BRIEF

Setting the course for maximum value creation

Essential strategies and tools for 100-day plans

Introduction

The first 100 days following an acquisition are a critical period for the private equity firm and their newly acquired portfolio company as the focus shifts from investment closing to preparing for long-term value creation. PE teams and portfolio company management have a short window in which to rapidly address a variety of issues that span operational improvements, sales channel and new market expansion, IT system upgrades and reporting system changes. As the hold period clock starts ticking, every week counts.

Collective experience has proven that most successful value creation plan implementations focus on four key practices that improve the chances of meeting or exceeding expected value.

1 Prioritize people

Given the rigors of the acquisition process and how much work goes into closing a deal, management of the newly acquired portfolio company often does not have the bandwidth to tackle all of the important post-close action items on their own. For staff to successfully pivot and support the new business goals, private equity firms and management teams should address key human capital issues immediately. This allows employees to shift their focus from short-term disruption to implementing the changes that will lead to value creation.

Prioritize human capital issues by focusing on these areas:

- **Change management.** Take the time in advance to determine how ready the target organization is for change and what funds will be needed to minimize employee disruption and retain essential staff. This could include everything from employee reorganization and salary adjustments to retention bonuses and severance packages.
- **Staffing considerations.** If job eliminations are part of the plan, act quickly so fear does not taint the entire enterprise. Reassure the remaining staff that their positions are safe, but expect some inevitable turnover. Identify those "can't lose" employees and develop a plan to keep essential talent in place. Bring on additional resources, full time or external, as needed to help existing staff avoid burnout and to increase bandwidth in key areas that need additional support.
- **Transparency.** Articulate the goals of the new organization, the key steps that must be taken along the way and the tools that will be provided for success. The most effective excitement and momentum builders after the acquisition are candor and a solid road map.

2

Install a transformation team

It is crucial to establish a team that will oversee the execution of the newly established value creation plan and work to keep projects on track. Team members will establish task and resource priorities and manage any conflicts that arise between cross-functional teams. They will also provide management with a definitive source of leadership and assistance. Effective transformation teams bring a positive energy to the change management process and maintain a tempo to drive end-goal achievement.

Transformation teams have many responsibilities, but the following are four of their most important:

- **Come prepared.** Perform adequate diligence on IT, cyber and other key areas. Identify the necessary items to remediate risk and the opportunities to create value before the acquisition. Build management buy-in during the closing period.
- **Share the value creation plan.** It is essential to articulate the blueprint for change so that leadership and key personnel involved in the integration and improvement work understand the multi-year process. This includes outlining and sharing specific timelines and deadlines, responsibilities and ownership, and key goals and metrics.
- **Monitor and measure frequently.** Weekly interaction between the private equity firm and management allows the transformation team to immediately determine if any project is veering off course and to take corrective action as soon as deviations from the plan are first detected.
- **Bring capabilities and resources to bear.** Common issues that arise during the first 100 days include talent shortcomings, increased staff workloads and having to acquire or upgrade key technology solutions. Transformation teams can help by reporting the challenges they see and working with the PE firm and company management to obtain financial resources for retention and recruiting, as well as access to consultants, functional specialists, preferred partner pricing and established vendors.

3

Level up communications

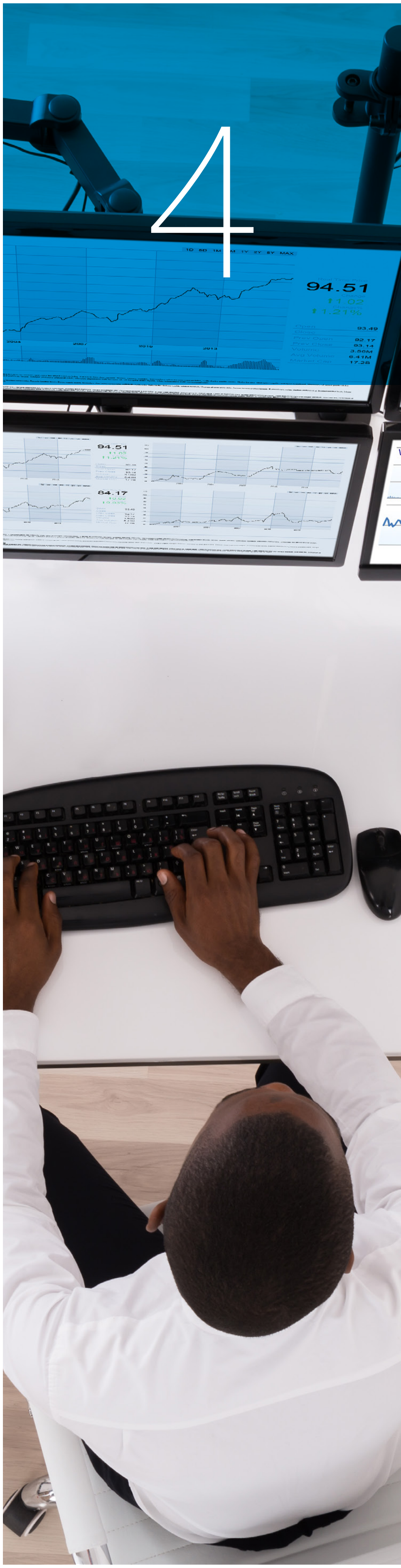
As the new portfolio company begins addressing the value creation plan, frequent and elevated communication at all levels becomes a critical tool for sharing key information, motivating employees and celebrating achievements.

