

## M&A Views



### Deloitte M&A Views podcast: Transforming While Transacting

- Raed Masoud:** Welcome back, everyone, to *Transforming While Transacting*. The last time we connected, we talked about what a transformation can look like in the context of an M&A deal. And when might be a time to start working on end-state transformation. Today, we're going to pick up on talking about the value transformation brings into the context of a transaction. And I couldn't do this without inviting one of my good friends. Brian, it's great to have you here.
- Brian Pinto:** Thanks Raed, and it's awesome to be here, and I love doing these types of things with you. So just, everyone, I'm Brian Pinto, and during my 27 years of practice, I've served on some of our largest clients and worked on some of the most iconic deals. I'm a partner in our International Tax practice and serve as our US Tax TMT leader, as well as our M&A leader globally for tax and legal.
- Raed Masoud:** So in my mind, when you talk about how do you approach the planning of a transformation in the context of a transaction, I would say right at the beginning. Right at the start. You have to take it into account when you're starting to think about the actual value thesis or the value equation for the transaction itself. And it's not just from what the target brings to you in the form of whether it's markets or products or customers, but it's about how it comes together and about how you fundamentally change the nature of what you as a combined company are going to essentially do together to drive that value. And transformation underpins all of that.
- Typically, that starts to happen right at the deal strategy. If we're really talking about ideal, I would say right when the actual strategy is being formulated. So that's kind of my thought—you do it up front, you make it part of the deal, value equation, and use scenario planning to start laying out the different choice points.
- Brian Pinto:** One hundred percent aligned, Raed. I'll just add that we are starting to see these discussions being front-loaded in the deal strategy phase, or preacquisition. Folks are not waiting until integration to drive these strategies. And that's great because the surveys have been telling us that nearly half of the M&A deals did not achieve expected impact or value. And the number one reason that our clients point to is the lack of focus and attention that's given to execution and integration. So even absent a deal, we're starting to see the leading companies take M&A process as a means of approaching operational transformation. And why are they doing that? They're doing it because M&A teams and approaches tend to bring that rigor and discipline in managing multiple dependencies across the organization.
- Raed Masoud:** That's super interesting. I was thinking about that very topic in the context of then, if you're going to start this early, wouldn't you have prerequisites? Are there things that are the right triggers, the right set of foundational elements that need to be in place? To say, "Look, transforming while transacting is the right choice point"?

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**Brian Pinto:** Well, one prerequisite is that to make sure that if you're involving teams outside your organization, which is usually the case, you need a governance model that's incorporated for external standards and that'll help support that transformation.

**Raed Masoud:** I guess that leads us right down to value. So when you think about this word *value* in the context of a transformation, how do you define transformation value in the context of an actual M&A transaction?

**Brian Pinto:** Well, Raed, the value of a transformation in the context of a transaction should be defined largely similar to how we judge any transformation. Questions like, "Did we meet the objectives laid out from the onset? And did we deliver the promise of functional financial operational improvements? And were there any unexpected ramifications that arose from that effort?" For example, revenue and cost synergies or hitting certain timelines or milestones. And beyond that, there's a few other factors to consider. For example, did the transformation create or reinforce total deal value, whether through synergy realization or reduction to the timeline? So, acceleration. Were there new capabilities or technologies or market opportunities created that wouldn't have existed had the transaction not also been accompanied by transformation? And did the transformation allow the enterprise to retain certain assets that would've been shed otherwise?

Digital transformation is still the number one priority considered by companies. We see this in the surveys we put out to our clients. The digital transformation's driving the restructuring of business. It's enabling the scaling of new businesses, new products and offerings, and new business models. However, you're also seeing many companies missing the tools and resources—just as I mentioned a minute ago—and capabilities to transform organically. So they're going to look more and more to M&A as a launchpad to accelerate that transformation. Do you agree with that, Raed?

