INSIGHTS FROM THE BDO TECHNOLOGY PRACTICE

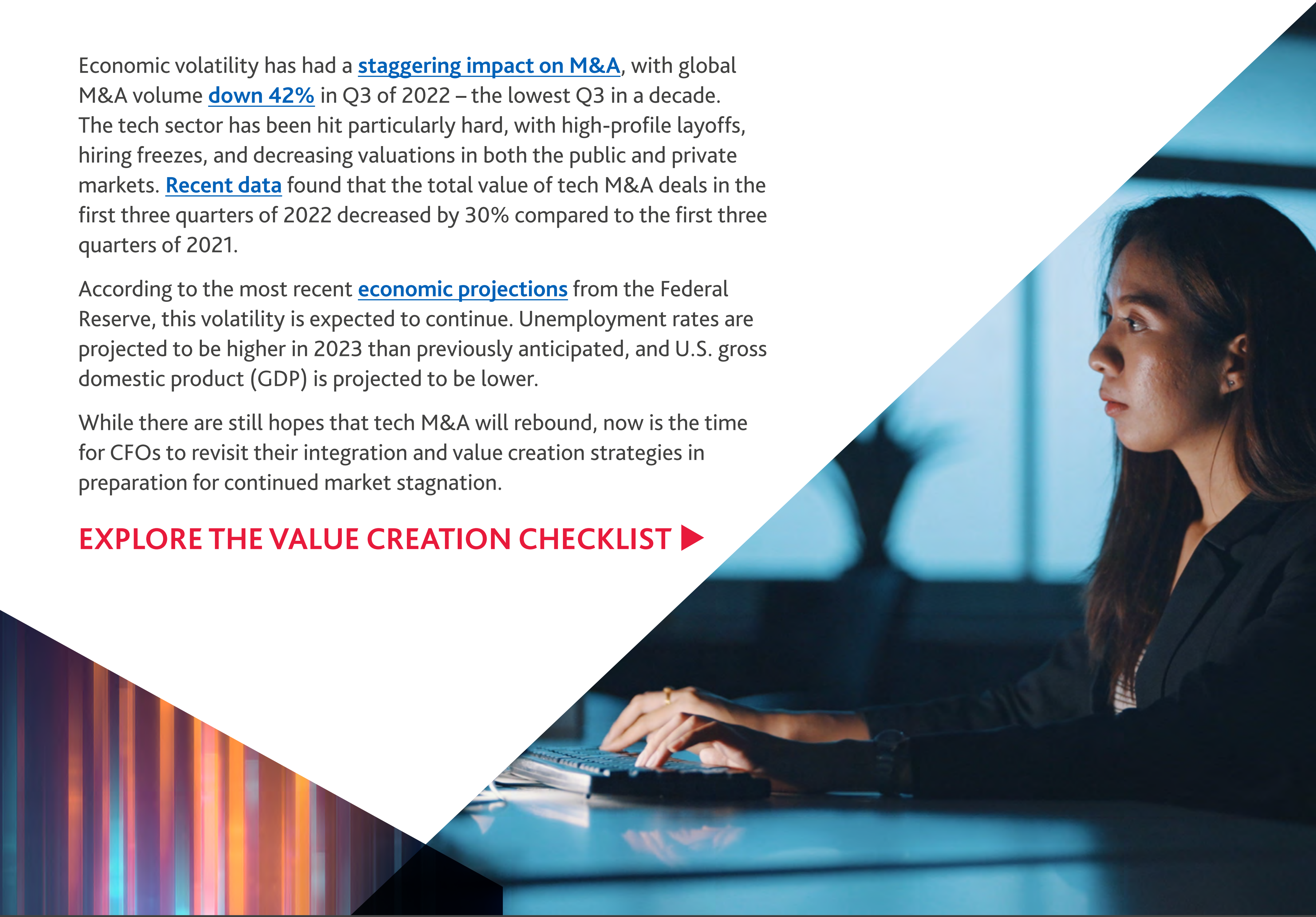
Tech M&A Checklist: Revisiting Integration and Value Creation

Economic volatility has had a staggering impact on M&A, with global M&A volume down 42% in Q3 of 2022 – the lowest Q3 in a decade. The tech sector has been hit particularly hard, with high-profile layoffs, hiring freezes, and decreasing valuations in both the public and private markets. Recent data found that the total value of tech M&A deals in the first three quarters of 2022 decreased by 30% compared to the first three quarters of 2021.

