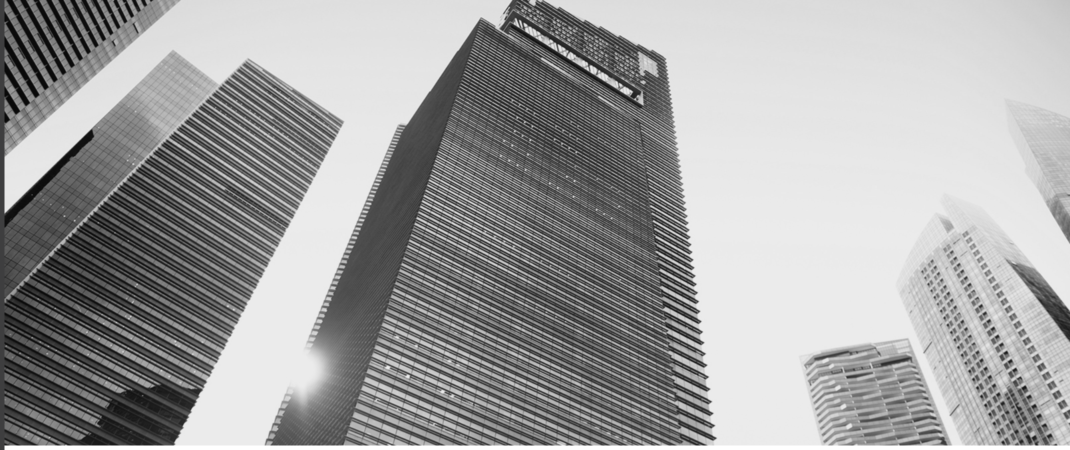
Risk Insights

Acquisitions



Congratulations on the new acquisition!

Now, how do you integrate acquired operations into your organization?

AS EXCITING AS IT IS TO ACQUIRE A NEW COMPANY — whether purely as an investment or as a way to expand your existing business — every new acquisition presents new risks. With the high level of scrutiny placed on the transaction and the valuation, many companies can be caught unaware when the process integration risks turn the deal of a century into a mass of headaches and lost opportunity.

Furthermore, over the past few years there has been increased scrutiny by investors on whether the value proposed in the acquisition materializes in the consolidated company. The SEC has even issued an updated rule to improve disclosures for business acquisitions that now allows businesses to disclose forecasted synergies for the consolidated company which will be effective January 1, 2021 for calendar year filers (voluntary adoption is allowed). Although this provides a great avenue to communicate the benefits of an acquisition to the market, it also increases long-term scrutiny on the actualization of those synergies as management must both include any material assumptions or uncertainties for each adjustment and reconcile the adjustments to the pro forma financial information.

With all the diligence related to the acquisition transaction itself, the functional post-acquisition integration process can often go overlooked. Having a resource to monitor and manage the integration so that the organization continues to move toward the end-goal, or to help navigate when changes are necessary is a critical component to ensure an effective transition. That's where Weaver comes in.

We bring a broad range of experience to help define not just integration plans, but controls and governance structures to provide insight to how the integration is progressing while highlighting issues before they impact the bottom line. Our methodology considers the people, processes and technology that is critical to achieving the desired end state while simultaneously ensuring that there are appropriate governing procedures to manage the changing organization.

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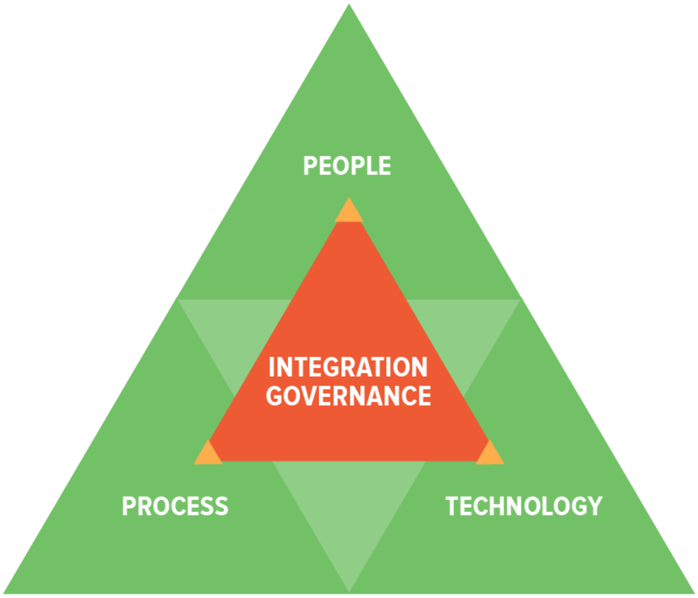
Below, we highlight some key questions to consider as you work through your acquisition integration journey.



People

- **Identity** — Determine the level of integration that is required for the acquired company. Will the acquired company be integrated into your existing environment, or will it operate separately and maintain its own identity, either temporarily or permanently?
- **Human Capital** – Will the acquired company employees "tuck in" to your current environment? For employees you may let go, do they have any critical expertise that needs to be transitioned? If changing headquarter locations, should your retention plan account for logistical losses?

