Finance Integration

Aligning the financial compass of a deal

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At a glance

Integration success is critically dependent on an effective Finance function to deliver business insight, help ensure compliance and controls, and create operational efficiencies for capturing deal value across the organization.

Integrating business operations and systems, maintaining common controls, providing accurate and consistent financial reporting, ensuring tax compliance, and establishing interim legal structures and business processes are common Finance integration activities.

In conducting these activities, newly combined companies obtain the flexibility they may need to grow and thrive.

Introduction

When combining two of anything—let alone two things as dynamic and complex as active, operational companies—you first should agree on a shared purpose, set common goals, and learn how to work as one to achieve results. But none of this is possible without ensuring that people who comprise the two organizations can understand one another and speak the same language.

In the world of M&A, that language is the universal language of business—the language of strategy, process, organizational structure, roles and responsibilities, information systems, and—yes—financial budgets, forecasts, profit and loss, and reporting. All of these combine to create the driving force enabling companies to realize shareholder value and achieve results in market share and profitability.

The combined company is critically dependent on the tactical requirements of the Finance function to help ensure a successful integration in pursuit of capturing deal value. Success is derived by focusing on three primary imperatives:

- Delivering business insights
- Creating finance function efficiency
- Maintaining compliance and control

These tactical requirements provide newly combined companies with the flexibility they need to grow and thrive.

It's only when the financial compass, sails, and rudder of a newly expanded corporate ship are properly aligned that leadership can hope to set the right course, steer in the right direction, and track progress toward the final destination.

The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

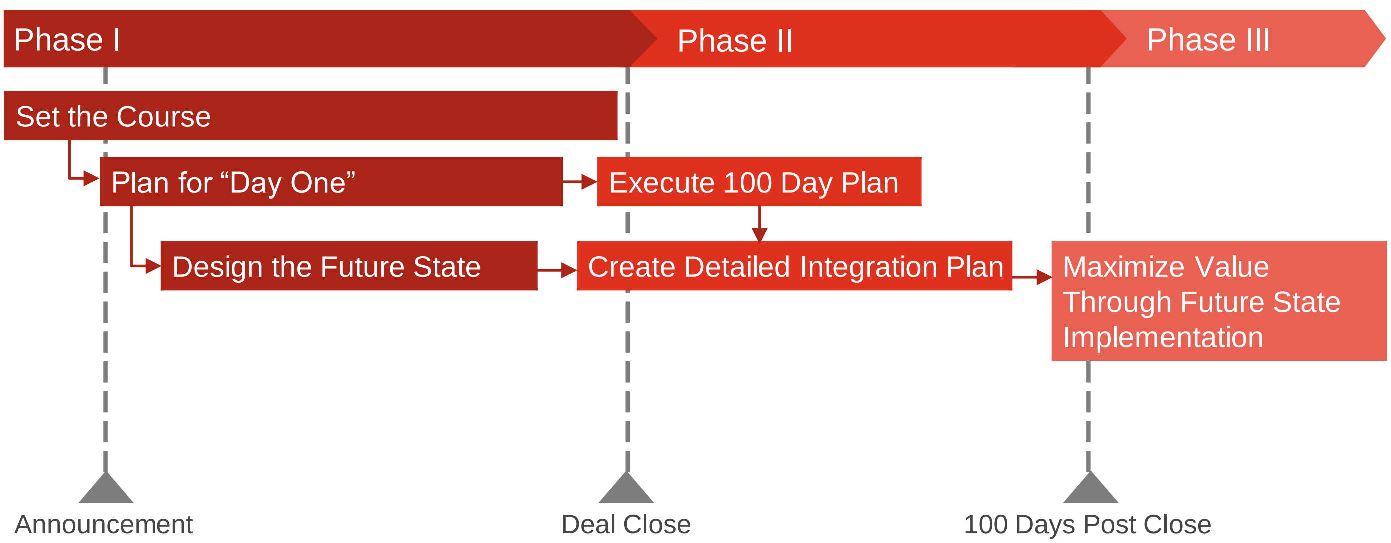

Figure 1. The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.

Set the course

An acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including Finance—to communicate effectively and take decisive action.

