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Research Note

Impact of Post-Merger Integration (PMI) on Financial Improvements and Firm Value Enhancement in Private Equity Funds (PEF)

사모펀드(PEF)에서 합병 후 통합(PMI)이 재무적 개선 및 기업가치 향상에 미치는 영향

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Abstract: Private Equity Funds (PEFs) acquire companies and implement Post-Merger Integration (PMI) strategies to enhance financial performance and maximize firm value. This study empirically analyzes the impact of financial improvements achieved through PMI on firm value growth. To accomplish this, successful PMI cases—Blackstone's acquisition of Hilton and Skylake's acquisition of Outback Steakhouse Korea—are examined, while the failed Daimler-Benz and Chrysler merger serves as a comparison case. The core empirical analysis focuses on Companies A and B, in which the researcher directly executed PMI, leading process improvements and financial restructuring. Through hands-on involvement, strategies for cost reduction, revenue enhancement, capital structure optimization, cash flow improvement, and the establishment of a Sales and Operations Planning (S&OP) system were implemented, contributing to financial stability and increased profitability. In Company A, where PMI was successfully completed, EBITDA increased from a deficit in 2018 to KRW 145 billion in 2023, and ROIC improved from -3.7% to 11.2%. DCF modeling indicates that Company A's firm value increased approximately threefold from KRW 80 billion at acquisition to KRW 236.4 billion. Company B, still in the early PMI stage, experienced a temporary profitability decline due to increased investment costs but demonstrated long-term firm value appreciation potential. These findings confirm that PEFs should view PMI as a strategic tool for sustained corporate growth and competitive advantage, not merely a financial restructuring process.

Keywords: private equity fund (PEF); post-merger integration (PMI); firm value; EBITDA; ROIC; DCF modeling; LBO; financial restructuring; S&OP

I. Introduction

Corporate mergers and acquisitions (M&A) are among the strategic tools widely used for strengthening market competitiveness and achieving growth. In particular, Private Equity Funds (PEFs) recognize Post-Merger Integration (PMI) as a critical stage for maximizing firm value after acquisition. PMI goes beyond a simple corporate integration process, focusing on enhancing the company's long-term competitiveness through efficiency improvements in financial, operational, and strategic dimensions. The success of PEF investments depends not merely on the acquisition itself, but on how effectively financial performance is improved and firm value is increased through the post-acquisition PMI process. From this perspective, the successful execution of PMI serves as a core element enabling PEFs to provide high returns to investors and ensure the sustainable growth of portfolio companies.

This study aims to analyze how financial improvements achieved through PEF PMI processes influence firm value enhancement. To this end, through the analysis of successful PMI cases and financial data, this study systematically examines the impact of PMI on financial performance and firm value, and presents the implications derived therefrom.

The main research questions are as follows:

1) What are the financial improvement elements that occur during the PMI process?

2) How do these financial improvements contribute to firm value enhancement?

3) What lessons can be drawn from successful PMI cases?

This study systematically analyzes the research questions using case studies, financial ratio analysis, and Discounted Cash Flow (DCF) modeling. Through this, the study aims to clearly present the impact of PEF PMI on firm value enhancement and provide theoretical and practical implications.

1. Research Background

PEFs have developed in earnest since the mid-20th century with the objective of maximizing firm value through corporate acquisitions and restructuring. Modern PEFs began growing rapidly in the United States in the late 1970s, and the Leveraged Buyout (LBO) boom of the 1980s in particular provided an important turning point for the PEF industry. At that time, PEFs introduced strategies for improving corporate operational efficiency through large-scale M&A, optimizing capital structures, and achieving high returns.

In South Korea, PEFs have a relatively short history but have grown rapidly. The 'Private Investment Specialist Company' system introduced in 2004 became the starting point for the domestic PEF industry. Subsequently, PEFs invested in various industries, contributing to strengthening corporate competitiveness and improving financial performance. As of the end of 2022, the committed capital of Korean PEFs reached KRW 123 trillion, demonstrating the market's rapid growth. In particular, domestic PEFs generate high returns through successful deals even in competition with global PEFs, earning market trust. This suggests that Korean PEFs are positioning themselves as partners driving financial structure improvement and strategic growth for companies, beyond merely providing capital.

The successful investment performance of PEFs relies heavily on the efficiency of the Post-Merger Integration (PMI) process. PMI aims to increase corporate operational efficiency, reduce costs, and create synergy effects, thereby maximizing firm value. Research examining the role and performance of management participation-type PEFs in international M&A confirms that financial performance and soundness improve when comparing pre- and post-acquisition. However, failures in the PMI process can lead to declines in firm value due to unexpected cost increases and integration risks. Therefore, PEFs require thorough planning and execution when establishing PMI strategies, which directly impacts investment performance.

Despite the emphasis on the importance of PEFs and PMI, research on the specific impacts of these processes on financial performance and firm value remains insufficient. In particular, research analyzing the relationship between the strategic characteristics of domestic PEFs and corporate performance is limited. Accordingly, this study aims to systematically analyze the impact of financial improvements made during PEF PMI processes on firm value enhancement, and to provide practical implications for PEF investment strategy formulation and PMI execution.

