Finance Integration

How to complete the M&A integration process, minimize disruptions, and achieve desired synergies.*

When combining two of anything—let alone two things as dynamic and complex as living, breathing companies—you first need to 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, P&Ls 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 dependant on the tactical requirements of the finance function to ensure a successful integration in pursuit of capturing deal value, integrating business operations, maintaining common controls, providing accurate and consistent financial reporting, ensuring tax compliance, and establishing interim legal structures and business processes that 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

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future State Operations. This is the approach PwC delivers in managing the integration as an enterprise-wide business process. Please see Figure 1.

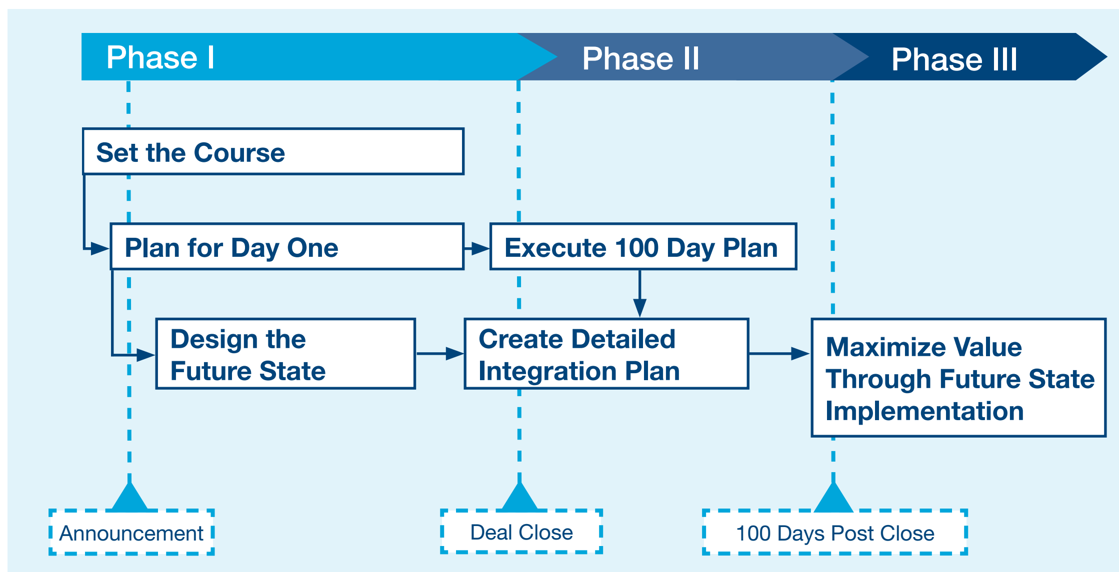


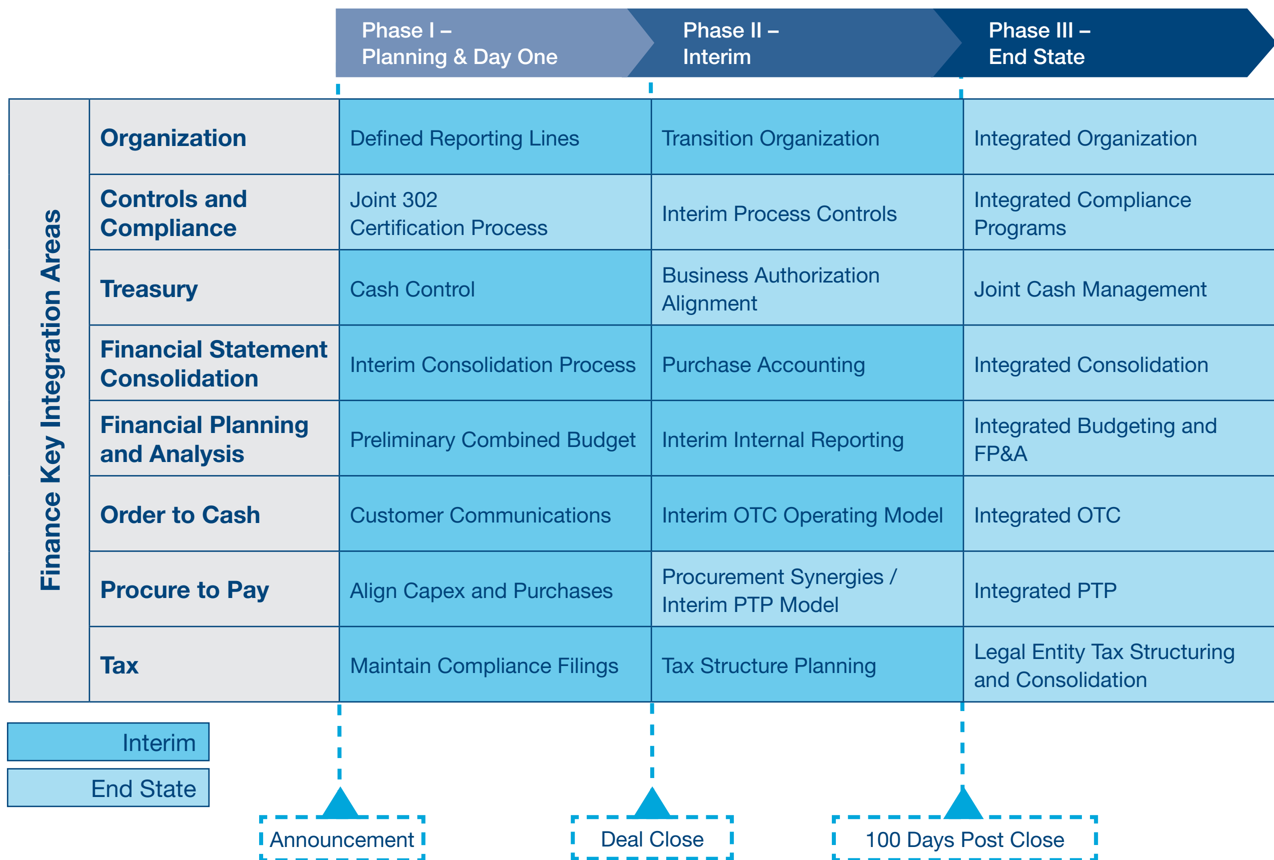
Figure 1—The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

