MERGERS AND ACQUISITIONS ARE HIGHLY COMPLEX. SO WHY IS IT OFTEN THE LAST TO KNOW?

When an organisation embarks on M&A activity, it's always a challenge to get a clear understanding of what's really happening. No two M&As are the same since every organisation is different.

Furthermore, the strategic rationale for a merger and/or acquisition also differs from one deal to the next.
For instance, it could be to:

- Acquire technologies, expertise, products, and/or resources
- Exploit economies of scale in specific industries
- Invest in companies with a lot of promise
- Improve performance
- Consolidate to remove excess capacity
- Improve time to market
- And so on, and so on

The challenge for IT is that it's often late to the party. Not for the want of trying. But by the time M&A activity gets announced, a lot of work to develop the terms and scope will have already been undertaken. Yet for the IT function there remains a lot of detail that must be understood before a deal can be completed.

A SIGNIFICANT PORTION OF M&A VALUE IS TIED UP IN IT

ENGAGE IT EARLY ON

Early engagement in the M&A life cycle by IT is critical to the successful delivery of an M&A deal.

WHY?

Firstly, because technology enabled synergies (skills, experiences, systems, technologies, etc.) can contribute up to 50% of the total synergies. This has a significant impact on the total M&A deal value.

Secondly, with M&A deals becoming more and more complex, the one-time costs of process and systems integration can go through the roof if not well managed. Put simply, business and systems integration can easily make or break your M&A deal!

DEPLOYING A CONSISTENT APPROACH IS PARAMOUNT

Successful acquirers must be masters of process and systems integration. In addition to early engagement, consistency of integration process is key. A replicable, scalable, methodical approach must be deployed.

This is what we do at PTS. We bring a strategic lens to pre-, during-, and post-merger process and technology integration. Working closely with your teams, we focus on the following 3 core objectives:

1 Supporting the deal thesis - focusing on how technology drives deal value, with a pragmatic approach that identifies cost savings and supports the combined business.

2 Achieving target state - We work closely with you to develop a plan for long-term integration and rationalization, improving steady-state performance and capturing cost synergies.

3 Rigorous preparation - we ensure a smooth transition with a clear Day One plan, attention to key requirements across processes and functions, and First 100-Days post-closure plans.

In short, we tackle the critical technology priorities whilst making sure the important strategic questions and decisions are at the forefront. We do this through our proven 3 stage, 10 step process, which we adapt to the specifics of your M&A deal.

THE 3:10 TO M&A HEAVEN

The M&A lifecycle comprises of 10 steps across 3 broad phases.

ONE | STRATEGY

Pre-deal acquisition strategy | IT hypotheses modelling and assessment | Target searching and screening

With technology representing a significant element of any M&A deal, IT strategy and discipline must be brought to the fore to increase your chances of success.

Clarity from senior management, clear governance, clear objectives, and guiding principles are critical to your M&A success. They set the foundation for proceeding in the right direction, developing effective plans, and ensuring that the deal value is ultimately realised.

Before closure of phase one, the acquiring organisation should have clearly defined the acquisition (integration) strategy, identified M&A targets, and have set principles, standards, and frameworks for target searching and deal structuring.

1 IDENTIFY OPPORTUNITIES

Understand the strategic rationale for the merger and/or acquisition and IT's role and potential value in any M&A activity.

Being proactive, IT can be used to leverage and/or facilitate M&A activity and processes.

2 HYPOTHESISE, MODEL AND ASSESS

Technology enabled synergies can have a significant impact on your M&A deal value. Establish IT integration hypothesis early on as part of your M&A Strategy and Planning. Know what to integrate and what not to integrate.

Make sure any IT hypotheses and opportunities are an integral part of - and in line with - the firm's strategy.

3 SYNERGY ANALYSIS AND MODELLING

Seek and understand IT synergies. Think about value early in the game, identifying opportunities to integrate up-front to accelerate the synergies. These can help identify risks and inform key decisions in any M&A deal. This can also be used to contribute to, and help inform, key decisions and risks for M&A target screening, searching and deal structuring. Furthermore, facilitating and establishing true deal valuation and evaluation are key elements for negotiation.

TWO | PLANNING

Due Diligence | Execution Planning

Plan, plan, plan, and re-plan! Rigorous planning leaves no room for future concerns.

