



# SaT Academy - TSE introduction

September 2022



Building a better  
working world

# Your trainers today

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**Simone Valorani**  
**EW - TSE**

*Senior Manager – Sell&Separate*

- ▶ Simone is a Senior Manager in TS&E office, whose professional experience has been particularly focused on separation projects
- ▶ He joined EY in May 2014 and is based in the Rome office. Before joining EY, Simone spent three years in the Audit department of Deloitte



**Maria Fusco**  
**EW - TSE**

*Senior Manager – Buy&Integrate*


- ▶ Maria is a Senior Manager within the TS&E practice, Maria is part of the EUW Buy&Integrate community and Tech TSE
- ▶ Maria developed a know-how on: PMO, Carve-out and Integration, post-deal support, IT Governance & Strategy
- ▶ Maria has a wide experience in supporting clients within the TMT sector
- ▶ She joined EY in 2016, prior to joining EY, Maria was a consultant at Business Integration Partners where she took part in various ICT Strategy and Governance projects within Telco industry



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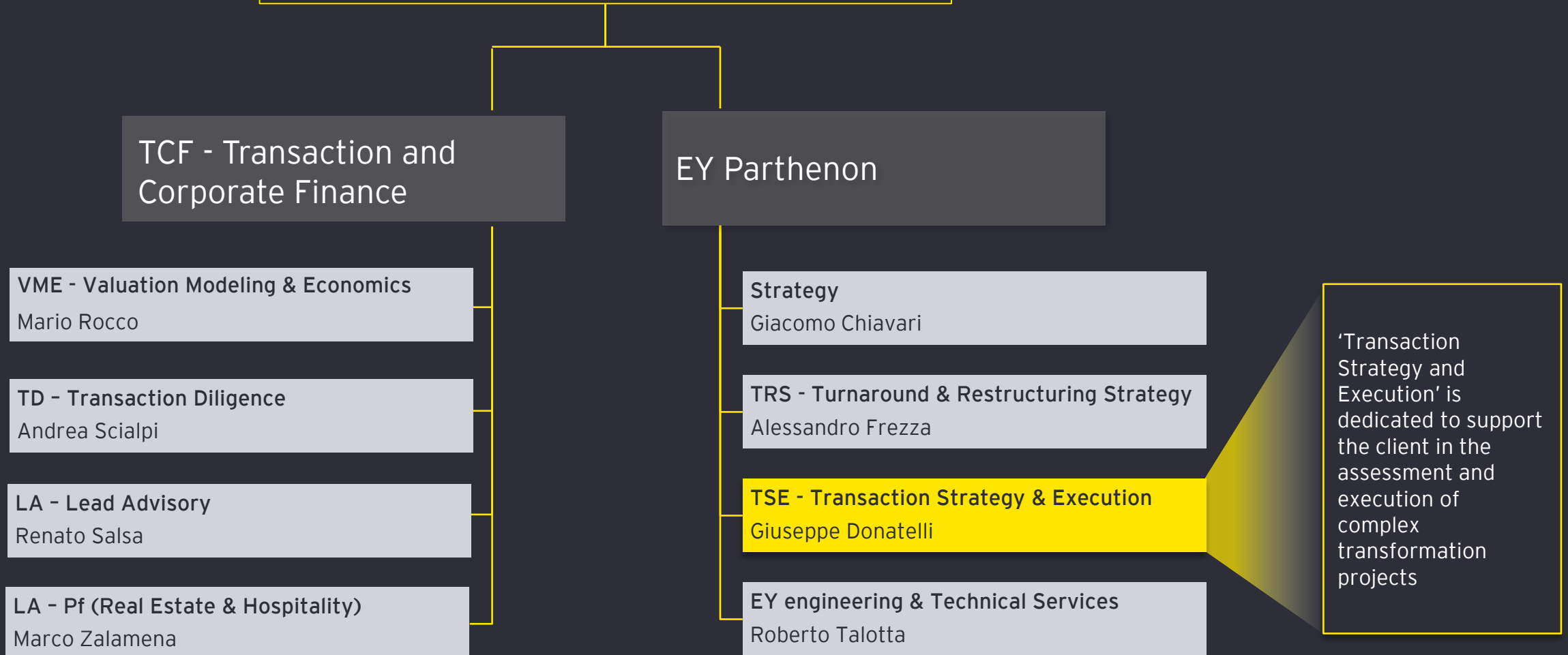


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## TSE Overview

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## Strategy & Transactions



# The EW Italy TSE team leadership



Cinzia Quartararo  
Partner



Giuseppe Donatelli  
Partner – Italy TSE leader



Roberto Talotta  
Partner

Focus Engineering & Construction



Cristina Giardo  
Senior Manager



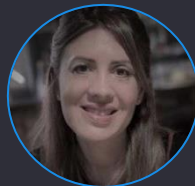
Luca Alidori  
Senior Manager



Maria Fusco  
Senior Manager



Andrea Dicandia  
Senior Manager



Nukhet Anadal  
Executive Director



Luca Bertucci  
Senior Manager



Gioacchino E. Mongiardo  
Senior Manager



Luca Bishara  
Senior Manager



Stefano Tavoni  
Senior Manager



Simone Valorani  
Senior Manager



Anna Valtorta  
Senior Manager



Alessandra Moscia  
Senior Manager

Let's discuss...

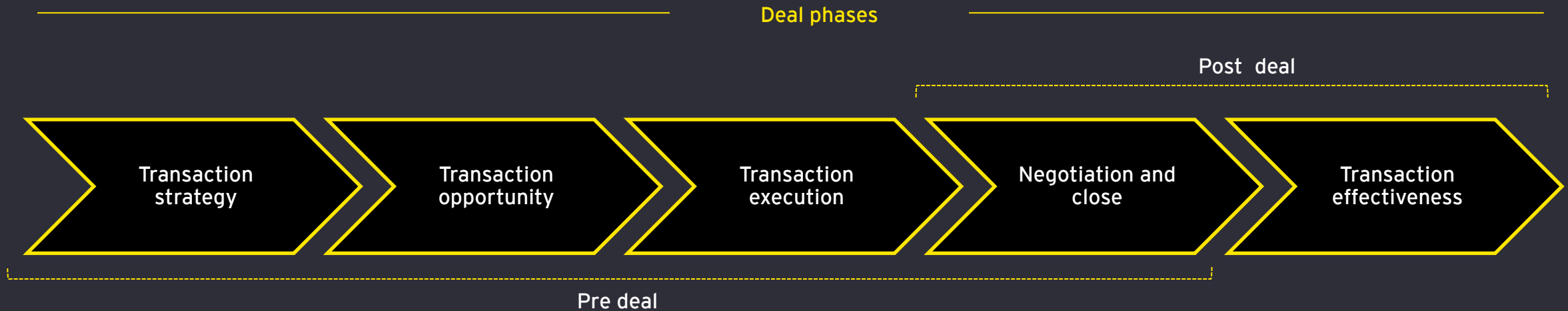
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What does TSE means?



# TSE support in a wide range of pre and post deal engagements such as to diligence, carve-out, integrations, transformations and more



You may work on both types of engagements

## Pre deal due diligence

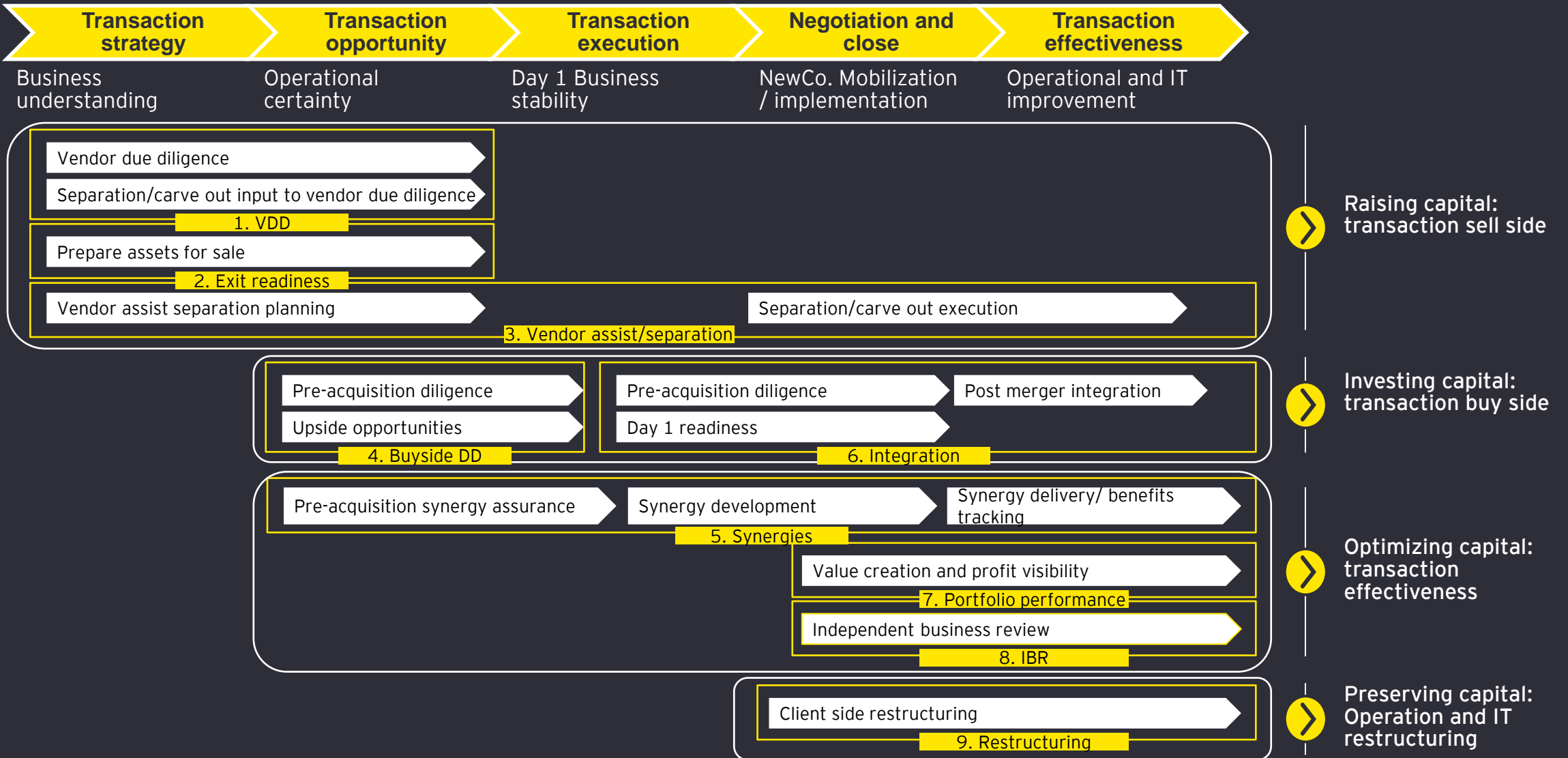
- ▶ Analyzing and developing business plans
- ▶ Short term timescales
- ▶ Restricted access to target company
- ▶ Location - electronic data rooms, EY offices and client site
- ▶ Transaction risk - will it happen or not?
- ▶ Opportunity for post deal work

## Post deal integration/separation

- ▶ Supporting or implementing business plans
- ▶ Longer term timescales
- ▶ Full access to company and management
- ▶ Location - mostly client site
- ▶ Business risk - will it continue performing?
- ▶ Opportunity to expand scope of services




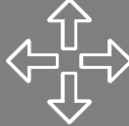



# Services provided are different based on the M&A process timeline



# TSE provide services according to Connected Capital Solutions

Whether you're preserving, optimizing, raising or investing, EY Connected Capital Solutions can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.

