Transforming Treasury
Successfully executing a strategic transaction

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At a glance

For strategic transactions, managing the risks typically associated with Corporate Treasury can be paramount to a deal's success. This article explores how to navigate those risks and seize the inherent opportunities that effectively position Corporate Treasury and strategically transform the new organization.

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How Corporate Treasury can navigate the risks and seize the opportunities inherent in a deal environment

The volume of strategic transactions has significantly increased over the past two years, approaching the pre-financial-crisis high of 2007.[1] In fact, according to PwC's Annual Global CEO Survey, *more than 40% of US executives indicated that over the next 12 months their companies plan to pursue a merger, acquisition or divestiture.[2] Interestingly, this increase in deal activity is occurring despite inconsistent evidence as to the value proposition of M&A transactions—with some studies placing the failure rate of mergers and acquisitions over 60%.[3]*

Why such sustained enthusiasm for deal activity despite the known risks? Companies tend to focus on the deal's synergies without adequately considering how they are going to identify, assess and mitigate the operational and organizational risks—a clear recipe for failure. Not surprisingly, executives planning to undertake a strategic transaction cited 'creating and exploiting synergies' as the primary driver of their M&A aspirations.[4]

How can your company beat the odds and successfully navigate the complex deal landscape to increase profitability, market share and shareholder value? One key driver of an organization's success, from initial scoping through transaction close and beyond, is the performance of Treasury. Due to its financial importance, operational significance and organizational complexity, Treasury often serves as the bellwether of a deal's success. This article explores how Treasury can manage the risks inherent in a large-scale transaction while capitalizing on the opportunities to strategically transform the new organization.

1 USA Today—Mergers and Acquisitions Heat Up—How You Can Cash In

2 PwC—2013 US CEO Survey

3 CFO Magazine—Do Mergers Add Value After All?

4 PwC—2013 US CEO Survey

Navigating the risks: Planning is the key to Treasury's success

When considering a potential transaction, companies tend to focus on deal value with success measured by attributes such as expected revenue growth, cost cutting potential, cash extraction, working capital efficiency and speed of debt repayment. Often overlooked or underappreciated are the complex drivers of these attributes, features such as organizational refinement, process efficiency and technology integration. Nowhere is this more apparent than with the Treasury function—where limited representation of treasury staff within M&A decision-making and a lack of functional understanding during initial deal planning typically result in unrealistic goals and misaligned expectations with respect to Treasury transformation. Yet, in many transactions, the ability to drive cash generation, manage financial risks and maintain capital market access—all within the Treasury purview—are critical drivers of the ultimate success of the transaction.

"In order for a transaction to be successful, Treasury must ensure it has a place at the table early in the deal planning process to highlight and action the myriad of complex issues inherent in any carve-out, spin-off or merger" says John Sanders, Interim Treasurer of Axalta, which recently was successfully divested by DuPont in a sale to The Carlyle Group. Leading Treasury organizations are aligned with their business development teams and will get involved early during the due diligence phase. During this period, Treasury can add value by identifying and evaluating key risks, conducting a cost analysis and determining potential pre- and post-deal issues. As part of this role, Treasury can uncover significant risks or issues early enough to allow for deal price adjustments or transaction services agreement considerations.

Once the deal is signed and prior to close, Treasury should:

Form a strategic vision—A Treasurer must understand the needs of the company and develop a vision of how Treasury will support those needs post-transaction. To accomplish this, Treasury should conduct a structured, process-based assessment of all aspects of the deal including the Treasury functional and IT requirements, external debt financing covenants and constraints, organizational structure, IT strategy, operational efficiency and alternative businesses models to define the desired to-be solution and the value it brings to the organization as a whole—improved operational efficiency, reduced risk, minimized cost, etc.

Once the strategic vision is formalized, it should drive all subsequent deal decisions. Operational realities will necessitate short-term deviations, but the desired end-state should inform Treasury's thinking throughout deal planning and post-close.

Treasury should conduct a structured process based assessment of all aspects of the deal including, but not limited to, organizational structure, business requirements, risk profile, liquidity management, debt financing and IT considerations.

Create a detailed transition plan with prioritized tasks—Treasury must develop a detailed transition plan with high level initiatives broken down into discrete steps with corresponding dependencies, resource assignments, timing and cost. Prioritization of these initiatives should focus on the most critical functions (e.g., support payroll) followed by less critical areas (e.g., updating policies and procedures). Separating pre-close from post-close initiatives can assist with initiative prioritization (see diagram below) as can working to anticipate likely challenges inherent in forming and operating the new organization.

When developing this plan, Treasury should determine the level of day one separation/integration required. With carve-outs, for example, a common approach is to set up the bare minimum prior to day one and build from there post-close.

