



## Technology: A revenue driver or another cost head?

IT due diligence can help uncover technology risks and assist in post-deal planning on the proposed transaction.



The better the question. The better the answer.  
The better the world works.



Building a better  
working world

# Information Technology (IT) is fast becoming a key lever to deliver operational benefits such as reduced operational costs, accelerate time to market or ease of scaling up business

## Why IT DD?

Inadequate pre-deal due diligence is one of the key reasons of M&A transactions not delivering the expected value. Further, due to the financial focus of due diligence in M&A transactions, buyers more often than not underestimate the role and impact of IT on the transactions, business growth and profitability due to the escalating costs and timelines associated with integration or separation.

Buyers are increasingly requesting professional advisors to undertake IT Due Diligence to address the impact on a transaction and its valuation. A global study<sup>1</sup> by EY reveals that:



**47%**

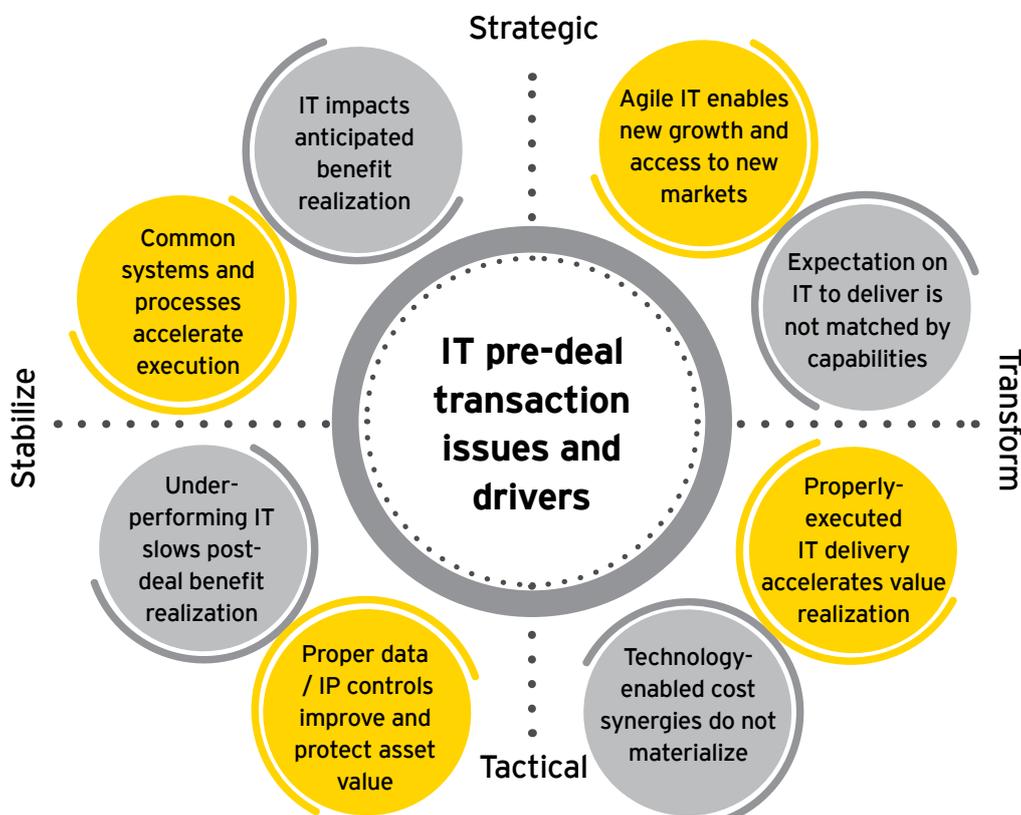
of executives say, in retrospect, a detailed IT DD could have prevented value erosion



**22%**

of respondents say they put a significant emphasis on IT as part of transactions

## IT DD - Issues and drivers



1 Source : EY; The Digital Deal Economy Study

# Considering IT's impact on today's business models, companies are increasingly leveraging IT value levers to achieve the expected deal objectives

## When does IT DD matter the most?

IT DD can help gain confidence when:

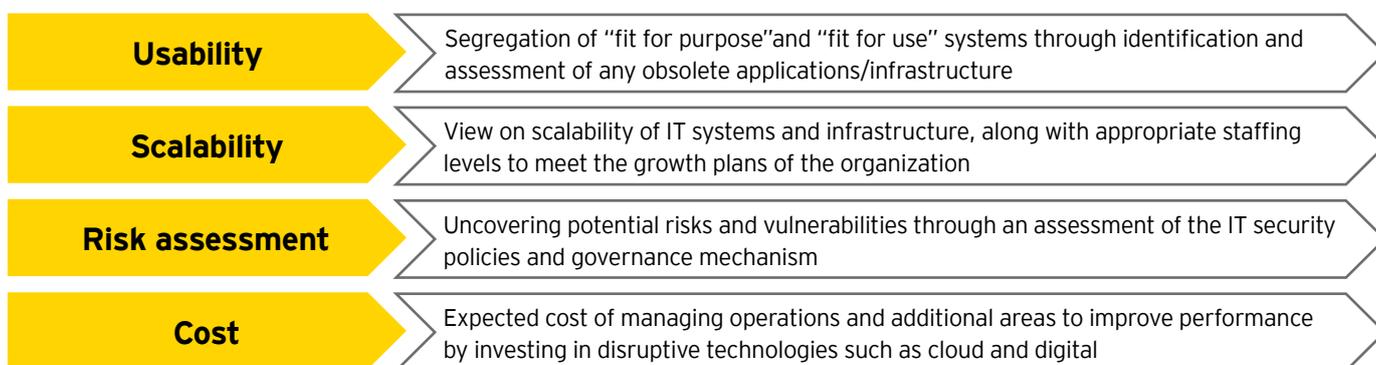
- ▶ Buyer wants to acquire a business that relies heavily on its IT systems
- ▶ Buyer wants to understand whether the underlying IT systems are secure, efficient and able to support the business plans
- ▶ Buyer and seller want to identify IT issues that could affect valuation and consequently impact the transaction
- ▶ Buyer needs to understand whether critical IT components are within the deal perimeter and whether a significant cost needs to be incurred to integration/separate

Typically, we align the focus of an IT DD with the client's deal objectives to deliver maximum value.

Corporate and functional diligence	Digital diligence	IT integration diligence	IT carve-out diligence
Understand systems supporting corporate functions such as finance/HR or functions such as manufacturing and SCM	Understand the scalability, flexibility and high availability of customer-facing systems	Develop a target state integrated IT operating model, IT landscape and integration roadmap	Understand the IT dependencies with the parent

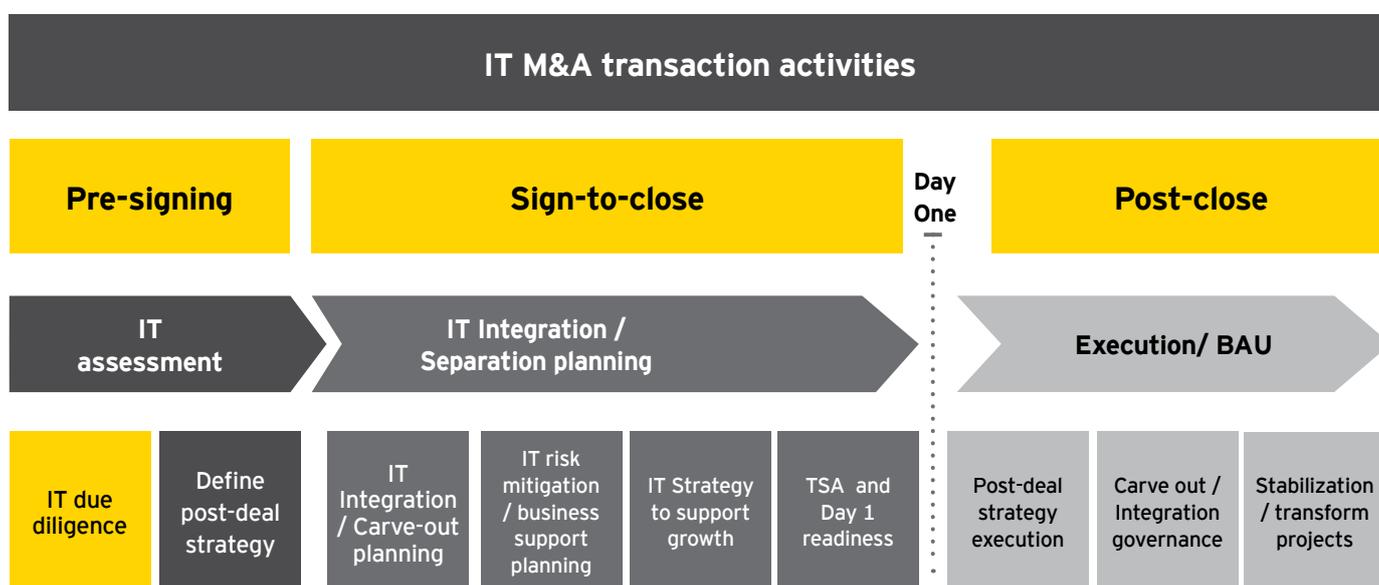
## Key benefits of IT DD

IT DD can help our clients understand a target's IT landscape and form a point of view on:



# IT due diligence (IT DD) can enable a client to identify how technology impacts the dynamics of a deal

## How do we do it?



Typically, we engage with clients during the pre-signing phase and conduct the IT due-diligence in 4-6 weeks. During this period, we collect/review requisite data, interact with client leadership teams, develop key findings and finalize our report.

