

How digital tools are helping unlock M&A value

Companies pursue mergers and acquisitions (M&A) as a way to drive value, but, for a variety of reasons, the end result may not always meet expectations. Given the expanding array of digital tools available to help address the M&A process, however, CFOs now have the opportunity to not only play a greater role in M&A strategy, but also guide such efforts toward success.

CFOs, it seems, are already starting to deploy such tools as they take a more digital approach to deal-making. The 2018 [M&A trends report](#)¹ by Deloitte, for example, found that a majority of

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respondents (63%) use tools other than the trusty spreadsheet to address a variety of M&A-related tasks, including streamlining integration and reducing costs. Of those who are not using these new tools, 62% plan to tap into them in pursuit of the aforementioned benefits.

Why the apparent growing interest in digital M&A? As we head into 2018, the factors that have been driving M&A for the last few years—low interest rates, inexpensive financing, healthy balance sheets, and an economy that's growing at less than 4%—remain intact. To win in this

environment, CFOs may need to leverage tools that can help their companies gain advantages in speed, efficiency, and value creation. And in this issue of *CFO Insights*, we will discuss how the expanding array of digital tools can be used at different stages of the M&A process. ➔



Digital M&A: Propelling the CFO to the role of strategist

The advent of these digital tools is fortuitous in several ways. For starters, they can provide a way for CFOs and their deal teams to keep up with the heated pace of M&A. The 2018 M&A trends report found that both corporations and private equity investors anticipate brisker M&A activity in 2018 versus 2017, and 2017 represented an uptick from 2016. In fact, while companies surveyed in *Spring 2016*² chose “organic growth” as the most likely use of their cash at the time, the most recent survey found that M&A is now the top choice, cited by 40% of respondents.

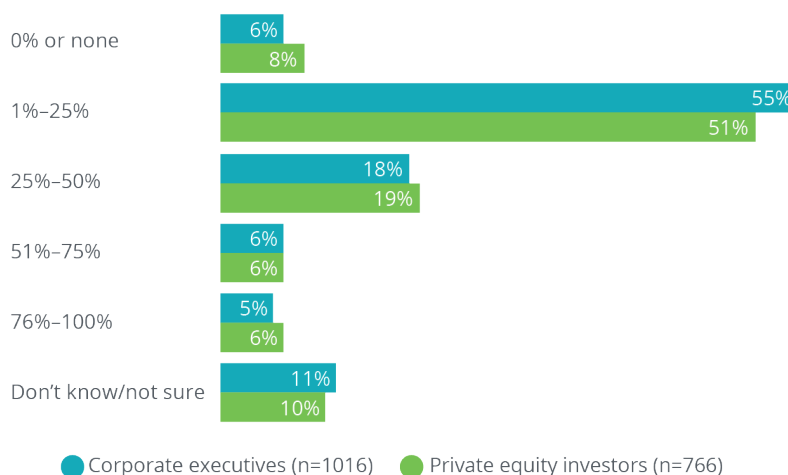
These new digital tools may also help CFOs play a more strategic role in M&A. While senior finance executives have long been involved in the execution of M&A, their traditional responsibility centered around post-deal integration. Today, however, CFOs are approaching M&A from a more holistic perspective, getting involved in the earliest stages, by helping to identify acquisition targets, articulating the thesis behind proposed deals, and addressing due diligence in a broader context. As deals progress, they are also heavily involved in keeping them on track, monitoring anticipated synergies, and taking ownership of the *entire* integration process.

Meanwhile, given how company valuations have risen in the current bull market, the pressure to deliver value is becoming more intense. That fact is not lost on CFOs. Consider, for example, that in the *Spring 2016* survey, 40% of respondents said that more than half the deals they completed did not deliver the expected results (see Figure 1). While that statistic has fallen to 12% in the most recent survey, there is still plenty of room for improvement. More than half of corporate respondents (55%) said that up to a quarter of their deals fall short of meeting or beating expectations.

While leveraging digital tools is no guarantee of increased deal value, survey respondents indicated that these technologies make post-integration run more smoothly, reduce costs, and shorten the time to completion. Those attributes

Figure 1. Deals are working better

What percentage of your M&A deals are expected to generate a return on investment?



Source: *The state of the deal: M&A trends 2018*; copyright © 2017 Deloitte Development LLC

may be particularly useful in cross-sector deals in which the companies involved play in markets that are, at least for now, somewhat different. The 2018 M&A trends report found that respondents in some sectors fully expected to see increased convergence between various industries. In financial services, for example, 38% of respondents predicted that private equity, asset management, insurance, real estate, and banking and securities companies will likely converge. Life sciences and health care also ranked high as sectors primed for convergence, and many expect to see retail and technology firms combine. In such an environment, target identification alone may benefit from new digitally driven approaches.

