



PMI Strategy

Value Creation throughout the M&A Life Cycle

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Learning Objectives

At the end of this session, you will be able to:

- Define key due diligence steps that help the transaction succeed
- Identify key considerations for an effective and productive Day 1
- Identify how to employ a well thought out communication plan to reduce impact to employees, vendors and customers
- Determine if your team has the right skillset and bandwidth to reach your goals
- Indicate how to utilize a systematic approach you can leverage for any type of integration



Agenda

- Introductions
- Current Transaction Environment
- Life Cycle of Deal- 10 minutes
- Pre-LOI/ Due Diligence- 15 Minutes
 - Assessing
 - Communication
 - Planning
- Close- 5-10 Minutes
- Post Close- 15 Minutes
- Closing- 5 Minute



Introductions



Craig R. Arends, CPA
Managing Principal



Tyler Lounsbery, CPA
Principal



Amy R. Moore
Principal

Current Environment

Very Active

Timing for Sellers

Amount of Dry
Powder

SPACS

Other Accelerants-
Tax Changes,
Covid, etc

Pricing





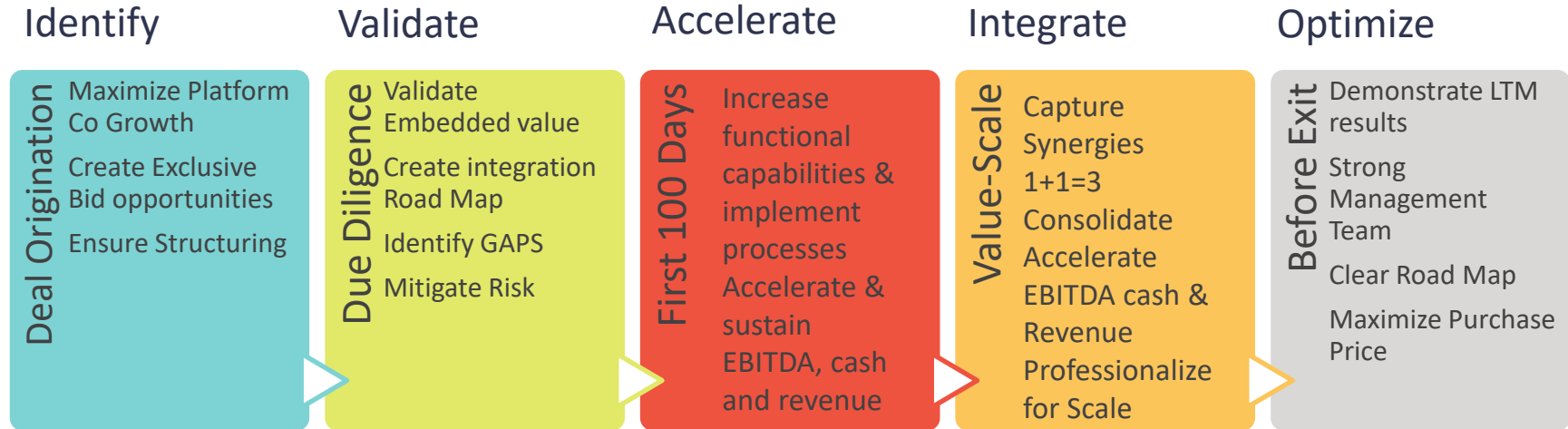
Value Capture throughout the M&A Process

