

# The M&A process playbook

The role of the CFO and finance  
in mergers and acquisitions

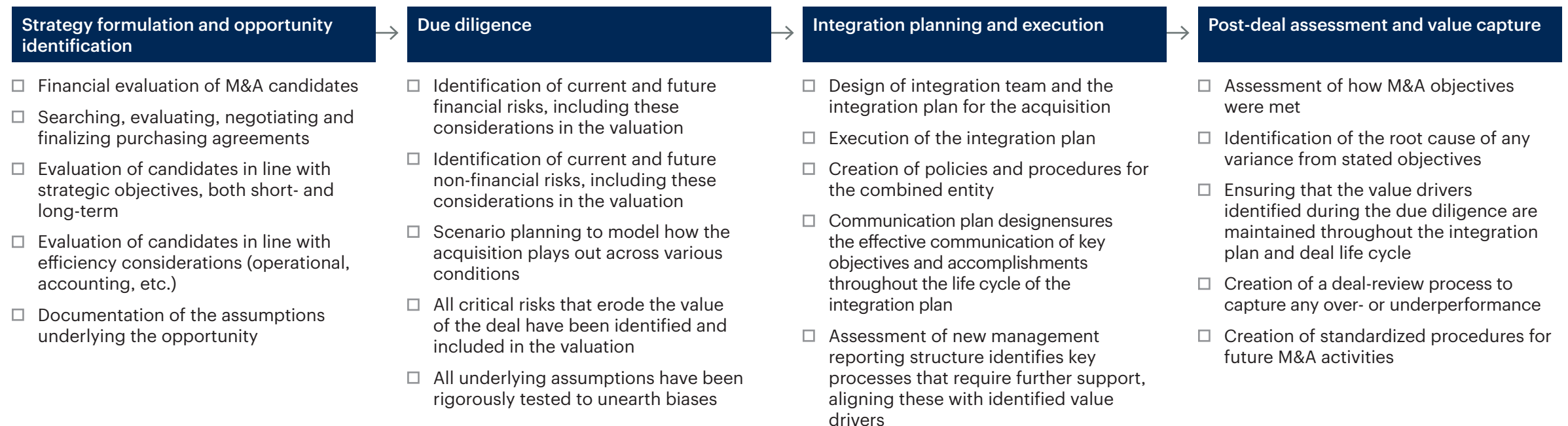


# The role of the CFO and finance in M&A

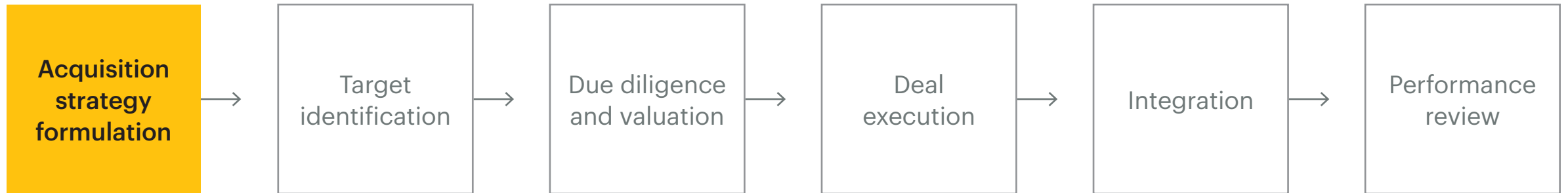
The CFO is involved in all aspects of the deal from the identification of the deal opportunities and conceptual framework, to the selection of the deal team to the planning, execution, and tracking of integration.

The CFO and finance team are responsible for the completion of the merger, stabilization of the transactional processes for the entity, identification and resolution of all financial control elements for the operating model of the newly formed entity.

