



# Successful Due Diligence

How BCG Supports Strategic Due Diligence

This brochure—one of a series of eight describing BCG’s capabilities in deal transaction and integration—underscores the importance of strategic due diligence to every acquisition.

Strategic due diligence is the process of probing, pinpointing, and prioritizing the key issues that affect a potential acquisition target. It connects to other acquisition phases such as target search, explains the risks of not properly carrying out due diligence, and uses compelling case studies to demonstrate the benefits of following a rigorous, proven, fact-based methodology to ensure that the deal creates lasting value for the acquirer’s shareholders.

While acknowledging that every due diligence initiative is unique to the target, the prospective acquirer, and the prevailing economic environment, the brochure details three phases that lead to a realistic, neutral assessment of the target and the deal, enabling a sound decision on whether or not to make an offer.

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# Introduction

Just as a property buyer must assess the integrity of the roof and the propensity for leaks in the basement, so must an acquirer probe into every aspect of the company it is interested in buying. This brochure describes the importance of strategic due diligence to every deal.

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Some years ago, a large department store operator was forced to sell at a steep discount the retailer it had paid for handsomely less than three years earlier. The acquirer had believed that it could leverage the target's access to millions of customers, its prowess in database management and direct marketing, and its strong internet position. However, it had failed to properly understand its target's business model. In particular, the buyer's subpar due diligence did not uncover the differences between its market and the target's market; nor did it reveal the risks of poor sales performance or the low likelihood of the synergies that never materialized.

That true story underscores the importance of due diligence to every deal. Once an attractive target is in view, it's time to begin the strategic process of probing, pinpointing, and prioritizing the key issues affecting that target.

There are several strands of due diligence that weave together: the financial due diligence carried out by investment banks and accountants, the legal due diligence managed by law firms, the technology or environmental aspects assessed by experts in those fields, and—most importantly—the strategic due diligence that digs deeply into the key business questions.

Doing strategic due diligence well is just as important. Poor deal preparation is a leading reason why as many as 55% of all M&A deals actually destroy shareholder value. Research by Boston Consulting Group reveals that deals often fail because the target company turned out to be the wrong candidate, or its strategic fit was not clear, or the price paid was too much. All of those failure points can be mitigated—and ideally avoided—with an effective due diligence process.

Essentially, strategic due diligence is a rigorous, iterative process of raising and then addressing critical questions. How attractive is the target's market? How does its performance compare to that of its leading competitors? Is the target too reliant on one major customer? How financially secure are its key suppliers? What is the caliber of its top management team? What hard-to-see vulnerabilities might diminish its value?

Answers to such questions are what enable a prospective buyer to assess the target's long-term value. Due diligence also examines the synergies of the potential deal, digs deeply into the target's business plan, and reviews the deal's feasibility—the investment required, the realities of retaining the acquired company's talent, and so on.

No two strategic due diligence projects are the same, of course. Each is unique to the target, the prospective acquirer, and the prevailing market and economic environment. BCG's approach to due diligence reflects those realities. Rather than run through a standard checklist of items—which can lead to deal-breaking gaps in analysis—our experts draw on deep experience to focus on the target's key issues. We apply a well-defined methodology and standardize our processes and documentation to give a predictable look and feel to our results. Our close analysis enables us to thoroughly assess the business case for the acquisition—and challenge it, as needed.

The result is a professional, realistic, and neutral assessment of the target and the deal, allowing for a rational, well-considered decision on whether or not to make an offer.

# BCG Has Sharpened the Strategic Due Diligence Process for Many Clients. Imagine What We Could Do for You

Almost all potential acquirers conduct due diligence on targets, typically bringing in outside expertise to help with the strategic process as well as the financial, legal, and more specialized aspects.

However, that is no guarantee that strategic due diligence will be carried out properly. In the rush to get a deal done, an acquirer may succumb to the temptation to take shortcuts or default to ad hoc approaches. Simply using a cookie-cutter approach adds little or no value and may actually increase the risks of the deal failing.

Because every deal is unique in almost every respect, BCG never resorts to such standard approaches. Acknowledging each client's circumstances, we blend our fact-based analytical, strategic, and industry perspectives with a willingness to challenge conventional wisdom, supported by deep knowledge of the client and its markets.

Our rigorous client-centered approach owes much to our decades-long experience with acquisitions: In the last two years alone, we have worked on more than 1,200 buy-side M&A projects worldwide—and every year, we conduct hundreds of strategic due diligence projects.