Additionally, it is typically helpful to ask probing questions such as:

What will the new Treasury look like from a resource and organization perspective? How will a changed credit environment affect the new company (e.g., impact on notional or physical pooling, supplier financing, etc.)? How will the current system landscape change day one and what impact will those changes have on Treasury operations? What is the optimal level of day one operating cash by legal entity? Many of these questions will not yet have answers, but thinking through the implications of each will enable Treasury to further define, refine and prioritize the required transition tasks.

Finally, it is important to remember that the Treasury transition plan is a dynamic document that must continue to be refined throughout the deal process.

Due diligence

- Understand how Treasury risks affect or may affect the value of the business being bought or sold and the funding put in place to finance it
- Identify potential pre- and post-deal issues associated with Treasury and cash management operations
- Evaluate deal-related costs and synergies in the Treasury function
- Ensure operational issues that could prevent the business from operating in a controlled manner on Day One are identified
- Evaluate the complexity and cost of addressing these operational issues

Pre-close

- Develop a high-level vision for the Treasury function
- Develop and implement a plan for Day One Treasury operations
- Design and implement appropriate Day One banking and cash management framework
- Develop/integrate cash forecasting process and tools
- Establish processes to service debt obligations and manage covenant requirements
- Establish processes to manage cash, investments and FX risk
- Solidify Treasury operations, people, systems, policies, reporting
- Ensure legal and tax complexities of funding structure are managed
- Create appropriate corporate governance structure
- Support business and link to other finance functions

Post-close

- Develop a detailed design of the Treasury function, including organization, process and technology integrated with finance and broader business
- Design and implement cash forecasting, Treasury systems, cash pooling, debt management, policies and procedures, etc., as needed
- Establish new liquidity infrastructure, including bank accounts, cash pools, etc.
- Execute organization changes/conduct employee training
- Develop management reporting framework and performance metrics to increase transparency of Treasury activities, performance and risk
- Conduct operations through new systems and bank interfaces
- Implement strategies to improve cash generation (e.g., working capital management) and manage financial risks (e.g., liquidity, commodity, credit, foreign currency, investment, etc.)
- Perform ongoing review and monitoring of Treasury risks and opportunities

Project management

Change management

Benefits realization

Establish a Transition Services Agreement (TSA)—In the case of a carve-out, the new company will often not have the ability to fully develop or integrate its Treasury function by day one and must rely on Treasury services provided by the parent company under a TSA. During the early stages of transaction planning, it is essential that Treasury engage in pre-deal due diligence to fully define the scope of services that will be provided to the new company (e.g., continued use of Treasury technology, post-transition support from parent company employees, etc.), as well as the agreed to service levels, duration of service, and pricing. To the extent possible, the TSA should support Treasury's strategic vision and align to the detailed project plan by allowing the transition team to focus on high priority areas (e.g., opening bank accounts to process month one payroll) before addressing less critical issues (e.g., updating desktop procedures).

Form a dedicated transition team—Treasury must be prepared to maintain day-to-day operations while executing transformational initiatives. This is often a challenge as Treasury is typically not staffed from a capacity or skills standpoint to support transition requirements. The use of interim Treasury staff redeployed from other areas of the company and/or contracting with a third party to provide additional resources allows the core Treasury team to maintain daily processing while providing the strategic support needed to advance the transition effort.

Interface with key stakeholders early and often—Throughout the deal, Treasury must work closely with new company's other internal stakeholders to support cross-functional initiatives. Tax, legal, accounting, and human resources will each have workstreams that dovetail with Treasury's projects and it is important to identify these intersections early in transition planning, highlight dependencies and explore potential synergies.

Additionally, Treasury will need to work closely with external parties such as banks, system vendors, insurance brokers, etc. Similar to liaising with internal areas, Treasury should identify the required third-party touch points early in the deal planning process to establish key relationships and ensure ample time is devoted to completing the initiatives that involve external parties.

Project manage progress and dependencies—A formal project management structure should be established to oversee the multiple initiatives and ensure tasks are completed on time and issues escalated appropriately. Treasury initiatives dependent on other groups should receive enhanced focus as these are typically where delays occur. An executive resource should be empowered to quickly decision questions and resolve conflicts that may arise between Treasury and other functions.

Determine day one operating environment—Treasury should design and, to the extent possible, begin to implement a day one operating environment to support run-and-maintain activities. Depending on the deal type, this environment could closely resemble the strategic vision (spin-offs) or support only the most critical Treasury functions (carve-outs). Regardless of the deal type and the maturity of the day one operating environment, it is important to align run and maintain operations with Treasury's long-term strategic vision.

