



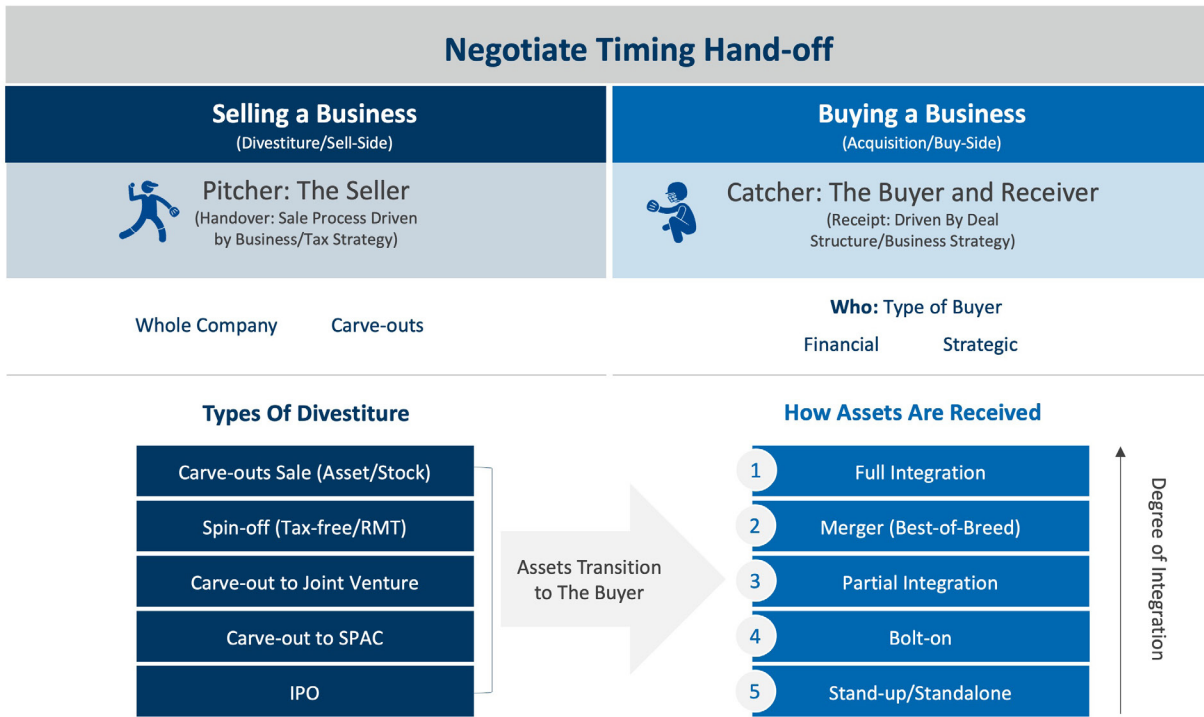
Demystifying the Role of an Effective Transaction Management Office

Effectively managing a merger, acquisition or carve-out through its lifecycle is critical to ensuring that strategic plans are executed appropriately and are tracked through completion. While the executive team will provide strategic guidance and executive accountability, the responsibilities of day-to-day management of the transaction traditionally fall to the Transaction Management Office (“TMO”). The TMO’s goal is to ensure that M&A transactions are executed successfully, on-time and within budget while protecting stakeholder group interests (shareholders, customers, suppliers, employees), minimizing risk, maximizing value creation and providing cross-functional visibility on progress. An effective TMO must be capable of overseeing the transaction through its life cycle, ensuring that the deal progresses smoothly and efficiently based on the “best-laid plans.” This article focuses on the key factors that contribute to the success of a Transaction Management Office, the advantages of end-to-end management in creating value, and the typical risks associated with incomplete management of M&A transactions.

