



M&A Buy-Side Due Diligence
and Integration Case Study

Avoiding the Integration Pitfalls

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A Small Deal With Big Challenges

A multibillion-dollar, publicly traded manufacturer of commercial products devoted significant time and resources to identify and pursue an acquisition target as part of its strategy for growth. The smaller, privately held target company manufactured related products that would both round out the acquirer's product offering (enabling it to become a one-stop shop for its key customers) as well as provide access to a series of incremental market channels. The acquisition strategy was sound, but due to the significant differences in the companies' cultures, operating profiles, etc., the integration would be very tricky. Furthermore, despite having formidable internal operating capability, the client team had very limited and inconsistent experience with executing and integrating M&A transactions.

A Holistic Diligence Approach

With a considerable amount of time and money at stake, the company asked the Crowe M&A team to help with due diligence to vet the target company from two perspectives:

1. A formal diligence examination of the target company's financials and supporting information to produce a detailed quality-of-earnings EBITDA report
2. A high-level operations and culture assessment to highlight potential areas of concern if the deal were to move forward

In the course of this work, it became very apparent that the magnitude of the integration challenge would be far greater than the modest transaction size would initially suggest. As a result, Crowe also was engaged to provide support for the integration activity.

Crowe Support Strengthens M&A Integration Results By:

1. Providing a proven approach with supporting methods and tools
2. Hands-on involvement throughout critical steps
3. Leveraging industry insight and experience
4. Adding value that transcends the engagement agreement
5. Maintaining transparency and integrity in every interaction to build strong rapport in working with both buyer and seller



Bite-Sizing the Integration Effort

In order to facilitate clarity and focus and to develop the proper sequence of the integration work, Crowe worked with the client's functional leaders to develop a detailed integration plan around three macro integration priorities:

1. Functional integration – establishing critical transition priorities for each functional department, prioritizing and phasing the tasks, clarifying accountability and responsibilities, actively identifying obstacles, and driving necessary decision-making. The focus in this step was to maintain seamless operating continuity and mitigate risks.
2. Value optimization - establishing and tracking the deal performance by using a scorecard to identify, assess, and prioritize synergy opportunities.
3. People and culture transition – developing a robust communications plan, verifying that meticulous onboarding requirements were met, and proactively addressing people, culture, and change management issues.

Focus on Stabilizing Operations

Our early work with the targeted company revealed a myriad of operational and integration challenges, including things like an entrepreneurial culture profile, a lack of formalized systems, a lack of formalized financial and process controls, HR risks, and a number of misconceptions about level of change that would be required post-close.

The Crowe team focused on stabilizing the target organization during the early integration period, including:

- Articulating the anticipated, non-negotiable changes that would be required ("the givens")
- Highlighting and staying focused on critical day one priorities rather than trying to address a laundry list of changes all at once
- Clarifying and simplifying the communication channels between the acquirer and target to mitigate unproductive ambiguity and confusion
- Tracking, investigating, and resolving issues quickly
- Perhaps most significantly: working with the acquirer to recognize the need for developing a triage plan to maintain operational control of the target if the target's management elected (or was forced to accept) an early exit

As events unfolded, it became necessary to deploy the triage plan and accelerate the timeline by which the acquirer assumed operational control of the target. The vice president/general manager of the acquirer remarked, "You know, putting together that 'Plan B' really saved us in this deal. I suppose the old adage is true: hope for the best, but plan for the worst."

Deal Value Optimization – From Theory to Results

At the outset, the client's integration plan included some fairly aggressive sales growth targets under the assumption that simply by "flipping the switch" and giving the client's sales force the green light to begin promoting the target's products, sales would dramatically increase. And while this appeared to be valid (at least in theory), the Crowe team questioned whether the target's manufacturing and fulfillment operation would be able to absorb this increased volume. Based on our experience, we identified that it doesn't matter what the model suggests – or even what theoretical capacity is – if the target can't realistically support that level in the real world.

In addition, Crowe recommended that the client explore integrating the target's manufacturing into existing client facilities – not only alleviating potential capacity constraints, but also mitigating a number of the target's HR-related risks, as well. As it turns out, manufacturing capacity and process control had been deemed to be the key constraint with respect to the proposed commercial synergy plan. The client concluded that a transition of the target's manufacturing operation into existing client facilities was the proper course of action.

In addition to helping to rethink and resequence top integration priorities, Crowe also worked to proactively bring additional integration opportunities to the client's attention. One example was to establish a potential, meaningful tax synergy in one of the specific state jurisdictions for the deal.

Putting the Client First

The engagement agreement for the Crowe integration work specified a number of specific deliverables, such as:

1. Detailed integration plans
2. A communications plan with associated communications development support
3. An integration scorecard
4. Project management support – through team coordination, decision support, and status updates
5. Identification of integration issues and risks
6. A full value optimization plan

Effectively managing a live integration is dynamic process, however. So, even beyond these in-scope deliverables, there were a number of instances when the client relied on Crowe to help extricate them from a tricky situation. Two examples included:

1. Structuring and leading the inventory counts at the target's locations. Due to questionable, inaccurate, or disputed inventory counts and values, tight deal time frames, limited client resources, and an increasingly uncooperative target management team, Crowe was asked to step forward to provide organization, leadership, and analysis of the target's inventory assessment. This work not only enabled the deal to progress based on the established timeline, but also factored into the transaction value calculation, saving the client considerable money in the ultimate purchase price.
2. Providing a neutral perspective to the target to "bring them back to the deal table." Because of the significance of the deal for the target, as well as the differences in company sizes, cultures, and styles, there were several instances in which the target company team had real doubts about the acquirer's motivations and plans. Crowe was asked to help smooth this situation and facilitate these discussions in order to register and address the target's concerns, restore their confidence, and keep the deal moving forward.

Additionally, because of the client's matrix organization structure, the client team periodically struggled to identify and manage many of the critical cross-functional process issues in the integration. As such, the Crowe team provided leadership by bringing a broader perspective – including facilitating the critical connections between various functional teams – that allowed the integration transition to succeed.

Leaving the Camp Better Than We Found It

At the conclusion of this project, as we worked to formally transition day-to-day responsibility for integration back to the client operating team. Our final step involved revising, packaging, and delivering the methods and tools we used for the deal so that the client team could:

1. Use the project as learning exercise to upgrade the company's M&A execution understanding and skill set, and
2. Reuse the tools and templates on future, similar transactions in order to avoid reinventing the wheel.

In addition to the transfer of documents and tools, Crowe also conducted a formal debriefing presentation with key members of the client's deal team. In this presentation we highlighted a number of key areas and dynamics of the deal, lessons learned, and our suggestions for continuing to optimize the deal value going forward.

Experience Matters

The Crowe M&A services team has supported successful transactions for many well-known global companies, private equity firms, and lenders. Our integrated and comprehensive services provide best-in-class support across the breadth of the M&A value chain – from due diligence through post-close optimization. Additionally, Crowe helps clients upgrade and strengthen their internal capability through the development of M&A playbooks and by implementing the Crowe M&A Catalyst deal management platform.





Learn More

For more information on Crowe M&A services, please contact:

Jerry Larson
M&A Transaction Support Services
Crowe LLP
+1 630 575 4315
jerry.larson@crowe.com

Marc Shaffer
M&A Transaction Support Services
Crowe LLP
+1 312 857 7512
marc.shaffer@crowe.com

crowe.com