Consider these tactics:

- **Hold frequent, in-depth meetings to stay on track.** Daily stand-up meetings allow the private equity firm and company management to engage in fast-paced status reviews of objectives, tasks and accomplished goals. These sessions should be designed to encourage action and remove roadblocks, but they will have the added benefit of connecting cross-functional teams.

- **Expand employee communications.** Regularly communicating key information will help staff feel included and keep them focused on successfully accomplishing established priorities. Giving them access to basic KPI dashboards so they're aware of the number of new clients served or systems onboarded offers a sense of inclusion regarding ongoing projects. Additional methods to communicate progress might include town halls, daily updates or email blasts. When determining which communication methods would be most effective, consider the unique culture of the portfolio company.

- **Speak with one voice.** Post-close, there are no longer two entities—the private equity firm and management are now working toward the same goals. To this end, it is critical for management to positively buy into the plan, own the goals and move efficiently into the execution stage, all while conveying confidence in the long-term strategy. Employees will notice any incongruent communications, so a unified voice is essential.



4 Monitor and measure

Deal success requires maintaining a laser focus on reaching key performance benchmarks. Keeping the plan moving toward its ultimate goal takes a disciplined approach that incorporates these four action items:

- **Communicate clear expectations around goals.** Management and staff must understand what milestones they need to meet and how to reach them before they can achieve them. Any projects identified during the diligence phase and management meetings need to be carried through to programs and all deliverables should have clear outcomes. Setting key performance indicators early in the process and communicating your purpose and strategy from the top down will foster team alignment around business objectives and help drive success.
- **Track progress and measure performance against milestones.** Develop recurring reporting and dashboards and circulate them with the broader team to instill a culture of transparency around goal progress. If using a cost-out approach, be sensitive to the concerns of team members but don't pretend it isn't happening. Regular and accurate reporting is critical to help keep employees engaged during a merger or acquisition. Consider offering incentives aligned to performance, which can serve as a powerful motivator when used properly.
- **Establish and enforce accountability standards.** Use frequent check-ins to keep people informed and on track. If deviations from the plan are detected, identify the problem that must be solved and act fast, as a delayed response can kill a deal. Using clear and accurate reporting that was established and benchmarked before the close will help motivate team members and keep them accountable in their role.
- **Pause, reflect and adjust as needed.** Integrate mindfulness into project and program management to know when to make a course correction, then move quickly to minimize disruption and realign resources. Time is of the essence when seeking to capture value from a deal, as some employee turnover is to be expected following a transaction. Make sure the team understands the end goal by communicating the decision rationale and being transparent about forthcoming changes. Provide the why or vision when setting direction to help maintain team engagement around goals, and offer incentives to key resources and departments to motivate and help retain top talent.

Private equity firms know that the first 100 days following an acquisition are a critical transition period that sets the stage for creating value tied to the investment thesis and planned exit. They also understand that having structured tasks in place and executing them efficiently will get the portfolio company to compounded growth sooner, which provides the strongest possible outcome at exit. The practical steps outlined above, when put into practice in a rigorous and disciplined way, will help firms derive maximum value from every deal.

Start early. Bring in a transformation advisor.

RSM's decades of experience in helping drive transformation on private equity deals can help PE firms jump-start the process so they can begin driving post-close change from day one. Explore the capabilities all companies should seek to push deals over the finish line and accelerate value creation.

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