INTEGRATION OF A NEWLY ACQUIRED COMPANY:
A CHALLENGE FOR THE ACTUARIAL TEAM

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https://www.youtube.com/watch?v=wCb50q0NNag
MEDTRONIC HIGHLIGHTS

85,000+ EMPLOYEES

$20,361M NET SALES

7,500+ SCIENTISTS AND ENGINEERS

53,000+ PATENTS

62 MILLION+ LIVES IMPROVED

400+ CLINICAL TRIALS
### MEDTRONIC HIGHLIGHTS

<table>
<thead>
<tr>
<th>Cardiac and vascular group</th>
<th>Restorative Therapies Group</th>
<th>Minimally Invasive Therapies Group</th>
<th>Diabetes Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>46% of revenue</td>
<td>33% of revenue</td>
<td>12% of revenue</td>
<td>9% of revenue</td>
</tr>
</tbody>
</table>

- **Cardiac and vascular group**
  - Drug-Coated Balloons
  - Implantable Cardioverter Defibrillators (ICDs)
  - Transcatheter Heart Valves

- **Restorative Therapies Group**
  - Integrated Neurosurgery Solutions
  - Deep Brain Stimulation Systems
  - Revascularization Devices

- **Minimally Invasive Therapies Group**
  - Navigation Systems
  - Feeding Tubes and Systems
  - Tri-stapling Systems

- **Diabetes Group**
  - Injection Ports
  - Mobile Monitoring Tools
  - Insulin Pumps with built-in Continuous Glucose Monitoring

Our therapies improve the lives of more than 2 people every second.

[https://www.youtube.com/watch?v=zTuyvJm0P74](https://www.youtube.com/watch?v=zTuyvJm0P74)
ONE COMPANY, ONE MISSION

Contributing to human welfare by the application of biomedical engineering to alleviate pain, restore health, and extend life.
MEDTRONIC
COVIDIEN ACQUISITION

Key data 2014 (pre-acquisition):
• $10.6b in revenue
• 38,000 employees
• Headquarter: Mansfield (MA)

Key dates:
• June 15, 2014: Announce by Medtronic of intention to acquire Covidien
• January 26, 2015: Acquisition of Covidien plc successfully completed
• May 2016: Legal merger within EMEA region

Partly integrated in Medtronic existing business group

Complementary to Medtronic products. New business group created within the company
MEDTRONIC
GLOBAL INTEGRATION OBJECTIVES

- **Therapy innovation:** Enhance existing portfolio
- **Globalization:** Emerging market R&D and manufacturing
- **Economic Value:** More value and efficiency in healthcare systems

INTEGRATION PILLARS

- **Preserve:** Maintain business momentum at both companies.
- **Optimize:** Exceed our announced synergy targets and reinvest.
- **Accelerate:** Significant near-term growth for the new Medtronic.
- **Transform:** Technology-enabled transformation of health care.
Our reach extends around the world.
BENEFITS INTEGRATION
BENEFIT INTEGRATION PROCESS

Data collection

Benefits Side-by-side analysis

Benefits recommendation

Integration in Total Rewards Package

Total Rewards Package approval

Benefits implementation

+ Local HR

+ Local consultants

Global Benefits (US)

+ Compensation/Local HR

+ EMEA leadership

+ Local HR / Work councils / Local consultants / Insurers

2-3 months

6 months

2 months

2 months

2 months

On-going
BENEFIT INTEGRATION
IMPLEMENTATION

**Insurance contracts alignment**
- Insurer
- Renewal date
- Premium rates

**Work Councils discussion**
- Employee consultations
- Work councils information
- Work councils formal acceptance
- Individual employee agreement

**Legal merger of entities**
- Policyholder change to Medtronic, adapt insurance T&C accordingly
- Transfer employees to Medtronic contracts
- Close plans
- New insurances start

**Communication to employees**
- Presentations /Webcast
- Brochure
- Individual meetings
- Individual statements
## Retirement
### DB VS DB

<table>
<thead>
<tr>
<th>Legacy Medtronic</th>
<th>Legacy Covidien</th>
</tr>
</thead>
<tbody>
<tr>
<td>• DB: Formula A</td>
<td>• DB: Formula B</td>
</tr>
</tbody>
</table>

### Situation
- Different level of DB plans
- Above current market practice
- Local change in pension environment

### Challenge
- New DC implies that many employees were negatively impacted, even with a generous DC plan (maximum fiscally allowed limits)

### Solution
- Close DB plans for all current employees
- Set up a new DC plan aligned with market for all new hires
- Offer a one-off choice for current employees to move to the new DC plan
- Individual statements issue to each employee, with comparison of the 2 plans
## Retirement
### DB vs DC

<table>
<thead>
<tr>
<th>Legacy Medtronic</th>
<th>Legacy Covidien</th>
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</thead>
<tbody>
<tr>
<td>• DB plan</td>
<td>• Closed DB plan</td>
</tr>
<tr>
<td></td>
<td>• Active DC plan</td>
</tr>
</tbody>
</table>

