

Veralto: How tightly should TraceGains connect with Esko?

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A strategy case for MBA students and working professionals

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An acquisition, then a design choice

On October 23, Veralto's hypothetical integration steering team was preparing its first 12-18-month plan for TraceGains, the food-industry software company it had acquired earlier that month. The transaction was complete. The next question was how the two organizations should work together.

TraceGains connected food companies with suppliers through cloud software used for ingredient, supplier-compliance, product-development and related data workflows. Esko, Veralto's packaging and labeling software business, served brand owners and packaging teams. Veralto saw a possible connection: product and ingredient information could move through food-company workflows toward packaging specifications and labels. Its acquisition announcement cited Esko's customer base and channel, along with the Veralto Enterprise System (VES), as potential sources of value.

But an apparent workflow fit did not settle the integration question. The public record did not show how many TraceGains customers also used Esko, whether customers wanted a combined offer, what technical interfaces existed, or how supplier data permissions would work across products. TraceGains had also announced an alliance with iFoodDS for lot-level traceability. A closed or heavily bundled system might make a joint offer easier to sell, but could complicate partner relationships or the trust required for a multi-party supplier network.

The team had to choose what to integrate, at what pace, and under whose authority. Should it align roadmaps, account planning and commercial incentives quickly? Preserve TraceGains' operating autonomy while establishing shared interfaces and optional joint selling? Or start with defined use cases and customer pilots, then deepen integration only after evidence cleared agreed gates? The assignment was hypothetical; no public source described a pending board vote or management mandate.

What Veralto had bought

On October 7, Veralto announced that it had acquired TraceGains' holding company for \$350 million, subject to customary post-closing adjustments. The company described TraceGains as cloud software for connected food data and digital workflows spanning food safety and traceability. It said TraceGains complemented Esko's packaging and labeling design software, and identified Esko's customer base and direct sales channel, together with VES, as potential value levers.

Veralto's acquisition release said TraceGains was expected to generate just over \$30 million in 2024 sales, with more than 95% recurring sales. It also reported about 80% gross margin and average sales growth above 20% year over year since 2022. These were management forecasts and company-reported claims, not audited post-close actuals or a set of historical standalone accounts; the release did not define the measures, provide cohort retention data, or reconcile them to audited statements. Management also expected a double-digit return on invested capital above Veralto's weighted average cost of capital in year six. That was a forecast, not an observed outcome, and the assumptions or return bridge were not disclosed.

The acquisition announcement therefore established the purchase price and management's strategic thesis, and offered a 2024 sales expectation and recurring-sales claim, but not audited historical standalone accounts or the economics of integration. The disclosed price remained subject to adjustments. There was no public synergy target, audited historical standalone revenue or operating-income baseline, planned integration budget, cross-sell estimate, cohort retention data, or expected customer migration schedule.

Portfolio context and competing demands

Veralto's third-quarter results supplied context for the scale of the parent company. Q3 2024 sales were \$1.314 billion, up 4.7% on a GAAP reported basis and 4.6% on the company's non-GAAP "core" basis. For the first nine months, Water Quality (WQ) sales were \$2.327 billion, while Product Quality & Innovation (PQI), which included Esko, recorded \$1.521 billion. Nine-month segment operating profit margins calculated from reported figures were approximately 24.2% for WQ and 26.6% for PQI.

Those segment figures described broad businesses, not TraceGains. They could not be used as the acquired company's margins, integration capacity, or a proxy for incremental economics. Veralto reported that recurring sales represented 61% of its nine-month portfolio sales, but that measure also did not isolate TraceGains software subscriptions or retention. Its 10-Q cautioned that pre-separation comparative financials included Danaher allocations and might not represent standalone Veralto costs.

Management's Q3 outlook added competing priorities. The company cited continued North American industrial-water demand and a gradual global consumer-packaged-goods recovery; its fourth-quarter guidance called for low-to-mid single-digit core sales growth and an adjusted operating margin of about 24%. These were management views and guidance, not guaranteed results or a budget for TraceGains. The public record did not say that integration competed with a specific named project or that it caused segment performance.