PMI and Due Diligence

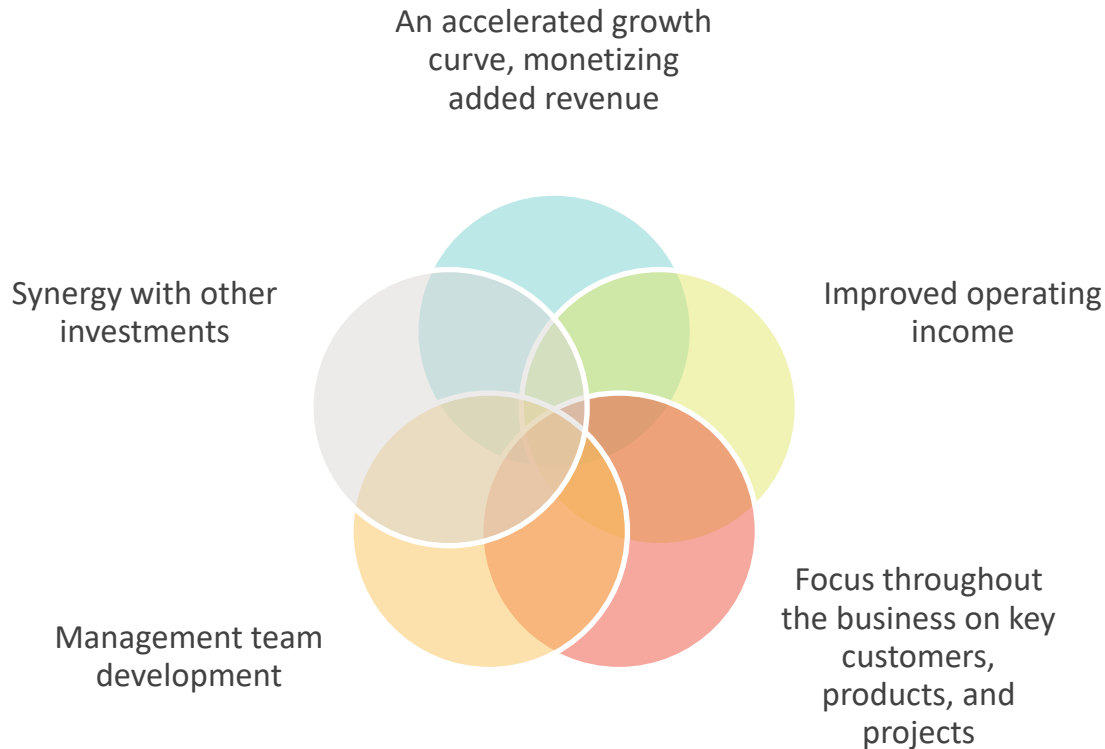
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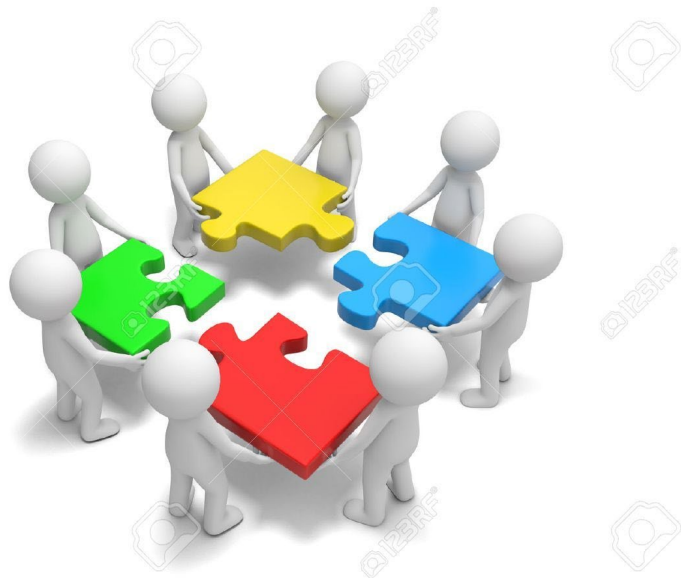
Value Creation Throughout M&A Life Cycle



