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The New Horizon After PMI

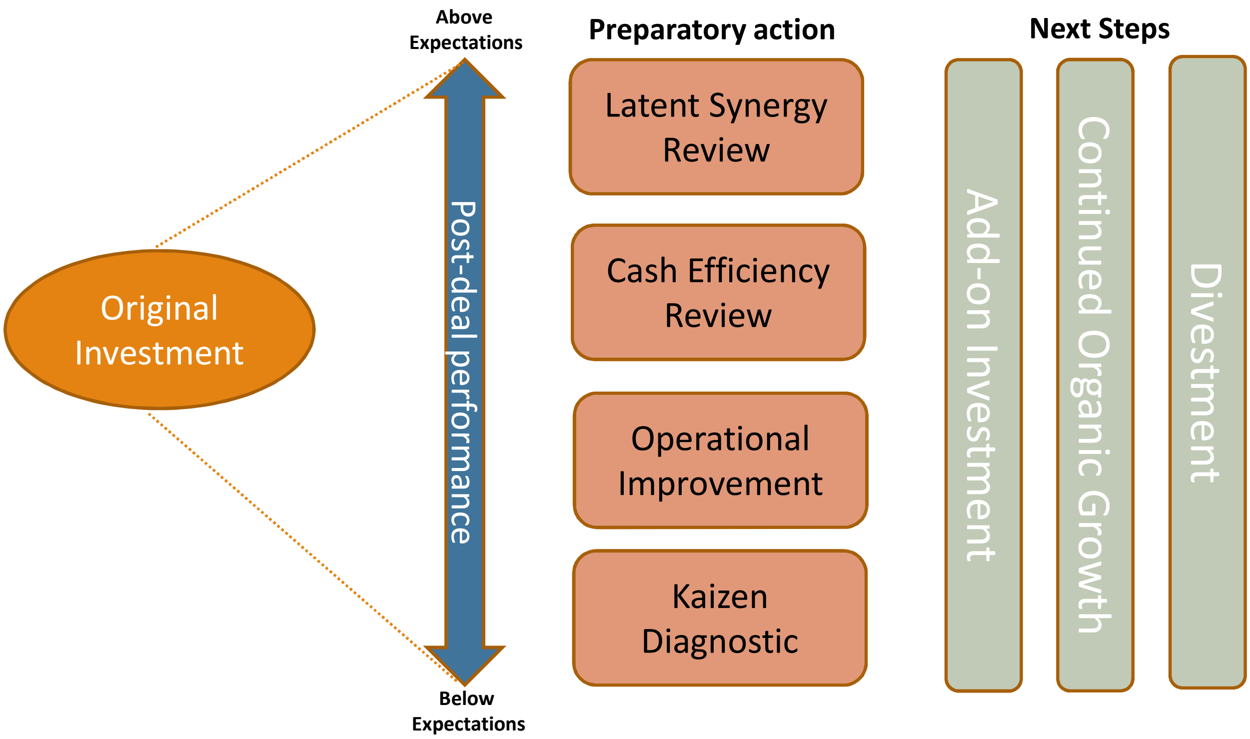
Your guide to continuous growth
maximizing value, and effecting remediation

New Horizons

Despite the challenges and the enormous effort going into PMI, there comes a time of transition from the PMI phase to mainstream operations. However, few people discuss the question of what lies beyond PMI. Your M&A investment is one small step in inorganic growth in a continuously developing strategy of growth and creating value for stakeholders. This value creation does not stop with one deal, it is a continuous process, and while M&A may not be a recurring activity, value creation continues through alternative activities. Following the creation of value through M&A, this can be followed by add-on deals, by focus on organic growth using your newly acquired platform, or to harvest the value through divestment and either return the cash to stakeholders or to re-invest in new value creation investments.

At Crossborder PMI Advisors, we advise our clients to also consider a transition period to plan or prepare for the next stage of development. This gives you a chance to review the performance of the previous investment and the results of your PMI efforts. If performance has gone well there are often residual or latent synergies remaining which shouldn't be ignored. In all operations, periodic reviews should be undertaken to ensure cash efficiency which could help free up cash to help fund the next strategic initiatives. Despite all PMI efforts though, some investments fail to meet expectations. In such cases, a rigorous focus on operational improvement is important, and in the cases of extreme underperformance a more thorough health-check to diagnose what went wrong and what countermeasures or kaizen steps need to be taken to get you back on track.

