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Is Your Treasury Organization Ready for an Acquisition?

Here's how to perform due diligence in advance of a merger or acquisition—from an up-close look at your target's structure and systems, to defining your goals and engaging with banks.

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Treasury due diligence is critical to achieving a clear understanding of both your own treasury environment and that of your merger and acquisition (M&A) targets.

Whether your business is contemplating or has already announced a transaction, the treasury team needs to carefully review and evaluate all treasury-related details on both sides of the deal. Other groups within your company may have already engaged in, or even completed, a due diligence process; however, that process didn't necessarily incorporate the details required to determine how the organization's bank accounts and cash flows should be structured once the transaction closes.

Therefore, it's important for treasury to proactively and independently plan and strategize the integration. Ensuring that all cash management environments affected by the deal are prepared for success on day-one after the close will help mitigate many potentially critical problems, such as delays in payments to staff or vendors, or not being set up to receive payments in all locales in which the combined company does business.

Beginning Your Treasury Due Diligence

An effective treasury due diligence process provides a comprehensive appraisal of the existing treasury systems and structures, throughout your organization and in all the target company's businesses. The earlier treasury is engaged in the M&A transition, the more time the team has to thoughtfully consider enterprise planning and change efforts.

As part of a due diligence process, there are some key strategic questions and answers that contribute to the development of the treasury integration plan:

1. What are management's objectives for this acquisition?

It's helpful for treasury to approach an acquisition in the same way you would approach any other project: Your starting point should be developing an understanding of where you are today and documenting the details of your current state. At the same time, you need a clear vision of the end point when the merger or acquisition is final so that you can construct your path forward. That begins with understanding senior management's motivation for the transaction.

The more you're able to integrate treasury functions over time, the easier it will be to manage an M&A transition—creating efficiencies that will ultimately save time and money.

Will integration involve fitting the acquisition target's business into the acquirer's existing business model? Will the acquired organization run autonomously? Or will some parts of the combined company be integrated while other parts remain autonomous? Has your enterprise publicly committed to financial synergies? If so, over what time frame and across what parts of the organization?

It's especially important that the treasury organization fully understand all targeted goals, including both timing and duration. You need to know how much you'll be expected to save, by when, as well as how you'll be expected to deliver those savings. Can you achieve these goals by renegotiating bank fees to leverage the combined business's increased volumes? Will you ultimately be able to reduce the treasury headcount of the combined organization by introducing automation to activities that are currently conducted manually? If you are using and paying for two treasury workstations today, will there be opportunity to consolidate them and use one system, thus driving cost savings? These are all important questions that the treasury team should try to answer in order to develop a plan for achieving the desired end result of the M&A transaction.

2. Who will be the officers and signers of the new company?

Officers and signers are those individuals authorized to carry out banking activities at the entity and account level. It is very important for treasury to understand up front how these authorizations will be handled in the combined company, because most banking requests—whether for a new account/service or a change to an existing account/service—will require direction from authorized persons.

Needless to say, the cash in a company's bank accounts is a precious asset, so the organization's decision-makers need to be diligent and thoughtful in planning how they will ensure that account authorizations are updated and appropriately documented. There is no specific rule or approach for structuring account authorizations that is appropriate for every business. Sometimes it makes sense for individuals from the acquisition target who continue on as officers to retain control of the same bank accounts; sometimes the list of authorized persons for the target's accounts completely changes.

Regardless of the approach your organization adopts, and the sooner you establish your vision for post-acquisition bank account management, the sooner you can share that plan with your banks. Sometimes changing account authorizations requires in-country filings, making it critical for the treasury team to think through plans and begin discussions as soon as possible. Early decisions give the acquirer a head start in:

- understanding what documentation is required to put the appropriate post-acquisition controls in place,
- receiving bank documentation to effect these changes, and
- executing the documentation for the banks to act upon post close.

3. What are management's day-one goals?

Businesses never want a merger or acquisition to disrupt their flow of revenue or their supply chain. Thus, it's uncommon to see consolidation of enterprise resource planning (ERP) systems on day-one. Instead, our clients typically focus on achieving a consolidated view of, and centralized control over, cash and investment balances by the time of the transaction's close. Achieving this visibility usually falls on the treasury department. A straightforward approach involves:

- mapping existing account structures across both entities, including cash and investment balances;
- arranging for day-one visibility, introducing automated and/or manual balance reporting, as appropriate;
- establishing authority with officer and signer updates, for the accounts with significant balances at a minimum.

Control and visibility need to be key priorities. The acquirer's treasury group should introduce automation, physical cash concentration, and full authorization control on accounts, wherever appropriate. Don't forget that security administration privileges on banking portals represent a control point—they need to be at the top of your list of priorities to address.

By ensuring appropriate controls are in place as soon as possible post-close, the treasury team can help deter threats of fraud, whether directed at the business by external forces or even a rogue employee seeking to take advantage of the situation.

4. Will you have a transition service agreement (TSA) in place with your target?

In many acquisitions—especially the sale of a subset of a company, rather than the sale of the entire company—the acquirer enters into a TSA as part of the deal. This can help ensure the transition does not disrupt operations in the target. If your merger or acquisition will involve a TSA, it's critical to understand the terms and duration of this agreement, and the degree to which it will affect treasury activities. Your plans should always be designed to make sure the target company will be operating independently of its previous parent, prior to the end of the agreement.

Streamlining Data Collection

Once you understand the transaction's big-picture goals, the treasury team needs to document the current state of the target organization in a number of areas. One of the biggest mistakes many companies make in planning an acquisition is failing to dedicate adequate discipline and intention to this data collection process. Whether you use a spreadsheet or a checklist, you need a data-collection system that's organized and standardized, and that can be easily replicated.

