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

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COLOMBE GIRARDIN
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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**
  - Implantable Cardioverter Defibrillators (ICDs)
  - Transcatheter Heart Valves
  - Drug-Coated Balloons

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

- **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

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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)
MEDTRONIC
MISSION

ONE COMPANY, ONE MISSION

Contributing to human welfare by the application of biomedical engineering to alleviate pain, restore health, and extend life.
Partly integrated in Medtronic existing business group

Complementary to Medtronic products. New business group created within the company

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

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

**EMEA Scope**

- **Western Europe**: 22 Countries
- **Greater China**
- **Asia Pacific**

**EMEA: Western Europe**

- ~60 Entities
- Headquarters
- Commercial manufacture
- Share Service
- Logistics

**~12,000 Employees**

- + Work councils
### BENEFIT INTEGRATION IMPLEMENTATION

<table>
<thead>
<tr>
<th>Insurance contracts alignment</th>
<th>Work Councils discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Insurer</td>
<td>• Employee consultations</td>
</tr>
<tr>
<td>• Renewal date</td>
<td>• Work councils information</td>
</tr>
<tr>
<td>• Premium rates</td>
<td>• Work councils formal acceptance</td>
</tr>
<tr>
<td></td>
<td>• Individual employee agreement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal merger of entities</th>
<th>Communication to employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Policyholder change to Medtronic, adapt insurance T&amp;C accordingly</td>
<td>• Presentations /Webcast</td>
</tr>
<tr>
<td>• Transfer employees to Medtronic contracts</td>
<td>• Brochure</td>
</tr>
<tr>
<td>• Close plans</td>
<td>• Individual meetings</td>
</tr>
<tr>
<td>• New insurances start</td>
<td>• Individual statements</td>
</tr>
</tbody>
</table>
RETIREMENT
<table>
<thead>
<tr>
<th>Situation</th>
<th>Challenge</th>
<th>Solution</th>
</tr>
</thead>
</table>
| • Different level of DB plans  
• Above current market practice  
• Local change in pension environment | • New DC implies that many employees were negatively impacted, even with a generous DC plan (maximum fiscally allowed limits) | • 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 |

<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>
## United Kingdom

### DB VS DC

<table>
<thead>
<tr>
<th>Legacy Medtronic</th>
<th>Legacy Covidien</th>
</tr>
</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
## RETIREMENT
### DC VS DC

<table>
<thead>
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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</td>
<td>• Contribution level age-related, with « price</td>
</tr>
<tr>
<td>based amount » intervals (formula A)</td>
<td>based amounts » intervals (formula B)</td>
</tr>
<tr>
<td>• Pensionable salary = Base salary</td>
<td>• Pensionable salary = Base salary</td>
</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 countries 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

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 PENSION ACCOUNTING
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

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
THANK YOU