 Strategy	 Corporate finance	 Buy and integrate	 Sell and separate	 Reshaping results
Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future	Enabling better value-creating decisions through deep finance and strategic modeling to optimize capital agenda execution, financial performance and shareholder return	Enabling strategic growth through better-integrated and operationalized acquisitions, joint ventures and alliances	Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin-off or joint venture	Providing trusted leadership in urgent critical and complex situations to rapidly solve business challenges, sustainably improve results and help you reshape for a better future






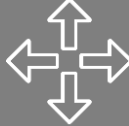

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**Buy & Integrate**



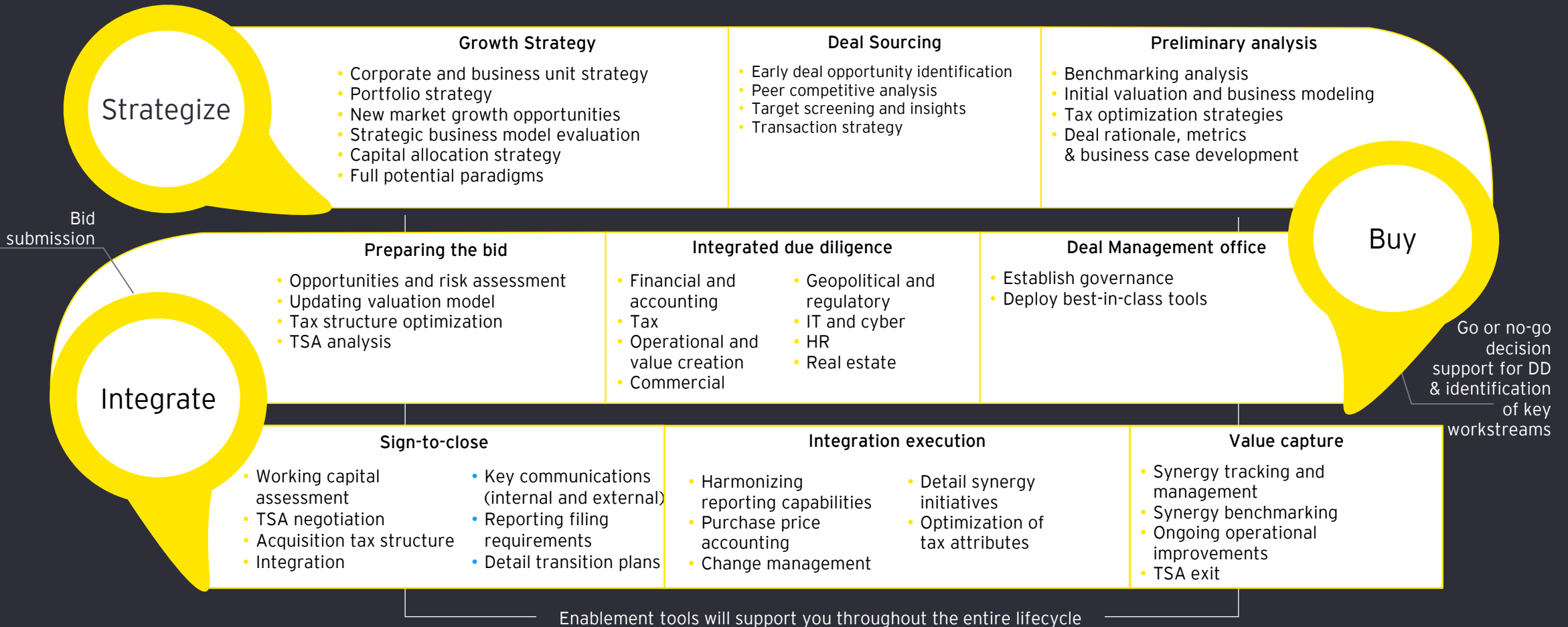
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# What is “Buy & Integrate”?

This is a typical process and holistic approach. Based on client’s input and our experience, we can tailor this approach



Let's discuss...

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Which are common reason behind  
an acquistion?

