

# Operational Due Diligence Guidebook

Only for internal Use

September 2022

# Agenda

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Operational Due Diligence  
Role

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Key benefits and areas  
of analysis

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Scope of work

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Case study

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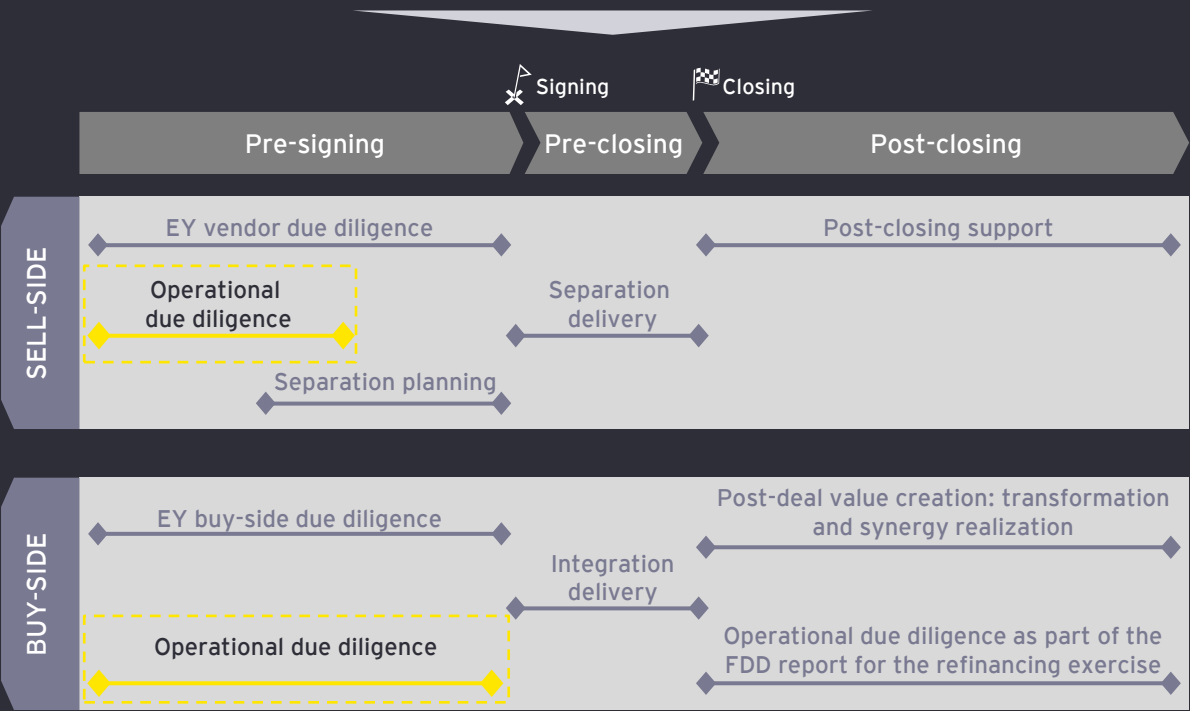
Credentials and CVs

Operational Due Diligence occurs during the Pre-Signing phase of a transaction and permits to identify points of attention and potential upsides on the operational side

## Operational Due Diligence Role

WHEN

During the transaction **Pre-Signing phase**, Operational Due Diligence activities provide **useful insights** to drive the **transaction related decision** and could highlight activities for the **post-deal integration**