In our experience, it is common in the industry for M&A professionals to term the deal office as the “Integration Management Office” (“IMO”) or the “Separation Management Office” (“SMO”) as if all transactions are neatly divided along these two lines. More often, transactions are more complex and there is a need to be thoughtful about deal nuances, especially in complex transactions that may have some combination of sell-side carve-out and buy-side integration considerations. We have seen recently a growing complexity of transactions because of the volatile nature of deals, as buyers and sellers look to maximize deal value while ensuring that their strategic priorities are met (e.g., new market

penetration, access to improved distribution channels and footprint, rapid cost synergies, free cash flow). We often see companies and private equity firms being creative with their transactions (e.g., purchase and divest simultaneously, rapid turnaround for improved multiples) and look to make strategic decisions on ideal-state intent for the transaction at the time of the target identification and due diligence efforts in order to justify deal value. By standing up a management office earlier in the process with a team that works across the spectrum, both parties can stay ahead of potential risks and pitfalls that may often get overlooked as major deal milestones loom.

Figure 1: Understanding the Two Sides of the Transaction



Transaction Types

Transaction types vary significantly depending on the strategic rationale of the buyer and seller, as well as the target end-state visualized for the new entity (Figure 1). Based on the nature of the divestiture, as well as the perceived level of integration expected within the buy-side entity, an effective TMO should consider deal nuances and highlight the key risks, mitigations and upside potential for the target end-state envisioned.

End-to-End Deal Cycle Overview

The graphic below (Figure 2) indicates the typical types of activities that are often considered over the course of a transaction’s lifecycle. A key item to note here is that the typical players involved in each of these phases vary significantly over time. Ensuring connectivity from early stages of a deal cycle — from strategy through diligence and planning, and eventually through execution and transformation — is crucial for deal success.

Figure 2: End-to-End Deal Cycle

Pre-Close			Post-Close	
LETTER OF INTENT	SIGNING	CLOSING	DAY 100	
Strategy	Value Creation & Diligence	Planning	Execution	Transformation
<ul style="list-style-type: none"> • Valuation Services • Investment Banking • M&A Deal Sourcing • Industry Investment Thesis • Portfolio Strategy and Review • Transaction Strategy • M&A Process Review Across Deal Continuum • Tax Planning • Go-to-Market Strategy & NewCo Positioning • Data Room Preparation 	<ul style="list-style-type: none"> • Buy-side Financial Diligence • Sell-side Financial Diligence • Commercial & Market Diligence • HR and Benefits Diligence • Tax Diligence • IT Cyber Security & Technology Due Diligence • Operational Diligence • Stand-alone Model Design & Costing • TSA & Synergy Analysis • Operational Separation Assessment & Strategy • Negotiation Support & Sale/Purchase Agreement Review 	<ul style="list-style-type: none"> • Fairness & Solvency Opinions • Day 1 Readiness • Organizational Design & Assessment • Integration/Separation Management Office (“IMO”/“SMO”) • Functional/Value Driver Design & Planning • Synergy Capture Planning • Transition Services Agreement (“TSA”) Development • TSA Governance • Operating Model Design • Customer Experience • Clean Room Services • Announcement Strategy & Transition Communications 	<ul style="list-style-type: none"> • Separation Execution & Legal Entity Stand-up • Functional Playbooks & Day 1 thru Day 100 Plans • Quick Wins & Synergy Delivery • Purchase Price Allocation & Valuation, Net Working Capital Adjustments • Interim Management-OCFO • TSA Operationalization • TSA Exit Planning • NewCo Launch Communications • Debt Capital Markets / Investment Banking • Day 1 Stabilization & Cut-over • Stranded Cost Planning • Change Management 	<ul style="list-style-type: none"> • Transformation Management Office (“TMO”) • Revenue Growth • Sales Force Effectiveness • Sourcing and Procurement • Supply Chain Optimization • Finance Optimization • HR Optimization • IT & Data Optimization • Shared Services Design & Outsourcing • Culture & Communication Strategy • SG&A Platform Optimization • Real Estate Optimization • Operational Handoff • Lean Six Sigma

Pre-Sign

As competing priorities take up the bandwidth of an often close-knit group of individuals that may be aware of the potential transaction, setting up and staffing a formal Transaction Management Office is frequently conducted late in the process (typically between signing and close). Prior to signing, the corporate development team manages the ins and outs of diligence, negotiation, and ultimately signing. Their focus during this time remains on identifying, negotiating and closing the deal while ensuring that the deal models and associated risks are validated. These are crucial steps in executing the deal executed, but there are often overlooked:



Speed of execution: Detailed knowledge gained during deal negotiations can be lost or may lag in terms of a formal transition to a TMO lead (if identified too late in the process), unless properly documented and transferred. Speed is critical to any transaction, and time lost bringing others up to speed is not time that will be picked up later in the process.



