

# The 2019 Deal Value Curve M&A Survey Report



# Best dealmakers are anchored in the details

**M&A survey indicates attention to operations, culture, IT and processes are key — and data analytics can be a game changer**

Robust markets and fast-moving deals pose unique challenges to M&A best practices. This year's Grant Thornton LLP "Deal Value Curve" survey results highlight the demands of a volatile market while revealing opportunities in a fully integrated deal process.

Survey findings continue to underscore the value of a rigorous approach that fortifies traditional financial considerations with commercial, operational, HR, IT and cultural diligence. "Considering these factors early in the process identifies and captures synergies, seamlessly connects various stages of the process and creates momentum going into integration—resulting in measurable deal value and higher post-close earnings," said Jim Peko, national managing principal, Advisory Services, and leader, Transaction Services.

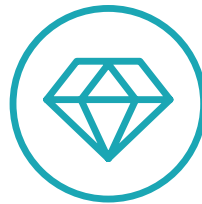
## **Success, strategy and using data analytics**

Respondents placed a high value on very transactional measures of success. When asked how they defined the success of a deal, 27% of respondents said by the purchase price. Similarly, 15% defined success as achieving the target close date. By contrast, 15% of respondents defined success as synergies realized and only 12% answered completed integration.



# 27%

say purchase price is the measure of a deal's success



# 15%

say synergies realized is the measure of a deal's success

So what explains these highly tactical measures of success? Christopher Schenkenberg, Grant Thornton national managing partner, M&A Tax Services, said, “What I think I’m seeing is a reflection of how competitive the M&A market is. It’s so competitive. Valuations are so high that just the ability to get a deal done in this environment is a barometer of success.”

Whatever the pressures distinct to the current market, the amount of time spent on due diligence is between three and six weeks, the survey showed. One way to make the most of these weeks is to fully leverage data analytics. If much of the initial rote work is done by technology solutions, stakeholders can devote more time to strategic and other questions.

“Data analytics is a game changer in how due diligence can get done,” said Wade Kruse, Grant Thornton national managing partner, Diligence, Transaction Services. “It can break down layers of company trends and provide interpretive visuals that can help management focus on the imperatives of the deal.”

Kruse added, “Automating data takes a lot of resource time away from having to format spreadsheets and do non-value-added work. Those hours can go into areas like strategy, operations, culture and tax. Data analytics allows you to get up to speed faster and be able to view numbers on Day One, so that you can start having real dialogue around details of the deal.”

### **Grant Thornton insight**

Leverage data analytics to make the best use of due diligence time. This can be a game changer that allows stakeholders to devote time earlier to identifying key issues and prioritizing important strategic, operational, cultural and tax questions.

### **Where is diligence due?**

Efforts were focused on financial and strategic aspects of the deal. When asked what non-finance, non-tax areas they were spending time on, only 27% of respondents said culture. Given the importance of culture to the successful integration of two organizations, this is surprising.

Faisal Haque, Grant Thornton principal, Transaction Services and Strategic Solutions, suggested an explanation. “One of the issues with cultural due diligence is access to people during the process. Early on, you have very limited access. So how do you say, ‘we’re going to do a culture assessment’? There are opportunities to do that in different scenarios, but broadly speaking, one of the barriers is access to people. However, it is a concern that the drop-off is all the way down to the twenties, because the same audience will tell you that culture is probably one of the most important items in an integration’s success.”

Considerably more respondents – 62% – included IT in their due diligence, but, given the indispensability of IT systems to the practical functioning of a combined organization, and given the high levels of documentation typically associated with IT, that number would also ideally be higher.

### The certainty of uncertainty

In addition to being competitive, the current market also contains much uncertainty. A full half of all respondents don't believe valuations will stay stable in the next two to three years. Given current high multiples, one can assume that valuations may decline. It's no surprise, then, that when asked about factors that will impact future deals, 55% cited economic factors (more than three times any other factor).

