Value Creation in Deals

Finance Integration and Separation

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Acknowledgement
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Preface

Dear reader,

Mergers and acquisitions (M&A) continue to be a popular way for companies to grow. Organisations throughout the world use this measure to secure and expand their market position and increase revenues. Global deal activity remains at a very high level. Four out of every five businesses that participated in this survey are considering a transaction within the next three years.

However, experience shows that deals are extremely complex and challenging for any organisation, regardless of size or industry. Dealmakers have to focus on creating long-term value in order to realise synergies after acquiring a business or carving out parts of a business.

From our perspective, the Finance function – a key stakeholder in a company's daily operations – takes on a leading role in preparing and executing deals and hence has a large influence on the overall success of a transaction. Thus the Finance Function can be an important driver for value creation in deals. In this study, we will explore the most important factors ensuring a successful Finance Integration or Carve-out. We will look at the cross-functional activities that the Finance function should be involved in to make a deal pay off and give hands-on practical recommendations for successful transactions.

For this purpose, we surveyed more than 80 CFOs and Finance decision-makers from Germany, the Netherlands and Switzerland, representing various industries and company types. About half of the participants were from Private Equity houses or their Portfolio companies.

In Chapter C, we will explore the level of influence the Finance function has on the overall success of a deal and look at why the Finance function plays such a crucial role in any deal environment. Chapter D analyses the involvement of the Finance function in the overall transaction, highlighting how the Finance function can contribute to the overall success of a transaction. Chapter E explores the success factors of Finance Integration/ Carve-outs, pointing to concrete measures and recommendations to make a deal more beneficial and constructive (Chapter F).

In order to demonstrate the significant influence the Finance function has on overall deal success and to highlight the crucial factors for a successful Finance Integration/Carve-out, we compared transactions in which dealmakers met their expectations with transactions where they were not able to reach their objectives.

As a leading Finance decision-maker, you will be able to benefit from this study by learning how the Finance function is at the centre of every deal and how you can leverage others' experience. At various points in this study, we will share our expert knowledge in order to give you deeper insights. Case studies from successful projects demonstrate how our approach works in practice.

We would like to thank all survey participants for their contributions. Your answers enabled us to gain valuable insights into the Finance function in context of M&A, develop credible findings and draw useful conclusions for your business.

We hope you find the survey results enlightening and we will be happy to discuss specific issues in detail.

Christian Jöhnk
Partner, PwC Germany

Claude Fuhrer
Partner, PwC Switzerland

Danny Siemes
Senior Director, PwC Netherlands

Table of contents

Table of figures

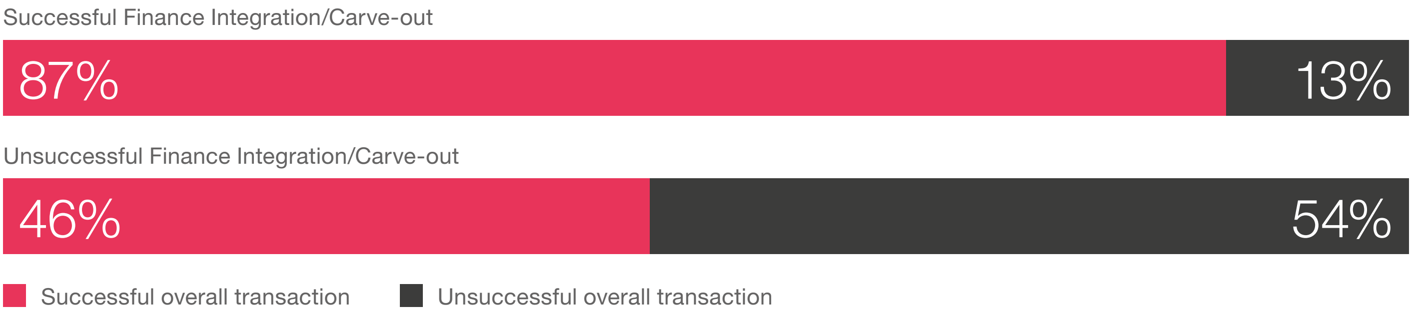
A Executive summary

Further reading

If you seek additional information on factors and conditions that positively influence the achievement of an overall successful deal, please refer to the report “Creating value beyond the deal – what if you took a different perspective to your M&A?” published by PwC in 2019.

The Finance function, as a well-connected function of any business, has great influence on the success of a transaction. In our survey, we found that a successful Integration or Carve-out of the Finance function strongly correlates with the success of the overall transaction. Businesses that succeed at integrating or carving out their Finance function are usually faster at executing the deal, resulting in a higher return on investment (ROI). These findings underline that the Finance Integration/Carve-out is a crucial part of any transaction (Chapter C).

Fig. 1 Success of overall transaction depending on success of Finance Integration/Carve-out

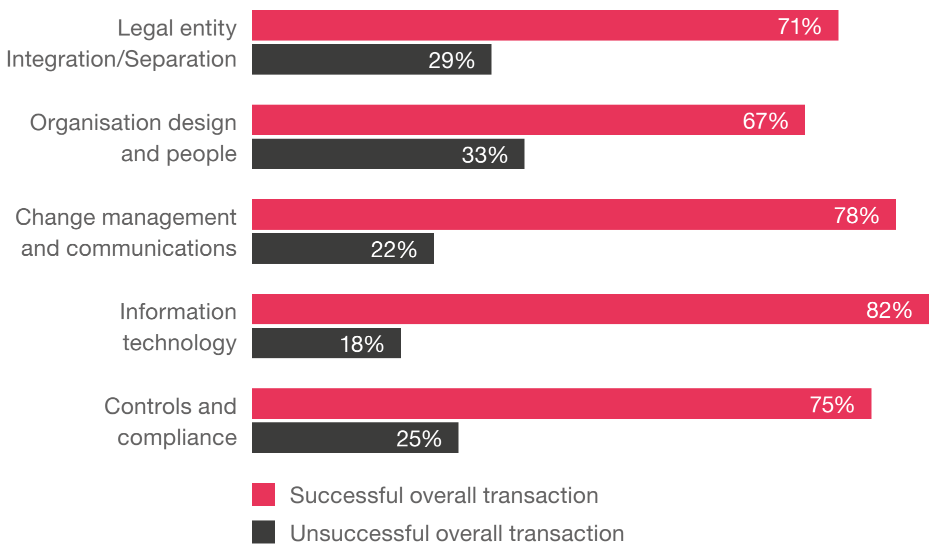


The Finance function has the power to make a deal successful

Our survey results indicate that it is essential to both involve the Finance function early and empower Finance representatives to take ownership of specific areas of a deal. Including the Finance function as early as possible, ideally prior to signing, is a wise move: if the Finance function took complete ownership or was highly involved in the transaction process right from the start, a business was far more likely to achieve overall deal success (Chapter D).

Fig. 2 Finance involvement in overall transaction

If Finance was highly involved, what extent of overall transaction success was achieved?



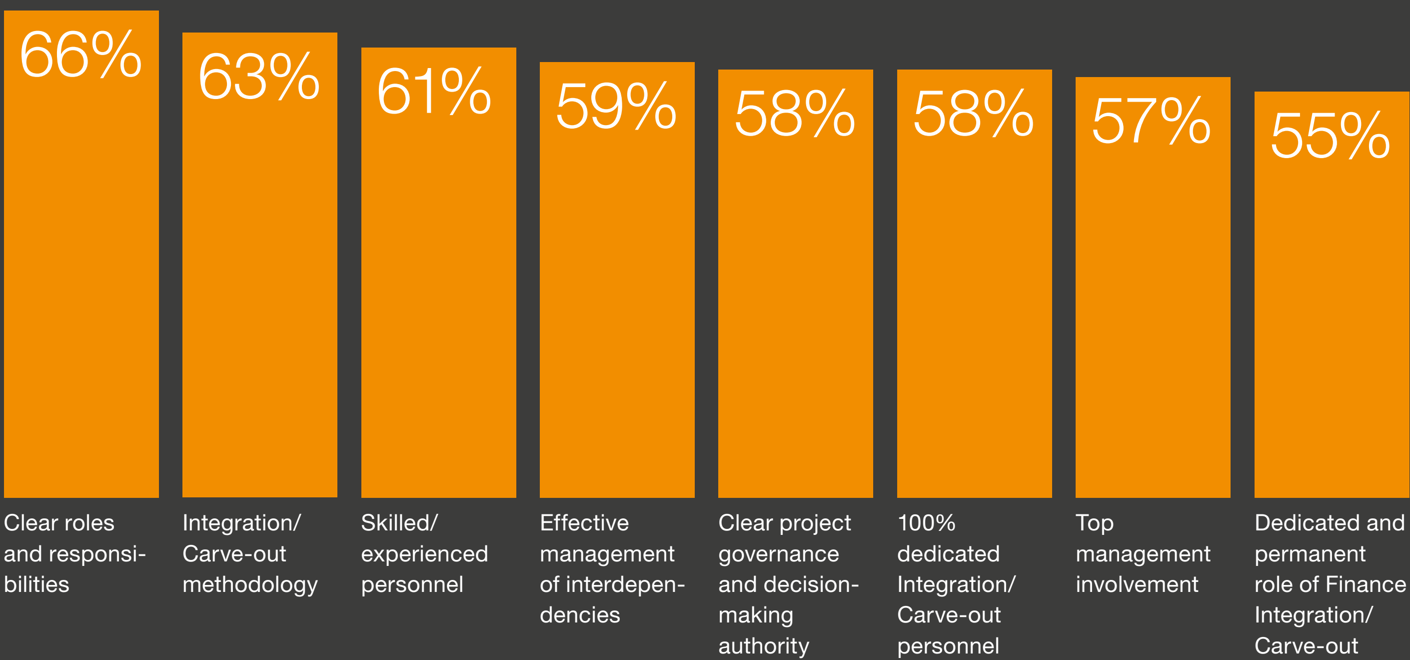
Success factors for Finance Integrations/Carve-outs

While the Finance function often takes the lead in supporting financial topics pre-deal, such as financial due diligence or valuation, the success of the Integration or Carve-out of the Finance function itself is also extremely important. This study examines the success factors for the Finance function during the different deal phases – from preparation and stabilisation to value creation (Chapter E). In the preparation phase, setting the right priorities and getting started early are key. Two thirds of the companies which began preparing prior to signing managed to complete their Finance Integration/Carve-out successfully. Organisations waiting until Day 1 to prepare were much less likely to succeed.

An important organisational aspect during the preparation phase is structuring the Finance work streams. Looking at the success rates, we found that using existing Finance departments provides the most consistent success, and yields better results than relying on finance processes or cross-functional end-to-end processes.

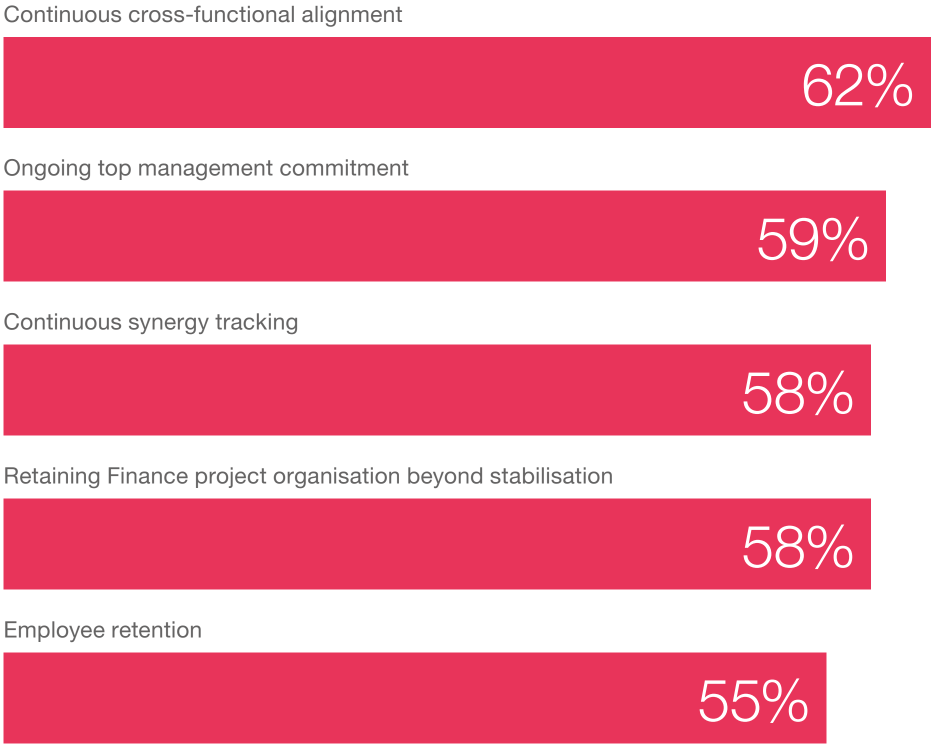
During the **stabilisation phase**, businesses focus on performing stabilising measures. Survey results indicate that the most effective short-term measure for stabilisation is to create clear roles and responsibilities. Almost equally important is implementing a clear methodology and placing experienced staff in key roles. During this phase of the deal, businesses are well advised to set up a clear project structure, follow a sound methodology, ensure full commitment from Top Management and rely on experienced personnel. As for the recommended depth of Integration, our findings suggest that aiming for full Integration – as the majority of participants did – increases the success rate of Finance Integration.

Fig. 3 Success rates of Finance Integration/Carve-out when applying different stabilisation measures



When the first 100 days are over, the focus shifts to **creating long-term value**. The survey results demonstrate that the long-term measures, which correlate closely with successful Finance Integration, are mainly focused on achieving continuous cross-functional alignment. In order to navigate the value creation phase successfully, it is vital to maintain the core project organisation, while maintaining flexibility so that changes to existing plans can be quickly addressed.

Fig. 4 How many Finance Integrations/Carve-outs were successful when these measures were applied during the value creation phase?



Our seven top tips are

- ensuring good preparation by using a structured approach,
- opting for full Integration of the Finance function,
- building a clear project organisation,
- keeping the project organisation beyond the stabilisation phase,
- involving top management during every phase of the deal,
- employing highly experienced staff, and
- focusing on change management measures.

Checklist for a successful Finance Integration/Carve-out

At the end of the main part of this study (Chapter F), you will find a list with seven practical recommendations which you can leverage during your next Finance Integration/Carve-out project – starting with good preparation for change management measures. While each transaction is unique and includes specific factors to be addressed, this checklist builds on the main findings of this study as well as our experience with a great number and variety of M&A projects. Considering these recommendations will put you in a good position to reach the objectives of your next transaction. Each of these points will be described in detail in the study.

