

On-time treasury: the M&A transformation opportunity

In the wake of the mergers-and-acquisitions (M&A) fervor of 2021, the current climate may seem subdued. Nevertheless, inflation and higher interest rates are redefining the economic terrain and creating new impetus for restructuring. Now is the time for treasurers to build agile processes and systems to enable M&A activity.

Throughout this series of articles, we have promoted meeting a need when it is needed—from the implementation of real-time payments to the data flows redefining cash flow forecasting. The aim is to neither be driven by hype nor stand still as technology and competitors move forward. For treasurers facing the prospect of acquisition or divestment, the needs are changing.

Margin pressure, created by inflation and higher interest rates, is a catalyst for change. At this point in the economic cycle, with a demand for efficiency, the paradigm is shifting from aggressive growth and technology acquisition to strategic reorganization.

Escalating funding costs are also changing the financial dynamics. Our last article in this series highlighted that working capital has once again been thrust into the spotlight as treasurers seek to optimize internal sources of cash. For M&A activity, which tends to add debt to a firm's capital structure, funding efficiency is becoming even more critical.

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career-defining opportunity for most treasurers

For treasurers in the role of trusted advisors, the expectations are vast. They start with strategic financing structure, liquidity and foreign exchange risks, and continue to safeguarding assets through deal execution and the integration of people, processes and technology. While integration may represent the lion's share of effort, the strategic acumen of treasurers becomes the defining hallmark that sets them apart. Indeed, each M&A transaction presents a career-defining opportunity for most treasurers.

In many cases, treasury may not be involved in the very early stages of a deal, so the challenge lies in how treasurers can ensure their contributions and treasury's capabilities align with the needs of the moment. The answer lies in preparation that creates operational and digital agility based on on-time principles.

Planning for speed and agility

The key is speed and agility in processes and the ability to leverage technology to adjust and control processes through the M&A transaction. The speed of integration is a critical success factor, as delayed integration can erode many of the deal benefits. At the same time, agility allows treasury to adjust to the last-minute structuring and balance sheet changes that are inevitable in these dynamic transactions.

Key takeaways

- Margin pressure and the demands for efficiency are shifting the drivers of M&A activity from aggressive growth and technology acquisition to strategic reorganization.
- For treasurers, the demands of an M&A transaction are vast and offer a career-defining moment for strategic input; however, planning is vital.
- Operational capability defined by speed and agility and built on the principles of an on-time treasury will create the flexibility needed to balance the strategic and operational needs of a successful M&A.
- An M&A transaction offers the opportunity to consolidate banking partners to improve process agility, while the right technology and data solutions can streamline a transaction and strengthen risk management and control of cash flow.

This necessary agility is underpinned by operational transparency and capability—automated systems and processes with planned flexibility and redundancy. Such an approach negates the need for constant reengineering as criteria shift.

Longer-term integration's impact on cash, securing control of new entities, and effectively managing transition service agreements also underscore the importance of meticulous control work. In the quest for control of cash flows, there are a number of critical decisions: centralization versus decentralization, transitioning accounts receivable and payable, and determining the right time to deactivate redundant ERP systems.

To answer these questions strategically requires the basic principles we have proposed for an on-time treasury

To answer these questions strategically requires the basic principles we have proposed for an on-time treasury—transparency of workflows through effectively applied data that leads to an understanding of operational capabilities and the touchpoints for each enabling technology.

Control through data and technology

Acquisitions tend to add more financial technology into the mix, complicating the process. Yet, despite treasury technology often being an afterthought in the transaction, with the proper planning, technology solutions can streamline the transaction and add significant value.

For instance, the need for agility has driven demand for multiple-entity and multiple-currency notional pooling that is available in Europe and Asia. These solutions add flexibility to the funding structure of an M&A transaction while improving FX management and the repatriation of funds from subsidiaries.

Virtual account technology also adds value through the M&A process by accelerating the integration of bank accounts and cash flows. A virtual account set up by the acquiring treasury in the name of the acquired entity means less work post-transaction, and customers only need to change their bank account details once.

For more advanced treasuries that are already operating pay-on-behalf-of structures, virtual accounts offer the opportunity to accelerate control of operational cash flows and improve risk management through the transaction. With virtual accounts, the acquiring entity's payment engine can be used to validate and process payments via a virtual account held by the acquired entity. This maintains existing naming and reporting capabilities while enabling the acquiring treasury to validate and control payments before they are released, creating a double control to manage funds through the critical transaction event.

Agile banking for process optionality

An assessment of the technology solutions that will enable M&A transactions quickly leads to the evaluation of banking partners, with the question of how many banks will be injected by a new entity and how any new geographies will be managed.

This is an opportunity for consolidation. In any process, fewer moving parts are better. So too, having fewer banks that can achieve the same level of capabilities while managing counterparty and operational risk creates a more agile operational process.



Best practice for global capabilities is often to combine a maximum of four or five regional core banks to cater to all basic needs with a limited number of smaller banks or providers for niche countries or services. The M&A process is an opportunity to strategically review counterparty and operational risk, as well as future technology investment roadmaps, to ensure the mix is refined with trusted and secure partners that will add long-term value.

Given the number of moving parts in any acquisition or divestment, treasurers will rely on a core set of advisors and partners to help balance the strategic and operational demands. From strategic financing to ensuring the right level of data and the right systems to create control, speed and agility, Bank of America is investing in the digital infrastructure and M&A know-how to support our clients through these defining transactions. Speak to your relationship manager to understand how our global capabilities and treasury advisors can help you prepare for M&A opportunities on time, which is now.

This series of articles and podcasts will highlight the key misconceptions and opportunities of on-time treasury. We trust you will find this frank approach refreshing. Speak to a Bank of America representative to understand our practical approach to on-time treasury, led by our treasury advisory group.



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