This concern about the market has caused 56% of respondents to place increased scrutiny on valuations, 36% to place increased scrutiny on synergies and 28% to consider decreased multiples. (Respondents could select more than one response.) Given that "purchase price" was identified as the leading factor determining the success of a deal, this renewed scrutiny is understandable.



**55%**  
say economic  
factors will most  
impact future deals

### Planning, process and pitfalls

Respondents exhibited both clarity about their M&A strategies and tentativeness about their M&A execution. A full 92% were very clear or somewhat clear about which acquisition targets to pursue. Similarly, 86% were very clear or somewhat clear on what they should be paying.

It's instructive to look at the levels of confidence felt at different times of the M&A process. Below are the percentage of respondents **who agree or strongly agree** with a description of different stages of the deal.

- We have a clear, well-understood M&A strategy and deal thesis **91%**
- We distill/articulate/understand the strategic fit and specific value drivers of the potential target **91%**
- We have a clear stage-gate process for vetting, approving and pursuing transactions **81%**
- We are disciplined in adhering to this stage-gate process **59%**
- Our targets and deal pipeline are primarily self-generated and proactive (versus externally sourced deals, auction processes, etc.) **86%**
- Our diligence process is well-ordered and efficient **82%**
- Our diligence process is effectively focused on the specific strategic rationale and value drivers of the deal **90%**
- We pursue an integrated "business due diligence" approach (operational review, evaluation of information systems, evaluation of human capital and evaluation of cultural fit) in addition to traditional financial and tax due diligence **77%**

- Post-closing, we proactively monitor the transaction's actual results against the anticipated results developed as part of our M&A process **82%**
- We understand the potential impact of current tax reform on our M&A strategy **50%**

In the above, three numbers stand out. While articulation of strategy and identification of value drivers carry a high degree of confidence (over 90%), discipline in adhering to a stage-vetting process drops precipitously, to 59%. Further, only 77% of respondents agreed that they pursued an integrated business due-diligence approach that considered operations, information systems, human capital and cultural fit, in addition to financial and tax issues.

Results showed a tension between the confidence around the core strategic aspects of deals and the lack of confidence around the more holistic aspects of deals. Deals seem to break down as they broaden from strategy and finance to the entire enterprise. This can have deleterious long-term consequences. Haque noted, "If you don't follow the process and get all the stakeholders involved and bless the approach to go after a specific target, then that process falls apart."

Haque added: "We work with clients on playbooks that outline the overall process for the whole transaction life cycle. The stage-gate process is critical, and so is corporate involvement and overall leadership buy-in."

### Grant Thornton insight

The shift from strategy to process is crucial. A solid way to manage such a shift is with a playbook, which offers a road map to guide an organization through M&A's complexities and increase the odds of a successful transaction.

### The special case of tax

One aspect of strategy shows a marked lack of confidence. Only 50% of respondents agree (and none strongly agree) that they understand the potential impact of the Tax Cuts and Jobs Act of 2017 on their M&A strategy. Schenkenberg offers two explanations for the anomalous lack of confidence around tax strategy. "I would start with the tax reform package itself. There still is a lack of guidance from the IRS and Treasury on a lot of the provisions that can impact deals. The IRS is working as hard as it can to get guidance out, but much of the new guidance is only proposed or simply does not exist yet.

"Secondly, there's a lack of history," Schenkenberg continued. "For example, dealmakers and their advisers are thinking about new structures, but these are uncharted waters and there is not much history into how these things are going to play out. I think that drives 45% of respondents to say, 'We don't have a good handle on this.'"