This brochure explains our approach to the post PMI phase, and sets out how to plans for the New Horizons in your continuous journey of growth and value creation.



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Latent Synergies

PMI is a process of managing core operations while realizing the value of your deal through accelerated realizing of synergies and reduction of risk. PMI is also a time of scarce resource meaning an efficient approach requires close scrutiny and prioritization, undertaking initiatives to achieve that largest part of the value with the lowest amount of effort. Synergy initiatives are prioritized in waves, and even in the most rigorous and disciplined PMI projects, at some time it becomes more effective to fold the remaining synergy efforts in to mainstream operational activities. However, as you develop plans for next steps for add-on acquisitions, or even more-so if you are considering divestment, revisiting these latent synergies becomes an important step in value creation.

A review of latent synergies follows a review of the various synergy drivers and assessing the amount of synergies realized against the maximum possible and developing plans to capture the remaining synergies in advance of the next step. Given the similarity in nature, latent synergy reviews can effectively be combined with reviews for operational improvement or of cash efficiency.

Synergy driver	Consideration
Corporate simplification	• Further de-duplication of excessive head office functions/locations • Increased portfolio rationalization
Property consolidation	• Greater consolidation of multiple activities into single location • Consistent and integrated approach to facilities and management of the estates
Support function integration	• Greater consolidation of back office functions • Single, consistent functional operating models
Process alignment	• Single, integrated polices, standards and processes across the business • Increased process automation • Single, consolidated performance measurement and management
Organization	• Further rationalization and alignment of organization layers • Implementation of common corporate culture and shared values to eliminate silo behavior • Greater alignment between corporate structure, culture and strategy
Procurement	• Increased economies of scale via greater supplier rationalization and creation of improved supplier terms • Greater integration of supply chains and consolidated operating model • Rationalise and consolidate warehousing and logistics
Sales and Products	• Global, collaborative NPD process and effective project management • Consistent and effective project appraisal process • Automated and integrated order taking
Working Capital	• Further integration of cash and treasury processes and cash pooling • Consolidated receivables procedures and collections strategies • Greater visibility and improvement of covenant headroom/burn rates

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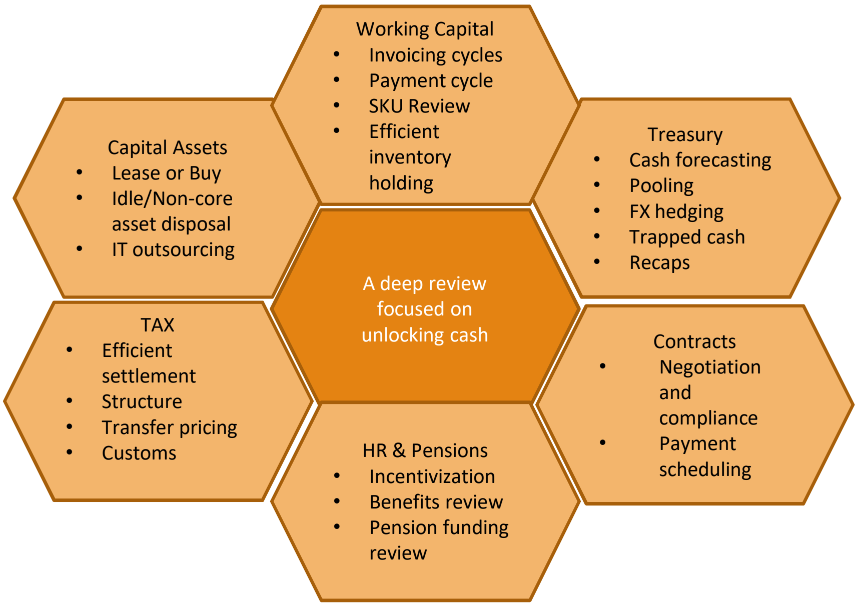
Cash Efficiency

Stakeholders value your business by the cash you provide them. Cash is generated by profitable and efficiently run operations, but the extent and the timing that cash can be made available to stakeholders depends on the efficiency of cash management across a broad range of areas. Value can be lost by locking up cash in inefficient practices from working capital management, treasury and tax, to how it is applied to capital purchases, fulfilment of obligations and application to funding of HR promises. Our approach to cash efficiency enables you to create value, by a deep review of cash application within the business enabling maximization of free cash available for distribution.



