Supporting Treasury Through the M&A Journey

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The past year has seen particularly strong levels of mergers and acquisitions (M&A) as corporations across a wide range of industries seek to boost growth, fuelled by a combination of large cash reserves and low funding costs. Treasury has a key role to play in the success of M&A transactions, from funding and monitoring acquisition flows upfront through to optimising liquidity, treasury operations and risk management in the longer term. In this article, Terry Dennis and Declan McGivern discuss some of the factors that help treasurers to contribute to M&A success.

Growth of cross-border M&A

One of the notable M&A trends over the past year has been the amount of cross-border activity, including a growing number of cross-regional transactions. More US companies are expanding into Europe and Asia, but there is also a growing two-way flow of transactions between emerging and developed markets. According to Citi research, M&A in North America increased by 18% during Q1, 2017, and 23% in Europe. New deal announcements totalled $560bn during this period. Similarly, a wide range of industries are engaging in cross-border M&A, including manufacturing, consumer and healthcare and technology amongst many others.

What these figures do not reveal, however, is that treasury functions have quite different experiences of M&A. For some, M&A will be a regular occurrence, with tried and tested playbooks to integrate new entities into treasury quickly. For others, transactions may be occasional, or the size of a transaction may be unprecedented. There are differences in
the nature of an M&A too: some corporations will aim to rationalise and integrate treasury operations, balances and exposures quickly, while others will choose to operate treasury functions of acquired businesses on a largely independent basis for a period of time before undertaking an exercise to standardise, integrate and optimise key activities across entities.

A structured approach to M&A

Inevitably, the opportunities, pitfalls and banking needs will differ in each scenario. It is important that bank partners take time to understand each company’s specific requirements and provide expert advisory services – whether they are helping an acquiring or acquired company. The nature of the support that clients need will vary considerably. Companies who have never engaged in a large M&A transaction before may need a great deal of advice and support in identifying and planning the tasks on the critical path. In these situations, treasurers need their banks to offer advice on due diligence, policy, governance and organisational structures, including how best to gain visibility, and ultimately control over funding, liquidity, exposures and treasury operations.

Overcoming challenges

One of the biggest challenges for many treasurers is that information on the acquired business is often limited, combined with the challenges of tight completion timescales. Speed and agility is essential in this situation, and treasurers need to be confident that their bank can offer an integrated, responsive service for due diligence (including KYC) and account opening, and to provide day one visibility of cash, funding and liquidity requirements.

Similarly, M&A between organisations that have quite different characteristics, such as a B2B vs B2C business model, can create challenges, particularly in areas such as cash visibility, payments and collections and aligning cultures. Cross-border transactions bring the added difficulty that the transaction may not take place in the corporation’s functional currency; similarly, the acquired entity may have quite different currency exposures. At Citi, we help companies to hedge exposures to achieve certainty of the actual closing price, and to understand and develop appropriate strategies to manage a new and potentially unfamiliar risk profile.

Despite the wide range of M&A scenarios, what characterises every transaction is the need for a treasury strategy that reflects the need to meet short-term completion deadlines and longer-term integration objectives. Consequently, at Citi, we have organised our business to provide a structured approach to supporting clients throughout their M&A journey, taking into account every step from pre-to post-closure and beyond, co-ordinated across all aspects of our business including funding, cash management, liquidity management, foreign exchange and technology – whilst also aligning the resources required to assist with the activities involved in each stage in the M&A Journey. (See Figure 1 on following page.).

The value of integration

There are a number of situations where corporations continue to operate the acquired business as a discrete entity, which typically means that the treasury functions continue to operate on a largely independent basis at least for a period of time. This may be a deliberate strategy, or it may simply be a case that other priorities take over once treasury has concluded the transaction and gained visibility over cash. While this makes the immediate post-closure period easier, in that there is limited disruption to existing treasury activities, longer-term difficulties can arise, particularly where a corporation goes on to make further acquisitions.

Firstly, even where treasury functions operate independently, the treasurer and CFO still need a global view of liquidity, FX exposures and credit risk for group reporting to regulators, shareholders, and so on.

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Terry joined Citi in 1997 as an Associate in the Markets business, and subsequently went on to join Citi’s Global Leadership Development Programme. In 2011, he joined the EMEA TTTS Sales team focusing on cash management opportunities for multinational corporate clients.

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Based in Dublin, Declan is responsible for leading the delivery of advisory to Europe, Middle East and Africa clients in the areas of treasury operations, working capital management, risk mitigation, and treasury technology. During his seven years with Citi, he has also been responsible for product management of Citi’s Treasury Services Group for treasury outsourcing services. His previous experience includes positions in treasury consultancy and as Head of Offshore Risk Management and Group Financial Controller at a major European bank.
debtholders, credit rating agencies and market analysts. Consequently, there needs to be an efficient way of bringing this data together in a consistent way, which requires some standardisation.

Secondly, maintaining separate treasury functions – or combining treasury functions and retaining existing bank relationships, account and liquidity structures – can lead to proliferation and fragmentation of cash balances and information. Furthermore, some companies that have completed multiple M&A transactions have ended up with tens of banking relationships and hundreds of accounts, increasing the operational, liquidity and risk management challenges.

To resolve these challenges, many corporations, that did not integrate their group treasury organisation initially, have embarked on projects to consolidate banks, accounts and liquidity structures, align treasury policies, processes and controls, and review treasury organisational structures and the systems they use for technology and platforms. Citi can play a crucial role in this, as thanks to our global footprint, depth of solutions and advisory capabilities we can be a regional or global banking partner for the consolidated business. With Citi’s help, treasurers are able to enhance operational efficiency, increase visibility and control over cash and risk, including streamlining connectivity, reduce funding costs and create a platform on which to integrate future acquisitions.

The strategic contribution of M&A
While M&A’s relevance to a company inevitably depends on its business strategy, it remains an important means of delivering growth and shareholder value, so treasurers need to be prepared. During recent senior-level discussions of major corporations, leading CEOs emphasised that the single highest priority on which they wanted their partner banks to focus was supporting their M&A agenda. A recent McKinsey report also reveals that more than half of new CEOs of S&P 400 companies embark on an M&A transaction during their first two years in office, second only to management reorganisations. The same report emphasises that those with a programmatic M&A strategy (i.e., three to four deals per year) outperformed their peers, achieving an average of 3% additional shareholder return.

This creates significant demands on treasury, in particular to create the financial and operational synergies and efficiencies that result in the value of a transaction becoming more than the sum of its parts. By taking a structured and rigorous approach both pre- and post-closure, that is tailored to the nature, purpose and objectives of the transaction(s) and the longer-term strategy of the enterprise, Citi is proactively supporting clients worldwide, on both sides of transactions, to achieve stakeholder objectives and optimise M&A success. ■

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