Align incentives to initiatives—Given the additional work and uncertainty that accompanies any deal, it is important for Treasury to recognize the contributions of employees by appropriately incentivizing the required initiatives. This can be accomplished by providing advancement opportunities for employees driving transition efforts, recognizing contractor contributions by creating full time positions and aligning compensation to transformational initiatives or success metrics.

Communicate to employees—No matter how well managed, deals induce anxiety. Treasury should engage employees in an ongoing dialogue about expected changes to foster an inclusive environment of knowledge sharing. Open communication demonstrates that the transaction's impact on the organization is recognized as are the views and concerns of employees.

Seizing the opportunities: Laying the foundation for a leading Treasury function

Treasury can leverage the transition effort to further the goals and objectives formalized in its strategic vision... initiatives that might not have been funded in the absence of a transaction can be accomplished under the banner of a larger deal effort.

Catalysts for meaningful Treasury enhancements are inherent in any deal, as management recognizes the need for change and that a successful transition requires investment. With effective due diligence, planning, and execution, Treasury can leverage the transition effort to further the goals and objectives formalized in its strategic vision. Initiatives that might not have been funded in the absence of a transaction, such as upgrading core technology or hiring a new regional lead, can be accomplished under the banner of the larger deal effort. Successful pre-deal planning and post-close execution enables Treasury to protectively seize this opportunity to redefine the organization, improve processes, and rationalize technology.

Organization—Treasury can take advantage of the cultural upheaval present with any deal to redefine its charter and realign its organization to better support the needs of the new company. Should the new Treasury function be global or regionally focused? Will Treasury processing be outsourced to a shared service center and, if so, where should the shared service center be located? How should the organization be resourced to best meet the needs to the businesses? A strategic transaction creates an environment in which it's natural for Treasury to ask these questions and empowers it to design an organization based upon the answers.

Process Improvements—Deals provide the opportunity to reevaluate and refine Treasury processes, policies and procedures. Whether updating policies to reflect the needs of the consolidated organization (mergers) or developing processes for the new Treasury function (carve-outs), transactions provide Treasury the ability to update the organization's roles, responsibilities and governance structure to enhance efficiency, controllership and customer service. Specifically, improvements in the following areas can be of significant benefit:

- **Liquidity management and debt repayment—**Refining Treasury's liquidity management process can significantly improve the company's ability to manage cash, reduce working capital, promote tax efficiency and accelerate the pay down of external debt. These benefits can be obtained by rationalizing intercompany loan management, formalizing cash forecasting processes (e.g., initiating 13 week cash forecast with robust variance analysis), developing/refining the investment policy and operationalizing debt management processes.

- **Banking rationalization—**A merger, divestiture or acquisition provides Treasury an opportunity to refine its banking relationship strategy and account structures. Improvements can come from relatively straight forward initiatives such as creating in-country cash pools to bigger projects like replacing a global cash management bank to reduce costs and enhance service. Regardless of the scope of the initiative, it is important for Treasury to carefully consider the costs and benefits of any proposed banking structure changes.

Technology—Strategic transactions provide the catalyst to refine the organization's IT strategy (e.g., move from reliance on outdated and/or proprietary systems to third party vendor solutions) and improve Treasury's technology infrastructure – increasing functionality while reducing operating costs. For carve-outs, Treasury systems are typically covered by the TSA, allowing the new Treasury to evaluate its system needs post-close and develop a detailed technology transition plan. During an acquisition, two distinct technology environments must be integrated. In this situation, Treasury should take the opportunity to select technology from the two environments that best supports the business processes and organization of the combined Treasury.

Bringing it all together: *Transforming Treasury through a deal's success*

The ability to manage the risks while capitalizing on the opportunities inherent in a strategic transaction is what differentiates strategic, leading-edge Treasuries from all others. However, even the most sophisticated Treasury departments will find that deals pose challenges they are not prepared for. External expectations, organizational impediments, cultural issues, human resource constraints, time pressures, technology complexities, regulatory limitations and skills gaps (to name a few!) all impact a Treasurer's ability to successfully manage a merger or acquisition.

However, diligent planning and execution can position Treasury for continued success throughout the transaction lifecycle, while capitalizing on the inherent opportunities can transform Treasury from a reactive transaction processor to a proactive advisor with direct responsibility for developing and driving company strategy.

Why PwC: *Strategic support throughout the deal*

The PwC Treasury team is well positioned to assist companies with the implementation and integration of new Treasury organizations. Our proven, process-driven methodology and well established team are highly regarded as market leaders, and our international scope and ability to deliver services globally have helped us successfully complete merger, acquisition, and divestiture projects for premier companies across many industries.

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For more information on how PwC can help support your Treasury organisation through a merger, acquisition or divestiture, please contact:

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