B About this survey

More than 80 company representatives took part in this survey. All of them had a leading position within the Finance department of their company, with about half of the participants holding a position as Group Chief Financial Officers (CFO), and roughly a quarter as Business Unit (BU) Chief Financial Officers.

Fig. 5 Key characteristics of survey participants and their transactions

Deals on buy side 33%
Deals on sell side 67%

>80 participants surveyed

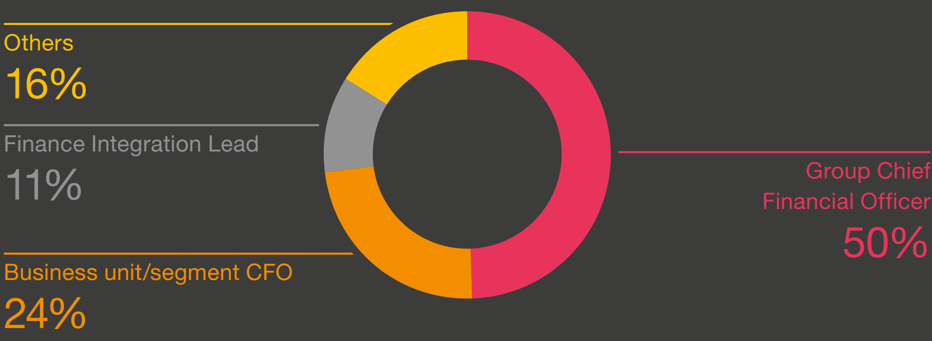
Unsuccessful deals 31%
Successful deals 69%

Experience of more than 1,000 deals covered

Definition of the Finance function

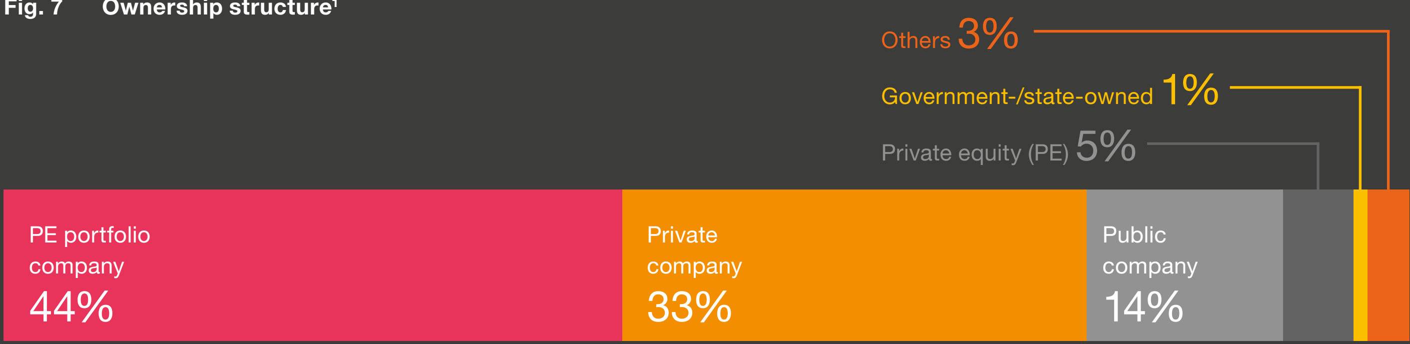
In this study, we refer to the Finance function as a group function, representing various departments, including but not limited to Accounting, Controlling and Treasury.

Fig. 6 Positions of respondents within the company



Almost half of the participants were from the Private Equity (PE) sector, including private equity houses and their portfolio companies.

Fig. 7 Ownership structure[1]



[1] Discrepancies may occur due to rounding differences.

The survey participants were primarily from Germany, the Netherlands and Switzerland, representing a variety of industries.

Fig. 8 Headquarters of participating companies

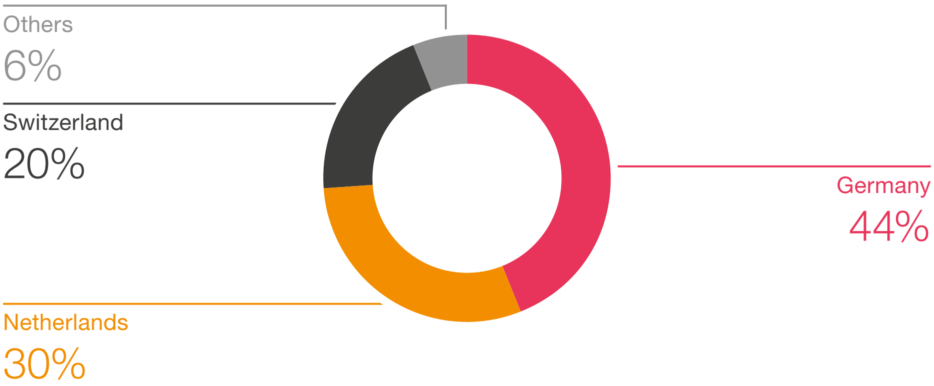
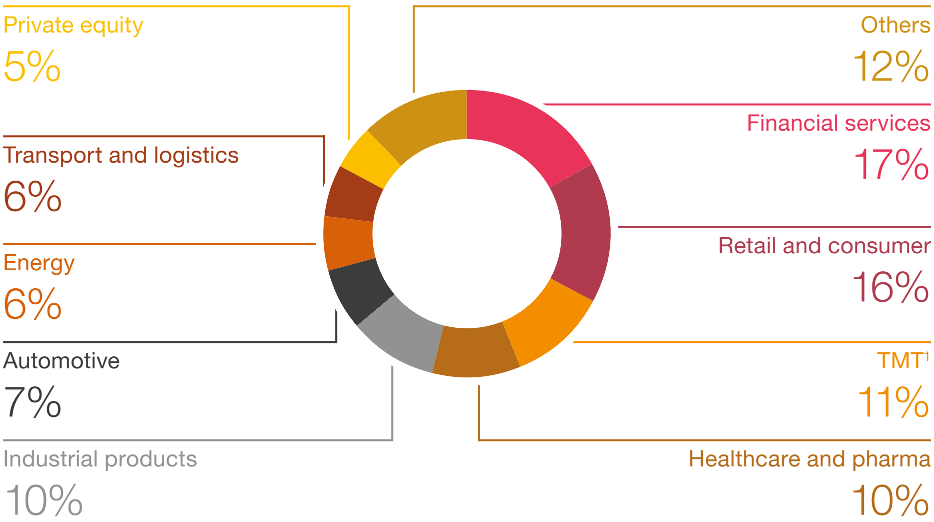


Fig. 9 Industries represented in this study



[1] Technology, media and telecommunications.

Companies questioned for this study vary widely in terms of their size and the revenue of their target/carve-out.

Fig. 10 Number of employees

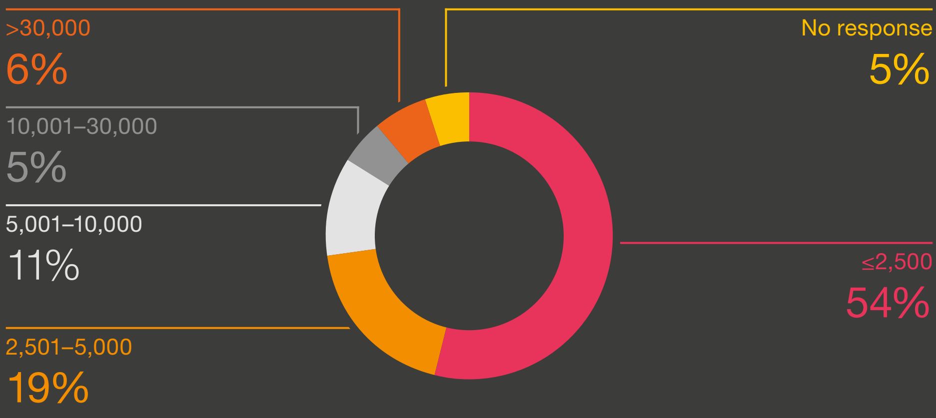
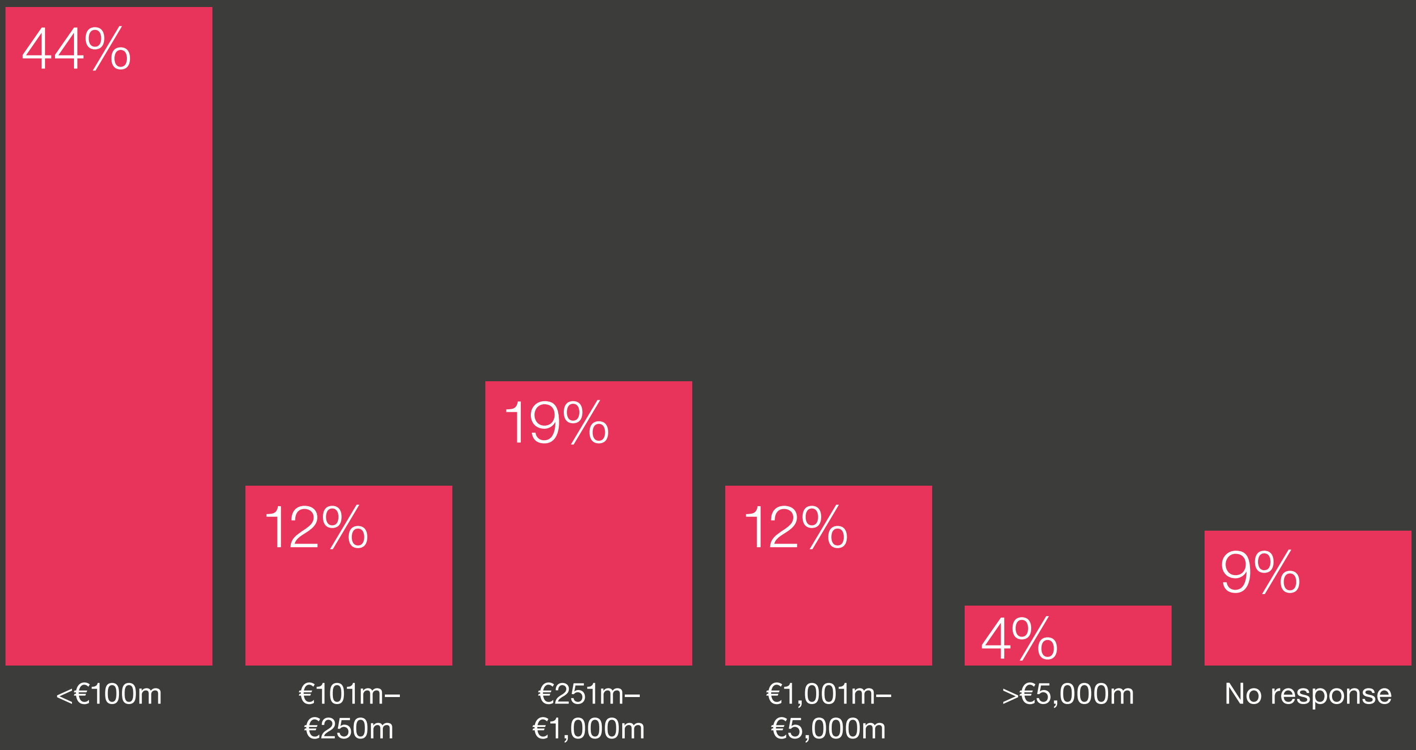


Fig. 11 Revenue of target/Carve-out company[1]



[1] Discrepancies may occur due to rounding differences.

C The Finance function as a key driver of value creation in deals

The Finance function is an essential function within every company and is involved in almost all corporate activities. Therefore, it is natural to assume that the success of the specific Finance function's Integration/ Carve-out is instrumental to the overall M&A success. This chapter specifically focuses on the impact of the Finance Integration/Carve-out on the overall transaction.

Our survey results confirm that the Finance function has a great influence on the overall success of a transaction. More specifically, we found that a successful Integration or Carve-out of the Finance function strongly correlates with the success of the transaction as a whole: 87% of respondents who were successful at integrating or carving out their Finance function also experienced overall transaction success. Businesses which stated that the Integration or Carve-out of their Finance function did not go according to plan were much less likely to achieve a successful overall transaction (46%).

How we defined "deal success"

In order to find out which role the Finance function plays in deals, we looked at two dimensions of deal success:

1. **Overall deal:** we asked participants to give an overall assessment of their Integration/Carve-out. Did they achieve the strategic objectives of the Integration/Carve-out and their ROI?
2. **Finance Function:** we asked participants to look at the Integration/Carve-out of their Finance function. Did they achieve all strategic and operational objectives regarding the Finance function?

To evaluate the success factors, we split the respondents into two groups, based on the personal assessment of the participants and/or their ROI:

- Those who achieved success (successful (Finance) Integration/ Carve-out)
- Those who were only partially successful or not successful (unsuccessful (Finance) Integration/ Carve-out)

The Finance function accelerates deal execution

Furthermore, businesses that are successful at integrating or carving out the Finance Function are usually faster at executing the deal, resulting in a higher ROI (Fig. 13). In cases of successful Finance Integration or Carve-out, more than half of the transactions occurred faster than initially planned. Transactions where the Finance Integration/Carve-out was not successful were faster than planned in only one third of the cases (Fig. 12).