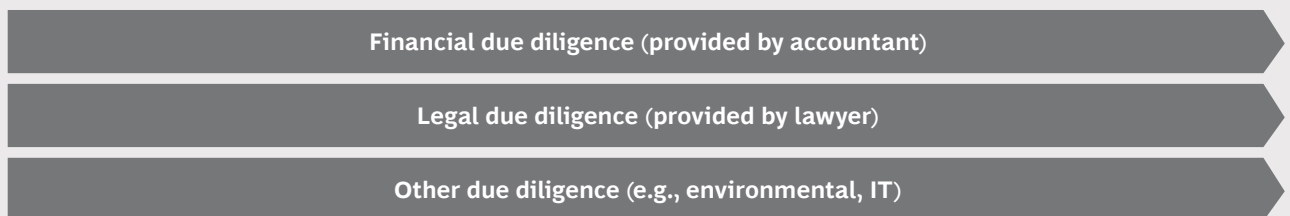
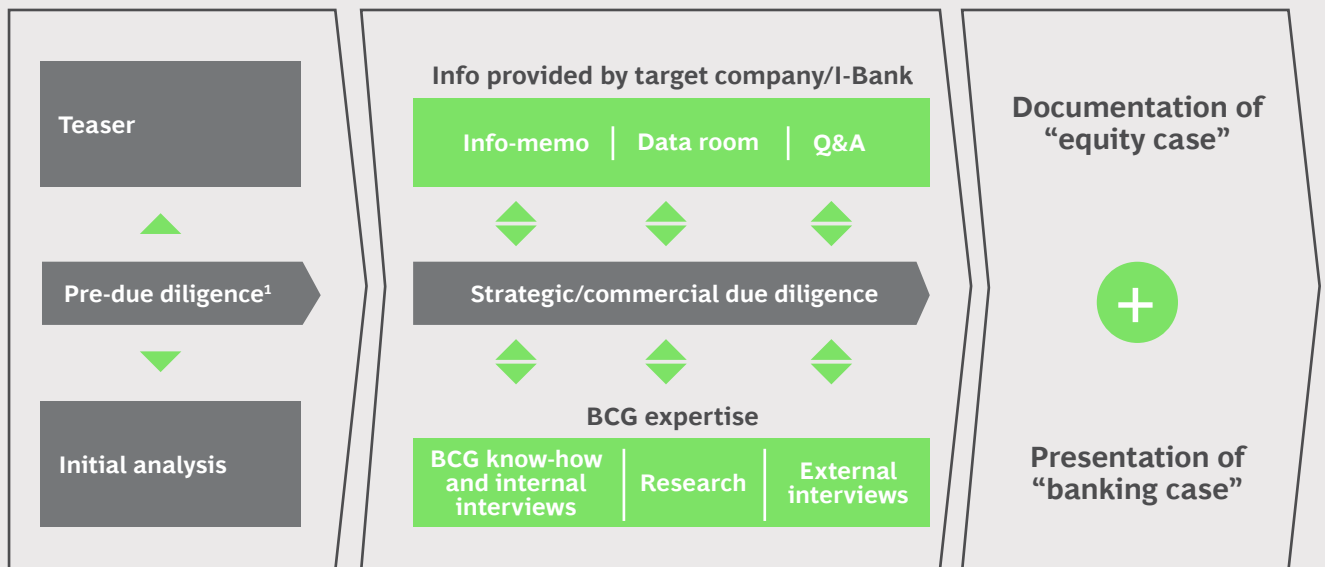
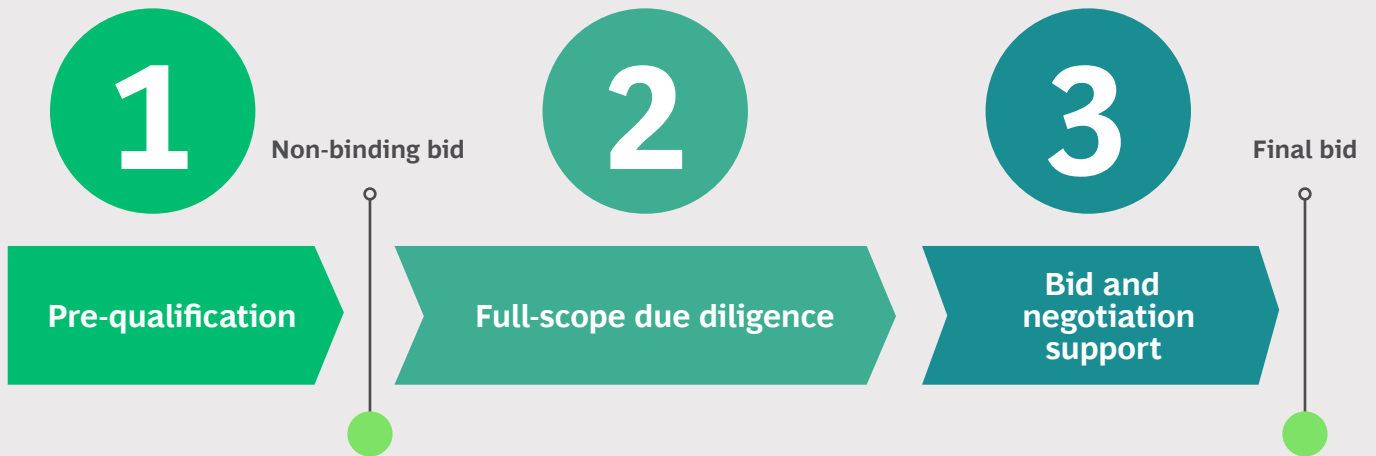
We also bring an unmatched holistic perspective to our work. BCG stands apart because of our end-to-end offerings, ranging from corporate strategy and M&A strategy to target search, strategic due diligence, and post-merger integration.

Throughout the strategic due diligence stage, we interact closely with the client just as we do in every aspect of our involvement with M&A. We work at pace, always striving to keep our clients ahead of the competition in the deal process. And, we continually emphasize accuracy and completeness, applying a range of tools and techniques to accelerate and reinforce the effectiveness of the process.

Indeed, advanced analytics are at the core of our due diligence approach. We use powerful digital tools in every due diligence engagement to gain truly novel insights. For example, we apply analytics software such as Tableau and Alteryx to turn data into truly novel insights. To size markets, we leverage our proprietary geoanalytics tools, combining client and public data to create dynamic graphic maps that can unlock new perspectives and spark fresh discussion. To pinpoint and more fully reveal customer sentiment and innovation trends, we use Quid, an artificial intelligence platform that extracts contextual meaning from any form of written content.

That is just a small cross-section of the tools at our disposal. Beyond that, we also collaborate closely with BCG GAMMA, our advanced analytics and data science consulting unit, to come up with customized solutions for cracking the most complex analytical problems.

BCG divides the strategic due diligence process into three practical phases



Source: BCG

Let's review each phase in detail.

