



# Navigating complex M&A

How to win in the age of the  
complex deal

Deals and deal making have become more complex. Increasingly, deals are aimed at ambitious strategic goals—transforming operating models or acquiring digital capabilities—that take companies to a new frontier. To succeed, deal makers must mount a quest for strategic value, relentlessly pursue synergies, and prevent value leakage with a more robust execution model.

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# Introduction

Business has become more complex, and so have mergers and acquisitions (M&A). Traditional markets and business models have been disrupted, operating models have been upended, and customer behavior continues to shift. Lines between industries are blurring, and powerful competitors are emerging from unexpected directions.

Increasingly, companies use M&A to acquire new capabilities and respond quickly to new challenges—for example, buying early-stage tech companies that help digitize operations. Others are buying into entirely new business models, transforming strategies and operating models in the process. Business leaders are scrutinizing existing portfolios, looking to reshape them through carve-outs and spin-offs that remove businesses that no longer contribute sufficient value or cannot be quickly transformed.

Not only has the nature of deals changed, but so has the deal market. The market has become intensely competitive (deal activity set records in 2021), M&A valuations continue to

rise, and the pool of attractive targets is shrinking in some industries.

In this environment, deal makers need to commit quickly to acquisitions where synergy targets extend far beyond baseline cost and revenue opportunities. In doing so, M&A executives are extending the risk-return ratio on M&A. They are taking on more operating risk, driving toward value at faster speeds, pursuing new kinds of synergies, and taking on a more holistic approach to value capture.

At the same time, there are new risks to consider, such as the ability to manage talent in a tight labor market or operate efficiently in the face of supply chain challenges. Further, investors are demanding progress on environmental, social, and governance (ESG).

These growing complexities—layered on well-known complications such as clearing regulatory scrutiny and executing cross-border purchases—create unprecedented risks and put more at stake than ever before. In a recent KPMG survey of top

executives, 90 percent agreed that deals are more complex and riskier.<sup>1</sup> These leaders have an opportunity to improve the odds of succeeding with complex deals by understanding the additional challenges created by complexity and taking a systematic approach to addressing them.

Winning in this environment requires enhanced ways of thinking and shifts in mindsets, ambition, and execution. Asset selection is key to succeeding. So is speed of execution—both to capture synergies and the deal's larger strategic value. It all depends on an unwavering focus on strategic value across the entire deal cycle (see "Five practical moves to improve your odds of success in complex deals").

This paper looks at the growing sources of complexity, the challenges they create, and how deal makers can meet these challenges. We believe that deal makers who develop and maintain a greater strategic focus on value while tailoring their approach to the specifics of the deal have better odds of winning in today's more complex market.

<sup>1</sup> Source: "2021 was a blowout year for global M&A—2022 could be even bigger," KPMG LLP, 2021

## Five practical moves to improve your odds of success in complex deals

### Make strategic value your 'north star'

The ultimate payoff from complex deals is often strategic value—new opportunities or new ways of doing business that build long-term value. These deals transcend traditional synergies. The strategic goals of the transaction, therefore, must be clearly defined, widely supported, and pursued methodically and relentlessly.

### Play offense to win during diligence

Diligence should not be a 'check the box' exercise to validate baseline assumptions. It's your opportunity to identify even greater sources of value and explore the art of what's possible with target management. It's also an opportunity to ensure your own organization is clearly aligned around key levers of value.

### Get a running start before Day 1

Complex deals demand a different approach to Day-1 readiness—one with greater purpose, intensity, and speed. Sophisticated buyers use the sign-to-close window to protect business momentum, find and mitigate blind spots, continue to seek even higher synergy upside, and accelerate tailored integration planning.

### Adopt a people strategy for the times

More than ever, the value of a target lies in the capabilities, energy, and culture of its people. Tight and evolving labor markets raise the risk of losing talent—and reduce the likelihood of quickly finding replacements. To make complex deals work, you need a people strategy fit for today's talent realities.

### Think continuous value creation

Buyers define synergy targets at the outset, but they shouldn't stop there. Be alert to new opportunities that arise and prepare to flex as markets, leadership, and strategies evolve.

# How complexities compound

There are no simple measures of deal complexity, so we begin with perceptions. In a KPMG survey in December 2021, 90 percent of executives said deals are overall more complex, and 70 percent said that more than half the deals they had done in 2021 were complex (Exhibit 1).<sup>2</sup>

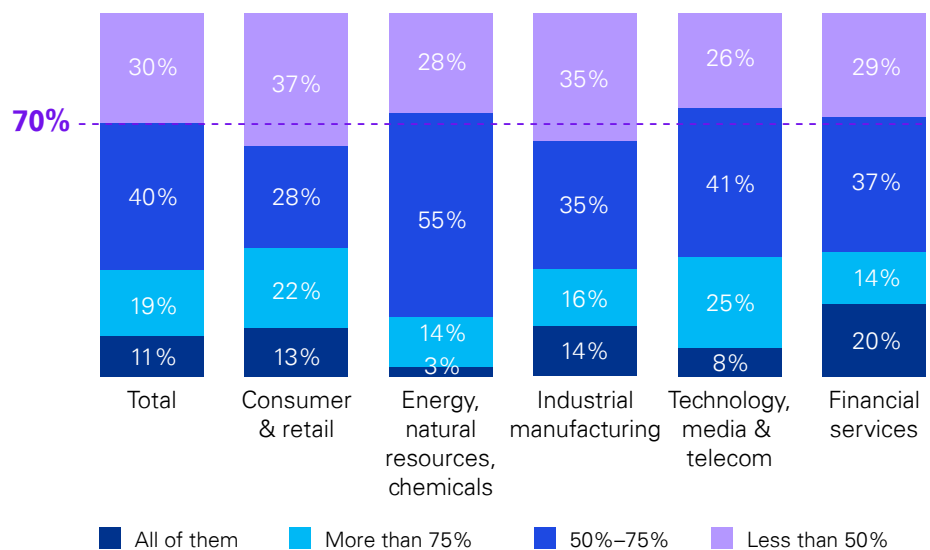
According to these leaders, the top two sources of complexity were the extraordinary synergies required and the use of M&A as a catalyst for transformation. More than 80 percent also said that complexity has increased the need for revenue synergies.