Process

- **Transactional Processing** — Have you identified the transactional processes critical to your business objectives? How can you gain administrative efficiencies, instead of creating duplication? Which systems will be merged, and which will continue to operate separately? How will you maintain historical visibility into "sunset" systems? Have you evaluated vendor contracts to determine where renegotiations to align contracts are required or additional discounts are available?
- **Fraud risk** — Do you have adequate processes to protect against fraud in two separate environments? How are you protecting your data from being syphoned by exiting employees (e.g. client lists, discount models, etc.)?

Technology

- **Applications and IT Infrastructure** – How will the applications and IT infrastructure be retired or/and or integrated? Will there be a temporary "trust relationship" between the two IT environments? How will the new applications impact the cyber vulnerability footprint? How will the critical data sets be aligned, scrubbed, and integrated?
- **Security** — How will you manage technology and physical security? Have you determined a process for managing contractor and service provider access? What is the logical access sophistication of the acquired company (e.g. appropriate roles, segregation of duties in place, etc.)

During the acquisition process, it can be easy to lose sight of your strategic goals while buried in the tactical execution of merging two companies. One of our clients experienced this issue when a multi-year implementation project fell out of sync with the overall strategic plan. The result was the IT organization that supported the ERP of the acquired company wound down before that organization had been transferred. Contractors and consultants with no historical background on the application had to be hired to backfill the positions which significantly increased G&A cost.

Governance

- **Program** — Have you identified where the acquisition will impact your strategic governance programs? Whether it's an impact to your Key Risk Indicators (KRIs) or an update to your Delegation of Authority matrix, a significant acquisition will impact many of the criteria used by the business to determine its alignment with the strategic objectives. Furthermore, during the post-integration phase you should plan to re-assess the policies and procedures to determine how effectively they have been put in practice.
- **Controls Integration** – Will the acquired entity be operated as a separate control environment, or will existing controls need to be pushed down to acquired processes? Have you identified and communicated with key control owners that will be expected to assume additional controls or a greater control volume? Have you evaluated whether the control owners in place have both the resources and the understanding of the consolidated operations to effectively operate the controls as designed?

It is clear to see that there is much to consider when integrating an acquired business. There are many risks to evaluate and manage to ensure that the integration is successful and the anticipated synergies and benefits of the acquired business are realized quickly.

The Risk Advisory Services team at Weaver has the experience, working with both private and publically traded business to assist you in the identification and evaluation of risks associated with your integration process.

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How does Weaver help improve the acquisition process?

EVERY ACQUISITION AND INDUSTRY PRESENTS its own unique challenges and requires strategies specific to your organization and transaction. We have assisted many different organizations through their acquisitions, some examples of which include:

- **Publically-Traded Company Acquires a Private Business (Oilfield Supply Company):** Our publically traded client acquired a private manufacturing company that was significant to the consolidated financial statements. As with many private companies, the financial reporting processes and internal control structure of the acquired business were not sufficiently designed to meet the needs of a public company. An internal review identified a large number of potential deficiencies in internal control over financial reporting. We were engaged to support the remediation efforts throughout the 12-month exemption period, including evaluating access in the ERP, defining processes and controls, and working with control owners to address gaps, resulting in no Significant Deficiencies or Material Weaknesses for the reported period.
- **Acquisitive Conglomerate (Industrial Manufacturing Company):** Our publically traded client regularly acquires new entities, typically private business, with informal or minimal process and internal control structures in place. Acquired businesses operate with a substantial level of autonomy, maintaining their own people, processes, and systems. We support them by utilizing a defined suite of control objectives to define a functional control suite in the acquiree environment. Each environment is unique and the results of our assessment are used by management to both ensure the integrity of financial and operational data transferred to the parent company as well as provide management insight into the operations of the recently acquired company.
- **Private Equity Portfolio Company (Wholesale Supply Company):** We were engaged by a private equity firm to evaluate the processes and internal controls for a newly acquired investment in a privately held portfolio company. We evaluated internal controls around purchasing, treasury and cash management, inventory, and sales order processing, giving specific attention to inherent fraud risks and scenarios. Additionally we evaluated monthly internal financial close and reporting procedures for appropriateness and timeliness.
- **Asset Acquisition (Upstream Energy Company):** Asset purchases are significantly less complex than a business combination, but can often include their unique risks in the oilfield. Many companies use a transaction services agreement (TSC) during the interim integration period to allow for the acquiree to keep "business as usual" until the purchaser is ready to integrate. We supported one of our clients through this process by validating the transactions included under the TSC resulting in thousands of dollars saved through incorrect allocations, material transfers off purchased pads, and inaccurate prior period adjustments to the segregated periods.

Planning on making an acquisition or currently working through an integration process with an acquired company? Contact us to request a complimentary consultation.

CONTACT US

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Weaver's risk advisory services are strategic, executable and measurable– and our nimble process is designed to help companies remain optimally functional as they identify and manage risk. We work closely with our clients to customize services that fit their existing staff structure and operations. Integral to this sensitive work, we believe our communication skills are as valuable as our technical knowledge and professional insight. You will experience thoughtful, purposeful communication throughout the process. Specific services we provide include:

- Business continuity planning
- Business process improvement
- Contract monitoring and compliance
- Enterprise risk management
- Internal audit
- Internal control evaluation
- Integrated financial and IT audit
- Performance audit and measurement
- Regulatory compliance
- Risk assessment
- Sarbanes-Oxley compliance

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