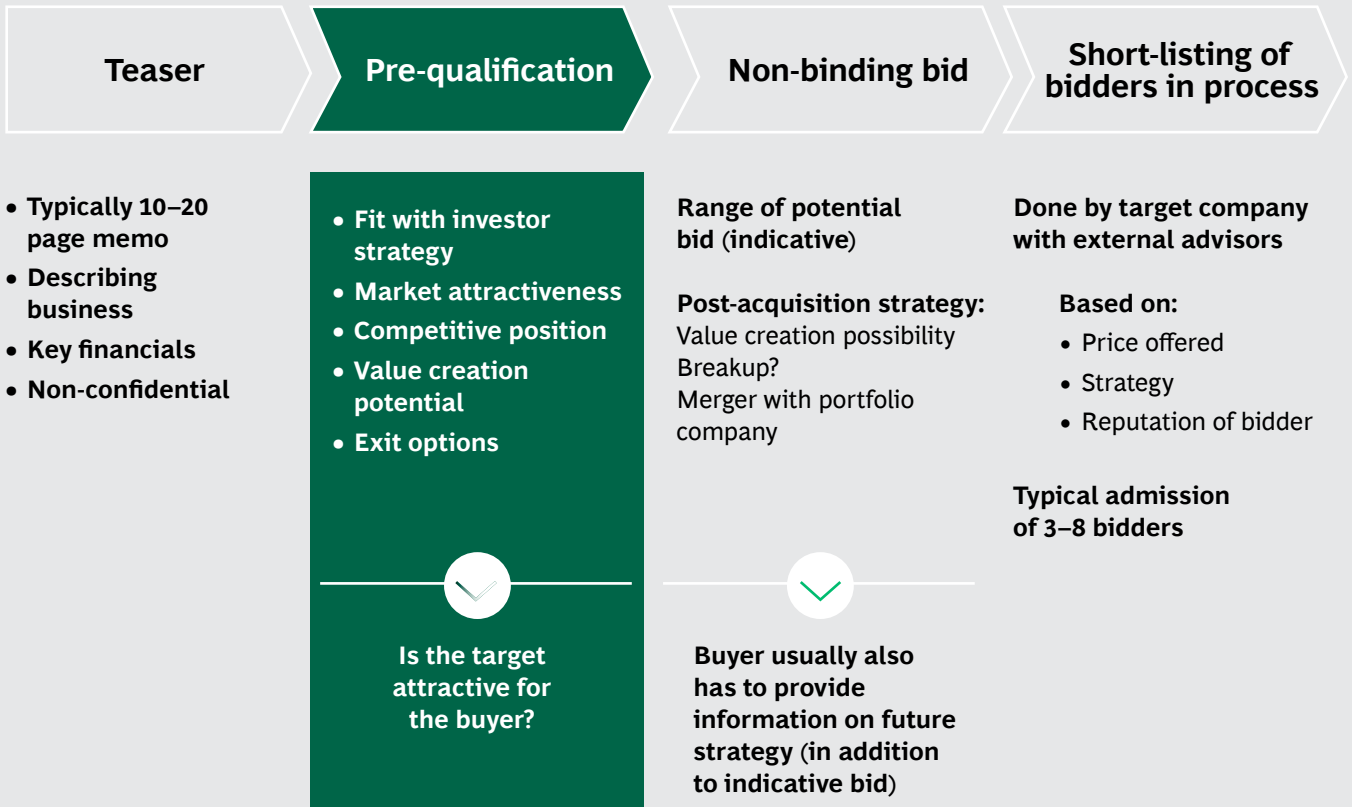
# 1

## Pre-qualification

In terms of analytical depth, this phase sits between the screening done in the target search and the full-scope due diligence described in Phase 2. It typically takes between two and four weeks to complete.

The Phase 1 activities can be thought of as due diligence in miniature. The intent is to identify deal-breakers or red flags as early as possible, and to do so before fully committing to a deal and spending the significant time and resources required. At this point, access to information on the target company is still quite limited; there may be just a teaser (a 10–20 page memo usually prepared by the investment bank that describes the business and its key financials) or, at most, an early discussion with the target company’s management team.

Pre-qualification due diligence can determine “back-of-the-envelope” target attractiveness



Assuming those inputs are available, pre-qualification combines that information with external data from databases and expert interviews, or with the data uncovered using advanced digital tools. If, for example, the target is not officially for sale or the sales process has not yet started, this phase has to happen outside-in." BCG excels here: Drawing on our own comprehensive benchmark databases, our global network of industry and functional experts, and our proprietary digital tools, we blend those factors with our creative and proactive access to third-party knowledge bases, and regularly uncover insights that are easily missed by others.

In one recent scenario, a company was interested in acquiring part of a US business—a subsidiary that was nominally not for sale. BCG was engaged to conduct pre-qualification due diligence to get discussions started and do an initial assessment of the prospective deal. Combining the resources noted above with only half a dozen basic financial data points gleaned from the US parent of the target, we quickly built a profit-and-loss estimate and provisional business plan, including measures to drive growth, reduce costs, and estimate initial synergies. This allowed the company to substantiate its initial valuation and be seen as a credible bidder as it engaged with the seller to advance the deal.

Whatever the mix of inputs, the resulting insights help to determine just how attractive the target is, based on its fit with the prospective acquirer's corporate strategy, the opportunities and upside in the target's market, how it stacks up next to its competitors, and what potential it has to create lasting value. Additionally, pre-qualification can unearth the exit options available to an acquirer, a factor that is particularly important to financial investors such as private equity firms. The outputs of this phase help our clients prepare their bid and get them short-listed for the next phase of due diligence—or, just as importantly, help them decide not to pursue the deal.

## BCG ADDS VALUE IN THESE WAYS:

**Clear focus:** Based on our deep industry expertise and comprehensive deal experience, we know exactly where to probe a target to differentiate what is the tip of the iceberg and what risks—and opportunities—lie below the water line.

**Full toolkit:** We bring the range of capabilities required for a rapid and focused assessment, from strategic due diligence best practices and deep benchmarking data to the most advanced digital tools and hands-on insights from senior industry experts within our global network.

**Rapid mobilization:** Once a deal goes live, time is of the essence. Our teams consistently stay ahead of the deal pace, ramping up at short notice and working to ensure that our clients remain in front of potential competitors in the deal process.



# Real Deals, Real Results: BCG Provided End-to-End Support for AbbVie's Acquisition and Integration of Allergan



With its blockbuster drug Humira losing patent protection in a few years, pharmaceutical giant AbbVie needed to diversify its drug portfolio. Besides conventional treatments, it was looking for products in high-growth, innovation-driven, price-stable categories.

After a broad search of opportunities, it focused on Allergan, another multi-line pharmaceutical company with a specialty in medical aesthetics. The Allergan board accepted the offer at a price of \$63 billion, with the deal announced on June 25, 2019.