In our research, we looked at complexity in two ways: the degree of difficulty created by specific complexities and how complexities in a deal compound. For example, a deal can be considered complex if it requires the buyer to step out of its comfort zone to enter a new line of business or radically shift its operating model. Such a deal is also likely to involve additional complexities, such as the need for business process transformation or the addition and integration of new tax structures. Each layer of complexity raises risks and creates additional headwinds against value capture.

Time is the enemy of success in making deals work and managing complexity takes time.

## Exhibit 1: 70 percent of executives said more than half of their deals in 2021 were considered complex

What share of the deals you did in the past year were complex? (N = 345)



Note: Figures are rounded up or down to the nearest whole number

Unforeseen complexities can cause delays in execution, sapping momentum and delaying synergy capture. The market rewards acquirers for synergies delivered, not forecast. And the market often punishes acquirers who fall short of expectations.

So, understanding the degree of complexity of any transaction at the start is essential. The sooner deal makers can begin addressing complex challenges (and identify and mitigate potential blind spots), the better their chances of success.

The illustrative scales in Exhibit 2 show how various sources of complexity can interact, compound, and grow exponentially. For example, a cross-border deal for a consumer goods company can be complex if it involves regulatory and tax considerations far beyond those that would arise in a purely domestic transaction. But the purchase of a pharmaceutical business with operations in two dozen countries can be far more complicated. Each element of complexity is discussed throughout the following pages.

<sup>2</sup> Source: KPMG survey of 345 top executives across six industry groups in December 2021

## Exhibit 2. Complexity compounds in two ways: in intensity and in combination

### Newer sources of complexity

	Lower complexity		Higher complexity
<b>Transformative deals</b>	Bolt-on/merger of equals: Little commercial or operating model change required	Vertical integration—supply/distribution addition: Back-office modification and some changes to the commercial and operating model	New capability or business model acquired: Implementation of new commercial and operating models or changes to existing ones
			Enterprise transformation: Transformation of commercial, operational, and financial models
<b>Extraordinary synergies</b>	Cost synergy focused with minimal revenue synergy	Revenue synergy impact of up to 15% expected in Year 2	Revenue synergy impact of 15% to 25% expected in Year 2
			Revenue synergy impact of more than 25% expected in Year 2
<b>ESG factors</b>	Advanced ESG program: The target has a program focused on value opportunities, with links to overall organizational strategy	Risk focused/ethical ESG: The target has a broad ESG strategy; some measurable commitments; partial alignment to frameworks; comprehensive disclosures	Limited, compliance-focused ESG: The target has qualitative commitments; no alignment to reporting frameworks; limited disclosures
			Pre-ESG: The target has broad policies in place but no formal programs exist

### Traditional complexities increasing in intensity

	Lower complexity		Higher complexity
<b>Multiple/multi-step deals</b>	Single acquisition	An acquisition followed by a divestiture	Concurrent multiple acquisitions
			Concurrent multiple acquisitions and multiple divestitures
<b>Cross-border deals</b>	Integration required in <5 countries where acquirer has partial or no presence	Integration required in 5-15 countries where acquirer has partial or no presence	Integration required in up to 25 countries where acquirer has partial or no presence
			Integration required in 25+ countries where acquirer has partial or no presence

### Complexities exacerbated by the current business climate

	Lower complexity		Higher complexity
<b>Talent/labor dynamics</b>	Onboarding target employees to the buyer's systems	Integration of the target's HR processes, policies, and systems	Building an enhanced compensation and benefits structure designed for talent retention
			Using the transaction to overhaul the combined overall people strategy
<b>Supply chain constraints</b>	Multi-sourced; locally sourced; fixed-price contracts; commodity-type	Single-sourced; procured in-country; indexed contracts; non-commodity type	Single-sourced; procured outside of country; indexed contracts; rare materials; moderately engineered
			Single-sourced; procured overseas; indexed contracts; highly bespoke

Note: Scale values were sourced from KPMG deal advisers and are based on hundreds of transactions across industries and geographies. They are not all-inclusive. The scale value placements are illustrative.

## Complexity 01 Transformative deals

The use of M&A as a strategic offensive tool is on the rise in today's rapidly evolving market. Strategic goals often require buying new capabilities, such as a traditional bank buying a fintech player<sup>3</sup> to meet its customers where they are going—or an industrial products manufacturer buying a software vendor to modernize its products and expand its customer footprint. These 'transformative' deals have the strategic potential to instantly propel buyers into new markets or competitive positions and almost always outweigh the option value of any 'Plan B.'

Acquisitions of tech companies by non-tech buyers (a proxy for transformative deals) rose 68 percent from 2020 to 2021 to 778 transactions (Exhibit 3). Deal value rose 145 percent to \$91 billion.<sup>4</sup> More than half of that value was for deals in the industrial and manufacturing sector, where auto makers are making big

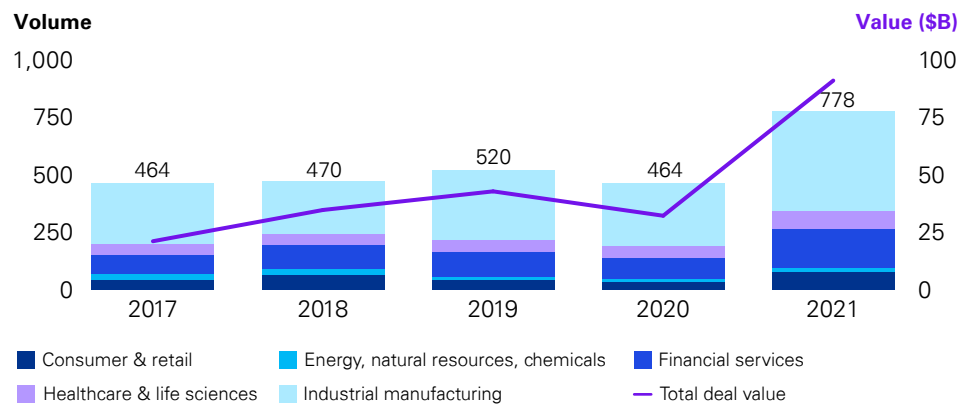
tech investments to move into battery-electric and autonomous vehicles (see "Transforming for electrification").<sup>5</sup>

But transformative deals come with a multitude of complexities that vary in severity depending on how much the transaction will alter the commercial, financial, and cultural profile of the buyer. Transformative deals require conviction and fortitude—and different

approaches to value visioning, diligence, and modeling. They also require more intense scenario planning as it relates to downside risk.

