POST-ACQUISITION FINANCE TRANSFORMATION

Learn a framework to navigate the twists and turns inherent in post-acquisition finance transformation projects.

Businesses today are facing unprecedented competition, technological disruption and an increased demand for innovation in the marketplace. It has given rise to massive inorganic growth through joint ventures, strategic alliances, mergers and acquisitions. Through the first half of 2021, global mergers and acquisitions have exceeded $2.4 trillion dollars—which represents a 158% increase over the same period in 2020. The Media, Telecom and Technology sectors have experienced seismic shifts in M&A activity over the years with no signs of slowing down.

This only reflects highlights from high-profile, publicly traded corporations. There are many more transactions among the Fortune 500, mid-market and venture backed companies.

So, the arduous processes of negotiation, due diligence and deal closing are complete, and the post-merger activities begin. Though these activities will likely be led by the CFO and the finance executives, the finance function itself is often one of the most complex and challenging to integrate.

Year	*Acquiring Company*	*Target Company*	*$Bs*
2016	AT&T	TimeWarner	$85
2016	Microsoft	LinkedIn	$26
2018	Walt Disney	21st Century Fox	$71
2018	T Mobile	Sprint	$37
2019	viacom	CBS	$25
2020	salesforce	slack	$28
2021	Discovery	WarnerMedia	$43
2021	amazon	Metro Goldwyn Mayer	$8

Exhibit 1: Notable M&A activity in Media, Telecom, and Technology over the last 5 years

POST-ACQUISITION FINANCE TRANSFORMATION FRAMEWORK

1

PLAN
Define the future-state operating model.

2

RESOURCE
Prepare a resource model.

3

EXECUTE
Perform the post-acquisition plan.

4

INFORM
Use frequent, concise communciation.

5

MITIGATE
Expect unforeseen challenges in the transformation.

Here are some common challenges finance organizations face during post-merger integration (PMI):

- A lack of clear vision of the future-state operating model leads to confusion, frustration and human error.
- An exponential amount of work related to new financial requirements is added, while still maintaining day-to-day workload.
- New demands result in disruption of current financial systems and processes, leading to incremental manual work.
- The focus on changes is on critical milestones only, causing a reduction in efficiency on "non-essential processes" with a trickle-down effect of loosening controls and higher likelihood of mistakes.

To better manage some of the challenges listed above, finance leadership should try and get ahead of the issues wherever possible. First, accept that some of the challenges are very difficult to avoid, so expect they will happen. Second, prepare for them by planning for an allocation of people, time and resources before the transaction is complete. Third, consider using the framework on the left to inform your post-acquisition finance transformation.

Let's review some concepts and ideas that can help finance executives navigate the twists and turns common in post-acquisition finance transformations.

Define the future-state operating model.

In PMI activities, plans often shift due to unexpected events or unknown unknowns. However, the future-state operating model must be the guiding North Star and the common goal of your transformation. Here are some action steps that you can take to support your planning efforts and the definition of your future-state operating model:

- Create a comprehensive plan to prioritize the core requirements, and think through the layers of activities that are needed to achieve the future-state goal in the allotted time. A clearly defined project plan outlining the scope of work is a critical factor to the success of the project. Highlight the first 30-60-90 days to provide short term tangible goals to march toward.
- If possible, announce the finance leadership team of the new company and institute a governance structure. It should include an executive steering committee chaired by the CFO or designated senior finance executive with representation from each of the impacted functions (e.g., planning, accounting, audit, treasury, reporting, financial systems).
- Identify a Project Leader of the integration effort who is solely dedicated to the post-merger activities. This person will be the liaison to the executive steering committee and the various teams managing the work.
- Establish a budget dedicated to the integration activities. These types of costs are usually non-GAAP and not included with earnings. However, they will impact EBITDA and must be included in SEC filings. It is also possible that some these expenses can be included in the “transaction costs” of the acquisition. This budget should be administered by the Project Leader with oversight by the executive steering committee.
- Develop a change-control model to document changes to the plan and the prospective implications of scope creep.
- Prioritize current business continuity. Maintaining the operations of the current business while simultaneously managing the integration is a major project on its own. However, allowing a decline in performance cannot be an option.
- Engage with the IT department as soon as possible. Integrating financial systems will be one of the most critical steps in the post-merger activities, and it is essential for managing all processes and facets of FP&A, accounting and reporting. Partnering with IT early and preparing for data solutions may prove to be a project-saving endeavor.
- Recognize that synergies (i.e., incremental revenue or cost savings) will be a significant part of every transaction. They will include a financial target that will require separate tracking and accountability across the new organization. Finance should embed synergies into the day-to-day operations and not manage them on the side. Synergies should be added to each budget and forecast cycle and monthly/quarterly reporting requirements. You should also assume they will be part of audit and compliance processes that require documentation.
- Be flexible and patient and understand that planning for PMI activities always requires iterations. Remember “even the 10 Commandments had to be printed twice.”

Prepare a resource model.

Additionally, develop a strategy to manage the incremental workload from the finance tranformation. This could include more people, consultants, technology and time. Here are steps to ensure you have the resources to perform the transformation:

- Secure and align finance resources by building an "integration team" of current finance and IT personnel, taking the steps to backfill their roles. If possible, add this team prior to the deal closing, where they can assist with integration readiness and confirmation of due diligence. The more they know, the better they can prepare.
- Give the executive steering committee an active role in developing and approving the resource model. They can help with senior leadership to ensure the valuable resources are allocated to the integration.
- Conduct a key-man assessment to recognize and retain top employees and determine who will do what during the integration.
- Prepare strategies to mitigate the incremental work the integration will entail. Try to balance the addition of the new workload by identifying items in the old workload that may no longer be necessary or can be prioritized lower.
- Assemble partnerships of key departments and functions (e.g., Legal, HR, Sales, IT) to manage the changes and downstream financial implications of the integration.
- Institute a bonus incentive for members of the integration team and individuals integral to the project's success. The incentive should be included in the recommended budget from the Planning phase. Bonuses can also take the form of career-progression opportunities. Adding positive re-enforcement incentives is a sign of the company's commitment to its workforce.
- Do not underestimate the value of change management. As employees deal with changes to their jobs, staff, systems and processes, taking the time and allocating resources to properly support the team will help maintain a positive corporate culture.

Perform the post-acquisition plan.

The integration will be managed on a day-to-day basis by the integration team. Here are actions to help your tranformation efforts:

- Develop a detailed calendar with clear milestones, and funnel every issue through the change-control process. The development of this calendar is critical.
- Continue to partner with IT to march toward the systems changes needed to support the future-state vision.
- Build momentum with integration activities by highlighting the successful milestones to acknowledge progress and team achievements.
- Conduct check-ins with the overall finance organization to confirm smooth business continuity and that business needs are met.
- Plan on multiple project off-shoots or sub-workstreams to tackle new requirements. However, ensure they are within the scope of the integration, receive proper approval from the executive steering committee and are properly resourced with finance oversight and tracked diligently.
- Define an exit strategy as the integration work meets requirements, allowing an off-ramp for resources to be released back into their positions based upon completion of their work.
- When all of the work is complete, conduct a formal handoff to the leaders of the functional teams and various departments signaling the end of the project.

Use frequent, concise communication.

The CFO or senior-level finance sponsor should mandate periodic meetings among all stakeholders. Whoever is leading the communication effort should be sure to:

- Develop a communication plan to convey status updates, milestone completions, issues mitigation and change-control needs. This should continue through the duration of the project.
- It is important for the integration team to employ sound project management throughout the process and communicate regularly with all stakeholders.
- Plan on monthly sessions with the executive steering committee and separate periodic meetings with IT and business partners—in addition to regular time with the integration team.
- Conduct individual meetings with the CFO as necessary to reconfirm success metrics after each milestone. Any new direction or course corrections should be added to the communication plan, and effort must be re-scoped to align with the allotment of resources.