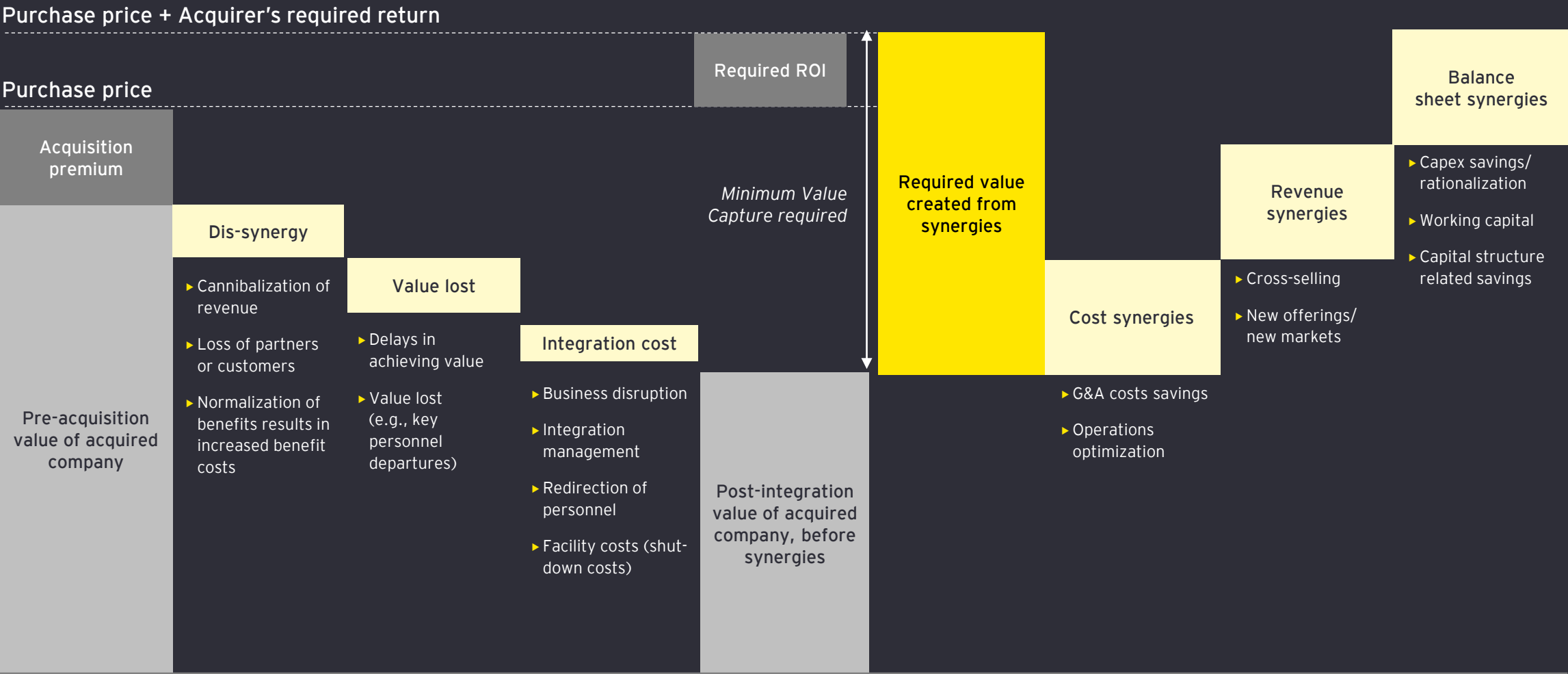




# Why do companies pursue acquisitions and joint ventures?



# What makes acquisitions so difficult?

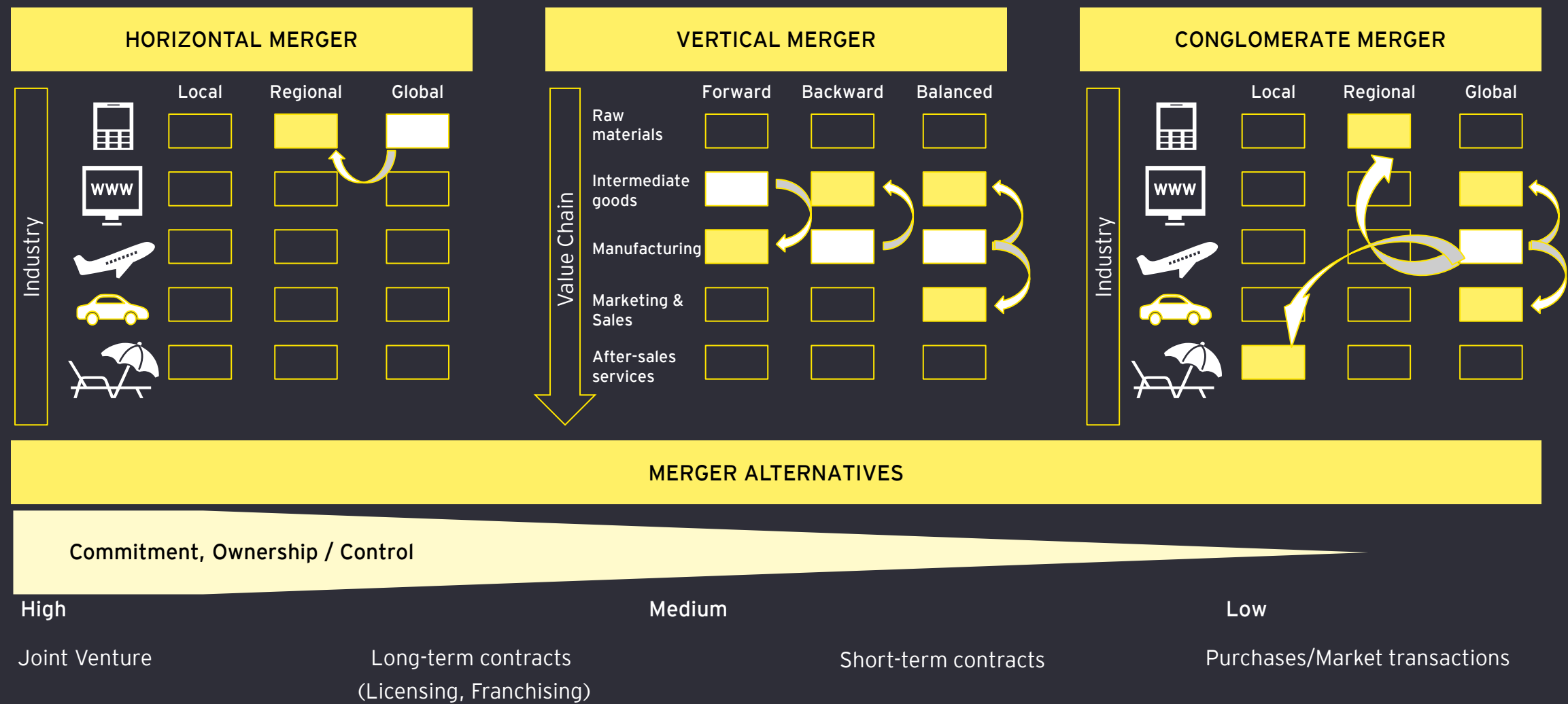


# How is investment rationale aligned with the integration approach?

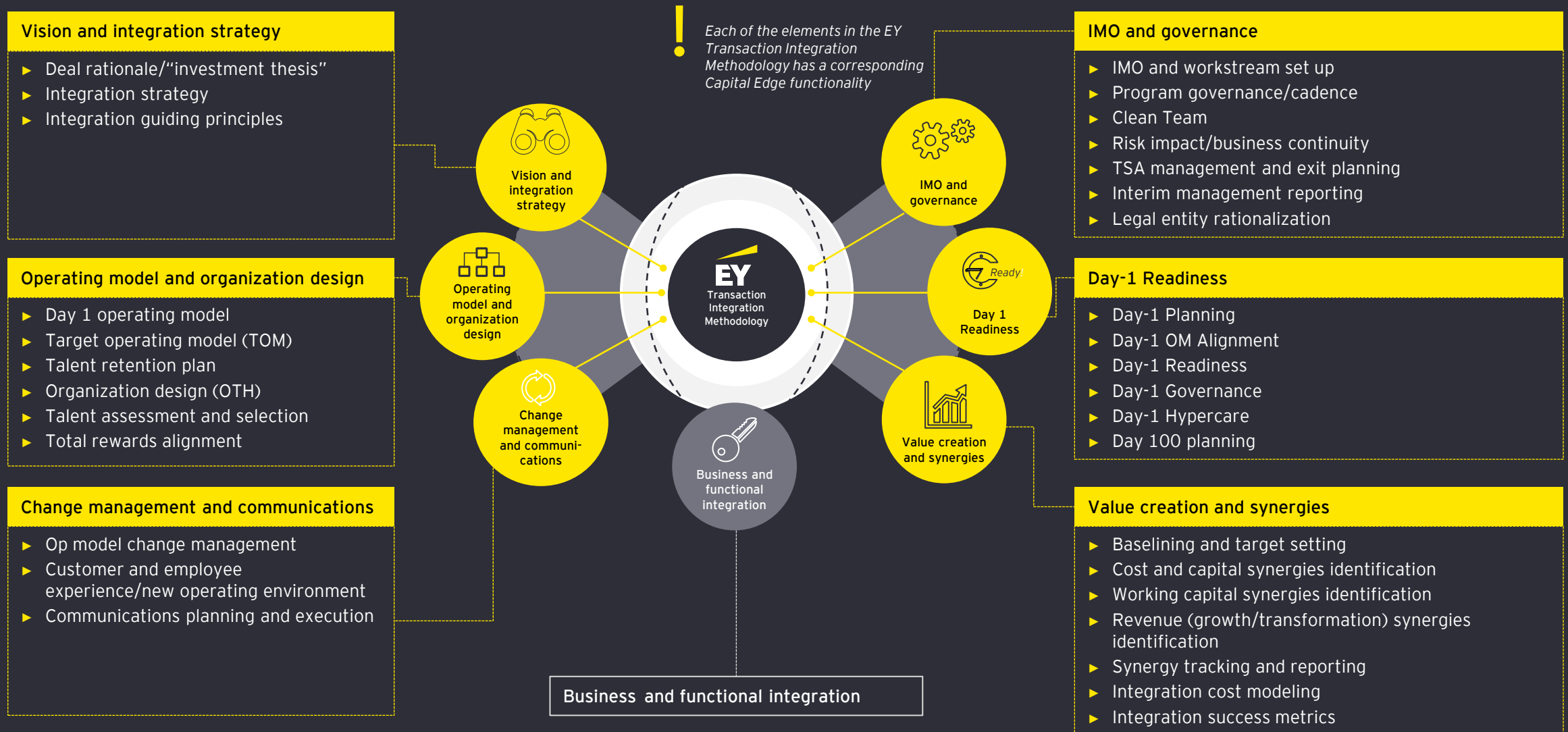




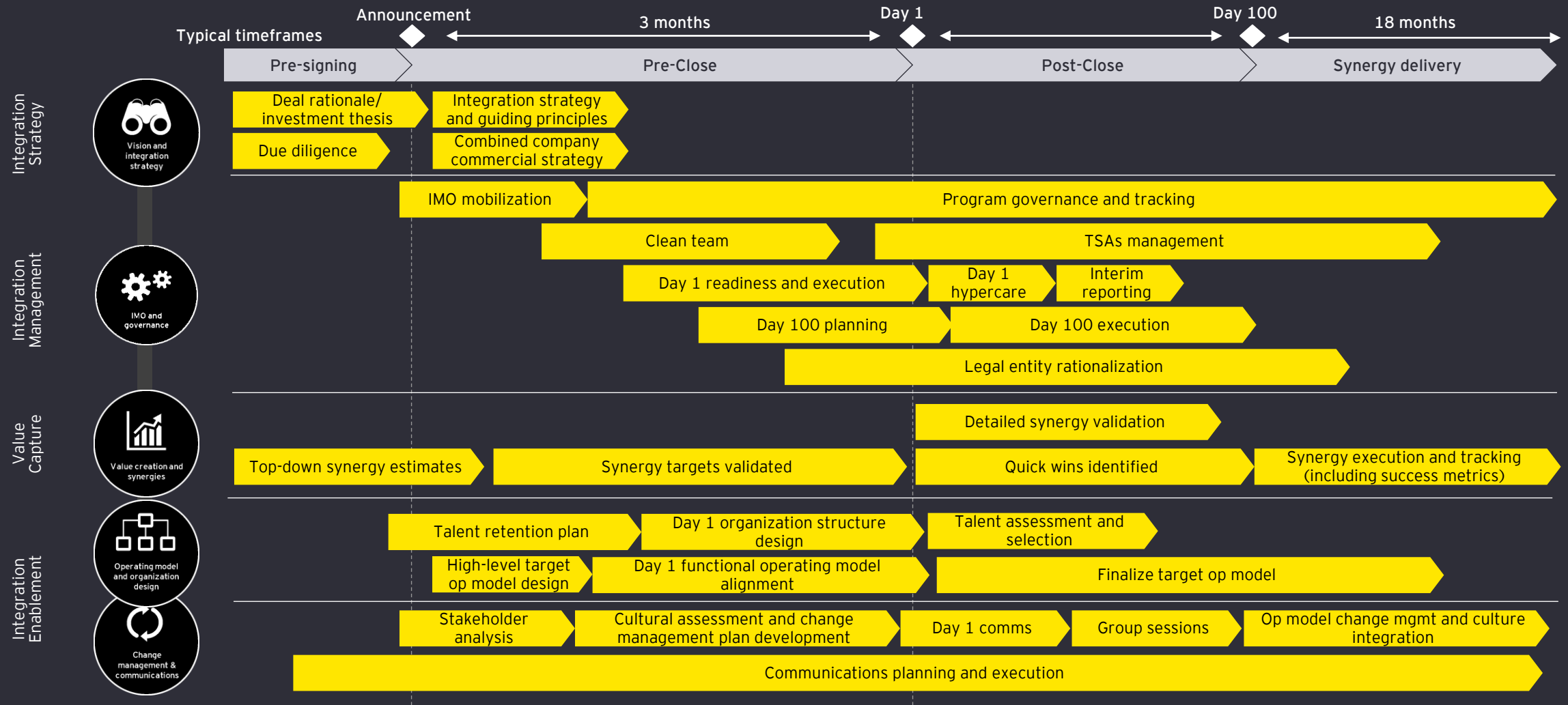
# Mergers can be classified into three types depending on the business combinations



# EY's integration methodology highlights the elements of a successful integration



# ...including a rigorous integration timeline





# Alignment on key value drivers will keep the integration grounded in bottom-line results while ensuring strategic objectives are met

## Common M&A Value Drivers



### Strategic Growth



### Acquire Unique Capabilities, IT or Know How



### Alter the Competitive Landscape



### G&A Cost Savings



### Reduce Direct and Indirect Spend



### Operations Optimization

## Integration Imperatives

- ▶ Assess acquired projects to determine those with the best strategic fit
  - ▶ Utilize acquired projects to speed development in areas of strategic focus
  - ▶ Create business in new geographies to increase global presence and market share
  - ▶ Introduce new products and services that improve strategic positioning
- 
- ▶ Focus on preserving people and culture
  - ▶ Seek to develop new customer relationships, create new products or build a new business
- 
- ▶ Protect market share of combined entity from competitors
  - ▶ Pursue product enhancements and cross-selling of offerings
- 
- ▶ Consolidate corporate functions (e.g., general management, legal, government relations) and reduce redundant spend
  - ▶ Use shared services for back-office functions (e.g., finance and accounting, human resources, information technology, procurement, logistics)
  - ▶ Reduce external reporting spend
  - ▶ Consolidate IT platforms
  - ▶ Consolidate corporate locations and real estate footprint
- 
- ▶ Consolidate transportation spend/contracts to improve terms and discounts
  - ▶ Consolidate in areas of highly shared spend
  - ▶ Consolidate spending across production sites
  - ▶ Reduce uncontracted spend
- 
- ▶ Consolidate shipping spend/contracts to improve rates and commissions/rebates/
  - ▶ Consolidate transportation and freight infrastructure to reduce costs and/or increase utilization
  - ▶ Leverage each other's development and operating infrastructure

Let's discuss...

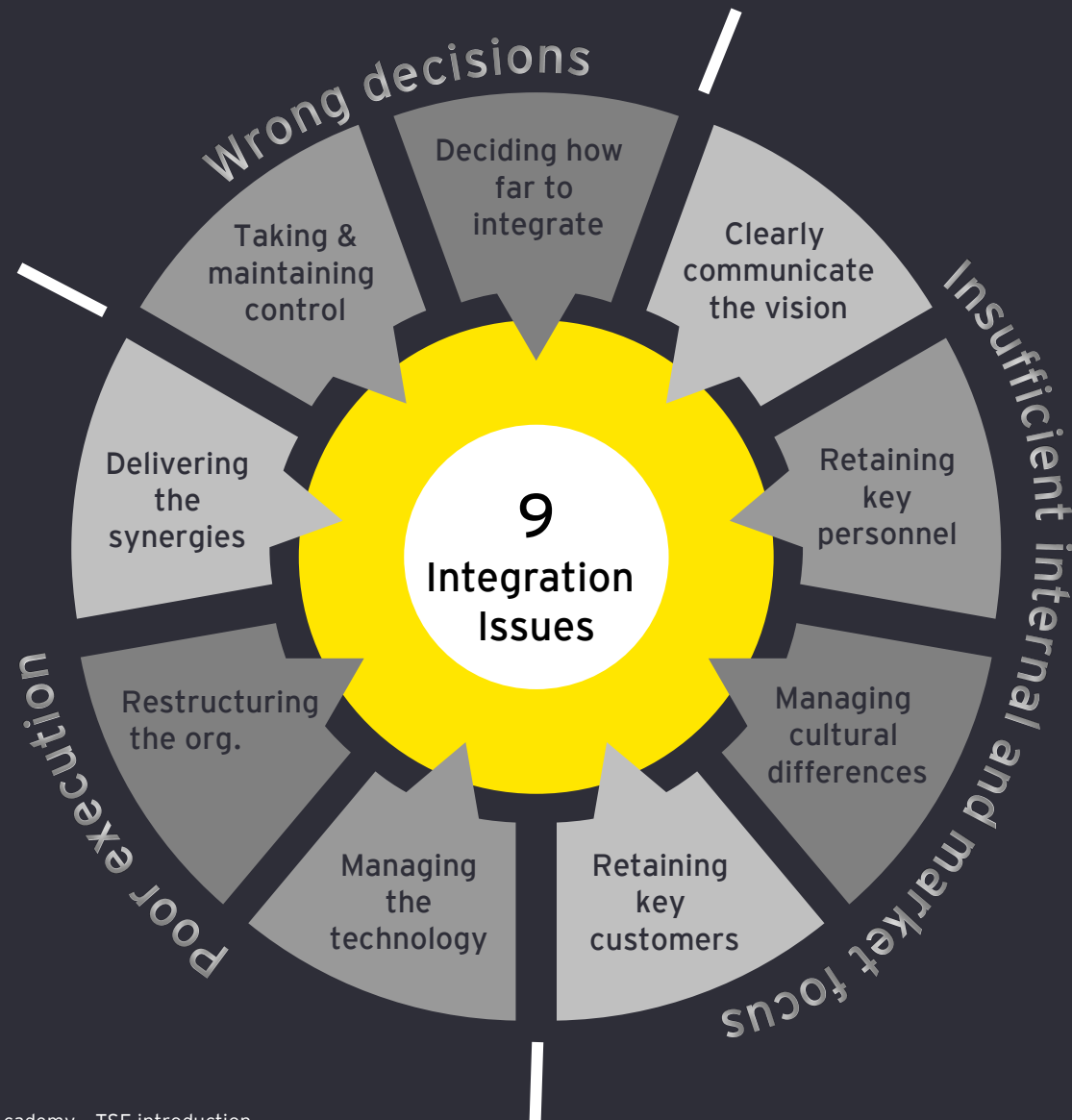
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Which are most common risks or challenges during an integration?

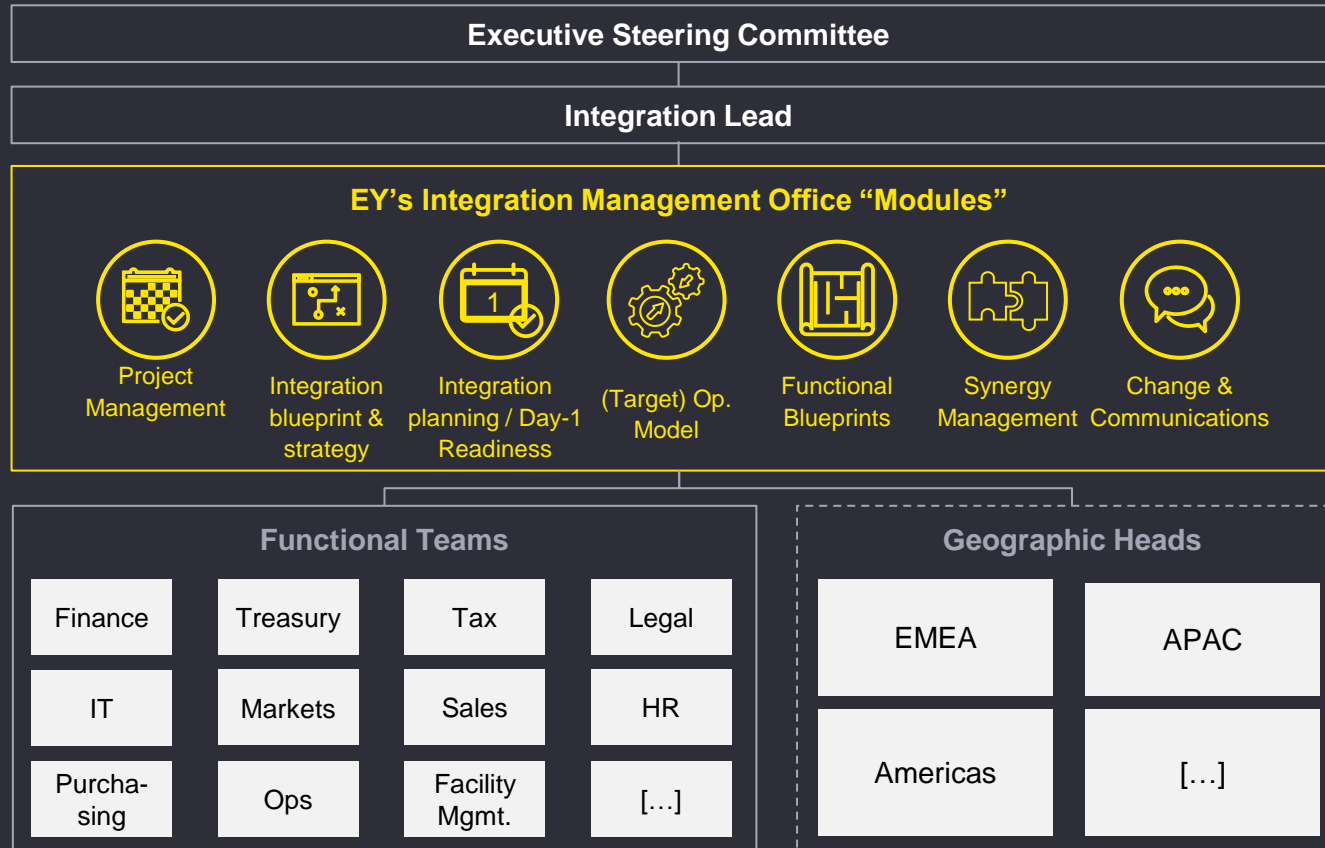


Based on previous experience, there are key issues which frequently occur during acquisition integration



# The IMO typically acts as an intermediate between the integration leadership team and the functional and geographic integration heads