Assuming you're successful in winning what's likely a very competitive bid, integration and strategic value creation will require a different level of focus, intensity, and speed.

**Exhibit 3. Recent growth in non-tech companies buying tech assets to transform their businesses**



## Transforming for electrification

The accelerating transition to electric vehicles is sparking a variety of complex deals. Established players are buying start-ups to acquire technology, engineering, and software talent. Parts suppliers need to acquire new kinds of capabilities and products. There are massive new joint ventures. Honda and Hitachi, for example, agreed to acquire three captive suppliers for \$4 billion to create Hitachi Automotive Systems (HAS). Creating the new parts manufacturer is intended to help both companies in powertrain, chassis, and safety systems. Honda owns a third of HAS, which will also serve Nissan, Ford, General Motors, Toyota, and other major auto makers.

<sup>3</sup> Source: "How banks can maximize the value of fintech acquisitions," KPMG LLP, 2022

<sup>4</sup> Source: Capital IQ data on deals with U.S.-based buyers or sellers

<sup>5</sup> Source: "Place your billion-dollar bets wisely," KPMG LLP, 2021

## Complexity 02 Extraordinary synergies

M&A valuation multiples have been rising steadily across industries since 2018, led by TMT (technology, media, and telecom), healthcare and life sciences, and financial services. Many factors have driven valuations higher, including competitive dynamics in the quest for growth, a dwindling supply of attractive targets, and relatively easy access to capital.

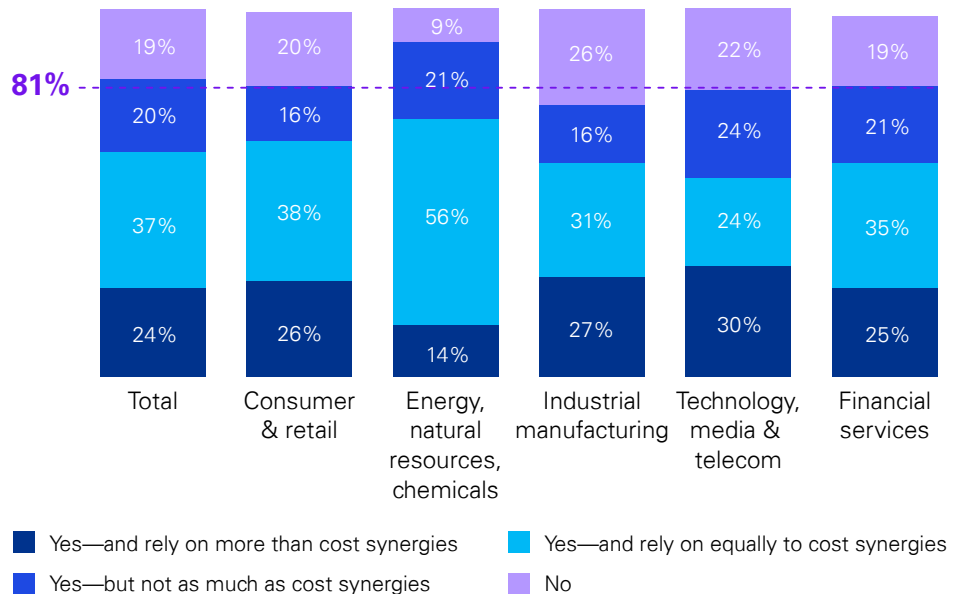
Elevated M&A valuations require buyers to stretch value creation beyond traditional cost synergies and achieve results with greater speed—raising the stakes and the risks. Buyers feel pressure to quickly prove they can capture the notional and strategic value on which the deal was predicated. Investors know that simple cost synergies alone no longer suffice.

The rise in valuations has made revenue synergies more ordinary than extraordinary. Historically, revenue synergies have been difficult to gauge, and acquirers have avoided making public predictions. But investors are increasingly pushing for details about revenue and growth goals.

More than 80 percent of executives say they now rely more on revenue synergies to make deals work (Exhibit 4). For these deals, the stakes are higher, and the complexity is greater.

### Exhibit 4. Across industries, deals depend more and more on revenue synergies

Has your reliance on revenue synergies increased versus cost synergies when you value a target?



In deals worth more than \$2 billion that were announced between 2018 and 2021, 42 percent disclosed revenue synergy targets and plans to secure them, up from 33 percent for such deals in the 2015-2017 period.

Beyond revenue synergies, extraordinary synergies can include strategic benefits that are not easily quantified. In a March 2021 paper, Wharton professors Emilie Feldman and Exequiel Hernandez describe six types of nontraditional synergies.<sup>6</sup>

They range from relational and network synergies, which arise when a deal enhances existing relationships and partnerships, to “market power” synergies.

To be successful, acquirers must identify and prioritize value goals at the outset and align stakeholders around a broad and compelling strategic value story. This is to both frame deal success measures to the market and guide post-close activity.

<sup>6</sup> Source: Emilie R. Feldman and Exequiel Hernandez, “Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value,” *Academy of Management Review*, March 4, 2021

# Complexity 03

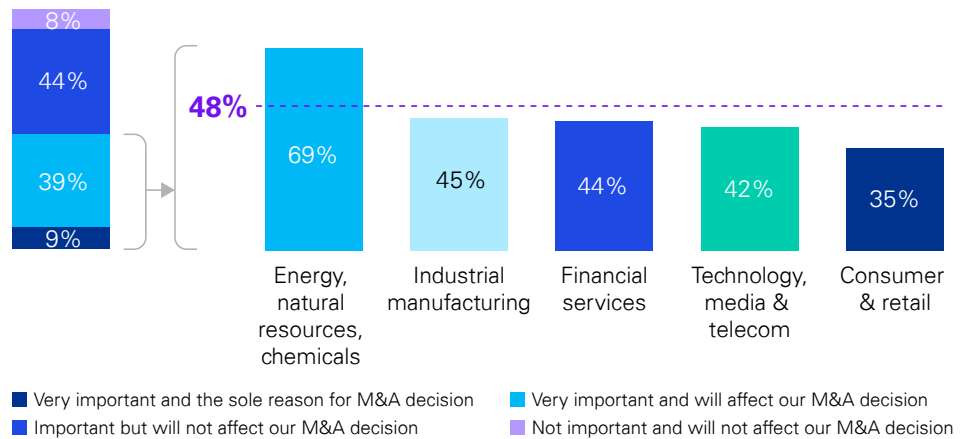
## Environmental, social, and governance factors

