

## Your trainers today



#### 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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**Sell & Separate** 

**Due Diligence** 

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# Strategy & Transaction overview

# Strategy & Transactions

TCF - Transaction and Corporate Finance

VME - Valuation Modeling & Economics

TD - Transaction Diligence Andrea Scialpi

LA - Lead Advisory Renato Salsa

Mario Rocco

LA - Pf (Real Estate & Hospitality)
Marco Zalamena

EY Parthenon

Strategy

Giacomo Chiavari

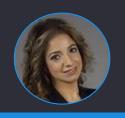
TRS - Turnaround & Restructuring Strategy
Alessandro Frezza

TSE - Transaction Strategy & Execution Giuseppe Donatelli

EY engineering & Technical Services Roberto Talotta 'Transaction
Strategy and
Execution' is
dedicated to support
the client in the
assessment and
execution of
complex
transformation
projects



# The EW Italy TSE team leadership



**Cinzia Quartararo** 

Partner





Roberto Talotta

Partner

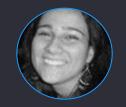
Focus Engineering & Construction



**Cristina Giardo** Senior Manager



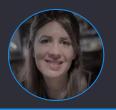
Luca Alidori **Senior Manager** 



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

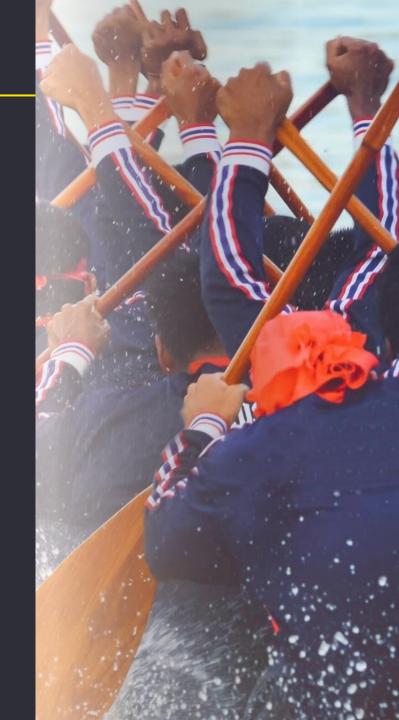


Alessandra Moscia Senior Manager

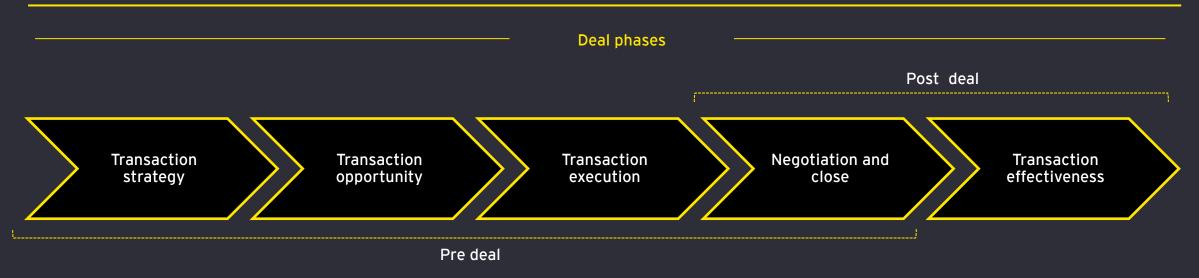


Let's discuss...

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

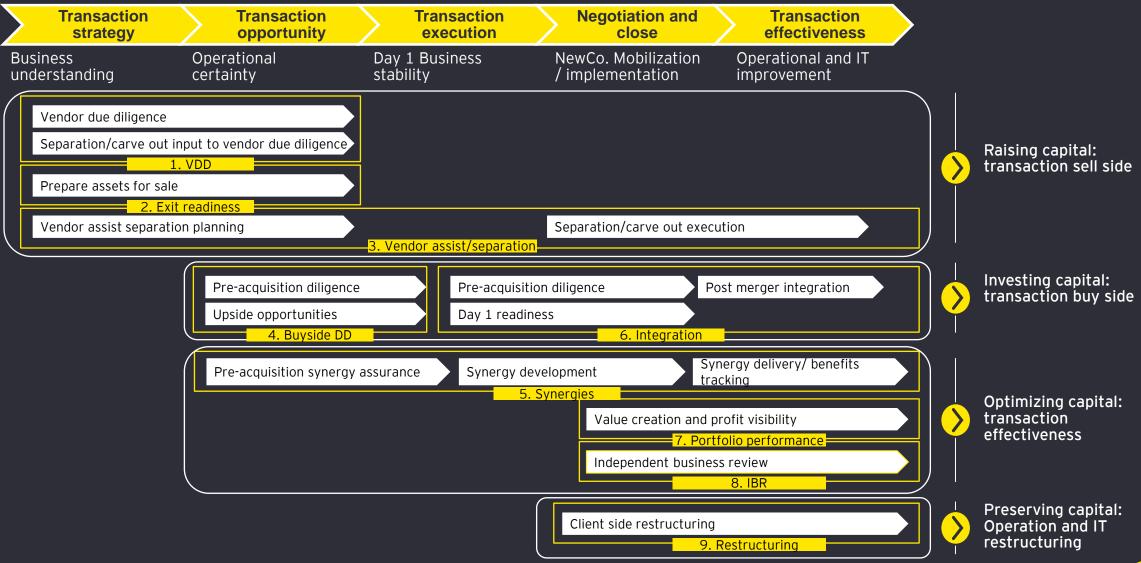
- Analyzing and developing business plans
- Short term timescales
- Restricted access to target company
- Location electronic data rooms, EY offices and client site
- Transaction risk will it happen or not?
- Opportunity for post deal work

### 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.

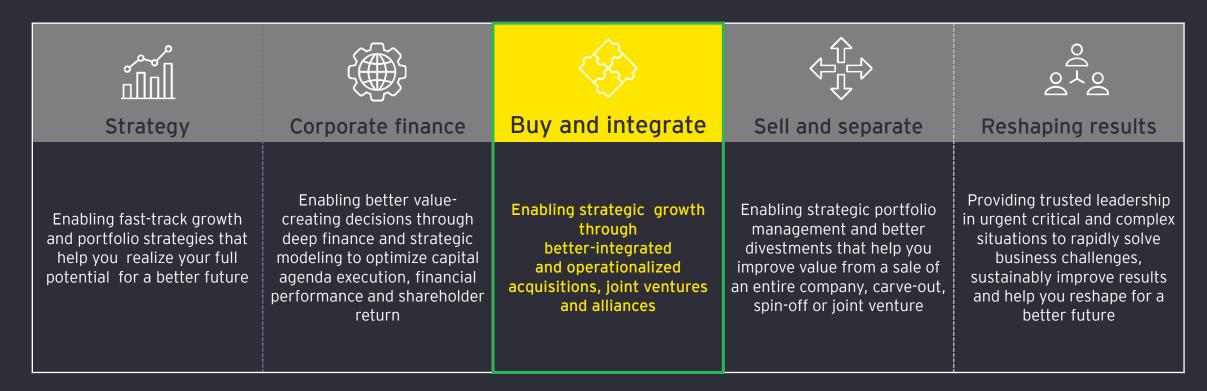
n∏∏ Strategy	Corporate finance	Buy and integrate	Sell and separate	O O A Reshaping results
Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future	Enabling better value- creating decisions through deep finance and strategic modeling to optimize 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





