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Driving growth and competitiveness: Can the power of cloud lift M&A value into the stratosphere?

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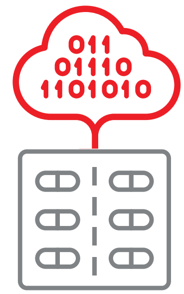
2015 was a banner year for mergers and acquisitions with a record $4.7 trillion in deal activity globally.[1] While deal volume has dipped during the first several months of 2016, the market remains bullish on the role that M&A will continue to play in unlocking value in many industries. Transformative as-a-service capabilities are enabling leading acquirers to capture and lock-in synergies at a depth and speed previously unseen in historic merger integration programs. For example, those acquirers that become leaders in identifying opportunities to deploy cloud technologies early during their screening and initial due diligence processes will find attractive acquisition opportunities beyond their tradition-bound peers.

Like a perfect storm, two forces have taken shape and converged and the result promises to rain value across the business landscape. The first one is mergers, acquisitions and divestitures with a triple-digit percentage increase in 2015 over 2014 in the number of deals over $10 billion.[2] Then there's the cloud, which has only recently matured to the state of being applied to perform more mission critical business processes.

IT poses a major risk during M&A because legacy platforms, hard-wired processes and staffing availability serve as bottlenecks for achieving the desired business objectives. To work around bottlenecks, the traditional approach to IT in M&A calls for integration (or, in the case of divestiture, separation) first, followed by transformation. Thanks to the maturation of cloud platforms and as-a-service (XaaS) models, the approach can now shift towards achieving transformation during the post deal planning and execution phase of the M&A process.

As a result, deal value is being accelerated with an equal focus on transformation—with cloud serving as a catalyst. Companies that grasp this fundamental shift will need to change the way they approach cloud technology. Those that do will gain a competitive advantage: speeding M&A activity and the value realization and being more agile in enabling the business.



The value of cloud in M&A: Global Pharmaceutical Company

A global pharma company announced the divestiture of one of its businesses to private equity (PE). The new company (NewCo) didn't have an IT organization or any other infrastructure to speak of. The deal was crafted assuming that the NewCo would need to hire an IT department, build a datacenter, procure new infrastructure and migrate ("lift and shift") upwards of 300 applications. Accordingly, NewCo negotiated a lengthy transition service agreement (TSA) to allow for sufficient time to establish its own IT capability. Embracing the role that the cloud could play in the separation process, NewCo changed its strategy and instead decided to implement its IT capability "greenfield" in the hybrid-cloud. The anticipated end result: TSA exit nine months earlier than planned, a state-of-the art computing environment, and a lower IT run rate.

Speeding to value

Executives indicate that the greatest issues they face with legacy systems are efficiency (50 percent), cost (47 percent) and speed (44 percent).[3] Arguably these are among the most critical factors for creating a successful M&A deal.

Cloud computing and new delivery models can get companies over these hurdles. Cloud is inherently flexible - software as-a-service provides rich functionality "out of the box" as an alternative to cloning expensive legacy systems. Platform-as-a-service and infrastructure-as-a-service cloud delivery models are readily available and are boosting the competitiveness of companies that employ them by cutting the lead time it takes for establishing core platforms from months to days. While implementing these platforms in the past has been inherently risky, they are now at a state of maturity that they can be used during M&A, allowing companies to realize synergies from rationalizing applications, consolidating infrastructure and optimizing organizations sooner.

In fact, according to Accenture Strategy research, cloud accelerates the IT delivery in M&A by 30 percent on average and reduces the IT costs by nearly the same amount.[4] At the same time, cloud allows IT to make a transformative leap forward in how it will enable the business post M&A. Signing up with cloud Infrastructure-as-a-service providers not only reduces the lead time to stand up core IT services, it also shifts financial delivery from huge upfront capital expense to ongoing operating expense. Furthermore, working with multiple service providers may allow for greater parallelization of projects and higher throughput. Organizations leverage as-a-service delivery models enabled by cloud to perform business functions instead of going through a complex and arduous integration. So the new rule of the day is transformation during integration. Yet very few companies are actively leveraging cloud strategically when it comes to the M&A process.

Why the hesitation? Historically, security has been one of the biggest obstacles to cloud adoption. While most executives feel the risk of working directly with cloud-based XaaS providers is security (58 percent), many have started to implement an IT service broker role to mitigate those risks.[5] This new role, along with the growing maturity of cloud computing has helped mitigate many of the risks that used to exist with the cloud. Other issues have also been largely addressed and mitigated and advances in firewall configurations, encryption technologies, penetration testing, VPNs and the like have shored cloud technology security with the same efficacy as for internal systems.