Common Value Creation Focus Areas in Lower MM



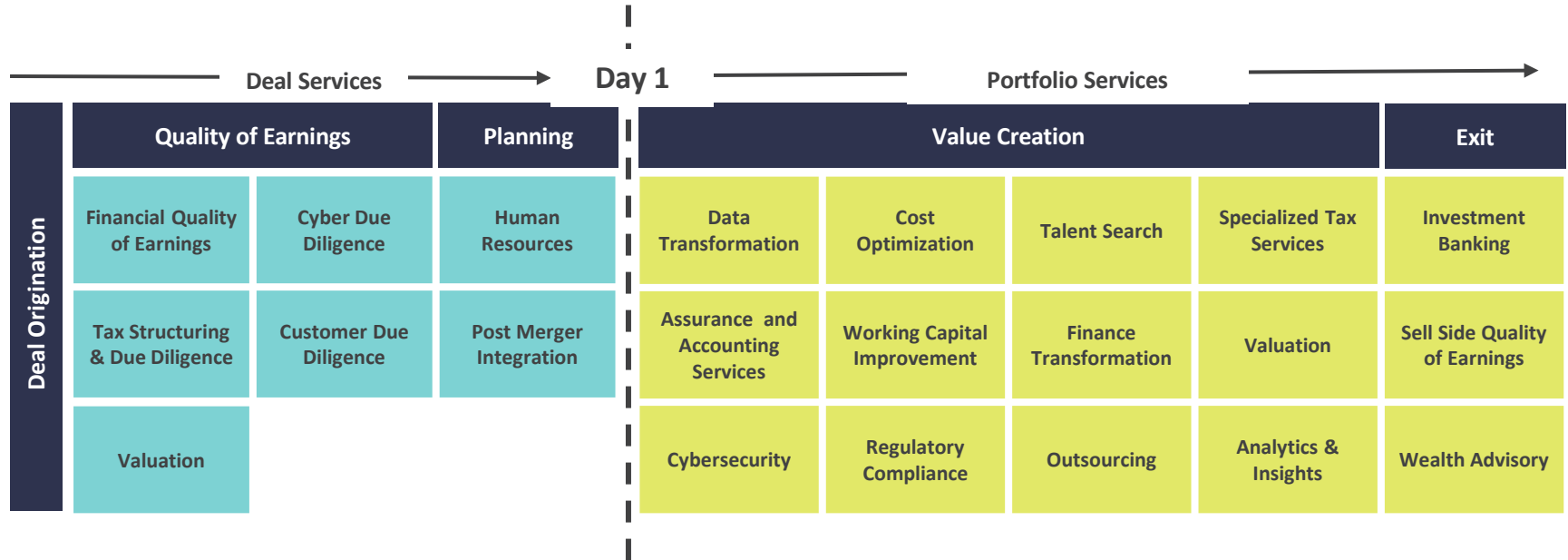
PMI needs in Lower Middle Market



- People, Processes & Technology-
Most times acquired company does not have all the pieces, nor do they have excess capacity to execute
- Acquirer has Vision to create value
- There are no two transactions which need the exact same things, but all benefit from clear strategy, planning and communication



Private Equity Seamless Experience



CLA Private Equity Strategy to deliver the Seamless experience





LOI/ Due Diligence Phase

What is important related to Future Value Creation

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Common Pain Points

- Deal close is not the finish line, it is just the start
- No strategic plan
- Lack of communication between diligence and integration teams
- Due diligence issues identified but no plan to address
- Lack of priority
 - Opening balance sheet (OBS)
 - NWC true-up
 - Earn-out calculations



Leverage the Due Diligence (DD) Process

- Valuable intel obtained during DD
- Effectively utilize the diligence process to refine the strategic value creation plan
- Understand the resources available to achieve deal thesis
 - People
 - Processes
 - Technology
- Understand cultural impact and integration readiness of both acquirer & acquired



Leverage the Due Diligence (DD) Process (cont.)

- Develop plan to fix key diligence issues
 - Required Investments
 - GAAP Compliance
 - Internal control deficiencies
 - Financial reporting deficiencies
 - Tax Considerations
 - Voluntary disclosures
- Identify key priorities and execution timeline



Leverage the Due Diligence (DD) Process (cont.)