FINANCIAL DUE DILIGENCE

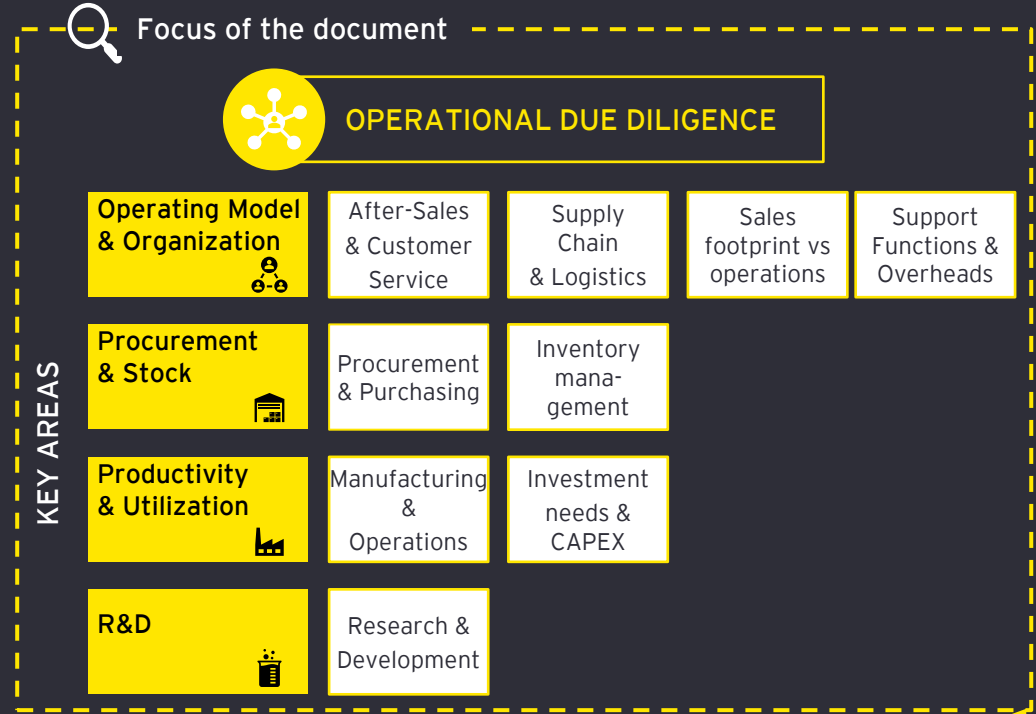
COMMERCIAL DUE DILIGENCE

TAX & LEGAL DUE DILIGENCE

IT DUE DILIGENCE

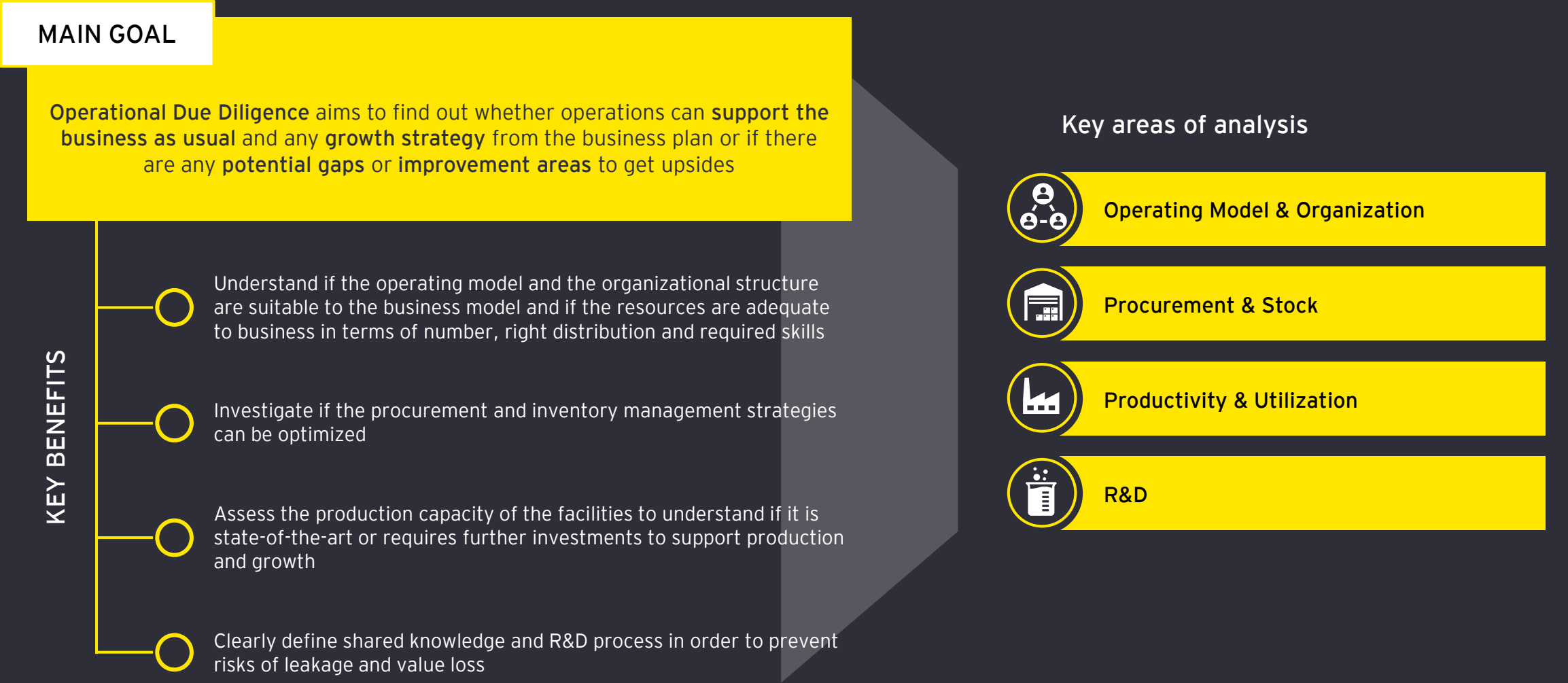
HR & PENSIONS DUE DILIGENCE

CARVE-OUT DUE DILIGENCE



By investigating 4 main areas of analysis, Operational Due Diligence assess whether operations are suitable to the business model or if improvements are required and/or potential upsides could be obtained after the deal





