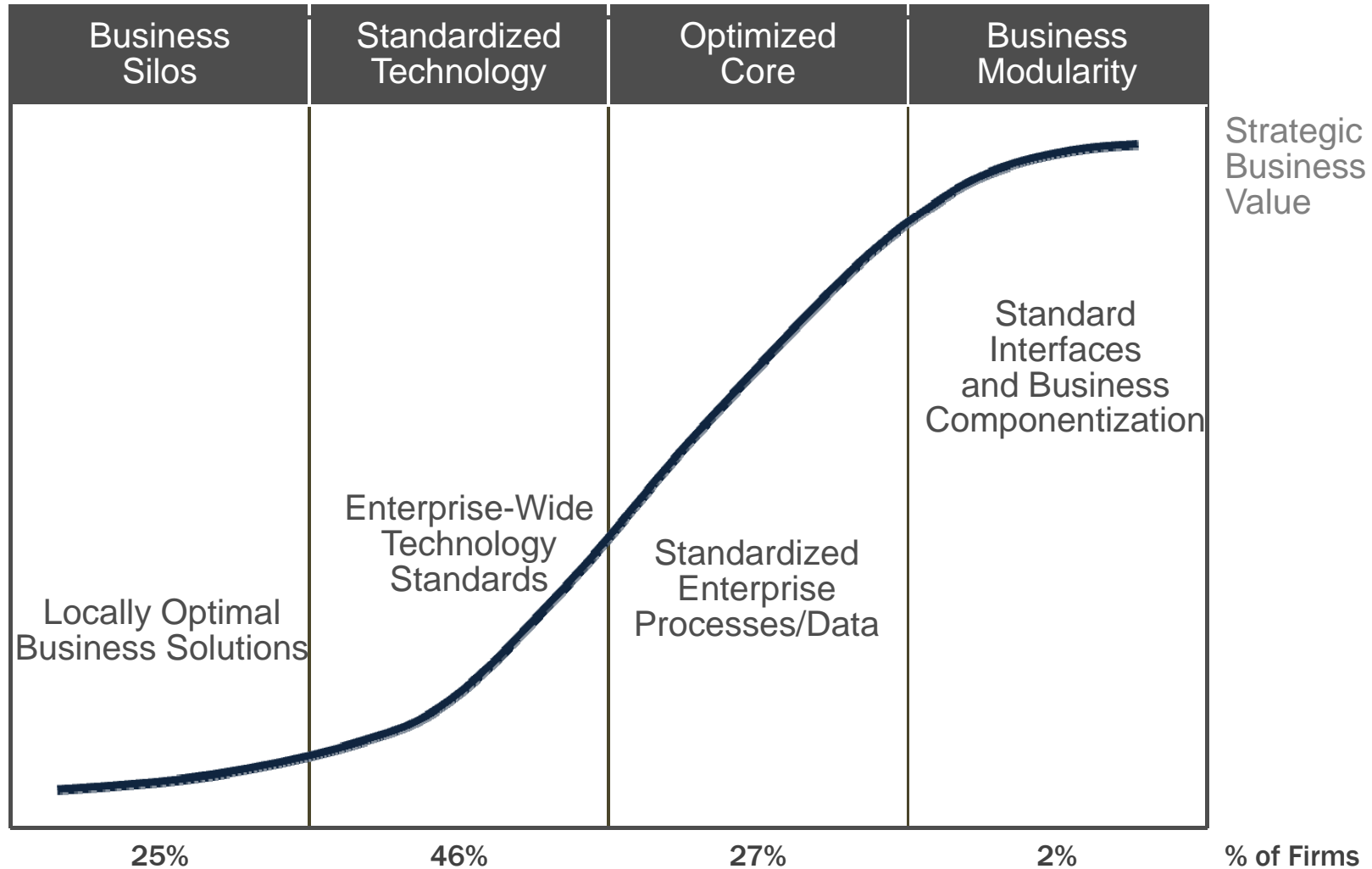




IT approaches to integration

- nature of acquired business + rationale for acquisition
- Example factors to consider – will vary in importance
 - State of target's IT
 - Size of business – scope, scale, complexity
 - Requirement for autonomy to preserve strategic capabilities
 - Regulatory/market environment
 - Customer impact
 - Fit with current skills and competence