## CFO workstream



# Roadmap



# Set acquisition strategy

**A comprehensive BU-level analysis of capability gaps and strengths should be the first step in establishing the acquisition strategy.**

- Establish corporate growth objectives.
- Review product and market strategies to assess current performance.
- Conduct a company self-evaluation to identify corporate capability gaps and strengths.
- Assess structural capacity (the company's readiness to embark on M&A).
- Assess competitive position (strengths and opportunities). Establish acquisition criteria.
- Create a bottom-up process by which acquisition targets can be included in BU plans.

# Assign clear roles and responsibilities for deal processes

**A well-defined roadmap of roles and level of involvement for various functions is critical for a seamless acquisition process.**

- Determine which function/structures (e.g., tax, legal, HR, IT, finance, etc.) should be involved at which stages of the process.
- Develop M&A process maps to guide business development staff through the acquisition.
- Determine if external resources are needed to augment internal acquisition resources.
- Assess acquisition staff's experience and strengths.
- Establish subteams within the acquisition team and outline tasks for each.
- Establish the deal development performance assessment process.
- Create checks and balances between “deal hunters” and “deal executioners.”

# Consider possible modes of entry

**Specific industry-level analysis of regulations and growth dynamics would help to select between various prospects.**

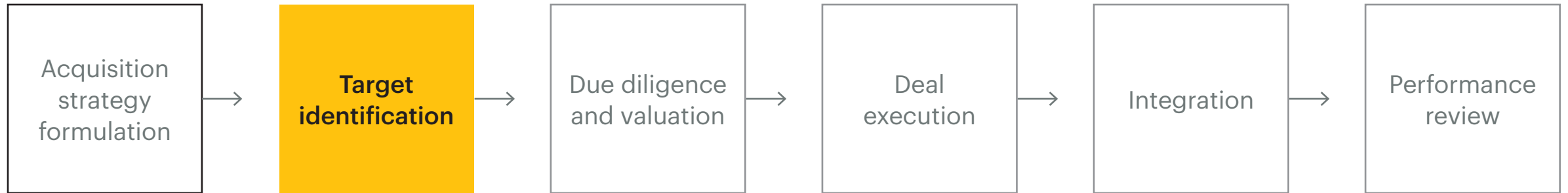
- Evaluate buy, build, ally options.
- Review industry dynamics (regulatory issues, growth rates, barriers to entry, etc.).

# Determine the process for screening candidates

In order to ensure consistency, specific target criteria must be put in place and communicated to the search team.

- Organize the candidate search team and review acquisition criteria.
- Draft an acquisition plan, including buyer objectives, trends in target industry and criteria for target identification.
- Communicate acquisition plan to acquisition team members.

# Roadmap



# Establish criteria for target viability

Microlevel screening parameters should be identified, so as to enable early-stage screening.

- Determine the factors that each target must meet (size, growth rate, market share, capabilities, balance sheet strength, IP strength, etc.).
- Prioritize these factors by importance to current acquisition themes to enable more efficient candidate screens.

# Generate list of candidates

**Primary and secondary searches as well as internal incentives should be utilized to come up with the possible target set.**

- Conduct searches of publicly available resources to locate candidates that meet the acquisition and target criteria.
- Review existing alliances/partnerships to identify acquisition candidates not otherwise recognizable.
- Brainstorm with internal and external groups (corporate development, investment banks, consultants, etc.) on potential acquisition targets.
- Create BU incentives for deal sourcing.

# Create systems to assess and manage deal pipeline

The deal pipeline should be proactively managed to fast-track attractive targets, while further examining other potential targets.

- Apply acquisition and target criteria tests to rank order candidates (use fit charts or point systems, etc.).
- Determine cutoff points for candidates' movement into the next phase of screening. Decide which candidates will move forward and which will be monitored but not investigated further.
- Assess next steps for candidates not considered for further screening.
- Centrally manage deal pipeline information to ensure more objective comparisons of ongoing deals.

# Conduct initial evaluation

**An early-stage basic evaluation to identify obvious synergies, problems and risks should be performed on targets to assess early-stage integration.**

- Identify high-level value drivers/destroyers and screen targets for obvious problems; conduct risk brainstorming session to build the target's risk profile.
- Have accountants review the target's audited financial statements.
- Conduct a culture-mapping exercise to assess strategic fit.
- Create initial synergy assessment (set a target accretion based on publicly available data).
- Complete a simulation planning exercise to prepare for early-stage negotiation.
- Create early-integration planning assessment.