Increasingly, investors are demanding progress on ESG, and many organizations are preparing for when they will need to disclose ESG data.<sup>7</sup> Having elements of ESG in a company’s mission and performing well on ESG standards can enhance corporate reputation and brand. ESG can also improve access to talent, customers, and capital. This reality has thrust ESG into the forefront of M&A.<sup>8</sup>

Until recently, ESG diligence was mostly a checklist exercise performed by a law firm that would review a target’s policies and highlight material governance risks. That has changed. Half of the executives we surveyed said they now factor a target’s ESG readiness and performance into their M&A decision making (Exhibit 5). A target company’s ESG maturity can have inverse impact on M&A complexity (Exhibit 6). Often, acquirers find that a target has limited or no ESG programs in place. In these cases, they can use data and analytics to conduct outside-in assessments to gauge the potential for improvement. They can estimate carbon emissions,

### Exhibit 5. Nearly half of deal makers say ESG is an important consideration now

How important is it for the target company to have an ESG strategy?



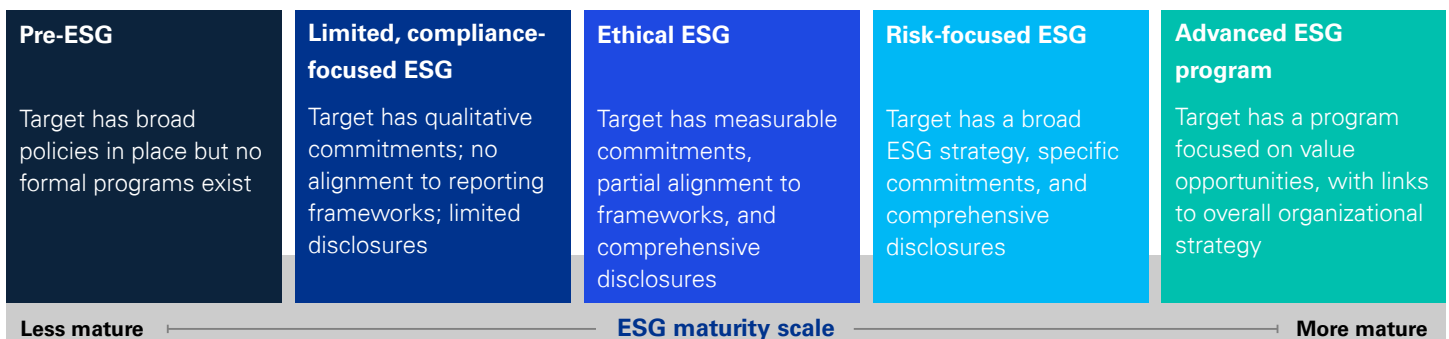
for example, identify potential post-close decarbonization strategies, and plan for the cost and timing associated with those efforts.

With further access, bidders can also use analytics to evaluate a target’s progress on broadening representation, promoting fairness, and fostering an inclusive environment. Bidders may aim to identify pay disparities, promotion, and retention rates across diverse groups, and measure inclusion in

ways that more accurately reflect the organizational influence of underrepresented employees.

The next step in this evolution is to make greater use of insights from ESG due diligence in post-close value creation efforts. This will require deal makers to understand how ESG programs can create value (or could represent a dis-synergy) so they can prioritize activities—for example, improving energy efficiency in the target’s facilities.<sup>9</sup>

### Exhibit 6. Greater ESG maturity can mean less complexity



<sup>7</sup> Source: “How to determine where ESG can create value.” KPMG LLP, 2022

<sup>8</sup> Source: “Inclusion, Diversity and Social Equality.” KPMG UK, 2021

<sup>9</sup> Source: “How to determine where ESG can create value”

## Complexity 04 Multi-step deals

Regulators often require companies contemplating a large transaction to divest certain assets to avoid overconcentration or other anti-competitive effects. Having to shed a business to win regulatory approval slows down the transaction and complicates the deal process by requiring simultaneous carve-out and integration efforts. These multi-step deals can also undermine the original deal math, create opportunity for business disruption, postpone value capture, and increase tax costs.

With heightened regulatory attention on M&A, companies can expect more antitrust interventions. According to Dechert, LLC, in 2021 more than 37 percent of large deals were held up or abandoned as a result of reviews by government agencies. That's the highest number since the law firm started tracking the data in 2011.<sup>10</sup>

We also see an increasing number of multi-step deals that result from the search for transformative assets. One old-line equipment manufacturer, for example, recently entered into a deal

to acquire another equipment maker to gain access to its autonomous driving technology and development team. It has no need for the rest of the company, which it plans to sell off. In preparing its original bid, the buyer had to estimate what it might get for the unwanted parts of the business, which were likely to command a lower multiple.