According to the most recent economic projections from the Federal Reserve, this volatility is expected to continue. Unemployment rates are projected to be higher in 2023 than previously anticipated, and U.S. gross domestic product (GDP) is projected to be lower.

While there are still hopes that tech M&A will rebound, now is the time for CFOs to revisit their integration and value creation strategies in preparation for continued market stagnation.

EXPLORE THE VALUE CREATION CHECKLIST ▶



Value Creation Checklist

PEOPLE

Talent is one of the most valuable parts of an acquisition – but staffing is a high, fixed cost.

- ☐ **Identify redundancies and talent gaps.** Determine where resources are overallocated and where additional support may be needed.
- ☐ **Align staffing to needs.** This may mean reducing headcount, but businesses looking to avoid losing talent can also consider reorganizing roles and departments.
- ☐ **Reskill before hiring.** If additional resources are needed in critical areas, consider reskilling or upskilling current employees rather than increasing headcount.
- ☐ **Develop a retention strategy for key employees.** Unplanned employee turnover can lead to high financial costs for recruiting and training new employees.
- ☐ **Transform fixed labor costs to variable.** Identify critical functions that must be kept in-house and consider options to outsource less critical or support functions.

OPERATIONS

Ensure there are no roadblocks to early value capture by identifying efficiencies and eliminating unnecessary costs.

- ☐ **Have a clear operating model for the company and acquisitions.** This should provide a blueprint for staffing, systems and organizations, and efficient processes,, as well as for integrating acquired companies.
- ☐ **Analyze internal processes.** Evaluate existing processes to uncover inefficiencies and/or pain points. Determine where resources are being wasted and reallocate accordingly.
- ☐ **Reduce overlapping systems.** Review the systems and services used by a new acquisition and determine where shared services may be more efficient and cost-friendly.
- ☐ **Develop roadmaps that enable quick wins.** Focus on smaller areas of integration that can be broken down into manageable components and quickly add incremental value.

For information on assessment and short-term planning ahead of a potential recession, check out BDO's recent insight, Tech M&A: Creating Value in an Uncertain Market.

DATA ANALYSIS

Data is essential for sensible decision making and remains a top tactic for value creation.

- ☐ **Identify data sources to report on all business areas.** All data should be properly mapped to flow without bottlenecks and enable actionable insights.
- ☐ **Infuse data across the acquisition.** Use data to optimize processes and enable more informed decision making.
- ☐ **Revisit existing metrics.** Benchmarks and metrics created during a healthier market may need to be adjusted during a recession. This allows for forecasting and analysis based on more accurate market conditions.
- ☐ **Turn data into a revenue generator.** Determine whether opportunities exist for external data monetization.

TECHNOLOGY

Technology should enable value preservation and creation.

- ☐ **Assess systems for interoperability.** Review the portfolio company's existing tech and determine where it would be cost-effective to include existing tech components in the integrated infrastructure.
- ☐ **Map out a digital transformation strategy.** Digital maturity adds value to an asset. Determine which areas would most immediately benefit from digital investment and create a roadmap to incorporate throughout the acquisition.
- ☐ **Audit existing technology for cost savings.** As business functions are integrated, assess where to eliminate duplicate applications, software licenses, and contracts to quickly realize savings.

GOVERNANCE

Clear direction and structure are needed to guide the strategy and transaction process.

- ☐ **Set up an Integration Management Office.** This team will coordinate and oversee the integration workstreams of each individual department.
- ☐ **Develop organization structures for an acquisition early.** Avoid confusion and delays by defining leadership, accountability, and decision-making hierarchies for each area of business.
- ☐ **Proactively review portfolio value and business unit contributions.** Regular assessments can uncover opportunities to streamline operations and capitalize on market shifts.
- ☐ **Consider an interim management support partner.** Bring in a third-party partner to provide scalability and fill skills gaps during an integration or divestiture. This helps maintain momentum and accelerate time to value.

Contact BDO to learn how more about how your company can optimize its integration and value creation strategies.

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