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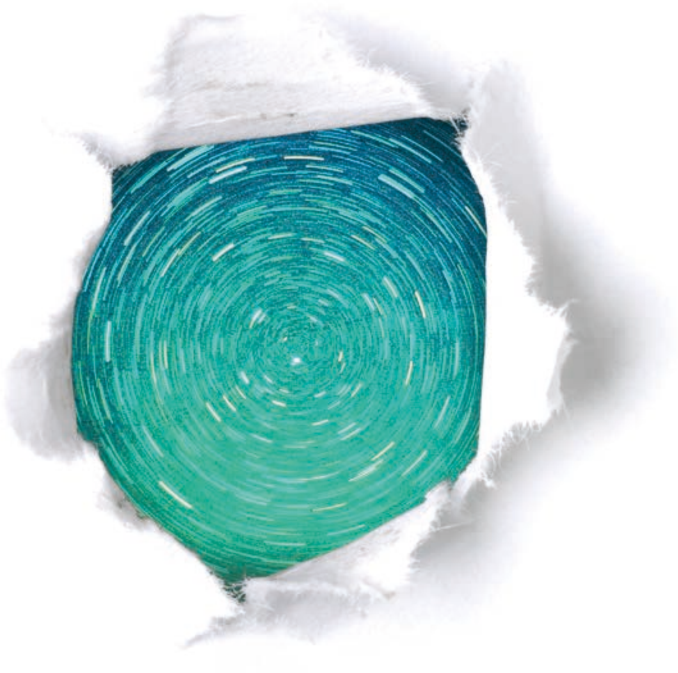

The impact of technology on M&A

The information produced by companies is greater than ever, and increasing. "Many estimate that the volume of data has doubled in the last two years, and it is forecast to double again in the next two," says Iain Macmillan, global head of M&A services at Deloitte.

"A few years back our diligence reporting would often be relatively standard in scope, culminating with a big presentation and our interface with the client might not be that regular," adds Macmillan. "But now technology is changing that. Transactions work is more of an interactive and immersive experience, in which we work more closely with clients through the transaction collaborating on their most important issues."

Matt Henderson, Deloitte transaction services partner, says the advances in data analytics means a full review of traditional approaches to due diligence: "Historically, we have looked at the last three years of a target's performance, and forecast for the next three years. Why? Because the last three are a good indicator of the next three? No. Because of the constraints of time, money, and information, we landed at that. We can now start to look at the target business across the cycle.

"We can look at much more data going backwards – which is something that our clients are more interested in doing, particularly for cyclical or regulated businesses. And we can look forward further as well. We can benchmark against some of its peers. Why are its margins better or worse? Can that be sustained or improved? We can perform some simulation analysis and scenario modelling. This all brings more confidence to deals getting done."

Henderson says there will not be a new norm to diligence approach, but rather a toolbox, which advisers can access to provide the detailed insight clients will now require.

"Many clients are used to using tech and expect us to be able to do similar things, and provide information," says Mark Steele, head of tech M&A at Deloitte. "We are on a constant learning curve, both in analytics, and how we communicate these answers to more complicated questions to clients."

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M&A

Macmillan says there is likely to be some rethinking on fees: "It is evolving. If you look across the M&A services spectrum, elements of what we do have always been less about hours, and more about value, and facets of that have become increasingly so over the years. Due diligence and transaction services are often based on hours. Technology will drive efficiency in terms of hours, but get to that, you must invest and develop a tech platform. It would be folly to think it will not have an impact."

There is also competition from pure data crunchers, rather than advisers providing understanding and interpretation of the data. "That is where we currently hold the trump card, but we have got to maintain that position and cannot rest on our laurels," says Deloitte's Steele. "With big data it makes even more sense for clients to use one organisation, and not drop the ball between financial and commercial, or financial and operational diligence. Big data is not the only driver, but causes clients to challenge whether it makes more sense, to use one provider across these range of issues, rather than control different advisers looking at different, (or even the same), datasets, and looking at them different ways."

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Iain Macmillan
Deloitte Managing Director – Global M&A Services and Transaction Services

Case Study

Deloitte have been deploying data analytics techniques in due diligence engagements for the last couple of years. One example was the recent acquisition of a portfolio of around 170 retail outlets.

The acquiring client wanted detailed insight into the relative financial and operational performance of the outlets across the portfolio, the key performance drivers, and a comparison between target and client performance. They also needed 'geospatial' analysis to identify sites at risk of Competitions and Markets Authority investigation post-completion.

Three years of weekly sales data, (over 25,000 lines), was overlaid with site data and site locations with open socio-economic, non-financial data, such as local population size, nearby amenities, social rating, senses data and other applicable open data. This created a comprehensive picture for each client and target location.

Within days, this data had been developed into a set of interactive dashboards, in tableau, which included:

- Financial snapshots of outlets with dynamic scatter plot, and data tables with key metrics.
- Interactive dashboards by outlet, with details of P&L, weekly sales peaks and troughs and financial metrics as a % of revenue.
- Target versus client financials, with a scatter plot.
- Analysis to outlets, which may be at risk of competition investigation, compared to client and other third party competitor data.

"The use of analytics in this assignment has undoubtedly allowed the diligence team to provide more insights to help the client's decision making process and is part of our desire to change the client experience," said Iain Macmillan.

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