

WHITE PAPER

CONSOLIDATED PROFITABILITY CAN CONCEAL LEGAL-ENTITY VULNERABILITY

Lessons from the Transformation of a Founder-Dependent Romanian
Manufacturing Operation Following a Private Equity Acquisition

A White Paper on Post-Acquisition Transformation, Intercompany Economics,
Operational Resilience and Leadership Succession



PEOPLE PROCESSES ECONOMICS	REAL-WORLD EXPERIENCE REAL IMPACT	FROM DEPENDENCY TO AUTONOMY
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EXECUTIVE SUMMARY

From founder dependency to institutional capability

The Romanian transformation became a simultaneous leadership, operational, commercial and legal-entity resilience program.

At the end of 2020, DRW was appointed as Interim Manager during the acquisition of a long-established Italian manufacturer of specialized safety equipment by a German industrial group. The Romanian manufacturing operation employed approximately 180 people and contained highly specialized production know-how, but its management system had evolved under decades of highly centralized founder leadership.

The assignment began with two priorities: preserve the workforce and embedded know-how, and modernize the Romanian plant. It expanded into a broader transformation spanning leadership, pandemic continuity, plant renovation, lean production, quality, capacity, digital production planning, cost transparency, intercompany economics, transfer-pricing exposure, liquidity, commercial diversification and succession.

The transformation challenge was not to replace one powerful leader with another. It was to build an organization that could understand its own economics, make decisions locally and continue improving after the Interim Manager left.

TRANSFORMATION DIMENSION	STARTING CONDITION	TARGET STATE
Leadership	Founder-centered decisions	Local accountable management
Workforce	Specialized know-how at transition risk	~180 employees and tacit knowledge preserved
Operations	Rejects up to ~20% on some products	Lean, quality and capacity improvement
Planning	Manual / Excel-based steering	Digital production planning
Economics	Aggregate profitability obscured business-stream economics	Customer and intercompany profitability transparency
Commercial model	High dependency on Italian affiliate	Stronger higher-margin third-party portfolio
Succession	Expatriate Interim leadership required	Local GM capable of independent takeover

Outcome. Despite the pandemic and a greater than 30% reduction in affiliated-company orders, the Romanian facility preserved its specialized workforce, expanded higher-margin third-party business and grew revenue by approximately 25% by the end of 2023.

THE CASE

A 36-month transformation under changing conditions

The mandate evolved from post-acquisition integration into business stabilization, economic transparency and leadership localization.

WHEN	WHAT CHANGED
End 2020	DRW appointed during acquisition; Romanian plant requires autonomous leadership, workforce protection and modernization.
2021	COVID-19 continuity becomes the first test. Production continues with almost no interruption.
2021-2022	Trust built with department managers; inefficiencies, reject losses, plant needs and Excel-based steering addressed.
2022	Second-look operational and financial review deepens cost transparency and separates affiliated from third-party economics.
2022-2023	Italian sister company enters financial distress; Romanian affiliated orders decline by more than 30%.
2022-2023	Higher-margin third-party business expanded in Romania and neighboring markets; liquidity and workforce preservation become central.
End 2023	Revenue approximately 25% above starting level; local General Manager takes full responsibility and DRW exits.

THE TRANSFORMATION CHAIN

Founder Dependency -> Leadership -> Trust -> Workforce -> Know-how -> Pandemic -> Operations -> Quality -> Capacity -> Digitalization -> Cost Transparency -> Intercompany Economics -> Transfer Pricing -> Liquidity -> Upstream Quality -> Commercial Diversification -> Margin -> Revenue Growth -> Succession -> Autonomy

The critical insight

The problems were not independent. Leadership dependency affected decision speed; quality losses consumed capacity; weak cost transparency distorted business economics; upstream quality created downstream labor; the decline in Italian orders exposed legal-entity liquidity vulnerability; and workforce preservation depended on commercial diversification as much as on HR measures.

