

# Operations diligence in M&A

## Transcript

### SPEAKERS:

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**WADE KRUSE:** Let's pull this in through a slightly different lens, M&A. Let's talk about M&A a little bit, growth through M&A considerations in operations, operational due diligence, operations diligence. What do customers need to be looking at when they're buying or getting ready to sell? What do they need to be thinking about in terms of operations.

**JONATHAN EATON:** That's a great question. We obviously know that financial due diligence is front and center in any transaction. But I think it's even more important now with what we've seen in supply chains in that last 24 months, and not just supply chains, but operations in general, because of some of the labor issues and otherwise, to think about operational due diligence and looking at the supply chain operating model, looking at the HR operating model, looking at the IT operating model, and thinking about, are those operations scalable? Are there deficiencies that exist within those operations? If you think about, I'll give you an example from manufacturing and distribution, have the assets been well maintained? Where are they in their depreciation lifecycle? What's the useful remaining life of those assets? If you think about inventory, which is an asset on the balance sheet, is that inventory viable? Or is some of the inventory excess or obsolete that may exist? Have there been litigation issues? Are there leadership issues? Is there a union involved?

There are so many different things that could impact an operation and also impact it once it's been acquired or once it's been sold, for the buyer or for the seller. I think it's just really essential, whether it's a simple red flag analysis to look at some of those things and identify where those issues may exist, or whether it's a deep dive from a diligence perspective into the operations and identifying, are there potential issues? It's essential, and I think you would want to know that in case you need to make

adjustments in the financial due diligence process as a result of some of the things that you have learned. And I think a buyer and a seller can benefit from operational diligence because of what's uncovered and what it reveals.

**WADE KRUSE:** And obviously a key to being able to integrate — your world — you need to know that.

**SCOTT MCGURL:** It's operations, absolutely. And some of the work that you've done, Jonathan, that I've seen — before you even get into a quality of earnings and doing the financial diligence on a sell side opportunity, really taking a close look at operations. Looking at those assets, looking at contracts, looking at renegotiation of contracts, assignments, rationalization of vendors. Looking at inventory. How do I boost turns on my inventory? How do I increase my working capital? Those are all things that can be addressed from an operational standpoint pre-deal that are going to improve your valuation when it comes out.

So it's worthwhile to spend that time up front in advance. I'm thinking of one deal we worked pretty recently, we had a combined EBITDA of I believe it was \$60 million, and by the time we looked at the supply chain components of that, we were up to about \$80 million in EBITDA. It pays for itself pretty fast.

**WADE KRUSE:** Well, you've given us a lot to think about. A lot of good stuff in there, a lot to unpack with that, so I appreciate the time and the conversation as always with both of you. So thank you. And thank you for joining us.