Key items in the evaluation of an acquisition target include:

Corporate structure. Collect and understand the entire legal entity structure of the target—inclusive of wholly-owned and minority-owned subsidiaries, as well as joint ventures. Document the percentage of ownership for each business unit. Banks typically require this information when they perform "Know Your Customer" (KYC) due diligence, so it's helpful to begin building this repository right away. It's also useful to document the functional currency and average balances of each entity.

Banking relationships. Collect information on the target's relationship banks, the services each bank provides, and geographic locations each bank serves. This data should be a full-enterprise effort, with information sourced from all functional groups and lines of business around the globe. Use this opportunity to solicit feedback from the target company about the banks and their performance. In the integration phase, you will touch all banking relationships, so a detailed inventory of all banking counterparties will be very useful.

Moreover, the acquirer's trea-

sury team needs to develop contacts at each of the target's partner banks, so that you can keep them apprised of your transition plans and work with them to execute the changes you're seeking. It's often most effective for the target to introduce the acquirer to each bank, and to participate in reviews of the business at each bank, if sharing of confidential relationship information is allowed legally.

Bank accounts. An account tracker can serve as the nucleus of data gathering for many treasury activities. It can include as much or as little data as is appropriate for your organization. At minimum, you should collect the following information about each account: the entity that uses the account; the entity's business segment, location and domicile, and legal entity status; the account's purposes and owner; the bank where the account is held, account currency, and bank balance; as well as determining whether the entity is regulated or restricted. Some trackers also include services tied to the accounts, including cash concentration. This information will be invaluable as you plan short- and long-term integration, and as you work to understand and change control of the accounts at the transaction's close.

Visual representations of account schematics and cash concentration diagrams can also help facilitate an understanding, throughout the treasury team, of the target's cash management structures. A picture is often truly worth a thousand words. You can enrich these diagrams with arrows to depict cash flows and demonstrate the entire funding structure, including investments. Such images may prove very helpful as you plan and seek opportunities to physically integrate your organization's cash with that of the target. They can also serve as a valuable reference down the road, should you have an opportunity to optimize treasury and liquidity structures post-close.

Global treasury structures. It's also important to proactively collect information about shared-service centers, payment factories, and in-house banks. These advanced treasury structures can drive efficiencies in a treasury organization. If you're not familiar with how they work, but your acquisition target is already using them, ask your relationship banks to educate you and help you determine the appropriate structure for the combined treasury function.

Moving the acquisition target to the acquirer's existing treasury structure may, or may not, be the right choice. Even when one organization has a centralized treasury team and the other is highly decentralized, integration isn't necessarily a task of simply centralizing. Decisions about which treasury structures make sense for the newly integrated organization must involve significant thought and effort.

Systems and platforms. Your goal in integration should be to consolidate similar solutions wherever possible; this may include treasury workstations, ERP systems, and bank portals. Consolidation may be driven by vendor costs, as well as by the resources required to support multiple systems and the ability of partner banks—or other third parties—to integrate into each system.

The data collection process should involve an inventory of all treasury-related systems, each system's function, the line of business it supports, its degree of integration, and any opportunities the combined company will have to enhance the solution. Don't be surprised if the target company has multiple systems supporting the same function. Regardless of the complexity of the target's IT infrastructure, system integration will take time, focus, and discipline.

Credit facilities. The acquirer needs to fully understand how each of the target's banks is supporting it with credit facilities such as overdrafts, trade finance facilities, outstanding bank guarantees, and letters of credit. You need to look at these liquidity mechanisms from both the bank's

and the target's perspectives. The business need driving the target's use of the credit tools may change with the acquisitions, so depending on the structure of the line, the credit facilities may need to change as well. If any facility is no longer needed post-close, make sure that the target terminates it promptly.

Another issue to consider is whether the change in ownership might require documentation with creditors. These discussions can become detailed, so it's crucial to document the facts and inventory early, determine the business need both today and post-close, and work with bank specialists to properly and efficiently address all credit facilities.

Engaging All Affected Relationship Banks

Ask your company's relationship banks about best practices for approaching treasury integration, especially if you have many priorities and are unclear where to begin. You don't necessarily have to announce an acquisition publicly before you start auditing and reviewing information with banking partners to understand how they might be able to assist you. Discussing hypothetical integration scenarios with your bank can be valuable in early stages of the planning process.

Once the transaction has been announced, engaging the relationship banks of the acquisition target is also important. Whether or not your company uses the same banks as the target organization, ask each financial institution for an overview of the current state of its relationship with the target—when legally permissible. In addition to giving you a better view of your target's treasury structure, these discussions can help ensure continuity of banking services and mitigate the effects of any discrepancies or misunderstandings. Sometimes different banks use terms differently, and disparities in understanding could impact future operations. For example, if the target says it has a lockbox account, is it referring to a physical lockbox or an electronic service? Leverage bank resources to fully understand what's meant by common terms.

It's also important to pay attention to your target's global footprint. Banking practices differ from country to country; local regulatory requirements and language barriers can significantly amplify the complexity required in treasury structures. It may make sense to tap into the expertise of a global banking partner to help your business navigate these complexities, and hopefully to find efficiency across borders.

The more you're able to integrate treasury functions over time, the easier it will be to manage an M&A transition—creating efficiencies that will ultimately save time and money. Ideally, businesses should always be thinking about treasury efficiencies. Consolidating and centralizing systems can help streamline the treasury infrastructure, making your business easier to manage. This better positions your company for future expansion through acquisitions, but it's a goal worth pursuing even if your organization isn't considering an acquisition today.

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