To succeed, the deal needed to give AbbVie substantial cost savings, estimated at \$2 billion by year three, and then sustained revenue growth after Humira lost exclusivity in the US in 2023. AbbVie's profits in the short term would pay off most of the debt from the deal. Besides rejuvenating its portfolio, AbbVie also expected to boost sales of Allergan products with its commercial expertise and international infrastructure.

To achieve those ambitious goals, BCG helped AbbVie to carry out extensive pre-close integration planning. It actively supported the integration management office, supported the integration teams, and tracked progress toward the company's integration goals.

The priority was to pursue critical sources of value, especially Allergan's strengths in aesthetics. To help retain talented employees from both organizations, the integration teams decided on many future positions before the close, including an Allergan executive on the AbbVie senior team.

AbbVie didn't simply fold Allergan into its existing structure. The latter's aesthetics business became the centerpiece of a new global business unit. That led to decisions on which support functions to place in the unit, and which would come from AbbVie headquarters.

On the cost side, the integration teams went deep into the details to achieve savings through consolidation of infrastructure and rationalizing of investments, particularly in the R&D pipeline. BCG also helped the teams with change management, coordinating wide-ranging plans to help teams across the enterprise adapt to new processes and ways of working.

The coronavirus pandemic hit before the close on May 8, 2020, less than a year after the deal's announcement. But with intensified communication and collaboration, the integration work stayed on track, with a happily uneventful close, smooth post-close operations, and continued strong business performance.

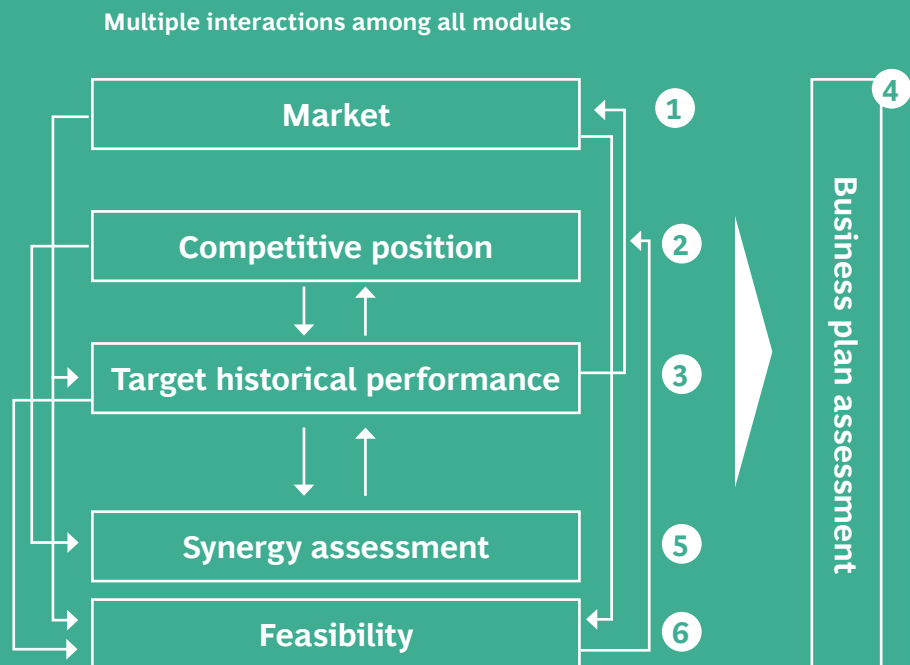
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## Full-scope due diligence

In this phase, sleeves are rolled up to dig deeply into the target’s business plan, its market, its historical performance, and its potential synergies with the possible buyer. Notably, this is not just a detailed market study or an operational assessment; it yields a granular, contextual view of the target. Phase 2 also takes a hard look at the feasibility of the deal. This phase typically takes another four weeks, although some cases can stretch beyond that.

The work of strategic due diligence falls into discrete modules, all of which are interconnected.

### Full-scope due diligence modules



The first three work modules—market, competition, and historical performance—are prerequisites for the fourth: assessment of the business plan. They are regularly supplemented by the last two modules covering synergy potential and deal feasibility. Each merits a closer look.

## MARKET

This module examines the market in which the target operates (in terms of applications, geographical regions, customer groups, etc.), and how that market is expected to develop. The module is the foundation for the whole strategic due diligence exercise, providing an estimate of underlying growth potential for the target and answering two fundamental questions: Is the target positioned in an attractive market environment? Are there any deal-breaker threats beyond the horizon—for example, technology changes that could undercut the current market?

This module is crucial not only for private equity firms that can benefit from BCG's industry expertise and analytical capabilities to correctly define the relevant market and assess its expected growth, but also for corporate buyers that are entering new geographies, new market segments, or even entire markets. Even in situations where executive management has deep market expertise, it often helps to have external validation to add credibility with internal stakeholders such as the board of directors or third parties such as financing partners.

Market analysis typically involves drawing on a range of primary and secondary sources, from interviews with internal and external experts to market studies and company and industry databases. Such inputs are especially valuable when exploring niche markets; for complex sectors such as software development, expert input is almost always necessary to developing a full understanding of the industry. Even in seemingly well-defined markets such as

consumer electronics, triangulation of the various sources may yield new insights or at least ensure that alternative views are taken into account.

A detailed market model should be at the core of this module, providing granular forecasts of market size and growth trends—in terms of both volumes and prices—and, importantly, incorporating the drivers of each trend. The model is fed with interview results, third-party data, proprietary knowledge, and other sources to provide a robust yet flexible prognosis for the target's market outlook and for the market's related downside risks—or upside potential. At a more macro level, it is supplemented by a detailed analysis of trends over time, including market cyclicalities, technological shifts, regulatory changes, and other potential disruptions.

The robustness of the market assessment relies heavily on the quality and breadth of sources available. Here, BCG stands apart thanks to its array of industry and other databases, its vast network of expertise, and its unique access to a wide range of third-party market-assessment tools and techniques.

Further to that point, this module benefits greatly from BCG's use of advanced digital tools. In one case, we put our proprietary geoanalytics tools to work to comprehensively assess the full-store roll-out potential of a design product retailer. In another market module exercise, we used the Brandwatch social listening platform to quickly pinpoint a target's customer pain points.