# TSE provide services according to Connected Capital Solutions

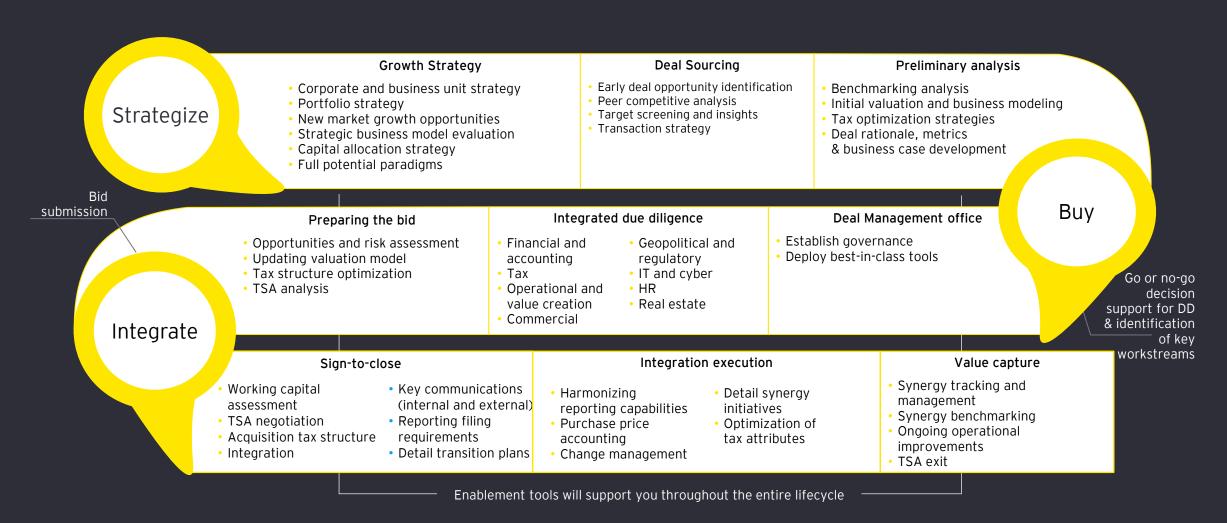
Whether you're preserving, optimizing, raising or investing, EY Connected Capital Solutions can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.





# What is "Buy & Integrate"?

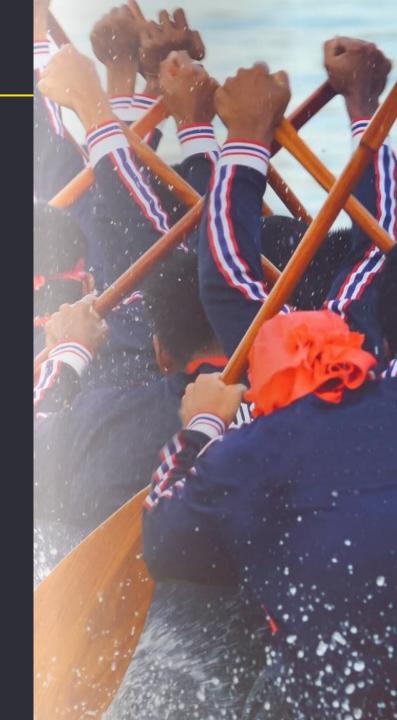
This is a typical process and holistic approach. Based on client's input and our experience, we can tailor this approach



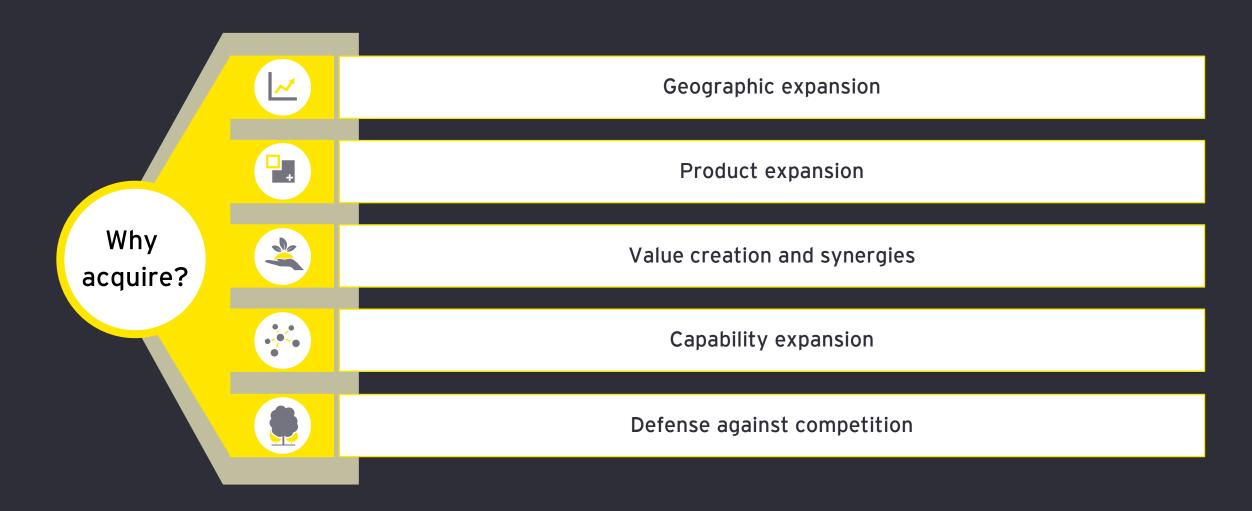


Let's discuss...

Which are common reason behind an acquistion?



# Why do companies pursue acquisitions and joint ventures?





# What makes acquisitions so difficult?

#### Purchase price + Acquirer's required return Required ROI Balance Purchase price sheet synergies Acquisition ► Capex savings/ premium Required value rationalization Revenue Minimum Value created from Capture required synergies ▶ Working capital synergies Dis-synergy ► Capital structure ► Cross-selling related savings Value lost Cannibalization of revenue ▶ New offerings/ Cost synergies new markets ▶ Delays in Integration cost ► Loss of partners achieving value or customers ▶ Business disruption ► G&A costs savings ▶ Value lost ▶ Normalization of Pre-acquisition (e.g., key benefits results in ▶ Integration ▶ Operations value of acquired personnel increased benefit management optimization company departures) costs ▶ Redirection of Post-integration personnel value of acquired company, before ► Facility costs (shutsynergies down costs)



## How is investment rationale aligned with the integration approach?

Large

Size of acquired company relative to acquiring business unit

Small

### Scale

**Strategic rationale:** Opportunity to create economies of scale, expand market presence; focus on cost synergies

## **Transformation**

**Strategic rationale:** Opportunity to enter new markets and transform the way the industry works

### Tuck-in

**Strategic rationale:** Opportunity to increase revenue by leveraging brand strength; enhance or compliment an existing product

## Strategic growth

**Strategic rationale:** Opportunity for expansion of market offering and/or geographic reach; focus on revenue synergies