*Illustrative –  
Actual will vary by transaction*



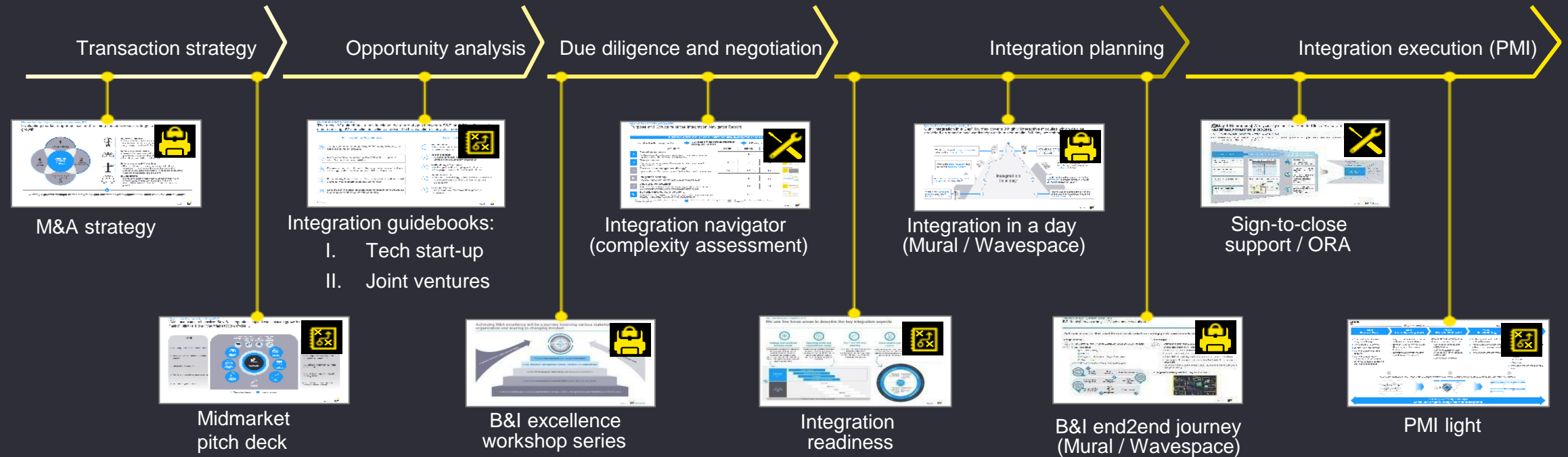
*"Based on our experience, for material transactions, a three-tiered governance structure with an executive SteerCo, IMO and functional work streams creates the appropriate level of oversight and operational efficiency."*<sup>1</sup>

## IMO Role

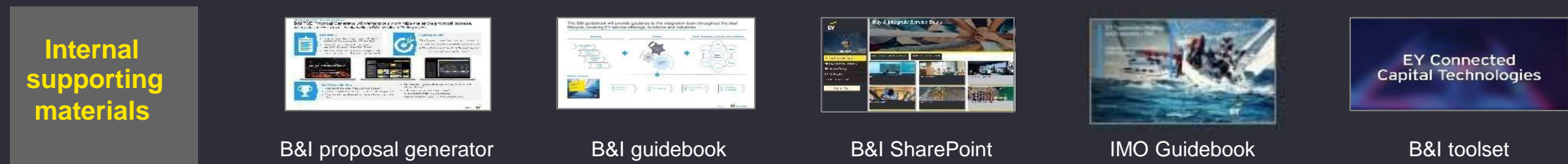
- ▶ The Integration Management Office (IMO) is at the center of integration planning, execution coordination and program management
- ▶ The IMO steers project modules and ensures they are considered in all functional workstreams
- ▶ The IMO provides cross-functional leadership to guide and coordinate integration planning and execution, help define and communicate program parameters, team structure and reporting process
- ▶ In the beginning, the integration is managed predominately via project modules
  - With increasing maturity, responsibilities and activities are transferred into the workstreams / functions and / or geographies
  - The IMO needs to ensure that workstream activities link into overall integration strategy
- ▶ IMO should consist of resources that are well experienced in M&A execution, are involved early in the deal lifecycle, and are enabled by leadership to make decisions and drive the program
- ▶ The size of the IMO will depend on deal size and complexity but needs to contain at least one client IMO lead working alongside the EY IMO lead
- ▶ Corporate Development and senior leadership from the business should appoint an IMO lead when kicking-off an integration process; IMO is ideally mobilized prior to formal diligence and usually remains in charge up to hypercare (2 weeks post-close)



# 15 initiatives to enhance deal initiation and delivery across all deal stages -from M&A strategy to integration execution



*Indicative allocation to timeline; materials can also be deployed at any stage of the project*



**Legend:**



Methodology & Guidebooks



Workshop formats








Delivery tools



**Sell & Separate**

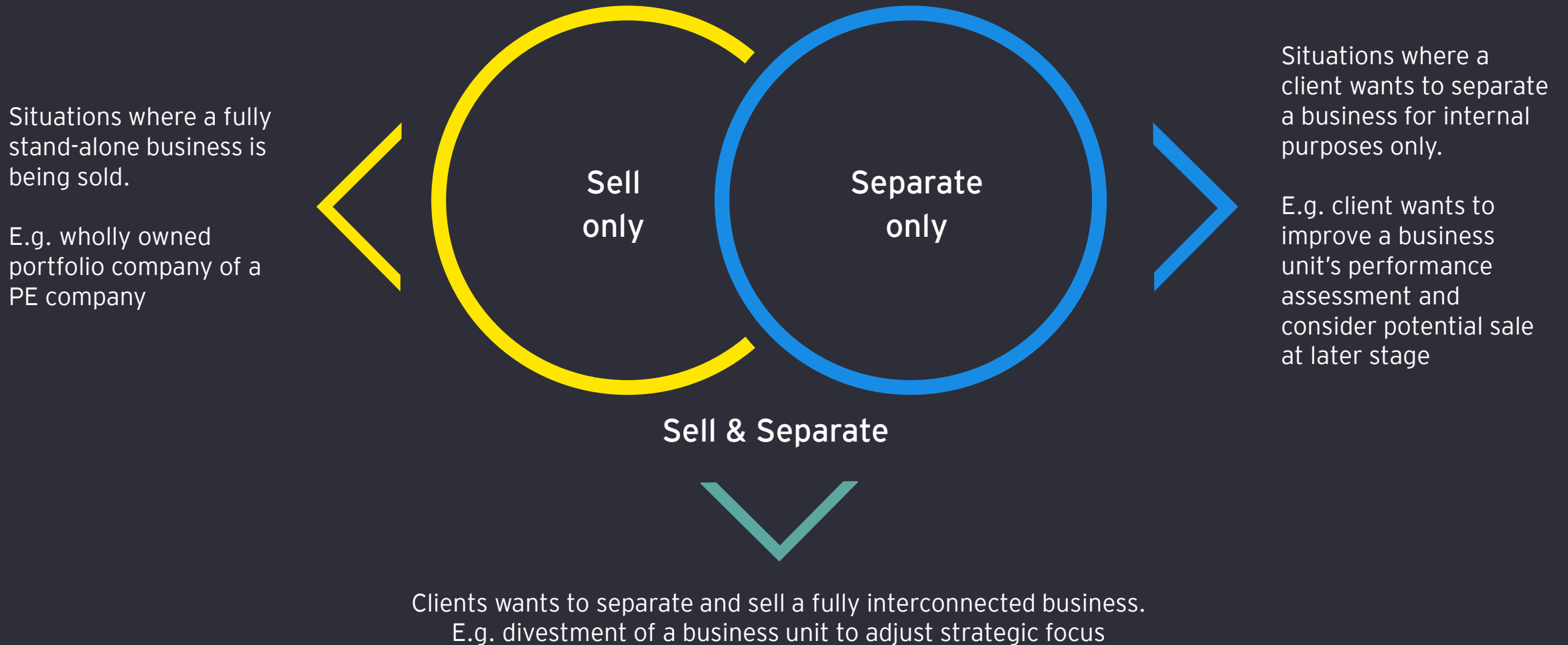
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# When do our clients need Sell and Separate solutions?

## Range of Sell and Separate client situations





# Why do companies pursue a carve out?

## Why Carve-out?



Preserve and create a long-term value in the remaining business



Realize significant synergies with their own businesses



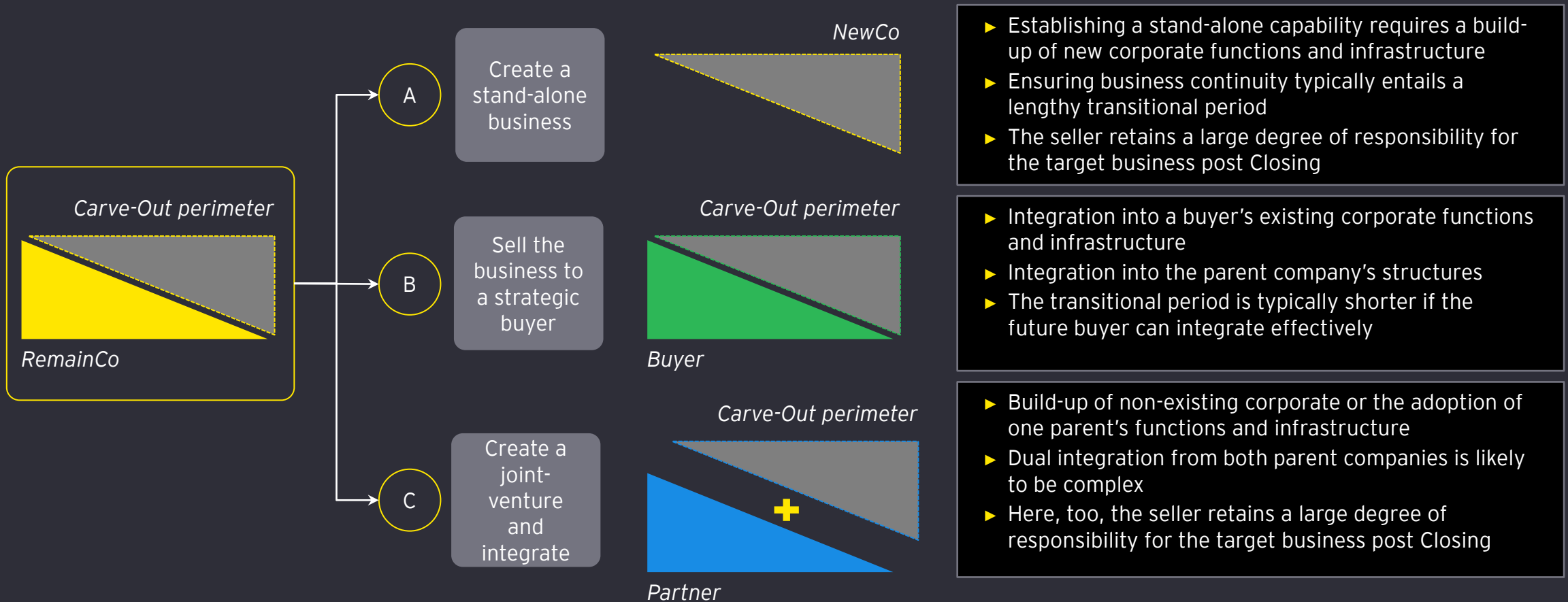
Fund growth optimizing profitability and competitiveness



Increase shareholder value

# How may carve-outs come in different forms?

Exit strategy and anticipated buyer profiles drive the Carve-Out Design



# EY's Sell and Separate solution

EY's Sell and Separate solution helps **enable strategic portfolio management** and **better divestments** to help clients **maximize value** from the sale of an **entire company, carve-out, spin-off or joint venture**.



The Sell and Separate team helps companies **evaluate** their strategy, **manage** the portfolio, **improve** divestment value and **grow** their remaining business.



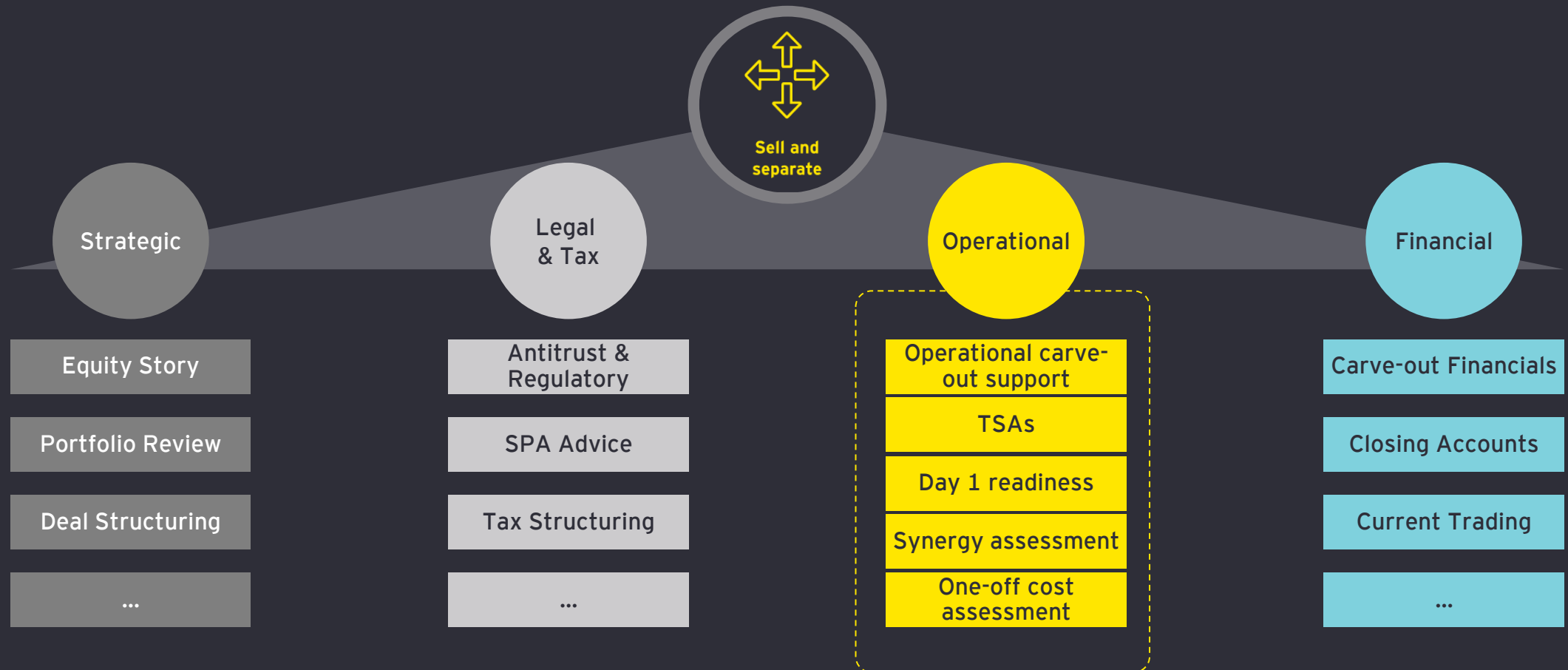
EY's **strategic portfolio management** advice helps you decide what and when to monetize. We work with you throughout the **entire divestiture life cycle**, including **strategy, separation and stabilization** upon deal closing.