### COMPETITIVE POSITIONING

The second prerequisite module looks at how the target is positioned relative to its competitors as seen by customers and other market participants, and what this implies for its future performance relative to development of the underlying market. It helps to answer questions such as: How does the target differentiate itself? How intense is the competition? How sustainable is the target's competitive advantage?

As with market analysis, the views and opinions of experts are central to getting a detailed picture of the target's perceived performance and that of its competitors. This qualitative—and subjective—information needs to be fleshed out using secondary sources and benchmarking, and, especially in markets with a fragmented customer base, should be supplemented by broader surveys and digital analytics to ensure a comprehensive perspective.

Pulling together insights from such a disparate range of sources can yield novel and surprising insights: A target's proclaimed and universally acknowledged technology leadership may not matter much to customers more focused on getting a “good enough” product at the best price; or a company's longstanding excellent reputation may have been wrecked by recent efforts to cut costs by reducing customer service.

Beyond the focus on a company's perceived positioning, it is also paramount to get a thorough understanding of the broader competitor landscape, market structure, and competitive dynamics. While these are mostly outside the target's control, they can have a significant impact on industry-wide profitability levels and market-share trends—for example, in the form of new market entrants threatening an incumbent's position.

Again, BCG's use of digital tools—including our own proprietary software—is crucial to obtain a comprehensive view beyond the conventional due diligence toolkit. In one instance, we used Quid, advanced analytical software that extracts meaning from any kind of written content, to identify investment clusters in order to predict a target's expected competitive density and likelihood of market entries. In another example, we leveraged Similarweb to rapidly analyze a target's number of unique visitors per month compared to those of its competitors and best-in-class brands to create a proxy for the target's online presence and its digital capabilities. And, by drawing on databases such as Crunchbase and Google Patents, we created an in-depth view of a target's technological positioning compared to that of its competitors and to broader innovation activity and trends.



### TARGET'S HISTORICAL PERFORMANCE

The third prerequisite module studies the target's performance over time. This involves scrutinizing both its commercial performance and its operational track record.

Commercial performance focuses on top-line and gross margin developments and their drivers—essentially how well the company is performing in the marketplace. Typical analyses can include looking at price dynamics, customer portfolio-related risks (e.g., dependencies on a few customers) and trends, and a differentiated, granular view of revenue development in categories such as geographies, product groups, and distribution channels.

Operational performance is concerned with cost development and the cash intensity of the business—its ability to translate marketplace success into sustainably high profitability and cash flow. The review of operational performance can involve assessing the development of

various cost ratios, operational KPIs, and capital spending, as well as technology development and other factors.

While this module relies mostly on data provided by the target and its financial advisors, supplemented by discussions with its senior executives, digital tools can also play key roles. For example, they can quickly help tease out sales and profitability trends in an industrial supplier's complex product portfolio spanning thousands of products and variants; or, for a retail business, they can provide a visual perspective of store performance in the context of local market development and competition.

Analyzing the target's historical performance is a prerequisite for any serious business plan assessment. It also ties back to the market and competitive positioning modules whose outputs help put the company's historical performance in context.

## BUSINESS PLAN ASSESSMENT

This module is the culmination of the due diligence effort. By drawing on the insights from the preceding modules, it provides a balanced and objective assessment of the target's growth prospects and potential for value creation.

Specifically, the business plan module gauges the feasibility of the target's business plan and reveals its key risks and any additional upsides, forming a view of how the business is likely to perform over the forecast period. This includes analysis of the underlying drivers in the plan, including revenue and margin development across regions and business segments.

Those data points are then benchmarked against historical performance, underlying market development, and the company's competitive positioning, and are supplemented by assessing the strategic initiatives and measures that underpin development of the plan. The goal is to weigh the evidence for projected development in the "base case" and, if necessary, come up with an alternative view or even a range of different scenarios.

One practical example could be a target company operating in a growth market that has lost ground against competitors in recent years due to its operational problems; the company now plans a significant turnaround, implying that it will achieve big gains in market share. Without substantial evidence for this implication—in the form of proven sales initiatives or positive customer feedback, for example—the company's credibility would have to be questioned and a potential discount applied in the acquirer's own model for the target.

However, the focus is not purely on risks and their likelihood. A key element of this module is also the identification and quantification of further growth opportunities and upsides above and beyond the plan.

The conclusions and quantitative results from the business plan assessment feed directly into the acquirer's operating model and inform its decision-making process, valuation, and negotiation strategy, making this module the linchpin of the entire due diligence exercise.



## SYNERGY POTENTIAL

Beyond the target's standalone value creation potential assessed in the previous modules, synergy estimation is a critical element of strategic due diligence.

That is especially so for strategic and industrial buyers who want to know what kinds of synergies they can expect on the top and bottom lines, and what will drive those synergies. Most synergies are recurring, such as scale economies from combining purchasing volumes, merging inbound logistics operations, or consolidating sales teams. Some synergies are one-offs, such as the opportunity to avoid now-unnecessary investments in manufacturing or research. In some cases, dis-synergies will occur if, for example, there are overlaps in customers between the acquirer and the target company; some customers may be prompted to push for greater discounts as they perceive potential economies of scale.

The review of potential synergies involves verifying details with management at the target company and gauging the deal around comparable prior transactions. It may also call for scenario-building and simulation to determine the best estimates of synergies, weighted by their probabilities. Further, any synergy estimation will require preparation of the joint effort needed from both buyer and seller between signing and closing, as well as detailed planning for post-merger integration to enable the buyer to jump immediately into realizing synergies. Such efforts typically run up against anti-trust rules that prevent the exchange of sensitive information before closing, especially in deal situations involving direct competitors. This seemingly intractable problem can be overcome by using so-called “clean teams”—neutral outside advisors who can generate the analyses needed for synergy estimation and prepare for post-merger integration while ensuring that “firewalls” are maintained between the two deal parties.

As in the other modules, BCG can bring acquirers the benefits of its advanced digital tools. In one example, we applied proprietary artificial intelligence software to combine the “spend cubes” of two large industrial companies across millions of individual transactions. We were quickly able to derive consolidated and consistent purchasing categories for assessing potential procurement synergies in a combined entity.

