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Mergers and Acquisitions Rebound for Middle-Market Growth in 2024

How to Prepare the Finance Function For M&A

Mergers and acquisitions (M&A) remain a hot topic, even though deal volume has slowed down significantly due to rising interest rates and other economic factors. However, there appears to be pent-up demand as we enter 2024, and the M&A floodgates could open at any time.

In a recent webinar, Consero Vice President of Client Solutions Chris Hartenstein offered a comprehensive overview of add-on acquisitions, exploring their benefits, challenges and key considerations for a financially successful implementation.

Considerations before M&A Transactions:

The first thing to consider before embarking on an acquisition is whether your in-house finance team is capable of supporting the deal. Here are four areas to examine in order to answer this question:

1. **Does your transition lead have relevant M&A experience?** At many companies, the transition lead may have performed one or two acquisitions, but this isn't something they do on a regular basis. This points to the value of bringing in an experienced partner like Consero, who understands the process, timing and criticality of all the steps involved.

2. **Can you handle the operational side of due diligence and execute after the handoff?** This includes evaluating the acquisition target.

3. **Can you figure out where your operational processes will easily mesh with those of the acquired company - and where they won't?** Do you have the technology and process documentation set up? And does your team understand the procedures involved in doing a deal?

4. **Does your transition team have the capacity to support implementation of the acquisition without disrupting day-to-day operations?** Transition team members often neglect normal business operations due to their focus on the acquisition, which becomes a distraction from their normal day job. By working with Consero, team members can stay focused on their primary jobs while we handle due diligence and integration.

The biggest M&A challenge usually relates to timing: How quickly can the deal get done? The most successful deals aren't dragged out — instead, the Band-Aid is ripped off. The faster the integration happens, the better. Otherwise, making change is much more complex.

The Critical Role of Finance and Accounting

It's critical that CFOs remain focused on strategic financial guidance and business oversight instead of getting dragged into last minute acquisition details like chart of accounts. They should remain high level and ensure that the vision for the acquisition becomes reality.

There also need to be scalable processes for billing and collections, payroll, accounts payable and vendor processing. Consero brings this to the table via a best-in-class tech stack and established processes in each of these areas.

Even with all of this, timely financial and operational reporting remains crucial. You need to know how you're performing compared to sales targets, what bookings look like and whether you're meeting ARR targets. You and your team need a full-scale view of how the acquisition is performing and whether it is meeting your expectations.

Your finance and accounting team must be able to support the rapid integration of the acquired company, which can be hard when they also have to perform their regular day jobs. Bringing in a partner like Consero to help with the integration takes some of the heat off them and frees them up to stay focused on their core tasks.

Be aware that there will be tremendous scrutiny on the transaction from auditors who will want to understand what the beginning balance sheet looked like and how PPA entries were calculated. Everything must be clearly documented and include an auditable trail.

Common Challenges

One of the biggest M&A challenges is personnel. What are the skillsets of the employees of the acquired company? Do they have the technical expertise required to set up and support the transaction? And are they incented to remain with the company? If they don't clearly understand their role in the new company, you could lose them quickly.

Inefficient processes are another challenge. The systems used by the acquired company are probably different from those used by the acquirer, so should you keep disparate systems operational for any length of time? Generally, the answer is no. Trying to do a month close on disparate ERP and CRM systems can get very challenging and confusing. The sooner systems are integrated, the sooner you can realize ROI, synergies and other benefits of the acquisition.

For example, one company we work with still hadn't brought the acquired company onto its platform and was using disparate systems after a year. It was taking 15 business days to gather all the information needed to put together a full package. As a result, they weren't getting financial information until the end of the month, making it difficult to make timely decisions.

In contrast, another company that integrated systems quickly is consistently closing its books by the fifth business day of the month. Management receives all the information needed by the second week of the month — including bookings, ARR and forecasts — so they can make timely decisions quickly.

After the Acquisition

Among a CEO's main priorities after an acquisition are making sure employees and vendors get paid on time. Failure to transition payroll and accounts payable can result in panic among employees and key vendors who are critical to the success of your business.

On the flip side, timely billing and collection of accounts receivable should also be a high priority for CEOs since this is what private equity firms are mainly looking at. If you fall a week behind in billing, suddenly collections fall a week behind, which impacts cash flow. This isn't something PEs want to hear.

After an acquisition, CEOs should determine if any other mission-critical tasks need to be prioritized or key relationships need to be transitioned. Often, the CEO meets in-person with the top five clients after the acquisition to emphasize continuity and support.

Key Building Blocks

There are four key building blocks of a roll-up finance and accounting platform:

1. **Extensible best-of-breed tech stack**
   This makes it much easier to integrate the systems of the acquired and acquiring companies.
2. **Experienced personnel**
   You need people with the right range of skill sets to execute the plan. They need to know how to focus on the things that are important to ensure continuity from a process standpoint.
3. **Robust statutory and management reporting**
   Information must be obtained in a timely basis while supporting regulatory and statutory requirements in the process, and there must be structure around the consolidated reporting.
4. **Centralization, standardization and automation**
   You must determine how to automate manual processes to make sure everything is being done most efficiently. This goes back to your tech stack and having the right personnel who know how to utilize it.

