Leveraging a trusted IT M&A partner: from strategy to execution

IT-enabled transformation in every transaction

In the fast-paced and highly competitive world of business, companies are constantly seeking ways to gain an edge over their competitors. Mergers and Acquisitions are a popular strategy to achieve growth, enhance competitiveness and optimize business operations. They are becoming increasingly prevalent in today's business landscape. However, the process of M&A is complex and fraught with challenges that can make or break a deal.

The involvement of IT in M&A transactions

To start, by "IT" we are referring to the IT function in its entirety, supporting a company with an underlying IT ecosystem.

While IT is a vital component of successful M&A transactions, it is often overlooked and not given the level of attention it requires. After all, effective IT management can have a significant impact on the success or failure of a deal and long-term value realization.

As companies divest, separate, merge or acquire, they must navigate complex IT landscapes, integrate or disintegrate systems, infrastructure and data.

In addition, they must also ensure that the integration or separation process does not disrupt critical business operations or cause compliance / governance issues. As a result, companies that are considering M&A must have a clear IT strategy in place to improve their chances of success.

To properly address the challenges that arise in IT throughout a transaction, various parties are usually involved throughout the M&A lifecycle from pre-deal strategy and due diligence to execution. Each party brings unique and complementary skills.

Typically, there are 3 types of parties that provide support throughout the deal cycle

Traditional strategy firms are usually involved at the beginning of the deal process, helping define the deal strategy, vision and rationale. They may also be involved in due diligence and deal valuation but will play a minor in the actual execution of the post-close integration or separation process.

A multidisciplinary firm such as KPMG provides various services and expertise throughout the whole deal process from strategy to execution, keeping a birds-eye view of the whole transaction and being the trusted partner in seeing the deal strategy through to the actual implementation. Support ranges from pre-deal (IT or product) due diligence, blueprint strategy and integration or separation planning to managing the post-close integration or separation execution.

Integrators are typically involved in the post-merger integration process, helping to execute the integration or separation of information systems, processes, and data as well as other functional areas such as HR, finance, and supply chain in pure delivery mode.
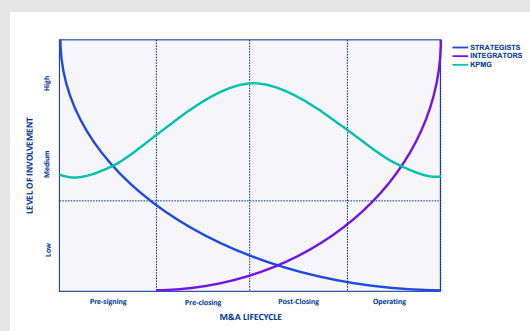
Integration & Separation Management Office

KPMG differs from traditional strategy firms and integrators in the level of involvement and scope of support they can provide during the M&A lifecycle. KPMG can take on the role of setting up an Integration or Separation Management Office (IMO or SMO) to manage the transaction end-to-end, to help in aligning business and IT objectives, and to coordinate global teams between a seller and a buyer.

An IT Integration Management Office (IMO) is responsible for orchestrating all parties involved in the process of integrating two or more companies, on two dimensions: IT as a function, like any other, but also IT as the underlying business enabler, provider of platforms, systems, infrastructure and services to the business. Hence, the IMO works closely with other functional areas of the organization to understand their ambition, their specific IT needs and to ensure that the resulting IT environment is aligned with the business goals of the merged organization. The IMO typically develops a comprehensive plan for integrating systems and infrastructure, including but not limited to timelines, budget, resource allocation and risk management strategies.

On the other hand, an IT Separation Management Office (SMO) is responsible for managing all parties involved in the process of technologically separating two or more companies that are being split apart or otherwise separated. The SMO must carefully evaluate the systems and infrastructure of each company and develop a plan

> **Both integration and separation management require careful planning and execution to ensure that the resulting IT environment is stable, secure and able to support the business needs of the new or restructured organization.**

for separating them while minimizing disruption to business operations. This can be a complex and challenging process, as information systems of separated companies may be heavily intertwined, and the separation must be carried out while maintaining the integrity and security of data and systems. In many scenarios, the SMO is also involved in planning the roll-out of new functions and capabilities as well as arranging Transition Service Agreements (TSAs) between separating organizations to maintain business continuity.

The IMO's or SMO's role is key in coordinating the various teams involved in these transformation programs, from technical experts (e.g. network engineers, data center) to IT business leads or IT procurement for instance. This is to ensure timely and efficient project execution while managing interdependencies and program costs.

Lessons Learned & Key Success Factors

Over the past years, KPMG member firms in Europe have managed several large-scale multidisciplinary integration and separation transactions from end-to-end, across various sectors. Achieving value from IT integrations and separations is a complex undertaking that demands a nuanced understanding of the organization's deal strategy.

There is no universal methodology that can effectively manage mergers and acquisitions since each situation is unique and presents its own challenges and opportunities. However, through our experience supporting these transactions we have identified and listed some key success factors to leverage. These support the successful execution of a deal:

Strategy & Planning

A sound understanding of the business deal strategy enables IT teams to best support every deal

- Managing IT integrations and separations is a multi-dimensional task that requires **balancing the competing demands of scope, quality and cost.** Prioritization will depend on each deal-specific situation. Nevertheless, **business continuity** supported by a strong IT infrastructure **remains a non-negotiable** regardless of the context
- To achieve long-term success, it is critical to align and coordinate short-term objectives and decisions with overall strategic goals of the organization. This requires an **in-depth understanding of the company's values, vision and mission**
- The value creation plan must be developed from the outset considering all relevant factors such as market conditions, competitive landscape and industry trends. A **comprehensive and holistic approach to value creation, including IT,** is crucial to the long-term success of any integration or separation effort

