Multi-Deal Assessment

The Company

Our client—an established private equity firm—was evaluating two target companies to bolt on to its existing portfolio company. These companies manufactured a wide variety of retail and industrial food products, including fruit preserves, pastry fillings, sauces, and ice cream ribbons and toppings.

The Situation

The PE firm was at very different stages of the acquisition process with the two target companies when Keystone was engaged. For the first target company (Company B), financial and legal due diligence was nearly completed, and initial synergy estimates had been developed. For the second target company (Company C), an LOI had been drafted but not executed. Given the different stages of the process, Keystone proposed a two-phase process. The first phase would focus on a combination between the existing portfolio company (Company A) and the first target company (Company B). A second phase would focus on a combination among all three companies, assuming the deal with Company B seemed sufficiently likely to close.

The Approach

In the first phase, the main focus was evaluating whether it was physically possible to bring Company B's operations into Company A's existing facility. Substantial synergies could be gained by co-locating the two companies' operations. Several factors had to be evaluated to accomplish this co-location, including the amount of on-site storage space for raw materials, finished goods, and packaging; changes in off-site storage and warehousing requirements; changes to the number of production shifts; the number of production lines to bring over; placement of production lines; modifications to the production facility; office space; and a host of other considerations. A combination of quantitative and qualitative factors were used to assess the attractiveness of each option.

	Layout Option																		
Evaluation Factor	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Impact to Existing Operations																#4	#1	#4	#1
Future Growth																#1	#1	#1	#1
Future Optimization																#4	#1	#4	#2
Product / Traffic																#4	#1	#3	#2
Space Utilization																#1	#2	#4	#2
Equipment Relocation Costs																#1	#1	#1	#1
New Equipment																#1	#1	#1	#1
Facility Build-out Costs																#4	#1	#1	#1

Independent synergy savings estimates were also developed based on the recommended operational changes.

Expense	Keystone Savings Estimate ($XX)
Utilities	$XX
R&M	$XX
Purchased Services	$XX
Insurance	$XX
Lease & Taxes	$XX
Other	$XX
Total Manufacturing Overhead	**$XX**
Internal Transfer	$XX
Utilities	$XX
Lease	$XX
Total Distribution	**$XX**
Purchased Services	$XX
Fees/Donations	$XX
Insurance	$XX
Utilities	$XX
Lease & Taxes	$XX
R&M	$XX
Total G&A	**$XX**
Total	**$XX**

Similarly, estimates for one-time costs associated with the facility consolidation were developed by leveraging the knowledge of internal resources, obtaining budgetary quotes from third parties, and utilizing Keystone's past project experiences

Cost Category	Estimated Cost
Parking Lot Expansion	$XX
Production Area Modifications	$XX
DC Racking & Prep	$XX
Office Area Modifications	$XX
Office Area - New Furniture	$XX
Overlapping DC Rent and Utility Expenses	$XX
Moving Costs - Production Equipment	$XX
Facility Shutdown and Repair / Cleaning Expenses	$XX
Moving Costs - Office Equipment	$XX
Startup Costs - Initial Production Runs Materials Cost	$XX
Inventory Build - Holding Costs	$XX
Retention Bonuses	$XX
Training / Redundant Labor - Production / Maintenance	$XX
Startup Support Costs - Travel	$XX
Training / Redundant Labor - Distribution	$XX
Inventory Build - Overtime	$XX
Training / Redundant Labor - Office	$XX
Accrued Vacation	$XX
Keystone Support	$XX
Total	**$XX**

An implementation plan with key activities, dates, resources, and responsibilities was developed to guide the company from immediate post-close through the exit of Company B's manufacturing facility.

After an LOI was executed for Company C, a similar process was followed. Multiple possible "scenarios" for the three-company combination were developed. An initial review was used to eliminate certain scenarios for a variety of reasons ranging from exorbitant one-time costs to concerns about adequate floor space. Following this initial review, the most practical two scenarios were evaluated in detail on the basis of their synergies, one-time costs, and production capacities. Ultimately, through discussions with the PE firm, a go-forward option was selected, and the original implementation plan was modified to incorporate necessary changes.

The Results

Keystone's analysis and recommendations were well received. The implementation plans were used as the PE firm's "playbook" to proceed down the path of acquiring the targets and execute the plans.