

# Integration planning during due diligence

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## At a glance

Research shows that early integration planning can increase M&A success.

Integration planning during due diligence should include assessing potential synergies, identifying integration costs, and leveraging operational knowledge to more accurately determine integration timelines.



# Introduction

Study after study has shown that executing an M&A deal is risky and success remains a challenge.<sup>1</sup> But doing deals is often necessary to drive corporate growth. Companies in search of new markets, channels, products, and operations that acquire outside of their core may face even greater challenges, and M&A has become riskier than ever with the increasing pace of technology changes and industry disruption.

The due diligence process was historically designed to focus on identifying risk, and either mitigating, negotiating, or abandoning a potential transaction. However, our surveys show a significant shift during the due diligence process, from a primary focus on assessing risk, to the addition of early and meaningful identification of post-deal value creation opportunities, including the early development of an integration plan.<sup>1</sup>

Further, our surveys also show that early integration planning can increase M&A success, and that companies are getting integration teams involved earlier in the deal process. These factors have resulted in companies better realizing and accelerating value realization after a deal is closed.

This paper outlines the integration planning process with a focus on the underlying integration planning activities to perform during due diligence, and highlights the importance of committing resources and capital earlier in the deal process to jumpstart integration planning.

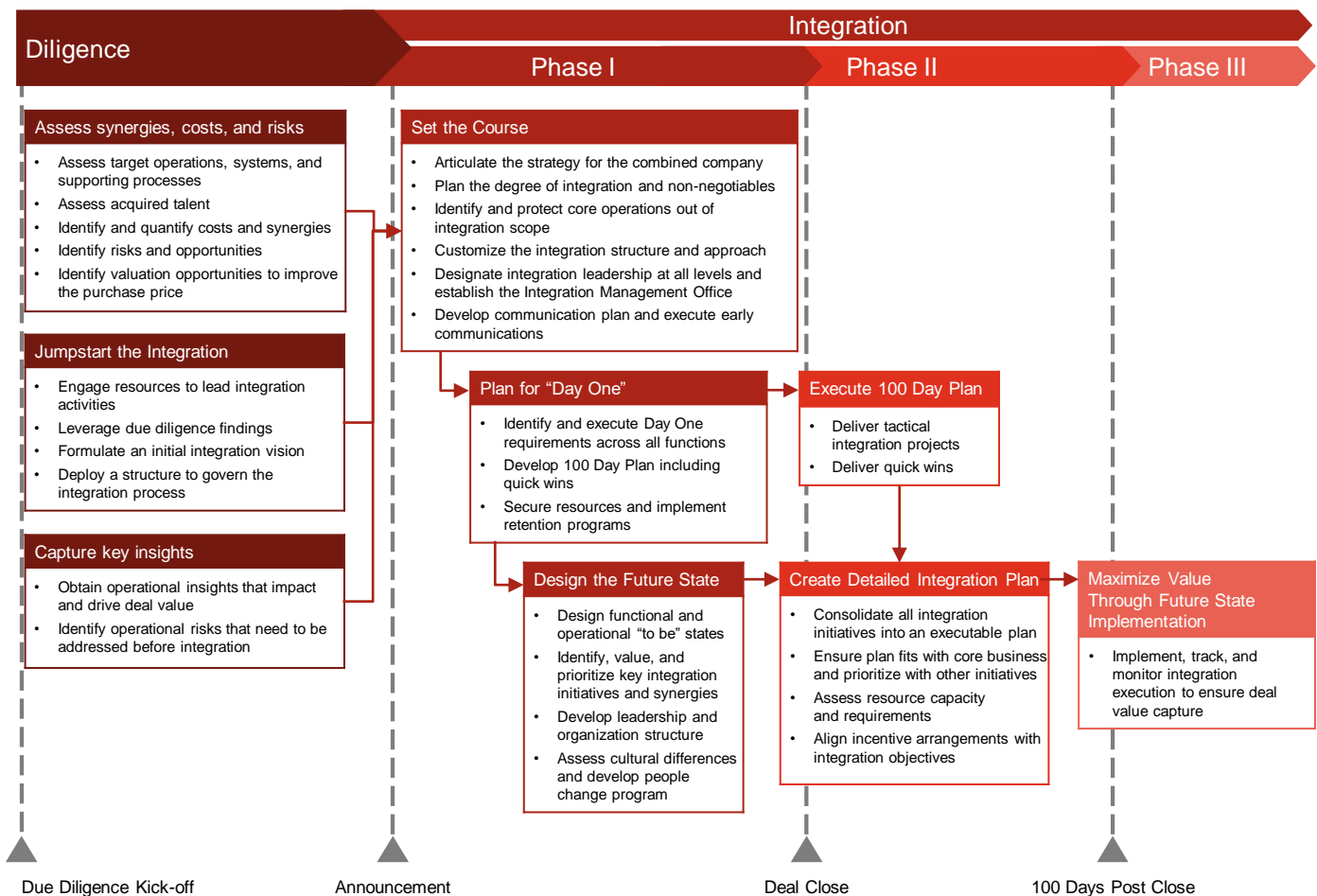
<sup>1</sup> [PwC's M&A Integration Survey Reports \(2017, 2014, 2011, 2008\)](#).