4 VALUATION AND RE-EVALUATION ANALYSIS

Valuate and re-evaluate to ensure that you know what you are seeking from the M&A deal. Conduct detailed analysis of the M&A (IT) assets, operations, resources, suppliers, etc. to ensure that the initial assessment of the M&A deal value still holds.

5 NEGOTIATION

TSAs (Transitional Service Agreements) are critical to delivering deal value. They should be developed as soon as possible. All teams will need to quickly identify the services required to be continued by the acquired company. There will be a lot of negotiating in this area before it can be locked down and may go down to the wire if allowed to, depending upon which side you are on.

6 DUE DILIGENCE

Make sure that the rationale and hypothesis established as part of your M&A Strategy and Planning are a key element of due diligence, including process and IT integration and/or separation.

7 DAY 1

In-depth planning prior to close creates the momentum to integrate and increases the odds an acquirer will cover a lot of ground at a fast clip in the first 100 days. Timely implementation is predicated on being ready to roll on Day 1.

8 FIRST 100 DAYS

The initial period is intense, with many decisions and critical actions necessary as the consolidation process is mobilised. People are scrambling, on high alert. Things are off-balance but moving fast. Uncertainty spikes. You might guess this to be the riskiest time, but bigger challenges lie ahead! What's important is to identify, plan for, and mitigate the risks.

THREE | EXECUTION

Post deal execution integration | End-State and Closure

Delivering on the Deal.

Moving on through integration, the cadence steadies. Execution is not as choppy, and things may seem more organised. People may feel like there's more clarity and less pressure, presuming that they've gotten through the worst. The organisation in general calms down and relaxes a bit... but this is a very deceptive state – a Death Valley. The danger zone where deals most easily start to die as underestimation of the complexity and decision fatigue sets in. Watch out for real trouble which may lurk beneath the surface - problems that have been simmering and which begin to overheat as the First 100 Days unfolds.

9 POST-DEAL EXECUTION INTEGRATION

Execution presents the acquiring organisation with a set of challenges, including: costs; timelines; business disruption; and many others. The M&A Integration Plan outlines exactly how and when key resources, assets, and processes of the acquiring and acquired companies will be combined to achieve the goals of the deal. Executing to plan is critical.

10 END-STATE AND CLOSURE

Assessing and ensuring delivery of the Target End-State Plan. There are many elements that needs to be wrapped up, including:

- Developing the sales purchase agreement
- Finalising valuation and purchase price
- Identifying key assets, resources and synergy support
- Ensuring appropriate TSAs
- Creating and finalising a completion statement

PTS provides technology M&A assurance and support for a hassle-free process throughout integration, including end-state planning. If you are faced with IT M&A challenges – whether as an acquirer or the acquired – then get in touch to talk with one of our experts.

THE CORE ELEMENTS TO M&A SUCCESS

The core elements described below will enable you to be more successful in your upcoming (M&A) deals and be more efficient and effective in building the right capabilities for the future (IT) organisation.

1. Plan and implement IT integration hypothesis - Know what to integrate and what not to integrate.
2. Allocate resources to quickly capture synergies - Think about value early in the game. Identify what systems to integrate up front to accelerate the synergies.
3. Make key decisions early – Recognise the key decisions required, and be decision orientated to ensure success in process and systems integration.
4. Make digital transformation part of the integration - It is critical to think about digital transformation at the same time as integration. You don't have to first integrate and then optimise!
5. Realise that the one-time costs of the integration are extremely important – Reassess them at the beginning to make sure you know what you are getting out of the deal.

COMMON M&A IT INTEGRATION STRATEGIES

Managing the combined information systems of newly merged or acquired companies is a top priority. To realise the strategic rationale underlying an M&A, you need to be able to quantify, measure, and track assets and performance.

At PTS we utilise a common set of IT integration strategies (through to the target end-state), as follows:

- Minimal Integration: Especially when a newly acquired company is going to continue to run as a largely independent unit, it may make sense to integrate IT systems to the least extent possible, while still being able to generate the data you need.
- Favoured Child: In this approach, we look to expand the best IT system (from either the acquirer or the acquired company) to cover the entire company.
- Patchwork: Use the strongest assets and systems from both firms and combine them.
- Scratch: Build a new IT structure that serves the new entity from the ground up.
- Outsource: Assign a contractor to build, manage, and support the necessary IT infrastructure.