## Key benefits and areas of analysis



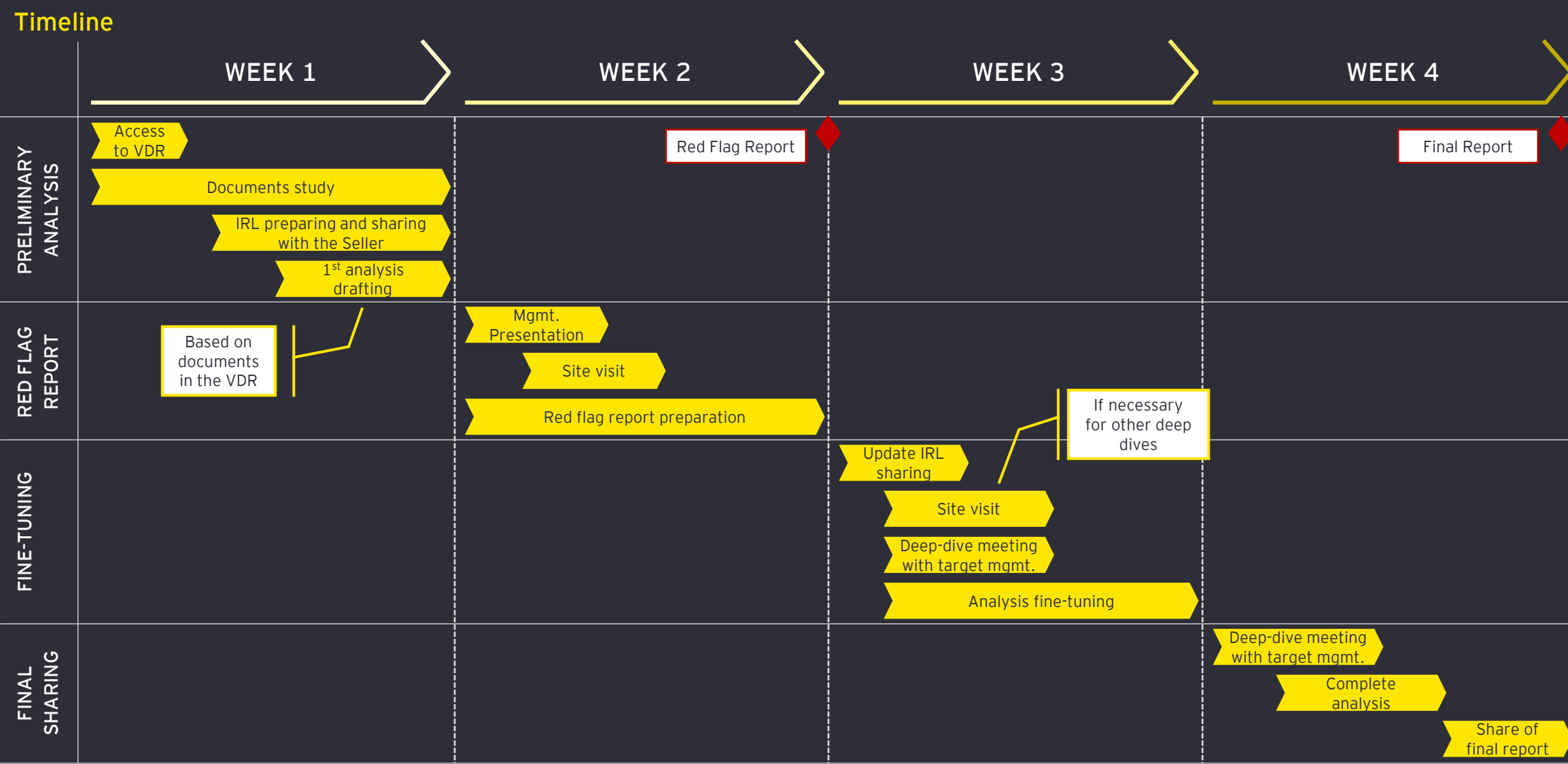


# The analyses related to the 4 focus areas is tailored according to the Target to be addressed by the Operational Due Diligence

## Scope of Work - Example

	Manufacturing Company	Service Company
 <b>Operating Model &amp; Organization</b>	<ul style="list-style-type: none"> <li>Map current organization structure and FTEs per function</li> <li>Analysis and comment on historical personnel cost evolution (including temporary workers) concerning white collars</li> <li>Understand the Operating Model</li> <li>Comment on Make VS Buy approach per function</li> <li>Analyze key roles and critical competences for customer management</li> </ul>	<ul style="list-style-type: none"> <li>Understand Operating Model, map current organization structure/FTEs</li> <li>Analysis and comment on historical personnel cost evolution</li> <li>Comment current Customer Relationship model (o/w Direct and Indirect)</li> <li>Comment on Make VS Buy approach per function</li> <li>Analyze key roles and critical competences</li> <li>SG&amp;A costs analysis and support for cost saving opportunities</li> </ul>
 <b>Procurement &amp; Stock</b>	<ul style="list-style-type: none"> <li>Procurement spend analysis - 80:20 materials/suppliers (curr. and hist.)</li> <li>Comment on procurement organization and strategy (e.g. global vs local)</li> <li>Comment on historic trends and forecast assumptions</li> <li>Comment on current/recent cost reduction activities (strategy, execution, results already achieved, result expected...) if any</li> <li>Exposure to commodity markets - comment on risk and price management</li> <li>Comment on procurement strategy and level of maturity</li> </ul>	<ul style="list-style-type: none"> <li>Procurement spend visibility analysis - 80:20 for HWs/ SWs/ Services and suppliers (current and historical)</li> <li>Comment on procurement organization (e.g. global vs local)</li> <li>Comment on historic trends and forecast assumptions</li> <li>Comment on current/recent cost reduction activities (strategy, execution, results already achieved, result expected, etc) if any</li> <li>Comment on procurement strategy and level of maturity</li> </ul>
 <b>Productivity &amp; Utilization</b>	<ul style="list-style-type: none"> <li>Comment on key productivity drivers - scale, reliability, changeovers...</li> <li>Comment on output constraints - shift patterns, factory layout, logistics</li> <li>Analysis and comment on historical personnel cost evolution (including temporary workers) concerning blue collars</li> <li>Labor productivity (direct labor cost variation, temporary employment...)</li> <li>Comment on production saturation levels</li> <li>Comment on demand planning process</li> <li>Comment on capacity for any forecast growth</li> <li>Comment on recent improvement program, results and sustainability</li> <li>Comment CAPEX trends and identify possible need for additional Capex</li> </ul>	<ul style="list-style-type: none"> <li>Comment on key R&amp;D drivers and KPIs</li> <li>Comment CAPEX trends and identify possible need for additional Capex</li> </ul>
 <b>R&amp;D</b>	<ul style="list-style-type: none"> <li>Comment on current R&amp;D pipeline management</li> <li>Comment on risk of knowledge leakage in case of people exit</li> </ul>	<ul style="list-style-type: none"> <li>Comment on R&amp;D process and organization and its eventual relevance</li> <li>Map and comment on eventual patents</li> <li>Comment on current R&amp;D pipeline management</li> <li>Comment on level of know how internalization</li> <li>Comment on risk of knowledge leakage in case of people exit</li> </ul>