# Accelerate the transition<sup>®</sup>

There is no value in delay. An effective integration planning process needs to take early action and launch fast-paced integration activities. By getting involved earlier, integration teams can help to accomplish much more than just confirmatory diligence.

In addition to assessing risk and looking for “deal killers”, integration teams should be included during due diligence to assist in assessing potential synergies, identifying integration costs, and leveraging operational knowledge to more accurately determine integration timelines. This will better inform purchase price evaluation, help to jumpstart the integration planning process, and capture key insights for a better transition to integration execution.

Figure 1 illustrates the integration process, including integration planning activities during the due diligence phase (Pre-Deal).



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

# Assess synergies, costs, and risks

Pre-deal integration planning requires much of the same information reviewed by the due diligence team. Confirming the findings from due diligence will help focus attention on the factors in the business that impact the valuation and will be critical to the combined company's future success. Key focus areas of due diligence typically include validating the target's baseline operations and financials, identifying and quantifying synergies and dis-synergies, estimating integration costs, and investigating risks and issues impacting deal value.

Effective acquirers typically sequence the work to focus the initial round of due diligence on financial and operational matters to confirm no "show stoppers" and provide insight to initial value considerations. Once complete, the working team is expanded to then focus on value creation opportunities, including synergy considerations that could have significant input into purchase price considerations and an opportunity to jumpstart integration planning. This working team should include leaders who will carry on as integration leaders, post-announcement. Recommended activities during this phase include the following.

**Assess target operations, systems, and supporting processes** – Understand the fundamentals of the target company's operations, confirm the deal thesis, and validate the baseline financials and earnings. Specific focus areas of pre-deal planning may include Quality of Earnings, Commercial Operations, Information Technology, Human Resources, Tax, and other areas with material impacts. Integration teams can develop an initial point of view on the combined company operations.

**Assess acquired talent** – Evaluate the company's leadership team by reviewing skillsets, credentials, tenure, and experience to support the organization as the company continues to grow. This is also an opportunity to identify potential leadership to drive key integration work and key retention requirements to minimize business disruption. Quickly defining the organization structure and key management posts for transition is critical to minimizing uncertainty, assigning accountability, defining functional authority, and clarifying roles.

**Identify and quantify costs and synergies** – As each functional team performs its assessment, key integration drivers, including one-time costs and synergies should be identified and quantified. If needed, a clean room structure can be established to accelerate the review of sensitive data to identify and confirm synergy hypotheses and to design revenue and cost synergy value capture plans.

**Identify risks and opportunities** – Pre-deal integration teams should also capture qualitative information about a target's operations, including risk to existing business operations, risk to the company's growth projections, and risk to a successful integration or capture of synergies. Not all opportunities will directly impact the top or bottom line, but should be documented for further review at a later time by the integration team.

**Identify valuation opportunities to improve the purchase price** – As the pre-deal integration team completes its review of the target, all findings should be assessed to determine any impact on the valuation. Potential risks and costs may reduce the valuation, while potential opportunities and synergies may increase the valuation.

## Clean Teams

The Hart-Scott-Rodino (HSR) Act prohibits an acquiring company from exercising "substantial operational control" of the target company prior to expiration of the statutory waiting period. But a third-party advisor can act as a "clean team" and support a "clean room" exercise to evaluate synergy opportunities and sensitive business data in detail and prepare outputs to be reviewed by Management at the appropriate time.

If synergies are a major part of the deal's strategic rationale, then the integration team may opt to partner with a "clean team" to accelerate synergy review and business case development, ultimately leading to quicker wins.

# Jumpstart the integration

Executives are commonly concerned with wasting resource time and money to plan integration for a deal that is not yet consummated. This may be a valid concern and one the Deal team should assess before launching integration review activity. If a high likelihood exists that a deal will be executed, early integration planning can deliver value far outweighing the risk of an abandoned deal.

Critical information for integration planning comes from due diligence findings and recommendations. A smooth transition of knowledge from the due diligence team to the integration team can maintain the company's momentum, Accelerate the Transition®, and materially increase the odds, and speed, of capturing deal value. Not to mention leveraging valuable time to jumpstart integration planning activities pre-close. The transition from due diligence to integration includes the following activities.

**Engage resources to lead integration activities** – By focusing on the 20% of activities that will drive 80% of the value, teams can identify which integration leads to involve at this stage in the deal process based on the most strategic or impacted functional areas.

- Identify priority functions and identify integration team members
- Provide access to information repositories and key diligence outputs
- Dedicate time to onboard integration team members and share key insights
- Facilitate discovery sessions between the integration team and counterparts at the target

**Leverage due diligence findings** – Although the primary purpose of due diligence has historically been to identify risks and inform the valuation, due diligence findings can be leveraged to accelerate the onboarding of additional integration team members. As focus shifts from deal valuation to integration planning, integration teams can leverage the due diligence report and target contacts as key sources of information.