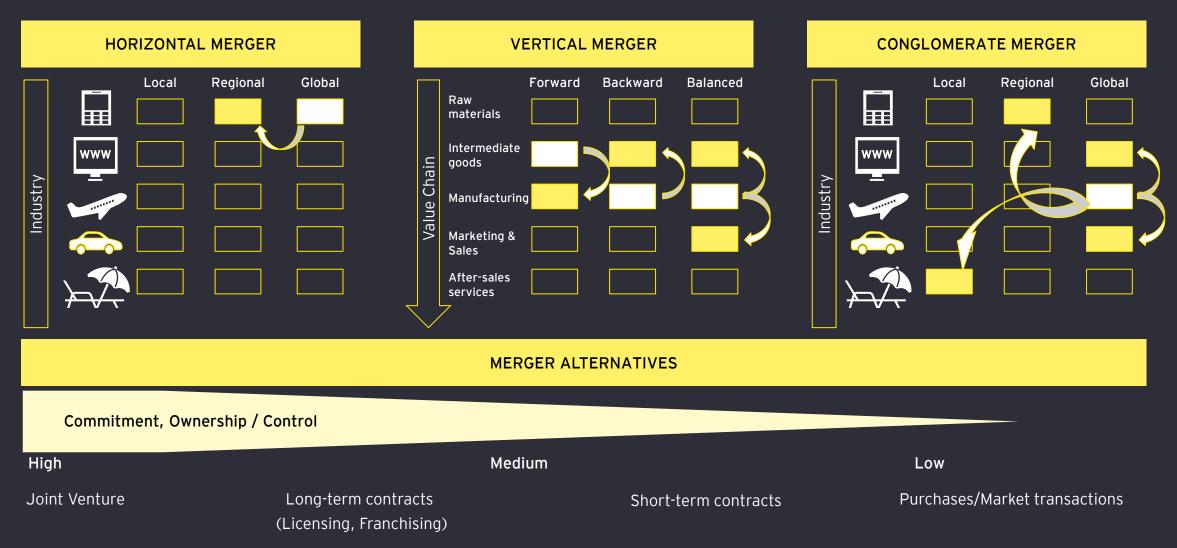
While the type of deal provides a good overall objective for the acquisition, expanding this into key priorities helps aligning workstreams as they develop integration and value creation plans.

**Low**Customer or
market differences

Need to expand current capabilities

**High**Customer or
market differences

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





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

#### Vision and integration strategy

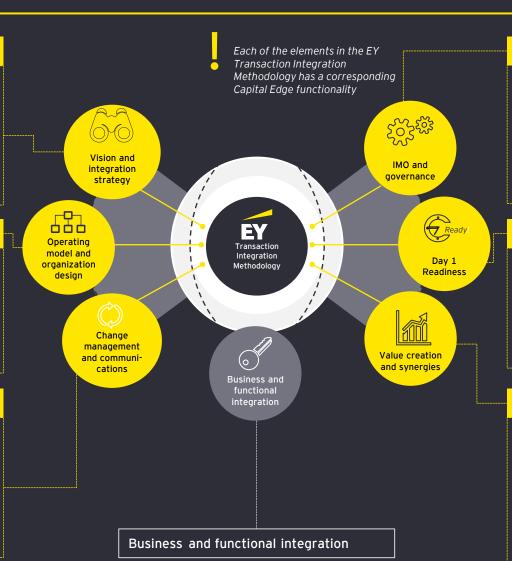
- Deal rationale/"investment thesis"
- Integration strategy
- ► Integration guiding principles

#### Operating model and organization design

- Day 1 operating model
- ► Target operating model (TOM)
- Talent retention plan
- Organization design (OTH)
- ► Talent assessment and selection
- ▶ Total rewards alignment

#### Change management and communications

- Op model change management
- Customer and employee experience/new operating environment
- Communications planning and execution



#### IMO and governance

- ▶ IMO and workstream set up
- Program governance/cadence
- Clean Team
- Risk impact/business continuity
- > TSA management and exit planning
- ▶ Interim management reporting
- Legal entity rationalization

#### Day-1 Readiness

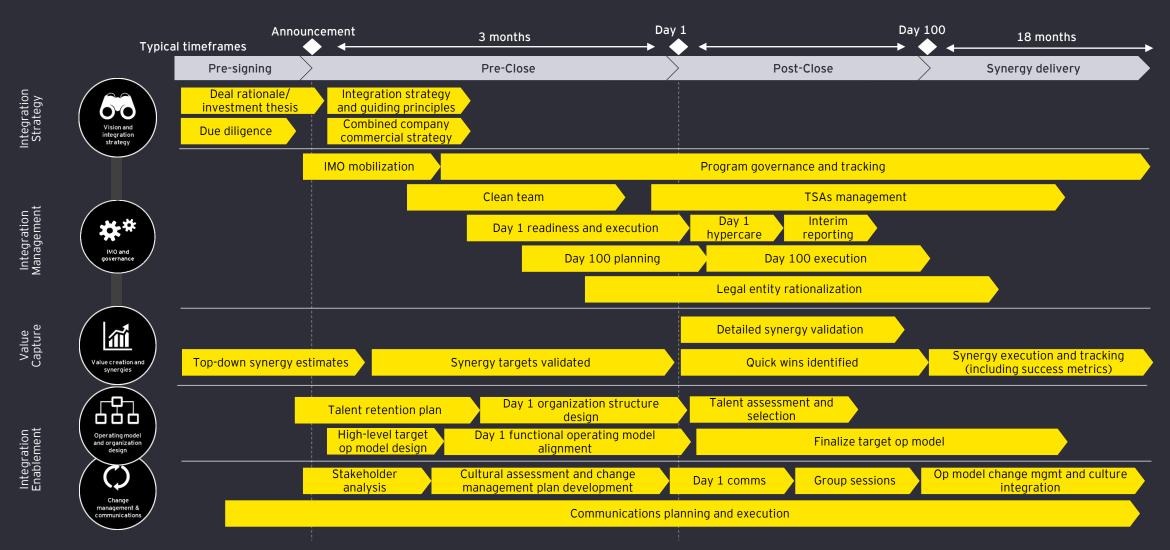
- Day-1 Planning
- ▶ Day-1 OM Alignment
- Day-1 Readiness
- ▶ Day-1 Governance
- ▶ Day-1 Hypercare
- Day 100 planning

#### Value creation and synergies

- Baselining and target setting
- ► Cost and capital synergies identification
- Working capital synergies identification
- Revenue (growth/transformation) synergies identification
- Synergy tracking and reporting
- ▶ Integration cost modeling
- ► Integration success metrics



