



Data & Analytics in M&A

A new weapon in the
modern deal maker's armoury



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Record share market prices are creating high price expectations in M&A, increasing risk for buyers and advisers alike.

There is greater competition between traditional and non-traditional bidders; both types of acquirers are sitting on record levels of cash to invest. Aggressive bidding wars have become the norm. As deal timelines continue to compress, bidders have limited time frames to evaluate highly sought after targets. Many acquirers are currently under tremendous pressure to justify high-multiple deals without the time to reinforce their investment case with the necessary conviction.



At the same time the landscape for M&A transactions is changing. The proliferation of data over recent years has yielded the opportunity for deeper fact-based due diligence insights. Increasingly, buyers are using quantitative and predictive insights generated in the due diligence period to support their value hypothesis, where previously the support would have been largely qualitative.

A recent KPMG Australia survey noted “Big Data opens up a new world of business opportunity for those ready to deploy and enhance commercial offerings on the back of new insights”

It seems the modern day Dealmaker is increasingly turning to technology to get the winning edge. This article explores how we see the most progressive and agile of investors leveraging data and analytical techniques as a new weapon in their M&A armoury.

Information challenges continue to plague buyers

Buyers in an M&A process are at an inherent information disadvantage, often with limited time to digest significant volumes of data to form a view on the opportunities and risks of the target, whilst in some cases navigating carefully curated data and messaging from the vendor and their advisers which tends to camouflage the negatives.

Despite today's more intense deal conditions, a large percentage of acquirers have not evolved their due diligence tools

and continue to rely on traditional, manual, and defensive methods of performing due diligence. Focusing on historical earnings and using data summarised in an Excel spreadsheet is not the approach that will yield results that companies need to succeed. Acquirers need to adopt a more sophisticated, technologically advanced and data-driven approach to gain a competitive edge in the bidding process and to realise a deal's full value post-close.

“Our M&A transformation agenda has been driven by the need to entrench, in our teams, tools that leverage increasing volumes of data and new technologies to provide superior insights. This is the new norm, clients expect us to push them to evolve.”

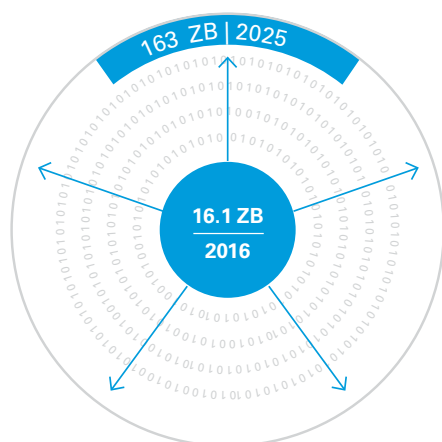
David Heathcote
Head of Corporate Finance,
KPMG Australia



Data like never before, but not all data is equal

The changing landscape of disruptive technologies and scope of digitisation continues to accelerate and expand into the 21st century. More data is being created today, than throughout preceding history in totality. A recent whitepaper estimates that by 2025, the global data sphere will be 10 times what it was in 2016.

Global data sphere 2016 – 2025



A myriad of data sets are created by companies often in a spontaneous and unstructured form, such as social media chatter, CRM data, user behaviour, customer service tickets and other transaction related information. Analytical techniques need to adapt to ensure the source, speed, volatility and perishable nature of the data is considered when obtaining and analysing the data for patterns or predicative characteristics.

External data, such as demographic information, geographic data, travel times, competitor locations is increasingly being combined with internal company data to create a holistic understanding of a business's potential. This is all useful information in helping Buyers identify levers of value and potential risks.

“This magnitude of change can be overwhelming, leaving many trying to redefine emerging challenges in familiar terms or double-down on proven, old behaviours. However, this new digital revolution era, like the major technology-fuelled eras before it, demands a new approach and with it the creation of tools/systems that can ingest, interpret and analyse data sets.”

Anthony Coops
KPMG Partner in Charge,
Lighthouse¹

1. KPMG's Centre of Excellence for Data Analytics.

+ Childcare case study

Existing portfolio

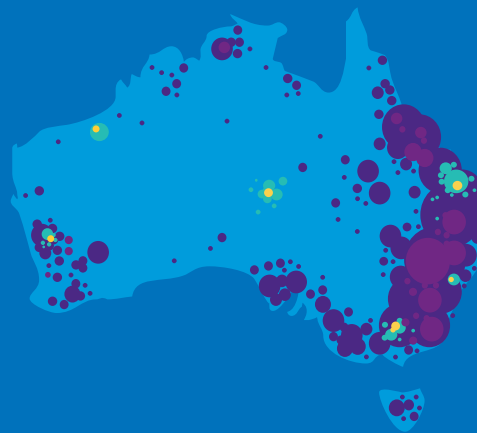
Internal information:

- Historical financial performance
- Childcare centre data (e.g. size, capacity)
 - Attendance information
 - Contract information

External information:

- Demographics
(affluence, # of working parents)
- Locations
(proximity to other centres, proximity to workplaces or modes of transport)
- Other publicly sourced information

Development/acquisition opportunities



As part of a recent process where KPMG acted on the sell-side for one of Australia's leading child care operators, millions of records of data were combined from multiple sources to extract site specific attributes, attendance details (before, and after school care), fees and direct operating costs over a three year period. Building upon the company's site data, external demographic and geospatial data was overlaid to build a predictive model that could project site performance.

