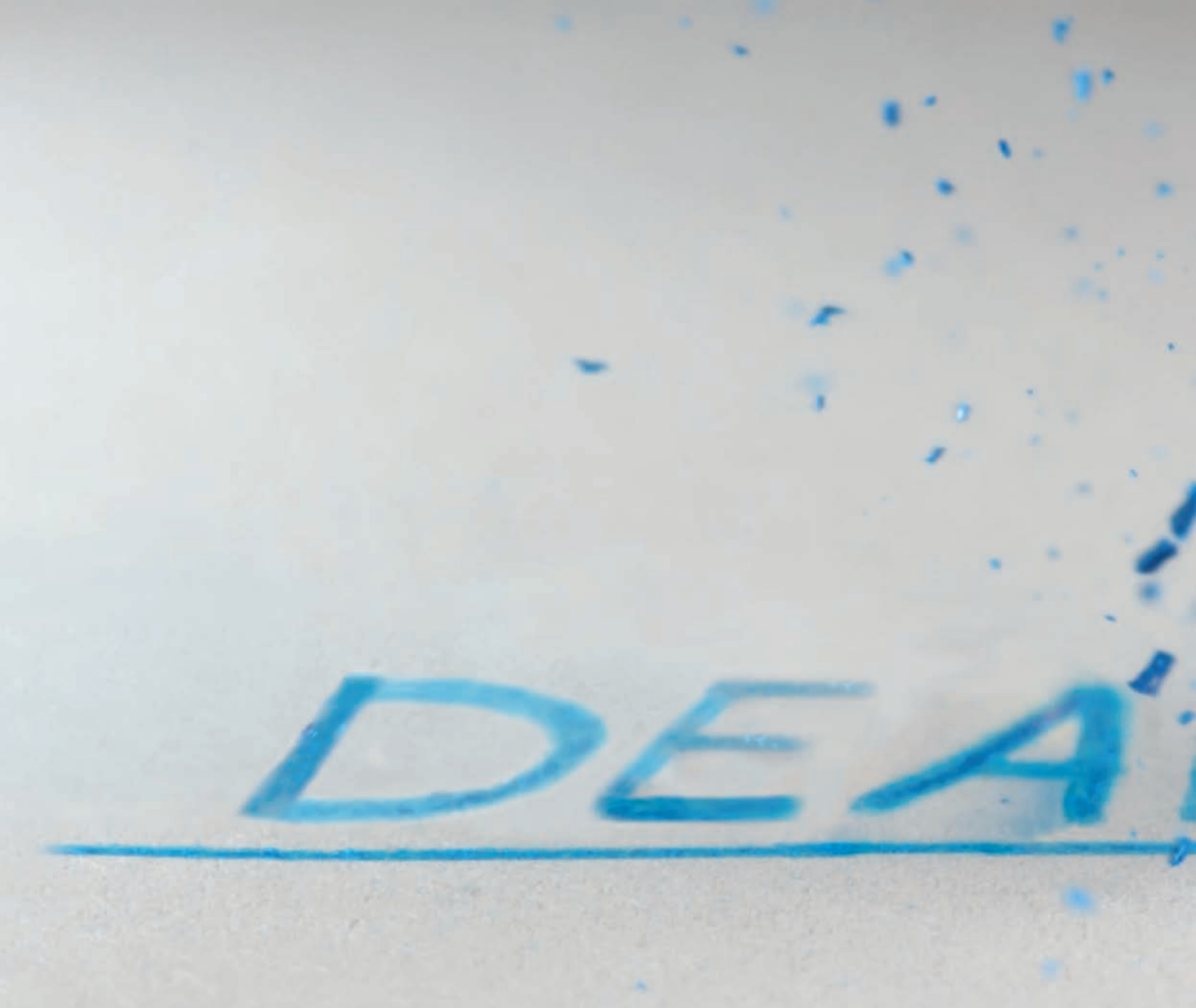

Deal maker or breaker?

Technology in M&A transactions

For some major companies in the Gulf Cooperation Council (GCC) countries, including leading banks and financial institutions, information technology (IT) is taking a more central role in the business, not only in delivering superior performance but also as a source of defensible competitive advantage. As GCC firms continue to grow through mergers and acquisitions (M&A), the requirement to invest in technology-driven innovation has increased the prominence and visibility of information technology to board-level attention.