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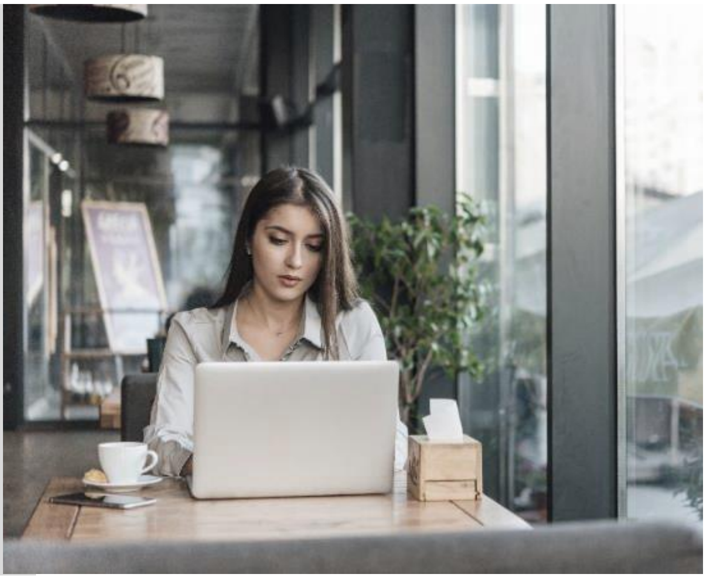
FaaS Model for Rollups

Consero's Finance as a Service (FaaS) solution offers roll-up investments with an out-of-the-box finance and accounting department. This provides companies with insights to focus on growth while accelerating ROI and the pace of acquisitions. As a result, PE firms and portfolio companies have more time to focus on driving value.

A typical in-house rollup takes between nine and 18 months and includes the following steps:

- Hiring employees
- Research and architect systems
- Refine and map processes to systems
- Integrate and train users
- Configure, move and test data
- Optimize F&A



With Consero's roll-up platform, the first four steps have already been completed, which reduces the roll-up timeframe to just one to two months. On day one after the acquisition, companies have GAAP and ASC 606-compliant financials and books are closed timely and accurately. The standard close time is 10 business days, and this can even be accelerated in some circumstances. All of this is done 20-40 percent cheaper than managing in-house

Successful M&A Case Study

Trey Chambers is the CFO at Idera, a B2B software company. Most of the company's value, he says, was created through M&A. Idera has completed 28 M&A deals of all sizes over the past six years.

"We do deals that are strategic and opportunistic," he said during a recent webinar. "We're not afraid to get over our skis on a deal with higher growth, or if we have to pay up to buy a strategic company or do a value deal if we can improve a company's profitability and keep the top line growing."

Idera is now focusing on bigger deals, said Chambers, because small deals are just as hard, if not harder, and they don't have infrastructure or processes in place. "We know we can improve a company's bottom line by 20-30 percent using our operating model in less than six months," he said.

Fast integration is critical to M&A success, said Chambers. All deals are in their financial system in 60-90 days and synergies are completed in 90-120 days. "You have to run to the future," he said. "Don't delay the pain."

Chambers credits Consero with much of Idera's M&A success.

"They're a big part of what we do from an integration perspective," he said. "Their dedicated team knows how to get companies off their existing systems onto their tech stack. That's a big reason why we chose to work with them, and it has worked out really well."

Preparing for the Rebound

Keith Collins is a managing director at Seaside Equity Partners. He acknowledged the slowdown in M&A activity over the past couple of years. "It has been stunning," he said during a recent webinar. "The annual deal volume in the U.S. fell from a peak of $1.9 trillion in 2021 to $0.9 trillion during the first three quarters of 2023, or about a 40% drop annualized. However, the number of deals is only down about four percent, which indicates that larger deals aren't getting done."

Collins is optimistic about M&A deal volume picking up in 2024. "The best indicator looking ahead to 2024 is the number of NDAs being processed, which were up 20% in both the second and third quarters of 2023," he said. "This puts us back in line with where we were during the 2021 peak, so my expectation is for a healthy pickup in deal volume in 2024."

Chambers is also excited about 2024. "One problem has been that with so few deals being done, it's hard to determine the right market value. Once more deals are done, things will be easier."

When asked about the biggest keys to M&A success, Chambers replied: "This might be obvious, but the biggest keys are to buy the right company at the right multiple and be patient. We have passed on or walked away from more deals than we've done. You can't get deal fever. If something doesn't smell right, it's usually worse than you think. There are always warts so find them before the closing."

Chambers cautioned that sellers always want to move fast because time kills deals. "But make sure you do the work," he said. "Results matter so fast integration is critical. You need an integration playbook with checklists in place because every deal has its own variables, but the base integration is similar across most deals."

Collins believes that the tracking side of things often gets lost in M&A deals. "A + B = C might look great on paper, but actually being able to track through to the plan can be challenging," he said. "If you're doing deals that are expected to drive synergies, tracking to figures makes a world of difference down the road."

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> **- Trey Chambers, CFO of Idera**

Sourcing M&A Deals

Once Idera had a few deals under their belt, they created a business development team. “At that point, we knew that M&A would be our bread and butter,” said Chambers. “Our biz dev team is constantly working our pipeline of deals. We know who the big players are in our spaces and stay in contact with them, as well as with investment bankers. We also get a lot of ideas from PE sponsors, so there’s no lack of deal flow.”

“The Nirvana in private equity is a deal that’s off-market or proprietary, but this doesn’t often happen with $100 million-plus companies,” said Collins. “For us, it’s a matter of hitting the floor at conferences and talking to different people, including brokers, and building a pipeline. It can be a long sales process, for sure.”

How Consero Can Help

Consero has been involved in more than 100 mergers and acquisitions over the past decade. During this time, we have developed an M&A playbook to help guide companies through the process.

Visit Consero Global online at https://conseroglobal.com/request-a-consultation/ to learn more about how Consero’s roll-up platform can help you complete add-on acquisitions faster and more efficiently.

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Consero is great at onboarding new companies since everyone that moves to their platform is coming from another platform,” said Chambers. Consero moves those companies to the platform efficiently, which allows us to focus on the business.

- Trey Chambers,

CFO of Idera