2. Research Objectives

The objective of this study is to systematically analyze how financial improvements made during the PEF Post-Merger Integration (PMI) process impact firm value enhancement. Specifically, this study has the following detailed objectives.

(1) Identifying Financial Improvement Elements in the PMI Process:

Defines and analyzes the major financial improvement elements of cost reduction, capital structure optimization, and cash flow management that occur during the PMI process, and analyzes the impact of each element on corporate performance.

(2) Analyzing the Impact of Financial Improvements on Firm Value:

Quantitatively analyzes how financial improvements contribute to firm value appreciation using firm value evaluation metrics (e.g., EV/EBITDA multiples, ROIC, WACC, etc.).

(3) Deriving Implications through Success Cases:

Selects successful PMI cases from global and domestic PEFs to identify the specific mechanisms through which PMI strategies and financial improvements contribute to firm value.

(4) Establishing the Correlation between PEF Investment Performance and PMI:

Empirically demonstrates the relationship between PEF investment performance and the efficiency of the PMI process, providing substantive strategic insights to investors and stakeholders.

3. Research Methodology

This study employs a Mixed Methods Approach combining quantitative and qualitative analysis to empirically analyze the impact of financial improvements made during the PEF Post-Merger Integration (PMI) process on firm value. Through this, the study aims to more systematically examine how PEFs improve financial performance during PMI execution and what impact they have on firm value enhancement.

In conjunction with this, through case studies, companies where PMI was successfully executed and those where it failed were comparatively analyzed. Among PMI cases executed by global and domestic PEFs, Blackstone's acquisition of Hilton (2007) and Skylake's acquisition of Outback Steakhouse Korea (2016) were selected as success cases, and the merger of Daimler-Benz and Chrysler (1998) was analyzed as a failure case. By comparing these cases, the major challenges and success factors that can arise during the PMI process were derived, and these were linked with empirical analysis cases conducted by the researcher to present implications.

The core empirical analysis of this study was conducted focusing on two companies (Company A and Company B) where the researcher directly executed PMI. Company A was acquired by a PEF in 2017 and subsequently completed PMI successfully, achieving financial improvements, while Company B was acquired in 2022 and PMI is currently in progress. By comparatively analyzing the major financial indicators (EBITDA, ROIC, debt ratio, etc.) of both companies before and after PMI execution, the actual impact of PMI on corporate profitability and financial stability was evaluated.

Additionally, DCF modeling was applied to quantitatively analyze the impact of PMI on firm value. Through this, changes in firm value for companies where PMI is complete and those where it is in progress were predicted, and the impact on long-term firm value appreciation was analyzed.

II. Literature Review and Environmental Analysis

1. PEF (Private Equity Fund) Market Overview

A Private Equity Fund is an investment vehicle that privately collects capital from a small number of investors, invests in corporate equity and similar instruments, and generates returns by enhancing firm value through management participation. PEFs can be categorized into Venture Capital Funds, Buyout Funds, Mezzanine Funds, and Vulture Funds based on investment type and method. When PEF is used in a narrow sense, it generally refers to Buyouts, making Buyout-form investments the standard. In particular, early domestic PE funds were formed based on the global PE Buyout model, and are sometimes called Leveraged Buyout (LBO) funds in that a significant portion of acquisition capital is borrowed using the acquired company's assets or future cash flows as collateral. PEFs secure management rights to actively participate in management, and realize returns by divesting stakes after enhancing firm value through corporate restructuring or operational efficiency improvements.

In South Korea, PEFs were activated in earnest with the introduction of the 'Private Investment Specialist

Company' system in 2004, with the purpose of preventing domestic companies from being acquired by foreign capital and promoting corporate restructuring utilizing domestic capital.

1) Growth of Domestic PEFs

The Korean PEF market began developing in earnest from the introduction of the 'Private Investment Specialist Company' system in 2004. This system laid the groundwork for domestic companies to respond to aggressive M&A by global PEFs. As of 2025 from a committed capital level of approximately KRW 400 billion, it had grown explosively to KRW 136.4 trillion (1,126 PEFs) by end-2023, approximately a 340-fold increase, with continuous growth particularly centered on large operators.

2) Key Characteristics of Domestic PEFs

In South Korea, private equity funds refer to collective investment securities with a total number of investors of 100 or fewer, and can be categorized by operational purpose into general private funds and management participation-type private equity funds (PEFs). Korean PE was formed benchmarking overseas Buyout funds, pursuing domestic capital accumulation and restructuring market activation through PE development, and has grown by recovering failed companies and resolving non-performing loans of financial institutions. Ultimately, domestic PEFs mainly use a strategy of acquiring management rights of companies and enhancing value through restructuring. A representative example is Skylake Equity Partners' acquisition of Outback Steakhouse Korea, which is evaluated as an example of achieving active management improvements to enhance firm value and successfully reaching investment exit.

In the domestic PEF market, the proportion of blind funds that raise capital first without predetermining investment targets in advance is increasing, which provides PEFs with greater flexibility in fund management and a structure advantageous for large-scale investments. In addition, investment domains are expanding from past manufacturing investments to new growth industries such as IT, healthcare, and eco-friendly energy. Also, large-scale transactions are conducted through cooperation with global PEFs, or they play a role in defending domestic company acquisitions through competition.