## DEAL FEASIBILITY

The final element of full-scope due diligence involves assessing the feasibility of the deal through five lenses: the acquirer's internal resources and attendant capacity issues as well as the quality of and any significant skills gap in the acquirer's management team; status of and likely moves by other bidders, and their likely responses to the acquirer's offer; necessary measures to retain key people and deal with cultural and other organizational issues; obtaining the financing needed to do the deal; and what will be needed to ensure an effective integration.





### BCG ADDS VALUE IN THESE WAYS:

**Value creation comes first:** We put value creation first and concentrate on the definition of a clear rationale that drives shareholder value—strategic thinking, a focus on the bottom line, and actionable insights are at the core of what we do.

**Holistic perspective:** We do not treat due diligence as an isolated exercise. Rather, we consider it an integral part of the end-to-end deal process, starting with strategy formulation and culminating in post-deal integration and value creation.

**Tailored approach:** Since no two deals are alike, a cookie-cutter approach simply does not work. We customize our approach to each client's requirements and expectations, industry-specific considerations, the deal timeline, and myriad other factors.

**Industry and topic expertise:** BCG has a broad global network of functional and industry experts at its fingertips. We understand industries and markets in depth and know where to focus based on our extensive deal experience.

**Advanced analytics:** We apply the due diligence toolset with rigor. To derive truly novel and valuable insights, we go way beyond standard practices, employing the most advanced digital tools and analytical approaches from across our global network.



# Real Deals, Real Results: Tire Maker's Target Search Soon Pays Off



Not long ago, Bridgestone Europe, the subsidiary of global tire giant Bridgestone, wanted to be able to scan the horizon for targets that could help it future-proof its product portfolio. Specifically, the company sought to identify product areas that showed strong growth promise and would help it withstand the headwinds in its core tire business.

The company was casting the net wide. Of particular interest: technology categories that would help accelerate its transformation journey from tire producer to mobility solutions player in fleet services.

Bridgestone hired BCG to help identify M&A targets across its then-current business ecosystem and to spot opportunities to ride new business waves, ranging from industrial conveyor systems to factory automation. BCG drew on its vast experience with target search to develop a clear mechanism for evaluating and continually updating lists of targets. Throughout the initiative, BCG helped Bridgestone to build up its M&A “muscle” and expand its deal pipeline.

The work involved showing where Bridgestone might have a “right to play” in sectors ranging from autonomous driving to materials recycling. BCG also ran in-depth market assessments (technology trends, patent registrations, etc.) to validate M&A focus areas, and used multiple sources (IP scanning, for example) to create a target universe as the basis for defining long and short lists of targets.

We also developed and applied an analytical framework to assess strategic fit and M&A feasibility for identified targets, conducted pre-due diligence on the most promising targets, and structured a range of potential “M&A plays” to support strategic discussions and benchmark various investment options. Further, we set up an M&A radar mechanism to enable Bridgestone to spot changes in its competitive landscape and provided the company with a rich target repository (more than 2,500 detailed entries) plus a framework for evaluating each target’s strategic attractiveness.

The initiative paid off fast. Armed with its repository of targets and clear evaluation processes, Bridgestone had what it needed to quickly pinpoint and make a successful bid for TomTom Telematics, Europe’s top provider of digital fleet solutions.

The \$1 billion acquisition substantially strengthens Bridgestone’s digital capabilities, gives it a prime position in a sector growing at double-digit annual rates, and propels the company toward its goal of being a diversified mobility solutions provider.

# 3

## Bid and negotiation support

Now come the final preparations needed to assemble and make the final bid. This includes summarizing the due diligence findings for different audiences (investment committees, financing partners, etc.) in order to support the imminent negotiation process and lay the groundwork for post-merger integration.

### Bid and negotiation support can be divided into three steps



Findings from due diligence phase(s)

- View on standalone target attractiveness (market, competition, and business plan)
- Assessment of synergy potential and deal feasibility (if applicable)
- Challenging investment thesis of target

Bid preparation

- Summary of due diligence findings in equity case
- Definition of banking case (for financing partners; if applicable)

Negotiation strategy

- Definition of team setup and roles
- Assessment of target price range
- Definition of tactics and deal limits
- Deal structure and financing options
- Initial term sheet and deal covenants

Negotiation execution

- Anticipating/modeling potential alternative bids
- Support in contract markups from a commercial/strategic perspective

Pre-closing support

- Support in anti-trust clearance
- Setting up of clean team

Preparing for integration

- Defining 100-day plan
- Building integration plan (ideally based on clean team setting), such as:
  - Integration project team and setup
  - New org and management structure
  - Defining new functions structure
  - Planning for systems integration
  - Ensuring business continuity on Day 1
  - Further detailing of synergies
- Identifying and surfacing cultural differences

### MAKING THE BID AND FINALIZING THE DEAL

The basis for the final bid is the “equity case” document, intended for the bidder’s executive management, its board of directors, or its investment committee. The objective of the document is to get all the internal approvals required to place a final bid, with an emphasis on value creation and growth potential as well as risks. Pertinent to both strategic and financial buyers, the document contains all information gathered on the target company, the potentially adjusted business plan, and the recommendation for the binding bid, covering price, and strategy. It also helps answer the questions of where and how value will be created by the acquisition.

For financial buyers, in particular, another document is often needed: the bank presentation or “banking case.” This document is intended for the banks or other financing partners that provide acquisition financing, but can also be useful for corporate buyers, depending on the size of the deal. The document must lay out a solid rationale for financing at attractive rates. The emphasis here is on downside risks and a

realistic growth path—factors that will form the basis of the covenants attached to the financing. It helps answer the questions about the risks to the bank of not being repaid in time or in full—or potentially losing all the money it provides for the deal.