<sup>10</sup> Source: Matt Heller, "Large Deals Meet Resistance," CFO.com, February 7, 2022

## Complexity 05 Cross-border deals

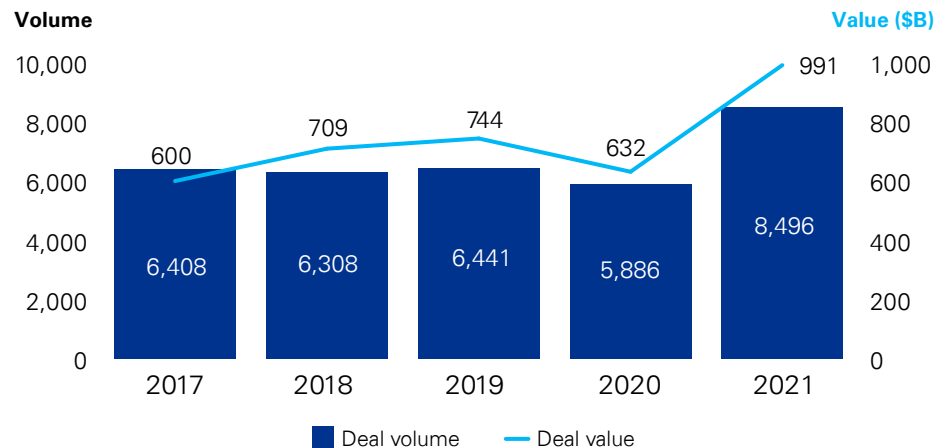
Cross-border deals soared in 2021, with 44 percent more cross-border deals involving U.S.-based buyers or sellers than in 2020 (Exhibit 7). Some of these deals have become mind-boggling in their complexity, which tends to rise with the number of countries in the acquisition's footprint given cultural, regulatory, and legal challenges.

Cross-border deals can also require special expertise in international tax, regulation, export controls, etc. Sanctions and export controls resulting from the Russia-Ukraine war have increased complexity, particularly in parts of Europe.

Cross-border carve-outs and spin-offs can be even more complex. Unless such divestitures are structured properly, the tax impact can be significant. Given the intricacies of tax-efficient spin-offs and divestitures, planning the execution well in advance of the desired close timeframe is key to success.

In recent years, a growing list of large multinationals have used carve-outs and spin-offs to reshape portfolios and capture value by separating disparate businesses. The underlying assumption is that the business can perform better on its own or as part of another company that has a more appropriate operating model and focus. For example, we have seen a series of proposed transactions in healthcare and life

**Exhibit 7. Cross-border activity (U.S.-based buyers or sellers)**



### Capturing value in cross-border divestitures

When a global medical products manufacturer decided to spin off its multibillion-dollar pharmaceutical business, it had to manage the transfer of regulated businesses in 75 countries. In many countries, regulators required a new license to continue selling the drugs. To manage the handoffs efficiently, the buyer worked with KPMG to set up a centralized core team and regional teams, with local experts who had the experience to navigate local regulations and negotiate deals with local partners. Even with extensive planning, the separation team ran into unexpected complications. Local sales reps in Latin America, for example, were accustomed to having personal conversations with management and were offended when they received communications about changes via email.<sup>11</sup>

sciences, where companies have decided that certain businesses can perform better as separate entities. Capturing the value, however, requires highly complex separations involving new regulatory approvals,

licenses, distributor agreements, and other arrangements—sometimes across hundreds of jurisdictions (see “Capturing value in cross-border divestitures”).

<sup>11</sup> Source: “[Don't let your deal get lost in translation](#),” KPMG LLP, 2020

## Complexity 06 Talent/labor dynamics

Cultural issues have always been a challenge in M&A, and motivating and retaining talent is more difficult when buyers cross industries or acquire tech start-ups. Talent challenges can be even thornier in today's tight labor market. In 2021, amid the "Great Resignation," quit rates set records as workers opted out of jobs they found unrewarding or undesirable.<sup>12</sup>

The labor market remains tight, and many bidders are beefing up workforce diligence to address new concerns: How will the target's teams perceive our mission and strategy? Do we have a compelling value proposition? Do their employees have a sense of shared purpose? How long will it take to replace lost talent in this market?

Talent risks can quickly undermine deal value. As such, dealing with complex talent issues is more important than ever. Some companies use the transaction as an opportunity to update their overall people strategies to increase engagement for all employees and establish commitment to the newly combined organization.



## Complexity 07 Supply chain constraints

Global supply chains designed to boost efficiency and reduce costs can now impose higher costs and create risks for companies across industries. Today, it is more important than ever to assess supply chain resilience during diligence—and sometimes rethink where and how materials and products are sourced.<sup>13</sup>

Sophisticated bidders are now using diligence to take a deeper dive into the target's sourcing and logistics capabilities to identify risks and envision opportunities. It also pays to examine the target's sourcing contracts to evaluate how much leverage the target has over deliveries and pricing.<sup>14</sup>

No assessment of supply chain risks can be complete without an assessment of tax and trade implications, including the impact of customs duties, tariffs, and indirect taxes (e.g., sales tax, value-added tax, goods and services tax, etc.).

<sup>12</sup> Source: "Number of quits at all-time high in November 2021," Bureau of Labor Statistics, January 6, 2022

<sup>13</sup> Source: "[Six key trends impacting global supply chains in 2022](#)," KPMG LLP, 2022

<sup>14</sup> Source: "[When the price is wrong](#)," KPMG LLP, 2021

# Five practical moves to improve your odds of success in complex deals

We have shown how a number of forces have increased complexity in M&A, and how complexity creates additional challenges. These challenges arise across every stage of the deal cycle and require specific, targeted actions that go above and beyond what's needed for a traditional deal.

In the following pages, we focus on winning in the age of the complex deal. We outline five practical moves companies can take immediately to stretch their M&A muscle and

improve their odds of success when undertaking a complex transaction.

These moves are based on observations from our global deal professionals working across a range of transactions, industries, company size, and buyer sophistication. They emphasize enhanced ways of thinking and require shifts in mindset, ambition, and execution. They are not exhaustive, and each transaction will require a tailored approach.

The foundational step is to establish an unwavering focus on value. This

starts with clearly defining at the outset the strategic value that the transaction is intended to capture and value creation mechanisms that will deliver it. The specifics may evolve along the way but the overall strategic goal—the 'north star'—is always there, guiding every decision across the deal lifecycle. Indeed, the focus on value creation mechanisms will determine your approach to due diligence, how you prepare for Day 1, how you engage talent, and how you execute post-deal actions in light of an evolving market landscape.



## Move 01

# Make strategic value your ‘north star’

The ultimate payoff from complex deals is often strategic value—new opportunities or new ways of doing business that build long-term value. These deals transcend traditional synergies and can accelerate organizations to a desired future state. They are also a market signal to investors, customers, competitors, and employees—a stake in the ground that demonstrates conviction in a bold vision. The strategic goals of the transaction, therefore, must be clearly defined, widely supported, and pursued methodically and relentlessly.

