



Podcast transcript

Title: How are mergers and acquisitions being impacted by changing business models?

Podcast with Arco Velurst, Global Lead for Deal Advisory, Mergers & Acquisitions - Tax, KPMG International

Musical intro

Announcer:

Hello and welcome to our KPMG podcast series for Tax Leaders. We are joined today by Arco Verhulst, Tax Partner at KPMG in the Netherlands and Global Lead for Deal Advisory, Mergers & Acquisitions-Tax for KPMG International

Welcome Arco, thanks for joining us today. As you know this podcast series explores how the themes of, geopolitics, digitalization, and changing business models are influencing and shaping the daily lives of tax leaders and of course their teams. Based on your day-to-day experience working with clients which of these areas would you say is most prevalent as a business issue for tax leaders?

Arco:

My answer would be, there's basically two areas which are quite relevant for tax leaders. From an operational perspective, it's more digitization, so it's managing the increasing compliance burden that companies have, both from a content perspective as well as from a technology perspective. Secondly, from a more content/tax planning perspective, it would be the changing business models which require being very closely connected to the business and understanding what the changes in business models means for tax.

Announcer:

And within the mergers and acquisition and deals space as well??

Arco:

I think what is most relevant for M&A is the latter, so the implications of changing business models for companies going forward, we get increasingly questions from clients as part of our work on a transaction, how sustainable a business model and their associated tax position is, so in other words, do we need to fix something post-transaction, or are we good to go and continue applying the same model?

Announcer:

So Arco you mentioned that for deals and M&A, changing business models has a big impact in this space, can you tell us a bit more about what you're seeing in response to the way business models are changing?

Arco:

What we do see happening on an increasing basis is convergence of industries and sectors that used to be quite separate in the past. So for example, what I mean with that is we have seen platform companies, global platform companies moving into more traditional parts of the economy on an increasing basis. So you see the blurring of lines in terms of companies in which industry or sector are they active in, so that also means that in terms of, how do you create that growth, how do you create that sector convergence, M&A is one of the areas where companies see that as the most immediate way to getting things done. And on a more, let's say, detailed level, so more on a company level, the focus on sustainability of business models, sustainability of supply chains is becoming increasingly relevant topic in transactions.

Announcer:

I would like to turn our attention to our key theme of geopolitics and specifically geopolitical developments in the mergers and acquisitions space, what would you say has made a real impact?

Arco:

So I think the common theme with geopolitical impact on M&A is that we see, on one hand, a decrease in some amount of cross-border M&A activity, so for example, when China basically decided to limit the number of areas where they would support outbound investments from Chinese companies going abroad, we definitely see that being reflected in the global M&A activity. It also means that there is an increasing need for regional integration, so for example, in EMEA, in Europe, there is discussion on creating new

EMEA giants, for example, in technology and automotive, so data officially drives M&A activity more on a regional basis.

Announcer:

And for completeness, let's just talk about digitalization and technology. How do you see technology being leveraged by M&A in the deal space to align with all of these changes and how have you seen the technology evolve in recent years?

Arco:

Yeah, so if you talk about, let's say, use of technology in M&A transactions for us as KPMG, we see a couple of things. In random order, when it comes to deal execution, we have a fund flow model tool that we are using, managing towards completion the flow of funds is extremely important, certainly with deal speed being at high spaces as it currently is, so it's essentially helping out our clients to manage from signing, the process from signing to execution to completion. In terms of during diligence, there is technology like SPI, Strategic Profitability Insights, which is very much about trying to add value to numbers, try to put them into perspective, how do they compare to industry, how do they compare to peers, so it's really about benchmarking, and obviously, there's all of the technology that we have on board already.

and let's say to finalize on this topic, what is currently in the works and will be rolled out, let's say, over the next financial year, it's in pilot stage in some countries already, it's Cosmos, where we really take maximum use of technology to, let's say, add value to our clients in terms of how we deal with a diligence process, how do we add value to reports, and how do we have interaction with clients during our diligence process, rather than just at the end where we deliver a report.

Announcer:

On a final note and to conclude our discussion if you could offer one piece of advice to tax leaders today in terms of managing their deal responsibilities more effectively, what would that be?

Arco:

My key advice would be, be closely connected to the business, be closely connected to your deal people, make sure that you understand the business of the target that you're looking at in order to, first of all, be able to identify the potential value that could be created, and to be able to talk and support a deal in a manner that is commercial.

Announcer:

Great, perfect advice. Thanks for taking the time to join us today Arco, there's no doubt you've given our listeners a lot to think about.

Arco:

Well thanks for having me and for having the opportunity to talk.

Announcer:

Join us next time when we'll take a look at another trending topic. Please feel free to get in touch if you have any suggestions for future topics, would love to hear from you. You can e-mail us at tax@kpmg.com. Thanks for listening.

Musical exit