## ...including a rigorous integration timeline





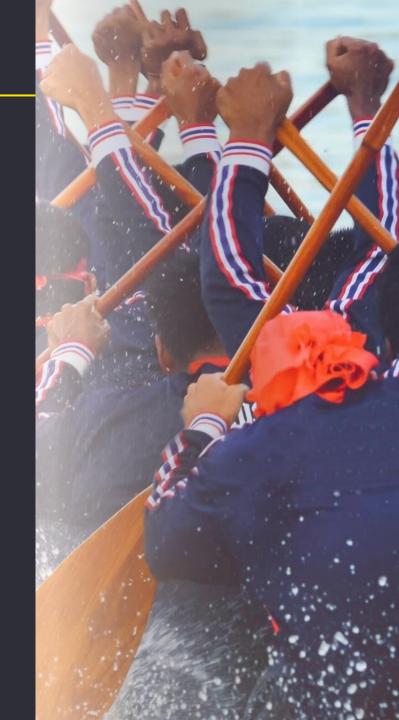
# Alignment on key value drivers will keep the integration grounded in bottom-line results while ensuring strategic objectives are met

Common M&A Value Drivers		Integration Imperatives						
Strategic C	Growth	<ul> <li>Assess acquired projects to determine those with the best strategic fit</li> <li>Utilize acquired projects to speed development in areas of strategic focus</li> <li>Create business in new geographies to increase global presence and market share</li> <li>Introduce new products and services that improve strategic positioning</li> </ul>						
Acquire Ur IT or Know	nique Capabilities, How	Focus on preserving people and culture Seek to develop new customer relationships, create new products or build a new business						
Alter the Competitiv	ve Landscape	Protect market share of combined entity from competitors Pursue product enhancements and cross-selling of offerings						
G&A Cost S	Savings	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						
Reduce Dir Indirect Sp		Consolidate transportation spend/contracts to improve terms and discounts Consolidate in areas of highly shared spend Consolidate spending across production sites Reduce uncontracted spend						
Operations Optimization		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						

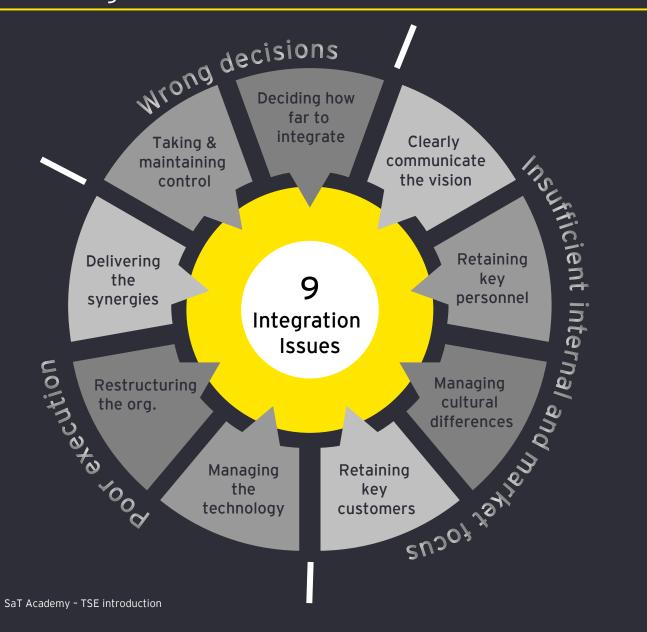


Let's discuss...

Which are most common risks or challenges during an integration?



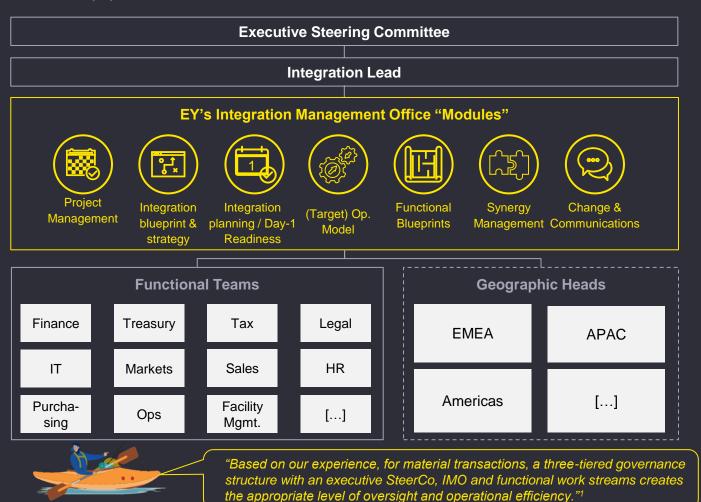
# Based on previous experience, there are key issues which frequently occur during acquisition integration





## 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



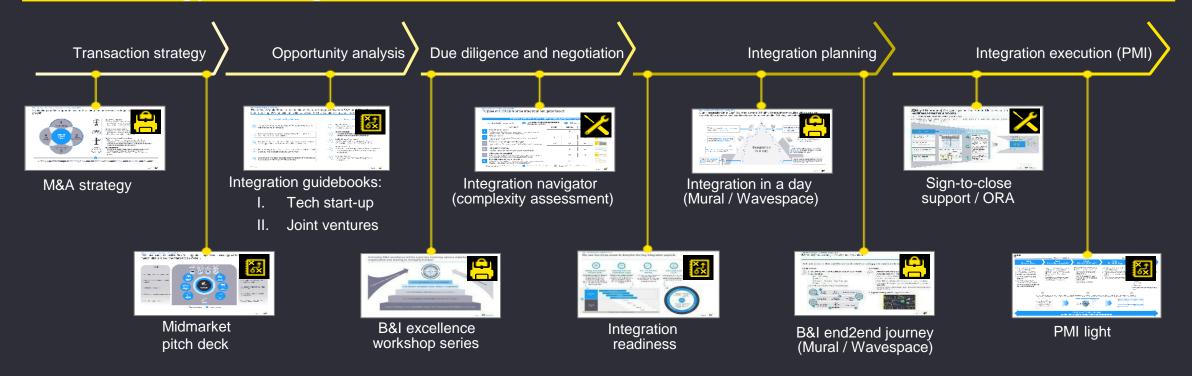
#### **IMO Role**

- 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)

1: Nine key steps to setting up an M&A integration program



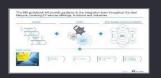
# 15 initiatives to enhance deal initiation and delivery across all deal stages -from M&A strategy to integration execution



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













**B&I** proposal generator

**B&I** guidebook

**B&I SharePoint** 

**IMO** Guidebook

**B&I** toolset

Legend:



**Methodology & Guidebooks** 



**Workshop formats** 



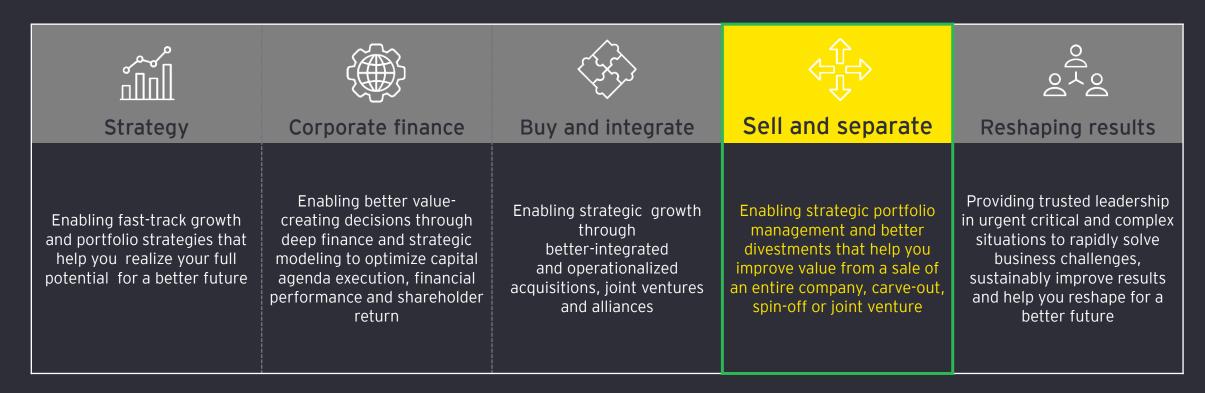
**Delivery tools** 





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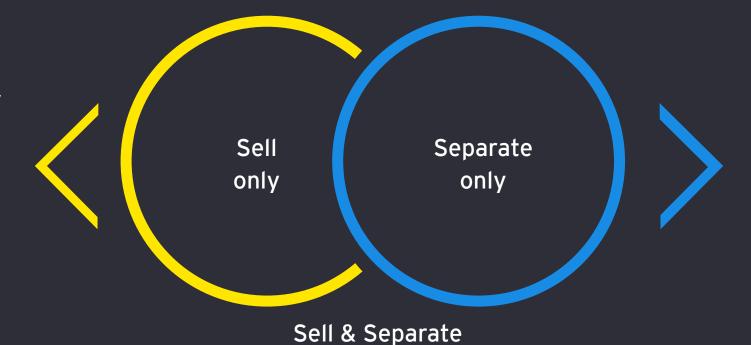


## When do our clients need Sell and Separate solutions?

## Range of Sell and Separate client situations

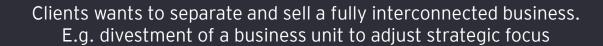
Situations where a fully stand-alone business is being sold.

E.g. wholly owned portfolio company of a PE company



Situations where a client wants to separate a business for internal purposes only.

E.g. client wants to improve a business unit's performance assessment and consider potential sale at later stage





# Why do companies pursue a 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 competitivity

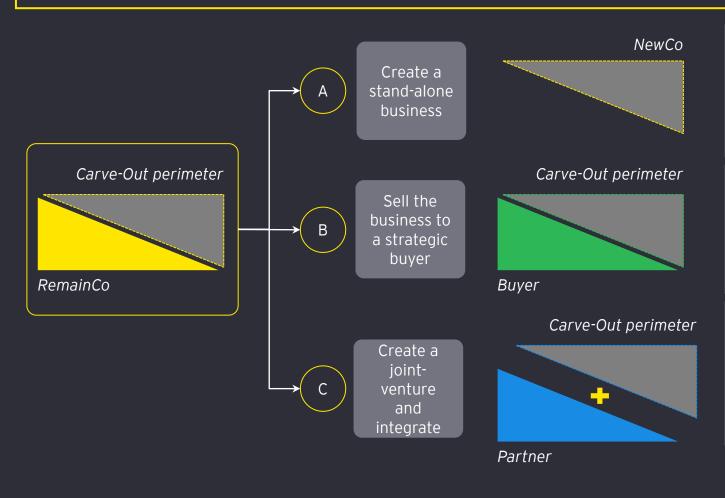


Increase shareholder value



## How may carve-outs come in different forms?

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



- ► Establishing a stand-alone capability requires a buildup of new corporate functions and infrastructure
- Ensuring business continuity typically entails a lengthy transitional period
- ► The seller retains a large degree of responsibility for the target business post Closing
- ► Integration into a buyer's existing corporate functions and infrastructure
- ▶ Integration into the parent company's structures
- ► The transitional period is typically shorter if the future buyer can integrate effectively
- Build-up of non-existing corporate or the adoption of one parent's functions and infrastructure
- Dual integration from both parent companies is likely to be complex
- Here, too, the seller retains a large degree of responsibility for the target business post Closing



## 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, carveout, 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.

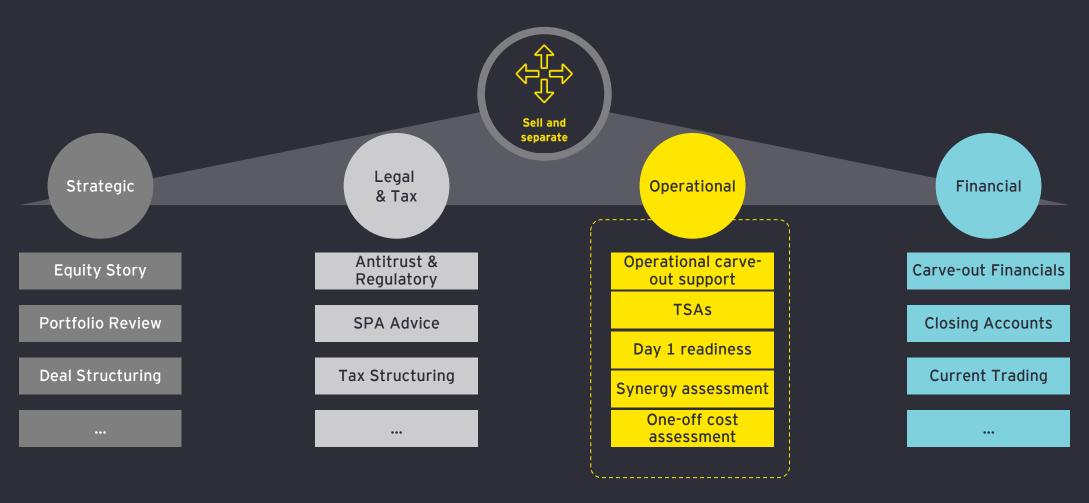


Whether you are a **corporate** or **private equity fund**, diverse EY teams and technology help you to **improve full divestiture value**, **limit business disruption**, **manage remaining cost structures** and **focus on future-inclusive growth**.



## 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



SaT Academy - TSE introduction

### **Disruptions** reduced

- ▶ Comprehensive and selfservice 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

