



Putting your house in order

Accelerate value through delayed integration

The potential upside of mergers and acquisitions is frequently trumpeted in the press and to stakeholders, but such enthusiasm can introduce a raft of unanticipated challenges for management teams when it comes time to deliver. And unfortunately, many don't. With the superheated M&A activity of the last several years having cooled somewhat, our clients tell us they see a need to look inward at potential operational rationalization.

In a January 2023 KPMG LLP survey, more than a quarter of respondents said that evaluating their existing business portfolio was the highest strategic priority this year,¹ with more than half of corporate leaders and PE firms indicating at year-end 2022 that some form of portfolio performance improvement was on their agenda.² And even as firms expect M&A activity to pick up from its current respite over the next 24 months, they acknowledged that deals will be more complex, will demand extraordinary synergies to pay off, and will consequently require a particularly clear deal rationale to be communicated to shareholders and stakeholders. The case for accelerating delayed integration is clear.

As companies survey their regions, business units, legal entities, and operating strategies, they are increasingly challenging whether their business is maximizing efficiency and value. Are past acquisitions paying off as predicted? Is operational efficiency optimized? Is performance transparent and trackable in real time? Has anticipated synergy value from past M&A activity met or exceeded expectations? A variety of situations can trigger companies to reassess how their parts—new and old—are meshing.

In the current market environment, KPMG helps organizations pursue delayed integration opportunities to unlock unrealized synergies from past deals and establish a scalable process to pursue and achieve aggressive value opportunities in future deals more effectively.

In our experience, companies that seek to accelerate value through delayed integration are typically motivated by one or more of the following four scenarios:

- 1** A past corporate transaction is underdelivering on synergies
- 2** Reintegration of dispersed corporate assets, business units, or operating models is leveraged to improve efficiency
- 3** Enhanced enterprise value is sought while a tax- or governance-driven legal-entity rationalization is underway
- 4** A private equity sponsor wants to extract intra-portfolio synergies or operating-model efficiencies among existing portfolio companies

¹ "US business leaders expect M&A activity to rebound as market conditions ease," KPMG, January 2023

² KPMG 2022 Year-End M&A Survey, December 2022

1 A past corporate transaction is underdelivering on synergies

In many cases, the deal thesis carries a significant operationally-driven value component, but most of the time these synergy targets aren't met within the target time horizon. Despite losing credit on the street for underdelivering synergies in the short term, companies can still drive long-term value for shareholders by revisiting the original strategy and finding ways to implement it successfully.

One client—a global consumer products conglomerate—believed it had not fully realized the value of the synergies possible with a sizeable acquisition it had made almost a decade earlier and sought help from KPMG to prove that hypothesis.



Find buried treasure

Our client sought to unlock value eight years after closing on a more than \$20 billion acquisition of a complementary product portfolio. To accomplish this, they wanted to develop a streamlined global business platform for their consolidated businesses that would unlock synergies across commercial, operations, and infrastructure spanning four global regions.

Delayed integration solution

- Due to deal execution delays from public-to-private company requirements between buyer and target, initial mobilization of integration and value capture strategy was disrupted, and initial synergies were never unlocked.
- KPMG partnered with client leadership to analyze value levers across 14 functions and four global regions to identify and unlock cost savings in excess of original synergy targets.
- Integration acceleration focused on combining the operating structure across global regions to unlock maximum value.
- Taking a global approach allowed for local flexibility while ensuring a consistent operating model and efficient cost structure.
- KPMG helped the client to validate and deliver \$70 million in incremental savings in North America as part of global integration and restructuring efforts, operational efficiency improvements, and alignment to the target global operating platform.



2 Reintegration of dispersed corporate assets, business units, or operating models is leveraged to improve efficiency

As companies grow, whether through successful organic expansion or through aggressive acquisition strategies, it is increasingly difficult to balance growth with an ongoing assessment of the operating model strategy. Before you know it, companies can find themselves with the top-line performance equivalent to multiple businesses, but the cost structure equivalent to multiple businesses, as well. Delayed integration can help these organizations reassess

their target operating model for the whole organization and maximize operational efficiency and synergies.

When the consumer packing company described below lost control of its target operating model through a series of acquisitions and organic growth strategies, it looked to KPMG to help reestablish a single direction and kickstart an efficiency-driven integration effort.