Operational Improvement

A synergy can be considered as an operational improvement arising from opportunities created by a deal. In the absence of M&A, the same drivers form the basis for operational improvement or business turnaround. These drivers come from adopting best practice to drive efficiency, optimizing facility footprint, supply chain, and practice, optimizing product portfolio and business practice, revenue and channel improvement, cost and cash flow streamlining. Improvements are facilitated by enabling functions, and executed by robust change management

Operational improvement at a glance

Drivers	Efficiency	Footprint	Optimization	Revenue growth
	Supply Chain	Overhead reduction	Working Capital	Sales Channel
Enablers	Enablers: Finance, HR, IT etc			
	Environment. Social, Values			
	Program and Change Management			

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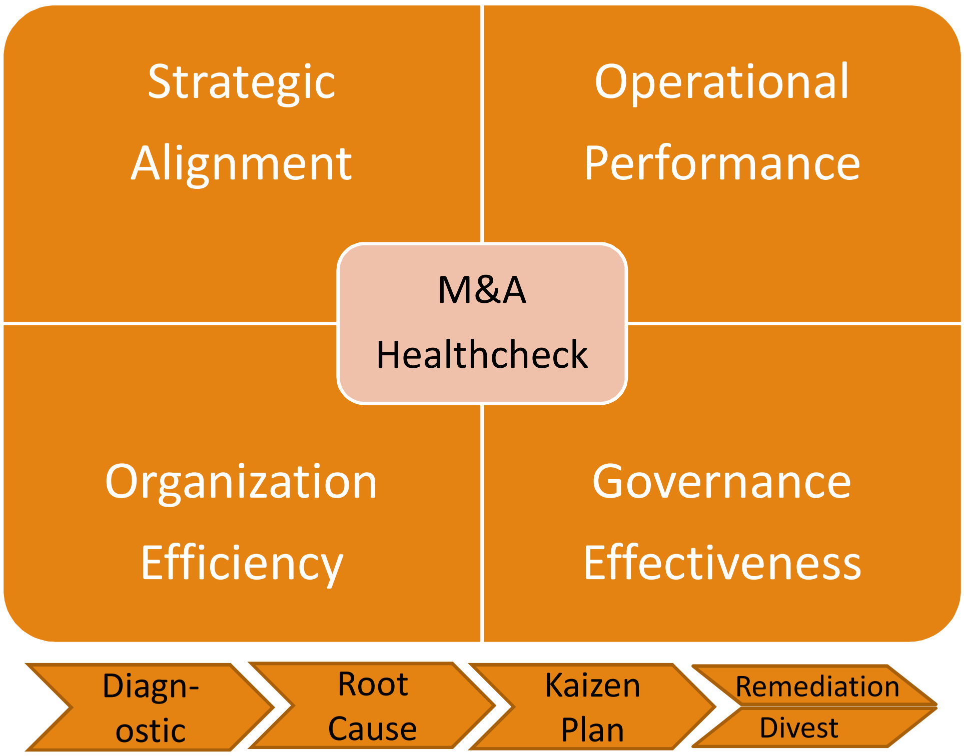
Under performance

In reality, things can and do go wrong. These can be a result of a combination of both internal and external factors and some are not controllable. The success or failure of PMI does not rely on methodologies or task lists but depends on people, including the people at the target. Frequently, however, people responsible for the initial investment, try to down play underperformance, either because this reflects on their own performance, or it is counter to the positive message of progress. When things begin to not go as well as planned, it is important to quickly get to the root cause and develop countermeasures. Some signs that issues are development are frequent surprises or lack of understanding of the acquired operations, the lack of visibility of issues and performance on a timely basis, and stubbornness or a lack of action or response taken by target management to communications from the parent.

The response is a kaizen diagnostic we exams the PMI process and the gap between original expectations and actual circumstances. While operational performance may be disappointing, this may only be a symptom and the real issue may not be operational. Problems arise from lack of strategic alignment, for inefficient organization and communication, or through ineffective governance or leadership. In cross-border deals these issues are exacerbated by the impact of cultural differences and the difficulties in effective communication across languages.

These M&A Health-checks are best part of a continuous process and modification to an approach is much easier done over time that disrupting operations with a further major turnaround event.



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