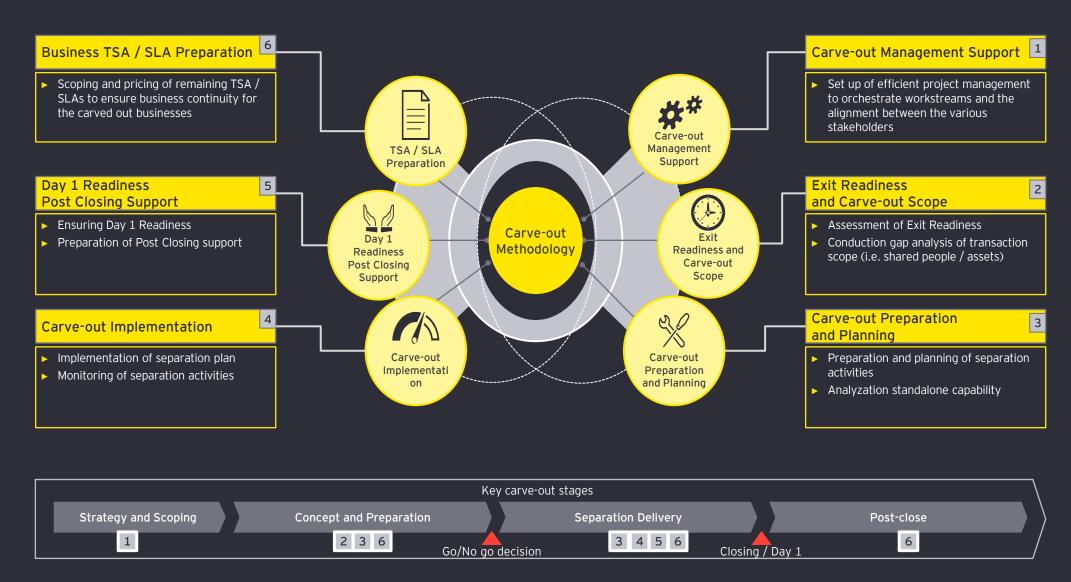


# ...which goes from the definition of the exit strategy to the closing phase

	Tier 1	Sell and Separate									7			
	Tier 2	Exit strategy		Planning		Execution					Closing			
Solutions Hierarchy	Tier 3	Exit readiness/str ategy	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> <li>▶ Rapid         assessment         of financial,         tax and         operational         risks from a         buyer's         perspective         ► Assess         valuation         and         structuring         alternatives</li> </ul>	Assess portfolio of assets including strategic fit, underlying value and contribution to the overall business and transaction alternatives	<ul> <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> <li>Develop fairness opinions</li> <li>Modelling and sensitivity analysis to assess valuation</li> </ul>	<ul> <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> <li>▶ Develop separation roadmap for key functions including finance, HR, accounting and IT</li> <li>▶ Consider relevant regulatory requiremen ts</li> <li>▶ Tax planning</li> <li>▶ Dual track preparation for exit (IPO or sale)</li> </ul>	Prepare financial, tax, HR and operational information based on buyer needs/priori ties	<ul> <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>	HR, sales, marketing, branding, legal, and trade compliance implications  Prepare VDD	<ul> <li>▶ Develop deal timeline and project plan ldentify interdepend encies and enhance collaboration between HR, finance IT, tax and other work streams to drive execution</li> <li>▶ Prepare VDR</li> </ul>	and supplier retention  ► IT and infrastructure rationalizat on	fact-based positions for purchase	RemainCo cost structure Identify opportunitie s to invest in the core business,



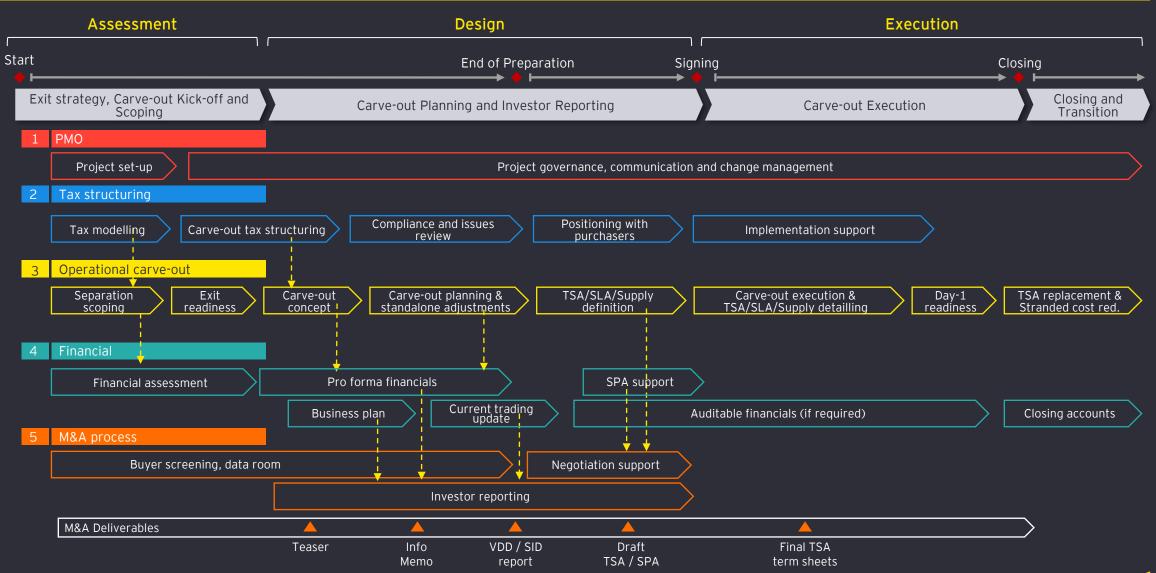
# EY developed an integrated Carve-out methodology in order to ensure a successful carve out unlocking the full potential of the separation





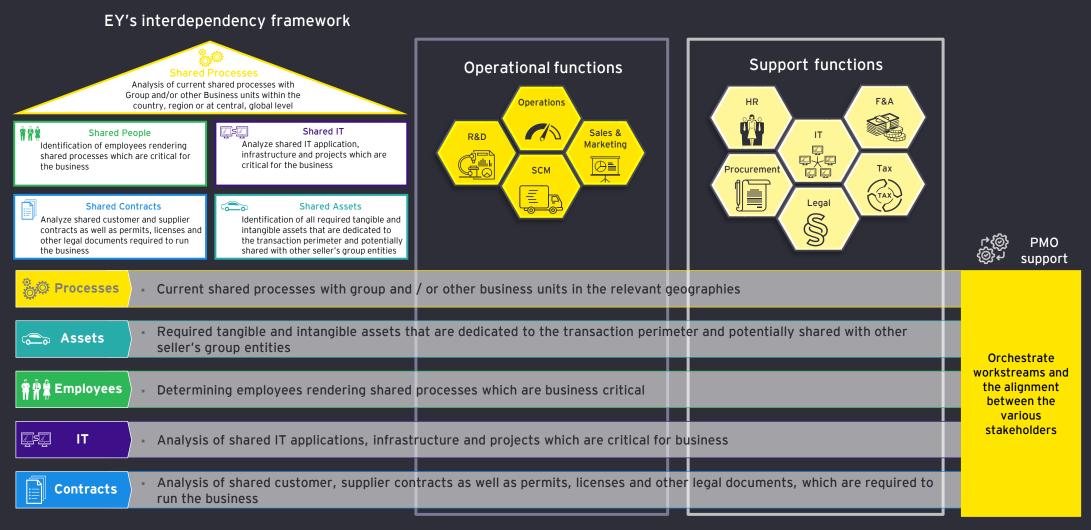
## Carve-out Roadmap - Assessment, Design & Execution

SaT Academy - TSE introduction





# 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

#### Input

- Deal Rationale
- Vision & Strategy (Products, Markets, Customer)
- Guiding Principles & Constraints
- **Business Case**
- As-Is Operating Model of Direct and Shared Service Functions in Scope

#### **Processes** People & Organization 昭 Systems. Technology & Target Infrastructure Operating Corporate Tax & legal Model entity structure Locations Transactional Assets & IP Model & $(\circ)$

Manage the Separation

EY Operating Model Framework

## **Operating Model Dimensions** People & Organization Design of organizational structure, performance management, roles & competencies **Processes** Description of how core processes will operate Systems, Technology & Infrastructure Overview of future IT infrastructure and systems Locations, Assets & IP Details on location of functions, assets and IP Transactional Model & Contracts Details on internal & external relationships and contracts