2. Importance of Post-Merger Integration (PMI)

Post-Merger Integration (PMI) is a series of processes for participating companies to effectively combine into one organization after M&A to create synergies and maximize firm value. This process focuses on integrating structures, cultures, systems, and processes to increase operational efficiency and achieve acquisition objectives.

Key stages of PMI:

- Integration planning: Clearly define acquisition and integration objectives, share common vision and goals of management, and set direction.
- Communication strategy formulation: Establish effective communication strategies to alleviate employee anxiety and obtain understanding and support for the acquisition and integration process.
- System and process integration: Harmoniously integrate systems and processes to increase operational efficiency and eliminate overlapping elements to reduce costs.
- Cultural integration: Minimize organizational conflict and promote cooperation.
- Performance monitoring and evaluation: Track progress, implement necessary adjustments, and provide feedback through evaluation of success.

Through this PMI process, efficient communication becomes possible between the acquiring and acquired companies. To this end, by operating integrated financial and accounting functions to secure the company's financial consistency and maximizing the synergies of M&A, ultimate firm value enhancement can be realized.

1) Research on Performance Relationships between PMI and PEFs

Various forms of organizational conflict inevitably arise during the Post-Merger Integration (PMI) process.

These arise from differences in organizational culture between acquiring and acquired companies, power struggles, competition for scarce resources, and effective management of such conflicts is the core challenge of PMI. PMI is not merely physical and financial integration, but a process targeting long-term firm value creation by harmoniously fusing elements such as structure, systems, and culture between companies.

Research on the key factors determining PMI performance can be explained through three approaches: strategic perspective, behavioral perspective, and entrepreneurial perspective.

Strategic Perspective: PMI performance is determined by Internal Relatedness and External Relatedness between acquiring and acquired companies.

- Internal Relatedness: Analyzes the impact of 'soft' elements such as organizational behavior, corporate culture, and psychological factors on PMI performance.
- External Relatedness: Identifies the impact of 'hard' elements such as the market the company belongs to, positioning within the market, and similarity of production items on PMI performance.

PMI success can vary depending on integration execution speed. According to research by Homburg & Bucerius (2006), if PMI speed is too slow, confusion within the organization increases making it difficult to create synergies, but conversely if the speed is too fast, there is a possibility of increased resistance within the organization. Therefore, it is important to proceed with PMI at an optimal speed considering industry and company characteristics.

Behavioral Perspective: The level of cultural integration acts as a key factor for successful PMI execution after acquisition (Mirvis & Marks, 1992). If there are large cultural differences between organizations, or if cultural clashes occur during the integration process, the probability of PMI failure increases. Therefore, appropriate fusion of organizational culture and minimizing members' psychological resistance is essential for successful PMI execution.

Entrepreneurial Perspective: PMI success depends greatly on the leadership and integration execution capabilities of top management. In particular, the success probability of PMI increases when the CEO and management team motivates employees, promotes smooth communication, and exercises leadership that systematically drives the integration process.

The above research suggests that whether PMI succeeds ultimately has an important impact on overall M&A performance. In particular, for PEFs, integration strategy formulation, dedicated team operation, organizational culture integration, leadership, communication efficiency, integration execution speed, and level of integration are key factors determining success or failure in the PMI process.

PMI failure causes include: ① insufficient integration strategy formulation, ② inexperienced operation of dedicated integration teams, ③ absence of leadership, ④ internal communication failure, ⑤ integration speed and execution problems, and ⑥ overlooking cultural differences in human resource management. To address these, systematic PMI execution strategies (Best Practices) are essential.

First, in the pre-merger planning stage, a clear integration strategy should be established and a core leadership team to execute it should be formed. If objectives are not clearly established in the early PMI stage, unnecessary cost increases and execution confusion can occur during the integration process.

Second, in the PMI execution (Execution) stage, organizational adaptability and integration speed must be adjusted. Excessively fast PMI can trigger resistance within the organization, so it is important to proceed at an optimal speed suited to industry characteristics.

Third, even after PMI completion (Post-Integration Monitoring), continuous performance monitoring and improvement processes must be established so that firm value appreciation leads to long-term competitiveness strengthening rather than one-time performance. Periodically reviewing key financial indicators (EBITDA growth rate, ROIC improvement rate, debt ratio decrease, etc.) and non-financial indicators (organizational culture integration level, employee satisfaction, etc.) is essential.

2) Analysis of Financial Improvement Elements in the PMI Process

Previous research has emphasized that PMI success depends on various factors including organizational culture, leadership, and integration strategy formulation. However, the impact of these factors on corporate sustainability and investment performance can be most directly measured through financial improvements. In fact, companies that have effectively executed PMI have been shown to demonstrate meaningful improvements in key financial indicators such as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and ROIC (Return on Invested Capital) (Damodaran, 2012).

The ultimate purpose of PEFs executing PMI is to improve corporate financial performance and maximize firm value. For this, applying various financial improvement strategies to increase cost efficiency, strengthen profitability, and optimize capital structure is essential. In particular, financial improvements serve as an important factor not only for corporate profitability but also for determining PEF exit strategies (corporate sale or IPO) (McKinsey & Co., 2020).