Exhibit 1. Veralto operating context before the integration plan

Measure	Q3 2024 / first nine months 2024	Basis and limitation
Q3 consolidated sales	\$1.314 billion	Reported sales; Q3 growth was 4.7% GAAP and 4.6% core (non-GAAP).
Nine-month WQ sales	\$2.327 billion	Segment scale; reported growth 3.1%, core growth 3.6%.
Nine-month PQI sales	\$1.521 billion	Segment scale; reported and core growth both 3.1%. Includes more than TraceGains and Esko.
Nine-month WQ operating profit margin	24.2%	Derived from segment operating profit divided by segment sales. Not an acquisition margin.
Nine-month PQI operating profit margin	26.6%	Derived from segment operating profit divided by segment sales. Not an acquisition margin.
Recurring sales share	61%	Veralto portfolio measure for nine months; not TraceGains ARR, subscription mix, or renewal rate.

Source: Veralto Q3 2024 Form 10-Q, segment and MD&A tables. Margins are derived from reported segment figures and rounded to one decimal point. "Core" growth is the company's non-GAAP measure. The filing warns that pre-separation comparatives include Danaher allocations.

A connected workflow-and open questions

One possible customer workflow ran from supplier and ingredient information, through product development, and onward to packaging specifications and labels. TraceGains and Veralto described capabilities that could touch these steps. This is an analytical map of potential workflow adjacency, not evidence that the systems were already connected or that data could be shared under existing contracts.

In June 2024, TraceGains and iFoodDS announced an alliance intended to connect supplier-compliance workflows with iFoodDS Trace Exchange for lot-level traceability associated with the Food Safety Modernization Act's Food Traceability Rule (FSMA 204). TraceGains reported a network of 80,000 supplier locations and 550,000 items in 161 countries, and stated that large organizations found 80% of their supply chain already on its network. These were vendor claims in a promotional release, not independently verified counts of active suppliers, paid customers, or full coverage.

The FDA rule set January 20, 2026 as the compliance date for covered foods and entities. Regulatory requirements might increase customer interest in traceability, but did not establish the eventual timing or willingness to pay, which vendors customers would choose, or how much of the market was covered. ReposiTrak's May 2024 investor presentation also marketed supplier onboarding, inbound lot data and compliance capabilities. Its customer examples showed that alternatives existed; they did not establish independent performance or market shares.

The network raised an additional governance question. TraceGains' usefulness could depend on participation by customers, suppliers and partners. A common platform or shared customer workflow might reduce handoffs. Yet, if participants worried that their data would be exposed to competitors, used beyond agreed purposes, or tied to one packaging vendor, they could withhold information or prefer interoperable links. Public disclosures did not establish that customers had raised these concerns; they were risks for the integration team to investigate.

Three possible operating models

Tight integration. Veralto could coordinate TraceGains and Esko roadmaps, customer account planning, implementation and sales incentives under a more unified offer. This could make it easier to address connected workflows and coordinate investment. It would also require decisions about product authority, architecture, data access, channel credit and customer support. A fast bundle could disrupt product roadmaps, imply capabilities before they were ready, or make suppliers and partners wary of network neutrality.

Federated interoperability. TraceGains could retain its product and customer-facing autonomy while Veralto establishes technical standards, documented APIs, common security and data-governance requirements, and optional joint selling. This could preserve product focus and allow TraceGains to work with multiple partners. It could also leave duplicated effort, ambiguous ownership and less force behind cross-selling; interfaces without accountable owners can remain theoretical.

Stage-gated integration. The team could select a small number of customer problems, define minimum interfaces and permissions, and run opt-in pilots. It could deepen commercial or product integration only after reliability, customer participation, product delivery and economics met precommitted gates. This preserves options and creates evidence, but may delay coordination benefits, require repeated approvals, and consume scarce product and implementation capacity in parallel with other priorities.

These approaches need not be mutually exclusive. A team could federate core product authority while tightly coordinating one workflow or customer cohort. The strategic choice was which decisions to centralize now, which to leave with TraceGains, and what evidence should change that boundary over the next 12-18 months.

What research can-and cannot-say

Research on technology acquisitions frames integration as a coordination-autonomy problem. Puranam, Singh and Zollo (2006) report in their abstract that structural integration can be associated with lower new-product introduction at certain points in an acquired firm's innovation trajectory, with effects changing over time. Puranam and Srikanth (2007) distinguish using acquired knowledge as an input to the buyer's innovation from depending on the acquired firm as an ongoing independent source. The available materials for these papers were abstracts only; they do not establish an integration recipe for TraceGains.