- Inventory all available working documents and final assessments
- Identify key target contacts across each functional area
- Share and validate findings and identify priority areas of focus - 20% of the work that drives 80% of the value

**Formulate an initial integration vision** – Leverage working documents and assessments to formulate initial vision statements across the enterprise. Assess culture, communications, organization structure, and other change management requirements.

- Define the integration strategy and target operating model
- Assess change management requirements and define critical communication needs
- Assess culture compatibility and potential challenges requiring resolution
- Define the organization structure and identify leaders to engage and/or retain

**Deploy a structure to govern the integration process** – Early implementation of an integration structure and governance process provides time to vet and refine the integration process and toolset before the most complex and chaotic phase of the deal (i.e., Deal Signing to Day 30). This integration structure will eventually transition into the Integration Management Office.<sup>2</sup>

- Establish a governance structure to facilitate progress tracking and issue escalation
- Establish a process to monitor progress, elevate issues for resolution, and prepare and deliver summaries for executives
- Define the integration scorecard and key performance indicators (KPIs) to monitor
- Install key leadership and expand the team as the planning work develops during the sign to close phase

<sup>2</sup> [PwC's Integration Management Office: Achieving effective integration across the enterprise](#)

## Deal Teams: Diligence Teams versus Integration Teams

The diligence team coordinates the due diligence process and serves as the single point of contact for every function and individual involved during the pre-deal phase. From screening potential acquisition targets, to facilitating the discovery process and preparing a final report-out and recommendation, the diligence team leads the diligence program, coordinates stakeholders, manages progress, and reports status to the Investment Committee and Board of Directors on each diligence effort. Typically, diligence teams are involved in a high number of opportunity reviews while only a fraction of deals are ultimately closed. This team typically is concentrated with members of executive leadership, Business Development, and Finance/Accounting.

The integration team is comprised of functional team leads and is assembled as preliminary diligence gets underway. Initially, a subset of functional teams support due diligence efforts, as needed, to evaluate a target's operations, identify opportunities and risks, and estimate the integration impact. Integration teams must then shift to conducting a more strategic assessment to develop an integration strategy, determine the degree of integration across functions and geographies, determine what is in and out of integration scope, and lead integration planning and execution. Integration teams are responsible for achieving deal close, realizing synergies, and executing the longer-term integration. Although durations can vary widely, integration teams will often support a transaction for up to 12-24 months. This team is represented by all areas of the business, with heavier involvement in the areas that drive the most synergies and value.

# Capture key insights

As the fundamental building blocks of the integration vision come together, the integration team can focus on developing key insights impacting deal value. Through targeted discussions and focused data requests, the integration team can deliver key insights that will better inform the bid process. Access to target management is not always ideal in this phase, especially in an auction process, so early positioning with the Investment Bankers on this matter is critical to get ahead of anticipated headwinds.

Having the integration team deployed earlier during the M&A process enables teams to conduct rapid analyses to obtain insights impacting deal value, including revenue and cost synergies and other potential investment areas. Prioritizing integration challenges by key dimensions such as risk, value, feasibility, and time can help the integration team focus on clearing roadblocks sooner, resulting in faster integration and/or increased deal value. As teams focus on the integration, the following activities should be considered.

**Obtain operational insights that impact and drive deal value** – Operational insights provide the critical context that drives the feasibility, timeline, and true opportunity of a synergy consideration. By gaining access to operational management, the integration team can start the initial vetting of synergy opportunities, pivoting from theory to reality.

- Document operational considerations and assumptions that drive synergy realization
- Leverage management access to complete initial, selective vetting of operational assumptions and considerations
- Refine synergy opportunities and priorities based on operational realities and insight gained

**Identify operational risks that need to be addressed before integration** – A significant challenge during integration is the discovery of operational misalignments or differences in company cultures and values that will take time and effort to integrate. Experience has shown that these hidden misalignments are one of the top reasons for value leakage in a transaction and are not commonly addressed in M&A deals.<sup>3</sup>

- Develop a list of identified risks, decisions needed, and integration challenge areas
- Prioritize the list based on impact to deal value and feasibility to resolve
- Develop action plans, strategies, and approaches to mitigate operational and cultural risk, including a comprehensive communications plan to get ahead of the “noise”

If time permits and deal close is of high probability, integration teams may explore additional considerations, including business process and systems integration, legal entity consolidation, and go-to-market analyses, among others.

As the company prepares to announce the deal, the integration team is already off and running – benefitting from additional time and a wealth of knowledge to effectively launch the integration and set up the company for success.

<sup>3</sup> [PwC's M&A Integration Survey Reports \(2017, 2014, 2011, 2008\)](#).

# Conclusion

Deal success is dependent on developing sound operating and synergy targets during the due diligence process, planning robustly for the initial integration, and committing both resources and capital on the right activities at the right times. Today's deal teams need to evolve their M&A process to bring in the most relevant functional teams sooner and to focus on developing integration planning insights that can drive value and accelerate integration planning.

Balancing early involvement with certainty of Close is tricky, but can be extremely valuable in informing purchase price and realizing synergies that far outweigh the potential wasted effort if a deal is not reached.

Insights into the integration planning process laid out in this paper can help companies achieve early wins, build momentum, and instill confidence among stakeholders by choreographing the launch of the integration team sooner than ever.



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