- Ensure a seamless transition to:
 - Opening balance sheet
 - NWC true-up
 - Earn-out maintenance
 - Tax filings
- Don't underestimate the importance of these items





Close Day Support Defined Pre-Close

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Tactically Supporting the Deal Closing

- Planning
 - Closing Balance Sheet
 - Inventory, Fixed Assets
 - GAAP financials
 - Net Working Capital
 - Tax Considerations
 - Purchase Price Allocation
 - Cut-Over
- Communication Plan
 - Many times, folks key to the success of the integration are new to the table
 - Clear Simplistic Messaging
 - Consider the Culture of the companies at hand



NWC is Real Money

- Many times lack of planning and communication on NWC creates a distraction
- Clear agreement on Definitions
- Clear discussions surrounding Target
- Clear agreement on True-up Process
 - Ensure people executing understand expectations



Opening Balance Sheet (OBS)

- Understanding of what needs done on close day to support
 - Inventory
 - Fixed Asset
- Most times acquired team does not have experience in the process or required technical accounting
- Good Closing Balance Sheet
- Valuation Support
- Analyzing for Intangibles





Day 1- 100

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Holistic Approach to a PMI

- Maintain or enhance momentum in the businesses (both acquirer and acquired)
- Ensure the customer and employee impact is considered
- Consider effectiveness while accelerating synergies and value creation
- Build the organization and align the cultures to drive the new company forward
- Use the known capabilities to advance the company's competitive position and backfill needs



Crossed the Closing Hurdle, now...



The 6 C's of Day 1- 100



- All have tactical components as well as strategic components
- The acquirer is likely to have a lot of new work, both one time and repeatable. Plan for it.
- Simplify the plan and the communication.



100 Day Plan Should

- Clear Deal Thesis consistently communicated
- Identification of Critical People and Areas
- Transparent and focused communication
- Clear alignment to initial investment rationale
- Increased customer focus
- Early measures to retain key performers
- Decisive leadership changes
- Structured integration management that safeguards ongoing operations
- Clear owners of identified objectives & tasks
- Identify resource needs and gaps



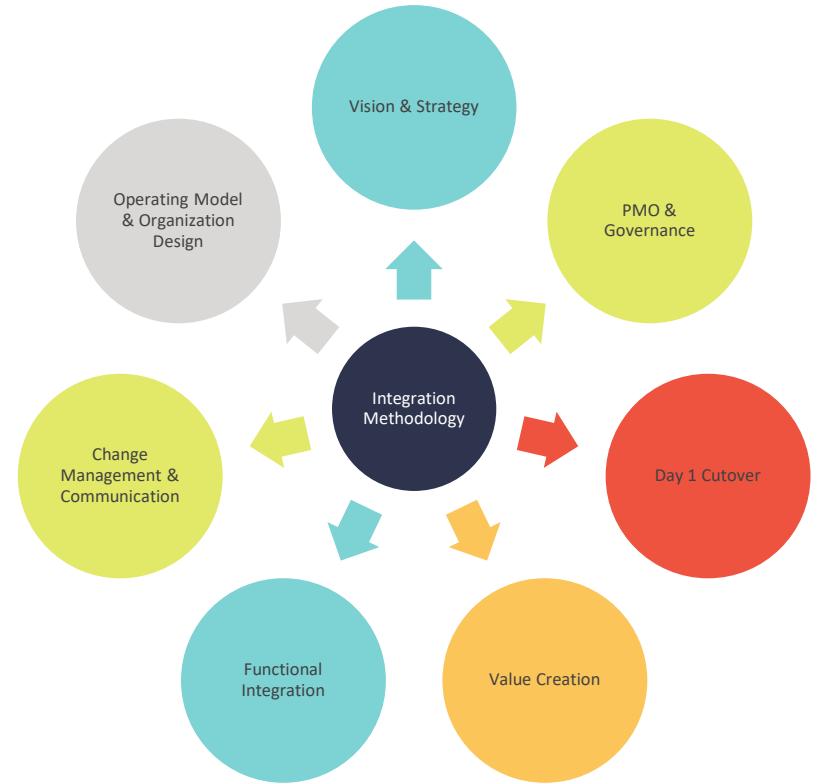
By Operating Unit/ Functional Area

- Each department's plan should assess and note impact to:
 - People and organizational structure
 - Process integration
 - Systems integration
 - Product and customer realignment
 - Synergy tracking