Setting the course for Finance requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

1. **Business insights** are developed based on analysis to meet and exceed initial synergy targets sooner than planned. This includes defining the combined company business plan (and updating as information becomes available throughout the process), creating key performance metrics, aligning budgeting and forecasting activities, identifying critical reporting requirements, and incorporating specific integration reporting into the related financial planning and management reporting.
2. **Operational efficiency** in designing a combined finance function that eliminates duplicative effort and optimizes the cost of running the Finance function. These include simplifying processes to improve external and internal reporting, strengthen performance management, budgeting and forecasting capabilities, and optimizing cash flow; standardizing company and accounting policies; optimizing systems and data management; designing a high performing organizational structure; and focus on aligning skills and roles to maximize the talent in the Finance function.
3. **Compliance and control** in closing activities to ensure the Finance function is ready for Day One (e.g., Day One reporting ability, data migration, compatible IT systems, controls over funds). This includes preparing for a smooth transaction close and minimizing the significant risks that exist during the first three to six months post-close (e.g., purchase accounting, controls certification, accounting policy alignment). Areas such as the chart of accounts, accounting policies, expense approval levels, reporting requirements, and close time lines are examples of standards that can be established in advance to drive speed in the Finance integration process.

Once the immediate actions are defined, the longer term strategy for Finance integration should be outlined. Finance integration strategy should be aligned with the enterprise-wide integration strategy to ensure alignment in realizing transaction value and integration objectives. Finance integration strategy serves as a guide for all decisions within the Finance function, spelling out the degree of integration for what will be combined and what will be kept separate, including people, process, systems, and organizations. Please see Figure 2 for key areas of Finance integration focus.

	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
Record to report	Interim consolidation process	Purchase accounting, accounting policy alignment	Integrated consolidation
Internal controls and compliance	Evaluating and aligning internal controls and compliance process	Interim process controls	Integrated compliance programs
Financial planning and analysis	Combined budget for current year/current long-term planning	Interim internal reporting & synchronized planning calendar	Integrated budgeting, reporting and planning
Treasury	Cash control, liquidity and funding, insurance alignment	Forecasting capabilities; capital structure; risk management policy	Integrated treasury function and processes, insurance portfolio consolidated
Order to cash	Customer communications	Interim OTC operating model	Integrated OTC
Procure to pay	Align CAPEX purchases	Procurement synergies/ Interim PTP model	Integrated PTP
Hire to retire	Stock conversion	Payroll & indirect procurement on-boarding	Integrated HTR
Tax	Tax structure planning	Maintain tax compliance filings	Entity tax structuring and consolidation

Announcement — Deal Close — 100 Days Post Close

Figure 2. This chart outlines key areas of integration focus for Finance, along with their typical timing across the PwC integration process.

The Finance integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that are Finance-led or impact Finance, and the typical timing across the integration process for large-scale and middle market transactions.

	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
Finance led cross-functional integration areas			
Legal entity integration	Governance inventory and tax, legal and operational analysis	Operational and transaction execution	Operational and transaction execution and entity clean-up
Value drivers and synergies	Conduct synergy analysis	Validate key value driver initiatives	Execute value drivers and track synergies
Cross-functional integration areas			
Business process and systems integration	Finance systems roadmap	Interim system solution	Enable migration to common systems
Organizational and workforce transition	Define Day One organization	Design detailed organization structure and refine roles and responsibilities	Map new roles and execute changes
Communications and change management	Develop stakeholder engagement plan	Deliver Day One communications; prepare 100 Day communications	Execute longer-term leadership and stakeholder engagement activities
	Announcement	Deal Close	100 Days Post Close

Figure 3. This chart outlines key cross-functional areas of integration focus for Finance, along with their typical timing across the PwC integration process.

To manage the myriad of Finance integration activities, it is important for company leadership to quickly identify a Finance integration leader, who should then establish a Finance integration team, structure, and program management office. The Finance integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy. Often times a Finance team can be launched prior to deal announcement, focusing on areas such as diligence, financial modeling, close process, accounting policies, and SEC reporting. The Finance integration leader may build upon the pre-announcement team in place, expanding activities to include areas of integration focus not yet covered, including transactional and operational areas.

Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations.

The Finance integration team should define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Finance function.