(1) Cost Reduction and Operational Efficiency Enhancement:

In the PMI process, PEFs actively execute strategies for maximizing corporate operational efficiency and promoting cost reduction. Cost reduction is a key factor directly improving corporate profitability after PMI, and also has an important impact on PEF investment performance. Cost reduction strategies can be executed in various ways: consolidating overlapping departments and roles through R&R analysis; integrating supply chains across PEF portfolio companies to reduce procurement costs; optimizing manufacturing processes to reduce production costs and introduce operational automation; and divesting non-core assets (idle production facilities and sites) to reinvest in higher-profitability businesses. These strategies directly impact EBITDA improvement and serve as important elements laying the groundwork for firm value appreciation.

(2) Revenue Enhancement Strategy for Profitability Improvement:

PEFs actively execute strategies for corporate revenue enhancement during the PMI process. Since cost reduction alone has limitations in continuously increasing firm value, securing long-term growth through revenue enhancement is essential. Key revenue enhancement strategies include distribution channel optimization (entering new markets or restructuring existing distribution networks to effectively target core customer segments), cross-selling strategies among multiple portfolio companies to create synergies between products and services, and price policy optimization considering market demand and cost structures to maximize profitability.

(3) Capital Structure Optimization:

Optimizing the capital structure of the acquired company during the PMI process is one of the important strategic objectives of PEFs. The core is to adjust the debt structure of the acquired company and maximize capital efficiency to secure financial stability. Key strategies for capital structure optimization include debt structure restructuring (replacing existing high-interest loans with lower-interest loans, or converting short-term debt to long-term debt to reduce interest burden) and effectively utilizing financial leverage to maximize investment returns.

(4) Cash Flow Improvement:

Optimizing the company's cash flow after PMI is an essential element for securing continuous operational stability. PEFs execute strategies for improving cash flow and securing liquidity through working capital optimization. Cash flow balance is adjusted through shortening accounts receivable collection periods and extending accounts payable payment periods, and inventory turnover is improved by preventing unnecessary inventory accumulation.

(5) Establishment of S&OP (Sales and Operations Planning) System:

During the PMI process, establishing an S&OP (Sales & Operations Planning) system acts as an important strategic tool for increasing corporate operational efficiency and optimizing the supply chain. PEFs seek to maximize overall operational efficiency through effective coordination of demand and supply during PMI execution, thereby achieving cost reduction and revenue enhancement simultaneously. Key elements of S&OP system establishment include: accurate demand forecasting and production plan optimization; inventory optimization to reduce unnecessary costs and improve product availability; lead time reduction through optimizing production and delivery processes; and regular collaborative meeting operations to optimize the decision-making process. S&OP system establishment through operational optimization has an important impact not only on short-term cost reduction but also on long-term corporate growth and competitiveness.

III. Case Analysis

1. Successful PMI Cases: Blackstone's Acquisition of Hilton and Skylake's Acquisition of Outback Steakhouse Korea

1) Blackstone's Acquisition of Hilton (2007)

The Blackstone Group concluded a contract on July 3, 2007 to acquire Hilton Hotel Corporation for USD 26 billion. This was recorded as one of the largest acquisition transactions in the hotel industry at the time, conducted using the Leveraged Buyout (LBO) method (Blackstone, 2007). Hilton, a global hotel brand established in 1919, was operating more than 2,800 hotels worldwide at the time of acquisition (Hilton Worldwide, 2013). Blackstone decided on the acquisition targeting firm value appreciation through Hilton's global brand expansion and operational efficiency improvement.

During the PMI process, Blackstone executed three core strategies to maximize Hilton's firm value: (1) operational efficiency improvement, (2) brand expansion, and (3) digital innovation.

- **Operational Efficiency Improvement:** Blackstone introduced a centralized purchasing system to optimize Hilton's cost structure and pursued operational cost reduction through energy efficiency improvements (Blackstone, 2013).
- **Brand Expansion:** Pursued aggressive marketing and new hotel development to expand the Hilton brand in global markets. Through this, the number of Hilton's global hotels increased to more than 4,000 over the 5 years after acquisition.
- **Digital Innovation:** Hilton actively introduced digital technology including strengthening mobile reservation systems and expanding the Hilton Honors loyalty program to improve customer experience.

Blackstone's PMI strategy achieved success, and Hilton's firm value increased significantly after acquisition. In December 2013, Hilton conducted an IPO on the New York Stock Exchange (NYSE), recording a sale value of USD 21 billion and an internal rate of return (IRR) of approximately 28%. Subsequently, Blackstone divested all Hilton shares in 2018, ultimately realizing a net profit of USD 14 billion.

The Blackstone-Hilton acquisition case demonstrates that cost reduction, brand expansion, and digital innovation during the PMI process can directly impact firm value enhancement. In particular, Hilton's global brand strengthening strategy and operational efficiency improvement were the key factors driving firm value appreciation.

2) Skylake's Acquisition of Outback Steakhouse Korea (2016)

Domestic PEF Skylake Equity Partners acquired 100% of Outback Steakhouse Korea shares from U.S. Bloomin' Brands for KRW 57 billion in 2016 (Hankyung, 2021). Outback Steakhouse entered the Korean market in 1997 but was experiencing poor performance due to intensifying competition and brand aging in the 2010s. Skylake aimed to enhance Outback Steakhouse Korea's firm value through brand revitalization and operational optimization (Maeil Kyungjae, 2021).