Lessons Learned

- Do not boil the ocean
- Have clear time expectations with buy-in from team
- Set people up for success
- Understand limitations
- Surround team with experienced resources to guide



Tax Considerations

- Develop a clear post-close tax plan
 - Short period returns
 - Election due dates
 - Asset allocations
 - New tax accounting methods
- Monitor tax holdback releases
- Implement corrective measures (e.g., voluntary disclosure agreements, amended returns, penalty abatement, etc.)





How CLA Can Help?

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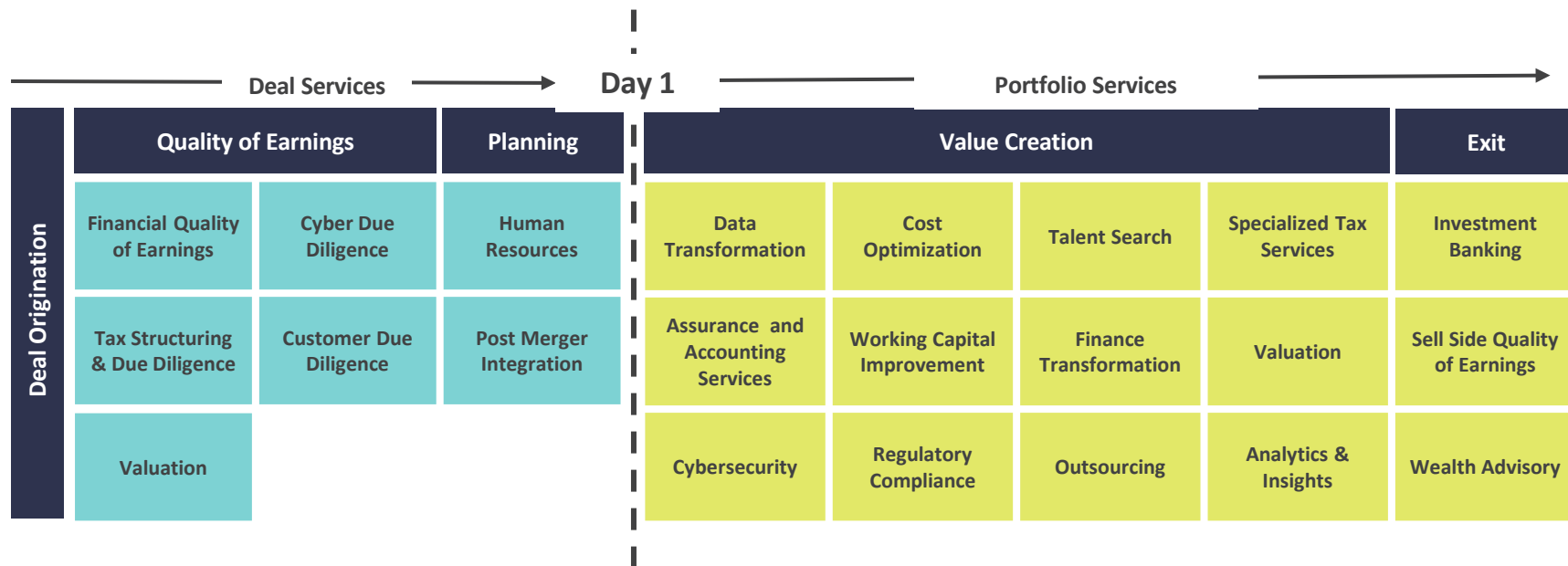
CLA Services Tailored to Needs, Priorities & Scale of Companies



- Our Role can be creating the roadmap, full outsourcing or targeted resources depending on the clients needs
- People, Processes and Systems are Critical Elements to each section



Private Equity Seamless Experience



CLA Private Equity Strategy to deliver the Seamless experience





Questions

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Thank you!

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