**Set and communicate a clear vision.** Complex transactions are ambitious and inherently disruptive. At every stage, purposeful communication about the deal’s vision and strategic benefits helps build alignment and conviction. Clarity in that communication unlocks greater potential to identify and mitigate risk while enabling incremental opportunities to surface. It starts with leaders from both the buyer and target establishing a combined vision around strategic value. This ‘north star’ sets the stage for execution and should be translated into tangible goals and objectives for leadership. At the appropriate time, the vision and objectives need to be curated for key stakeholders. Absent this, synergy achievement can languish as a consequence of everyone ‘not rowing in the same direction.’

**Enlist the right team.** For complex transactions, getting to value achievement quickly can only happen when the right people are involved from the start. This calls for dynamic and tailored participation that extends beyond your traditional deal team. As it relates to the most significant risks and synergies, key individuals who bring elevated commercial and operational value to bear should be involved early on. Their input helps corporate development fine-tune key assumptions in the model and execution plan related to timing, one-time integration costs, and other resource needs. From the beginning, the deal team should also include key leaders who will be accountable for delivering the measurable outcomes that define success. Their input and buy-in—from pre-deal value visioning to post-deal execution—is key. As the deal lifecycle matures, this enables clear ‘ownership’ of deal objectives, paves the way for more realistic value capture roadmaps, and provides for the establishment of a measurement framework that ensures discipline across the execution timeline.

**Establish a governance model fit to task.** Complex transactions require a bespoke governance model that extends beyond standard playbooks. Greater agility, faster decision-making, rigorous measurements, and true accountability are key guiding principles that lead to a more successful outcome. A cadence of effective strategic reviews that continuously ‘restate’ the core elements of strategic value (the ‘north star’) keeps executives and teams aligned across time.

## Keeping your eye on the prize

McCormick & Company got its start in a Baltimore cellar in 1889 and became one of the largest flavor companies in the world. In the mid-2010s, the company embarked on a bigger, bolder, acquisition agenda with a long-term vision of becoming the leading flavor company, including M&A at the intersection of flavor and health. The plan was to move quickly into higher-value liquid flavors (hot sauce, mustard, barbecue sauce, etc.) through acquisitions, including the \$4.2 billion acquisition of the food division of Reckitt Benckiser, a consumer products company that owns soaps, personal care, and cleaning products. The deal included Frank’s RedHot sauce, French’s mustard, and Cattlemen’s BBQ sauce. By focusing on rapid execution, McCormick was able to move on quickly to two other acquisitions in the following four years—condiment producer Cholula and flavor manufacturer FONA. Management kept its eye on a well-defined strategic value proposition and moved methodically from one deal to the next. McCormick shares doubled between July 2017 and May 2022.

## Move 02

# Play offense to win during diligence

Diligence should not be a ‘check the box’ exercise to validate baseline assumptions. It’s your opportunity to identify even greater sources of value and explore the art of what’s possible with target management. It’s also an opportunity to ensure your own organization is clearly aligned around key levers of value.

**Focus on the elements of strategic value—then stretch further.** Prior to due diligence in high-stakes complex transactions, leading acquirers develop a risk-weighted economic model that follows the deal’s ‘north star.’ The model frames key assumptions for each value creation mechanism, together with a preliminary view on risks. This helps prioritize key due diligence efforts.

But beyond validating ingoing value and risk assumptions, deal teams need to stretch further in search of greater value. This requires harnessing the power of data analytics to unearth new opportunities (see “Creative diligence confirms greater potential value”).<sup>15</sup> This often means combining the target’s data with third-party data and your data. By going deeper, deal teams can identify incremental sources of value they can truly ‘bank on’—positioning them to bid higher if needed to win the deal. This requires a more integrated approach that cuts through functional silos to identify often overlooked interdependencies.

Also consider new sources of risk. The state of a target’s progress toward ESG, for example, could represent a hidden cost. Unique supply chain dynamics or a relatively high exposure to cyber risk or global shocks also call for new approaches to due diligence.

**Work with target management in diligence to stretch even higher.** Due diligence presents an opportunity to identify unanticipated potential from the deal. Buyers should proactively engage with their soon-to-be colleagues and ask: What could your company and teams do differently with access to our brand, market position, scale, and resources? This conversation should be approached with elevated EQ and bedside manner. Some members of target management may believe that their own personal circumstances hang in the balance. Nonetheless, this creates a powerful opportunity to gain new and deeper insights, validate key assumptions, build buy-in around strategic value, and enlist the target management’s help to imagine and design the future.

**Know thyself.** To achieve strategic M&A goals, buyers need to be realistic about their readiness to execute and capture intended deal value. This often calls for a candid inward assessment during diligence. Ask yourself what you need to do to be the best owner of the new business. Be alert for operational realities that could impede progress toward your strategic goals (e.g., weak experience in a new market or business model, key infrastructure gaps, etc.).

<sup>15</sup> See also, “[Differentiated diligence after COVID-19](#),” KPMG LLP, 2020

## Creative diligence confirms greater potential value

A gaming company was considering an acquisition of an online sports media firm. The strategic goal was to move into the fast-growing online sports betting business by offering an online betting app on sports news sites. The gaming company knew all about running a gambling business, but less about running a digital platform.

To build confidence in the thesis that it could turn a sports information audience into wagering customers, the gaming company had to perform due diligence on a nascent business that neither it nor the target had much experience with. Rather than rely solely on the target’s projections, KPMG benchmarked the sports media firm against ESPN (and other leading online platforms) and studied its audience to estimate how many might gamble online and visit the gaming company’s venues. Based on these and other findings, the gaming company moved forward with a nine-figure transaction to buy a minority interest in the sports media firm and take full control based on achieving benchmarks.

## Move 03

# Get a running start before Day 1

The moment a complex deal is announced, the stakes couldn't be higher. Risks are immediately elevated around customers, talent, suppliers, and other key stakeholders. As such, complex deals demand a different approach to Day-1 readiness—one with greater purpose, intensity, and speed. Sophisticated buyers use the sign-to-close window to protect business momentum, find and mitigate blind spots, continue to seek even higher synergy upside, and accelerate tailored integration planning.