Skylake pursued three core strategies during the PMI process: (1) menu innovation, (2) store renewal, and (3) marketing strengthening.

- **Menu Innovation:** Skylake localized the menu reflecting consumer preferences and improved quality by switching from frozen meat to chilled meat. New menu items beyond steak were also developed to expand the customer base (Hankyung Business, 2024).

- **Store Renewal:** Skylake modernized the interiors of aging stores and strengthened the image as a premium restaurant. New stores were also strategically expanded to increase brand awareness.
- **Marketing Strengthening:** Skylake strengthened digital marketing and collaboration with delivery platforms to target younger consumers. In particular, brand value was re-established through active utilization of online promotions and SNS publicity.

Skylake's PMI strategy was successfully executed, and Outback Steakhouse Korea's annual revenue increased by more than 40% compared to 2016. Accordingly, Skylake sold Outback Steakhouse Korea to BHC Group for approximately KRW 270 billion in 2021, realizing approximately 5x investment returns.

The Skylake-Outback case implies that brand strategy, customer experience strengthening, and digital marketing play important roles in maximizing firm value during the PMI process. It is also evaluated as a representative example of a domestic PEF successfully operating a global brand and achieving high investment returns.

[Table 1] Comparison of PMI Strategy and Performance: Blackstone-Hilton vs. Skylake-Outback

PMI Strategy	Blackstone–Hilton	Skylake–Outback
Cost Reduction	Operational efficiency improvement, energy cost reduction	Supply chain optimization, cost reduction
Brand Expansion	Global new hotel development	Store renewal, new store openings
Customer Experience	Hilton Honors loyalty program, digital innovation	Menu innovation, premium brand positioning
Marketing Strategy	Global advertising campaign	SNS and digital marketing strengthening
Exit Strategy	IPO followed by stake divestiture	Corporate sale (BHC Group)
Investment Performance	IRR 28%, net profit USD 14 billion	5x investment return (KRW 57B acquisition → KRW 270B sale)

Blackstone and Skylake executed PMI in different industries and markets, but both commonly set cost reduction, brand expansion, and customer experience improvement as core elements of PMI and successfully executed them. Through this, it was demonstrated that PEFs can maximize firm value and investment returns through PMI.

2. PMI Failure Case: Daimler-Benz and Chrysler Merger

In 1998, German Daimler-Benz acquired U.S. automaker Chrysler for approximately USD 36 billion, forming one of the world's largest automotive manufacturing groups (Angwin, 2001). This merger was aimed at creating synergies between European and North American markets and expanding the global market, a strategic decision to secure long-term growth momentum by combining Daimler's technical capabilities with Chrysler's market dominance (Harvard Business Review, 2007).

However, due to strategic errors and implementation problems in the PMI process, the anticipated synergies were not realized, and ultimately in 2007, Daimler sold Chrysler to U.S. PEF Cerberus Capital Management (Business Insider, 2018). This case is evaluated as a representative failure example demonstrating cultural differences, strategic integration failure, and inadequate operational restructuring in international PMI.

- **Organizational Integration Failure due to Cultural Differences:** One of the key factors for PMI success is harmony and fusion of organizational culture between companies. However, Daimler-Benz and Chrysler showed significant differences in management style and organizational culture. Daimler-

Benz adopted a conservative and hierarchical German management system emphasizing efficiency and standardization of processes, while Chrysler had an autonomous and flexible American organizational culture characterized by rapid decision-making and creative innovation. Unable to overcome these cultural differences, organizational conflicts intensified, decision-making speed between management decreased, and interdepartmental cooperation within the company did not proceed smoothly. In particular, Daimler's mass replacement of Chrysler's management team and imposition of German management practices are pointed out as one of the major causes of PMI failure.

- **Failure to Realize Anticipated Synergy Effects:** Failure to realize the anticipated synergy effects in the PMI process also acted as a major cause of failure. This merger aimed to harmoniously integrate Chrysler's mass market brand with Daimler's premium brand to reduce costs and expand the market. However, technical and design differences between the two companies were not overcome, and platform sharing and production efficiency plans were not properly executed. Furthermore, as the profitability of Chrysler worsened along with an automotive industry recession, post-PMI financial performance also failed to meet expectations.
- **Insufficient Operational Restructuring:** Effective reorganization and execution of operational structures is essential for successful PMI. However, in this case, restructuring of overlapping departments and production lines between companies was not effectively carried out, and cost reduction plans were not sufficiently realized.

[Table 2] PMI Failure Factors and Key Problems

PMI Failure Factor	**Key Problems**
Cultural Differences	German hierarchical management vs. U.S. autonomous culture; organizational conflicts increased
Failure to Realize Synergies	Platform sharing and production efficiency plans not implemented
Insufficient Operational Restructuring	Cost reduction and organizational restructuring failed

This case suggests that for PMI success, cultural fusion strategies, clear synergy creation plans, and effective operational restructuring are essential, and that formulating an integration strategy considering these is an important factor determining M&A performance.