Stepping on the accelerator

Digital capabilities can be applied to M&A activities in a number of ways. Many CFOs are familiar with virtual data rooms, for example, that can provide a secure online environment in which team members who are not co-located can nonetheless review the increasingly voluminous amount of data associated with potential targets. Cloud-based enterprise resource planning (ERP) systems, meanwhile, can provide a way to simplify an often complex facet of integration, the merging of disparate enterprise software suites. **Natural language processing** can help deal teams analyze vast numbers of contracts and other documentation in a highly automated

fashion, and **data visualization** can help reveal the stories behind the numbers. Out there on the cutting edge, some consumer products companies are now using crowdsourcing as a way to identify potential acquisition targets.

Meanwhile, a new class of digital tools can be applied directly to the core activities of target research, valuation, and post-merger integration, as well as address so-called soft disciplines (i.e., employee engagement and corporate culture enhancement) that once seemed outside the scope of technology.

Consider how the following five tools (all Deloitte) can help accelerate a wide variety of essential activities across the full M&A lifecycle (see Figure 2).³ These solutions illustrate how consistency, accuracy, and reliability can be applied to the substantial volumes of data that are critical to each phase of an M&A transaction. In addition, their capabilities are further enhanced when they are integrated into an end-to-end system:

Digital target screening: As its name implies, this tool provides a way to narrow down a target list to the most viable acquisitions. It incorporates data from external sources in order to review industry trends, compare the growth paths and financial profiles of various potential targets, and refine the list based on user-defined criteria determined by the

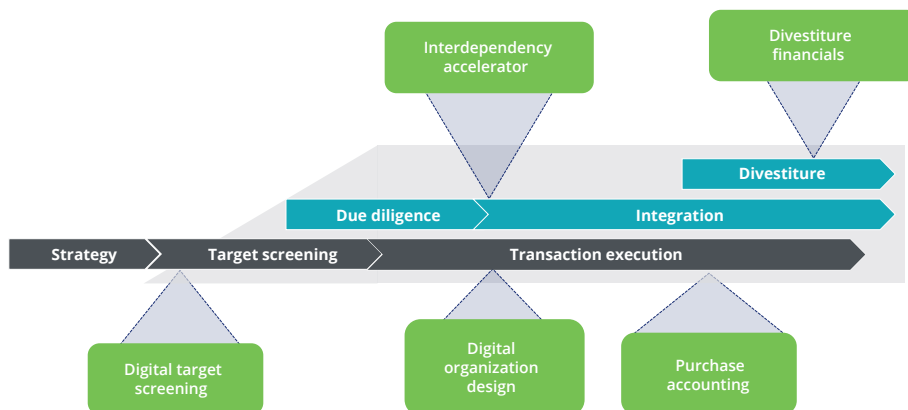
underlying acquisition strategy. It can also simulate real-world acquisition scenarios to enhance discussions around growth pathways. One large biotech organization used this tool to narrow a universe of 350 potential acquisitions down to about 10 in just a few weeks, allowing the company to quickly progress to substantive discussions with that smaller list much earlier than expected.

Interdependency accelerator: Large transactions entail many dependencies between functions and work streams. To keep such projects on track, M&A teams may need to account for these dependencies across hundreds or even thousands of milestones. Using data visualization to highlight critical path milestones, the interdependency accelerator provides a means of aggregating hundreds of work plans to deliver insights on key risks, issues, and cross-functional dependencies for both acquisitions and divestitures. The accelerator relies, in part, on a database of comparable industry roadmaps to reduce the set-up time for interdependency discussions. In a matter of hours, one large technology company involved in a global acquisition was able to use this tool to focus on thousands of milestones while identifying gaps and developing mitigation plans to address them.

Digital organization design: Leaders can dynamically design the future-state organization and supporting structures by efficiently analyzing and addressing the key talent challenges that are critical to an integration. By using internal data and industry benchmarks that focus on leading practices, CFOs can create custom organization-sizing and costing models to facilitate workforce alignment based on post-deal goals, objectives, and the desired attributes of the new organization. After all, deciding who goes where not only has a substantial impact on the people involved, but determines the resulting culture of the organization. Digital organization design can help companies address the composition of the future-state organization in a mindful, intentional way that can help reduce or eliminate surprises.

