How cloud can drive value in M&A transactions

Building a better working world

A robust strategy can bring value to both buyers and sellers throughout the M&A lifecycle.

- Faster transactions, better understanding of technology risks, reduced complexities and simpler processes are among the benefits that organizations can realize from cloud technologies during M&A transactions.
- Cloud tools enable buyers and sellers to experience long-term financial benefits and achieve operational efficiencies.

Organizations pursue strategic acquisition or divestment of their assets and business units for various reasons. Strategic acquisitions are typically undertaken to increase market share, expand to other geographies, or lower operating costs through realizing synergies. Motivations for divestitures include divesting underperforming business units to focus on the core business or generating cash to invest in other business operations and technology. Per the EY Global Corporate Divestment Study 2021, 79% of business units used divestment proceeds to invest in technology.

Irrespective of the motivation for acquiring or divesting, a thoughtful cloud strategy significantly improves transaction outcomes and timelines. Effective cloud and digital tools enable a quick separation for the seller and a seamless integration for the buyer. These tools enable both buyers and sellers to experience long-term financial benefits by transitioning technology costs from capex to opex and generating long-term operational efficiencies. They also help reduce technology risks associated with legacy technologies. A robust cloud strategy can provide tangible benefits for Chief Information Officers (CIOs) across all phases of the transaction. As detailed below, all the stakeholders realize the benefits of the cloud throughout the transaction lifecycle.

Pre-sign

- Simplified IT due diligence
- Enhanced understanding of technology risk

Sign-to-close

- Reduced technology risks
- Reduced complexity and transition time

Post-close

- Integration and/or separation eased
- Ability to shift from capex to opex
- Foundation to modernize and innovate for the future

These benefits are more prevalent in companies with mature technology and cloud strategy that includes the use of cloud-native technology stack, agile/DevSecOps methods, low-code/no-code platforms, and other SaaS-based platforms, where new packages can be introduced based on new concepts and partnerships as needed. Additionally, these companies tend to experience reduced technical risks associated with the transaction and increased access to new age data and analytics capability.

Simplified IT due diligence process and reduced risk during pre-sign process

During the IT due diligence process, a buyer's key priority is to understand potential risks and underlying cost structures related to a company's technology landscape including systems, data, infrastructure, cyber, key personals, third-party vendors, compliance and regulations. This process is critical to the success of the deal and could be complex and time-consuming depending on the maturity and documentation level of the current environment. Companies that are on modern cloud native technologies and leveraging third-party cloud services could have an accelerated diligence process as major cloud service provider offerings are standardized with mature data management practices and information security tools that comply with major regulations like the General Data Protection Regulation (GDPR) and the California Consumer Protection Act (CCPA).

Further, public cloud providers have preset capabilities to model identity and access management as well as grant role-based access control (RBAC). They also have dedicated information security professionals to ensure that their offering provides the latest cybersecurity protection. These robust offerings allow buyers, especially during cross-border transactions, to be confident that the target will not create regulatory concerns.

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Minimized risk for Day-1 and faster post close value creation

The most important Day-1 priority for buyers and sellers is a smooth business transition with minimal impact on employees and customers. Typically, sign-to-close requires addressing several Day-1 critical technologies including financial systems, human resources systems, network connectivity, email, systems access and managing third-party vendor contracts. Deal size often drives the time between deal signing and Day-1 close. However, companies with legacy and complex technology may end up with a much longer sign-to-close period due to compatibility and connectivity issues.

During an integration, having a robust cloud strategy can accelerate value creation. The buyer and target would have a potential mix of public/private/hybrid cloud that enables:

- Synergy and technology optimization opportunities due to:
  - Consolidation of duplicate technology systems and platforms on the cloud
  - Vendor consolidation
  - Reduced technology debt
- Ability to generate operating efficiencies with redefined vendor contracts and service level agreements (SLAs)
- Developing a robust technology foundation to build a strategic roadmap aligned with organizational goals

A buyer's key focus during the post-close phase is to realize synergies early by integrating the target's critical technology platforms. Integration planning and execution for companies with legacy technology platforms can be complex and time-consuming. Estimating and procurement of hardware can impact the synergy targets and timelines. However, adopting a cloud service provider can eliminate these issues and companies can scale up or down on compute and storage resources (e.g., additional CPUs, GPUs, storage) on an as-needed basis.

Tools provided by prominent public cloud vendors – such as centralized pipelines to transform data, dashboards that leverage cleaned data with almost instantaneous query times and continuous monitoring of operational metrics – allow for rapid, deep insights about business operations. These tools and dashboards can translate to enhanced transparency and lower transaction execution costs, which increases the overall transaction value.

Buyers should also use the post-close integration phase as an opportunity to streamline their IT operating model by consolidating duplicate capabilities on the cloud, transitioning on-prem capabilities to the cloud, and consolidating cloud vendors.

Sell and separate creates an opportunity for the SpinCo to begin its cloud adoption journey and leverage the opportunity to move from complicated, entangled and expensive shared infrastructure to the cloud with no additional disruption to business.

This will result in benefits, such as:

- Reduced timeline and simplified transition service agreements
- Long-term financial benefits with transition from capex to opex
- Ability to generate operating efficiencies with redefined vendor contracts and SLAs
- Opportunity to reduce technical risk associated with legacy infrastructure
- Availability of new age data and analytics cloud capabilities

During a separation, moving the target to cloud can help with speeding up transaction close and eliminating expensive and complex Transition Services Agreements (TSAs). This simplifies the TSA pricing and gives buyers and sellers a more accurate projection of the close timeline and associated usage-based costs. The new cloud operating model can enable opportunities to generate operational efficiencies by consolidating vendor footprint/SLAs post-separation. Ensuring that the organization is cloud-enabled will strategically position the new company through the transaction and enable maximum post-transaction value hold. It will also make the new company an attractive investment to potential investors due to its technological resiliency, value and ability to increase ROI.

Conclusion and recommendations

A robust cloud strategy enables organizations to bypass several roadblocks arising from traditional on-premises IT systems. An effective cloud strategy presents myriad benefits pre-close and during the post-close activities. Hosting the company data and analytics operations already within the cloud reduces the cost and effort for future migrations and manual workarounds, ultimately enhancing the company's overall appeal to buyers. Cloud-native platforms also enhance the company's appeal and viability for any carve-out or spin-off deals.

The vast inventory of resources available within the cloud fosters global collaboration and provides instant access to key analytical and reporting tools. In addition, the cloud's flexible storage and compute, along with the overall modularity of its system, streamlines the integration process. From an M&A perspective, transitioning an organization's IT infrastructure from a legacy on-premises system to a cloud-based solution, before or during the transaction, plays a significant role in the transaction's success.

To develop an effective cloud strategy when there is potential M&A activity:

- Evaluate your current cloud strategy, governance, cloud migration opportunities and design against a future integration time-and-budget framework.
- Make transaction readiness a continuous process rather than an ad hoc practice. Integrate M&A readiness into your checklists for procurement of hardware and software.

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