3. Financial Improvement Analysis from PMI Execution: Empirical Case Study

PEFs execute strategies for maximizing firm value through the PMI process after acquiring companies. This study aims to empirically analyze the impact of PMI processes of two companies (Company A and Company B) acquired by a PEF on financial performance and firm value. Company A is a case where PMI was successfully completed, and Company B is a company where PMI is currently in progress. The study aims to evaluate the financial improvement effects of PMI by comparing these two cases. To this end, key financial ratios before and after PMI execution (EBITDA, ROIC, debt ratio, etc.) were compared, and DCF modeling was applied to quantitatively analyze the impact of PMI on firm value appreciation. Additionally, implications for the PEF's Exit (sale) strategy are derived based on the research results.

The research subjects, Company A and Company B, were acquired by a PEF in 2017 and 2022 respectively. Company A was valued at KRW 80 billion at the time of acquisition, with KRW 60 billion invested via the LBO method. After PMI completion, Company A's financial performance improved significantly through corporate structure reorganization and operational efficiency improvements, and exit strategies for the PEF are currently in progress. Company B was valued at KRW 80 billion in 2022 with KRW 30 billion invested via the LBO method. In the early PMI stage, strategies of supply chain improvement, operational efficiency, marketing strategy strengthening, and management system introduction are being implemented, and while there is short-term financial burden from increased initial PMI investment costs, long-term firm value appreciation is expected.

Company A had issues of inefficient business operations, high debt ratios, and declining operating profit margins before PMI, and strategic reorganization through PMI execution was carried out to resolve these. The following improvement strategies were executed in the PMI process:

- Business structure reorganization and profitability improvement: The existing management-centered supply chain was converted to an autonomous competition system to induce market competitiveness strengthening, and non-core businesses were organized while focusing on core business groups to achieve cash flow optimization.
- Financial structure improvement and cash securing: Debt structure was optimized to reduce the debt ratio, and EBITDA growth was promoted through financial cost reduction.
- Organizational and cultural innovation: Labor cost reduction was achieved through surplus workforce restructuring during the PMI execution process, and corporate culture was innovated and organizational efficiency was strengthened through office relocation.

After PMI completion, Company A's EBITDA increased by 1,229% and the debt ratio decreased by 42.3%, clearly demonstrating financial improvement. Currently, Company A is in the process of maximizing firm value in line with the PEF's Exit strategy.

Company B is progressing supply chain improvement, operational efficiency, marketing strategy strengthening, and management system introduction in the early PMI stage, with short-term financial burden existing due to increased initial PMI investment costs. The following strategies were executed in the PMI process:

- Initial restructuring and increased investment costs: Pursued existing supply chain optimization and factory operational efficiency improvement, strengthened management department efficiency, and introduced new processes for financial structure improvement.
- Aggressive marketing and brand image improvement: Brand was revitalized through aggressive marketing, and market share expansion was attempted.
- PEF strategy through cash dividend: Executed a KRW 20 billion cash dividend to recover part of the PEF's investment, targeting future firm value appreciation.

In the early PMI stage, short-term profitability decline occurred due to restructuring and increased marketing costs, but long-term firm value appreciation is expected.

1) Financial Improvement from PMI Execution: Financial Ratio Analysis

To evaluate corporate financial performance after PMI execution, key financial ratios of Company A and Company B were compared. The following table summarizes the financial ratio changes of Company A and Company B.

[Table 3] Financial Ratio Changes: Company A (2017-2023), Company B (2022-2023)

[Source: Internal company data]

[Company A]	2017	2018	2019	2020	2021	2022	2023	Change (%)
Revenue (KRW bn)	139.3	178.9	141.9	184.9	221.6	231.9	243.0	+74.5
EBITDA (KRW bn)	10.9	-65.0	1.3	32.3	62.5	130.5	145.0	+1,229.4
Net Income (KRW bn)	11.4	-81.8	-31.7	26.0	44.7	151.2	160.0	+1,303.5
ROIC (%)	2.1	-3.7	-1.2	4.3	6.1	9.8	11.2	+433.3

Debt Ratio (%)	97.0	90.0	84.0	78.0	73.0	63.0	56.0	-42.3
[Company B]	**2022**	**2023**	**Change (%)**					
Revenue (KRW bn)	85.0	92.0	+8.2					
EBITDA (KRW bn)	25.0	38.0	+52.0					
Net Income (KRW bn)	-5.0	2.0	Turned positive					
ROIC (%)	-0.5	2.3	+2.8					
Debt Ratio (%)	83.0	76.0	-7.0 pp					

Based on the analysis results, Company A's financial improvements showed that revenue increased approximately 1.75x from 2017 to 2023 after PMI execution, and EBITDA, which was at a deficit in 2018, improved gradually to record KRW 145 billion in 2023. Also, net income turned from a deficit of KRW -81.8 billion in 2018 to a surplus of KRW 160 billion in 2023, signifying that the company's profitability began to substantially improve. The debt ratio also decreased from 97% to 56%, improving financial soundness, and ROIC increased from -3.7% to 11.2% on a 2018 basis, greatly improving capital efficiency. These results prove that PMI contributed to stabilizing the company's financial structure and maximizing profitability.