Figure 2. Solutions and accelerators used across the M&A lifecycle

A variety of digital tools can accelerate the transaction and bring greater value to the organization



Source: Deloitte Development LLC

Digital purchase accounting: In the wake of an M&A transaction, streamlining purchase accounting can be complex, but the digital purchase accounting tool can automate several aspects of the process by aggregating and mapping relevant data to decrease the time required to prepare journal entries (including supporting documentation), calculate adjustments at required levels (and keep track of changes and impacts), and automate review and error-checking. When two large pharmaceutical companies combined, they used the digital purchase accounting tool to automate the creation of periodic purchase price adjustments, deferred tax, goodwill, and currency translation adjustments, as well as for supporting documentation and footnotes. As a result, they effectively reduced processing time from weeks to hours, while also reducing the potential for manual processing errors.

Divestiture financials processing: Because a robust M&A strategy may entail divestitures as well as acquisitions, organizations need to be able to create a detailed view of historical financials to create a clearer picture of the true drivers of the business. The divestiture financials processing tool automates the historical adjustment process to accelerate the creation of adjusted financial results. In some cases the process (as measured from data acquisition through audit) was reduced from six to eight weeks to just 10 days. By reducing the time to close, organizations reduce the time to value.


Deploying the solutions

Moving from familiar manual processes to unfamiliar digital tools may seem like a big leap. Some organizations justify the status quo by stating, “We have the bodies, so we use the bodies.” But as the speed of business intensifies, as M&A becomes an important strategic weapon, and as the sheer volume of data around a potential deal grows exponentially, the status quo may reach its logical limit.

Before deploying a digital solution, CFOs should conduct a careful assessment to determine how a given tool will enable some facet of the M&A process to be addressed faster, more efficiently, and/or more economically. Does the tool fit into the organization’s larger strategic approach to M&A execution? What are its data capabilities? Does it pose a security concern?

More specifically, consider how the tool fares when measured against five distinct dimensions of business impact: faster speed of execution, improved insights, lower reliance on manual tasks and/or low-value-add capabilities, improved data reliability, and enhanced collaboration. Generally speaking, this new breed of digital M&A technology does not require in-house specialists or intensive training, although there may be learning curves of various degrees involved. For the most part, these solutions automate and digitally enable core M&A processes.

That said, because these tools bring more speed, accuracy, and insights to a number of discrete processes along the

M&A continuum, deal teams can not only approach their responsibilities with more speed and accuracy, but extract more insights that can drive more informed, faster decisions. In short, these digital tools shift the emphasis from the transactional to the strategic aspect of the deal. 

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Still some deal headwinds out there

Although the 2018 M&A trends report suggests a number of positive signs for deal activity in 2018, it also reveals some headwinds, including:

- **Global economic uncertainty**, which again tops the list of potential deal obstacles over the next 12 months (although only 20% of respondents cited it as a concern), down from 26% a year ago. That drop may underscore the increased resiliency of companies and private equity firms to navigate through major global economic shifts.
- **Market volatility**, which was cited as a concern by 17% of respondents in the 2018 M&A report, down from 21% a year ago. This aligns with recent developments in financial markets, where the Chicago Board Options Exchange (CBOE) Volatility Index recently traded at its lowest historic level, amid relative economic calm.¹
- **Deal valuation**, which ticked down nominally as a leading obstacle, cited by 15% of respondents in the 2018 report, compared with 16% a year ago. Expectations around deal multiples remain relatively steady, as 41% (up from 40% a year ago) of respondents believe price multiples will rise for both private and public deals in the year ahead.
- **Interest rate concerns**, which dropped precipitously, down to 11% from 17% in the 2016 report. That decline may be tied to the fact that today's interest rates—despite a series of increases by the US Federal Reserve in 2017—are still quite low from a historical perspective.²

1. Michael Wursthorn and Riva Gold, "Stocks extend run of record highs; VIX at new low," *The Wall Street Journal*, October 5, 2017, https://www.wsj.com/article_email/asia-markets-mostly-higher-japan-stocks-lack-direction-1507171181-1MyQjAxMTE3ODAsNjgwNDY3Wj/

2. US Department of the Treasury, "Historical Treasury Rates," <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-LongTerm-Rate-Data-Visualization.aspx>, accessed September 30, 2017.

Endnotes:

1. Susan Dettmar, Mark Garay, and Russell Thomson, "The state of the deal: M&A trends 2018," Deloitte Development LLC, 2017.
2. Mark Garay, Trevear Thomas, and Russell Thomson, "M&A trends: Year-end report 2016," Deloitte Development LLC.
3. For more information on any of the Deloitte tools, visit <https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/solutions/merger-and-acquisition-services.html>.

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