Hussinger (2012) studied acquired inventors in European manufacturing firms and found positive associations between acquirer absorptive-capacity proxies and acquired inventors' later patent productivity. The research team reviewed the article's theory, methods, results and robustness sections. Its sample and outcome-patent productivity among selected inventors-do not estimate SaaS adoption, supplier-network participation, customer retention, or acquisition returns. It suggests questions about learning interfaces and capability transfer, not a numerical forecast for Veralto.

Across this literature, integration can support coordination and knowledge transfer while threatening the acquired business's ability to keep developing products or serving a broader ecosystem. The evidence is mostly observational and drawn from different settings. It helps identify mechanisms and risks; it does not select one of the three models for this acquisition.

The first 12-18 months

By the cutoff, the team had no public customer-overlap table, data-rights map, technical architecture, partner contract terms, product roadmap commitments, integration-cost estimate, or customer-level unit economics. It could still choose a governance approach and specify what it needed to learn. A useful plan would distinguish leading indicators-such as interface testing, pilot completion and supplier participation-from outcomes such as paid adoption, retention, incremental contribution and customer-validated value. No such scorecard or targets had been publicly reported.

The choice also had to protect the acquired business's momentum. Which roadmap decisions should remain with TraceGains? Which standards or security controls should be shared across PQI? Could customer permissions support joint workflows and what would be visible to suppliers, brands, Esko teams, or iFoodDS? Who would own implementation failures? How should account teams avoid making commitments beyond technical readiness? A governance model that left each question unresolved could create delay even if it preserved formal autonomy.

The steering team was asked to recommend a 12-18-month charter. It needed to identify priority workflows and customers, set decision rights across Veralto/PQI, Esko and TraceGains, define data and partner safeguards, and specify gates to deepen, redesign or pause each workstream. The company had announced a \$350 million purchase price and management's year-six above-WACC double-digit ROIC expectation. Neither told the team what integration model would create value-or whether the stated return would be achieved.

Discussion questions

1. What is the strategic decision at the October 23 cutoff? What has already been decided, and what remains open?
2. Compare tight integration, federated interoperability and stage-gated integration. Which product, customer, data and commercial decisions belong at each level?
3. What does Veralto's portfolio context establish about capacity and priorities? What can it not establish about TraceGains economics?
4. How could the team protect customer permissions, partner relationships, supplier participation and product momentum while testing workflow complementarity?
5. Recommend a 12-18-month governance charter. Identify proposed measures and explicit gates for deepening integration, changing course or stopping a workstream. What evidence would reverse your recommendation?

Sources and cutoff

The case uses information public by October 23, 2024, 5:40 p.m. ET. Veralto's Q3 2024 Form 10-Q (accession 0001967680-24-000137) was accepted at 5:33:22 p.m. ET that day; its October 24 filing date does not move its acceptance time. The October 24 earnings call, later filings and subsequent integration or financial outcomes are excluded.

Primary sources include Veralto's October 7 acquisition release (PDF pp. 1-2, transaction, product description, thesis and management forecast); October 23 Q3 release (results, outlook and management commentary); Q3 Form 10-Q (MD&A lines 1018-1023, 1074-1103; segment disclosures lines 1160-1194 and 1208-1237; carve-out caveat lines 997-1008); TraceGains/iFoodDS June 4 alliance release (paras. 1-7 and company descriptions); ReposiTrak's May 20 investor presentation (PDF pp. 21-23); and the FDA Food Traceability Final Rule, 87 FR 70910 (effective and compliance dates; covered foods/entities). The company and vendor releases present management or vendor claims, not independent verification. The SEC filing was selectively read; the dated company releases were read in full, and competitor/FDA sources were read at the cited sections/pages.

Academic sources include Hussinger (2012), *Journal of Technology Transfer* 37:490-507, sections 3-6 and Tables 1-5 (full text accessed; theory, methods, results, robustness and discussion read); Puranam, Singh and Zollo (2006), *Academy of Management Journal* 49(2):263-280 (publisher abstract only); and Puranam and Srikanth (2007), *Strategic Management Journal* 28(8):805-825 (publisher abstract only). Study limits and access depth are described above. Full citations and links appear in the Veralto source register.