**Raed Masoud:** I definitely agree, Brian. I think there's this strategic definition of value, which you laid out with a very thoughtful set of questions, and then the practical capturing of that value. And that might be something we talk about in one of our next episodes, but I think there's the value that you plan and then the value that you capture. And certainly making sure that you can have answers to these questions as part of your planning seems to be, in my mind, spot on to making sure that you're setting yourself up for success. Now, as we think about success and we think about something as complex as transforming while transacting a deal, we've talked about value, we've talked about prerequisites, we talked about when you plan for it. Do you have any other thoughts, any other considerations that you think our audience, our clients, our colleagues should keep in mind when they're proposing on establishing or when they're thinking about transforming while transacting?

**Brian Pinto:** Well, Raed, you and I have worked long enough together to know that my heart is in tax, and so I believe that tax brings a ton of value to transactions.

**Raed Masoud:** I agree with that. I think you and I share a love of tax, even though I'm not the tax expert. But let's dig into more around that. What more specifically about tax would you say are some of the things that you think are important considerations? We've seen regulatory environment change with administrations. We've seen the world change around us in terms of just the footprint and trading structures and how that could potentially work. What else are you seeing?

**Brian Pinto:** Well, Raed, as you and I have seen on some of the deals we've worked on together, like any other part of an organization, tax leverages transactions to address some of their biggest priorities. So it's not unusual to see 20%, sometimes even more, of total synergy value being delivered by tax. And there's some recurring integration themes that our companies can leverage to deliver the most value. Now, let me give you a few examples.

So, just the tax operating model: When you're bringing together or separating two companies, when those finance departments are combining or separating, they're typically looking for tax savings and operational savings through automation. And it's a good time to assess and transform the organization. So what should be done internally? What should be automated? What should be outsourced? All that is consistent with the decisions being made across other parts of the organization. Tax alignment and the value chain is another one where we see a lot of value that tax delivers in deals.

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The business is already looking at operational supply chain synergies, to aligning tax, the location of the intellectual property, ensuring local and global physical substance requirements are met. That all helps to maximize tax savings. We just talked a lot about digital transformation. During a deal, companies tend to look at upgrading and integrating ERP systems.

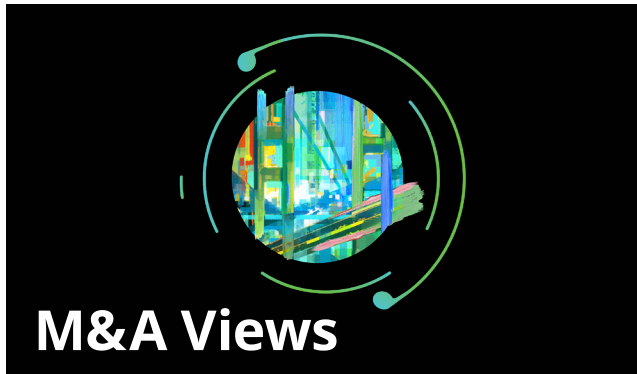
All these are right to team with tax, to optimize transaction taxes or impact on your global tax posture, amongst other opportunities, for tax to help self-fund transformations through tax savings. The other area would be talent mobility, talent synergies. And there's an opportunity to put a tax point of view around return to work and future of work. And also just looking at what is the new management structure to look across geographies? Are there opportunities and exposures associated with that?

**Raed Masoud:** Listen, Brian, you had me at self-fund the transformation. Do you think tax should be the most popular department in a transformation or the most popular functional group in a transformation with a promise like self-funding?




**Brian Pinto:** Well, Raed, I don't want to brag, but I do think that most people would agree that tax is the sexiest part of an organization.

**Raed Masoud:** Fair enough. And with that, that's probably a good point for us to say we've run out of time for today. Brian, I can't thank you enough for joining us and being on with us. To really sum it up, at the end of the day, it's back to our main point, which is transformations and transactions each can stand on their own, but when they can come together, they can definitely be multipliers of value to our clients and to their customers. And with that, we'll say goodbye till the next episode and look forward to speaking to you then.

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