Whether you are a **corporate or private equity fund**, diverse EY teams and technology help you to **improve full divestiture value**, **limit business disruption**, **manage remaining cost structures** and **focus on future-inclusive growth**.

# What does Sell and Separate include?

Sell and Separate services include all functional areas of a company and end-to-end service capabilities to address the different needs of the stakeholders



# We help sellers navigate through the entire transaction lifecycle....

## Value Proposition

The EY Sell and Separate team and technology help sellers reduce time to close, navigate regulatory complexities, control the process and improve divestment value.



### Value preservation with no surprises

- ▶ Potential stumbling blocks identified before buyer engagement
- ▶ Opportunity for more favorable post-close adjustments
- ▶ Tax issues addressed early for shareholders, buyers and the seller alike
- ▶ Employee morale and client satisfaction maintained
- ▶ Path to improve value and plan to create shareholder value going forward



### Disruptions reduced

- ▶ Comprehensive and self-service data room that streamlines interaction
- ▶ Rigorous preparation for bidder due diligence performed up-front
- ▶ Management able to focus on running the business instead of the transaction
- ▶ Navigate divestitures arising from antitrust rulings and requirements



### Accelerated closing

- ▶ Enhanced seller ability to manage multiple buyers, dictate terms and compress timelines
- ▶ Transparency enables a smooth and time-efficient process
- ▶ Guidance to navigate IRS and SEC transaction regulations with confidence, including tax free spins



### Enhanced credibility

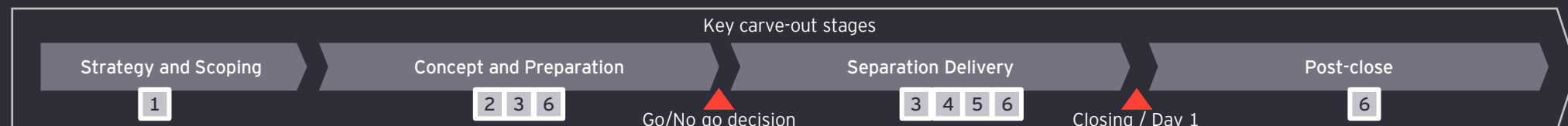
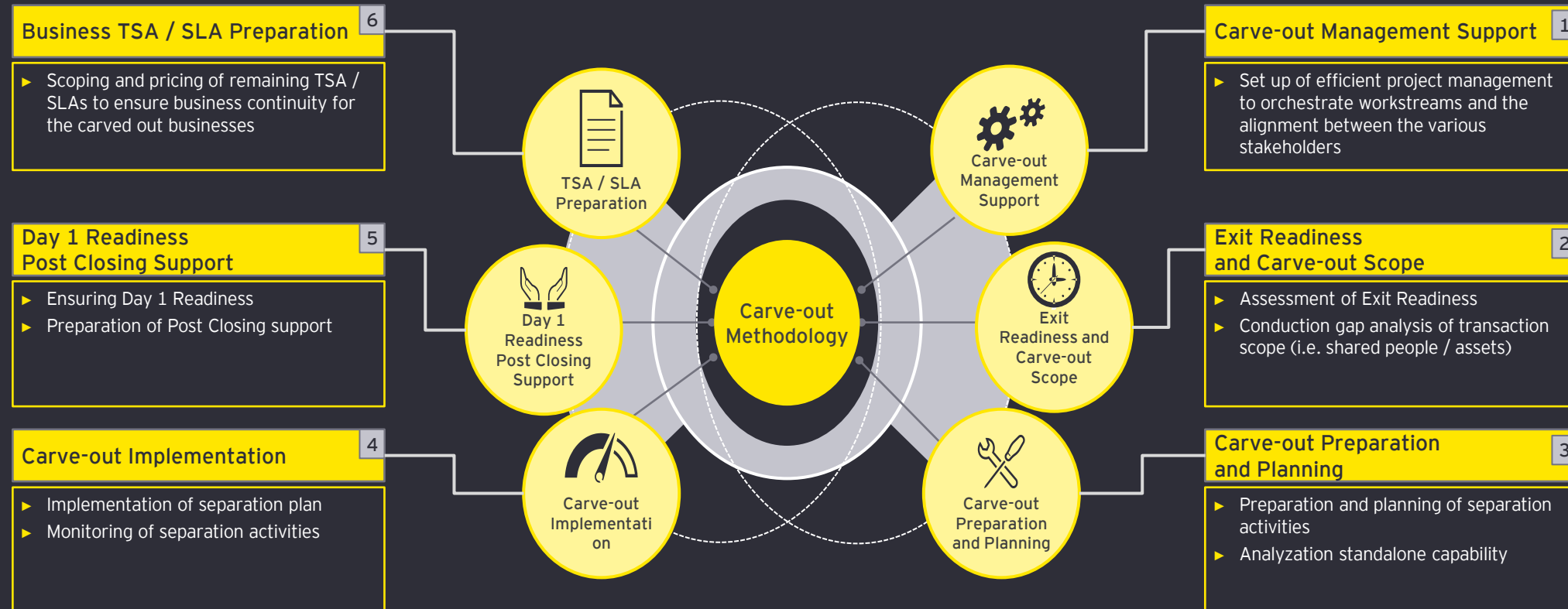
- ▶ Management is prepared for presentations, and can answer buyer questions and instill buyer confidence
- ▶ Reputation enhanced through a well-executed deal
- ▶ Business is optimized for Day 1 readiness



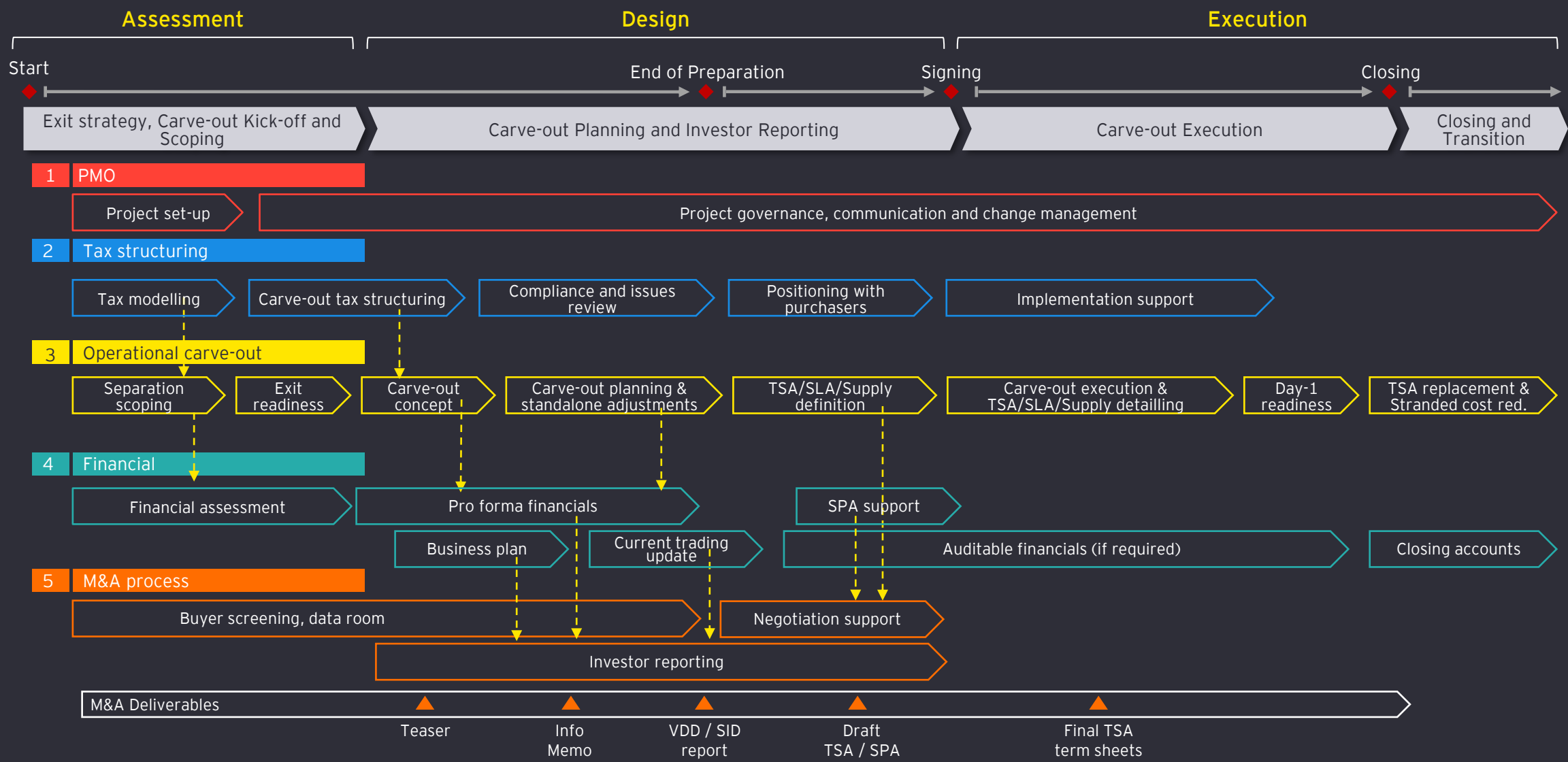
...which goes from the definition of the exit strategy to the closing phase

Solutions Hierarchy	Tier 1	Sell and Separate												
	Tier 2	Exit strategy			Planning			Execution				Closing		
	Tier 3	Exit readiness/strategy	Strategy/portfolio management	Lead M&A advisor	Perform/support a valuation	Value creation, story development	Separation planning	Pre-sale DD from Buyer view	Financial	Operational	Project management	Day one readiness	SPA advice, negotiation assistance	RemainCo advice
	Tier 4	<ul style="list-style-type: none"><li>▶ Rapid assessment of financial, tax and operational risks from a buyer's perspective</li><li>▶ Assess valuation and structuring alternatives</li></ul>	<ul style="list-style-type: none"><li>▶ Assess portfolio of assets including strategic fit, underlying value and contribution to the overall business and transaction alternatives</li></ul>	<ul style="list-style-type: none"><li>▶ Broker-dealer</li><li>▶ Draft the IM</li><li>▶ Identify and solicit buyers</li><li>▶ Manage bidding rounds</li><li>▶ Provide negotiation advice</li><li>▶ Coordinate closing</li></ul>	<ul style="list-style-type: none"><li>▶ Develop fairness opinions</li><li>▶ Modelling and sensitivity analysis to assess valuation</li></ul>	<ul style="list-style-type: none"><li>▶ Develop the value story for varied buyer types</li><li>▶ Prepare DD reports with market, operational, tax and financial analyses and determine valuation</li></ul>	<ul style="list-style-type: none"><li>▶ Develop separation roadmap for key functions including finance, HR, accounting and IT</li><li>▶ Consider relevant regulatory requirements</li><li>▶ Tax planning</li><li>▶ Dual track preparation for exit (IPO or sale)</li></ul>	<ul style="list-style-type: none"><li>▶ Prepare financial, tax, HR and operational information based on buyer needs/priorities</li></ul>	<ul style="list-style-type: none"><li>▶ Diligence and financial statement preparation</li><li>▶ Tax planning and structuring</li><li>▶ Public filings</li><li>▶ Valuation and business modelling</li><li>▶ Stand-alone cost and synergy analysis</li><li>▶ Prepare VDD</li><li>▶ Prepare carve-out financials</li></ul>	<ul style="list-style-type: none"><li>▶ Finance, accounting, treasury, tax, supply chain, IT, HR, sales, marketing, branding, legal, and trade compliance implications</li><li>▶ Prepare VDD</li></ul>	<ul style="list-style-type: none"><li>▶ Develop deal timeline and project plan</li><li>▶ Identify interdependencies and enhance collaboration between HR, finance, IT, tax and other work streams to drive execution</li><li>▶ Prepare VDR</li></ul>	<ul style="list-style-type: none"><li>▶ Consider employee, customer and supplier retention</li><li>▶ IT and infrastructure rationalization</li><li>▶ Business process redesign specific to TSAs</li><li>▶ Stranded and stand-alone costs</li><li>▶ Order to cash requirements</li></ul>	<ul style="list-style-type: none"><li>▶ Prepare for interactions with bidders</li><li>▶ Develop fact-based positions for purchase price adjustments</li><li>▶ Prepare relevant closing schedules</li><li>▶ Prepare TSA</li></ul>	<ul style="list-style-type: none"><li>▶ Advise on RemainCo cost structure</li><li>▶ Identify opportunities to invest in the core business, focus on top-line growth, reduce leverage, improve working capital and return value to shareholders</li></ul>