4 weeks is the average duration of an Operational Due Diligence, with the sharing of a Red Flag report about halfway through the analyses



Operational Due Diligence have been conducted to support Datalogic Team in the acquisition of a player operating in Sensor & Safety business and consequent integration

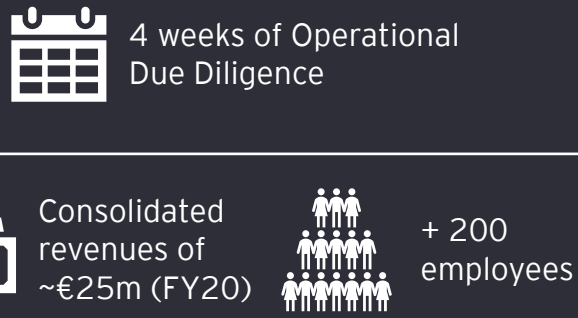
CASE STUDY: MANUFACTURING TARGET - Project overview (1/5)



Transaction Overview

- ▶ The transaction involving Datalogic aimed to strengthen its position in the Sensors & Safety and Machine Vision business
- ▶ In order to reach this goal, the Company has decided to acquire a player in the market and to then perform a carve-out on its Sensor & Safety and Machine Vision BU with the aim of combining it with the acquired target
- ▶ The Company needed to perform Due Diligence activities to assess the “as is” situation of the potential target, including Operational DD

Relevant KPIs



Related to transaction perimeter

Key Areas of Analysis

- ▶ The aim of the Operational Due Diligence was to highlight and discuss the main areas impacted by the transaction and by the subsequent integration between the Company and the buyer



# An assessment of the Operating Model & Organization was conducted to understand the level of complexity of the Company and the adequacy of the employee base

## CASE STUDY: MANUFACTURING TARGET - Operating Model & Organization (2/5)



### Analyses and key insights

#### Operating Model overview

An initial analysis concerned the Company's Operating Model with the geographic location of the sites, the overview of sales by geographic area and by product as well as the development plans

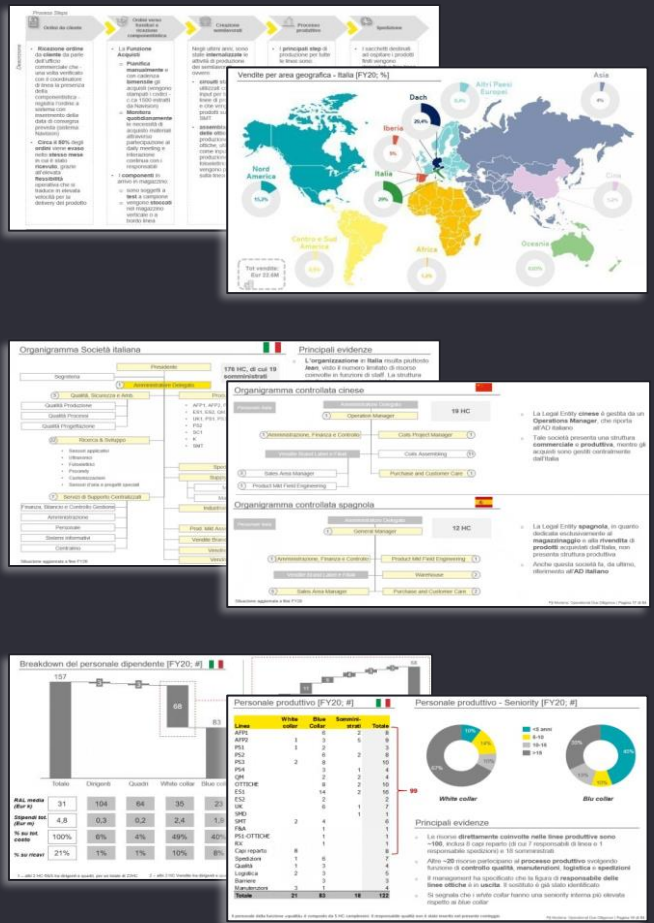
#### Organization assessment

A high-level analysis of the organization was conducted to understand the level of complexity of the Company and its subsidiaries and the adequacy of the profile and the number of resources allocated for each function

#### Employees breakdown and employees by areas analysis

The breakdown of personnel in the main roles (e.g. executives, white / blue collars...) was conducted to identify their number, cost and average annual gross salary and to highlight the roles with the greatest impact on personnel costs

The analysis of employees by area (Operations, Sales, R&D) highlighted the areas in which potential efficiencies could be pursued