Accelerate an acquisition's integration

After multiple years of transformative growth through organic developments and multiple acquisitions, our client sought to reassess the integration of a past acquisition—they wanted to map out wide-ranging processes to prioritize functional requirements, minimize manual processes required to operate the business, and refresh a playbook that could be used to maximize the potential of future deals at speed with minimal business disruption.

Delayed integration solution

- With a recent acquisition opening up a new customer base and product category, management decided to delay the integration to minimize disruption to customers and channels. Subsequent turnover within the strategy and integration teams caused the integration value objectives to lose priority until performance visibility, control, and costs became a concern for leadership.
- By the time management was ready to integrate, they found themselves running completely different business models under the same roof.
- KPMG worked with leadership to perform a fit-gap assessment to determine system and process functionality requirements across the combined business, creating cost and process inefficiencies.
- We defined a bottom-up operating model that was fit for purpose to support the go-forward needs of the business, and identified structure and support requirements to manually manage processes until systems and controls could be put in place.
- Through this effort, the client streamlined the monthly close process from multiple weeks to less than five business days and drove run-rate savings through a 40 percent reduction in functional headcount spend, consolidation of redundant systems, and clean up of duplicative licensing fees.

3 Enhanced enterprise value is sought while a tax- or governance-driven legal-entity rationalization is underway

An ongoing legal-entity rationalization process, or LER, is another common motivator for companies to accelerate delayed integration. The need for LER could be driven by a number of different factors: corporate tax or governance strategy, post-deal cleanup, transfer pricing strategies

or tax-efficient supply chains, and geographic strategy, etc. No matter the driver, using LER as an opportunity to engage the principles of delayed integration can help organizations extract and accelerate untapped value potential within their current portfolio.



Multitask to unlock value

Following a decade-long aggressive acquisition strategy of roll-ups across the U.S., a leading materials distributor was left with a complex business structure comprising more than 150 legal entities. When tax leadership decided it was time to clean up the structure, business leadership viewed this as value creation opportunity and unlocked almost \$20 million in tax savings and nearly \$70 million in run-rate synergies across operations and G&A functions.

Delayed integration solution

- The company's acquisitive growth strategy had been highly successful for the business' top-line performance but had resulted in an entity structure that was unsustainably complex for tax, governance, and operating requirements. While management knew LER was necessary for governance reasons, how to maximize value from the process was less clear.
- KPMG worked with corporate and functional management to assess operational impacts of the existing legal-entity structure, including assets, contracts, IP, licensing and registrations, and other operating requirements. The operating baseline was key to quickly address streamlining opportunities and operational complexities associated with proposed changes.
- With a plan to consolidate more than 150 legal entities down to five in under six months, KPMG was able to help management identify and define a path to realize nearly \$70 million in savings through redundant and/or decentralized processes, procurement optimization, headcount, and systems consolidation.



4 A private equity sponsor wants to extract intra-portfolio synergies or operating-model efficiencies between existing portfolio companies

As the slow dealmaking environment forces many PE investors to sit on their hands, some are also taking the time to reevaluate, with a focus on extracting value through intra-portfolio synergies. There is an increasing PE focus to build out broader subsector platform strategies and find opportunities to drive vertical integration within fund assets. With multiples down a bit from their peaks and holding periods potentially elongating beyond what was originally anticipated, management is taking the opportunity to view the full portfolio through a common lens and seek synergies that exist across assets.

While dealmakers stay on the sidelines, roll-ups and sponsors can differentiate themselves by creating more value from within, for example, through operational efficiencies via integration and cost reduction, and revenue synergies. Resources can then be reallocated to strengthen more promising businesses or redeployed to higher-return activities.³

In the example below, KPMG helped this PE firm unlock operating and cost efficiencies within its portfolio.



Make the new investments jibe

A leading private equity firm was seeking to unlock synergies across two service businesses that had each been acquired within the past two years. Seeking to integrate the businesses in two stages—first as a combined legal entity, second as a strategic integration—they required assistance with the rapid development of a current-state diagnostic, technical integration (legal entity restructuring) planning, and implementation of operating requirements.

Delayed integration solution

- Having made strategic investments in two consumer services companies in the prior two years, the PE parent was seeking to drive revenue synergies through enhanced cross-selling and unlock cost-side efficiencies by integrating back-office operations.
- KPMG partnered with functional management from both companies to prepare the two independent businesses for legal entity integration: identifying and mitigating issues related to operational continuity, customer experience, and legal-, regulatory-, and financial-compliance for Legal Day 1. Teams conducted a detailed current-state assessment, including process decomposition, gap analysis, and technical integration priority list.
- After bringing the two companies under one roof through legal entity integration, KPMG helped management accelerate its revenue growth by double digits over the next two years, significantly surpassing prior trends and shareholder expectations.