Fig. 12 Speed of overall transaction depending on success of Finance Integration/ Carve-out

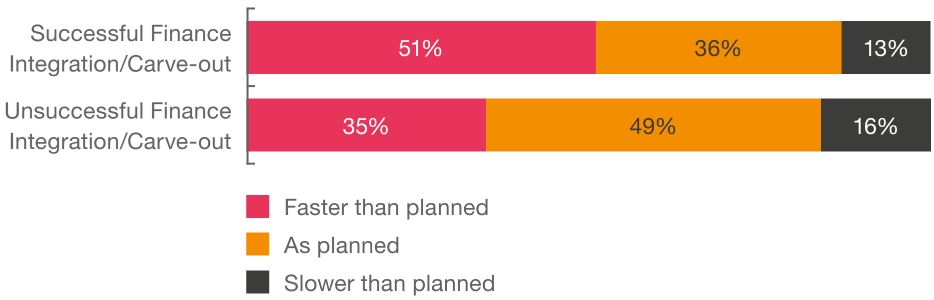
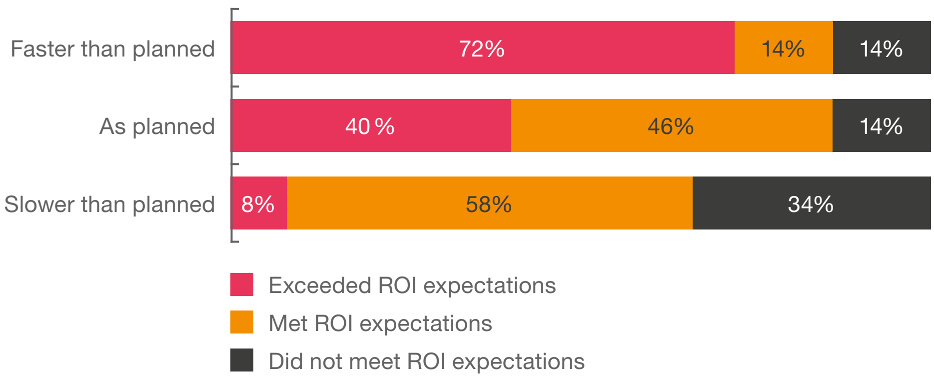


Fig. 13 Speed of transaction in relation to the achievement of ROI



ROI achievement depends on success of the Finance function

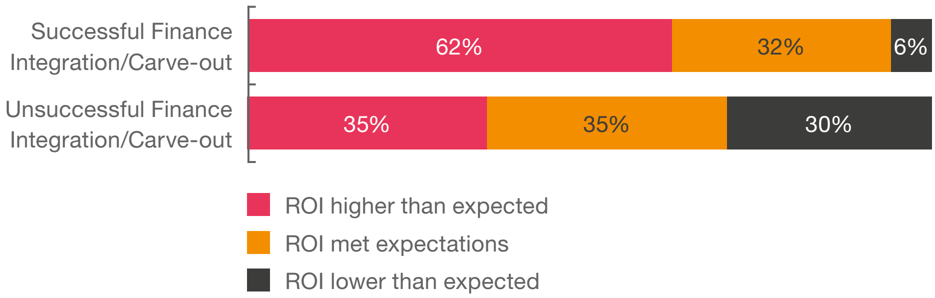
The Finance function also affects one of the most important objective indicators for deal success: the ROI. If an organisation successfully integrated or carved out the Finance function, it was far more likely to achieve or exceed the target ROI.

One reason for this is the correlation between the success of Finance Integration/Carve-out and the speed of the deal: from our experience, the faster the deal is pushed through, the more likely a company is to achieve or exceed the ROI target. Speedy execution allows the organisation to quickly return to its day-to-day business. As a result, the organisation will reap the benefits of the deal earlier than planned, achieving the planned ROI target.

Additionally, our projects show that if the finance function has a deep understanding of the key activities and associated costs of an organisation, it is usually able to promote transactional speed by sharing information quickly. By doing so, the Finance function can empower other functions to make key decisions which are dependent on financial data and support them with these decisions.

Those findings underline that Finance Integration/Carve-out is a crucial part of a transaction. Consequently, the Finance function and related activities should be a key priority of every deal.

Fig. 14 Achievement of ROI target depending on Finance Integration/Carve-out success



Expert opinion

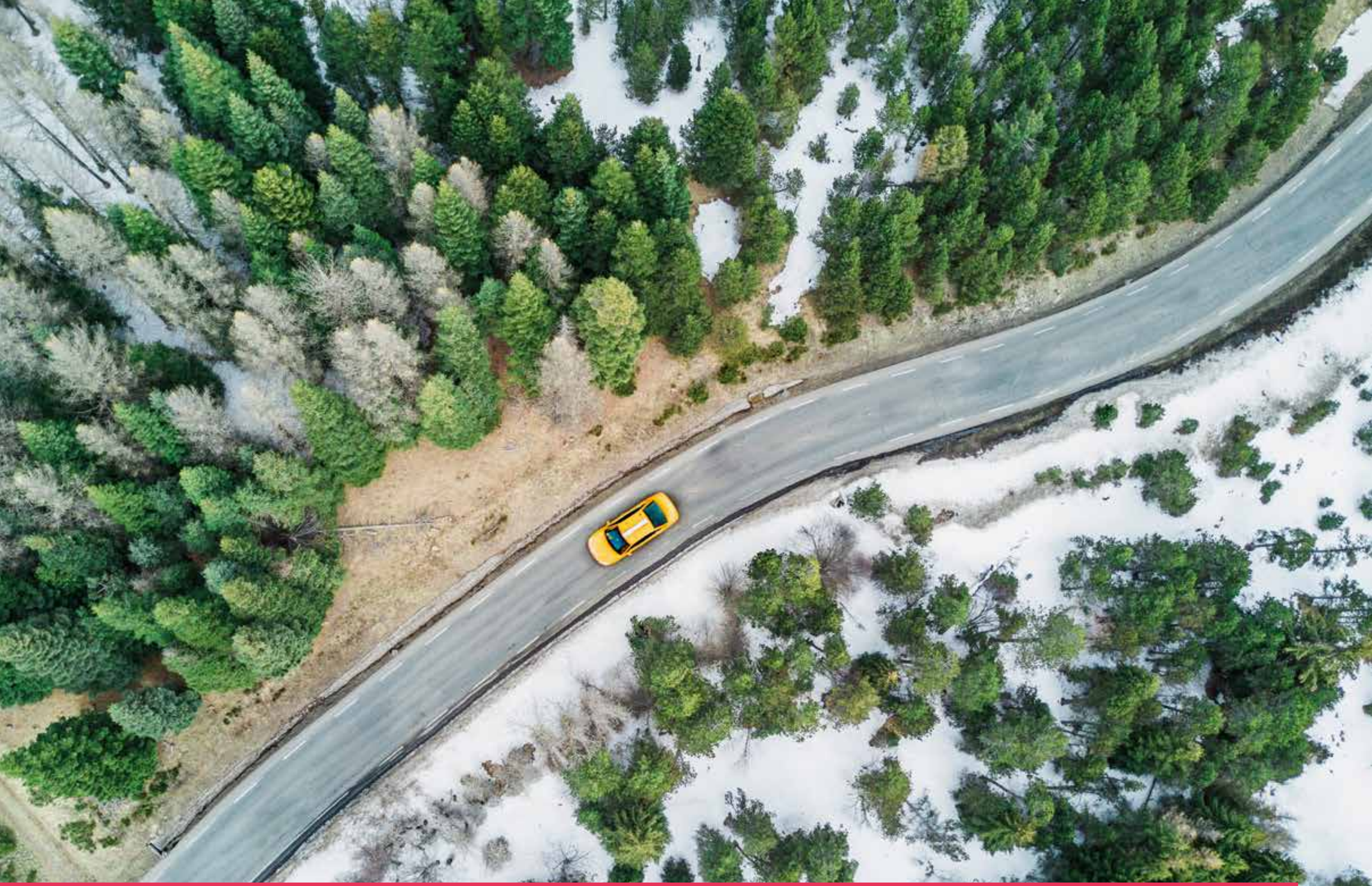
Why is the Integration/Carve-out of the Finance function crucial for the overall success of a transaction?

"The Finance function is a well-connected key function in any organisation, collaborating with a variety of other areas on critical long-term tasks as well as in day-to-day business – from budgeting to management reporting. This makes the Finance function an ideal hub for preparing and coordinating transaction-related activities prior to a deal."

Christian Jöhnk, Partner, PwC Germany

"The Finance function has both access to and a deep understanding of a wealth of information needed to analyse performance and provide useful data across the organisation. Therefore, the Finance function has a head start when it comes to planning key topics related to a deal, such as synergy management, and is thus well positioned to own these topics through the transaction. By that, the Finance Function can be a key driver of value creation throughout the whole deal."

Danny Siemes, Senior Director, PwC Netherlands



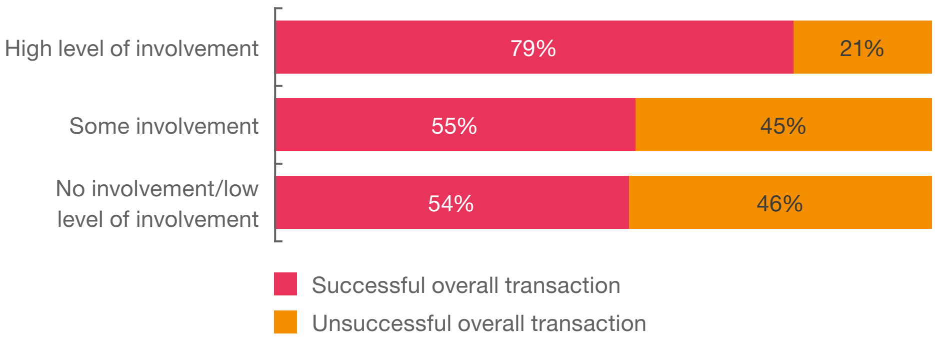
D How the Finance function can contribute to value creation in deals

If a business manages to successfully integrate or carve out the Finance function, it is far more likely to speed up execution of the deal and generate a successful overall transaction. In addition, the Finance function plays a key role in the overall transaction by supporting business development and other functions relying on financial data. In this chapter, we will examine how organisations involve their Finance functions in the deal process, we will look at which Finance activities are especially crucial for the success of the overall transaction, and we will analyse how the Finance function can contribute to the overall success of a deal.

The survey results indicate that most organisations involve their Finance function at an early stage of their transactions. Six out of every ten participants stated that their Finance department was closely involved in the whole transaction process prior to signing. Only one in ten companies failed to involve the Finance function.

Including the Finance function prior to signing is a wise move, as the survey results indicate: if the Finance function either took on complete ownership of the general transaction process right from the beginning or was heavily involved in it, a business was far more likely to achieve overall deal success. When the Finance function was a key part of the deals team, almost 80% of the companies were able to achieve deal success. In cases where the Finance function was hardly involved or not involved at all, the overall success rate dropped to just over half (54%).

Fig. 15 Overall deal success depending on degree of Finance involvement prior to signing



This finding suggests that it is very important to both involve the Finance function early on and empower Finance representatives to take ownership of specific areas of a deal. Finance expertise and knowledge about key processes are extremely important for a successful transaction.

The Finance function deserves a leadership role in the deal process

A great majority of companies put the Finance function in charge of preparing the transaction (80%) and leading Financial due diligence (71%), while 68% of respondents entrusted the Finance function with valuation and modelling, which is a wise decision, as the results show. When the Finance function had complete ownership of transaction preparation or was heavily involved with it, the deal tended to be more successful. 79% of all deals in which the Finance function held complete ownership of the Integration/ Carve-out were successful, while just 39% of all deals in which the Finance function was only moderately involved resulted in success. In activities such as Operational Due Diligence or IT Due Diligence, the Finance function is not so strongly involved. However, Finance expertise is also important in these areas.

Involve Finance in all activities

The Finance function plays a vital role when it comes to project organisation and decision-making. In many organisations, the Finance function takes a leading position in the overall project organisation and decision-making process. In over one third of the Integrations/Carve-outs we examined, the Finance function held the position of project owner (Fig. 16).

Fig. 16 Role of Finance within overall project organisation and decision-making process

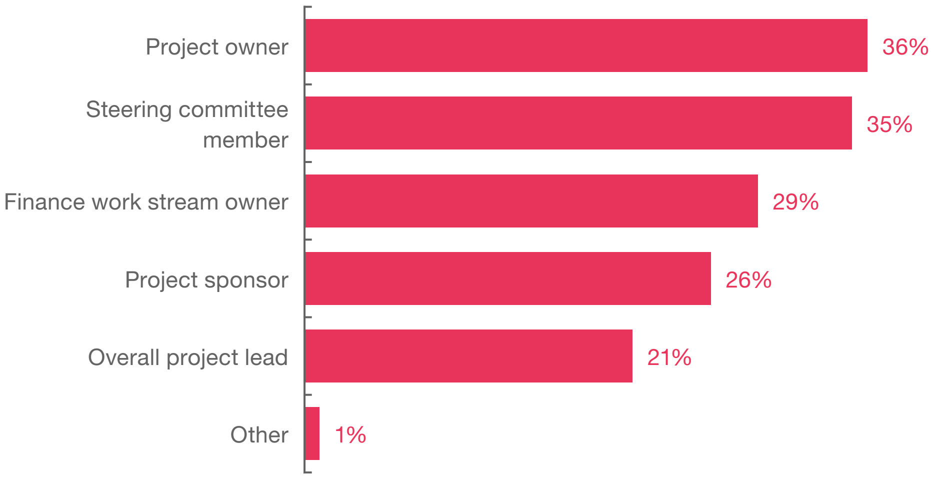
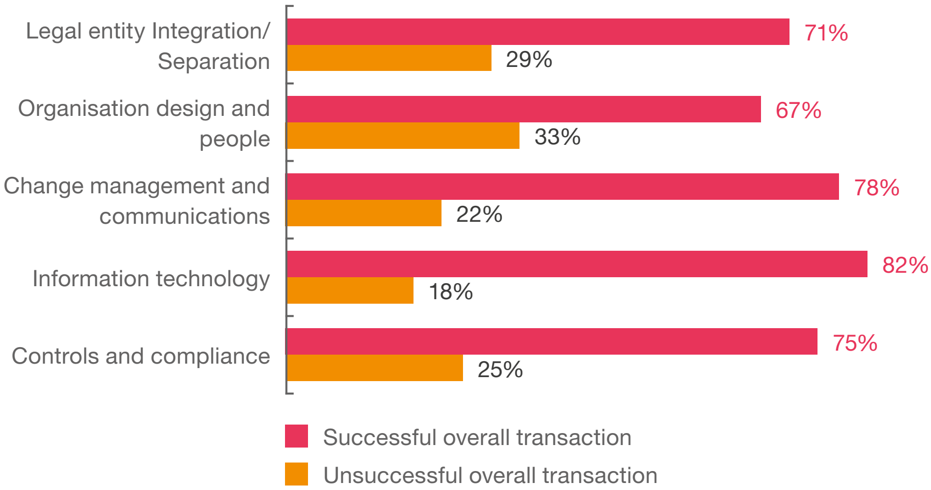


Fig. 17 Finance involvement in overall transaction

If Finance was highly involved, what extent of overall transaction success was achieved?



Cross-functional work stream coordination is another area in which the Finance function can play an important role. As an example, two thirds of participants assigned the task of integrating or separating legal entities to the Finance department – with great success. If the overall transaction was successful, the Finance function had most likely taken on a high degree of leadership in the area of legal integration/separation (Fig. 17).