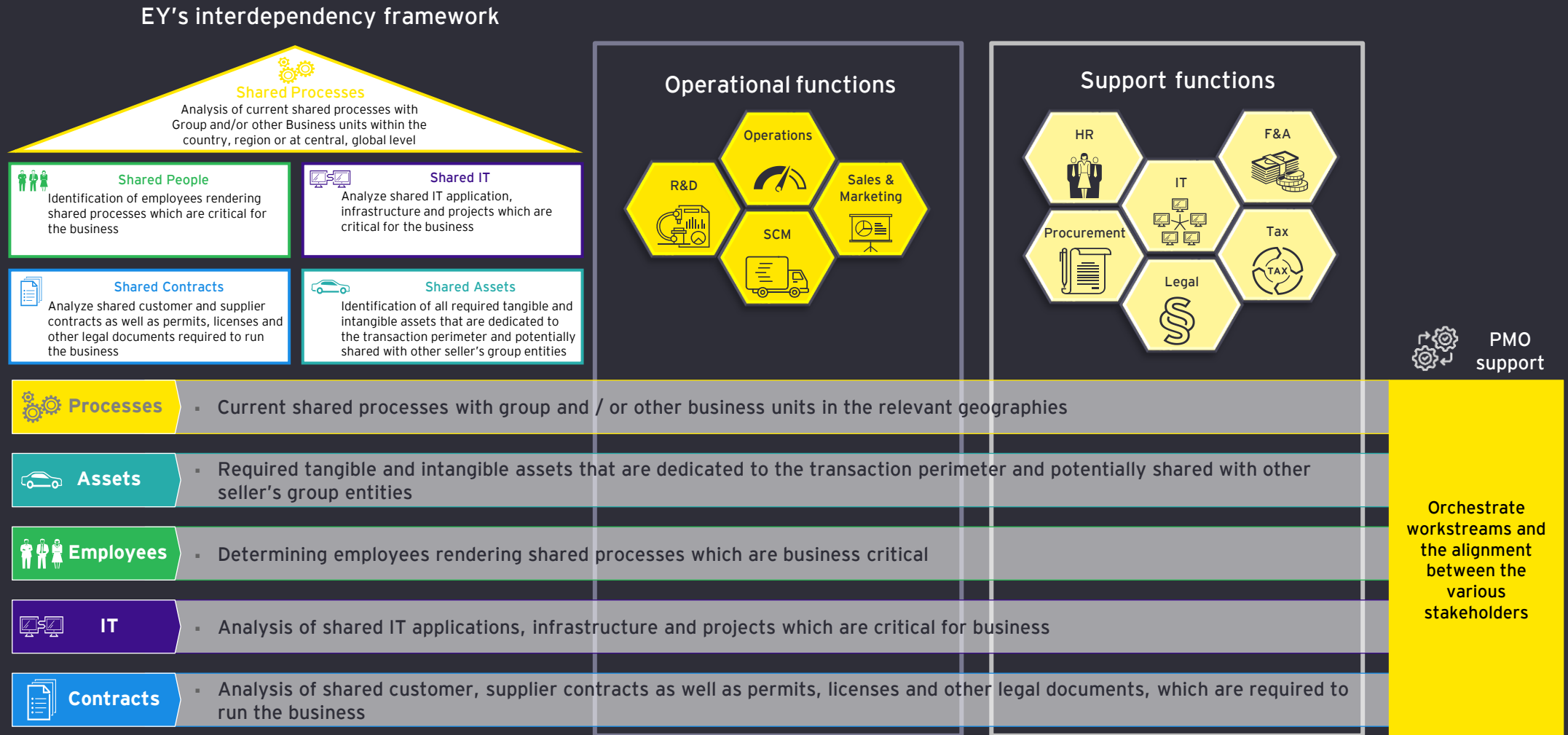
# EY developed an integrated Carve-out methodology in order to ensure a successful carve out unlocking the full potential of the separation



# Carve-out Roadmap - Assessment, Design & Execution

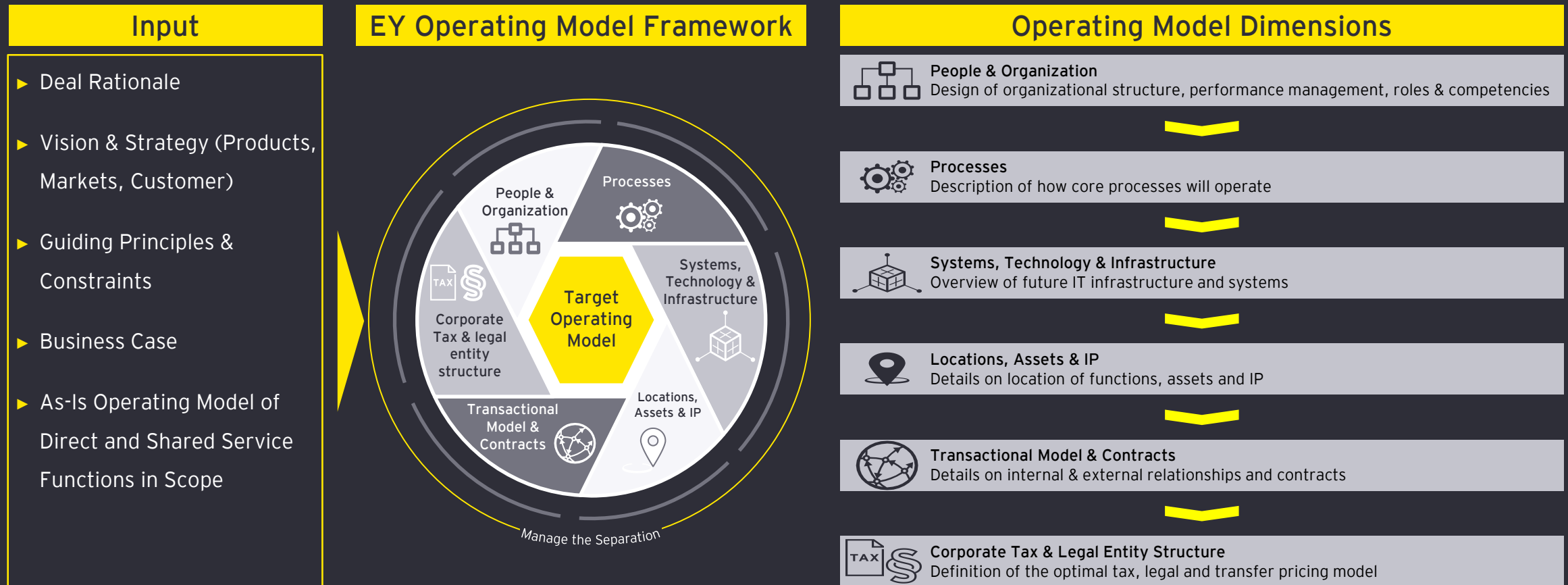


# Hot topics in a carve out: Assessing interdependencies using a structured framework to map implications across all relevant functions and locations



# Hot topics in a carve out: the definition of the Target Operating Model is fundamental to unlock the full potential of the separation...

The Target Operating Model will be implemented on a phased approach to account for the operational complexities and efforts required to achieve a flawless Day 1 and beyond until integration into its future state

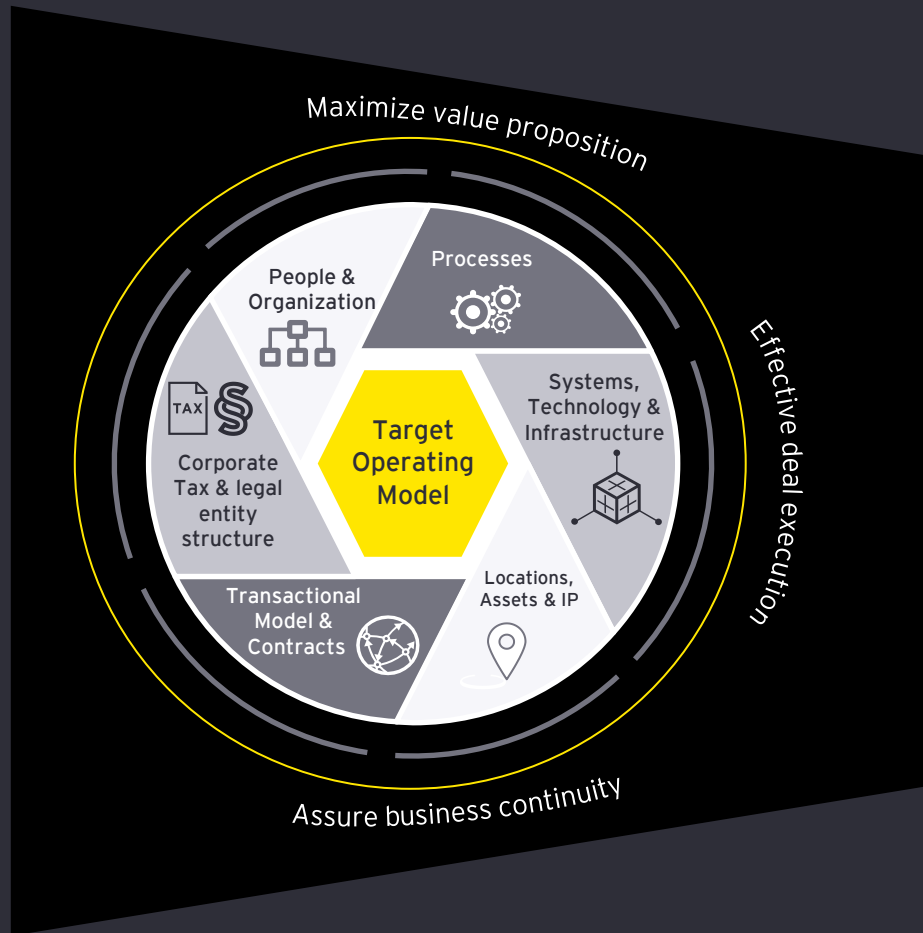


The input factors are a fundamental basis for a Target Operating Model, therefore you need to start with the planning right at the beginning of the transaction



## ...increasing the value of the potential sale

A seller's small investment in defining and optimizing the Target Operating Model (TOM) has been demonstrated to significantly increase value. It also serves as basis for developing operational separation plans



### Increase EBITDA

The most overt way that Operating Models add deal value is to increase the deal price itself. By evaluating the optimal standalone business via the Operating Model, the deal model can reflect the optimized (i.e., more profitable) version of the carved out business, rather than the business as it exists today.



### Reduce One-time and Stranded Costs

Operating Model analysis can also help to reduce value-eroding costs that occur when performing a divestiture (i.e. simplified IT requirements).



### Reduce Buyer Risk

The visibility that the Operating Model provides the buyer into the working of the target business reduces its risk, as Operating Models lend credibility to the target business leadership team during discussions with the buyer.



### Speed to Close

If time is money, then preparing upfront to lay out the Target Operating Model pays dividends. Presenting a well-defined Operating Model to the buyer can speed up both negotiations as well as the time from sign to close.

# Hot topics in a carve out: Transaction Service Agreements (TSA) is a legal agreement enabling short-term transition services between Seller & Buyer

## Guiding principles



### Provide continuity

- ▶ Keep TSA to a minimum, as short as possible (max 24 months)
- ▶ Ensure business continuity and minimize disruption to customers, employees and operations



### Maintain service levels

- ▶ Same standards as prior the transition
- ▶ Subject to commercially reasonable effort



### Minimize costs

- ▶ Keep service costs as close to current cost as possible
- ▶ Encourage service receiver to exit TSA



### Manage the process

- ▶ Developing TSAs is an iterative process
- ▶ Outline who will provide the services, how performance will be measured, how payments will be made and how issues will be resolved



### Focus on the exit

- ▶ Start with the end in mind: know-how to exit a TSA before drafting the schedules
- ▶ Focus on completing the transition, not achieving the highest level of service

## Typical services

### IT

ERP, data centers, network support, apps, help desk, etc.

### Finance & Accounting

Institutional knowledge, SEC reporting, AP/AR, tax, etc.

### Human Resources

Admin, recruiting, payroll, benefits, etc.

### Supply chain

Purchasing, logistics, forecasting, planning, operations, etc.

### Other business support

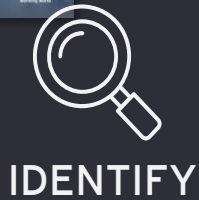
Real estate, facilities, legal, compliance, assets protection, etc.