Knowledge continuity: The TMO brings valuable and tactical knowledge to deal model assumptions, eventually tying the deal assumptions to synergy or stand-alone costs required for successful execution. Past experiences of delays, failures and successes can help validate or mitigate items identified in diligence that may impact the overall deal model.



Prioritization: The TMO can provide perspective on what needs to be prioritized and when. For example, in a carve-out that will soon be integrated, knowing when to start clean-room analysis can expedite important commercial and procurement synergies. Time is crucial to producing value while ensuring rapid cultural change, and the TMO is a key lever towards enablement.



Diligence Inputs for Deal Valuation: The TMO can also act as the key conduit to bring together detailed diligence (often segregated across financial, commercial, tax and operational diligence workstreams) in order to understand potential headwinds (one-time or recurring cost considerations) or tailwinds (synergies) to account for, as well as transition services to negotiate to get to a realistic valuation for the deal, which may be a key factor for getting the deal signed. An effective TMO often acts as a validator to ensure the end-to-end diligence story is well-connected and helps break down silos that may naturally occur during the process.

Sign-to-Close

Once the deal is signed, the more traditional aspects of the TMO begin to take over. Typically, this involves the following activities:

- A **TMO governance structure** is rapidly stood up and a **reporting cadence** is established for inter-workstream connectivity as well as executive updates.
- **Functional workstreams** are identified, and they begin to create their charters, project plans and Day 1 checklists.
- A **communication and change management** team begins to outline the key messaging for employees and external stakeholders.
- The workstreams begin to rely on the TMO for providing the right level of **instruction and visibility** to complete their own functional requirements.
- The TMO leads and facilitates the core activities around **designing the target operating model**, outlining the processes, organization and technology required to deliver its product and services. The TMO acts to bridge the deal assumptions with the day-to-day practicalities.
- The TMO also facilitates **cross-functional conversations** around important sign-to-close milestones—for example, a cross-functional roadmap, current and target-state operating model design (process, organization, system, metrics, governance), Day-1 planning and execution—to ensure that functional teams are working at the right cadence and level of detail, and provide the opportunity for cross-functional interactions and dependences.
- Lastly, the TMO spearheads **validation of key synergies and/or costs** (one-time and recurring), interacting with functional leads to drive execution accountability. Depending on data sensitivities, the TMO's role could be crucial in this process, since some of this information may need to live in a clean room environment in order to comply with legal requirements.

A critical aspect of deal success is the TMO's role around culture and change management, which is often spoken about in executive circles but eventually succumbs to tunnel vision focused strictly on Day 1 and Day 100 execution. Culture here is defined as the habits and expectations around how a business makes and executes decisions, and ensuring that those decisions stick without negative connotations made by key stakeholder groups (customers, employees, suppliers, shareholders).

Change management normally falls under the TMO umbrella as well, since the TMO has visibility on end-to-end plans across workstreams and can act as the central point of connectivity across all workstreams and initiatives. An effective TMO becomes executive management's eyes and ears, keeping them aware of the general sentiment around the deal and, through effective communication and addressing negative sentiment head-on, getting ahead of key risks that could derail progress. Based on the broad interactions across functional groups that TMO has visibility into, they often also play a role in talent assessment and organizational design, under the executive team's guidance and in alignment with the strategic blueprint for the deal.

As highlighted above, an effective TMO's role weaves through the entire pre-deal transaction and helps effect the progression from deal model and negotiations to effective transaction planning while maintaining stakeholder and executive visibility on progress, risks and mitigations.

But it does not stop there.