Corporate Tax & Legal Entity Structure

Definition of the optimal tax, legal and transfer pricing model

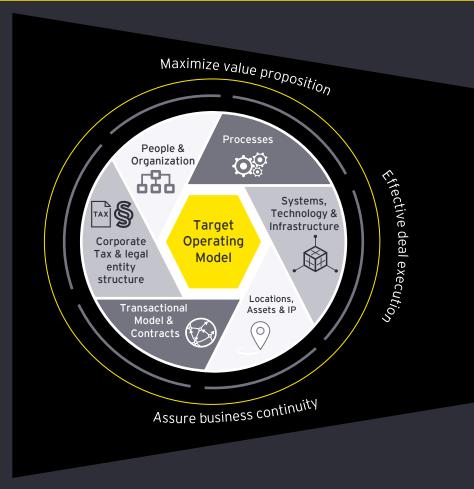
The input factors are a fundamental basis for a Target Operating Model, therefore you need to start with the planning right at the beginning of the transaction



Contracts

## ...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.



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# 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

#### ПТ

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

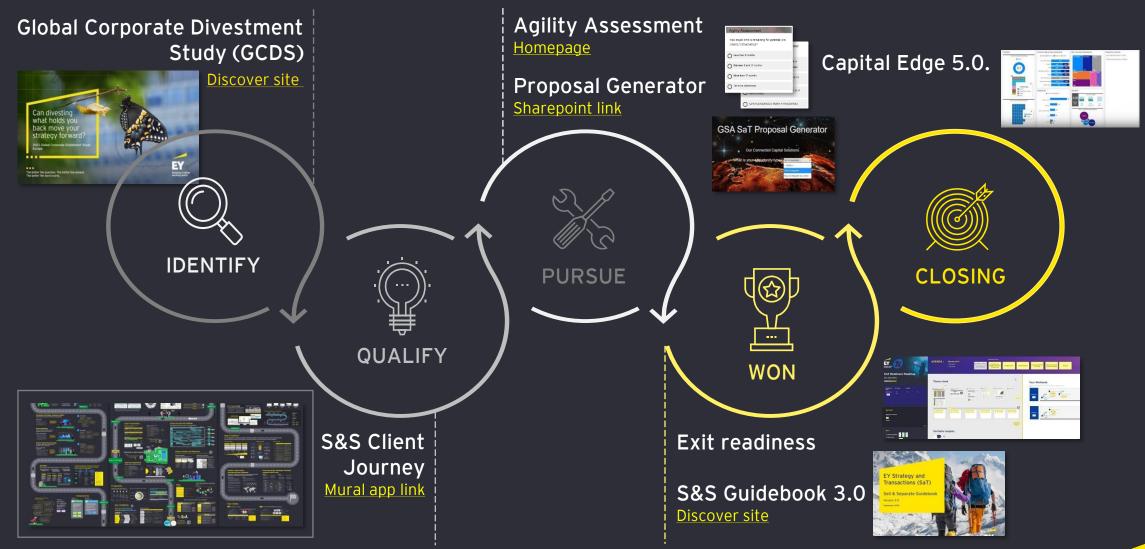
Purchasing, logistics, forecasting, planning, operations, etc.

#### Other business support

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



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





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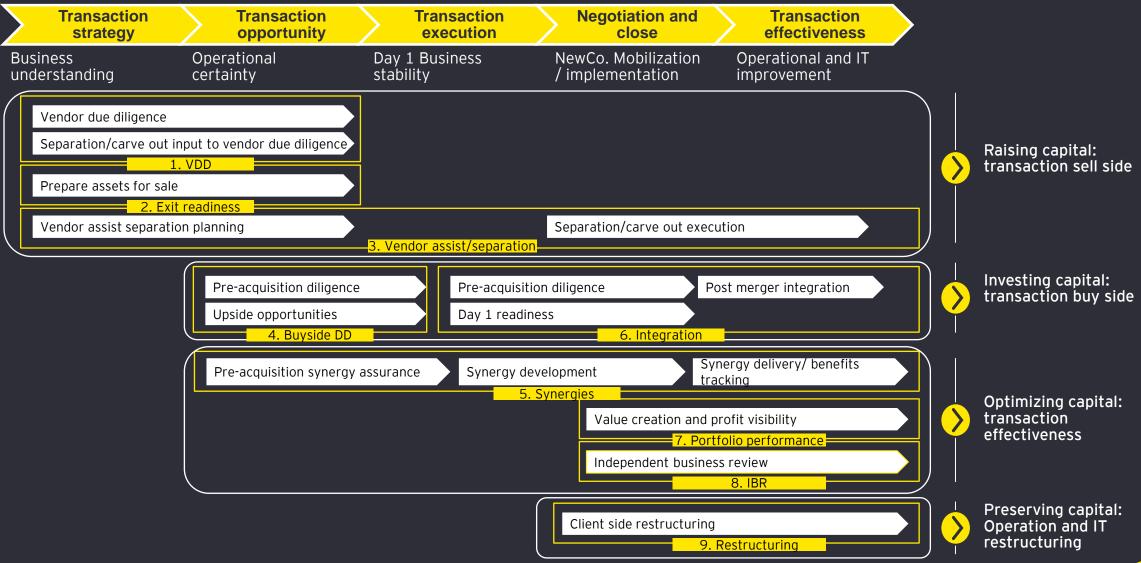


Let's discuss...

What do you think it's a Due Diligence?



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





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## What is due diligence

	Due diligence is
1	An <b>independent assessment</b> of a Target's historical and prospective forecast financial performance
2	Based on facts and evidence, typically gathered through <b>lists of hundreds of questions and/or requests for copies of documents</b> , issued by the Bidders, that the potential Seller must answer
3	Based Completed at pace, during a <b>short timeframe</b>
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



#### 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)

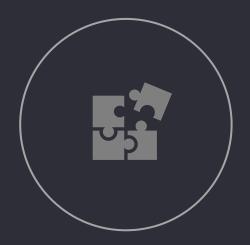
It gauges the target's underlying technology stack and related maturity in order to propose future improvements/opportunities and downsize risks associated with the technology



#### 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

Establish baseline (depth depends on time and data)

#### Assess management's existing plans

Develop	and asses:	s improvement	nypotnese

Consistant	nrovon	toolkit
Consistent	, proven	LOOIKIL

Baseline cost structure	<ul> <li>Costs/FTE's</li> <li>Functions and locations</li> <li>Fixed / Variable</li> <li>Cogs / SG&amp;A</li> <li>Nature of costs</li> <li>Historic changes/savings</li> <li>Forecast requirements</li> <li>Impact on margin</li> </ul>
Benchmark / comparators	<ul> <li>Financial/operational metrics</li> <li>Comparative transactions</li> <li>Competitor analysis</li> </ul>
Commercial / revenue impacts	<ul> <li>Sales penetration analysis</li> <li>Terms of trade comparison</li> <li>Impact of marketing spend</li> <li>Product complementarity</li> </ul>
KPIs / performance measures	<ul><li>Operational measures</li><li>Organizational impact</li><li>Risks within forecast</li></ul>