Focus areas for Day One integration

Record to report (RTR)	Design an interim consolidation process to capture the financial activity of the consolidated entity for the first quarter ending after Day One. Determine target opening balances such as asset valuation and inventory, ensure consistent accounting policies on technical areas such as foreign exchange translation and stock compensation accounting, convert outstanding equity from one organization to the other, and ensure proper disclosure in financial statements and filings. Design a process for purchase accounting required in the first year. Begin to design a combined company financial close process for the longer term that is fast, efficient, and accurate, including automation of manual processes to be developed during the earlier phases.
Internal controls and compliance	Establish effective disclosure and controls procedures for Day One to remain compliant with 302 certification requirements. Begin to establish an effective and efficient control program to mitigate risk and ensure regulatory compliance. In addition, protocols for identifying and reporting changes in controls resulting from integration need to be established within the integration teams.
Financial planning and analysis (FP&A)	Develop an interim management reporting package with select reports required for management to make key early decisions on the combined company. Establish firm cost baselines as a starting point for the combined company for use in evaluating synergy achievement going forward. Develop a synergy tracking process and tool to monitor and track results for cost reduction and other synergy initiatives. Begin to design an integrated management reporting package to efficiently and effectively support internal and external reporting requests, along with budgeting and planning processes.
Treasury	Establish control over cash accounts on Day One, ensuring current year cash management and cash flow requirements are planned and adequately funded. Understand debt and banking covenants to remain in compliance. Develop plans for changes in bank account control and business authorization thresholds. Align key treasury policies for the combined organization. Begin to design the combined company cash forecasting and cash management processes to optimize global cash flow and requirements. Begin to align treasury policies related to investments, foreign currency, and hedging.
Order to cash (OTC)	Establish an interim operating model for OTC. The model should be designed in conjunction with the Sales, Operations, and IT teams. The interim operating model accelerates the joint go-to-market activities essential for realizing early revenue enhancement synergies. Reconcile key discrepancies in customer terms and conditions, establishing common policies and accurate revenue recognition. Begin to design the future state of order to cash processes, systems, and organization in conjunction with the Sales, Operations, and IT teams.
Procure to pay (PTP)	Establish an interim operating model for PTP. The model should be designed in conjunction with the Operations, HR, and IT teams. Review target capital expenditures and ensure alignment with combined company objectives. Begin to identify procurement synergies from vendor consolidation, increased volume and purchasing power, SKU rationalization, and policy alignment.
Hire to retire (HTR)	Develop approach to integrate the two payroll and benefit processes and services, including travel services and related corporate cards, and expense management. Determine plan to convert all the employee shares at legal close.
Tax	Ensure compliance requirements and tax filings are met for Day One. Identify trade compliance issues and develop a consistent transfer pricing policy. Leads the key cross-functional area of Legal Entity Integration.

Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

Integrating the Finance function can be complex, and is often a key indicator of integration success or failure (particularly in large-scale and cross-border transactions). Whether to support revenue generating synergies, such as bundling buyer and target company products and cross-selling into new channels and geographies, or to drive cost reduction synergies by eliminating redundant processes and policies, integrating financial applications and their surrounding financial and business processes is a critical path prerequisite. And it is here where companies most often falter.

The Finance function will often play a substantial role in designing and maximizing future state operations for cross-functional integration areas, such as, value drivers and synergies and legal entity integration. The Finance function will frequently work hand in hand with the human resource and information technology functions to plan and prioritize overlapping areas related to financial systems and the Finance organization.

Cross-functional focus areas for future state operations

Legal entity integration	As Tax designs a tax efficient legal entity structure and step plan, cross-functional coordination is required to align tax steps with operational and financial integration changes. The aim is to minimize business disruption while optimizing tax structuring steps. Tax works with Operations, Sales, Human Resources, and Finance to determine the structure that minimizes disruptions to the business. Identify cash repatriation requirements and confirm legal entity structure.
Value drivers and synergies	Leverage the synergy analysis and financial model developed during the diligence process and work across functional teams to include the most current information from Day One planning, in developing value driver business cases. Finance commonly manages the overall synergy tracking process and aligns this with the annual operating and financial plan. Finance also takes a lead in measuring deal success over a longer term period.
Business process and systems integration (BPSI)	Manage and coordinate BPSI related dependencies across functions and geographies. Finance systems are critical to enable financial transparency across an integrated organization. The overall BPSI effort is driven by IT as a part of the enterprise wide systems roadmap and migration efforts. Finance plays a critical role in defining requirements, migrating data, system selection, and updating business processes to meet the capabilities required to run the combined business.
Organizational and workforce transition	Define new combined Finance management with reporting lines. The Finance function works closely with HR to transition the Finance organization to an interim state while designing the end state Finance organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Finance operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration.
Communications and change management	Manage the transition through communications tailored to each category of Finance employee group, including permanent hires, transitional employees, and terminated employees. Finance works closely with HR to communicate retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires. Deliver a robust Finance training program to ensure Finance employees adopt the integrated policies, processes, and systems as changes occur. The training program should also consider cultural differences and focus on aligning cultures to help ensure a cohesive Finance operating model that supports newly integrated employees.

Conclusion

Capturing and communicating deal value requires successful finance integration in all areas—within finance and across functions.

The finance function provides visibility into critical operating metrics and generates business insights required by management to assess progress and make decisions in navigating through the integration. Addressing finance integration activities early and focusing on integrating processes and systems that create business insight, enhance operational efficiency, and help ensure compliance and control will assist companies in capturing deal value and minimizing risks.

Following the approach to Finance integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish synergy objectives while instilling confidence among their stakeholders.

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