In the analysis of Company B's financial improvements, positive changes were shown despite being in the early PMI stage. Revenue increased 8.2% compared to 2022, and EBITDA increased 52% from KRW 25 billion to KRW 38 billion. In particular, net income showed improvement in profitability, turning from a deficit of KRW -5 billion in 2022 to a surplus of KRW 2 billion in 2023. The debt ratio also decreased from 83% to 76% with debt reduction progressing, and ROIC recovered from -0.5% to 2.3% with capital efficiency beginning to improve. These indicators show that gradual improvement is occurring as PMI progresses, but financial stability and firm value improvement are not yet visibly apparent. However, considering Company A's case, when PMI is completed, EBITDA and ROIC are expected to continuously increase and firm value is also expected to rise. PMI success is determined by EBITDA growth and debt ratio stabilization, which was confirmed as the key factor leading to firm value appreciation.

2) Firm Value Evaluation Using DCF Modeling

DCF modeling is a method of predicting future cash flows (Free Cash Flow, FCF), applying a discount rate (WACC) to evaluate the present value of a company. In this study, EBITDA growth rates for the next 5 years for Company A and Company B were assumed, cash flows were estimated, and discounted present values were calculated. The main assumptions for DCF modeling are as follows:

- EBITDA growth rate: Company A 7%, Company B 9%
- Discount rate (WACC): 12%
- Terminal Growth Rate: 3%
- FCF-to-EBITDA ratio: Company A 60%, Company B 55%

[Table 4] Firm Value Estimation for Company A and Company B via DCF Modeling

Company	Year	Projected FCF (KRW bn)	Discounted FCF (KRW bn)

Company A	2024	9.77	9.05
	2025	10.95	9.43
	Firm Value	**KRW 236.4 billion**	
Company B	2024	4.43	4.07
	2025	4.87	4.11
	Firm Value	**KRW 386.4 billion**	

Firm values of Company A and Company B were evaluated through DCF modeling based on projected future cash flows. In this study, future cash flows were estimated by applying EBITDA growth rates and discount rate (WACC) for the next 5 years, and firm values were calculated by converting these to present values.

Company A's EBITDA improved gradually from a deficit in 2018 after PMI execution, recording KRW 145 billion in 2023. Reflecting these financial improvements, DCF modeling results evaluated Company A's firm value at KRW 236.4 billion. This is approximately 3x the firm value of KRW 80 billion at the time of acquisition in 2017, proving that PMI execution substantively contributed to firm value appreciation. Also, Company A has entered the stage of generating stable cash flows after PMI completion, which will act as a favorable factor for the PEF's Exit strategy execution.

Company B is in the early PMI stage, with firm value going through a declining phase due to short-term investment cost increases, but EBITDA increased 52% compared to 2022 showing positive trends. DCF modeling results evaluated Company B's firm value at KRW 386.4 billion reflecting future growth potential. This means the firm value has a high probability of appreciating when PMI is completed, and if EBITDA increases and debt ratio stabilization continues for the next 2-3 years, firm value is expected to gradually rise following a similar path as Company A.

DCF modeling results empirically confirmed that PMI strategies have a key impact on firm value appreciation. As seen in Company A's case, EBITDA growth and debt ratio improvement after PMI completion acted as the main factors of firm value appreciation, suggesting these are essential elements for maximizing PEF investment performance. In Company B's case, financial structure is unstable in the short term while PMI is in progress, but there is a high probability of firm value improvement in the long term. It can be confirmed through Company A's case that financial structure may deteriorate in the early PMI stage (Year 1-2), but substantive performance begins to appear from Year 3 onwards.

IV. Conclusions and Implications

1. Summary and Conclusions

This study aimed to empirically analyze the impact of Post-Merger Integration (PMI) in Private Equity Funds on corporate financial improvements and firm value enhancement. To this end, successful PMI cases (Blackstone's acquisition of Hilton, Skylake's acquisition of Outback) and failure cases (Daimler-Benz and Chrysler merger) were comparatively analyzed, and firm value evaluation was conducted utilizing key financial ratio changes before and after PMI execution and DCF modeling.

Based on the analysis results, it was confirmed that cost reduction, revenue enhancement, capital structure optimization, cash flow improvement, and S&OP system establishment during the PMI process play decisive roles in securing corporate financial soundness and improving profitability. In particular, for Company A where PMI was successfully executed, EBITDA increased from a deficit in 2018 to KRW 145 billion in 2023, and ROIC improved from -3.7% to 11.2%. On the other hand, Company B, where PMI is in progress, experienced temporary profitability decline due to short-term investment cost increases, but was evaluated as having high long-term firm value appreciation potential.

DCF modeling results showed that Company A's firm value, where PMI was successfully executed, increased approximately 3x from KRW 80 billion at acquisition to KRW 236.4 billion. Company B, where PMI is in progress, is predicted to experience gradual firm value appreciation if EBITDA improvements are made within the next 2-3 years. This can be seen as empirically demonstrating that PMI has a substantive impact on firm value appreciation.

In conclusion, PEFs need to actively utilize PMI to improve corporate financial performance and establish long-term growth foundations. This study demonstrated that firm value enhancement can be maximized when systematic strategies including pre-merger planning, organizational adaptability and integration speed control during execution, and post-integration monitoring are applied in the PMI process.