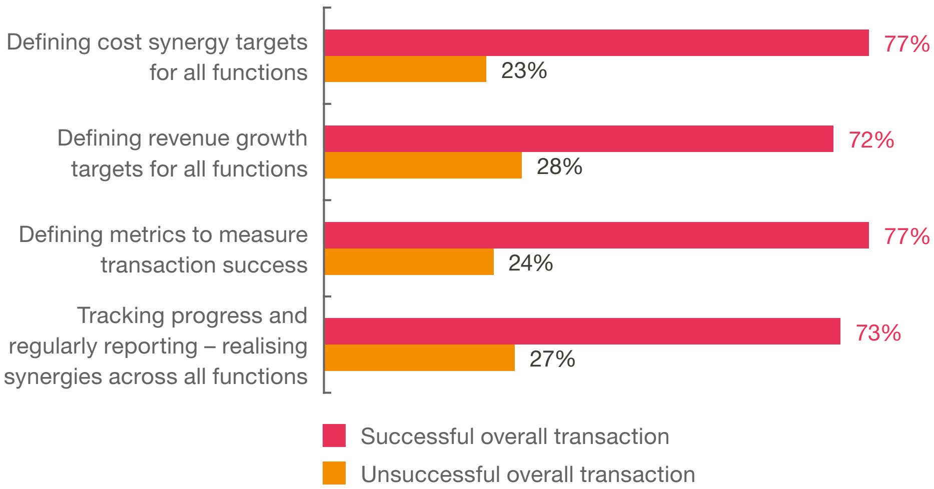
Finally, the Finance function can leverage its experience and knowledge in the area of synergy management – an important task in the overall deal process to ensure that all functions deliver the growth, profitability and efficiency potentials of the deal. Because the Finance function works with other cost management functions on a daily basis and has access to all the necessary data, it makes most sense to entrust the Finance function with this task. Survey results show that the Finance function had either complete ownership of or was heavily involved in about 60% of all synergy-related activities. As the findings indicate, the Finance function was often in charge of synergy management in successful transactions.

The Finance function is often key to identifying, tracking and quantifying achieved synergies while working with other functions. Moreover, Finance leaders must also focus on identifying synergies within their own function (in the company).

As shown in the “Creating value for a PE investor” case study, creating synergies within the Finance function can be a crucial factor. By implementing efficient process chains and/or optimising headcount, costs will decrease. Centralising the Finance function enables a business to implement global standard processes, thereby unifying and optimising workflows. For example, standardised reporting by the whole group allows for easy comparison and consolidation without having to apply cumbersome adjustment processes. Furthermore, combining Finance activities supports knowledge exchange. Our experience shows that creating synergies in the Finance function is especially important. The Finance function is a key player in a company's business as it is responsible for leveraging synergy effects in terms of costs, knowledge and processes. This can have a major impact on the efficiency of the entire business. Since Finance is responsible for tracking overall synergies, it should lead by example by realising synergies within the Finance function.

Fig. 18 Degree of Finance involvement in cross-functional synergy management

If Finance was highly involved, how successful was the overall transaction?



Expert opinion

How can the Finance function support the overall deal success?

“Financial data is among the most critical information in a transaction. Paired with commercial analysis, the seller and buyer can rely on this data to negotiate the terms of the deal and perform sufficient due diligence. The Finance function is the best match for this challenging task. To complement the available capacity, I recommend that companies involve external staff with the necessary skillset and experience.”

Claude Fuhrer, Partner,
PwC Switzerland

“Involving the Finance function in all deal-related activities is a must. The Finance function is important in synergy management, not only pre-deal, but also post-deal, ensuring that all other functions deliver the predicted growth, profitability and efficiency potentials. It makes most sense to entrust Finance function with this task, as they perform similar tasks in operational day-to-day business.”

Danny Siemes, Senior Director,
PwC Netherlands

Case study

We support you from deal preparation through Day 1 readiness to long-term value creation

Project Background
A PE investor acquired two global industrial companies and, as part of the deal perimeter, aimed to fully integrate their Finance functions. The objective was to establish joint external reporting and to realise synergies in an ambitious time frame.

As part of the integration efforts, it was necessary to develop a new Target Operating Model (TOM) due to differences in cultures, systems and business models (centralised vs decentralised organisation).

Project scope
The following topics came within the scope of our work:

- Ensuring Day 1 readiness and a smooth transition for all Finance departments
- Harmonising fiscal year between target and buyer and ensuring full consolidation
- Integrating the Finance functions to enable the combined group to comply with complex reporting requirements for a business combination under common control
- Implementing an efficient, harmonised and standardised long-term solution for consolidation and reporting
- Adjusting the entity's legal structure while considering tax implications
- Establishing a lean and centralised corporate function, a business-driven local Finance organisation with a defined service level, and standardised and automated processes in the Shared Service organisation
- Developing a synergy case including the possibility to track these throughout the implementation phase

How PwC added value
We added value from deal preparation through to execution:

- **Pre-deal preparation:**
  We established an effective Finance Integration Management Office (FIMO) based on a standardised approach, together with in-depth industry knowledge to ensure high-quality work while adhering to an ambitious integration timeline. We supported our client in developing a clear integration strategy and ensured that measures were introduced that supported the reduction of costs by developing a strong synergy based business case. Before closing, we helped to set up a clear change management approach to stabilise operations and to respond to feedback by the organisation through this transformation process.
- **Day 1 and short-term Integration:**
  Day 1 preparation took a total of six weeks and comprised several key initiatives. Afterwards, we supported our client in implementing all key measures to integrate the target into the buyer's organisation and stabilise operations throughout the first 100 days.
- **Long-term Integration and value creation:**
  Our support continued beyond the first 100 days after closing. We helped to achieve the ambitious synergy target set by the PE investor, particularly regarding the design and further implementation of Shared Services – which supported our client in achieving their savings goals. Thanks to the synergy management and tracking process we created, we were able to implement all necessary measures together with the client to meet the savings objective. Another key success factor was a well-defined target picture of the organisation, developed by a dedicated project team that stayed through the entire transformation – from pre-deal preparation to long-term execution.

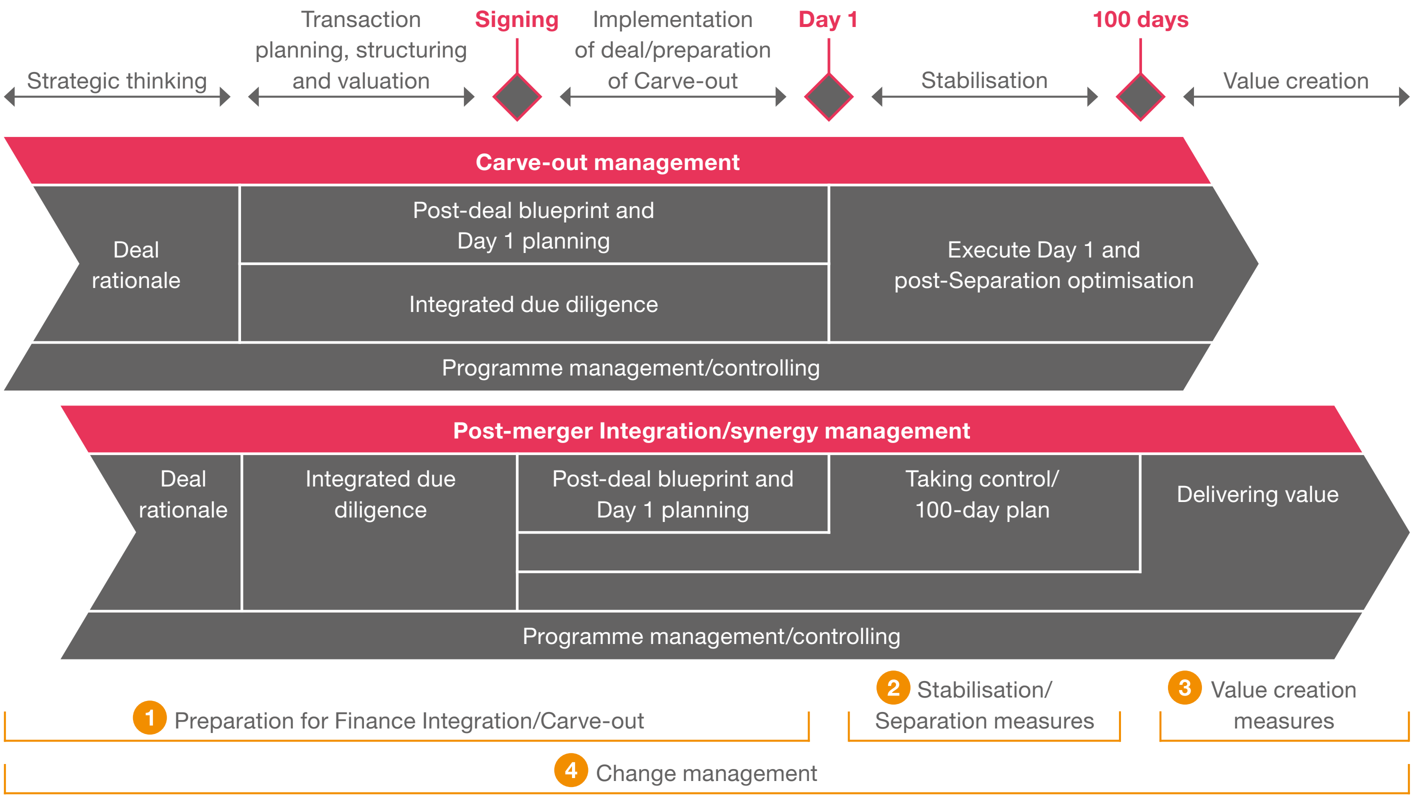
Fig. 19 Example: Day 1 and short-term readiness checklist (Integration)

Day 1 and short-term readiness checklist (Integration)	
• Finance target operating model (TOM) • Finance Integration strategy and roadmap • Chart of account mapping • Management and monthly reporting under new requirements • Finance function process mapping • Analysis of Finance systems architecture • Material accounting policies alignment	• Interim combined budget and plan • Cash flow forecasting • FY alignment • Stub period accounting • Delegation of authorities and CAPEX spend • Working capital management (eg, credit and payment terms) • Opening balance sheets

E Success factors for Finance Integration/Carve-out

As demonstrated in the previous chapters, the Finance function plays an important role in the success of the overall deal. Consequently, businesses should focus on the Integration or Carve-out of their Finance function. However, what are the key factors contributing to a successful Finance Integration or Carve-out? In this chapter, we will take a closer look at the success factors of Finance Integration/Carve-out during the different phases of a deal.

Fig. 20 Finance Integration/Carve-out success factors in deal context

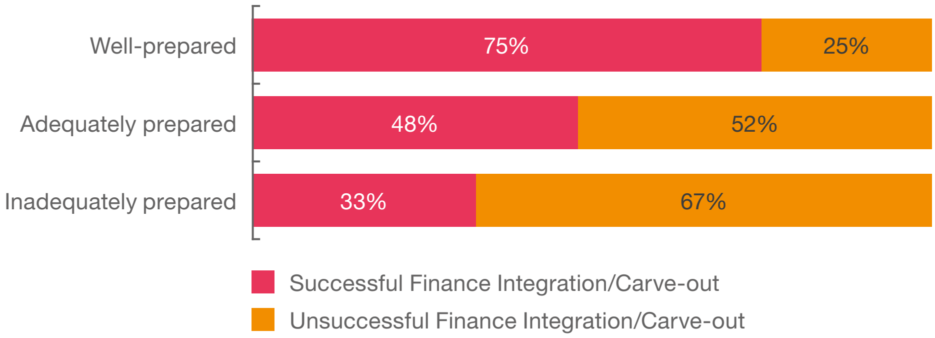


1 How to prepare for Day 1

The successful post-merger integration of a Finance function requires thorough preparation, as there are many complex and time-consuming challenges. As soon as an organisation decides to pursue an inorganic growth strategy or to carve out one of its business entities, the Finance function should start preparing for the different milestones of a transaction. Our results show that if the Finance function is well equipped, it is much more likely that the Finance Integration or Carve-out will be successful.

When the Finance function was well prepared for Signing and for Closing/ Day 1 execution, more than three quarters of Finance Integrations/ Carve-outs were successful. If the Finance function, on the other hand, was inadequately prepared, the goals for Finance Integration/Carve-out were achieved in just one third of transactions.

Fig. 21 Success of Finance Integration/Carve-out depending on level of preparation of Finance for closing/Day 1 execution



Case study

We developed a fit for purpose Finance function by providing conceptual and operational support for the carve-out

Project Background
An industrial company wanted to carve-out one of its main business units to strengthen the focus on its core business. The business unit has a global footprint (~ 140 countries) and production as well as sales office in almost all countries. The Finance Function of this business unit was highly integrated and predominantly provided by shared resources of the group. The client asked PwC to support the development of a cost-efficient Finance operating model that ensured the business continuity without having to rely on several Service Level Agreements (SLA's). Facing several potential buyers with different business models required an easily adaptable Finance operating model for the NewCo.

Project scope
PwC supported the client during the whole deal process, including the following services for the Finance function:
- As-is analysis of Finance operating model including benchmarking
- The goal was to separate the Finance functions in an ambitious time frame and to provide a standalone organisation by closing as well as Day 1 planning
- Ensure stabilisation of the remaining Finance Function

How PwC added value
As trusted partner we supported our client to navigate successfully through the entire deal. This included the overall project management in the separation project, starting with brainstorming and scoping, as well as with the creation of an operating model & standalone blueprint and financials, country separation, HR support, IT separation and the legal advice phase over a period of two years. Having decades of deal and industry experience we enabled the client to maximise the deal value by creating and implementing a lean, flexible and cost-efficient operating model for the NewCo.

Benchmarking
The carved-out business needed to be developed into a mid-sized company with an appropriate corporate backbone. Therefore, cost benchmarks have been used to determine the appropriate cost targets. The standalone and Day 1 operating model were developed against these cost targets, resulting in considerably lower costs than previous in-business costs and allocations.

Outsourcing of services
The business unit's Finance Function before carve-out preparation was highly integrated into the overall organisation. Transactional accounting activities were mainly executed by globally operating Shared Service Centers. Local statutory reporting was provided by shared resources of the local organisation (for approximately 40 countries).

Following the design principles of ensuring business continuity and creating a lean and efficient organisation we developed an operating model that outsourced most of the transactional activities. Additionally, the target operating model included outsourced local statutory accounting and tax to a 3rd party provider. This resulted in an extremely lean and cost-efficient Finance operating model but ensuring business continuity without having to rely on the RemainCo through Service Level agreements.