KPMG's predictive model was combined with data on Australia's school population to identify potential areas of growth. In addition to identifying schools with favourable demographics that are likely to yield superior financial results, the potential earnings projections were also calculated and compared on a site by site basis. This analysis was triangulated with management's internal analysis (prepared manually and involving significant management input) to provide external validation to management's growth plans.

In the end there was >90% correlation between management's plans and the data-driven approach, with the external substantiation proving highly effective in providing buyers with due diligence comfort over the growth story.

Analytical tools applied in M&A transactions have advanced significantly

As the data sphere grows, there has been rapid advancement in the analytical tools and technologies capable of ingesting and analysing this data.

We are seeing this deployed in many ways across the M&A cycle, from initial identification and screening of opportunities, through to enhanced due diligence in-deal, and ongoing value realisation post-deal.



Deal identification & screening

Today's analytical tools are built on more sophisticated platforms for enhanced processing power and use more sophisticated analytical techniques that provide acquirers with exactly the types of information that can help them make meaningful and more accurate projections. As part of the evolution of these new tools, there has been a shift away from traditional corporate finance professionals looking at Excel spreadsheets to a more advanced team of data scientists and technology engineers sorting and analysing data into useful components. Deal professionals now need to be able to understand and utilise these tools and MBA programs are currently developing dedicated courses that focus on the application of data science to real-world business problems.

According to a recent KPMG study, 60 percent of respondents used accounting, finance, or strategy professionals to analyse data in M&A, and 29 percent used data analysts or business intelligence analysts.

We are seeing a discernible trend of serial dealmakers deploying more sophisticated data analytic techniques in identifying opportunities and screening the short-list of potential acquisitions. In years gone by an analyst was simply directed at a sector by their senior colleagues based on gut feel and intuition, and challenged to come up with potential acquisition targets capable of yielding an IRR above a certain threshold. Weeks later the exhausted analyst proudly presents his or her list and then is surprised to see a sizable deal announced in the sector the next day that hadn't featured as a possible target!

We are now seeing more sophisticated investors automating the screening process through the capture, triangulation and analysis of financial and non-financial data. This might include social media sentiment or a slight intimation of 'something new' hidden within news articles. This data is often captured in a spontaneous manner and unstructured format, but when combined with data mining and text searching techniques, it allows potential acquirers the opportunity to incorporate this proprietary intelligence into existing forecasting tools, evaluation methodologies and/or investment hypothesis.



Solutions Showcase – Target Value Platform ('TVP')

KPMG's TVP tool is designed to leverage both internal and external data sources to enable a client to identify potential areas of value in a business across, pricing, procurement, operations, support functions, capex, working capital and financing.

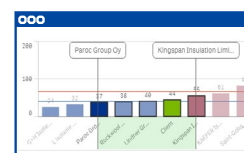
The tool is typically deployed at the investment screening stage to rapidly qualify opportunities and focus the deal pursuit efforts on businesses with the most upside potential.

It is then used to direct the due diligence process into proving up the hypothesis, and can serve as a roadmap for value realisation post-acquisition.

High-level overview of opportunities



Real time data interaction



3-day 'hot spot' analysis



+ Case Study: Property investment screening

KPMG recently developed, in partnership with a leading global property funds manager, a tool to identify global commercial property investment opportunities matching a set investment criteria by screening macro, demographic and societal data overlaid with text scraping technology.

Over the course of six months it was able to develop a tool that automated the identification of opportunities in multiple jurisdictions freeing up the time of analysts to focus on a high quality pipeline rather than 'boxing at shadows'.

"TVP is a market leading approach to identify EV uplift and positive cash flow opportunities in a transaction environment." A recent client used the TVP framework to identify an EV uplift of 100 percent which, accompanied with an implementation plan, allowed the company to undertake strategic planning knowing what needed to be achieved, by when and the potential value from each initiative."

Carl Gunther
KPMG Partner,
Restructuring Services

2 In-deal execution

Firms like KPMG now have analytical tools that can now transform massive volumes of raw transactional data into meaningful financial and operational insights in record time. This has shifted the way deal teams operate, where previously a large proportion of time was spent collating multiple

summarised data sources before analysis could begin (often compounded by challenges around data completeness and integrity), this time is now spent analysing the outputs and having in-depth discussions with management supported by factual analysis.