Before final negotiations with the seller can begin, a comprehensive negotiation strategy needs to be in place. This involves considering a wide variety of factors, including the different parties’ relative positions and bargaining power, potential price ranges, non-financial motivations, available “bargaining chips,” initial negotiation tactics, as well as negotiation team members and their roles. The findings from the due diligence process play a central role in this phase as the fact base for determining negotiation strategy and tactics. In particular, estimates of the synergy potential can add leverage, as can BCG’s assessments of expected pricing proposals from rival bidders.



## PRE-CLOSING AND PREPARING FOR INTEGRATION

Assuming that an agreement is reached with the seller, it is time to move onward to the signing of the contract, the start of any likely antitrust clearance, preparation for Day 1 integration and drafting of the post-deal 100-day plan, along with an intensified exchange of information with the target company—possibly with the support of a clean team. BCG also helps to lay the groundwork for assembling the financing for the deal.

The results of the due diligence phase are also used to prepare for the integration process. They provide the basis for the integration plan, setting out guidelines for the new management structure and for resolving employment and implementation issues on the path to Day 1. They will answer questions about who reports to whom, how the organization charts will change, how compensation plans will be shaped post-merger, what might be the impact of union contracts, and what the benefits programs will look like, for instance. And, they will help address issues such as who must be on the integration team; how, in what order, and at what pace

the acquirer's and target's systems will be integrated; which functions will be consolidated; and what synergies will be pursued and how quickly.

Due diligence should also flag and highlight cultural differences—everything from differences in management philosophies and work policies to gaps between, say, a centralized operating style at the acquirer and a decentralized style at the new subsidiary.

Which management philosophy will prevail, and how will that affect key management talent? How will cultural differences be overcome? The issues behind such questions matter enormously to M&A success; many a deal has foundered because of clashing cultures. Our research shows that about 60% of corporate leaders mention a lack of cultural fit as one of the reasons for the failure of a deal. A thorough due diligence process can go a long way toward anticipating, identifying, and surfacing such issues.

## BCG ADDS VALUE IN THESE WAYS:

**Decision support:** Getting across the finish line in a deal process requires the ability to determine the right valuation, accurately assess the competitive situation in an auction process, and appropriately reflect risks in the share purchase agreement. Through objective and candid assessments, we help our clients strike the right balance between these often conflicting requirements to maximize value creation and avoid “deal fever.”

**Balanced view:** We package and tailor our strategic due diligence findings in a way that reflects the needs of all key stakeholders in the transaction, be it the deal team, senior management, or potential financing partners.

**Thinking ahead:** We help our clients prepare for closing and Day 1, and ensure a smooth transition to PMI by drawing on the insights gained during strategic due diligence, our deals and PMI expertise, and our deep knowledge of the industry and how our clients work.

# Best Practices in Strategic Due Diligence

01

Know your capabilities and how they can be leveraged successfully, even in non-synergy-driven deals.

02

Involve the right people—those with the appropriate operational knowledge and those responsible for PMI.

03

Understand the other side—the target company’s financial structure and performance, its people, its culture, and its corporate strategy.

04

Rigorously assess the robustness of future estimations.

05

Look at PMI issues throughout the deal to ensure a good fit.

06

Make fact-based, objective decisions—never succumb to deal fever.

07

Be willing to change course when new information emerges about the target or other aspects of the deal.

08

Maintain a big-picture perspective and view the deal as a means to an end.

09

Remember why you are doing the deal—focus on items with high uncertainty and high value.

10

Don’t be afraid to say “no”.

# Why BCG Is Your Best Partner for Strategic Due Diligence

## STRATEGIC PERSPECTIVE

We apply fundamental insights to every due diligence situation, seeking step-change opportunities to create value. We constantly and constructively challenge the conventional wisdom. And, we take a highly analytical, fact-based approach at all times.

## TAILORED APPROACH

BCG customizes its due diligence activities to the client's circumstances and the particulars of the deal and adapts them over time. Knowing that "off the shelf" approaches do not deliver the high-value outcomes that clients deserve, we use a hypothesis-driven process and work through it iteratively with the client.

## DEEP INDUSTRY INSIGHTS

Our knowledge of industries—as well as of business functions and companies themselves—means we are never starting from scratch. BCG excels at leveraging the expertise across its global network, building on our experience from other industries, and capitalizing on proven ways of testing hypotheses and quickly learning from early results.

## RESULTS-ORIENTED PROCESS

BCG continually focuses on the issues most critical to effective strategic due diligence. At all times, our emphasis is on bottom-line impact and outcomes that the client can act on decisively. Knowing that speed is of the essence, we work at pace and use the appropriate digital tools to help clients gain an edge as quickly as possible.

## SPARRING PARTNER

BCG is anything but a basic data provider. Our senior management perspective enables a whole new level of contribution to effective due diligence. We are positioned as a credible, unbiased discussion partner for top management, working with value in mind rather than being "deal driven."

## CLOSE COLLABORATION

BCG never works at arm's length. Everything we do for you is done with you, continuously and collaboratively.

## LEADER IN M&A SERVICES

BCG is rated the best M&A partner by an independent authority; we conduct more than 800 due diligence projects globally every year.



# Toward Integration: Ensuring the Deal Works After the Ink Is Dry

The successful signing of an M&A deal is the beginning, not the end, of the actual merger activity. Now comes the hard work of integrating two disparate organizations. These days, investors expect cost synergies 12 to 24 months after a deal has been signed. The longer it takes to integrate the target after signing, the more likely that management will get distracted, potential synergies will go unrealized, and key staff will begin to decamp.

So-called clean teams can help ensure that synergies start to be realized the moment the ink on the deal is dry. These are groups set up by independent third parties like BCG to collect and analyze sensitive data before the deal closes, and to sanitize and share certain results with the buyer ahead of time, provided that those results are approved by both parties' legal advisors. These steps enable the buyer to get past what would otherwise be blind spots and to start acting on the integration.