# Make initial contact with target company

**Well-established procedures with respect to representation, initial contact and meetings, and future strategy should be formalized.**

- Determine who should represent the company in its initial contact.
- Create the contact letter, addressed to the target's management, outlining the strategic goals of the acquirer and how the target can contribute to those objectives.
- Schedule a meeting between the two parties to discuss the potential transaction.
- Establish a confidentiality agreement and review with the legal team.
- Outline future strategy to target company.

# Sign confidentiality agreement

**Post-signing of a confidentiality agreement that lays out future course for intensive due diligence, clear timelines should be proposed.**

- Outline the basic terms of the transaction in the letter of intent; upon it being signed, more intensive due diligence can begin.
- Send due diligence request to target; include master list of questions and document request.
- Create a work schedule, listing out the timetable, tasks and responsible parties, from the letter of intent stage through closing.
- Create information management system for due diligence data.

# Roadmap



# Conduct detailed due diligence

**Due diligence should cover all aspects of the target, growth potential of the market and tax obligations, and should be backed by a fair external opinion.**

- Begin pre-integration planning; appoint integration leader; assemble and train due diligence team; build virtual integration teams.
- Select third parties to assist with due diligence and contract negotiations.
- Ascertain the target's value drivers.
- Identify characteristics and trends of the market (e.g., structure, size, growth, subsegments, customers, substitutes, etc.) in which the target operates.
- Conduct a review of the company's operations to better understand the target's customers, processes, culture, morale, production, distribution, information management, and R&D, etc.
- Conduct a review of the company's sales and marketing strategies.
- Conduct an HR audit of the company's people practices.

# Conduct detailed due diligence (continued)

**Due diligence should cover all aspects of the target, growth potential of the market and tax obligations, and should be backed by a fair external opinion.**

- Evaluate potential impact of acquisition on acquirer's business units.
- Analyze other financial metrics, including profitability, liquidity, leverage, and market value for the target and its industry.
- Develop pro forma earnings and cash-flow statements to establish target's value.
- Review target's tax liabilities, including a tax return audit and review of any correspondence with the IRS.
- Examine current insurance policies.
- Obtain an investment bank-created fairness opinion.
- Establish a stage-gated process to hardwire opportunities for "go/no-go" discussions.

# Assess deal risks

**Microlevel understanding of significant risks and regulations that govern the target is essential to take a concrete decision.**

- Ascertain industry volatility, acquisition turnaround time needed, and achievability of growth targets.
- Verify disclosures made by the target company and ensure disclosure of any major liabilities.
- Ensure that corporate records are maintained and the target is in good jurisdictional standing.
- Review any relevant antitrust laws; ascertain target's pricing and sourcing policies to anticipate future antitrust actions.
- Review employment laws/actions, including collective bargaining agreements, restrictive covenants, confidentiality agreements and general employment practices.
- Review all pending litigation and situations in which litigation might be threatened.
- Review all material contracts the target has entered into or by which it is bound.
- Review intellectual property rights, confirm that non-patent trade secrets are protected, and obtain licensing agreements.

# Quantify cost savings and revenue growth opportunities

**Benefits in terms of cost savings and revenue growth should be clearly quantified to enable comparison between various targets.**

- Identify sources of revenue/cost enhancement.
- Outline where costs may exceed expectations.
- Identify the drivers of synergistic value (such as cost reductions and cross-selling opportunities); create conservative synergy models.

# Conduct target company valuation and sign letter of intent

**Intrinsic value of the target should be calculated after taking into account the various risks that surface in due diligence.**

- Calculate the target's intrinsic value — that which is independent of the acquisition — through common valuation methods, such as discounted cash flow or market comparables.
- Analyze the acquisition's potential cost and quantifiable risks surfaced during due diligence.

