



## Operational Due Diligence: Assess Critical Information When There's No Time for a Deep Dive

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## Operational Due Diligence: How to Assess Critical Information When There's No Time for a Deep Dive

Given the competitive state of the **private equity** middle market, a perception exists that there's simply no time for operational due diligence. Imagine asking a target acquisition to sit tight while you thoroughly investigate its operating practices and leadership capabilities. With two or more other buyers waiting in the lobby, check in hand, you'd probably be laughed right out of the office.

This scenario isn't far-fetched. According to [PitchBook's 2018 US PE Middle Market Report](#), the middle market has more than \$189 billion in dry powder ready to be deployed immediately. Both the number and value of deals are up considerably, while exits are down, meaning there are more firms competing more aggressively for a smaller pool of potential targets. In addition, PE firms are holding onto their portfolio companies for longer periods of time and as a result, they are much more eager to find and execute add-on acquisitions that can drive growth for these businesses. The bottom line is PE firms have money to spend on both new portfolio companies and add-ons, and they're motivated to spend it right now.

While current market conditions are compressing the window of time available for a thorough round of operational due diligence, we would argue that you don't have to give-up on an operational look under the hood. Indeed, completely forgoing an analysis of a deal's operational risk and opportunity is likely a costly mistake. You can miss operational landmines that could jeopardize the deal thesis. Even in cases where the deal is essentially done, operational due diligence is the key to finding opportunities to accelerate EBITDA improvements and establishing a go-forward integration plan that can help quickly turn a good deal into a great one.

## **Fitting Operational Due Diligence Into a Compressed Window**

Now more than ever, PE firms need the ability to very quickly size up the operational risk and opportunity of a potential deal.

### **There are two options:**

- Create an in-house operational deployment team or,
- partner with an external resource that already has expertise in various areas of the operations spectrum, including back office administration, manufacturing, productivity, [supply chain](#), automation, and analytics.

Ideally, this partner will have the bandwidth to put boots on the ground fast. Often in as little as a few hours on-site, experienced operations personnel can clearly see where the major opportunities and risks exist. They can sum up the key findings in short order and put together a plan for expediting value realization.

We recently helped a client complete global operational due diligence in seven sites located across four continents in just two weeks. Our report provided an operational snapshot including details on facilities and equipment, safety policies, human resources, and supply chain management. We provided a site performance summary showing risk and opportunity by location at a glance and prioritized key areas for improvement. Most importantly, the consultants identified and documented a best case (probable) scenario of \$14 million in EBITDA improvement opportunity and up to \$3 million in working capital that could be realized in a 14- to 18-month timeframe.

In another example, **our consultants have worked closely with a PE firm to support multiple add-on deals**. In this relationship, our role included quickly sizing up the improvement opportunities of potential subsequent acquisitions, validating leadership capabilities, and then working closely with the target companies to plan and implement the required changes and achieve performance goals as rapidly as possible.

## **Significant Value Delivered with Speed**

Opportunities for **rigorous operational due diligence** are getting fewer and farther in between, but with the right approach and a team that understands the critical importance of speed, significant learnings can still be gained in short order. This can give you the validation and confidence needed to pull the trigger on a deal or help you accelerate value realization post-transaction. **Even if you only have a few days for operational due diligence**, a quick analysis can increase your visibility into the near-term potential. It can help you create a solid integration plan and accelerate the optimization plan post-integration to help your firm get to the gains faster.



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