Expect unforeseen challenges in the transformation.

Curveballs and unplanned requests occur in every post-merger integration. And often they arise at the worst time possible and could not have been anticipated. This will cause major stress on the integration project and weigh heavily on vital resources.

Each post-acquisition finance transformation is unique and typically takes a life of its own. However, many issues that will likely emerge can be managed through the first four stages of our framework:

Expect unforeseen challenges in the transformation.

Below are some actual examples of challenges that illustrate how successful transformation depends on ongoing mitigation effort:

Scenarios	*Implications*
The Board of Directors for **Acquiring Company X** wants to ensure the acquisition will go as expected and requests to see a "before and after" perspective. As a result, **Target Company Y** must maintain their sets of books in two ways over the next fiscal year: 1. New financials must be prepped to be ingested or consolidated to reflect operations in the Company X's hierarchy. 2. Company Y must continue to report financials as if prior to the acquisition for comparative purposes.	This creates an exponential amount of work and complexity for the finance and IT teams of both companies. It effectively translates into double the work for all accounting and reporting activity. In addition, it will cause major distractions to day-to-day business continuity and likely force a reprioritization of integration tasks. For example: • Monthly and quarterly close activities will be doubled. • IT will need to maintain hierarchies of the old company while slicing data and provide reporting in both dimensions. • It will require the addition of unplanned resources to prop up the incremental work.
To prep for an earnings call and fulfill 10-K reporting, **Acquiring Company X** must generate pro-forma financial statements of multiple years of history to illustrate what the new company would have looked like as a combined entity. The structure of the combined company requires data hierarchy changes to both Company X and Company Y. 1. Both Company X and Y must rearrange historic financial data into a data model that is consistent with what the new reporting structure of the combined company will be. 2. New custom reports will need to be created to provide financials of the pro-forma statements. 3. Company X must generate a new consolidation process to ingest the data from Company Y.	The new reporting demand of the historical data for the combined entity will result in significant disruption of financial processes and systems. **Target Company Y** will need to determine if it is worthwhile to invest in additional technology to restate financials that will not be used frequently. As a result, these types of requests are often managed in a manual, labor-intensive way. • Resources will likely be spread thin in a way that may create more mistakes, burnout and loss of staff and gaps in control. • Translation and matching of the details and nuances of historic data (e.g., footnotes, exceptions, etc.) often make basic requests an ordeal with no clear technical solution. • Additional financial reconciliations and variance analysis/ explanations can become a project on its own.