**Use a Launch Team to get moving faster.** Before the ink has dried on the purchase agreement, key activities must kick off. These vary by deal but typically focus on protecting business momentum, establishing the value management office, and performing ongoing diligence (to identify further upside) through a clean room.

To increase the odds of success, sophisticated buyers establish a small high-functioning team (a 'Launch Team') built to act fast. This agile, highly bespoke team of six to eight people launches immediately upon signing and is responsible for accelerating the pace and success of the transaction. Its mission is to move with the highest levels of focus, intent, speed, and empowerment to protect and create value in line with the deal's 'north star.' Team members often come from corporate development, the sponsoring business unit, HR, finance, and key functional teams (sales, marketing, engineering, etc.) and are often paired with outside advisers skilled in complex deals. The team liaises closely with both C-suite leadership and business unit leaders who will be responsible for executing the value capture plans.

**Protect business momentum.** A newly announced transaction creates an opportunity for competitors to pounce, customers to lose faith, and talent to question their future. From the moment the deal is announced, protecting business momentum is paramount. To protect revenue, launch a customer outreach program that begins executing on Day 1: explain what has changed; what remains the same; and what the transaction means for the customer value proposition. Robust communications are key to maintaining focus in business operations and engaging with customers.

## How to hit the ground running

When a foodservice company agreed to acquire a distributor, it wasted no time in making plans to start capturing revenue synergies on Day 1.

Using the target's historical sales data, the acquirer—with the help of KPMG advisers—determined revenue targets for specific accounts and built dashboards for sales reps to monitor growth opportunities. A special tracking tool was built for executives to monitor how well the company was progressing toward the deal's strategic goals.

The acquirer also identified potential obstacles to value capture, including contracts, supplier willingness, and talent needs. Management developed a comprehensive plan to align field employees with deal goals, including new incentive structures that encourage collaboration between the two sales organizations, coordinated training, and a central information hub for reps to access key documents. It also identified common customers and developed new pricing strategies to ensure customer buy-in.

Finally, KPMG helped the company undertake the significant task of creating a unified taxonomy for product attributes and classifications to track the items that would be sold by the combined company.

## Move 04

# Adopt a people strategy for the times

More than ever, the value of a target lies in the capabilities, energy, and culture of its people. Tight and evolving labor markets raise the risk of losing talent—and reduce the likelihood of quickly finding replacements. To make complex deals work, you need a people strategy fit for today's talent realities.

**Protect your most important assets in the deal.** Losing talent can make it impossible to achieve the deal's objective. Without the people who have the expertise and institutional knowledge, things don't get done right and productivity lags. Be transparent about your plans for the transaction and beyond, and use online portals and communities for two-way communications (see "Keeping talent on board when a deal is delayed"). Today, it takes longer and costs more than ever to recruit talent. So, keeping talent in place is key. This means going far beyond the usual plans for retaining key executives. Understand what positions and capabilities are most critical to success, current attrition rates by key employee group, time to fill open positions, sources of available labor, and recruiting processes. Then create targeted incentives. Compensation is only part of the solution: your new employees want opportunity, flexibility for work/life balance, and a sense of mission.

**Win the commitment of the target's workforce.** Retention bonuses may help you hold onto target employees in the short term, but are not always sufficient to keep talent in place indefinitely. The target's employees need to want to work for you. Buyers need to be transparent about their plans and present the target's employees with a clear and compelling value proposition that is connected to the strategic goals of the deal. Communicate the goals of the transaction, build trust and excitement, and enlist your new employees in your quest for strategic value. Look for new career opportunities for key talent and make them feel like they have been recruited, not acquired.

**Update your wider people strategy.** A complex transaction creates a good opportunity to make sure your overall people strategy is right for the times. To create a longer-term competitive advantage, changes in what jobs are needed, how (and where) they are done, and who will do them require an updated approach. When employees are engaged and find value in their work, productivity rises and turnover falls. Assume that all employees are looking for an opportunity to flourish and contribute, then create a supportive, nurturing employee experience.

## Keeping talent on board when a deal is delayed

Delays in closing the deal can sharply increase the risk of talent loss—as the months drag on, employees who were excited about the deal may grow impatient and look for alternatives. A merger of two large data companies that was announced in late 2020 awaited regulatory approval until April 2021, pending the sale of certain assets.

To sustain employee enthusiasm for the deal, KPMG deployed its engagement and onboarding platform to help the acquirer create an experience for the target employees that kept them informed throughout the deal and made them feel connected to the acquirer's organization. The platform included an intranet site with videos and podcasts to introduce employees to senior leadership and each other, and share corporate histories and success stories. Employees of each company had a separate channel to ask questions and offer feedback, they could interact with each other on live blogs, and senior leaders had real-time metrics about employee engagement.

## Move 05

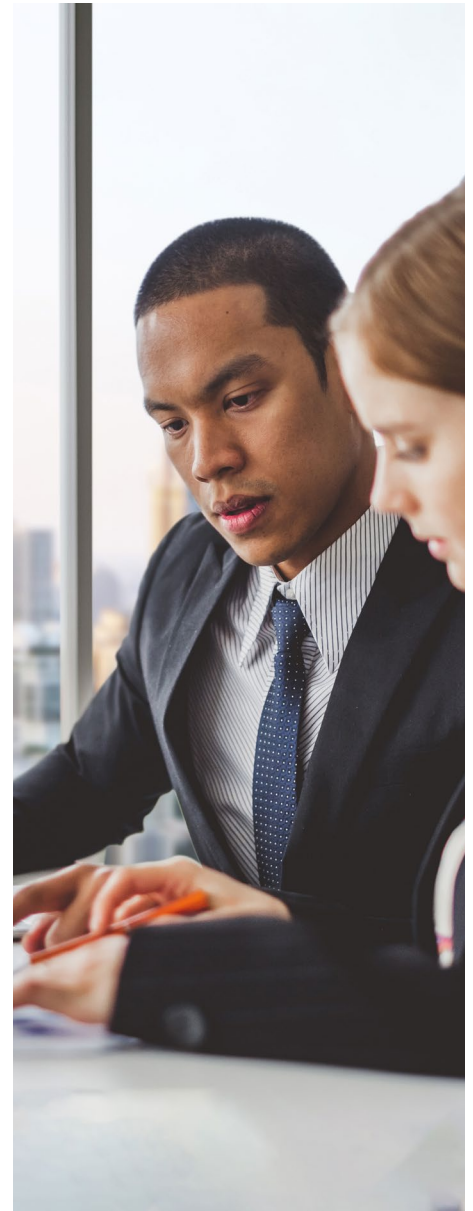
# Think continuous value creation

Buyers define synergy targets at the outset, but they shouldn't stop there. Be alert to new opportunities that arise and prepare to flex as markets, leadership, and strategies evolve.