55%



Over 55 percent

of respondents said that data & analytics was a critical component of their due diligence.

70%



Almost 70 percent

of respondents said their companies received raw data from the target and used their own team to analyse the data.



Solution Showcase – Strategic Profitability Insights tool ('SPI')

KPMG's proprietary SPI process works to produce uniquely powerful insights on a business' revenue and margin performance, all based on a download of raw transaction level data. SPI rapidly produces detailed standardised reporting and enables bespoke analysis to better understand the business.

By quickly analysing revenue and margin by customer, product, geography and channel, examples of the insights that SPI gives a buyer are:

- > **What is the recurring customer base and what trends are there in volumes, price and margins?**
- > **what products are new customers buying and are these the same as the recurring customers?**
- > **what impact is a certain region having on sales and margin?**
- > **how is product mix changing and what impact is that likely to have on future margins?**
- > **what is the underlying movement in price and volume without the distortion caused by mix or currency movements?**

Using SPI enables buyers to have a more detailed understanding of the many layers behind revenue and sales performance. The tool was developed with the private equity investment community as an early adopter, but we are now seeing corporates adopt the technology at an increasing pace, and across multiple different industry segments.

SPI has been used across the M&A transaction lifecycle (e.g. equity story development, due diligence phases and post deal) and is increasingly being used to support companies in restructure or turn around work and even debt funding discussions.

The approach has been useful in businesses with little or no consolidated reporting or where currency is impacting results. Often the existing management reporting framework is sub-optimal for a due diligence process, and using SPI enables a single data request from which a large body of analysis can be performed.

“We are constantly identifying other benefits as SPI becomes more engrained in our processes. These include analysis on a constant currency basis, identifying hard to spot earnings adjustments, understanding mix and margin impact and validating (or otherwise) Management’s story. The conversations we are having with our clients are richer and deeper, allowing us to deliver more focused analysis, advice and due diligence outcomes.”

Stewart May
KPMG Partner,
Transactions

+ Case Study: Closed loop pallet recycling

As part of a recent process where KPMG acted for a buyer of a closed loop pallet recycling business, SPI was deployed to analyse millions of transactions from around the world to validate management’s thesis around the underlying trends in the business.

The vendors’ claims around growth in volumes and pricing were subsequently proven to be misconstrued when the underlying transaction level data peeled back the distorting effect of currency, new customers and mix changes. This led to a reassessment of near term forecasts and ultimately changed the deal structure to push a greater component of the price into an earn-out mechanism.

3 Post-deal value realisation

M&A professionals should also be aware that data & analytics is much more than a one-time-use disposable tool that is limited to the diligence stage of a deal. While the capabilities of data & analytics in the M&A context have advanced considerably in the last few years, not every deal professional is aware of the tremendous value these tools can provide to acquirers in the post-sign, integration, and value creation phases of a deal.

Leading acquirers continue their diligence and intelligence gathering even after the deal is signed and executed. This approach maintains the data sets and analytical tools established during the diligence phase and continuously updates the analytical process as the merged entity's business continues to operate and newer data is generated.

+ Case Study: Motor vehicle finance and insurance broking

Following the acquisition of a motor vehicle finance and insurance broking business by an industry player, the acquirer was seeking to continue presenting the due diligence insights on a semi-regular basis to compare trading performance post acquisition against the value hypothesis at the time of acquisition. The deal team applied a data and analytics approach that the company could not perform with internal resources to understand branch level performance, including the number of loans written per broker, insurance cross sell rates and individual broker performance, where previously this information was reported either anecdotally or not in a format suitable for C-suite executives.

The analytical tools set up during diligence for the M&A evaluation can also be included in the company's everyday business intelligence platforms and processes to retain the key insights and data sources that underpinned the deal thesis and value creation plan. Doing so enables acquirers to continuously enhance their outlook and predictions on future performance, then iterate on the preferred new course of action to achieve their deal objectives.

As new insights are generated during the integration and value creation phase, new business optimisation opportunities, as well as risks, will arise. Continually being exposed to and understanding important business data points gives companies the opportunity to quickly adapt to new situations and to capitalise on new opportunities.

Conclusion

Today's data and analytics tools are evolving rapidly and have become a key component in the M&A process.

Leading acquirers are using these tools to harness the value of multiple and varied data sources and the power of advanced analytics to adapt a more offensive, growth-oriented mind-set to gain deal conviction, even in time pressured situations. In addition, leading acquirers extend the use of data and analytics from deal evaluation into the post-sign integration and post close value creation stages.

In summary, the competitive benchmark has been raised. The modern day Dealmaker has lifted their game and harnessing data is the new weapon.



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