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Finance integration

Fine-tuning reporting capabilities for long-term M&A value

Mergers and acquisitions (M&A) continue to be a preferred growth strategy for companies stymied by sluggish organic expansion. Often lost in the optimistic, pre-deal discussions of synergy plans and accretive earnings, however, is the ability of company leaders to concurrently deliver projected short-term synergies and position the newly combined company for long-term success. Early financial gains from headcount reductions, procurement advantages, and information technology (IT) consolidations can be negated later on if rationalization decisions are not made with an eye towards the future. For example, acquirers rushing to integrate operations often aggressively reduce employee headcount, only to incur significant training and staff development costs because early-stage staffing needs and projections often fail to account for how the new organization will operate and what the combined baseline financial results will look like.

A tightly formed plan for accurate, integrated financial reporting post-close can provide the foundation for data and cross-organizational visibility that executives need to comply with post-transaction external reporting requirements and support long-term synergy goals. The acquiring company's Chief Financial Officer (CFO) and the Finance team typically lead financial reporting integration, working closely with the M&A deal team. The combined reporting capabilities should fulfill standard M&A requirements – enabling external reporting continuity, closing the books in a timely manner to meet SEC and investor expectations, and others –For others, particularly organizations lacking a global entreprise resource planning (ERP) system, more nuanced requirements may be overlooked until too late in the game: combined-company management reporting by business line, product, and service offering; and interactions with human resources (HR), payroll, procurement, and travel and expense (T&E) systems.

Priority One: Consolidating external reporting

When planning the integration process, a public company's CFO and Finance team should first determine the acquisition's potential effect on its external reporting process.

- Does the acquired organization fit neatly within an existing reporting segment of the legacy business? If so, changes can be minimized; however, proper focus should be maintained during the initial post-deal-close consolidation.
- Will the acquired organization span multiple externally reported segments of the company? If this is the case, mapping and aligning the acquisition's business financial systems for seamless external reporting takes on additional importance.
- Is the acquisition significant and heterogeneous enough to spur reorganization of the legacy business and its management reporting lines? If so, leadership should decide whether or not a restatement of past segment-level financials is acceptable. If not, the integration team should be aware of leadership's decision while designing the updated reporting structure.

The chosen reporting method for the first consolidation after deal close depends, in large part, on the answers to the above questions. Typically, it is possible to maintain the acquired organization's consolidation system and processes as a subconsolidation, and then route data to the parent company's consolidation system via a high-level mapping process and technology solution. This approach provides ample time for the integration team to work towards a more comprehensive financial systems integration, including general ledgers, while fulfilling short-term reporting requirements. Note, however, that achieving potential post-deal synergies may dissuade management from choosing this approach, as maintaining redundant systems and processes utilizes valuable resources and may hinder the deal's targeted synergies if aggressive timelines have been established.

We satisfied external reporting requirements… now what?

After designing, testing, and executing on the first post-deal-close reporting period, the Finance integration team should shift its focus to addressing the following questions:

- How will the company's business and functional leaders receive the information they need to make solid, fact-based decisions in line with the new organization's goals?
- What are the timelines for reducing or eliminating the use of the acquired company's systems, particularly general ledger, payroll, T&E, and others?
- How will finance integration affect company support functions such as shared services, transaction processing, business finance teams, etc., and how can that impact be mitigated?

Viewed together, these considerations may appear overwhelming; however, a well-managed reporting integration effort can prepare internal stakeholders for the changes to come and help bridge typical post-Day 1 information gaps. Indeed, effective reporting integration planning and execution may improve stakeholder satisfaction and accelerate synergy realization.

Company business leaders will want prompt and unfettered access to financial data related to the acquired organization. Meeting each stakeholder's expectations will require that the Finance team understands what information they need, when they need it, and where they want to go to access and analyze it – all of which should be determined and documented as part of designing, mapping, and implementing the end-state reporting solution. Companies with an established ERP system and a well-defined set of financial feeder systems will likely be able to streamline this process, as the "to-be" is typically aligned with the current state for the acquiring organization.

For those companies without a true ERP, requirements gathering and documentation may be a more challenging exercise:

- Does the acquisition have multiple, existing data warehouses and business intelligence tools to analyze information?
- Do these systems and tools use a consistent codeblock structure? What elements are constant and critical across each platform?
- Does each entity and geographic market transact on the same general ledger platform?

Focusing on the end state and maintaining a well-defined master data program may help to mitigate some of these challenges.

Pulling it all together

Once Finance has defined internal stakeholders' individual and collective reporting requirements (Figure 1), the process of aligning the acquired organization within the new reporting structure can begin. It is important that the integration team employs strong project management throughout this process and communicates regularly with all stakeholders.

Targeted synergies may drive (or force) many of the integration timelines. However, project leaders should be aware that synergies can be lost if the integration effort and transition are rushed and the company incurs significant costs on issue resolution and cleanup.

The documented stakeholder requirements should guide the integration's design and execution, and planning needs to take into account the integration's impact on various parts of the organization. For example, how will the HR team be affected? Will shifting acquired employees to new legal entities and HRIS systems drive significant change to the master data within the ERP?

The end-state goal is to establish an inclusive, responsive integration program that meets near-term reporting requirements and longer-term synergy targets. The CFO and Finance organization are uniquely positioned to drive and support the visibility and transparency that will promote integration success – with the reporting requirements and associated execution plan clearly defined as an underpinning.

Figure 1: Stakeholders' financial reporting requirements

External reporting	• Avoidance of restatement • Impact on consolidated reporting • Segment reporting modifications	• Minimize/eliminate impact on close • Training requirements • Staffing considerations
IT	• GL codeblock modification • Adoption of acquired systems • Data warehouse linkage	• Management reporting systems • T&E/HR/Purchasing systems • Subledgers for FA,AR,AP
Business support finance	• Org change adjustments • Data warehouse training • Updated mgt report needs	• Journal entry process changes • Allocation process updates • Impact on YoY comparisons
Ancillary groups	• Purchase order transition • HR process changes • Tax reporting impact	• Fixed assets accounting • Amortization of intangibles • Shared service/outsourcing impacts

Contacts

Will Tarry
Principal
Deloitte Consulting LLP
wtarry@deloitte.com

Mike Willkin
Principal
Deloitte Consulting LLP
mwillkin@deloitte.com

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