Deep dive: How to prepare for Signing

Post-Merger Integration
The Finance Function's preparation for Signing is divided into two phases. In the first phase, characterised by **strategic thinking**, the Finance Function should focus on achieving Integration readiness. This involves identifying the Integration capabilities that the Finance function needs, and developing the Finance Integration playbook. The second phase focuses on **transaction planning, structuring and valuation**. This includes assessing the target Finance function with regard to the organisation, processes, systems and people. The aim is to create transparency with regard to the current Finance function; and, in so doing, to determine risks and optimisation potentials. Further synergy potentials need to be defined. Based on this information, the design principles for the combined future Finance function can be created. In this way, we help our clients to establish a common definition for synergies and one-time integration costs, based on benchmarking of comparable functions and integrations combined with our integration approach. To assess the status quo of the target's Finance function, we support our clients with an operational due diligence of this function.

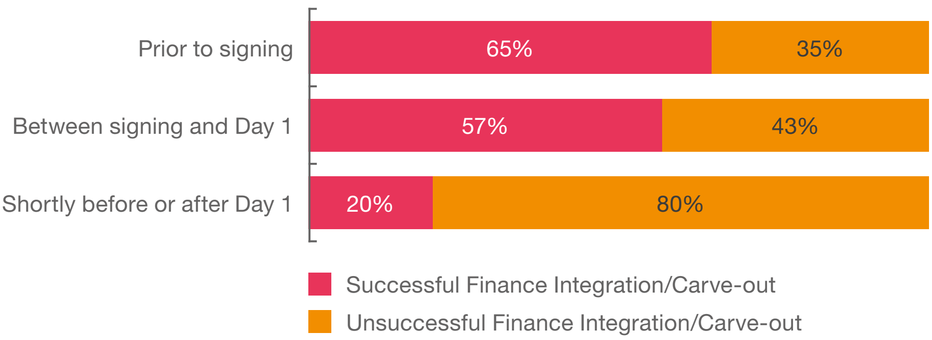
Carve-out
Preparing for Signing in Carve-outs starts with the planning of standalone and Day 1 scenarios as well as the Carve-out execution. Next to brainstorming and scoping, the Finance Operating Model needs to be defined. Moreover, the stabilisation of the remaining Finance function must be ensured. In general, it is essential to identify the one-off costs that will arise from the separation of the Finance function and the potential (dis-) synergies resulting from the separation of processes and systems in use. Here, a standalone blueprint and financials need to be defined. It is important that the Finance function supports the analyses and decisions with sufficient data from within as well as for the overall Carve-out. Furthermore, cost benchmarks can be useful to determine appropriate cost targets for the future. Finance involvement in a Carve-out should also cover the participation in upcoming expert sessions to paint a clear picture form a financial perspective over the whole separation. This is a sound basis for executing a structured Carve-out and ensuring as little disruption to the business as possible during the transition.

We thus help our client's Finance function with the development of a (standalone) Operating Model supported by adequate benchmarks and the identification of outsourcing potentials.

Start preparing as early as possible
When it comes to the activities the Finance function has to perform for its own Integration/Carve-out, 41% of participants indicated that they began preparing prior to signing. Almost half started to get ready between signing and Day 1, whereas 12% waited until shortly before or after Day 1.

Our findings demonstrate that the success of Finance Integration/Carve-out heavily depends on proper timing of the preparation measures. Two thirds of the companies who started preparing prior to signing managed to complete Finance Integration/Carve-out successfully. Organisations waiting until Day 1 for preparation were much less likely to succeed – indeed, 80% of this group failed at Finance Integration.

Fig. 22 Success of Finance Integration/Carve-out compared to start of preparation for specific Finance Integration



Early collaboration with target/ buyer is essential

To prepare well and ensure a smooth transition, it is also essential to enter into an extensive exchange with the counterparty as early as possible. Four out of every ten respondents started to collaborate prior to signing. Another 40% launched collaboration between signing and Day 1, whereas almost one in five companies waited until shortly before or after Day 1. Our survey results show that starting collaboration early will pay off: over two thirds (68%) of Finance Integrations/Carve-outs went smoothly if collaboration started prior to signing. The success rate dropped to just 44% if the organisation waited until Day 1 to work with the target or buyer.

If information cannot be shared between parties prior to closing, sometimes this can be executed in a clean-team setup in order to start prior to Day 1 and to ensure legally appropriate communication between both parties.

Expert opinion

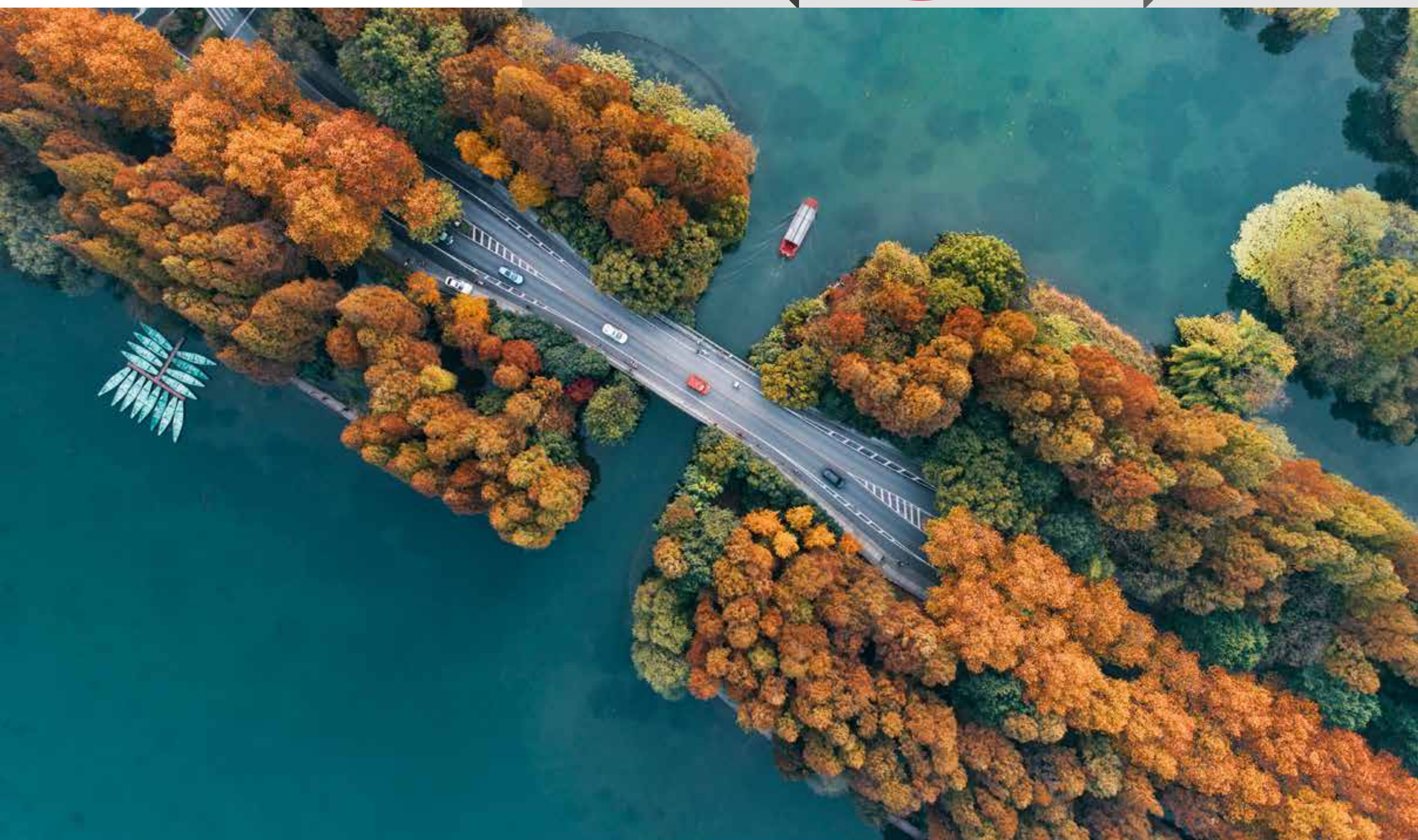
How to prepare the Finance function for the deal

"My advice is to start preparing for the deal as early as possible. A common challenge may be legal restrictions, which may limit the information that can be shared between parties prior to closing. One possible option in this case is setting up a clean team, enabling the buyer to get started before Day 1."

Claude Fuhrer, Partner, PwC Switzerland

"The Finance function is faced with several tasks when preparing for the deal. In addition to daily business, the Finance function will have to ensure its own Integration, while at the same time collecting and processing all relevant information and accompanying the Integration of other departments."

Christian Jöhnk, Partner, PwC Germany

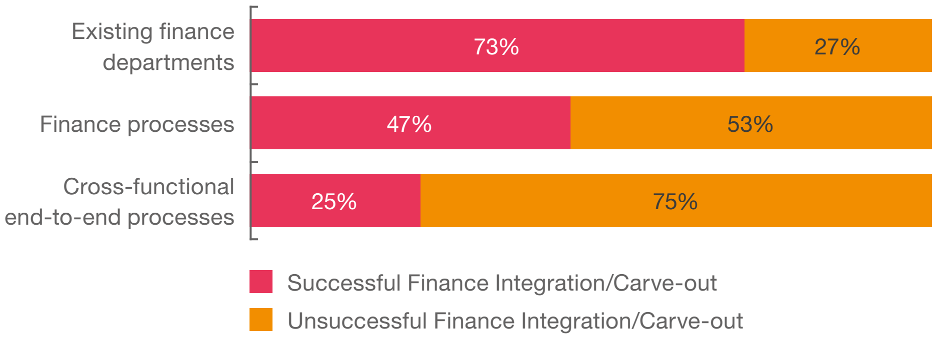


Using existing structures to organise Finance function work streams

Structuring Finance work streams is an important organisational aspect. Responses from survey participants indicate that almost half of Finance departments organised their work streams within existing structures, 38% used Finance processes, and the remaining 14% leveraged cross-functional end-to-end processes.

Looking at the success rates, we found that the structure most favoured by survey participants (using existing Finance departments) provides the most consistent success. 73% of companies were successful at Finance Integration/Carve-out when relying on existing Finance departments. Results show that cross-functional end-to-end processes are much less suitable for Finance Integration/Carve-out, yielding success rates of only 25%.

Fig. 23 Success of Finance Integration/Carve-out compared to organisation of Finance work streams



Expert opinion

Rely on existing structures for Finance function work streams

"The organisational structure in existing Finance departments runs partly contrary to modern project organisation. However, we often observe that companies using existing Finance departments to structure their Finance Integration/Carve-out are more successful than businesses relying on cross-functional work streams. This is because established structures provide employees with clear structure, allowing them to better orient themselves in a time of change. In any case, cross-functional interdependencies need to be identified through a rigorous dependency analysis."

Claude Fuhrer, Partner, PwC Switzerland

"Identifying cross-functional interdependencies is often done in cross-functional meetings of work stream leads. One work stream lead is typically responsible for cross-functional interconnections, such as the head of Financial Controlling managing the impacts of the record-to-report process and identifying where support is required from Business Technology, or the Treasurer taking charge of managing impacts on cash and working capital within the group."

Danny Siemes, Senior Director, PwC Netherlands

Case study

Providing clear priorities and activities for the Finance function separation

Project Background
A European-based consumer healthcare business was carved out from a leading global pharmaceutical company (Seller) and integrated into a consumer goods company (Buyer).

The Seller's Finance function was required to adjust its financial and management reporting processes to isolate and reflect the carved-out business in local and global reporting. At the same time, the Finance function had to keep "as-is" finance activities for the Buyer during a transitional period (through TSAs) to ensure business continuity until it transitioned the acquired business into its own enterprise resource planning (ERP) landscape and global finance processes.

Project scope
In addition to function-specific carveout activities, the Finance function supported the deal in a wider scope by providing the following inputs:
- **Optimisation of the entity's legal structure prior to closing:** due to complex local regulations, tax conditions and intermingled business set-ups
- **Costing and economical set-up of overall TSAs:** complex activities – such as local product manufacturing and distribution activities on behalf of the Buyer – required specific tax-optimised structures to pass profits in the most efficient way
- **Stranded cost analysis:** Different pricing methods for TSAs were simulated with results leveraged in the pre-closing negotiation process with the Buyer in order to ensure the organisation could strategically minimise stranded costs.

Deep dive – achieving closing requirements
As is typical in many transactions, the Buyer was not ready to take over systems and processes on Day 1. Therefore, the Seller continued to operate Finance activities in their own legacy systems until the Buyer was able to fully integrate these activities within their own system landscape and global processes.

Additionally, the Seller and Buyer operated with different legacy Finance Operating Models, including Tax Models (e.g. mixed model vs centralised model). Consequently, a Day 1 requirement for both Seller and Buyer Finance teams was to collaborate with other functions in order to ensure business continuity during this transition period. Specifically, in order to support transition from the legacy state to a successful target state, Finance teams had to actively align with other critical functions such as Commercial, Supply Chain and IT to accurately identify changes to the Finance Day 1 operating model. This included analysis of post-Day 1 changes to each organisation's Finance processes to ensure business continuity would not be compromised, especially with respect to the availability and accuracy of critical financial data.

How PwC added value
PwC added value through the following actions:
- Establishing clear priorities and activities for the Finance function to focus on during the pre-closing, Day 1 and Post Day 1 phases
- Supporting the Finance function to efficiently adjust Finance processes, while ensuring that financial data was not commingled with the remaining organisation, so it could be isolated and shared until TSA exit
- Enabling the organisation to strategically eliminate stranded costs which would negatively impact profit and loss either as of Day 1, or when TSA services expired
- Providing finance and tax advice in order to optimise the transaction by
  – planning and executing strategic pre-closing activities to minimise impact on Day 1 and critical post-closing milestones and
  – providing inputs to ongoing negotiations which would impact post-closing activities.

Fig. 24 Example: Day 1 and short-term readiness checklist (Carve-out)

Day 1 and short-term readiness checklist (Carve-out)

- Finance target operating model (TOM)
- Day 1 new financial flows
- Opening balance sheet
- Stub period accounting
- Finance reporting processes from Day 1 to ERP cutover
- Finance Separation strategy and roadmap
- Cash flow forecasting

- Management and monthly reporting under new organisation structure
- Analysis of Finance systems architecture
- Interim combined budget and plan
- Working capital management
- TSA scoping and costing
- Stranded cost analysis with mitigation plan

Deep dive: How to prepare for Day 1

Post-Merger Integration
After Signing, the focus is on developing a structure to be ready for Day 1 and to set up the Finance Integration. The goal is to mobilise the Finance function for Integration and prepare it for the upcoming change. An important component of Day 1 preparation is a short-term Integration plan including quick wins; this often involves the challenging tasks of combined management reporting, chart of account mapping and the harmonisation of accounting policies and closing calendars. Simultaneously, Finance also needs to assess the impact of these measures on financial statements and existing business processes.