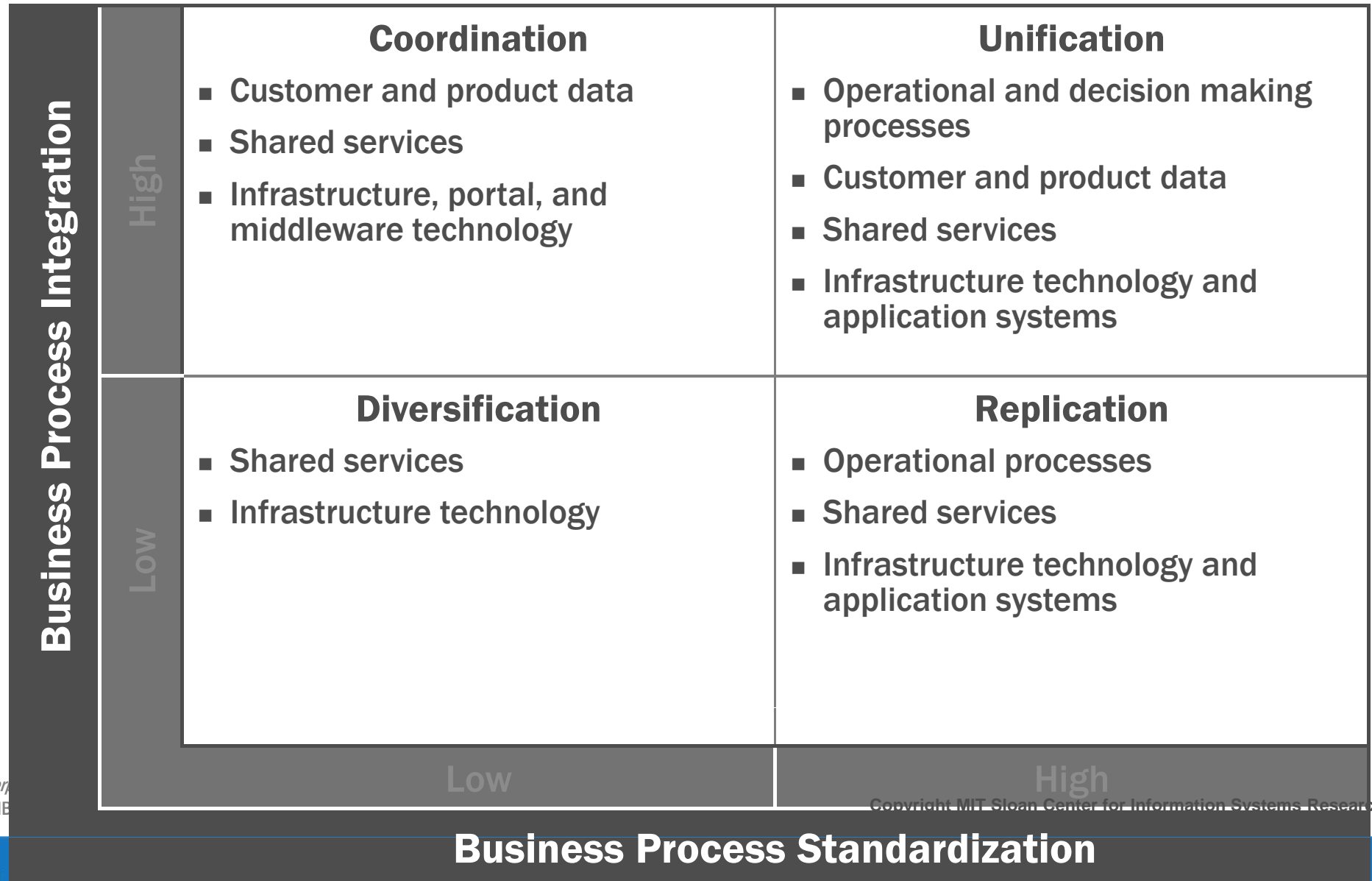
Adapt to business maturity



Source: *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, J. Ross, P. Weill, D. Robertson, HBS Press, 2006.
 Percentage of firms in each stage updated based on a survey of 1508 IT executives.