- The IT function needs to have a crystal-clear view of the deal scope, which is **twofold:**
  1. Understanding their own requirements ("IT4IT"), which involves defining a strategy and plan to serve IT and also;
  2. By being a common underlying enabler to all other business functions ("IT4Business"), understanding their various strategies and plans and how they are dependent on IT.
- Lastly, capturing and paying attention to **IT sector-specificities** early-on such as GxP for the pharmaceutical industry, go-to-customer for the retail industry, anti-money laundering and know-your-customer regulations for financial services, environmental regulation and sustainability reporting for the energy sector etc. is key to anticipate potential delays. **Industry experts** bring valuable knowledge and insights to the table that **can inform decisions and lead to better outcomes.**

Culture, Talents & Collaboration

A close collaboration between talented business and IT teams supported by a strategic partnership decreases deal complexity

- Company cultures can differ greatly, and this should not be underestimated during integrations and separations as it is critical to **create a trusted atmosphere** where every party feels comfortable and understands their counterpart's perspective
- **Effective collaboration, alignment, and transparency** between the business and IT teams as well as a common, well-understood "one team" approach is key for integration and separation success given the need **to closely manage interdependencies**
- Building a **long-term relationship with a strategic partner** for integrations and separations enables faster and smoother onboarding and execution, **leveraging a legitimate knowledge of the culture, organization, systems and processes to reduce downtime in (often) time-critical situations**

- Because IT is often involved only after the ship has sailed, **decisions need to be made with a certain level of uncertainty.** This requires the involvement of the **best talents** (highly agile, able to deal with ambiguity and to work at pace)
- In **separation-specific programs,** leveraging experienced teams remains key while ensuring there is a **clear path forward in the organization;** due to time pressure and criticality these are often not the best environments to "learn on the job"
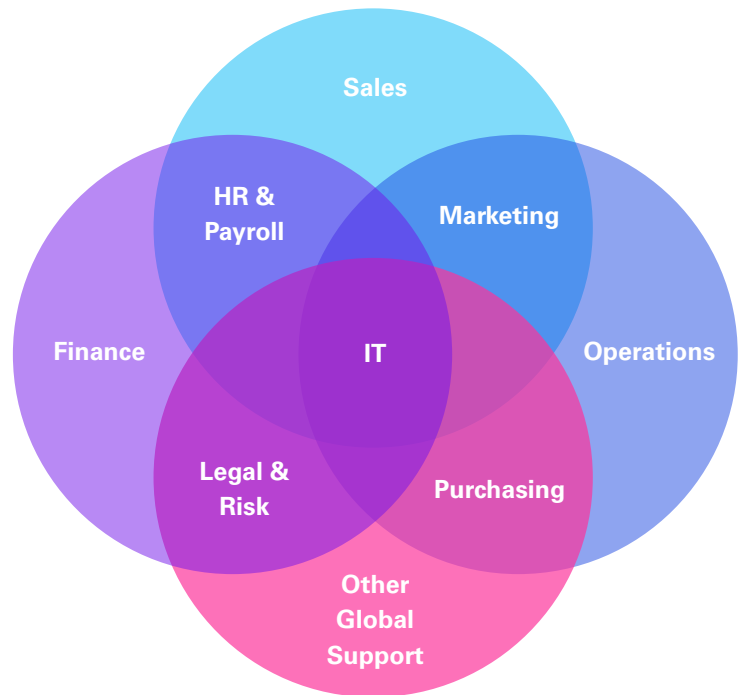
Management & Execution

The effective execution of IT integration or separation programs requires an overarching function to maintain strategic oversight and control

- Time is a crucial factor in integration or separation, as the deal closing date is not dependent on IT. But regardless, the **IT function needs to be prepared** to ensure a smooth transition. **Leveraging past experiences** and a **broad spectrum of experts** and specialists can again help with this preparation
- **Anticipation is key** in managing the complexities of integration or separation programs. An effective SMO / IMO can help **manage the transition from project operations to business as usual,** ensuring continuity

- Integration and separation programs are complex, which is why it is important to keep a consolidated and **holistic view to manage the roadmap as well as interdependencies between workstreams**
- The project team must **balance anticipation and pragmatism** in execution to achieve a successful integration or separation, appreciating that in situations where everything is urgent, some priorities must take precedence over others
- The Integration / Separation Management Office should include **specific industry expertise** to ensure that industry-specific requirements and regulations are addressed to anticipate potential issues, risks or delays

Conclusion and how KPMG can help

Mergers and acquisitions (M&A) are increasingly popular in today's business landscape as companies seek to gain an edge over their competitors. However, the process of M&A is complex and fraught with challenges that can make or break a deal. IT is an often-overlooked aspect of M&A complexity, yet it is a vital component of successful transactions.

Effective IT management can determine the success or failure of a deal and impact long-term value realization. To properly address transaction-related IT challenges, a trusted partner is required to manage and align the various parties involved throughout the M&A lifecycle.

With our integrated approach we create value at every stage of your M&A transaction.

Multidisciplinary firms such as KPMG provide various services and expertise throughout the deal, keeping a bird's-eye view of the whole transaction while being the trusted partner in supporting the deal strategy through to the actual implementation. An IT Integration or Separation management office (IMO/SMO) is necessary to manage the transaction from end to end. KPMG provides people and cultural understanding, technical skills, genuine experience in IT M&A and knowledge of common project pitfalls required to successfully execute M&A deals.

There is no "one-size-fits-all" IT integration or separation setup and methodology and it can be interpreted differently by the deal context. Having a trusted advisor by your side will ensure proper alignment of the business, IT and integration/separation strategy, will provide you with the end-to-end view and will assure proper execution of the integration or separation while ensuring business continuity.

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