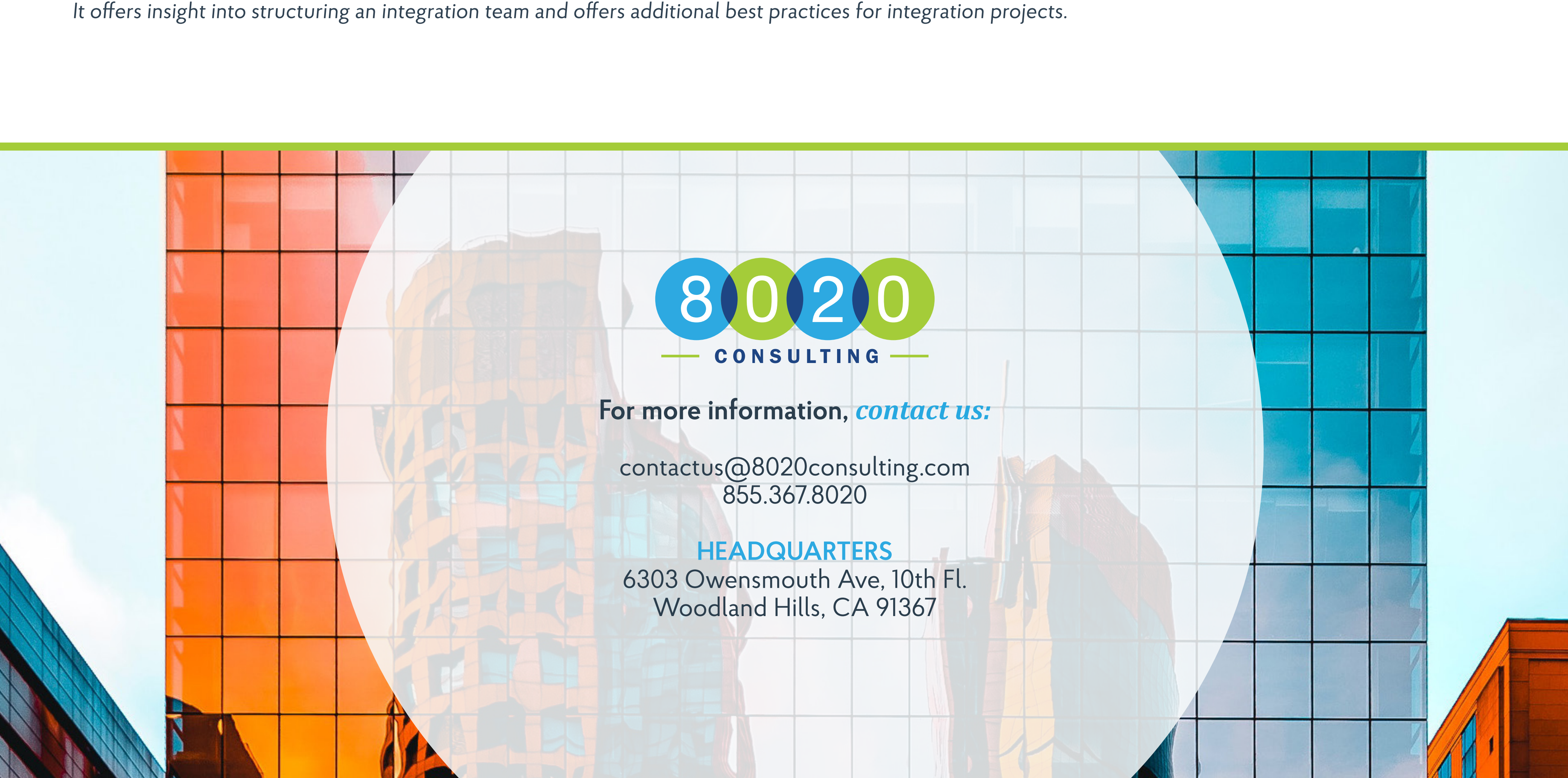
The truth is there are no easy solutions to many of the scenarios one will encounter on a transformation project. For example, a dedicated "integration team" would have been able to identify contingencies in the plan and shift valuable resources and priorities to alleviate some of the incremental work. Also, having the CFO or senior executive leader as chair of the governance model would provide visibility into the complexities of the requests. The executive could then go to the CEO and/or Board to reprioritize other integration work to make room for the scope changes on the horizon. In the absence of prior planning, the mitigation effort will be much more difficult.

Bring in *Third-Party Perspective*

Even the most exceptional strategies do not always produce the desired results. Post-merger finance integration is no exception. However, companies can be better positioned by anticipating and planning for the significant obstacles that they will face. Understanding the stages of our framework – Plan, Resource, Execute, Communicate and Mitigate – can help you deliver a successful post-merger integration.

You can also increase your probability of success by bringing in dedicated third-party support to project manage the integration and remove additional burden from in-house teams. If you need help with your post-merger finance transformation efforts, contact us today. **8020 Consulting's team of finance and accounting Consultants can help.**

To learn more about finance integration, you can also download our Post-Acquisition Finance Integration Team Infographic. It offers insight into structuring an integration team and offers additional best practices for integration projects.



For more information, *contact us:*

contactus@8020consulting.com
855.367.8020

HEADQUARTERS
6303 Owensmouth Ave, 10th Fl.
Woodland Hills, CA 91367