(See related content: ["Wayfair sparks new complexity in M&A deals"](#) and ["M&A is not the place for rose-colored glasses."](#))

### Synergies: clarifying what ‘somewhat clear’ means

A question about the vetting of synergies yielded some interesting responses. While 100% of respondents were clear that synergies were well vetted and understood, only 27% said they were very clear while 73% answered they were somewhat clear. “One possible reason so many respondents answered ‘somewhat clear’ is that leadership and corporate development, maybe with business owners, came up with a high-level top-down revenue or cost synergies estimate during the diligence phase,” said Purav Adiecha, Grant Thornton director, Transaction Services and Strategic Solutions. “When they answered ‘somewhat clear,’ it’s also possible that they don’t have a bottom-up detailed analysis of synergies and a clear roadmap of how to realize synergies. That’s very common because of timing and data access during the pre-close phase of a deal.”

The lack of post-close tracking can aggravate the lack of pre-close diligence. Adiecha elaborated, “Realization of synergies is highly correlated to planning and vetting during the diligence phase as well as the ability to track the realized synergies post-close. They generally don’t have a robust tracking mechanism, so there’s no way to know whether estimated synergies were actually realizable and eventually realized.”

### Explaining the gap between confidence and performance

There is a puzzling gap between confidence and performance. A full 95% of respondents believe that efficient M&A execution (diligence, planning, integration, optimizing) is a well understood core competency of their company. This seems inconsistent with low scores on the stage-gating and due-diligence parts of the process.

“The gap between confidence and performance may be explained by bandwidth,” said Peko. “Respondents understand what it takes to effect a successful merger and are competent to effect a successful merger, but they don’t have the capacity to achieve it.”

Planning and implementation intersect most dramatically on Day One. While only 19% of respondents feel strongly prepared for Day One, 76% are adequately prepared. The qualifier “adequately” may reflect the fact that most work gets pushed out from Day One, with a focus on 10 or 15 key requirements.

### Day One. Week One. Year One.

Respondent answers to questions about performance and results suggested that too many deals that make a great deal of strategic sense suffer from a lack of holistic due diligence.

Respondents were asked to rate the following:

- We are good at maintaining seamless operating continuity post-close (e.g., top-line/customer retention, supplier continuity, employee retention, addressing cultural differences, etc.) **77% agree or strongly agree**
- Our people are clear about the priorities for each post-close execution phase (e.g., stabilization, integration, synergy capture, optimization of deal potential, etc.) **77% agree or strongly agree**
- We are good at executing a seamless people and culture transition **53% agree or strongly agree**

### Grant Thornton insight

One reason for the underperformance of strategically promising deals may be a lack of bandwidth.

The 90%+ confidence levels associated with strategic planning are replaced by scores in the 70s for operating continuity and post-close execution, descending to 53% for seamless people and culture transitions.

The hard numbers delivered by deals seem to confirm the importance of factors such as culture, IT, and integration and execution. Only about half of respondents – 52% – track synergy and integration post-close, and only 33% have an acquisition scorecard. More than half of deals (57%) delivered less than 75% of expectation while only 10% delivered over expectations.

### 2019 and beyond

The survey sought to identify the risks in the current market and the near future and identify best practices for thriving in that market. It reaffirmed the importance of an integrated view of the deal, which accounted for IT, cultural and operational factors. It also confirmed the importance of stage-vetting and the inclusion of stakeholders, as well as the significance of a playbook approach — supported by sufficient resources — to implementation.



# 57%

of deals delivered  
less than 75% of  
expectations

“The survey supports Grant Thornton’s view that a holistic approach to M&A leads to much greater success,” said Peko. “That kind of approach emphasizes the importance of cultural integration, as well as all the financial and complex tax considerations. A deal that fully realizes the interconnectedness of all elements has the best results.”

*The 2019 Deal Value Curve M&A survey gathered responses from more than 100 M&A professionals. The respondents held a range of positions, with corporate development officer being the most common. They also represented a wide range of industries, from technology, media, and publishing to manufacturing and energy. The survey captured both mid-market and large-cap players, with 38% of respondent companies recording between \$500 million and \$2 billion in annual revenue, and 31% recording over \$2 billion.*

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