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CIO in the cockpit

Accenture Strategy research shows that 79 percent of companies view the cloud as a pivotal part of their business strategy.[6] While new cloud platforms and as-a-service delivery models make it possible to increase and accelerate deal value, most deal teams aren't aware of the advantages of cloud in M&A. As a result, they silo M&A work, keeping CIOs on the sidelines acting as "mechanics"—engaged too late in the process once the transaction structure and synergy targets developed from out-of-touch models are already set.

Instead, CIOs need to be involved upfront—as a co-pilot in the cockpit—at the pre-deal stage. That way they can help determine how cloud can add new value to the deal. For an illustrative $10B acquisition by an applications-rich or ERP-dependent acquirer, Accenture Strategy estimates a potential for an additional $135M in benefits over five years generated from $70M in one-time M&A cost saving and $15M in year over year synergy uplift (excluding the time value of money)[7] (see Figure 1 on page 5). By joining the M&A strategy team, CIOs can weigh in on preliminary valuations and propose alternate transaction structures.

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Making every second count

Before the ink is dry on any deal, every second counts. Sellers want to cash in fast. Buyers want results—as soon as possible. The prospect of untangling legacy can act as a deal breaker early on, or can slow the road to potential opportunities after contracts are signed. From any perspective it's clear: Companies need to accelerate their migration to the cloud, transforming IT from commodity workhorse to multi-speed business partner.

While nearly all respondents (95 percent) report their company has a strategy for cloud adoption over the next five years, lack of critical business case (29 percent) and weak executive support (31 percent) are holding back adoption of cloud.[8] Accenture Strategy estimates that nearly 75 percent of industry is behind or hasn't even started their migration.[9] Most at-scale acquisitions are disruptive events. In the IT department, redundant applications must be rationalized and ERP systems merged, requiring resources, time and money. In many cases, a transition to the cloud during a merger integration program can be accomplished at similar -or less- cost and duration without additional disruption. Cloud business cases that seem a stretch for many standalone companies become attainable at the scale and synergy potential of a merged New Company. When that New Company has an ongoing M&A agenda that requires a scalable platform to continue to acquire and integrate into, cloud becomes a must have.

FIGURE 1 | Cloud increases M&A synergies and drives significant ongoing integration savings

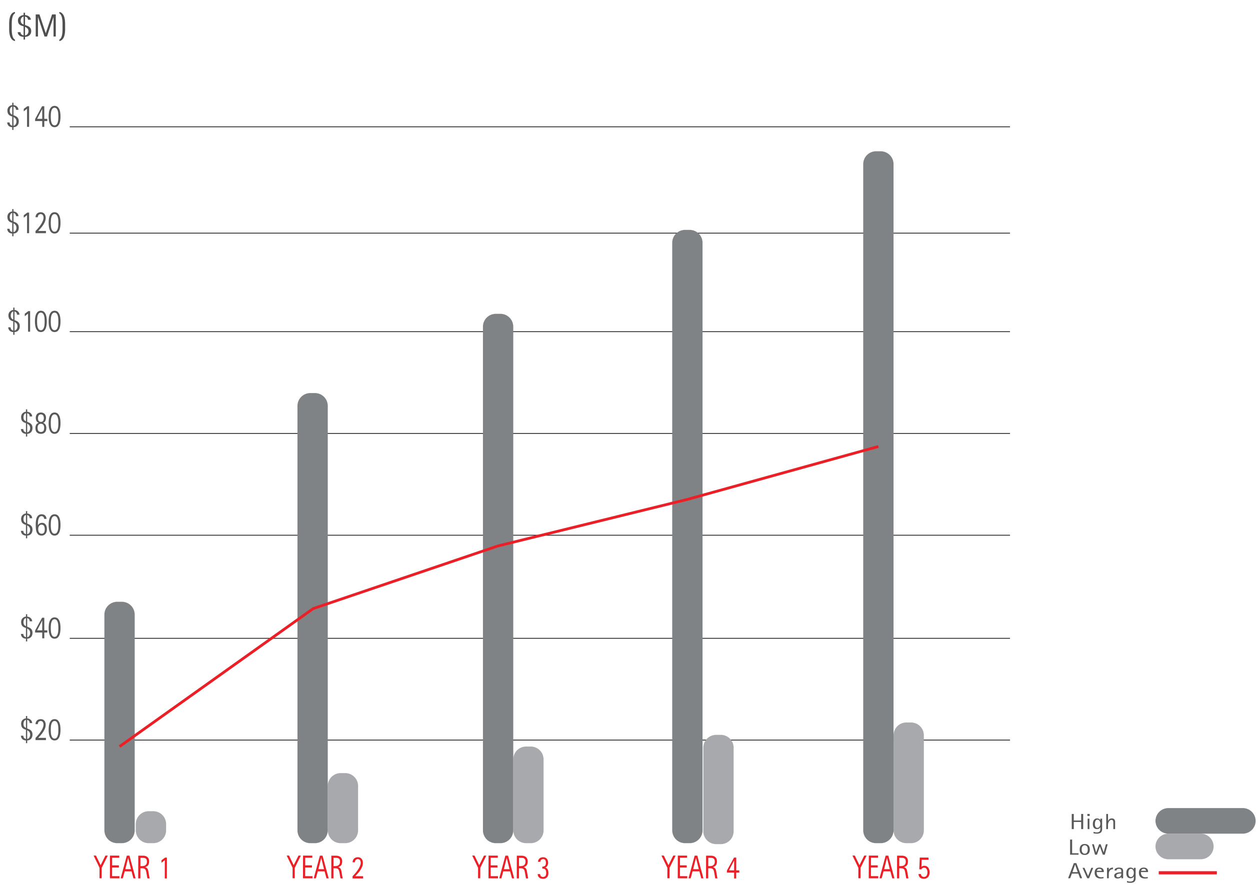
Based on an illustrative $10B acquisition, new cloud platforms and as-a-service delivery models make it possible to add up to $135M in benefit