# Deals That We've Helped Happen

## 2020

**2020**



Strategic advisor in JV transaction



**2020/2019**



buying 49.99% of Santander Securities Services from

Strategic advisor to the buyer and on PMI

**Value not disclosed**



**2020**



Strategic advisor to the buyer

**\$5.1B**



**2020**




Strategic advisor to the buyer

**\$332M**




**2020**




Strategic advisor to the buyer

**Value not disclosed**




## 2019

**2019**



Strategic advisor to the buyer

**Value not disclosed**



**2019**



buying 22.5% shares of

Strategic advisor to the buyer and on PMI

**Value not disclosed**



**2019**




buying 5% share of

Strategic advisor to the buyer

**\$200M**




**2019**




Strategic advisor to the buyer

**€910M**




**2019**



Strategic advisor to the buyer and Strategic advisor on PMI

**\$484M**



**2019**



Strategic advisor to the buyer and Strategic advisor on PMI

**\$2.9B**





## 2018

**2018**





Strategic advisor to acquirer in joint venture transaction

**c. \$40B**




**2018**



**DAIMLER**

combined their mobility services in an equally owned joint venture



**2018**

**SPAXS**

buying 72% of



Strategic advisor to the buyer

**\$51M**




**2018**




Strategic advisor to the buyer and Strategic advisor on PMI

**Value not disclosed**



**2018**

**FERRERO**

buying US candy business of



Strategic advisor to the buyer


**\$2.8B**



## 2017


**2017**

**FERRERO**





Strategic advisor to the buyer

**\$1.2B**




**2017**






Strategic advisor to the buyer

**Value not disclosed**




**2017**

Strategic advisor to the buyer


**\$5.2B**



**2017**


**LAVAZZA**

TORINO, ITALIA, 1895




Strategic advisor to the buyer

**\$160M**




**2017**



**ABB**

Strategic advisor to the buyer

**\$900M**



# Meet Our Team

BCG's experts represent a rich and diverse group whose experience comes from solving the key issues faced by companies around the world. For every focus area, we also have local experts who provide pivotal insights into the dynamics of individual markets.

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**Jeff Gell**

Managing Director and Senior Partner

Jeff Gell is a Managing Director and Senior Partner based in BCG's Chicago office. He is a core member of BCG's Consumer, Operations, and Corporate Finance and Strategy practices and leads the Transaction and Integration Excellence business globally.



**Dr. Jens Kengelbach**

Managing Director and Senior Partner

Dr. Jens Kengelbach is a Managing Director and Senior Partner based in BCG's Munich office. He is the Global Head of M&A and the leader of the BCG Transaction Center.

## BCG's Corporate Development Practice Encompasses:



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More than 150 partners and 700 trained professionals across all seniorities, each with significant experience in corporate development and corporate finance.



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Teams that always combine the specialist's expertise with our proven industry expertise, bringing strategic know-how to all industries and geographies.



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A "solution first" mindset to help constructively manage the dealmaking process at the strategic "macro" level as well as at the levels of detail required.



**Jesper Nielsen**

Managing Director and Senior Partner

Jesper Nielsen is a Managing Director and Senior Partner based in BCG's London office. He is currently the Regional Leader of our Transaction and Integration Excellence business in Western Europe and South Africa.



**Decker Walker**

Managing Director and Partner

Decker Walker is a Managing Director and Partner based in BCG's Chicago office. He is a core member of the Industrial Goods and Corporate Finance & Strategy practices with particular focus on Agribusiness and M&A topics. He is also a core group member of the BCG Transaction Center.



**Tobias Söllner**

Associate Director

Tobias Söllner is an Associate Director based in BCG's Munich office. He is part of the Corporate Finance Task Force within Corporate Finance & Strategy in the BCG Transaction Center.



**Chris Barrett**

Managing Director and Partner

Chris Barrett is a Managing Director and Partner based in BCG's Dallas office. He joined BCG in 2001, and has worked on Post-Merger Integrations across many industries, geographies, and topics. Chris has also worked in our Los Angeles and Amsterdam offices.



**Daniel Friedman**

Managing Director and Senior Partner

Daniel Friedman is a Managing Director and Senior Partner based in BCG's Los Angeles office. He is the Los Angeles Office Leader and the Leader of the Transaction and Integration Excellence Business in North America.



**Teemu Ruska**

Managing Director and Senior Partner

Teemu Ruska is a Managing Director and Senior Partner based in BCG's Helsinki office. He also leads the Client Team in the Central and Northern Europe and Middle East region and specializes in due diligence and PMI.

# Read All About It

Our clients operate in nearly every industry and region around the world, and they come to us for fresh approaches to the issues that matter most to them. Through a rigorous analysis of each client's individual situation, we develop customized solutions that meet the organization's specific needs. The case examples here illustrate how we help clients sharpen their capabilities, create value, and deliver sustainable advantage.

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## Transaction and Integration Excellence Product Series



**The Clean Team Advantage**  
How BCG Enhances  
M&A Success



**Sell-Side Success**  
How BCG Supports  
Divestitures



**Successful Business Separations**  
How BCG Supports  
Carve-Outs



**Successful Target Search**  
How BCG Helps Find Strong  
M&A Candidates



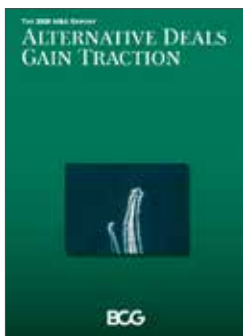
**Successful Merger Integration**  
How BCG Helps Maximize the Value from a Deal



**Successful IPOs, Spin-Offs, and Dual Tracks**  
How BCG Supports Effective Transactions



**Successful Merger Clearance**  
How BCG Helps Clear the Path for Acquisitions



**The 2020 M&A Report**  
Alternative Deals Gain Traction

# Transaction

## CENTER

BCG's Transaction Center is the hub of the firm's global M&A expertise and provides businesses with end-to-end transaction support, including strategic decision-making in mergers and acquisitions, preparing and executing divestitures, and supporting IPOs and spin-offs. The Transaction Center combines BCG's deep sector expertise with our comprehensive knowledge of, and experience in, all aspects of M&A across all sectors and industries. These services complement the process-focused offerings of investment banks. With more than 300 professionals worldwide, we concentrate on the commercial drivers of the business plan and equity story. We help both corporate and private equity clients execute deals efficiently and, more importantly, maximize value.

### Contact:

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<https://connect.bcg.com/transactioncenter>

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact. To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

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