A first high level Finance Target Operating Model including the degree of integration can be developed in parallel.

Carve-out
In order to prepare for Day 1 in Carve-out, the organisation needs to structure the separation in accordance with a corresponding separation strategy. Important tasks in this process include developing the Finance Target Operating Model, analysing Finance systems architecture and establishing the organisational design for both the remaining and the separated Finance function. In order to be able to steer the future business and to fulfil legal requirements, the Finance function must be ready to operate from Day 1. This may involve negotiating Transition Service Agreements (TSAs) for the transition phase in order to ensure ongoing business while the new management focuses on implementing the new structure.

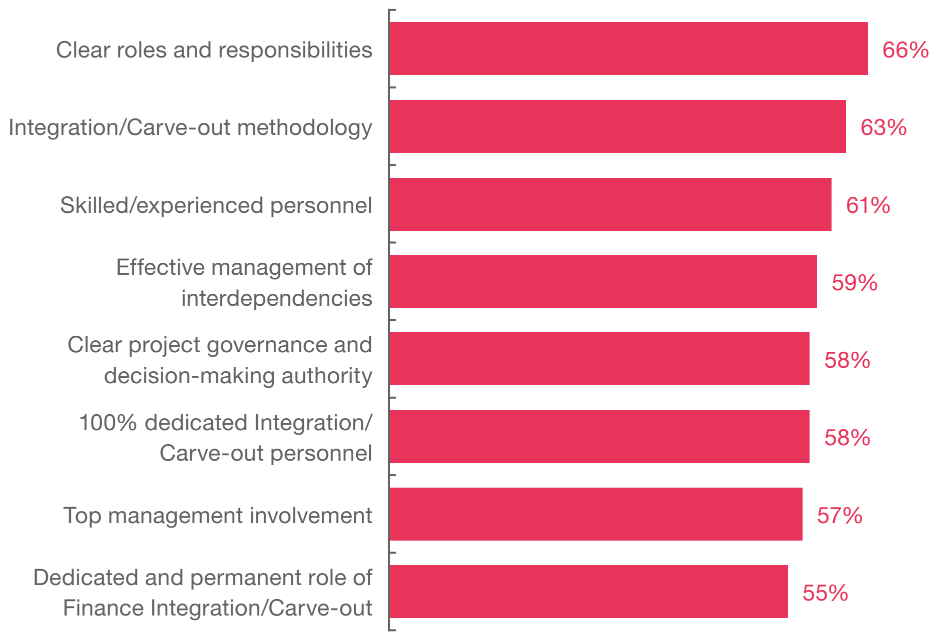
We provide support for your key Finance processes (e.g, procure to pay, order to cash, record to report) in order to ensure that the carve-out perimeter's Finance function can operate independently and to guarantee regulatory and legal compliance. We help you gain control over the stand-alone business by creating a stand-alone budget; establishing internal reporting; setting up integrated financial planning, analysis, and treasury processes; and ensuring that previously shared services such as invoice processing can be performed independently.

2 How to gain control from Day 1

As soon as Day 1 is over, the stabilisation phase begins and the new owner of the transferred business gains control. The key task at this stage is to provide the required management information as well as to enable business activities to continue operating smoothly. In the case of a Carve-out, the seller faces the challenge of stabilising the remaining Finance Function.

We asked survey participants to name the measures they took in order to stabilise their business at this point in the transaction. The great majority of businesses focused on applying clear project governance and decision-making authority, on placing skilled personnel in key roles and on involving top management.

Fig. 25 Success rates of Finance Integration/Carve-out when applying different stabilisation measures



Deep dive: Finance function activities during the First 100 days

Post-Merger Integration
On Day 1 the buyer takes control of the acquired business and short-term Integration begins. During this phase of the deal, the buyer needs to ensure that the acquired business with all its different functions remains stable and that business activities continue to operate smoothly. The Finance function supports the buyer in ensuring business continuity for key Finance processes (e.g., procure to pay, order to cash, record to report), and in guaranteeing regulatory and legal compliance. At the same time, the Finance function needs to focus on implementing and tracking synergies as well as implementing the previously developed short-term Integration plan, also known as the "first 100 days plan". This includes, for example, combined management reporting and harmonisation of accounts receivable and payable, as well as harmonisation of processes or renegotiation of procurement conditions.

Carve-out
As soon as the buyer starts integrating the carved-out part of the business, the seller needs to begin optimising their remaining Finance function. This includes professionalising the remaining Finance functions by performing remnant cost management and implementing the Target Operating Model (TOM), as well as making sure to fulfil the Transition Service Agreements (TSAs). This time of change offers an excellent opportunity to optimise and re-scale the Finance function by designing a state-of-the-art and future-oriented Finance organisation, cutting costs by reducing the span of control, increasing process efficiency, and reducing costs by implementing a standard process or reorganising divisional structure and assessing centralisation of regional sites.

The survey results indicate that the most influential short-term measure is to create clear roles and responsibilities. Two thirds of participants relying on this measure were successful at Finance Integration/Carve-out. Almost equally important is implementing a clear methodology and placing experienced staff in key roles. In any case, a successful Finance Integration/Carve-out is much more likely if businesses focus on performing stabilising measures and focusing on integrating or separating.

Expert opinion

The pain points during stabilisation

"A key challenge in any project is to make sure all team members have the same understanding of the project activities. The survey results demonstrate how important it is to focus on defining clear roles and responsibilities, as well as on establishing functioning project governance."

Danny Siemes, Senior Director, PwC Netherlands

"Implementing suitable measures for stabilising after a deal is not an easy task, because they depend on the requirements of the buyer and the status quo of the target. We cannot offer a recipe that works for everyone in every project. Businesses need to adapt the measures to their individual structure and culture."

Christian Jöhnk, Partner, PwC Germany

How to stabilise

The survey results suggest that businesses are well advised to focus on four measures during the stabilisation phase:

1. **Set up a clear project structure**
   A successful transaction needs a clear project structure. Survey participants who focused on this were more successful at Finance Integration/Carve-out. This also includes applying clear roles and responsibilities throughout the project.
2. **Follow a clear methodology**
   In order to ensure proper project governance and guidelines for employees, it is helpful to apply and follow a dedicated methodology, providing a framework and useful guidelines on how to execute a deal.
3. **Get full commitment from Top Management**
   The study results show that companies were slightly more successful at Integration/Carve-out when they involved top management. The buy-in and support of top management with each key company initiative is critical for both motivational and financial aspects. This is especially true in the months leading up to closing and during the stabilisation period.
4. **Rely on skilled and experienced personnel**
   As transactions are typically very complex projects, it is essential to involve personnel with experience in deals. If a company's internal staff do not have this experience, it may be useful to involve external personnel with the necessary skillset, or hire external staff with relevant experience if support is needed for a longer period of time.

Fully integrate to be successful

When approaching functional Integration, there are three different levels: full Integration or partial Integration of the Finance Function, or a standalone Finance function. As the degree of independence increases, the degree of Integration decreases and vice versa.

The survey results suggest that full Integration of the Finance function is crucial for the success of a transaction: 87% of participants opted for full Integration and reported that their Finance Integration was successful. By contrast, not a single one of the participants who decided to organise Finance as a standalone function was able to complete the transaction successfully.

Expert opinion

Why full Integration tends to yield better results

"Full Integration usually not only allows companies to fully exploit the know-how of the individual functions and learn from each other but also provides a clear target picture which the organisation can work towards. Partial Integration, on the other hand, often creates complex structures and processes which are difficult for employees to navigate. In case of a startup, however, it may be useful to keep a standalone Finance Function in order to stay flexible and agile."

Christian Jöhnk, Partner, PwC Germany

Fig. 26 Depth of Integration

Degree of independence

Degree of integration

Full Integration	Partial Integration	Standalone
• Complete Integration into one common department • Decentralised personnel could remain at a plant for local finance purposes • Cost synergies can be realised	• Each former company keeps its own Finance function for selected operational topics • Group Finance function provides services for the whole organisation • Often applied if businesses are very different or employees are crucial for required tasks	• Each company keeps its own Finance function for all finance related topics and works independently • Group Finance is only responsible for consolidation of information • Useful in case of startup investments/ acquisitions

Case study

Setting up a new group Finance function

Project Background
A European-based business in the industrial sector was carved out from a huge family-owned company and acquired by a PE investor.

The business consists of several entities with only limited harmonisation of Finance Functions and processes.

The objectives were to set up a group Finance function from scratch in an ambitious time frame, to set up bank financing for operational business continuity, and to strengthen governance and quality of all Finance processes.

Project scope
The project team needed to set up external financing for the individual legal entities, as there was none available due to the carve-out. In order to mitigate high financing costs, we needed to implement effective working capital management. The following activities came within the scope of our project:

- Identification and implementation of short-term measures for Finance integration during the first 100 days
- Setting up short- and long-term liquidity planning and cash flow forecasting, including working capital assessment
- Implementation of a new forecasting, budgeting and management reporting process, including reporting design and support by implementing this in a new consolidation and reporting tool

The measures identified had to be implemented within the stabilisation phase of the first 100 days in order to create transparency with regard to the newly created group of businesses and to ensure operational control of the business.

How PwC added value
We added value by building on our experience in Finance Integration projects:

- We established Project Management to implement all identified measures in the given time frame and operationally coach the CFO during the implementation phase of the new group role.
- We supported the new group Finance function with operational hands-on solutions during the set-up phase to steer subsidiaries.
- We provided customised management reporting, budgeting and cash forecasting in alignment with PE requirements based on ready-to-use tools and templates.
- We provided function-specific advice by building on a wide-ranging team of specialists from diverse areas such as Tax, Transactions and Valuation in order to ensure the best advice for our client.

Fig. 27 Project timeline

Case study

Management reporting for a PE investor

Project Background
A PE investor acquired a telecommunications company as an add-on for an existing portfolio company in the same sector. The acquired company was placed in the same holding company as the other portfolio company. PE management required quick insights into like-for-like financials and consolidated reporting for the companies to be under control as of Day 1.

Project scope
The following were the main objectives of the project:
- Determining business drivers
- Identifying feasibility/availability of source data
- Structuring source data
- Setting up a mock-up of the management reporting deck
- Building an interim CFO reporting solution
- Visualising management reporting in tools
- Dry run on historic data, followed by test month with actual data

Deep dive – setting up the management reporting process with Data & Analytics tools
At the beginning of the project, we created a mock-up reporting deck together with the client and stakeholders. The design of the management report served as a blueprint for data analysis.

We extracted monthly reporting datasets from the finance systems (flatfiles) and used them as inputs for the workflow in the Data & Analytics Tool (Alteryx). In Alteryx, the unstructured data are made uniform so that it can be consolidated using a consolidation tool.

The consolidation tool delivers the current group reporting function while fulfilling legal requirements. To meet the buyer's requirements, data was additionally relabelled with Alteryx to enable further analysis.

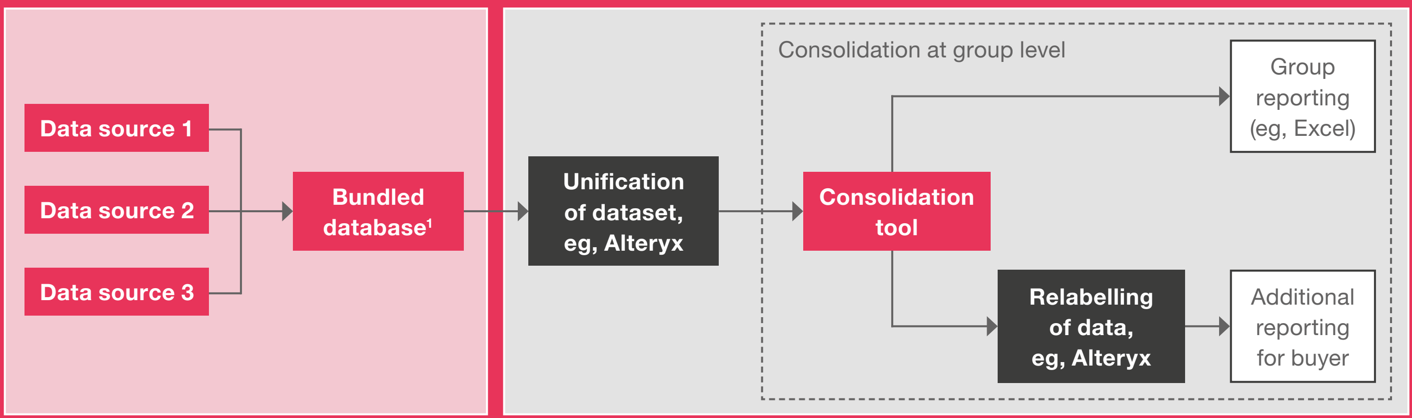
By relabelling data from previous periods, our client was able to compare current and historical financial and non-financial metrics.

This semi-automated process allowed us to structure and process unstructured data quickly in order to fulfil legal and buyer reporting requirements.

How PwC added value
PwC added value through the following tasks:
- Standardising processes and reports to quickly gain insights into performance of the new company after Day 1
- Standardising processed monthly data as a basis for further analyses and visualisations
- Finding a flexible solution to support an agile and iterative process with actual data to fine-tune the solution and stay flexible for future changes
- Implementing the interim CFO solution to enable monitoring and steering of performance
- Introducing a largely automated solution for minimal delay between month end and report, thereby freeing up resources in the organisation with Data & Analytics Tools
- Setting up a blueprint for a permanent IT solution, as going through iterations during actual IT implementation is often very costly

The project followed a clear and ambitious timeline of four weeks. The interim CFO solution was set up in three weeks, followed by a one-week validation period of the set-up and content of the management report.

Fig. 28 Flow of data from buyer's perspective



[1] Not consolidated.