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Figure out your business model



Source: *Enter...*
Robertson, HE

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TOGAF 9 principles

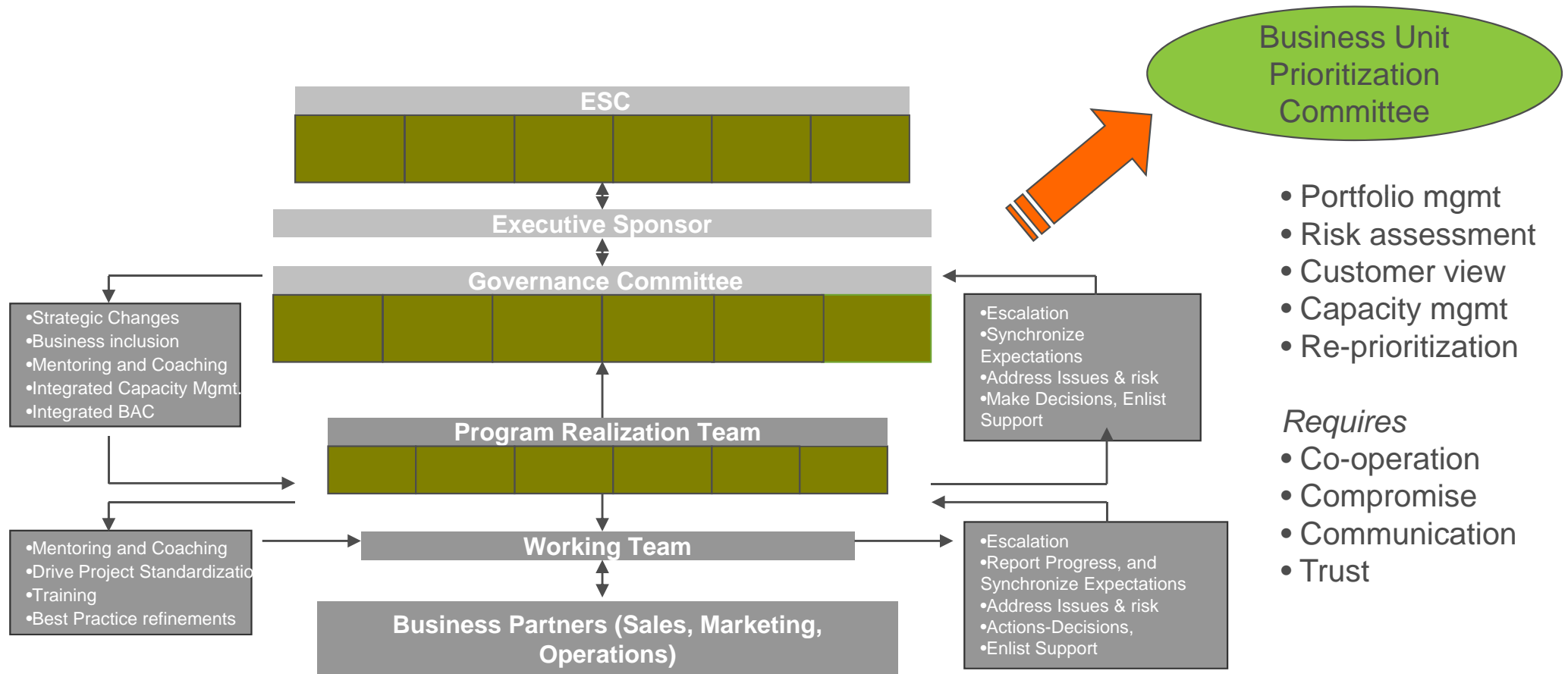
Subset relevant to IT strategies in the context of M&A

- Derive approach from business strategy
- Migration strategies & transition architectures
- Risk management



Priority management

- Balance 'run the business' with 'change the business'
- Weave tasks into single prioritization process



Cited reasons for M&A failures

Strategic

- Market and/or operational similarity
- Market and/or operational complementary
- Market and/or purchasing power

Organizational integration

- Acquisition experience
- Relative size
- Cultural compatibility

Financial

- Acquisition premium
- Bidding process
- Due diligence

Source: Thomas Straub, "Reasons for frequent failure in Mergers and Acquisitions"



Lessons learned at Direct Energy

Pre-deal

- Careful due diligence
- Negotiation strategy
- Integration plan

Post-deal

- Cultural integration
- Change management
- Platform consolidation

[platform – IT + business process + staff + vendors + data]



IT capability at Direct Energy

- IS team aligned / embedded within broader business teams
- Multiple awards for innovation; teamwork; leadership
- Participant in M&A – before, during, after – deals
 - Due diligence templates
 - Input to valuations
 - Execution of integration activities
- Open Group involvement since 2006; 30+ TOGAF certifications



Summary

- 40+ deals in 9 years and counting
- Fit IT approach to deal type and business objectives
- Build M&A skills into IT team
- Balance business priorities with integration activity
- Review results – carry lessons into next deal