FOUNDER DEPENDENCY

The acquisition inherited an operating system, not only a company

The founder had created the brand and the value - but the organization had learned to escalate rather than decide.

The Italian founder, approximately 80 years old at the time of the transaction, had built a worldwide recognized niche brand. Over decades, important decisions in both Italy and Romania remained concentrated around him. The resulting model was entrepreneurial and effective while the founder was present, but it had limited the development of autonomous local decision-making.

Romania represented the larger leadership gap. Italy already had an acting Co-CEO, while the Romanian plant lacked sufficiently established autonomous leadership. The local General Manager did not yet possess the workforce backing or decision authority required to steer the facility independently.

The objective was not to reject the founder's legacy. It was to institutionalize its strengths while removing the organizational dependency that made succession fragile.

Trust before transformation

DRW first built direct relationships with department managers, identified operational weaknesses with them and gradually moved responsibility into the organization. Managers had to learn that independent judgment was expected rather than discouraged.

OLD OPERATING LOGIC	TRANSFORMATION LOGIC
Decisions converge on one person	Decision rights distributed to accountable managers
Managers escalate	Managers analyze, decide and own consequences
Functions optimize locally	Cross-functional / matrix thinking
Knowledge resides in individuals	Knowledge increasingly embedded in processes and systems
External leader remains indispensable	Local leadership becomes capable of replacing Interim Management

OPERATIONS & DIGITALIZATION

Quality improvement created capacity - digitalization created transparency

Plant modernization was combined with lean production, reject reduction and a move away from manual production steering.

Reject rates reached approximately 20% for certain products. Such losses were not merely a quality issue: they consumed labor, materials, machine time, capacity and working capital. Lean-production measures therefore focused on releasing productive capacity through better process discipline and lower waste.

At the same time, the physical plant was renovated and modernized. The visible investment supported the cultural message that the Romanian operation had a future and that employees were expected to participate in building it.

OPPORTUNITY	MANAGEMENT EFFECT
Reject / rework reduction	Lower unit cost and more effective capacity
Lean production	Improved flow, discipline and scalability
Plant renovation	Better working environment and visible commitment
Digital production planning	Shared data, traceability and less person-dependency
Cost transparency	Ability to distinguish profitable from value-consuming activity

Digitalization is a management transformation

Production had been steered substantially through Excel-based manual processes. The move toward a digital production-planning system therefore required more than software. It required process definition, master-data discipline, clear responsibilities and shared performance information.

A digital system does not repair an undefined process. It makes the process visible - including its inconsistencies.

SECOND-LOOK REVIEW

Aggregate profitability concealed two very different business models

Post-closing management analysis de-averaged the Romanian business into affiliated manufacturing and third-party activity.

After assuming legal responsibility for the Romanian entity, DRW conducted a second-look operational and financial review. This was not intended to replicate transaction due diligence; it asked a different question: what did the Romanian business actually look like from the perspective of the management legally and operationally responsible for the local entity?

Management analysis indicated materially different economics between the two principal business streams. On the assumptions and cost allocations used for internal management purposes, manufacturing for the Italian affiliate generated approximately **-10% EBIT**, while third-party business generated approximately **+30% EBIT**. These figures are management observations and not audited historical or tax determinations.

BUSINESS STREAM	APPROX. MANAGEMENT EBIT	ROLE IN HISTORICAL MODEL
Affiliated manufacturing for Italy	~ -10%	Large-volume captive manufacturing
Third-party business	~ +30%	Higher-margin external activity supporting total Romanian profitability

An economically interdependent model

Third-party business represented only approximately 30-40% of total activity. Its strong profitability had historically helped compensate for the weaker economics of affiliated manufacturing. The Romanian entity could therefore appear satisfactory in aggregate while containing two fundamentally different economic models beneath the local P&L.;

Aggregate profitability can conceal cross-subsidization between customers, products, business models or affiliated entities.

LEGAL-ENTITY VULNERABILITY

The order crisis turned an economic issue into a liquidity issue

A group-level view can be economically rational while still leaving an individual legal entity vulnerable.