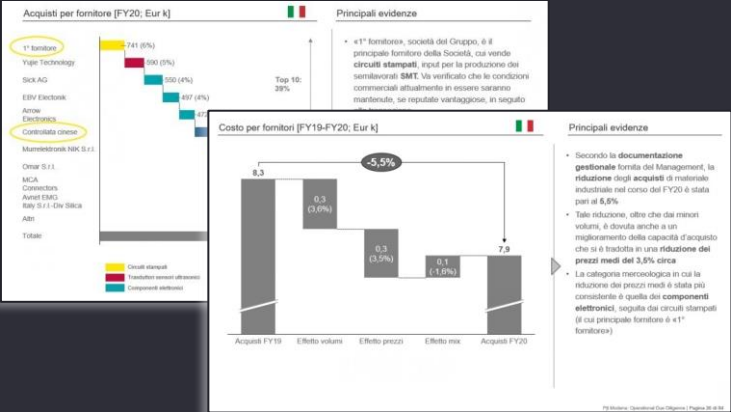


# Procurement & stock analysis was performed to highlight the efficiency of purchasing strategy and of the inventory management

## CASE STUDY: MANUFACTURING TARGET - Procurement & Stock (3/5)

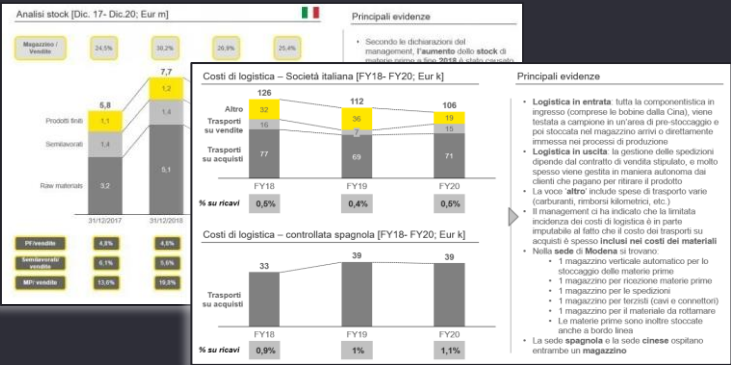


### Analyses and key insights



### Procurement analysis

An assessment was conducted on the main suppliers and on the Company's procurement strategy to understand the efficiency of purchasing management and potential savings from better purchasing conditions



### Inventory management

Warehouse analysis was conducted to identify the dynamics of the stock level in a specific timeframe, the value of raw materials and finished products as well as the incidence of logistics costs to understand whether potential efficiencies could be achieved



Analysis on productivity was useful to understand saturation levels and space for upsides, while facilities and machinery assessment served to understand the possible need for investment

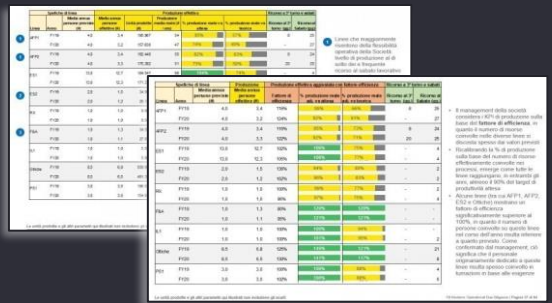
CASE STUDY: MANUFACTURING TARGET - Productivity & Utilization (4/5)



Analyses and key insights

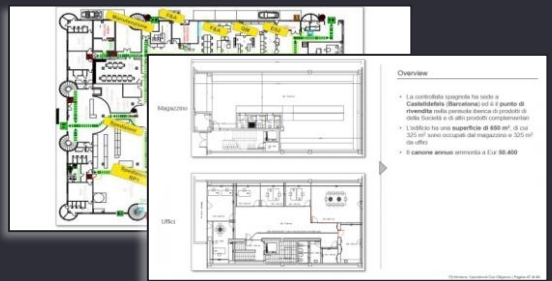
Productivity analysis

The analysis of the productivity levels related to the different lines showed in which cases the production was close to the expected targets and the theoretical productivity levels to understand which lines needed to be improved with targeted actions



Facilities assessment

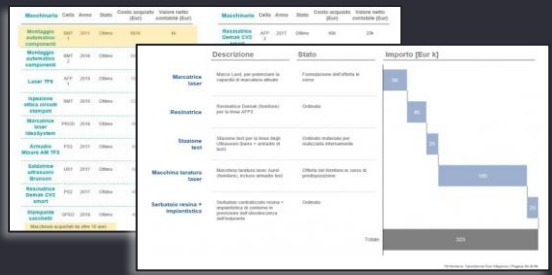
All the facilities of the Company have been listed, dividing them between those owned and rented and making a mapping to understand the functions of the different areas



This analysis served to understand any need for expansion and consequent investments

Machinery assessment

An assessment of the machinery and planned investments for the various lines has highlighted the state of the Company's machinery and the possible need for replacements with new potential investments

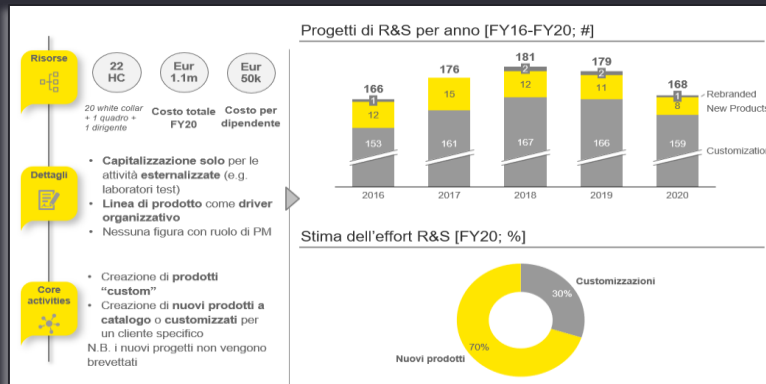


Due Diligence Activities unlocked useful insights to drive the transaction decision and the opportunities for post deal activities - EY Team involved more than one year after the deal closing

## CASE STUDY: MANUFACTURING TARGET - R&D & Value Delivered (5/5)



### Analyses and key insights



### R&D analysis

The analysis on the R&D side served to present the number of resources dedicated to research & development activities (with related cost), the core activities as well as the historical trend of R&D projects divided into 3 main categories (rebranding, new product and customization).

