Deal Synergies – Some Considerations

By Gabe Lengua, CPA, Partner

Part of any deal analysis includes the impact of synergies which, many times, becomes the prevailing reason to complete the deal in the first place. Although determining and executing synergies are such critical parts of the process, oftentimes things do not go as planned, and the full potential of the deal is not realized.

Sometimes things are out of your control and there isn't much you can do. That may be the case regardless of transaction size or industry. But, there are also many things in your control and, with proper planning and execution, you can maximize the results of an acquisition. There are some basic elements of a well-defined, disciplined and transparent approach to synergies. These include modeling, executing and tracking synergies. However, at each of these stages, there are challenges you may need to address.

Modeling

As it relates to modeling, many times negative synergies are overlooked. Things, such as cost savings, are easy to list and quantify — but not so with negative synergies. Some can be clear, such as overlapping customers, but others are not always so obvious. They include:

- Negative effects of conforming accounting policies or practice differences (we see this often)
- Additional infrastructure or sales and marketing investments
- More generous employee benefits
- Revenue lost in competing channels
- Conflicting suppliers with more favorable pricing

Executing

At the execution phase, we see several drivers of unrealized synergies. They include:

- Delays in implementing planned actions
- Underestimated integration costs/complexities
- Overestimated potential synergies and cost savings
- Lack of accountability for particular actions
- Culture and communication issues

Realizing synergies requires accurate and transparent reporting. Transparent reporting requires setting synergy baseline targets and reporting frequently to senior management on execution progress. Additionally, management's tone and commitment to reaching targets, such as holding delivery teams accountable and rewarding them for synergy realization, are critical to execution success.

Tracking

Tracking synergies — while in some ways easier than modeling and executing — is no less important. Synergies tracked generally include:

- revenue,
- gross profit,
- operating expenses, and
- EBITDA.

Comparing these results with the deal model is a common method of evaluating the success of the transaction.

Most companies also track non-financial metrics including:

- employee and customer retention,
- product release dates, and
- integration milestones.

A couple of points here: First, many times we see good tracking early on (first year or two) but then a drop off typically because integration teams are not kept together and/or the focus moves to another area. Also, revenue synergies (cross-selling, accessing new markets, etc.) tend to lag behind other synergies.

Tracking for Success

With a robust M&A market and sky high multiples, identifying and realizing synergies has never been more critical. Be sure to consider negative synergies, sensitize estimates and always disseminate and track accountability. Also, leveraging processes, people, templates and tools that quickly capture and track synergies is essential to an effective M&A process. These things may not guarantee value creation but, without them, a deal maker's prospects for success diminish considerably.

Contact us

For more information, please contact Gabe Lengua, CPA, Partner at glengua@pkfod.com or 646.449.6364 or any member of the PKF O'Connor Davies team.

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