³ "Moving Forward, Looking Inward: M&A Trends in Private Equity 2022," KPMG LLP

The KPMG delayed integration accelerator

Our approach to accelerate and unlock unrealized value through delayed integration is evidence-based and methodical. To develop a blueprint that will maximize the potential for value creation, we start with a rapid assessment of the asset portfolio and operating strategy to date, which includes a detailed diagnosis of people, processes, contracts, and systems to identify operational and strategic value.

Once redundancies, inefficiencies, and opportunities to scale at the process level are established, we work with the client to develop an integration acceleration plan. This plan includes rethinking and developing a target operating model to help enable the business strategy within the current organizational and macro environment. Far too often, companies are reluctant to reconsider an initial target operating model or strategy, even when changes in market dynamics, broader organizational strategy, or other external factors call for a reassessment.

Next, delayed integration initiatives must be prioritized in order to realize value and balance their associated cost with the expected benefits. More checks and balances are required before the strategy can be implemented—the vision it presents should be balanced against any competing priorities. This implies developing a bottom-up plan at the function, segment, and regional levels. (After all, the plan has to be aligned with the opportunity to create value.)

To find out whether the integration strategy can be validated against existing operational capabilities, teams should develop bottom-up business cases that align specific value goals with achievable—and measurable—plans. Key performance indicators should be defined at the operating level and should be tracked and reported on proactively to ensure realization remains on track.

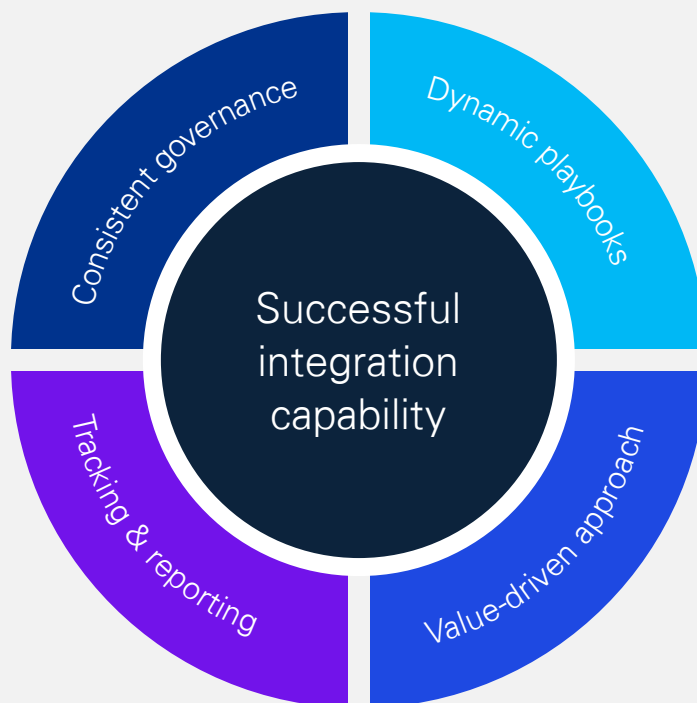
If integration that has been delayed is accelerated via these tactical, analytics-driven initiatives, the payoff can be immediate. Delayed integration is a value-driven exercise that starts from an inward-facing assessment, so we see it as a valuable foundation upon which to develop a playbook for future strategic initiatives—whether external through M&A activity or internal. Toward the conclusion of our process, we work with clients to help design such a sustainable, customizable guide.

The completed playbook should be program-wide and function-specific, and the tools, templates, and training modules developed for it should support implementation and adjustment as the need arises. At a granular level, the playbook should track the KPIs that deliver the value objectives, assess leading and lagging indicators to guide the program overall, and tie operational initiatives directly back to P&L to accurately measure the program's success. Clients will then have a ready-to-go roadmap that is scalable and incorporates lessons learned.



CONCLUSION

While most business leaders expect that M&A activity will begin to pick up in the second half of 2023, companies that may have scrambled to acquire assets when interest rates were lower would be wise to take stock of how well those assets have been integrated. An optimized business portfolio will not just generate previously unrealized value in the here and now, it will provide the resiliency to withstand future economic downturns.



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