The analysis also highlighted the effort dedicated to the 3 types of projects in order to understand which activity was the most time and cost consuming

## Value Delivered

Operational Due Diligence activities (4 weeks) provided **useful insights** to **drive** the **transaction related decision and** highlighted **opportunities** for **post-deal activities**

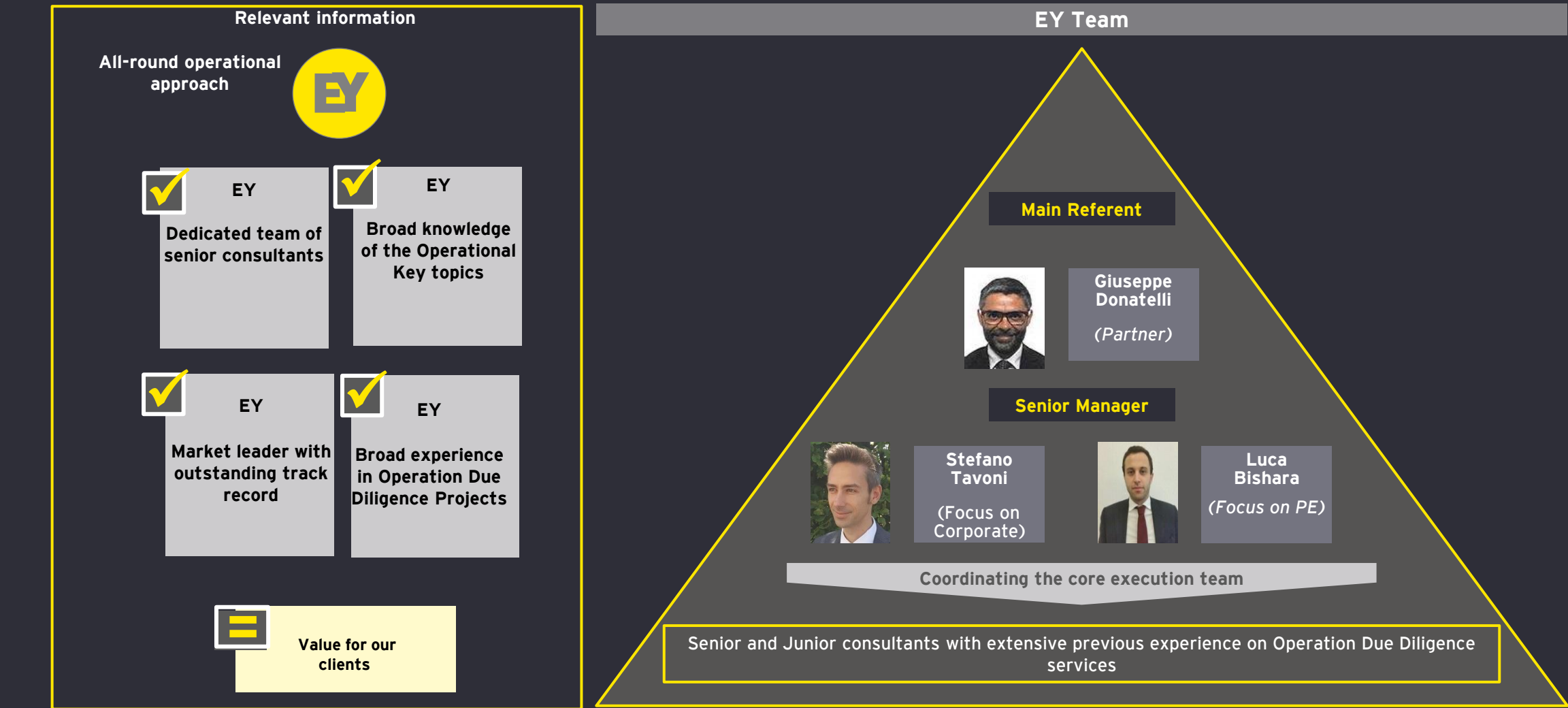
Based on the evidence provided, the **Client decided** to go beyond the due diligence activities, **involving** the **EY team** also for:

- ▶ developing the **Day 1 readiness Plan**
- ▶ assisting in the **assessment** of the **carve-out** of **internal business unit**, to be **merged** with the **Target**
- ▶ defining and monitoring the **100 days integration plan**
- ▶ identifying **value creation opportunities** and supporting the related execution

**POST-DEAL SUPPORT LASTED 12+ MONTHS**

We have a dedicated Team with relevant track record in Operational Due Diligence Projects

# EY Team





Giuseppe Donatelli  
Partner  
EYP, Strategy & Transactions - Transaction Strategy & Execution' department leader  
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## Background

- ▶ Giuseppe is a Partner within EY's 'Strategy & Transaction' service line, and he is leading both the Telecom-Media-Technology Sector and the 'Transaction Strategy & Execution' department
- ▶ Before joining EY in 2008, he worked for 12 years within the Telecom & Technology industry in different multinational companies and corporate.