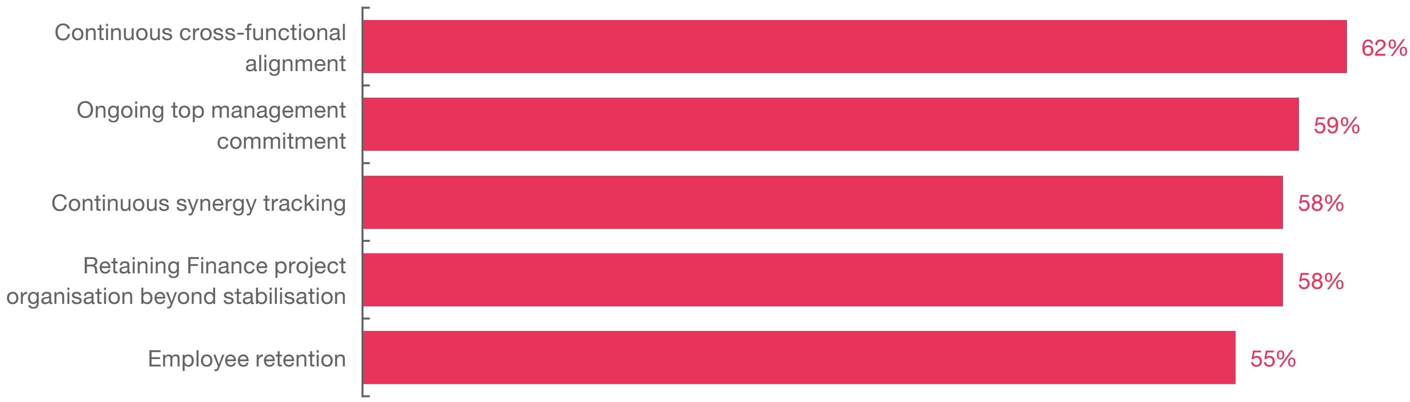
3 How to create sustainable value

When the first 100 days are over, the focus shifts to creating long-term value. We asked participants which measures they took to support value creation in the course of their Finance Integration/Carve-out. The most frequently named measures, applied by three quarters of survey participants, were to retain the Finance project organisation beyond stabilisation and to ensure ongoing commitment by Top Management. Other measures include continuous tracking of synergies (65%), continuous cross-functional alignment (63%) and employee retention (61%).

The survey results suggest that the long-term measure correlating most closely with successful Finance Integration is a focus on continuous cross-functional alignment: 62% of the companies applying this measure were successful in integrating or carving out their Finance function. Among the businesses which focused on top management involvement or on retaining the Finance project organisation beyond stabilisation, 59% and 58%, respectively, reported a successful Finance Integration/Carve-out.

In order to successfully navigate the value creation phase, it is vital to maintain the core project organisation, yet also ensure flexibility and be able to implement changes as certain work packages are completed or new activities arise. Maintaining the governance structure, including reporting and responsibilities, may help businesses to achieve this task.

Fig. 29 When the measures during the value creation phase were applied, how many Finance Integrations/Carve-outs were successful?



Further reading

A previous PwC report extends these findings beyond the Finance function to general long-term value creation in deals and finds that 70% of buyers whose deal lost value did not have a synergy plan in place at signing. Furthermore, to ensure maximum returns and effective Integration, savvy dealmakers identify crucial employees before the acquisition and ensure they are incentivised to remain.

Regarding cross-functional alignment, overall value creation in deals requires a thorough and effective process for conducting the deal with the necessary diligence and rigour in the value creation planning process across all areas of the business.

Source: Creating value beyond the deal – Look at your M&A from a different perspective.

Deep dive: Finance activities during the value creation phase

Post-Merger Integration
Throughout the value creation phase of the Post-Merger Integration process, the Finance function plays a vital role by providing companies with a tool for efficiently analysing relevant parameters that affect value creation of the whole organisation. This includes determining opportunities to reduce operational and administrative costs while simultaneously improving organisational efficiency. In addition the Finance function needs to develop their own value creation roadmap to implement the final Target Operating Model. To reach these we help out clients for example to combine the existing Shared Services Center incl. processes and structure harmonisation even as by outsourcing further Finance activities in the SSC. Other important topics where we can support are the harmonisation of Finance systems and the corresponding integration of chart of accounts and accounting logics.

Carve-out
We recommend that the seller should continue optimisation and value creation activities for the remaining Finance function after the Carve-out is completed. It is crucial to reach the final Finance TOM for the remaining business as quickly as possible. This make it possible to slim down reporting instruments and implement models to fit the new, smaller business. Here we help our clients to implement the previously identified potentials (e.g. outsourcing or process optimisation).

Expert opinion

What are the most promising value-creating measures for a successful Finance Integration/Carve-out?

“First of all, it is of utmost importance to track synergies, not just in the short term, but up to the very end of the project. In order to achieve synergies, it is vital to retain the Finance project organisation beyond stabilisation, using the established project and reporting structures for synergy tracking and project steering. Since Integrations and Carve-outs are an additional burden for companies, they must try to maintain focus in the process.”

Danny Siemes, Senior Director, PwC Netherlands

“Keeping employees within the company is a crucial factor for a successful transaction. This is why change management is so important, especially in the service or high-tech sectors, where key employees’ knowledge can be a game changer and most important asset for the buyer. To ensure employee retention, this is a topic which should already be in scope prior to Day 1.”

Claude Fuhrer, Partner, PwC Switzerland

Case Study

Creating value for a PE investor

Project Background
A PE investor acquired two global industrial products companies striving to integrate their businesses and leverage cost synergies. The PE investor strived to leverage cost synergies by pursuing an "exit readiness" strategy.

Project scope
The aim was to realise cost reductions by centralising the Finance functions of the two PE portfolio companies and to develop a lean, focused set-up of the corporate and divisional Finance functions.

The following topics came within the scope of our work:
- Preparing the companies for a successful carve-out by sustainably increasing operational performance within one year
- Designing and implementing a state-of-the-art and future-oriented Finance organisation
- Cutting costs by reducing the span of control (e.g, reducing management layers)
- Increasing process efficiency and reducing costs by implementing a global standard process in the Finance function
- Reorganising divisional structure and assessing consolidation of regional sites

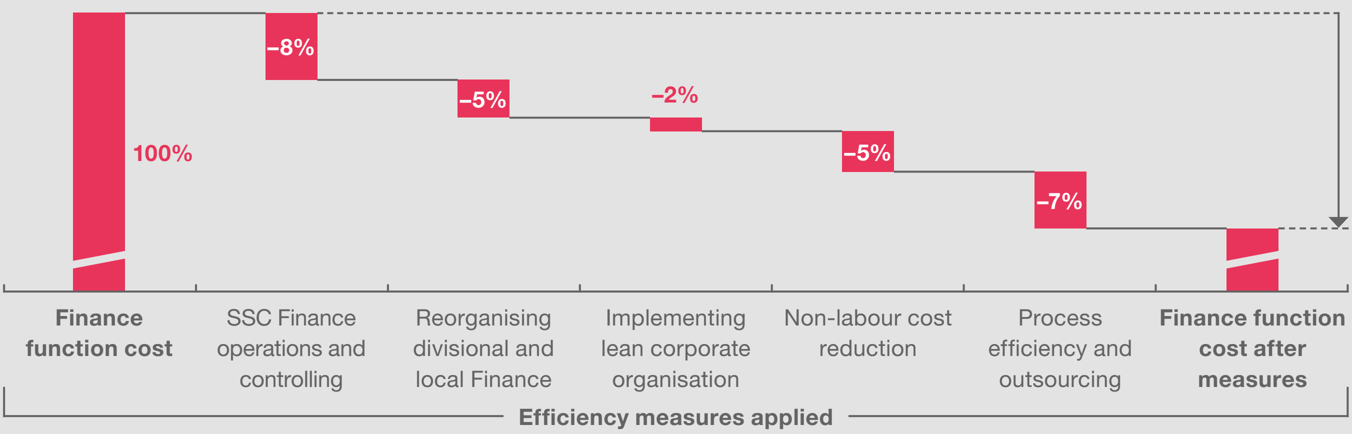
Deep dive – Shared Services Centre (SSC):
The companies' SSC had been set up in a previous project for Accounting activities. In order to increase the level of process standardisation and optimisation across the Finance organisation, the SSC was extended to Controlling activities. In contrast to Accounting processes, Controlling activities are usually less transactional in nature. Therefore, the new standard process model for Controlling had to ensure that complexity, e.g. variety of reports, was reduced as the respective activities were brought into the SSC. In order to realise cost reductions faster, larger countries were given priority in the transition timeline.

For Asia Pacific and for Central and Eastern European countries, where a transfer of activities to the SSC would not have resulted in labour arbitrage benefits, we set up local hubs to ultimately realise firm-wide process standardisation. The successful extension of the SSC was linked to further process optimisation within the SSC.

How PwC added value
By applying our Rapid Value Creation approach, we pursued the following objectives:
- Implementing a comprehensive cost reduction programme to increase EBITDA
- Defining and rolling out a global Finance Controlling standard process model to support future growth
- Establishing a lean and centralised corporate function, a business-driven local Finance organisation with defined service levels, and standardised and automated processes in the SSC organisation
- Reducing headcount in the Finance organisation through simplified structures, reduced management layers, outsourcing and efficiency gains
- Establishing a firm-wide non-labour cost baseline and deriving cost reduction measures
- Continuous business case tracking to monitor implementation progress of all measures
- Setting up an ambitious but feasible timeline to realise savings in less than two years

To reach the targets, the tasks for the Finance function were broken down into the following measures:

Fig. 30 Efficiency measures applied for cost reduction



Deep dive: On the importance of Change Management

A transaction, as with any form of restructuring and reorganisation, can cause concerns and disquiet within an organisation. This is why change management is a critical success factor during all the phases of a deal. Businesses need to thoroughly plan and carefully implement change management measures, with the goal of stabilising the organisation throughout the deal.

More specifically, change management should create an understanding of the deal strategy, and prepare employees for the upcoming changes and critical milestones. The goal is to reduce surprises along the way. Among the most effective ways to enact strong change management are regular and early communication, timely leadership appointment, and employee retention.

In our survey, every single participant applied change management measures in one form or another. The study results show that companies understand the importance of change management and pay special attention to regular and early communication of upcoming changes. Three out of every four organisations focused on regular employee communication, 70% made sure to appoint leadership personnel early and 69% used retention management incentives. Other popular measures include teambuilding activities and early notification of staff transfers.

Excursus

A focus on Private Equity and Portfolio Companies

The Finance function is the closest supporting function to a Private Equity (PE) investor. Consequently, the Portfolio company needs to properly prepare and manage the Finance function in order to deliver critical insights to the investor. The natural next question to examine for this topic is: "what are the major pain points that PE and Portfolio companies face in the course of Finance Integration?" In this section, we will outline the PE and Portfolio company findings that differ from the results obtained from other respondents. Almost half of the survey participants (49%) were either PE or Portfolio companies, so there is sufficient data to offer a meaningful analysis. The key finding: PE and Portfolio companies follow a different organisational approach when it comes to a Finance Integration/Carve-out, and therefore identify different success measures for their short- and long-term Integration/Carve-out.

Accounting: for PE and Portfolio companies, stub period accounting and fiscal year alignment is a major challenge. Almost half of PE and Portfolio companies mentioned this as a major Day 1 topic (other respondents: 11%).

"For Private Equity companies, an acquisition is primarily a financial investment. Therefore, it is vital to integrate quickly, focusing on stub period accounting and aligning the fiscal years to allow full internal reporting as well as performance reporting to the investors."

Danny Siemes, Senior Director, PwC Netherlands

Level of Integration: PE and Portfolio companies tend to integrate the Finance function to a lesser extent than publicly and privately companies do, since there is often no full Integration in the strict sense. Therefore, partial integration is often sufficient.

"Due to their strategic approach, Private Equity and Portfolio companies tend to integrate to a lesser extent. Portfolio companies specifically need to focus on fulfilling the requirements of the buyer regarding transparency and reporting, as well as focusing on staying close to top management during their investment."

Christian Jöhnk, Partner, PwC Germany

Methodology: the aim of a Private Equity investor is to buy, optimise and sell other companies. Therefore, they have usually developed a clear approach to Integration or Carve-out based on experience. Consequently, the vast majority (75%) of PE respondents applied a methodology for Integration or Carve-out (other respondents: 59%).

"Private Equity investors can rely on a standard approach for Integration, which they have developed over the years. As they often lack historical knowledge of the organisation, they tend to utilise Finance processes for Integration rather than Finance departments."

Claude Fuhrer, Partner, PwC Switzerland

Organisational approach: the project organisation structure ranks as one of the most crucial elements for a Finance Integration/Carve-out. PE and Portfolio companies tend to organise their work streams as Finance processes, while most other companies rely on existing Finance departments.

Change Management: the survey results show that, despite their reputation, PE and Portfolio companies pay a lot of attention to change management measures. They often take a slightly different approach to other companies, putting special emphasis on regular communication with employees and on early notification of staff transfers.

Success factors: for PE and Portfolio companies, effectively managing potential synergies is a major driver of success for the Integration. However, the most important success factor to achieve long-term success of a Finance Integration/Carve-out is to involve top management in the inner circle. In this way, the information needs of a PE investor are fulfilled best and top management, as primary contact for the PE, remains constantly informed about the further course of the transaction.

F Checklist for a successful Finance Integration/Carve-out

Creating value beyond the deal

A PwC report from 2019 concluded than an effective approach to value creation must be built around three core areas:

1. **Stay true to the strategic intent**
   Align deal activity to the long-term objectives for the business.

2. **Be clear on all the elements of a comprehensive value creation plan**
   Ensure an effective process for conducting the deal with the necessary diligence and rigour.

3. **Put culture at the heart of the deal**
   Communication of the value creation plan will help retain and build buy-in from key personnel.

If you seek additional information, please refer to the report "Creating value beyond the deal – what if you took a different perspective to your M&A?" published by PwC in 2019.

Based on the findings of this survey, we have composed a list of seven recommendations to help you navigate your next Integration/Carve-out project. From our perspective, these are the most important aspects for a successful Finance Integration/Carve-out.

This checklist was generated from the condensed results of our survey, and from our experience with Mergers & Acquisitions. It is intended to serve as a high-level guideline. However, every deal is different in individual aspects such as company culture, structure and project scope. Therefore, you may find a different approach useful to make a success of your own Finance Integration/Carve-out. We are happy to work with you to identify the individual success factors for your specific project.

1. Prepare early and prepare well

The key to a successful Finance Integration/Carve-out is collaboration with the counterparty as early as possible. This, together with a structured approach establishing concrete goals, significantly increases the project's chances of success.

2. Opt for full Integration of the Finance function

There may be exceptions.

3. Focus on clear project organisation/ structure of Finance work streams

A successful transaction needs a clear project structure.

