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M&A Views

Deloitte M&A Views podcast: Finance Transformation: Driving value to your enterprise [Part 1]

Greg Jarrett: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest topics in mergers and acquisitions. I'm Greg Jarrett, and today, part one of a two-part podcast where we will discuss how M&A can act as a catalyst for finance transformation.

We're joined by Eric Capron, principal with Deloitte Consulting LLP, and Justin Sullivan, senior manager, Deloitte Consulting LLP. Thank you, gentlemen. Why don't we start with some market context, and certainly that context has changed over last few months. Eric, what type of M&A deal activity have we been seeing in 2019 and into early 2020?

Eric Capron: Coming into the end of 2019 and throughout 2020, the deal volume was pretty substantial and kind of continued to extend a 10-year period of pretty unprecedented activity in the space, but, as we all now know, with COVID-19, it's fundamentally shifted and changed the overall M&A landscape across almost all industries, and while the way executives are reacting by industry will vary, we are seeing some certain key themes starting to emerge, depending on the type of deal—in particular, existing deals that were in flight during COVID-19 when the lockdown started to begin. They are continuing to progress, but certainly with an air of caution, as executives are being a little more thoughtful on how they move forward.

On the integrations and acquisitions side, new deals are still happening, but they're being pushed out quite dramatically. So there were a couple that are still being announced, but for the most part, quite a few things are taking a little more time and being pushed out quite a bit more than we would have expected just a month or two ago.

On the divestiture side, we're still seeing those. Some of those are coming to fruition out of necessity to generate some funding that's similar to the integration and acquisition side. Those are also being a little more cautious, taking a little more time, and we are seeing also just some asset deals, again, where places that are just trying to either get some economy scale and pick things up, particularly where we're seeing restructurings and other sellers wanting to unload some assets, again, potentially out of necessity.

In terms of the types of buyers or players in the market, we're seeing strategic players that are still being opportunistic, and certainly on the private equity side, we're seeing a lot of thinking and opportunities being looked at, given there's been quite a bit of dry powder on the sidelines, and valuations are starting to look a little bit better, but there's still quite a bit of caution out there in the marketplace right now.

The one thing that is consistent now, even despite COVID-19, is that the types of transactions that people are thinking about, even though they're taking a little more time, they're a lot more complex. They're not simple tuck-ins or basic acquisitions anymore, and they're being looked at with an eye towards not only how to get the deal done, but how to actually drive even enhanced value creation out of the transaction, whether it's through operating model design, using it as a catalyst for technology transformation, looking how to take advantage of the tax footprint, and so on.

Even though COVID-19 has really changed the landscape quite a bit, the activity is still out there, but it is being looked at in more creative and more intense levels of scrutiny as people are thinking about how to do a deal and what type of deal to do.

Greg: Justin, we're hearing a lot about the relationship between finance transformation and M&A deal activity, so can you tell me, just how is M&A deal activity related to finance transformation?

Justin Sullivan: Yeah, absolutely. I mean, Eric really hit on the rising complexity in the nature of transactions we're starting to see in the market, and oftentimes, that necessitates the need for transformational efforts across the enterprise, but definitely for finance as well, either because of a need to achieve or realize synergy targets or because of technological or process-oriented barriers to integration.

On finance transformation—just to briefly define it—it can mean different things to each CFO and their respective organizations, but I would say, broadly defined, finance transformation is taking a comprehensive look at how to modernize your finance function or take it to the next level. And that could include a number of things. It could include the adoption of new systems, digital tools, things like automation to drive efficiency or mitigate risks. It could be the definition of an optimized organizational structure or talent strategy. It could be the optimization of your finance operating model, how best to leverage shared services or outsourcing. Or it could be the adoption of a new data and analytics strategy, really to drive better insights or enable better partnering with the business.

Getting back to the relationship between finance transformation and M&A events, M&A can serve as a great catalyst for change, an opportunity for a CFO and their organization or their leadership team to take a fresh look at how their finance organization can drive the most value for the enterprise. Now, also, with significant material M&A events, they're generally synergies associated with the transaction, or, basically, the ability to drive additional value beyond the two legacy, stand-alone companies. And those synergies are typically captured in two buckets: revenue synergies—things like cross-selling—and enablement of cross-selling, or cost synergies—things like general cost-savings opportunities that might exist across the organization.

Leading financial companies with strong data and analytical capabilities are awfully uniquely positioned to support the achievement of revenue synergies and, really, in a lot of ways, the crux of the M&A transaction, or the spirit or the driver for that M&A transaction. One example would be for a finance organization to enable cross-selling through metrics definition, tracking, reporting, etc. And in addition to that, finance can also enable enterprise cost-savings goals through a comprehensive finance transformation strategy to finding finance talent in an operating model, optimizing its finance technology portfolio, or rationalizing its systems or applications that it's leveraging, or by exploring the adoption or acceleration of digital tools. And a big driver that we've seen has been RPA automation, as well as natural language or cognitive tools.

Greg: Obviously, the desired outcomes of any deal would be increased value, increased productivity. Eric, can you tell me, how does transformation drive incremental value, at least in the context of M&A?

Eric: Yeah, sure. And Justin hit on a number of those, in terms of where finance can be additive or incremental to the overall value of the deal. I mean, I think it's no surprise, or it's not uncommon. We see it in a lot of places. I don't know the exact percentage, but it's a pretty healthy percentage of the number of deals that fail to fully deliver on the stated value or the stated synergies at deal announcement, for example. And a lot of that has to do with all kinds of reasons—just the execution of the deal, or the deal premise from the beginning.

But oftentimes, if you're going into a transaction, and you're executing a transaction, and you're not necessarily thinking about the transformational components, you're going into that deal perhaps not using or taking advantage of all the tools that you have available to yourself. And if you're thinking about doing an integration or doing a divestiture, and you add in the thinking around "How do I make sure I transform the data model, the information that I need to run the combined company or the divested company?", and you're thinking about that as you go into the deal, there's an increased likelihood that you're actually going to structure the financial processes and the financial data and the financial systems so that you get the level of information that you need to really make decisions about the combined or the divested company. And by taking that transformation view, you, one, get the metrics—the telemetry, if you will—to kind of understand where the business is going and quickly be able to help the company and the business react to get those synergies or the value capture goals that you set out for at the beginning of the deal.

But that's not all. If you think about all of that as you're doing a transaction and you're building those capabilities, you're building that strong foundation as a result of the M&A transaction, which you're already having to go through and rewire your systems and change your processes for anyway. But if you're doing it with an eye towards "What's the right information? What's the best decision that we need to make for the combined or divested company?", those types of decisions will play and create this foundation for better decision-making over the long term that will help you actually uncover additional things outside of the deal in terms of all the things that Justin was talking about—new revenue opportunities, new costs, upside potentials, additional places to optimize your supply chain, look for places to take costs out, look for ways to get information faster to your business partners.

Those are all things that can be jump-started or catalyzed or initiated by taking that transformation view as part of the transaction and adding that incremental value, which is both fuller realization of the deal rationale and the deal value in the first place, plus all the other follow-on benefits that you can have by having better financial information, better financial systems, and a better-prepared finance organization to serve and guide and support the business going forward.

Greg: Thanks, Eric. Thanks, Justin. You've certainly provided a lot for me and for our listeners to consider in part one of our two-part podcast on M&A and how it can act as a catalyst for finance transformation. I'm Greg Jarrett.

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