## Education

- ▶ Giuseppe received a B.S. in Electronic Engineering, an ICT Master and an Executive M.B.A. He speaks English fluently also because he spent some job periods in Europe and South America for international projects within Telecom Italia Group.

## Professional Experience

- ▶ Responsible for several Operational and IT Due Diligence engagements, including among the others:
  - ▶ Operational and IT DD for Datalogic, in relation to the acquisition of a Italian target
  - ▶ Operational and IT DD for Antin IP (Anglo-French PE) in relation to the acquisition of Grandi Stazioni Retail to be carved out from FS Group;
  - ▶ Operational assessment for Hitachi Railways in relation to the acquisition of AnsaldoBreda from Finmeccanica;
  - ▶ Operational and IT assessment for a leading Italian multiutility in relation to the acquisition of a perimeter from E.ON Italian business
- ▶ Led several carve out projects including the Operational and IT assessment, design and coordination of post deal execution plan, including among the others:
  - ▶ IT assessment and operational support for Baker Hughes in relation to the IT carve out from GE Group;
  - ▶ Carve-out assessment, design and execution for Daimler Group in relation to the set up of one legal entity per each single Italian Business Unit (Car&Van, Truck, Bus, etc);
  - ▶ Business & Operational assessment for Vodafone Group related to the preparation of Tower Business Units to be carved out in 7 European Countries
  - ▶ Carve-out of INWIT from Telecom Italia Group, including the stabilization/optimization plan for processes and systems after the IPO (36 months)
- ▶ Led several post-merger integration projects including the IT assessment, preparation, execution of IT infrastructure/systems/applications, including among the others:
  - ▶ Project Management Office (PMO) for the integration project (21 months) of two Italian companies providing mobility services for BMW Group, with specific focus on the IT platform;
  - ▶ Integration Management Office for A2A Group in relation to the acquisition of 2 generation plants (9 months);
- ▶ Worked for four years (2004-2008) for SIEMENS Italy as Head of 'Project Management' Unit at the 'Enterprise Communications' Italian Division, providing ICT solutions to Top Clients
- ▶ Worked for three years (2001-2004) for ACANTHO SpA - Broadband Service Provider (fiber optic and DataCenter) of HERA Group - a major Italian Multi-Utility company - where he was the Head of the 'Institutional & Captive market' and the Project Manager for the 'Development of the broadband network' together with the local Regional Government
- ▶ Worked for five years (1996-2001) for the TILAB (ex CSELT), the Research & Development Center of TELECOM ITALIA Group, as Project Manager for the 'Strategic Planning support to TIM' in Italy, Europe (e.g. Greece, Spain), Southern America (e.g. Bolivia, Chile)





Stefano Tavoni  
Senior Manager  
EYP, Strategy & Transactions - Transaction Strategy & Execution  
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## Background

- ▶ Stefano is Senior Manager within the Transaction Strategy & Execution practice
- ▶ Stefano has more than ten years of experience as Management Consultants and worked on several cost optimization programs for large multinationals within the following industries: Telecommunications, Financial services, Industrial

## Education

- ▶ Stefano holds a Master Degree in Aerospace Engineering and obtained Lean Six Sigma Black belt certification. He speaks English fluently also because he spent some job periods in Europe and Middle East for international project

## Professional Experience

- ▶ Operational Due Diligence of an Italian producers of Hygiene products: i) Organization and Operating Model, ii) Procurement Strategy, iii) Manufacturing and logistic footprint, iv) Productivity and utilization, v) R&D
- ▶ Operational Due Diligence for the carve-out of a business unit of a Tier 1 operator in the Automotive industry: i) Organization and Operating Model, ii) operational gaps to be fulfilled and related risks and mitigations, iii) map of all services to be exchanged between the carved out perimeter and Mother Company
- ▶ Operational Due Diligence of a Global producers of Hygiene products: i) Organization and Operating Model, ii) Procurement Strategy, iii) Manufacturing and logistic footprint, iv) Productivity and utilization, v) R&D
- ▶ Carve-out perimeter definition for a global Steelworks: stand alone assessment (processes, person, tools, contracts, ...), gaps identification and action plan definition
- ▶ Carve-out perimeter definition for a global technology leader in the factory automation market: stand alone assessment (processes, person, tools, contracts, ...), gaps identification and action plan definition
- ▶ Carve-out perimeter definition for an Italian telco player: operational and economical assessment of player divisions, definition of carve-out perimeter and related business case
- ▶ Post Merge & Integration support for a global technology leader in the factory automation markets: 100 days integration plan definition, identification of value creation initiatives and support in the implementation phase
- ▶ Working capital optimization for an European wellness machineries producer: design of a traceability model, fully integrated with its RPA, able to track products step by step, allowing also a real-time visibility of stocks along all the supply chain
- ▶ Plant turnaround for a Leading European producer of components for automotive sector: identification of root causes associated to current plant performances, definition of improvement levers with associated impact and responsibilities
- ▶ Costs reduction initiative for a Leading company in security service: assessment of "order to cash" process, adopting DMAIC approach from Lean Six Sigma Methodology
- ▶ Carve-out support for a Leading Italian payments provider: operational assessment (processes, tools and KPIs), gaps identification, action plan definition, support to the implementation phase
- ▶ Organization structure simplification for an Italian leading bank: design of the new organizational and operational model leveraging on a Zero Based Approach
- ▶ Re-design of Client's organizational and operational model for an Italian leading private bank: definition of operating model blue-print, identification of gaps with respect to market best practices, set the evolution roadmap (e.g.: Outsourcing program, Lean Six Sigma program,...)