4. Retain project structure and activities beyond stabilisation

This is especially important for creating long-term value.

5. Involve Top Management in every phase of the deal

Executive support is particularly critical during the stabilisation period.

6. Employ skilled and experienced personnel

It may be worth considering external staff to complement your own team of experts.

7. Implement effective Change Management

This is best done by leveraging clear communication and involving all relevant stakeholders.

G Conclusion

The Finance function not only plays a crucial part in the daily business of a company; it is also an important player in preparing and executing an Integration or Carve-out. Its knowledge of all ongoing activities, as well as of past developments and plans for the future, makes the Finance function an indispensable part of any transaction.

In this study, we focused on the activities that are crucial to successfully performing a Finance Integration/Carve-out – an important prerequisite for the success of any deal. The success factors may appear simple, ranging from solid preparation and applying a clear structure in all dimensions of the project to following a clear methodology. In practice, however, we often observe that they are not so easy to implement. For most businesses – apart from PE firms – transactions are a significant additional task for both management and employees, rather than part of daily business.

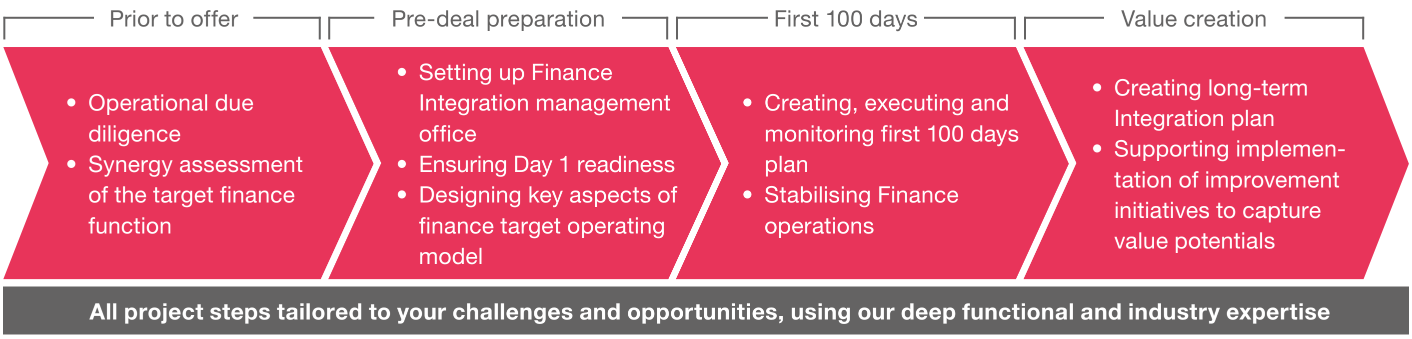
Every transaction brings new, unique challenges, such as national laws or business specifications. From our project experience, businesses do not necessarily have the necessary expertise and knowledge or resources available to perform a successful Finance Integration/Carve-out. Therefore, we highly recommend involving external personnel with the required knowledge and experience to complete the Integration/Carve-out professionally and within the scheduled time frame. PwC offers a broad range of services for all kinds of Integration, Carve-out and related projects.

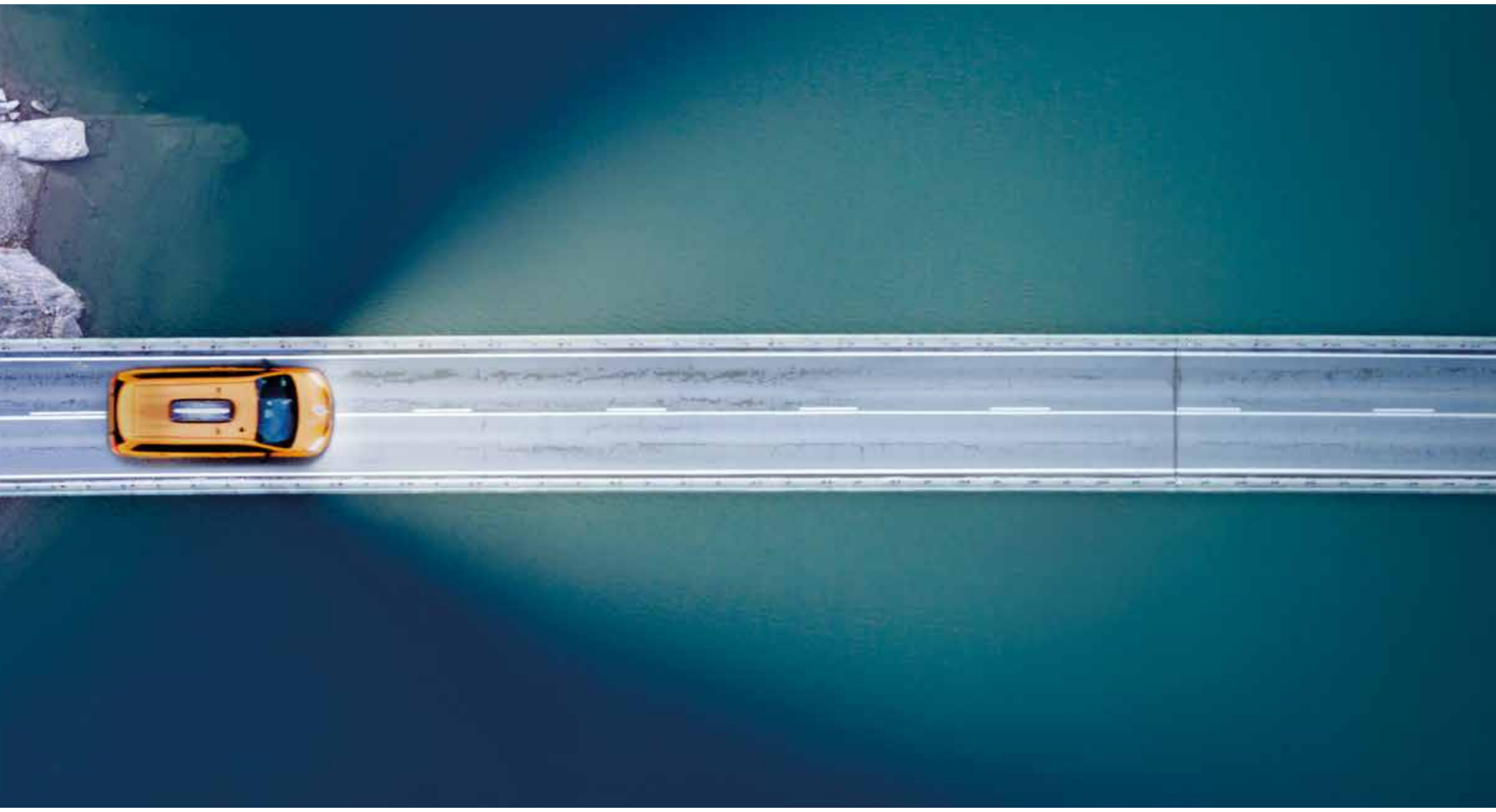
H Our services

Finance Integration

Our dedicated Finance in Deals team specialises in effective and efficient integration of the Finance function. We methodically manage all topics relevant to the CFO, from integration planning to execution. Our experts provide support to ensure business continuity for key Finance processes, and to guarantee regulatory and legal compliance. Our team also helps buyers gain control over the combined business by creating a joint budget, establishing internal reporting, and setting up integrated financial planning, financial analysis and treasury processes. Additionally, we advise the Finance function in cross-functional initiatives, such as organisational design, legal restructuring, risk management and synergy management.

Fig. 31 Our services for Finance Integration





Finance Carve-out

Our team also specialises in smooth separation of the Finance function, supporting all CFO-relevant topics from carve-out preparation to execution. We support the definition of the standalone Finance Operating Model and corresponding sizing of the organisation supported by adequate benchmarks. Moreover, we assist the separation and potential outsourcing of key Finance processes in order to ensure the carve-out perimeter's Finance function can operate independently and guarantee regulatory and legal compliance.

PwC experts can help the Seller with gaining control over the remaining standalone business by creating a restructured budget, establishing internal reporting, and setting up integrated financial planning and analysis. We also advise the Finance function on cross-functional initiatives and management of synergies or dis-synergies.

Fig. 32 Our services for a Carve-out

Prior to offer	Pre-deal preparation	First 100 days	Value creation
• Carve-out planning and structuring • Assessment of synergies and dis-synergies	• Assessing Carve-out complexity • Designing future (interim) finance target operating model • Ensuring Day 1 readiness	• Creating, executing and monitoring transition plan • Ensuring finance functions can operate independently	• Creating long-term optimisation plan • Supporting implementation of improvement initiatives to capture value potentials in old and new company

All project steps tailored to your challenges and opportunities, using our deep functional and industry expertise

CFO Office for Private Equity investors

In order to gain control over the business, we support investors by creating a business plan, establishing new reporting processes and setting up financial planning and analysis. Furthermore, our team helps to design a Finance function that creates significant cost and working capital reduction potentials (from our experience, up to 30% in less than three years) while increasing the effectiveness of the Finance function. Our team can offer a wide variety of tools and measures to cover all relevant activities a PE investor undertakes in an Integration. Our team also assists Private Equity investors in ensuring regulatory and legal compliance of their target.

Fig. 33 Typical client needs/Our service offering

Project and change management

Short-term needs			Long-term needs		
Interims reporting	Combined budget	Quick win synergies	Consolidation/ planning tools	Governance on combined organisation	Transformation/ Automation
Interims consolidation	Combined financial statements	Cash and liquidity planning	Fastening of monthly closing processes	Working Capital Optimisation	Cost Cutting
Day 1 Accounting support	Bank reporting	GAAP conversions	Finance Target Operating Model	Lean Organisation	Value Creation and long term synergies

Expertise in all CFO topics and industries

Our deep functional and industry expertise helps to tailor the concepts and methodologies to meet your PE specific challenges and objectives. We offer appropriate and in-depth expert knowledge for all relevant CFO topics to help you make the most effective use of your existing Finance resources, and to reach the objectives of your transaction.

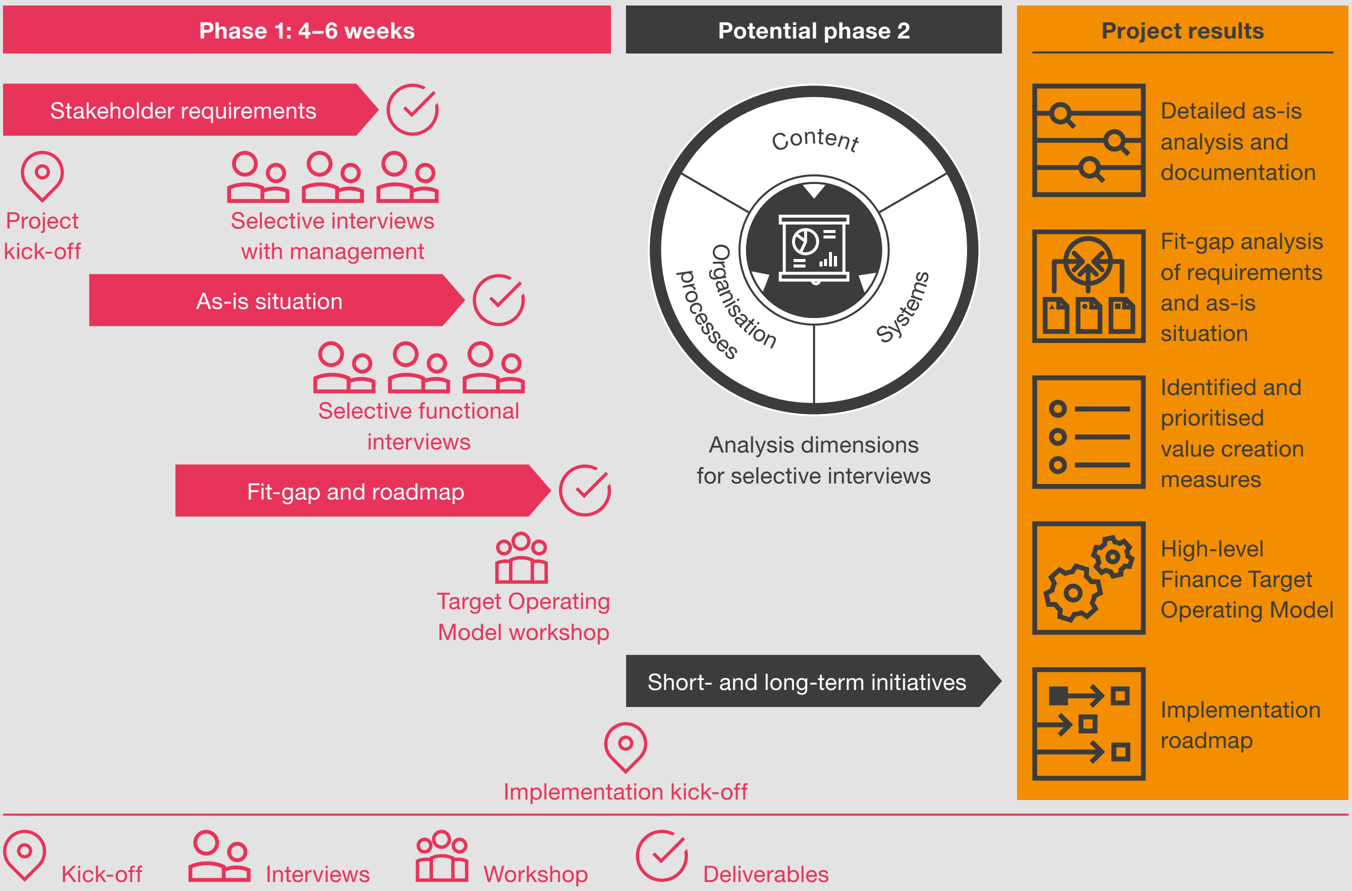
In order to identify value creation potentials, we support PE investors and portfolio companies throughout the different deal phases with our standardised **Finance function assessment.**

After the stakeholder **requirements** have been defined and prioritised, an analysis of the **as-is situation** is performed. This is the basis for the **fit-gap analysis** and identification of value creation measures.

The definition of a high-level Finance TOM serves as a basis for the development of a **roadmap**.

In a potential phase 2 we support you in the implementation of short- and long-term measures in order to realise the full value potential of the deal.

Fig. 34 Finance Function Assessment – Proposed Timeline



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About us
Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we leverage all of our assets: experience, industry knowledge, high standards of quality, commitment to innovation and the resources of our expert network in 157 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients' needs, the more effectively we can support them.