Yet for many regional investors the inherent value and true cost of IT is often not assessed and captured within an M&A transaction. This is partly due to the traditional perception of IT as a back-office support function, but also because the specialist skills required in assessing the benefits of IT within a deal context are in rare supply. Research by Deloitte[1] has found that information technology can often be the largest cost category for organizations and the biggest enabler of synergies in an M&A transaction. Involvement of IT early and throughout the merger or acquisition process is often critical for effective execution and the subsequent realization of benefits.

What should investors look for?

Given the inherent value gained through effective leverage of IT operations, investors should consider the adequacy, benefits and risks of a firm's technology capabilities to discover any significantly material risks and identify inherent value. In the context of a merger or acquisition this would include the following:

- How does the target IT strategy align with its growth strategy? An investor should expect to see clear alignment between firm strategy and the role of IT in enabling or supporting implementation.

- Where is the investment in IT being directed? A firm's project portfolio should be oriented toward innovative new products and services (possibly leveraging emerging technologies or new service concepts) as well as initiatives to improve operational efficiency.

- Where is IT on the maturity curve? Are service failures or slow response times indicative of systemic operational problems and will these likely cause integration challenges for the acquirer? Leading GCC companies are investing in delivering mature, stable IT operations and infrastructure.

- Is IT leveraging resources effectively? In most industries, investors would expect to see firms that develop IT core competencies or strategic centers of excellence as well as leverage third party resources and specialist suppliers based on service demand.

> Involvement of IT early and throughout the merger or acquisition process is often critical for effective execution and the subsequent realization of benefits

Inclusion of technology diligence for a regional acquisition

For a leading UAE-based investment firm, inclusion of technology diligence provided deeper operational insight and commercially significant key findings for an acquisition target (a regional remittance services provider). This included the following:

- Capturing performance upsides, including synergy enhancements
  Identification of potential revenue enhancements through the adoption of new programs designed to provide new business services, along with alternative ways in which technology could provide significant value such as the development of interfaces between internal and third party regional banking applications.

- Accelerating delivery
  This involves an assessment of the current and forecast project portfolio, including business case reviews, alignment to strategic requirements and resource considerations.

  Translating existing and future business requirements into viable technical solutions is critical to IT program success and ensuring that demands of business users are met.

- **Identifying cost saving initiatives**
  Looking at operational and capital IT expenditure to determine key trends, performance relative to peers of similar size and operations and the key reasons for over-investment in IT.

- **Providing risk management and control**
  Identifying potential risks, issues and dependencies that could affect company operations, such as the reliance on payment technology services, adequacy and oversight of the customer information database.

- **Adherence to reputational and regulatory requirements**
  Assessing the firm's adherence to regulatory requirements including stringent checks undertaken for anti-money laundering and new client acceptance procedures as well as recording cross-border payment flows.

Incorporating technology diligence into the deal cycle

As GCC companies continue to grow and operate across multiple jurisdictions, there will be an ever increasing demand for the IT function to deliver innovative new products and services, improve operational efficiency and ensure adherence to all applicable laws and regulations. This is especially the case for companies who operate or have business partners in the highly regulated markets of Western Europe and North America.

Moreover, with automation becoming more pervasive and critical to business operations, it is imperative for investors to include technology considerations early into the transaction lifecycle, particularly in the due diligence phase. This will help not only avoid potential erosion of deal value but also uncover additional opportunities to realize operational benefits. For many new companies in the region, such as digital advertisers, online retailers (business-to-business and business-to-consumer providers), strategic use of information technology feeds into their business model and could be the deciding factor between deal success and failure.

> Given the inherent value gained through effective leverage of IT operations, investors should consider the adequacy, benefits and risks of a firm's technology capabilities to discover any significantly material risks and identify inherent value

Are you thinking about the technology implications for your deal? If not, you may not fully realize the value or risks in the business being bought or enhanced synergies that could be realized.

by **Zaid Selman,** manager, transaction services, Deloitte Corporate Finance Limited (regulated by the DFSA)

Endnotes

1. M&A Information Technology Best Practices, Janice M. Roehl-Anderson. September 2013