Targeted review	
Driven by insights	
Focused on value	
Operating Model	<ul><li>Underst</li><li>Actual p</li></ul>

Revenue

Cost Base

integration / carve-

Transaction specialists
Operational/IT SME's
Market/industry SME's
tand the target

- Actual performance, capabilityDevelop target operating model
- Volume and distribution
- Sales costs within revenueSales execution effectiveness
- Cost drivers/cost typesOperational improvements
- ➤ Volume impacts

  ➤ Landscape
- Sourcing and contractsResources
- ➤ Organizational structure and costs
   ➤ In sourced/outsourced activities
  - ► Impact of change
- Assets / Capex

  Location of assets/property
  Historic/forecast capex
  Working capital impacts
  - ► Costs to achieve
- Synergies / Project definition/phasing
  - Risks and issues
  - ▶ One-time Costs, TSAs
  - ► Stranded costs, Dis-synergies

Pragmatic, deliverable planning Fully costed implementation

Delivery and implementation

- Costs to achieve
- Projects defined
- Phasing identified
- Resource/cash requirements
- Risks and issues



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out

## Differences between Private Equity and strategic/corporate

	Private Equity	Strategic/Corporate
Value Measure	<ul> <li>Focus on the value of the acquired business itself:</li> <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>	Focus on the value of the combined business:  New customers/markets  Knowledge/IP  Products  Leverage (pricing, operational, etc.)
Typical Scope	Test the PE's "investment angle":  Acquisition platform  Organic revenue growth  Gross margin expansion  G&A optimization	Test the client's "deal hypothesis":  Separation / Integration execution  Synergies and dis-synergies, stranded costs (for sell-side)  Impact to capital / overall stock price  G&A optimization
Execution Activities	<ul> <li>Drive significant change over ~5-year holding period. Typical execution activities:</li> <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>	<ul> <li>Functional leads usually absorb the new business. Typical execution activities:</li> <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**

- Underlying market decline
- Excess industry capacity
- Customer-base health
- Foreign competition
- ► Intense price competition/"Race to the bottom

## Strategy and Operations

- Poorly executed strategy pivot
- Structural direct cost disadvantage
- Poor asset utilization
- Manufacturing technology and aging assets
- Heavy exposure to commodity pricing
- Constrained supplier base

#### Information Technology

- Custom applications
- Scalability of IT systems
- ► Third Party Issues
- Insufficient spend for business
- In-flight projects
- Infrastructure
- Cyber Security
- Regulatory compliance

#### Product and R&D

- Poor return on invested capital
- Product relevance
- R&D Costs
- Product Pipeline
- ▶ IP issues
- CapEx required to create products

## Legal, Regulatory, & Accounting issues

- Legal issues
- Operating/Holding entity structure
- Regulatory issues (Anti-trust, crossborder deals, etc.)
- Environmental issues
- Underfunded pension obligations
- Tax Implications and oversea cash
- Off-balance sheet liabilities
- Union and labor relations

## Deal Specific Business Issues

- Carve-out concerns
- Standalone costs
- Transition Service Agreements



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



# Operational excellence Lean improvements Manufacturing headcount reduction Inventory reduction Engineering Product pipeline rationalization Merger and rationalization of engineering teams Best-in-class NPI processes





Procurement

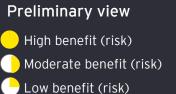
▶ Effectiveness and strategy

spend, logistics, MRO)

▶ Outsourcing strategy

▶ Synergies (direct material, indirect

	Pre-Acquisition	Post-Acquisition
Results	<ul> <li>Go/no go decision</li> <li>Integration requirements</li> <li>Synergy realization plans</li> </ul>	<ul><li>Business plan</li><li>Execution</li></ul>



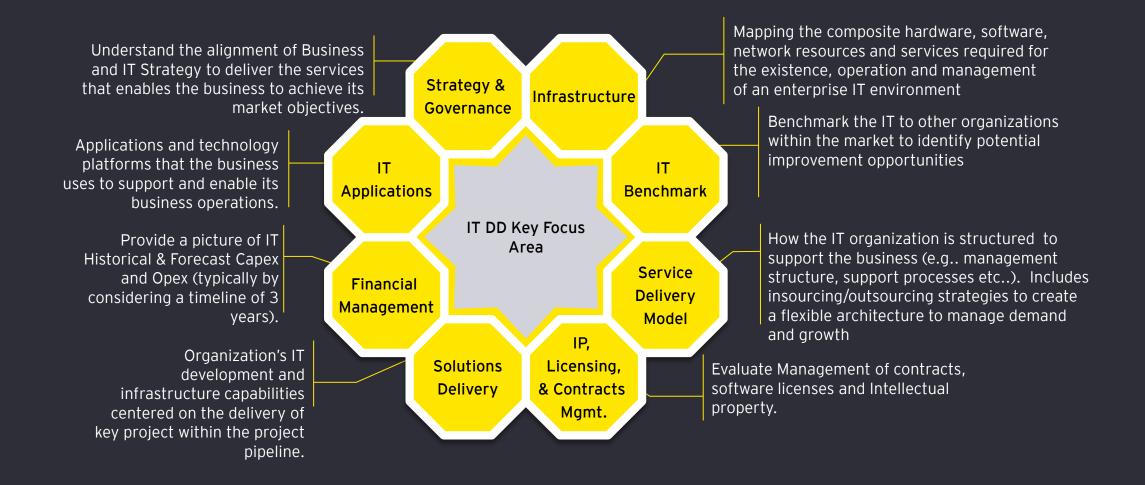




IT Due Diligence



## 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

#### 1 Infrastructure & Security

Logical and physical integration of networks and hardware including communication systems. Alignment with various IT security standards

8 Governance

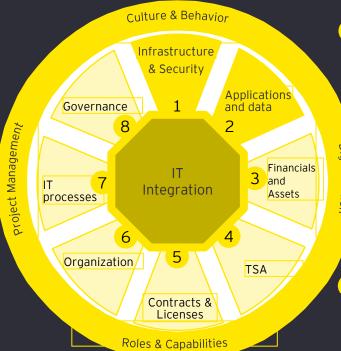
Agreement with buyer on governing policies during the integration phase to smooth the business transition

7 IT processes

High-level process definition and assignment of responsibilities to ensure continuous IT operation and support on Day 1

6 Organization

Identification of FTEs to be retained in the acquired company along with identification of any FTE adjustments with responsibilities



2 Applications and data

Logical / physical integration of applications and to ensure business continuity on Day 1. Ensuring successful migration and consolidation of master data and transactional data including testing of completeness

3 Financials and Assets

Current IT costs and expected future opex/capex with allocation keys to map transitional services with cost elements. Common guidelines on identification and transfer of assets through an Asset Transfer Document

TSA's, SLA's and additional services

Definition of services, service levels and duration of services to be delivered by seller during transition period to ensure continuity for key aspects of the IT environment as well as IT resources gaps at Day 1

5 Contracts & Licenses

Ensuring usage/transfer of licenses and contracts for uninterrupted operations of acquired entity from Day 1 on



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