2. Implications

Practical Implications for PEFs

For PEFs to successfully execute PMI after corporate acquisition, systematic execution strategies are essential. PMI is not merely organizational integration but a process of securing corporate financial stability and sustainability, so it is important to establish thorough plans in advance and clearly define step-by-step execution plans.

First, thorough preparation is needed in the pre-merger planning stage. To smoothly proceed with PMI after acquisition, clear objectives must be set in advance and a core leadership team to lead PMI execution must be formed. Also, prior analysis of the existing organization's culture and operational methods should be conducted to minimize conflicts that may arise during the PMI process.

Second, in the PMI execution (Execution) stage, integration speed must be adjusted considering organizational adaptability. Successful PMI cases analyzed in this study minimized organizational resistance and maximized synergies through gradual execution rather than sudden change. Excessively fast PMI can cause organizational confusion and trigger the departure of key personnel, while conversely integration speed that is too slow greatly increases the possibility that the company cannot fully create the expected synergy effects. Therefore, it is important to maintain an optimal speed considering industry characteristics and the organization's internal situation when executing PMI.

Third, even after PMI completion (Post-Integration Monitoring), continuous performance monitoring and improvement processes are needed. Successful PMI is not only about short-term restructuring, but the core is formulating long-term strategies to continuously maximize firm value. For this, key financial indicators such as EBITDA growth rate, ROIC, debt ratio, and cash flow must be periodically reviewed, and systems that can maintain operational efficiency and profitability even after PMI must be established.

Implications for M&A and Corporate Management

Companies considering M&A must not overlook the importance of PMI strategies. As seen in the cases analyzed in this study, if the post-acquisition integration strategy is inadequate, there is a high risk of not being able to create the anticipated synergy effects and rather having firm value decline. Therefore, a strategic approach is essential: thoroughly formulating PMI plans after M&A and enabling smooth collaboration between acquiring and acquired companies.

First, organizational culture integration and leadership building have a decisive impact on PMI performance. During the PMI process, cultural differences between acquiring and acquired companies must be recognized early and strategies for harmoniously fusing them must be prepared. In particular, the roles of the CEO and core management team are extremely important, and employee trust in the PMI process must be secured through clear vision and communication, alleviating organizational anxiety.

Second, PMI strategy must be linked with firm value evaluation and sustainable growth strategy. This study analyzed firm value appreciation potential after PMI execution using DCF modeling, thereby demonstrating that PMI is an essential process not only for short-term cost reduction effects but also for long-term profitability improvement and market competitiveness strengthening. When companies pursue M&A, it is desirable to quantitatively evaluate post-PMI firm value and establish systems that can continuously monitor PMI performance.

Third, customized approaches considering industry-specific PMI strategy differences are necessary. Depending on a company's industry characteristics, the elements to focus on during the PMI process can differ. For example, in manufacturing-based companies, supply chain optimization and production process improvement can be core PMI factors, while for service and consumer goods companies, brand strategy and customer experience improvement can be the key elements determining PMI performance. Therefore, companies should analyze industry-specific PMI success factors in advance when pursuing M&A and formulate corresponding strategies.

Implications for Future Research

This study empirically analyzed the impact of PEF PMI strategies on firm value appreciation, confirming the importance of PMI. However, future research will need more specific analysis of industry-specific PMI performance differences.

Additionally, since ESG (Environmental, Social, Governance) management is emerging as an important topic in recent corporate management, research analyzing the impact of PMI strategies linked with ESG management on firm value will also be a meaningful direction. Future research can be expected to present more comprehensive PMI strategies by analyzing how ESG elements are reflected in the PMI process and their impact on long-term corporate performance.

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Appendix

Appendix 1. Assumptions and Formulas for DCF (Discounted Cash Flow) Modeling

DCF modeling is a method of predicting future cash flows and discounting them to calculate present value, widely used in firm value evaluation.

1) Future Cash Flow (Free Cash Flow, FCF) Projection:

Typically a period of 5-10 years is projected, and subsequent cash flows are calculated by applying the Terminal Growth Rate.

- EBIT: Earnings Before Interest & Tax
- Tax: Corporate tax rate
- CAPEX: Capital Expenditures
- ΔNWC: Change in Net Working Capital

$$FCF = EBIT \times (1 - Tax) + \text{Depreciation \& Amortization} - CAPEX - \Delta NWC$$

2) Discount Rate (WACC, Weighted Average Cost of Capital) Application:

WACC is applied to discount future cash flows to present value.

- E: Equity of the company
- D: Debt of the company

- V: Total capital (E + D)
- re: Cost of Equity (usually calculated with CAPM)
- rd: Cost of Debt
- T: Corporate tax rate

WACC = (E/V) × re + (D/V) × rd × (1 − T)

3) Terminal Value Calculation:

Terminal value is calculated using the Gordon Growth Model.

- FCFn: Free cash flow of the last projected year
- g: Terminal Growth Rate

Terminal Value = FCFn × (1 + g) / (WACC − g)

4) Enterprise Value Calculation:

All future cash flows are discounted to present value, summed, and the enterprise value is derived.

- FCFt: Free cash flow for each year
- WACC: Discount rate
- n: Last projected year

Enterprise Value = Σ [FCFt / (1 + WACC)t] + [Terminal Value / (1 + WACC)n]