Post-Close through Transformation

Post-close, the TMO's role continues through the execution of the transaction, and at times even evolves into a "Transformation Management Office." Transaction plans often involve a heavy stream of activities in the early days of deal close (through Day 100 or Day 180), from both a functional integration/separation standpoint, as well as by delivering deal value in terms of synergies identified or standing up an independent entity in the case of a carve-out. The TMO's role in these stages helps maintain continuity of execution rhythm across functional tasks, standing up cross-functional initiatives to help deliver promised deal value and taking part in the day-to-day decisions required for continued progression to closure. In our experience, the execution pace during the first 180 days of a transaction has the highest correlation factor to meeting key transaction milestones. Slippage in the upfront phase of post-close activities results in significant loss of momentum, since longer-term transformation milestones are often dependent on the structural setups contemplated in the early days of the transaction.

Depending on the size and complexity of the transaction, the TMO's role and involvement in the post-close stage is heavily customized in order to help drive focus on priority areas that need to be tackled quickly, and it transforms over time.

Closing Comments

In setting up a transaction for success, it is critical to understand the vision and end-state of the transaction (including deal model assumptions and sensitivities) and then work backwards to plan for the step changes that need to be made to get there.

Speed and visibility are crucial for any transaction. Momentum builds on itself and creating an effective office to manage a complex transaction is paramount to realizing deal synergies and keeping line-of-sight on one-time and recurring cost needs. Minimizing hand-offs helps maintain continuity of business involvement; the more information (whether cultural or strategic) that can be identified and relayed up-front in a structured manner, the quicker the team can move into execution and realization.

Summary

Setting up a Transaction Management Office early in the lifecycle helps maintain continuity of knowledge base through to execution



The TMO's role is crucial in bridging the gap between strategic vision for the deal, and what it translates into at a tactical level to drive execution



An effective TMO consists of professionals who can nimbly deal with various transaction types and associated nuances, since no two deals are exactly alike



A TMO's role evolves significantly as a transaction progresses, and as such, it must have the ability to take on different functions across the lifecycle (data and analytics, project management, culture and change management, functional content expertise and facilitation, among others)



A successful TMO helps drive speed and visibility for the transaction across all stakeholder groups and make the changes "stick"

The two case studies highlighted below are included to:

- 1) Compare and contrast Transaction Management Office roles and usage in different client situations, which can culminate in drastically different results for the overall transaction
- 2) Showcase that the client's involvement and buy-in for the role of a Transaction Management Office is key to driving often-difficult changes that come with a transaction

CASE #1: SEPARATION MANAGEMENT OFFICE TO INTEGRATION MANAGEMENT OFFICE

FTI Consulting recently supported a \$1.7 billion transaction in the specialty chemicals industry where the acquirer had to handle the carve-out and eventual integration into its operations while maintaining the day-to-day business. The client had previous experience integrating companies, so ran their traditional playbook. The corporate development team created the deal model, ran the negotiations, managed the diligences, and eventually signed the deal. The leader of the Separation Management Office brought together all the back-office functional leads to prepare to support the new entity on Day 1. It should be noted that limited TSAs were offered, and very minimal back-office employees were coming with the transaction, so this was quite the herculean effort. About 30 days prior to Day 1, once the teams felt comfortable that the required support was set up, the “SMO” transitioned to new leadership with a business focus to lead the “IMO.” Because most of the back office was integrated on Day 1, the focus remained on implementing the commercial and procurement synergies identified during diligence.

As of Year 1, no commercial synergies have been achieved. So, what created the delay?

First, the numerous managers of the deal created false silos of decision-making. The deal rationale does not change from why a company signs a deal to how it will execute. The business needs to be in control from the beginning of the transaction, but in this instance, due to rational fears of limited support in the back office on Day 1, all pre-close focus remained on the admin functions. A more refined approach would have had two parallel paths managed under a single management office as the point of continuity throughout the process, allowing the business to focus on synergies and the admin function on enablement and compliance.

Second, one of the guiding principles used during a divestiture or integration is “do no harm.” A transaction takes tremendous energy, and the last thing management wants is to lose the day-to-day business as the working teams try to figure out how to put the new transaction together. What this frequently looks like on a tactical level is the sales and operational teams being engaged later and less often than the more traditional admin functions. The result is a delay in synergy realization.