# Key S&S guidelines and tools for each stage of our opportunity lifecycle

## Global Corporate Divestment Study (GCDS)



[Discover site](#)



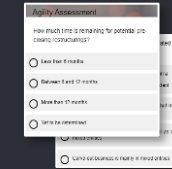
IDENTIFY



QUALIFY

## Agility Assessment [Homepage](#)

## Proposal Generator [Sharepoint link](#)



PURSUE



WON

## Capital Edge 5.0.



CLOSING



## S&S Client Journey [Mural app link](#)

## Exit readiness

## S&S Guidebook 3.0 [Discover site](#)



4

**Diligence**





Let's discuss...

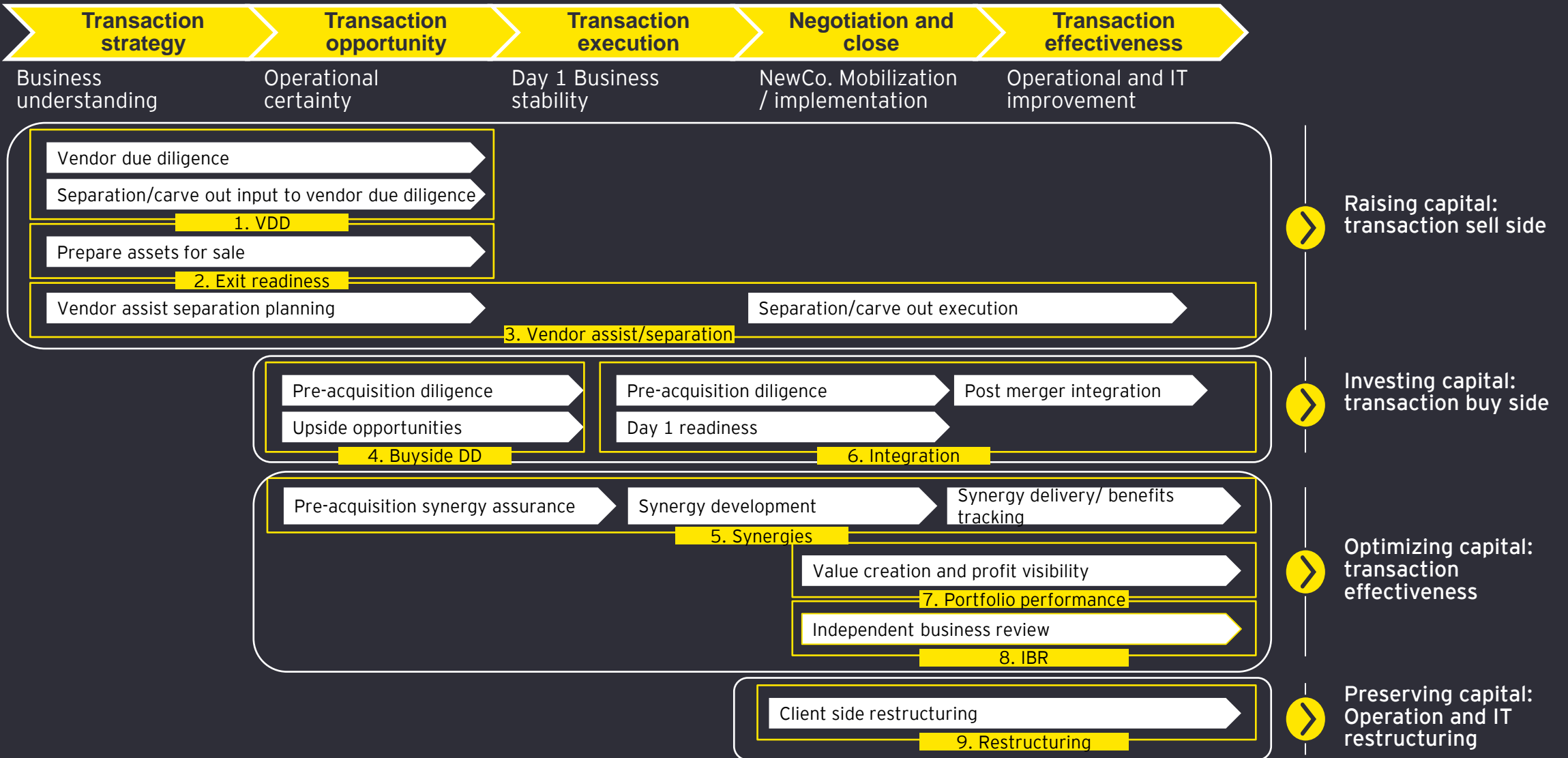
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What do you think it's a Due Diligence?





# Services provided are different based on the M&A process timeline



# What is due diligence

## Due diligence is...

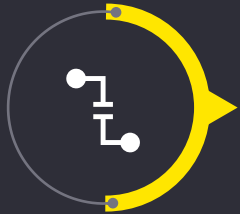
- 1 An **independent assessment** of a Target's historical and prospective forecast financial performance
- 2 Based on facts and evidence, typically gathered through **lists of hundreds of questions and/or requests for copies of documents**, issued by the Bidders, that the potential Seller must answer
- 3 Based Completed at pace, during a **short timeframe**
- 4 **For the Buyer to inform their investment decision**, - whether they wish to proceed and the price they are willing to pay to acquire the asset

## Due diligence is not...

- 1 **Having all the questions answered...** we focus on what is material to our client's investment thesis
- 2 **The same every time...** sector, client (PE vs PE, PE vs corporate), asset, and context specific

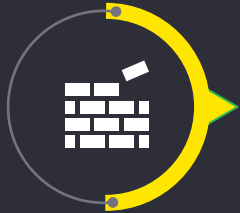
# TSE Buyside mandates

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## **Carve out due diligence**

*It assesses the Financial impact of running the target standalone, risk and costs to execute the separation*



## **Value creation / Operational due diligence**

*It evaluates the target's operational and technology footprint and scalability, Historical and Forecast Opex and Capex and provides the basis of cost reduction planning*



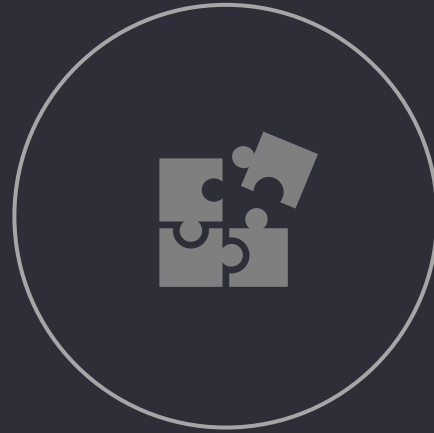
## **Tech due diligence (Software strategy group)**

*It gauges the target's underlying technology stack and related maturity in order to propose future improvements/opportunities and downsize risks associated with the technology*



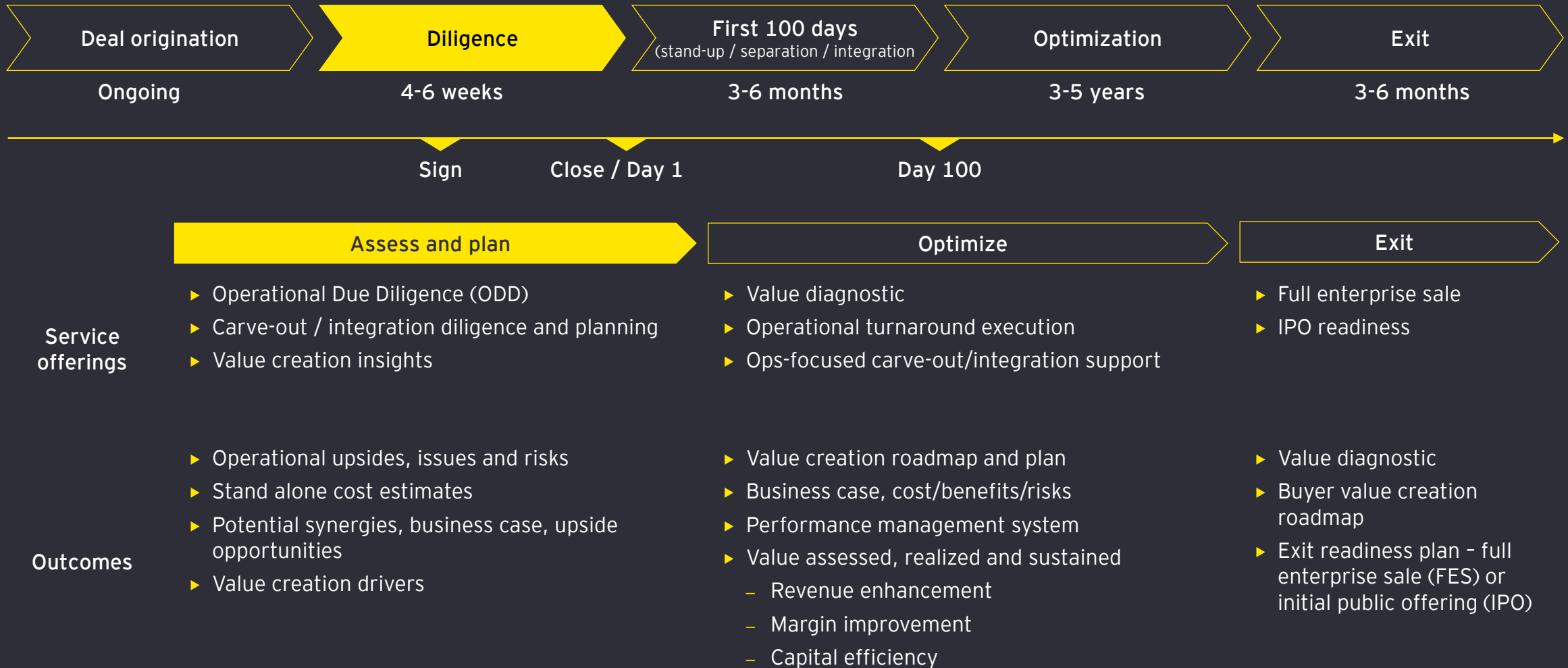
## **IT & Cyber due diligence**

*It gives a blueprint of the current status of the target's IT (applications, infrastructure etc.) and cyber maturity of the organization.*