**Treat value creation as a moving target.** Agility is key. You've hit Day 1 with the best possible value capture strategy you can put together. You have a near-term and long-range plan, with all the right governance and resources in place. Everybody's on board. But be prepared to pivot. Over time, markets shift, competitors make moves, leadership changes, strategies evolve, customer needs shift, and new technology becomes available. Any of these factors can knock your 'Plan A' off course. Remain alert to new risks and value opportunities these changes may present.

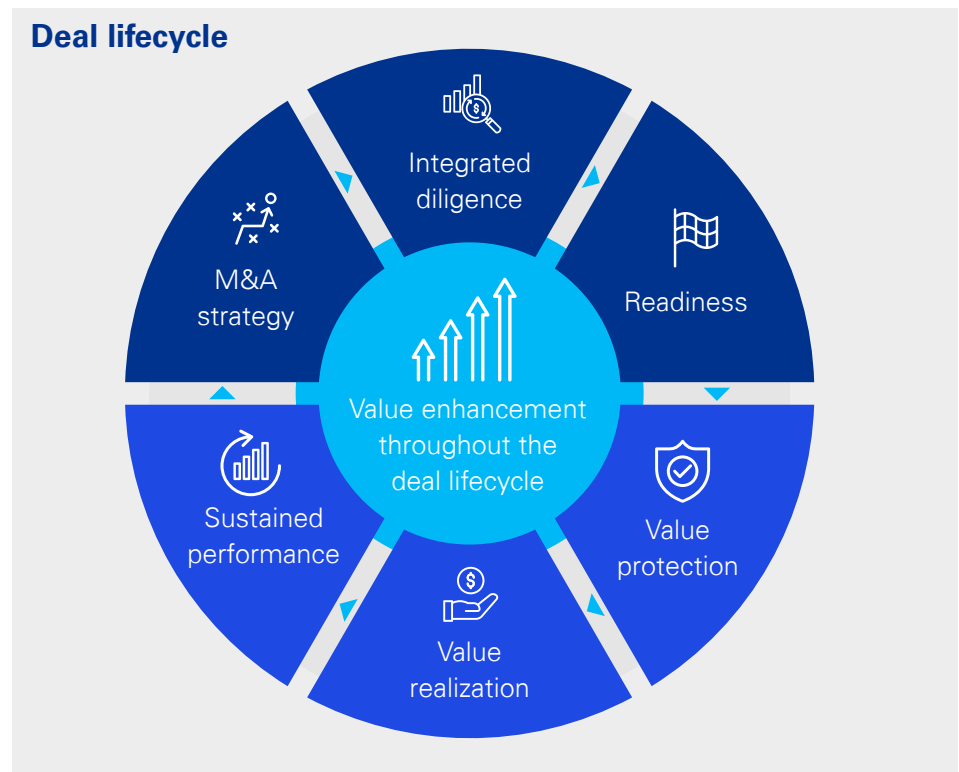
**Maintain discipline and prevent backsliding.** It's important to continually track progress against the original transaction goals. If progress is behind schedule, identify root causes—were the assumptions wrong or are there problems in clarity, incentives, or execution? Then fix the problem or revise the plan and measure again. Beware of backsliding: after the integration reaches key late-stage milestones and initial synergy targets have been achieved, don't assume the gains will stick. Six months after the integration took costs out of the purchasing department, for example, revisit the impact and make sure that costs have not crept back in. Consider repeating and revising as necessary—at 12 and 18 months out.

**Keep your eye on the 'north star.'** Don't lose sight of the 'north star' that inspired your transaction. Today's complex deals are aimed at large strategic ambitions that companies will pursue over the course of many years. A year or two after close, however, the fidelity of the original deal thesis can fade. Make sure the leaders who executed the deal remain focused on the ambitious goals on which the deal was predicated. Keep track of how your continuing quest for strategic value fits with—or is in conflict with—other transformational efforts.



# How KPMG can help

Today's M&A environment is increasingly defined by intense competition, high valuations, and rising complexity. The stakes are higher than ever. Whether plotting the best path to a winning bid, helping to identify, protect, and create value, or managing risks, KPMG deal advisers harness deep industry and functional experience. Our insights reduce uncertainty, help clients make better decisions, and achieve faster outcomes. Our integrated approach helps clients identify and realize the extraordinary synergies that today's complex deals demand. Our teams use advanced data analytics to generate distinct insights into companies and markets to help support smooth deal execution, optimize value realization, and minimize risks.



## Our approach to deal preparation and execution

### M&A strategy

Value creation starts with the buyer's unique needs, a well-considered capital allocation strategy, and the development of strong investment cases based on a strategic vision. We support clients in portfolio strategy and pre-deal assessment, target identification, market intelligence, investment case development, and early synergy identification.

### Integrated diligence

With multidisciplinary teams, our functionally integrated diligence approach focuses on key risks and value drivers of the deal. Our advanced analytics, proprietary data sets, and deal-specific data

help generate distinct insights and actionable plans, all at deal speed.

### Readiness

During the readiness stage (i.e., sign to close), we concentrate on the prevention of value leakage by helping clients protect the existing business, prepare for Day 1, and develop a future-state model that facilitates rapid post-close value creation.

### Value protection

We help our clients protect value by supporting business continuity, talent retention, and operational focus while minimizing commercial and operational risk.

### Value realization

We help accelerate value capture during integration, marshalling the experience of our functional, performance, and deal specialists. Leveraging the momentum from quick wins, we enable our clients to realize greater synergies and achieve their strategic objectives with speed.

### Sustained performance

Our determined focus on value is a core competency. Our teams have led hundreds of performance improvement projects and helped clients implement systematic processes that sustain value and prevent backsliding.

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