Set The Course

A merger or 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. Across all functions, setting the course involves 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 early and immediate attention to address critical matters important in the early stages of a merger or acquisition. These include establishing clear reporting lines and accountability for financial operations, management reporting, expense control, and accounting close. Quickly establishing these areas of accountability and control should be done by defining pre-established "non-negotiables" up front. This allows for immediate actions to be defined, eliminating the need for time consuming decision making. Areas such as 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 must 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.



Finance Key Integration Areas	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
Organization	Defined Reporting Lines	Transition Organization	Integrated Organization
Controls and Compliance	Joint 302 Certification Process	Interim Process Controls	Integrated Compliance Programs
Treasury	Cash Control	Business Authorization Alignment	Joint Cash Management
Financial Statement Consolidation	Interim Consolidation Process	Purchase Accounting	Integrated Consolidation
Financial Planning and Analysis	Preliminary Combined Budget	Interim Internal Reporting	Integrated Budgeting and FP&A
Order to Cash	Customer Communications	Interim OTC Operating Model	Integrated OTC
Procure to Pay	Align Capex and Purchases	Procurement Synergies / Interim PTP Model	Integrated PTP
Tax	Maintain Compliance Filings	Tax Structure Planning	Legal Entity Tax Structuring and Consolidation

Figure 2—This chart outlines key 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 must 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 modelling, 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 upon close absent proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of core operations. The finance integration team must 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

Organization	Establish Day One reporting lines and an issues escalation process. Begin to design a future state finance organization, and establish a transition plan aligned with the process and systems migration plans. Ensure leadership development and talent management programs are combined.
Controls	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.
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.
Financial Statement Consolidation	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.
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.
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.
Tax	Begin to design a tax efficient legal entity structure for the combined company. Ensure compliance requirements and tax filings are met for Day One. Identify cash repatriation requirements and confirm legal entity structure. Identify trade compliance issues and develop a consistent transfer pricing policy.

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.

Business Process and Systems Integration (referred to by PwC as "BPSI") requires significant coordination and dependency management across multiple functions, and often geographies. The Finance and IT functions must work as one with the business to succeed in simultaneously defining business requirements, selecting and implementing systems, designing processes, and migrating data, among other things, to complete the integration process without hampering ongoing operations.

The selection of the right approach for each of the processes is driven by a number of considerations, including deal rationale and long term acquisition objectives. BPSI is a significant endeavour that requires a review of critical business processes, alignment of enterprise strategy, and coordination of cross functional activities to drive the integration of systems and processes and achieve a "one-company" environment for back office operations. Please see Figure 3 for general integration types and corresponding BPSI approaches.

Integration Type	BPSI Approach
Absorption	Migrate target data to buyer systems and processes
Best of Both	Design optimal processes and systems to enable desired business model
Stand Alone	Maintain separate systems and processes, and complete a high level financial consolidation

Figure 3—The type of integration often drives the depth and complexity required for BPSI.

At the end of the day, stakeholders will reward or punish the combined company depending on how well stated objectives are accomplished. So it is imperative that company executives have the ability to communicate effectively and with confidence on the synergies realized. While certain business units and functions are responsible for delivering intended synergies, given the role of finance (and particularly FP&A), the synergy tracking process over the long-term is generally driven by the finance integration team. It is critically important for finance to deliver a centralized process for monitoring, tracking, and reporting synergies to ensure the combined company stays on task and delivers measurable results.

Our Approach for Delivering Finance Integration Success

Our disciplined approach to Finance integration helps companies achieve early wins, build momentum, and instill confidence among their stakeholders. We take an active, hands-on approach to helping clients focus on the right things at the right times, creating early and sustainable capture of deal value. We deliver time-tested integration processes to support client integration teams and supplement those teams with experienced resources to fill resource and technical gaps as required. We customize our tools and services to complement each client's specific needs and internal capabilities.

Our Tools for Finance Integration

Team Lead Discussion Guide

Guide for functional team leader with questions that trigger thought to assist in rapidly defining integration scope

Finance Integration Workplan

Model integration workplan used as a "starter" set of tasks to jump start the functional workplan development effort

Financial Policy and Process Inventory

Model comparison of processes and policies to identify gaps requiring revision and integration

Financial Close Calendar

Calendar and set of actions to ensure combined company stakeholders understand their commitments and timelines for financial closing

Legal Entity Transition Matrix

Plan for conversion of subsidiary ledgers and financial roll-up on a consolidated basis

Legal Entity Consolidation Plan

Model plan and guidance for coordinating cross-functional timelines to drive early legal entity integration for effective synergy realization

Interim Operating Model

Narrative describing interim operating guidelines for functional and country integration teams to follow during key phases

Procurement Savings Toolkit

Framework and tools for identifying and estimating procurement savings, and a project and tracking plan to realize the savings

Finance Value Drivers

Summary business cases for critical initiatives required to achieve functional synergies and cost savings

Synergy Tracking Module

Tool used for tracking and reporting synergy capture

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