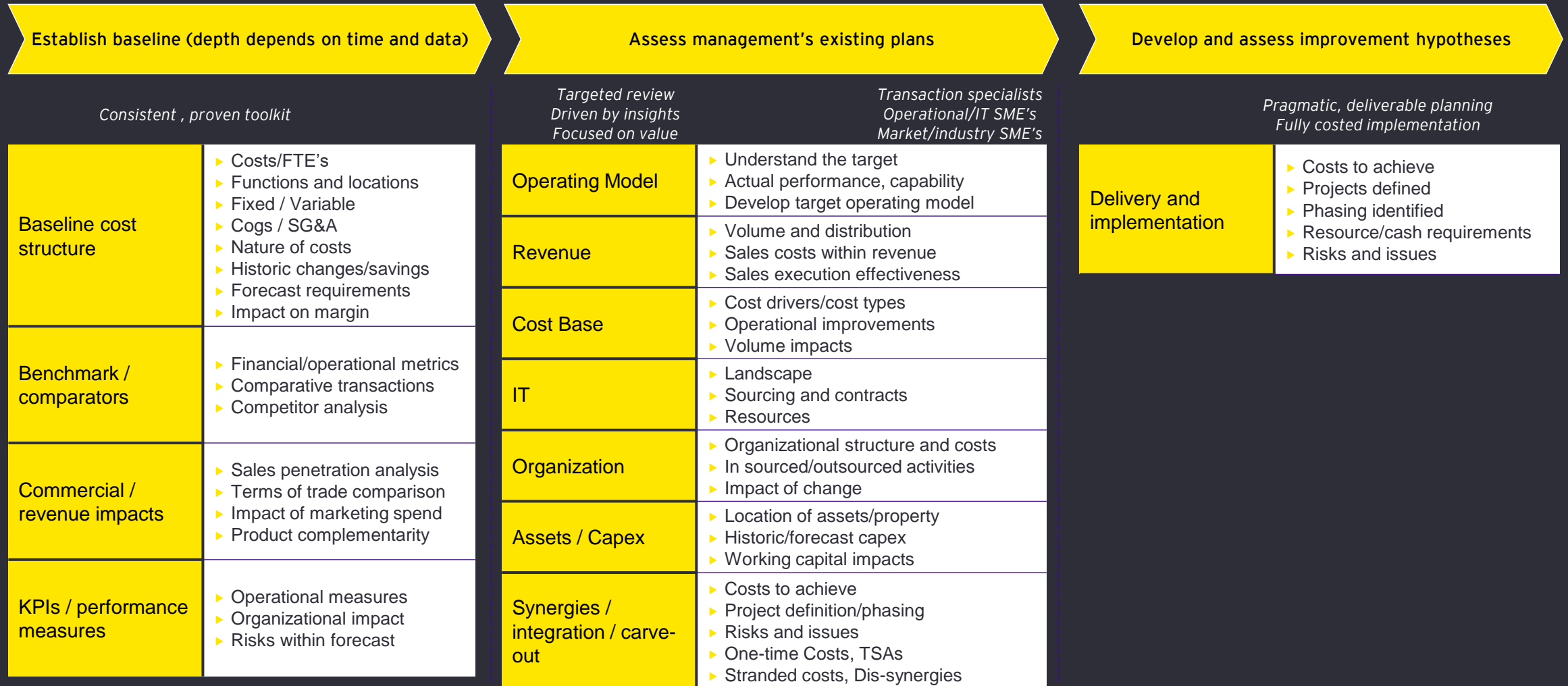


# Operations Due Diligence

# EY serves clients with various offerings across the investment lifecycle of an asset



# ODDs are designed to ensure all critical operational elements are analyzed





# Differences between Private Equity and strategic/corporate

	Private Equity	Strategic/Corporate
Value Measure	<p>Focus on the value of the acquired business itself:</p> <ul style="list-style-type: none"><li>▶ EBITDA growth through cost optimization</li><li>▶ Multiple expansion by investing in R&amp;D, higher growth markets</li><li>▶ FCF generation</li><li>▶ Capital structure (out-of-scope for TRS)</li></ul>	<p>Focus on the value of the combined business:</p> <ul style="list-style-type: none"><li>▶ New customers/markets</li><li>▶ Knowledge/IP</li><li>▶ Products</li><li>▶ Leverage (pricing, operational, etc.)</li></ul>
Typical Scope	<p>Test the PE's "investment angle":</p> <ul style="list-style-type: none"><li>▶ Acquisition platform</li><li>▶ Organic revenue growth</li><li>▶ Gross margin expansion</li><li>▶ G&amp;A optimization</li></ul>	<p>Test the client's "deal hypothesis":</p> <ul style="list-style-type: none"><li>▶ Separation / Integration execution</li><li>▶ Synergies and dis-synergies, stranded costs (for sell-side)</li><li>▶ Impact to capital / overall stock price</li><li>▶ G&amp;A optimization</li></ul>
Execution Activities	<p>Drive significant change over ~5-year holding period. Typical execution activities:</p> <ul style="list-style-type: none"><li>▶ Five-year plan</li><li>▶ Measure to optimal</li><li>▶ Establish and track KPIs</li><li>▶ New management to drive change</li><li>▶ Align incentives/remove obstacles</li><li>▶ Aggressive timelines and actionable initiatives</li></ul>	<p>Functional leads usually absorb the new business. Typical execution activities:</p> <ul style="list-style-type: none"><li>▶ Integration plan</li><li>▶ Measure to self</li><li>▶ Standard reporting</li></ul>

# During the ODDs there are common red flags which are usually indicated by both qualitative and quantitative warning signs

## Operational Red Flags

Market Dynamics	Strategy and Operations	Information Technology	Product and R&D	Legal, Regulatory, & Accounting issues	Deal Specific Business Issues
<ul style="list-style-type: none"><li>▶ Underlying market decline</li><li>▶ Excess industry capacity</li><li>▶ Customer-base health</li><li>▶ Foreign competition</li><li>▶ Intense price competition/"Race to the bottom"</li></ul>	<ul style="list-style-type: none"><li>▶ Poorly executed strategy pivot</li><li>▶ Structural direct cost disadvantage</li><li>▶ Poor asset utilization</li><li>▶ Manufacturing technology and aging assets</li><li>▶ Heavy exposure to commodity pricing</li><li>▶ Constrained supplier base</li></ul>	<ul style="list-style-type: none"><li>▶ Custom applications</li><li>▶ Scalability of IT systems</li><li>▶ Third Party Issues</li><li>▶ Insufficient spend for business</li><li>▶ In-flight projects</li><li>▶ Infrastructure</li><li>▶ Cyber Security</li><li>▶ Regulatory compliance</li></ul>	<ul style="list-style-type: none"><li>▶ Poor return on invested capital</li><li>▶ Product relevance</li><li>▶ R&amp;D Costs</li><li>▶ Product Pipeline</li><li>▶ IP issues</li><li>▶ CapEx required to create products</li></ul>	<ul style="list-style-type: none"><li>▶ Legal issues</li><li>▶ Operating/Holding entity structure</li><li>▶ Regulatory issues (Anti-trust, cross-border deals, etc.)</li><li>▶ Environmental issues</li><li>▶ Underfunded pension obligations</li><li>▶ Tax Implications and oversea cash</li><li>▶ Off-balance sheet liabilities</li><li>▶ Union and labor relations</li></ul>	<ul style="list-style-type: none"><li>▶ Carve-out concerns</li><li>▶ Standalone costs</li><li>▶ Transition Service Agreements</li></ul>



Red flags need to be brought to clients attention as they are discovered

# During ODDs the target companies are viewed in relation to the client's portfolio in search of operational improvement opportunities

## Common areas for Portfolio Improvement Opportunities

**Revenue risk and upside**

- ▶ Customer overlap (-)
- ▶ Retention risk/dis-synergy (-)
- ▶ Price equalization (+/-)

**Operational excellence**

- ▶ Lean improvements
- ▶ Manufacturing headcount reduction
- ▶ Inventory reduction

**Product portfolios**

- ▶ SKU rationalization opportunities
- ▶ Value engineering

**Manufacturing footprint**

- ▶ Product sourcing optimization
- ▶ Footprint and asset rationalization

**Engineering**

- ▶ Product pipeline rationalization
- ▶ Merger and rationalization of engineering teams
- ▶ Best-in-class NPI processes

**SG&A**

- ▶ Organizational effectiveness (layers, span of control, org design)
- ▶ Merger synergies - SG&A
- ▶ Best-in-class processes

**IT**

- ▶ ERP integration
- ▶ Hardware and software
- ▶ Rationalization

**Procurement**

- ▶ Effectiveness and strategy
- ▶ Synergies (direct material, indirect spend, logistics, MRO)
- ▶ Outsourcing strategy

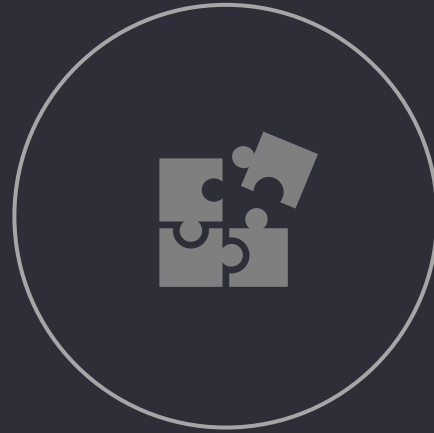
**Synergy and business case**

- ▶ EBITDA improvement
- ▶ Working capital and cash flow
- ▶ One-time costs

	Pre-Acquisition	Post-Acquisition
Results	<ul style="list-style-type: none"><li>▶ Go/no go decision</li><li>▶ Integration requirements</li><li>▶ Synergy realization plans</li></ul>	<ul style="list-style-type: none"><li>▶ Business plan</li><li>▶ Execution</li></ul>

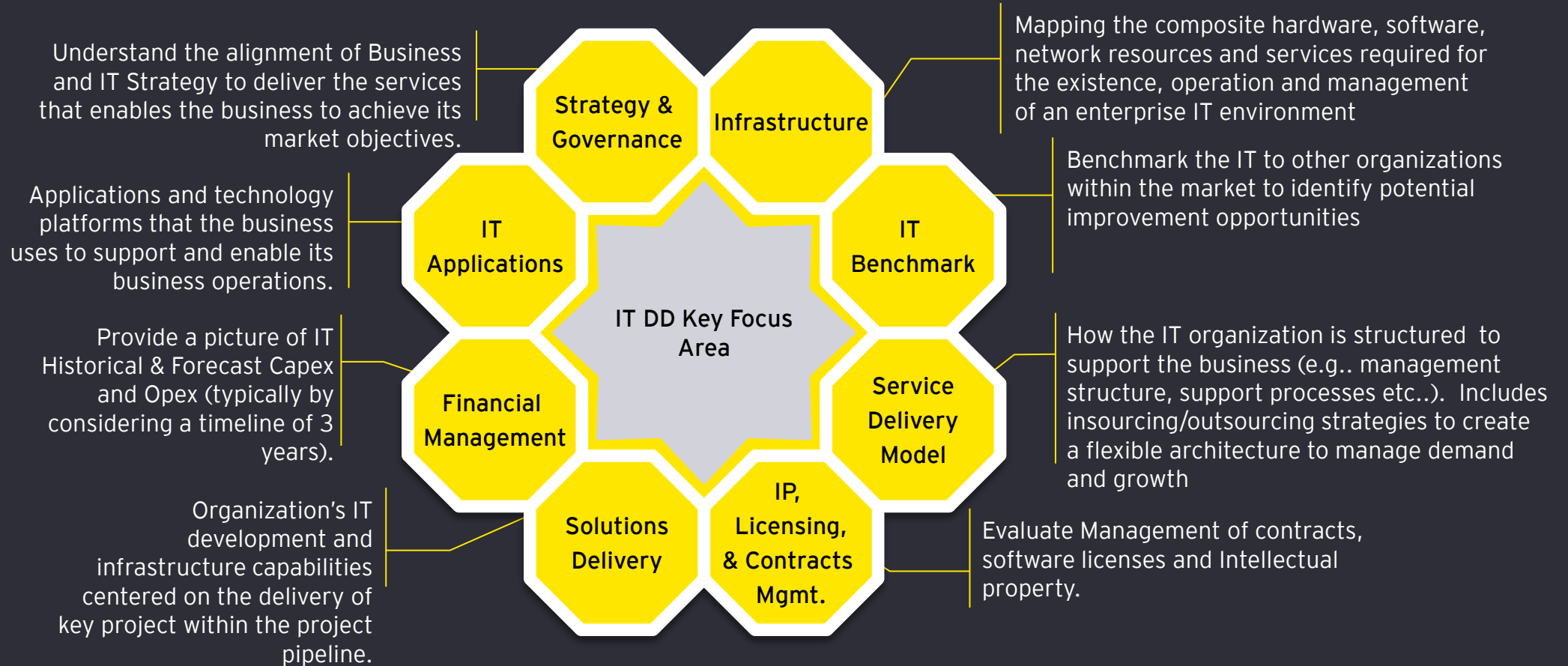
Preliminary view

- High benefit (risk)
- Moderate benefit (risk)
- Low benefit (risk)

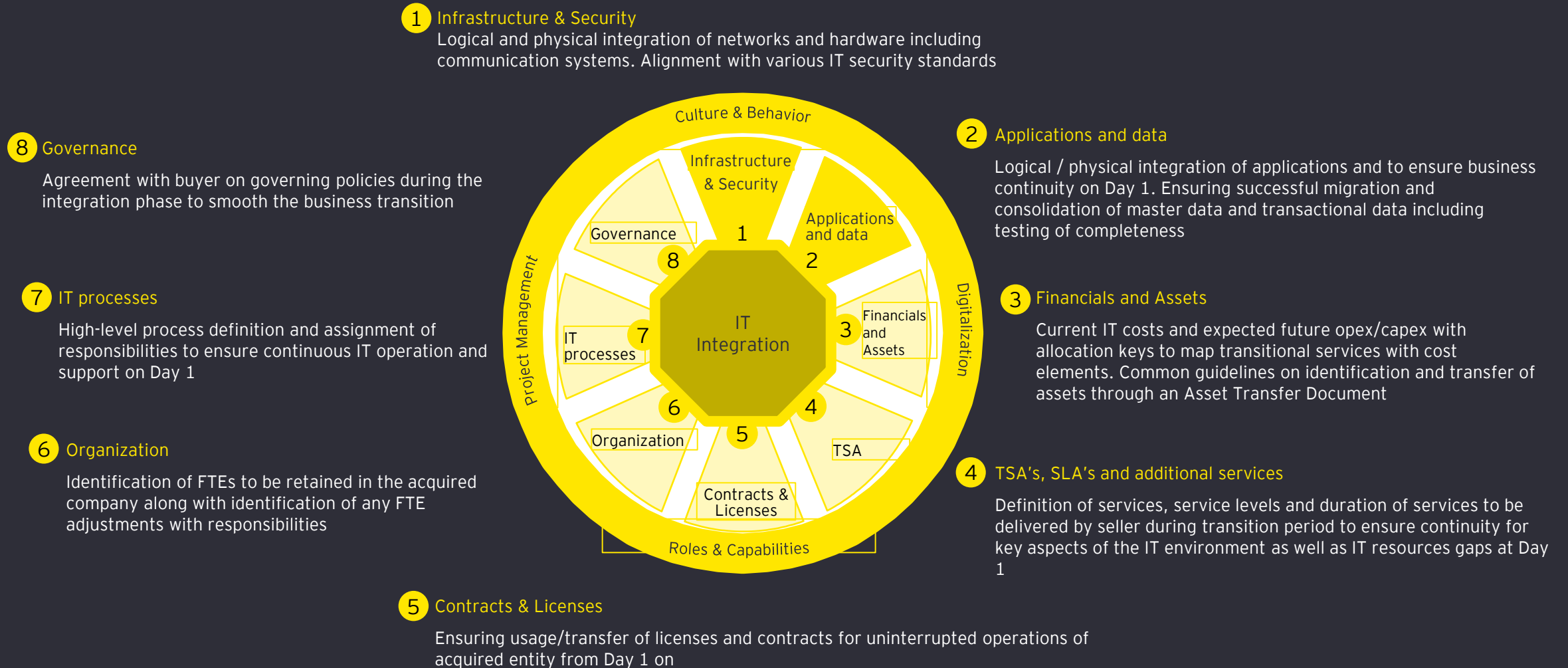


# IT Due Diligence

# IT due diligence's areas of analysis



# A successful integration has to consider the IT focus topics at the right point in time in the integration process





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