

U.S. REGIONAL ENERGY GENERATION, DISTRIBUTION AND SALES COMPANY

Merger Integration to Maximize Acquisition Value

Client

Our client is a Houston-based holding company whose primary business is the production and sale of electric energy, capacity and ancillary services through a fleet of operating power plants - both coal and gas - across six states. The client's customers include Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs), integrated utilities, municipalities, electric cooperatives, transmission and distribution utilities, industrial customers, power marketers, financial participants, such as banks and hedge funds, and other power generators.

Challenge + Opportunity

The client was faced with integrating an acquisition that would increase its power generation capacity from 11,600 megawatts to more than 15,000 megawatts (by more than 30%) through five plants in one Midwest state while adding an established retail and commercial energy business to its overall portfolio. Acquired with no cash consideration, the acquisition promised greater upside leverage for shareholders without compromising the balance sheet or consuming capital. Early financial and synergy targets were established of approximately \$60 Million in cost savings and margin improvements. As year-one integration progressed, the client's management added \$35 Million



to that goal. Natural operational and G&A synergies were targeted for capture and were expected to generate value for both the client and the acquired operations.

In the highly regulated energy industry, the integration process had to incorporate approvals from essential federal and state regulatory agencies. Ensuring that securing these approvals did not impede, slow or at its worst, stop the integration was a key concern as the Integration Management Office (IMO) was created. Additionally, the client expected to expand its continuous improvement program into the acquired organization in order to achieve greater synergies. Finally, it was understood that sharing infrastructure costs across a broader asset base would be a significant benefit to the client.

Approach + Solution

Based on its understanding of the client's ambitious synergy goals, TayganPoint established and led the cross-functional/cross-business unit IMO. We focused on not only achieving the financial targets but also ensuring that strategic management and operational objectives were met to fully leverage the business potential of the acquisition:

- Develop and foster strategic partnerships with key acquisition stakeholders, fostering cross-functional collaboration in critical operations areas;
- Ensure adequate senior leadership oversight as the integration progressed;
- Create financial transparency for senior management which provided insights into integrated budgets and synergy calculations through effective reporting;
- Provide regular communication forums for all involved to address open issues and to drive progress;
- Identify further process improvements and merger

benefits beyond the close date and targets;

- Ensure appropriate controls were in place to manage risk, especially from the perspective of operating safety and IT conversions.

Operating the Integration Management Office (IMO), TayganPoint ensured that the objectives of the integration were met within the guidelines established and within the timeframes anticipated by implementing the following:

- Structured the integration effort as a program with a lean, centralized command infrastructure to provide regular progress reports and created a forum for all integration work stream issue identification and resolution;
- Defined all aspects of this lean governance approach with a heavy focus on communications plans, templates, forums for information sharing, risk management, and issue tracking;
- Provided regular coaching and support to each of the team leaders to facilitate progress;
- Managed the evolving on-site calendars, including logistics, agendas, individuals involved, etc., so that both the client and the acquired organization understood the time commitments and whereabouts of key stakeholders over the intense initial months.

Immediately following the acquisition announcement, the IMO leadership was able to establish the operating platform for the merged company, define the necessary infrastructure and identify the non-negotiable elements. Key assumptions were developed quickly and communicated to all participants. Stakeholders from both entities were brought together in carefully-planned and orchestrated meetings to ensure clear, consistent messaging and

to address effective change management practices. The IMO established clear accountability for decision-making and served as a key arbiter of scope issues.

Results + Impact

Compared to the initial target of \$60 Million in synergies, the client achieved an additional \$35 Million in cost savings and margin improvements, resulting in total holding company synergies of \$95 Million by the start of the following year. The components of the synergies included reductions in labor costs, G&A reductions, and lower transportation costs based on a new contract that went into effect the year after the integration. The IMO structure of governance was viewed as a valuable enhancement compared to "business as usual" project governance approaches previously employed by the client. TayganPoint's lean IMO governance process and methodology created a sustainable approach to driving future transformation efforts and merger integration as a result of the cross-functional, transparent, and disciplined approach to managing the integration.

About TayganPoint

TayganPoint is a management consulting firm focused on dynamic business transformation. Aligning people, process, culture and technology, they combine deep experience in strategy alignment, process improvement, change management and program management with extensive industry knowledge in Life Science, Financial Services, Healthcare and Energy. TayganPoint delivers high value operations solutions that improve performance, delivering measurable and sustainable results to clients. Learn more at www.tayganpoint.com.