



# The science of the deal



Data analytics and technology are helping companies make more informed decisions throughout the lifecycle of a deal.

Why do M&A deals succeed or fail? Typically the difference can come down to a disconnect between deal valuation, the actual operational performance of the asset and the plan to realise incremental value post-deal. This means that data sits at the very heart of a successful transaction.

Ronan Gilhawley, Head of Strategy at KPMG says: “organisations often take a high level view on where the value drivers are in a deal. We increasingly see a need for companies to apply more science to the art of M&A and have evidence to understand where and how to improve performance and deliver value on a deal they are contemplating.”

Australia has historically applied a less scientific approach when it comes to understanding deal value, benchmarking and comparator information. That’s partly a function of maturity, and partly of agenda. “While private equity tends to be more data-driven in understanding the value upside in making an acquisition work, many corporates do acquisitions as a means of acquiring growth without necessarily fully quantifying where the value sits within the deal,” comments Gilhawley.

In response to this need for a more data-driven approach to deals, KPMG is focusing on two key initiatives – developing a framework to help companies understand the strengths and weaknesses of a deal quickly and building a benchmarking tool that can deliver the insights companies need. “The transactional environment is more competitive and complicated than ever,” comments Peter Turner, Co-Head of M&A at KPMG. The ability to use data to better identify value and risk drivers is a significant competitive advantage.”

## Understanding targets better

The Strategic Profitability Insights (SPI) platform is a data analytics capability that takes a deep, rich level of client information and by collecting, processing and analysing raw data helps clients uncover insights faster and more accurately, giving transaction due diligence a boost.

“For example, if a buyer is looking at a retail acquisition, the SPI platform will help determine where the value sits in the organisation, which locations and stores are the most and least profitable, what the management team is like and how the competition stacks up,” says Gilhawley.

The value of this approach is that companies can really dig behind the balance sheet and P&L and dive into operational information and mine it for insights into value. It’s also particularly useful for buyers moving into new or adjacent markets.

“Where existing management may not have the depth of expertise you may need, SPI can help assess and understand the opportunities inherent in a deal and challenges of the company and the market,” comments Gilhawley. “It gives management teams an aggregate level of insight and helps them overcome ‘availability’ bias, which can emerge when a buyer thinks they know a sector so they don’t apply the kind of effort they really should when looking to acquire a target.”





## The risk factor

SPI also enables companies to soberly evaluate the potential for value erosion. "A great example of this is the software industry, where a company was looking to buy another software company to consolidate the market. This would have required exiting a large portion of the sales team, but the very thing that was helping them survive was the quality of the sales force they had, so it was important for the company to understand the value attached to the sales team and the risk involved in consolidating that team," comments Gilhawley.

Another real risk can be announcing expected synergy value to the market as part of an M&A without fully understanding the company you're buying. "One company did this and then realised the target had seriously underinvested in certain areas and the business was trading well below where it should. Because they had already made a commitment to the market around a synergy number, it made it a challenging merger for them," says Craig Mennie, Head of Transaction Services at KPMG.

## Benchmarking: context is king

Benchmarking is another opportunity for helping understanding targets and realise value out of a transaction. But they must be wielded carefully. "Benchmarking can be a double-edged sword," says Gilhawley. "They are useful for giving a company a real sense of relative performance and the efficiency of a business, but they can be a blunt instrument. Context is everything – applying the benchmark cost of an IT system relative to the total operating costs of a major airline and then applying that to a smaller regional airline doesn't make sense."

Benchmarking is going through an important transformation, however, and KPMG is determined to be at the forefront of it. "We're now collecting proprietary data from clients and companies globally and creating large global data bases that can then act as benchmarks," he adds.

Along with a deeper ability to cut data in more integrated ways comes more ability to use benchmarks as realistic guides. "This will enable far more granularity in the analysis of companies and, therefore, more insights from the use of benchmarking," says Mennie.

It can also enable predictive analysis and help highlight likely variances and likely areas of risk that warrant further investigation.

"The more granular the data, the more accurate the benchmark," says Mennie. "This can help the decision-making process easier."

Data is the new competitive advantage when it comes to transactions. Number crunching has never been more important.

# Contact us

**David Heathcote****Head of Deal Advisory****Deal Advisory****T:** +61 2 9335 7193**E:** [dheathcote@kpmg.com.au](mailto:dheathcote@kpmg.com.au)**Craig Mennie****Head of Transaction Services****Deal Advisory****T:** +61 2 9335 8671**E:** [cmennie@kpmg.com.au](mailto:cmennie@kpmg.com.au)**Ronan Gilhawley****Head of Strategy****Deal Advisory****T:** +61 2 9335 7029**E:** [rgilhawley@kpmg.com.au](mailto:rgilhawley@kpmg.com.au)**Peter Turner****Co-Head of M&A****Deal Advisory****T:** +61 3 9288 6022**E:** [pturner@kpmg.com.au](mailto:pturner@kpmg.com.au)

**[kpmg.com.au](http://kpmg.com.au)**

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