An alternative approach that we recommend is to leverage a clean room at the start of the transaction. This team focuses on identifying the critical commercial and operational opportunities. The team has access to sensitive/ competitively sensitive data that the buyer cannot have access to. This allows for focus in identifying the opportunities and minimizes the distraction for the commercial teams. As the opportunities begin to be identified and then operationalized, the commercial teams can engage further. Using an independent third party can allow for focused workshops with the identified opportunities, minimizing time away from the day-to-day operations.

Last, cultural differences and differences in how decisions are made created significant delays. For this transaction, two distinct cultures existed: a heavily decentralized model in which the ones closest to the customer had authority to make big decisions, and a centralized model in a different geographical region that wanted all decisions to be made by consensus and at the corporate level. Change management efforts were focused on Day 1 and the new organization that would be announced on Day 100. The missing element required was during the planning phases: The centralized TMO needed to incorporate these cultural differences in the planning phases and create a pathway of decision-making. As a result, decisions were punted or delayed as individuals tried to understand who had authority. This created additional delays in the execution of the commercial synergies.

CASE #2: TRANSACTION MANAGEMENT OFFICE TO TRANSFORMATION MANAGEMENT OFFICE

In the second example, FTI Consulting supported a recurring client with a strategic acquisition of its biggest competitor in the modular space industry. The competitor had a diverse set of end-customer industries (including construction, commercial, industrial), and the acquisition created a combined entity of \$3+ billion in annual revenue and further diversified the client’s offerings and market reach.

Because of FTI Consulting’s continued relationship and history of supporting the client with past acquisitions, we were involved in the acquisition conversation early in the process. The engagement scope started small, with an operational and financial due diligence team working in close collaboration with the client’s Strategy and Corporate

Development leadership, resulting in the North Star target for run-rate synergies and a shortlist of strategic initiatives driving revenue upside.

Upon signing, the synergies team was able to maintain continuity on the engagement as the Transactions Management Office was stood up, establishing daily planning and execution cadence with functional towers, in addition to management of cross-functional activities. Ensuring transparency and effective communication across the six functional towers (F&A, HR, IT, Commercial, Central Ops and Field Ops) was further challenged by the engagement kicking off during the COVID-19 pandemic, in mid-March 2020. From project launch to its current state of post-merger integration support, all project activities and workshops have been conducted remotely. The TMO was quickly able to pivot its merger integration offering and capabilities to a completely virtual environment, delivering what are usually in-person and highly interactive meetings in an online format that utilized a mix of digital communication tools. Additionally, the TMO aided in partnering with cross-functional teams to work on scoping and planning key value driver initiatives for long-term revenue enhancement and cost improvement. What worked well in this situation was the participation of the client's Strategy and Corporate Development team members as leaders of the TMO, helping maintain the knowledge base pre-deal and bring it into execution mode during the sign-to-close phase.

This transaction was especially complex, given that it incorporated a technology transformation component running in parallel with the integration as the client migrated from a legacy system to a new ERP platform. The TMO aided the transformation by actively partnering with

the business teams to support scoping and blueprinting activities, acting as a business liaison to provide a bottom-up validation of system requirements.

Post-close, the TMO continued to provide post-merger integration support activities, retaining the structure of the management office to oversee activities from a program management standpoint. This program management support extended from post-close through post-cutover hypercare of the ERP implementation, allowing for more in-depth coverage and coordination of business and IT activities. In addition to the ERP workstream, the TMO also played a light-touch program management role to advance the HRIS, Reporting/Data Warehouse, and Hyperion implementations through post-cutover.

Upon a successful ERP implementation after a year, the TMO shifted to a "Transformation Management Office" role and focused on leveraging the new system's capabilities and data on offer in order to drive a series of operational excellence initiatives. These initiatives focused on improving the process and structure of day-to-day operations for the client's network footprint and had additional tactical improvement considerations around pricing strategy, spares and materials accuracy and visibility, invoicing analysis, and working capital improvement, to name a few. The vast and varied nature of the operational excellence initiatives exemplifies the diversity of problem statements that an effective TMO may be able to help with.

This case highlights the importance and added value of a Transaction Management Office in terms of breadth and depth of capabilities and the coverage that it can provide, as well as how its role and focus vary over the course of the transaction lifecycle.

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