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## Background

- ▶ Luca is a Manager at EY-Parthenon and part of the Transaction Strategy & Execution department
- ▶ He is also involved in the Industrial Products market segment
- ▶ Before joining EY, he worked in a Milan-based consulting firm where he was mainly involved in Corporate Finance activities such as Business Modelling, Carve out projects, and Transaction Support, for a total experience of 7 years
- ▶ Luca's mother tongue is Italian and he is fluent in English, also thanks to several international projects. He has also an intermediate knowledge of Spanish

## Education

- ▶ His competence is focused on business and financial planning activities, financial modelling, accounting and carve out
- ▶ He gained a significant experience in several transaction-related activities, both pre-deal and post deal


## Professional Experience

- ▶ Luca was involved in a number of Operational Due Diligence and synergies assessments
- ▶ He performed a significant number of Business Plans aimed at assessing financial requirements for the implementation of strategic initiatives. He drafted from scratch several industrial plans with a specific focus on Top Line assumptions, cost structure and cash flows
- ▶ He drafted the financials for the carve-out of a Business Unit of a company involved in the air conditioning field in a transaction perspective
- ▶ He supported an Italian ICT player during the post merger integration process involving 20+ companies. Main activities: i) cost structure optimization; ii) financial monitoring and reporting; iii) cooperation with key stakeholder at Group and BU level in order to develop the integration plan
- ▶ Luca conducted a feasibility study for a leading Italian Fintech player in order to assess the opportunity of the launch of a new business unit, including market assessment, business and operational model selection, and a detailed bottom-up business case
- ▶ He drafted an industrial plan for an Italian ICT player in order to assess the feasibility of different strategic options
- ▶ He performed several Independent Business Review and Working Capital Assessments for IPO processes in the Italian Stock Exchange
- ▶ He drafted and supported the monitoring of a short term cash flow forecast model for an industrial player
- ▶ He performed scouting analyses for M&A opportunities (buy-side)
- ▶ He drafted Information Memorandum aimed at presenting potential investment opportunities, including the analysis of past financial performances and key market trends

We have a deep knowledge of the Operational Due Diligence topics through numerous assignments in different industries


Recent Selected Credentials

This announcement appears as a matter of record only




**Datalogic**

EY performed an Operational Due Diligence to support Datalogic in the acquisition of a company operating in the Sensors & Safety and Machine Vision business




This announcement appears as a matter of record only



**CVC**

Ey Team assisted the PE team with Operational Due Diligence services in relation to the potential investment into Prima Solutions



This announcement appears as a matter of record only



**Afflelou**

EY performed an Operational assessment in order to support the Client Team in the potential acquisition of GradVision and Vistasi



This announcement appears as a matter of record only



**Keensight Capital**

EY supported the Private Equity firm Keensight Capital with Operational Due Diligence services in relation to the investment into the "Service Business" of Axxam SpA, an Italian biotech research and discovery company



This announcement appears as a matter of record only




**Peninsula Capital**

EY was requested by Peninsula Capital Advisors to perform an operational assessment of a player focused in the Pet Care sector ("L'Isola dei Tesori")




This announcement appears as a matter of record only




**Aurelius**

Ey Team assisted the PE team in the potential acquisition of a business unit of a Tier 1 operator in the Automotive industry




This announcement appears as a matter of record only



**J-Hirsch**

EY assisted the PE team in the potential acquisition of an operator in the production of hygiene products - Operational DD activities to assess the As-Is situation of the target's plants



This announcement appears as a matter of record only



**Infravia Capital Partners**

EY performed an Operational assessment in order to support the PE team in the potential acquisition of a provider of fiber optic connections



# As anticipated by Datalogic Case, Operational Due Diligence can be the input for relevant post deal activities

## Selected Credentials

<div><div>This announcement appears as a matter of record only</div><div><div>KKR</div><div>FiberCop</div></div><div>KKR</div><div>EY supported KKR for the Operational DD and the Target Operating Model analysis in relation to the investment into a company focused on fixed access network (FiberCop)</div><div><div>EY</div><div>Building a better working world</div></div></div>	<div><div>This announcement appears as a matter of record only</div><div><div>ANTIN</div><div>INFRASTRUCTURE PARTNERS</div><div>GRANDI STAZIONI RETAIL</div></div><div>Antin IP</div><div>EY provided an Operational Due Diligence for Antin IP (Anglo-French PE) in relation to the acquisition of Grandi Stazioni Retail to be carved out from FS Group</div><div><div>EY</div><div>Building a better working world</div></div></div>	<div><div>This announcement appears as a matter of record only</div><div><div>HITACHI</div><div>AnsaldoBreda</div><div>Una Società Finmeccanica</div></div><div>Hitachi Railways</div><div>EY provided Operational assessment for Hitachi Railways in relation to the acquisition of AnsaldoBreda from Finmeccanica</div><div><div>EY</div><div>Building a better working world</div></div></div>	<div><div>This announcement appears as a matter of record only</div><div><div>a2a</div><div>e-on</div></div><div>A2A</div><div>EY was requested by a leading Italian multiutility to perform an Operational DD related to an investment of a perimeter of E.On</div><div><div>EY</div><div>Building a better working world</div></div></div>
Post deal activities			
6 months support to implement the new organizational structure and the operating systems	12 months support to redefine the forecast model, the budget and control plan, the purchase and operation systems policies	3 months support to perform the day one readiness with a specific focus on the governance model	12 months support to define the E.on carve-out model, and subsequent integration in A2A

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#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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