# Roadmap



# Select appropriate legal and tax structures for the acquisition

Deal structure should be optimal in terms of regulatory compliance and tax efficiency.

- Determine how the acquisition will be structured (asset acquisition, stock acquisition or a merger).

# Negotiate deal terms

**A formal negotiation team should work on preparing agreements and for obtaining stakeholder approvals.**

- Form negotiation team and share due diligence findings with them.
- Prepare draft of asset purchase agreement, information schedules and exhibits to purchase agreement, etc.
- Ensure that all relevant second-party (board of directors, shareholders, etc.) and third-party (banks, landlords, insurance companies, key customers, etc.) approvals have been obtained.
- Conduct price bidding and, if necessary, negotiations with the target.

# Sign purchase agreement

**A dry run of the closing will help identify open issues, following which a timeline for final deal execution should be drawn.**

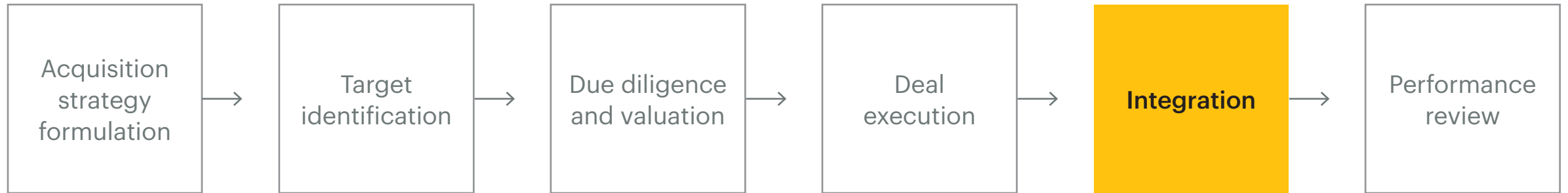
- Prepare schedule of closing documents, including opinions, results of lien searches, compliance certificates, etc.
- Check to ensure that all conditions to closing have been met or waived.
- Conduct a dry-run closing to identify open issues (two to three days before closing).
- Close the deal and exchange documents, including title transfers, shareholder certificates, attorney opinions, and audited financial statements, etc.
- Prepare a timeline for regulatory approval of the deal and assign responsibility for action steps.

# Close deal

**The actual “deal close” should be accompanied by transfer of funds, assets and formal external communication of the same.**

- Obtain bill of sale.
- Obtain any relevant secondary documents (settlement sheet, escrow agreement, promissory note, noncompete agreement, etc.).
- Procure all third-party consents to the deal. Transfer funds and assets.
- Communicate external notice of deal close.

# Roadmap



# Identify integration tasks

**Identifiable tasks should be set for the short, medium and long term, resulting in a 100-day task-based checklist.**

- Reconfirm the integration team.
- Identify immediate, short-term and long-term tasks; aim for some short-term wins to maintain momentum.
- Build a task-based checklist of the first 100 days.

# Create integration timeline and project plan

The speed and the extent of seamless integration will result in a “cooling down” of initial concerns and significant value additions.

- Set objectives to milestones and schedule regular check-in sessions.
- Establish a sense of urgency around the integration to set the process in motion.

# Communicate vision/integration plan to old and new employees

**A simple and vivid integration vision should be communicated to both the old and new employees to help settle any apprehensions.**

- Choose an integration vision that is simple and vivid; communicate it consistently to all levels of the organization.
- Utilize a variety of communication vehicles (newsletter, intranet, voicemail, in-person, memos, town halls) to reaffirm integration message.
- Articulate how previous changes to the company have been successful (to condition staff to accept and embrace change).
- Clearly define the organization's cultural norms, segmenting by those of high and low importance to employees.

# Devise and implement new compensation packages

Compensation plans should be reviewed with the ultimate aim of providing equity and avoid any strenuous escalations.

- Set titling practices across the new organization.
- Set compensation plan that addresses internal equity and seeks to resolve potential disputes.