**50%** of M&A synergies are enabled by IT directly or indirectly

Along with helping our clients identify IT issues that may impact the transaction, the report also helps them identify focus areas for integration/separation execution.

# Our issues-led approach to IT DD can help businesses to minimize potential disruptions to a transaction

As part of our diligence, we review the critical components of the target's IT landscape, such as:

1

## Strategic alignment



- ▶ Assess IT and business alignment including strategy and operating model
- ▶ Identify significant capability gaps and/or synergy opportunities

2

## Operating model and organization



- ▶ Evaluate the appropriateness and adequacy of the IT organization for the size of the business
- ▶ Identify operating model risks such as key person and/or key vendor reliance

3

## Technology costs



- ▶ Review the current IT OPEX/CAPEX and estimate the one-time expenses to integrate/separate
- ▶ Highlight risks and opportunities associated with third-party intellectual property rights

4

## Infrastructure



- ▶ Assess the ability of the technology infrastructure to support business operations
- ▶ Assess the level of investment in the maintenance of infrastructure, and associated risks

5

## Business applications



- ▶ Evaluate core business applications, their functionality and role in supporting key business processes
- ▶ Review the IT application architecture, its robustness and scalability

6

## Cyber security



- ▶ Establish where urgent remediation action is required to harden or improve EBITDA
- ▶ Assess the criticality of cyber security to the brand, operations, assets and applicable regulations

Having advised over **100+ transactions**, we understand that IT plays a vital role in realizing the expected benefits but also has the biggest lead time to deliver results.

# Case study

## Case study 1

We performed a buy-side IT due-diligence on a target NBFC being carved out of a large listed parent, with multiple lines of business in the financial services sector



### Transaction overview and objectives

- ▶ The buyer was a start-up NBFC in the SME sector
- ▶ The buyer requested for an assessment of the target's IT landscape, including systems, infrastructure and critical dependencies



### How EY helped

- We developed an IT DD report covering:
- ▶ IT organization
  - ▶ App architecture, license and IP ownership
  - ▶ Usability and robustness of existing IT systems across head office and branches
  - ▶ Vendor landscape and managed services



### Value delivered

- ▶ Understanding of IT strategy and investments
- ▶ Uncovering interdependency on parent group, and potential complexities during separation
- ▶ Improvement areas in IT architecture
- ▶ Leading practices for integration planning

## Case study 2

We performed a buy-side IT due-diligence (DD) on a leading Telecom company



### Transaction overview and objectives

- ▶ Our client, a leading telecom operator, was planning to acquire another telecom operator
- ▶ Client engaged EY assist in identifying key integration considerations for IT function, and any associated risks



### How EY helped

- ▶ Prepared a high level consolidation for IT components (applications / infrastructure)
- ▶ Identified key Day 1 considerations and target-state for key applications such as ERP
- ▶ Estimated one-time Capex and incremental Opex requirement for consolidated business
- ▶ Developed detailed IT integration plans



### Value delivered

- ▶ Visibility into target's IT landscape, including key applications, vendors, and current IT operating costs
- ▶ Alignment of IT integration plan with other business functions
- ▶ Identification of activities that require a long lead time for planning & implementation

## Ernst & Young LLP

EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/in](http://www.ey.com/in).

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2018 Ernst & Young LLP. Published in India.  
All Rights Reserved.

EYIN1802-003

ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

AJ

## Contacts

### Naveen Tiwari

Partner

Operational Transaction Services

T: + 91 22 6192 0550

E: [Naveen1.Tiwari@in.ey.com](mailto:Naveen1.Tiwari@in.ey.com)

### Hetal Shah

Director

Operational Transaction Services

T: +91 22 6192 0691

E: [Hetal1.Shah@in.ey.com](mailto:Hetal1.Shah@in.ey.com)

### Divyansh Nasa

Vice President

Operational Transaction Services

T: +91 11 6671 8098

E: [Divyansh.Nasa@in.ey.com](mailto:Divyansh.Nasa@in.ey.com)

### Mayur Panchal

Vice President

Operational Transaction Services

T: +91 22 6192 2157

E: [Mayur.Panchal@in.ey.com](mailto:Mayur.Panchal@in.ey.com)

[ey.com/in](http://ey.com/in)