From a consolidated ownership perspective, differences in profitability between affiliated entities can appear largely neutral: an economic disadvantage in one entity may correspond to an advantage elsewhere in the group. Individual legal entities, however, must finance their own payroll, suppliers, working capital, taxes and statutory obligations.

This distinction became critical when the financially distressed Italian sister company reduced manufacturing orders to Romania by more than 30%. The Romanian facility still carried a specialized workforce and industrial infrastructure, while fixed and semi-fixed costs remained.

The crisis did not necessarily create the underlying vulnerability. It stress-tested the historical model and made the legal-entity consequences visible.

From P&L; to cash

At one point, liquidity pressure became sufficiently severe that temporary shareholder/group financial support was required. The episode demonstrated why consolidated EBITDA alone is not enough for post-acquisition governance.

BOARD QUESTION	WHY IT MATTERS
Where is EBITDA generated?	Aggregate results can mask weak business streams.
Where is cash generated?	A legal entity cannot fund obligations with profit reported elsewhere.
Where are costs caused?	The entity recording a cost may not have caused it.
Which entity finances working capital?	Volume shocks can expose local funding gaps.
Do intercompany economics reflect operational reality?	Cost attribution affects profitability, liquidity and governance.

COST CAUSATION

Fifteen FTE changed the management question

Deeper controlling analysis revealed that part of Romania's apparent cost problem originated upstream.

During certain periods, metal components supplied from Italy required substantial corrective activity in Romania before they could be processed efficiently. Management estimated this additional effort at approximately **15 FTE per month**. Under the prevailing intercompany arrangements, these Romanian resources were not separately charged back to the Italian affiliate.

VISIBLE IN ROMANIA	UNDERLYING CAUSATION	MANAGEMENT CONSEQUENCE
Corrective labor	Incoming material-quality issue	Romanian labor consumption rises
Rework / handling	Upstream process and quality weakness	Apparent local productivity deteriorates
Cost absorbed locally	Intercompany allocation does not separately recover effort	Affiliated economics weaken
Controlling anomaly	Cost location differs from cost cause	Group-level root cause becomes visible

Where a cost is recorded tells management who paid for the problem. It does not necessarily tell management who caused the problem.

Transfer pricing as a governance interface

The findings also raised questions about whether prevailing intercompany costing and transfer-pricing arrangements fully reflected the resources consumed and risks borne by the Romanian entity. The Interim Manager's role was not to make a retrospective legal or tax determination, but to identify inconsistencies, improve transparency, document the operational economics and ensure that potential exposure was visible to the appropriate corporate and professional stakeholders.

COMMERCIAL RESILIENCE

Diversification protected know-how better than indiscriminate downsizing

Higher-margin third-party business became the economic counterweight to the decline in affiliated orders.

A greater than 30% decline in Italian orders made the approximately 180-person workforce appear unsustainable if the company responded only by shrinking capacity. Yet large-scale workforce reduction would have destroyed specialized know-how that represented part of the acquisition value.

DRW therefore expanded third-party business in Romania and neighboring markets. Because this activity carried substantially stronger margins, an increase of approximately 10% in third-party business could economically compensate for the effect of the approximately 30% reduction in affiliated-company orders.

PRESSURE	RESPONSE	VALUE EFFECT
>30% decline in affiliated orders	Expand external customers	Reduce dependency on distressed sister company
Specialized workforce at risk	Preserve ~180 employees	Protect tacit manufacturing know-how
Affiliated economics ~ -10% EBIT	Prioritize higher-margin mix	Improve quality of revenue
Third-party economics ~ +30% EBIT	Grow third-party activity ~10%	Disproportionate contribution effect
Inflation ~16% p.a. during relevant period	Salary adjustments	Support retention and leadership credibility

Revenue diversification should be evaluated by contribution, cash generation and strategic independence - not merely by turnover.