# Eliminate overlap between the two entities

**Obvious overlaps of various functions should be identified, and suitable future course should be spelled out.**

- Identify legacy issues and construct a strategy to minimize the detrimental effects of previous negative experiences.
- Determine which functions/activities should be housed under which company/location.
- Identify, value and integrate key physical and technological assets.
- Review high-level operating procedures (cultural norms, production processes, distribution networks, etc.) to identify overlap; seek to fuse differences.
- Determine which suppliers, distributors and customers will remain engaged.
- Decide whether to proceed with any cross-selling opportunities.

# Establish a staffing and employee education plan

**Human resources planning should be undertaken to determine staffing levels and HR should conduct trainings regarding important issues.**

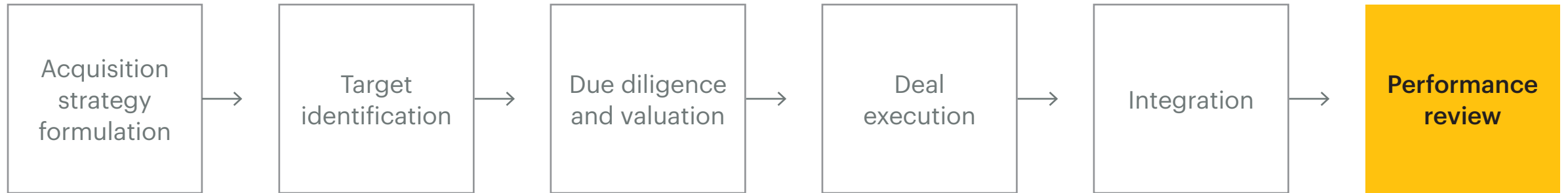
- Determine staffing levels, by management and labor, and ascertain if layoffs are necessary; if so, establish criteria for retaining employees.
- Organize formal and informal education sessions used to educate employees about the priorities of the new company.
- Identify most important activities on which HR and the line will need to conduct training.

# Monitor integration process

**Integration should be tracked by developing a formal scorecard which tracks progress of the new company across various measures.**

- Create an acquisition scorecard to track integration progress.
- Determine measures (HR, cultural, financial, innovation, customer, internal, etc.) to include and metrics to monitor.
- Establish sources of data to populate the scorecard.
- Create an issues log to record problems and unresolved tasks.

# Roadmap



# Review fulfillment of strategic and financial objectives

**It is important to review the performance of the acquisition and derive learnings for future acquisition decision-making process and benchmark against peers.**

- Define the relevant drivers or measures of performance (strategic, financial, operational, HR, etc.) that will improve future acquisition decision making.
- Assess data availability and warehousing capacity.
- Using an acquisition scorecard, compile metrics that correspond to the relevant drivers or measures of performance; calculate gap-to-goals for numerical metrics, and whether qualitative integration tasks being evaluated are in progress or complete.
- Assess strategic lessons learned and the acquisition's fit with strategic/financial objectives outlined in the acquisition strategy formulation stage; prioritize most-important findings according to established performance drivers.
- Benchmark against previous acquisitions and track record of industry peers.

# Review process success and identify best practices for organizational dissemination

**Reviewing the acquisition process in its entirety helps identify challenges that might occur in future acquisition.**

- Review the acquisition process, from strategy to integration, to identify most pressing challenges and key successes.
- Identify which obstacles might occur in future acquisition activities (and thus, require the most attention), and which are relevant to the present acquisition only.
- Brainstorm among acquisition participants to identify the interesting overall findings from process.
- Determine appropriate method of dissemination (electronic, paper-based, etc.) and audience.

# Encourage take-up of best practices

**Relevant contact events should be identified to teach the best practices emanating from the M&A process.**

- Embed action steps into performance management, reviews and incentives.
- Build out communication schedule to enable senior management to reaffirm the importance of acquisition success.
- Use meetings/workout sessions/training classes to teach the best practices of the M&A process.

## Contact us

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