Illustrative Deal Value ($M) **$10,000**

Integration Cost Savings	($M)
One time integration costs	500
IT integration costs ignoring Cloud	150
Estimated cost savings from Cloud (High, 45%)	68
Estimated cost savings from Cloud (Low, 10%)	15

Synergy Uplift	($M)
Targeted annual synergies starting in year 3	150
Targeted synergies from IT ignoring Cloud	45
Estimated add'l synergies from Cloud (High, 35%)	16
Estimated add'l synergies from Cloud (Low, 5%)	2

Cumulative Benefits



Comments and analysis are based on Accenture research and an illustrative deal value of $10B. Results are dependent upon the targeted level of integration and use of Cloud. Benefits do not account for the time value of money.

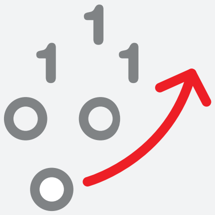
Cloud and the M&A horizon

To turn IT into an enabler of deals—instead of an inhibitor—there are concrete steps companies can take. That starts with involving the CIO as part of the M&A strategy team engaging them pre-deal to react to opportunities and threats. Doing that will help:

Develop the business case for the new opportunities identifying the additional synergies that are generated from the cloud. This entails quantifying the financial (or other) benefits of using the cloud during the M&A process to enable the new closing models / alternative transaction structures over other options. Considering the size of the deal and the computing environments of the two companies, determine what is additional "value" in terms of one-time cost savings and ongoing resulting benefits.

Establish strong governance that's calibrated and equipped to support a cloud-enabled M&A plan. Since there aren't a lot of resources with skill sets in both areas—M&A and technology—drawing support from outsiders can help. This third-party perspective can guide companies in developing and instilling new methods and competencies into the organization.