### Situation
- Legacy Medtronic DB plan is above market
- Legacy Covidien DC plan is below market
- Legacy Covidien frozen DB plan with significant US-GAAP liabilities

### Challenge
- Medtronic corporate guideline: DC plan
- Complex pension legal environment in UK
- Short timeframe

### Solution
- Set up a new DC plan (contract based) aligned with market; adjust life insurance accordingly
- **Legacy Medtronic**: Close current DB plan to new hires; offer non-members a last chance to join; offer DB members the choice to move to the new DC scheme
- **Legacy Covidien**:
  - Frozen DB plan: Wind-up
  - DC plan: Move active employees to the new Medtronic DC plan, which is more generous than their previous scheme

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*United Kingdom*
## RETIREMENT
### DC VS DC

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<th>Legacy Covidien</th>
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<tbody>
<tr>
<td>• DC plan</td>
<td>• DC plan</td>
</tr>
<tr>
<td>• Contribution level age-related, with « price based amount » intervals (formula A)</td>
<td>• Contribution level age-related, with « price based amounts » intervals (formula B)</td>
</tr>
<tr>
<td>• Pensionable salary = Base salary</td>
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</tr>
</tbody>
</table>

### Situation
- Different pension plans (contribution formula)
- Age-related pension formula not market practice

### Challenge
- Different insurers involved
- Single plan aligned with market had different impact on employees (losing/gaining)

### Solution
- Close current DC plans
- Create a new DC plan with a standard level (not age-related) with « Income base amount » intervals
- Offer one-off option for current employees to move to the new DC scheme
- Review pensionable salary aligned with market in the new plan
GLOBAL BENEFIT MANAGEMENT
ONLINE DATABASE
ONLINE DATABASE

- Update of the benefits, terms & conditions for each country on our online portal
  - First step of the project, basis for side-by-side analysis
  - Clear view of the current employees Benefits and Terms & Conditions
  - Data available across HR teams / Consultants

This database needs continuous update and review, but this is essential for all current and future projects.
GLOBAL BENEFIT MANAGEMENT

• Medtronic has set up a global agreement with an international consulting firm:
  Global contract, working with local consultants of this firm in each country (few exceptions) for the integration work and future day-to-day brokerage

• Advantages:
  ✓ Global view on insurance contracts, renewals, brokerage fees
  ✓ Global view on project costs
  ✓ Standard local contracts in all countries
  ✓ Better Terms & Conditions with local consultants
  ✓ In case of issue with a local consultant, resolution on a global level
MULTINATIONAL POOLING
MULTINATIONAL POOLING

With insurance contracts in 50+ countries, it was essential to set up coherent pooling networks arrangement.

Situation:

- Medtronic / Covidien had different pooling network arrangements;
- Need to define the most suitable pooling networks for the new Medtronic considering combined organisation and future developments

Medtronic Pooling Objectives:

- Optimal pooling strategy for Medtronic, considering:
  - Optimal number of pools
  - Contracts to be included / excluded
  - Risk transfer approach/risk tolerance
  - Estimate potential savings
- Preliminary assessment of which countries / coverage are best suited for inclusion in pool;
- Determine what networks may present the best opportunity to pool
- Compare geographic spread of Medtronic/Covidien insurers, including current and expected future locations, against pooling networks
US GAAP – DEFINED BENEFITS PLAN ACCOUNTING

PURCHASE ACCOUNTING

- Fiscal year-end: Medtronic (30 April) / Covidien (30 September)

- Acquisition date: 26 January 2015

- US GAAP Purchase Accounting:
  - Scope: all Defined Benefits Plans of legacy Covidien included (ensure that all plans included)
  - Methodology: roll-forward from full valuation @ 30 September 2014
  - Assumption review: Discount rate @ Closing date
  - Projected P&L costs for remaining of fiscal year

- Timeframe: 1 month after transaction closing date
US GAAP – DEFINED BENEFITS PLAN ACCOUNTING
MEDTRONIC YEAR-END ACCOUNTING

- Medtronic Year-end Accounting:
  - 24 April 2015
  - First year-end including all plans from both legacy organisations

- US GAAP Year-end Accounting:
  - Scope: all Defined Benefits Plans included
  - Methodology: Covidien (roll-forward) / Medtronic (full valuation)
  - Assumption review:
    - Discount rate @ Closing date
    - Review all demographic assumptions aligning Covidien and Medtronic within country/region
    - Align accounting methodology
    - Projected P&L costs calculated for next fiscal year

- Challenges for future fiscal years:
  - Consider change in DB plan linked with Benefits integration
  - Review some demographic assumptions (turnover rates, salary increase)
OVERALL LESSONS LEARNED
OVERALL LESSONS LEARNED

What we will improve for future projects:

• Assign our local consultant as broker as soon as possible
• Cross check data accuracy
• Define the side-by-side template and requirements before starting all local analysis

What went well:

• EMEA global cost overview of Total Rewards Package
• Monitoring of insurance contract renewal to better manage integration
• Template for side-by-side analysis
• Template for employee communication
• Close collaboration with local HR/Finance team, local consultant, Global Rewards team
Q & A
THANK YOU