By the end of 2023, Romanian facility revenue had grown by approximately 25% despite the severe deterioration in orders from the Italian sister company.

MANAGEMENT FRAMEWORK

The 8-dimension Post-Acquisition Reality Review

Use the framework after closing to expose dependencies that aggregate financial reporting can miss.

1	Leadership dependency Founder reliance, decision rights, local authority, succession risk.
2	Tacit knowledge Critical employees, undocumented know-how, single-person dependencies, retention.
3	Operational capability Quality losses, rework, capacity, lean flow, plant condition, bottlenecks.
4	Digital control ERP/MES, production planning, master data, traceability, shadow spreadsheets.
5	Economic transparency Customer/product profitability, cost allocation, contribution and cash generation.
6	Intercompany governance Transfer-pricing logic, service flows, quality costs, cost causation vs. cost location.
7	Resilience Liquidity, working capital, customer concentration, order shocks, inflation, funding triggers.
8	Succession & autonomy Management capability, workforce trust, coaching, stress testing, Interim Manager exit.

Governance rule. Every material post-closing finding needs a named owner, an economic consequence, a legal-entity consequence, an escalation path and a decision deadline. Visibility without decision rights is only reporting.

BOARD-LEVEL CHECKLIST

Ten questions for founder-led cross-border acquisitions

The purpose is not to eliminate uncertainty. It is to reveal the economics and dependencies early enough to create alternatives.

- 1 Which decisions still depend on the founder or a small number of individuals?
- 2 Which capabilities reside mainly in employees rather than documented processes?
- 3 Does each legal entity understand its true standalone profitability and cash generation?
- 4 Which customers and products create economic value - and which consume it?
- 5 Do intercompany prices and cost allocations reflect the resources actually consumed?
- 6 Are costs attributed to the entity causing them or merely to the entity absorbing them?
- 7 What happens to liquidity if the largest affiliated customer reduces orders by 20%, 30% or 40%?
- 8 How much capacity is consumed by rejects, rework and upstream quality failures?
- 9 Can the local management team run the company without the founder, expatriate or Interim Manager?
- 10 What must be true before the transformation leader can leave?

Private Equity does not acquire only the visible P&L.; It also acquires the economic relationships underneath it.

CONCLUSION

The final deliverable was organizational independence

The Romanian operation moved from person-dependency toward process capability, economic transparency and local leadership.

The transformation required simultaneous intervention across people, operations, systems, economics and governance. It preserved approximately 180 specialized employees while changing how they were led. It maintained production through the pandemic while modernizing the facility. It distinguished where costs were recorded from where they were caused. It separated affiliated revenue from profitable revenue. And it responded to a greater than 30% collapse in Italian orders by strengthening higher-margin external business rather than destroying core know-how.

By the end of 2023, Romanian facility revenue had increased by approximately 25%. More importantly, the local General Manager had developed the authority, credibility and capability to assume full responsibility for the operation. DRW could withdraw without replacing the old founder-dependency with a new expatriate dependency.

Sustainable transformation is achieved not when the Interim Manager becomes indispensable, but when the organization no longer needs the Interim Manager.

THE ONE-LINE TRANSFORMATION

180 specialized employees preserved -> pandemic production maintained -> hidden intercompany economics exposed -> upstream quality costs identified -> liquidity stabilized -> >30% affiliated-order decline absorbed -> higher-margin third-party business expanded -> +25% revenue -> local management capable of independently taking over

Methodology & legal note

All case facts, dates, percentages, staffing levels and DRW actions in this White Paper are based on the anonymized first-hand case narrative provided for preparation of this document. Financial percentages and operational quantities are approximate management observations made during the transformation. References to intercompany costing, transfer pricing and potential tax exposure describe management and governance issues identified during the assignment and should not be interpreted as audited historical findings, legal conclusions, findings of regulatory non-compliance or determinations by a tax authority.

The cover plant photograph is an illustrative industrial image derived from the visual reference supplied for layout direction; it is not represented as the Romanian facility described in the case.