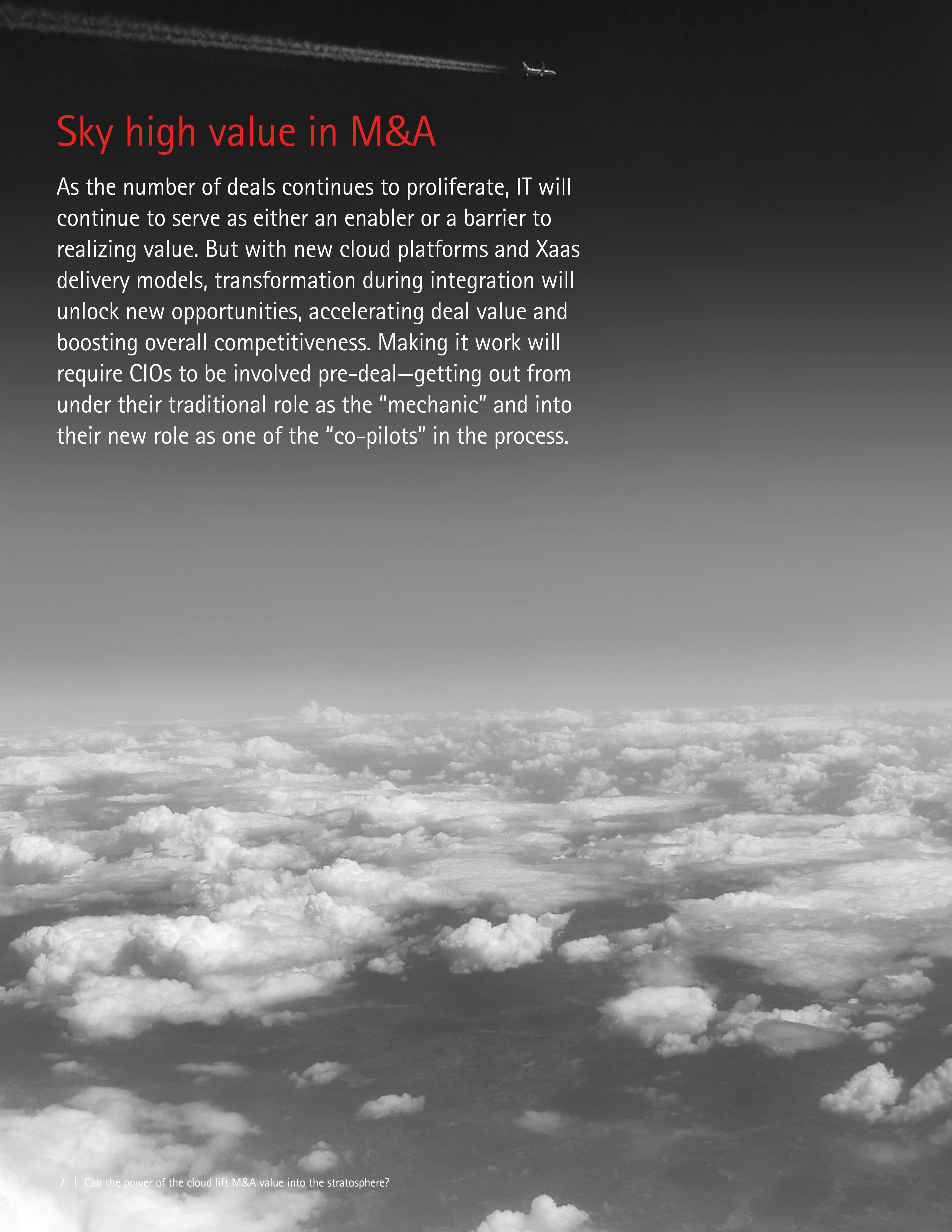
Revisit the M&A strategy with a view on how leading with cloud can play a part in creating new opportunities and adding value to deals. Cloud can enable new closing models and alternative transaction structures that wouldn't have been available previously. As a result, cloud can also shorten the time to close.



Plan the integration or divestiture addressing any gaps or risks to achieve the M&A objectives and identified synergies. Risks related to data protection and integration with legacy, for example, can be mitigated by establishing a formal service broker role to help source and implement XaaS.

Sky high value in M&A

As the number of deals continues to proliferate, IT will continue to serve as either an enabler or a barrier to realizing value. But with new cloud platforms and Xaas delivery models, transformation during integration will unlock new opportunities, accelerating deal value and boosting overall competitiveness. Making it work will require CIOs to be involved pre-deal—getting out from under their traditional role as the "mechanic" and into their new role as one of the "co-pilots" in the process.



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Notes

1 http://dmi.thomsonreuters.com/Content/Files/4Q2015_Global_MandA_Financial_Advisory_Review.pdf

2 IBID

3 2016 Accenture Technology Strategy Survey

4 2016 Accenture Strategy M&A Analysis

5 2016 Accenture Technology Strategy Survey

6 IBID

7 2016 Accenture Strategy M&A Analysis

8 2016 Accenture Technology Strategy Survey

9 2016 Accenture Strategy M&A Analysis

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About the Research

This point of view draws on Accenture Strategy surveys including a 2016 survey of more than 1800 executives from multiple industries across North and South America, Europe and Asia Pacific on a variety of technology strategy topics related to cloud, legacy systems and everything-as-a-service (XaaS), as well as an Accenture Strategy internal survey of more than 20 senior M&A practitioners and analysis of corresponding M&A initiatives.