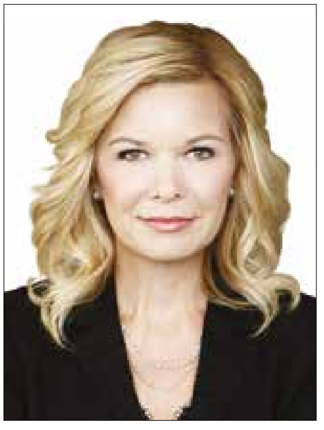
KEYNOTE INTERVIEW

Data analytics move up the value creation agenda



As private equity firms return to deal-making, investment in data analytics is consistent across industries, says Michele McHale, partner and private equity practice leader at Plante Moran

Q What impact has the pandemic had on post-acquisition value creation strategies, and where do you see private equity buyers focusing their attention? Does this vary by industry?

The covid-19 pandemic taught us that speed and accuracy are important in making decisions in an environment of high change. Our private equity clients are investing at an enterprise level in the people, processes and technology that are necessary to leverage data to draw strategic insights for more proactive, forward-looking decision-making.

Many of our private equity clients are helping their companies build processes and procedures that allow them to both plan and continue to progress while also remaining flexible and resilient at a time when things are changing frequently – sometimes daily and hourly. All are relying on data more than ever to inform decisions and support agility.

Companies have also had to figure out how to reach customers without being able to interact with them physically. In some cases, this opened up entirely new customer bases; in others, it opened management's eyes to the importance of knowing customers better and connecting with them digitally.

Approaches differ by industry, but the focus on using data analytics to improve performance is consistent. The real question is where and how a company can realize the greatest value by investing in analytics to determine the data they need to respond faster to changes in demand or labor and supply-chain challenges.

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Q What types of operational improvements and business processes are front of mind today as businesses position for future growth? Are there any key

industry considerations here as well?

A robust enterprise resource planning, or ERP, system to capture data and streamline financial reporting is more important than ever. AI and data analytics are top of mind for private equity firms, which requires robust data capture.

We're seeing this across industries. In manufacturing and distribution, companies are leading AI adoption and using technology to modernize their operations. Many manufacturers have been collecting data but not using it to its full potential; they're now implementing AI to utilize that data to optimize production output and model supply chain risks while also executing predictive maintenance and reducing unplanned downtime.

We see construction and engineering firms using data to better predict equipment maintenance costs, making job sites safer and more efficient, improving project management workflow integration and identifying what makes for profitable and successful bids.

Food and beverage industry leaders are using technology to deliver safer, more accurate production lines, conduct faster changeovers, identify potential equipment safety risks and fulfill picking and packing demands. We're also seeing clients manage their supply chains more efficiently through logistics, predictive analytics and transparency.

Finally, healthcare is using data analytics and AI to streamline processes, extending the reach of telehealth and improving revenue cycle management. The move toward value-based care is accelerating the need for better data and investment in new technologies.

Q What are the priorities when it comes to investment in the key support functions such as HR, finance and accounting?

One thing that hasn't changed is the importance of recruiting top talent. The pandemic revealed the cost of inexperienced personnel occupying C-suite roles, as companies leaned heavily on private equity professionals to provide value to their organizations.

Covid-19 highlighted the need for more investment in people, processes and technology. Private equity is investing in processes and resources to increase and maintain the consistency and quality of data. This is accelerating the ability to make data-driven decisions and creating new insights from data that change institutional or experiential biases. Current advanced analytics requires investment in and the application of big data, machine learning, data science and AI to go beyond descriptive analytics and shift to predictive analytics, which is what will or can happen next.

This leads to the need for stronger data governance – establishing consistent definitions and business rules for capturing key reporting dimensions, key performance indicators, and reporting standards. We can then move beyond 'flat reporting' into dashboards and data visualizations that are powerful and easy to understand.

With all this focus on data analytics, there's a renewed focus on privacy and security. Since the pandemic began, instances of data breaches, phishing scams, ransomware attacks and frauds have been increasing, putting the need to address the business risks associated with digital assets at the top of the PE agenda.

Q Have you observed a noticeable shift around technology, digitization and innovation? How is that impacting the value creation focus?

We've absolutely seen a noticeable shift, with the market need for digitization moving from implicit to explicit and the pandemic accelerating awareness by at least one year, maybe two.

The pandemic forced many businesses to go digital when consumer spending shifted online, making conversations about investment in data commonplace. Insights from data are now driving innovation as companies share data internally and with customers and suppliers to drive collaboration and create new value streams.

As companies get their data in order, there's a move toward machine-learning and robotic process automation to automate lower-level tasks that once required humans for data capture, data manipulation and reconciliations. Technologies are getting built into ERP systems so resources can be reallocated to more value-add analysis and critical problem solving.

Q Finally, how does M&A feature in value creation strategies in 2021, and what do you see as the outlook for deal activity?

I'm bullish on the outlook for deal activity in 2021. We've seen a significant uptick in Q1, with probably some of the highest volumes I've ever seen, and I expect that to continue. There are some obvious macroeconomic factors driving it, most notably the looming increase in interest tax rates. Estimates vary, but based on current tax policies versus future tax policies being discussed for 2022, sellers in some situations would have to receive 32 percent more in purchase price in 2022 compared with 2021 to end up with the same net proceeds. That's going to drive a lot of sellers to pull the trigger.

We're also seeing deal processes put on hold as a result of the pandemic start back up again as buyers and sellers gain more insight into the covid-19 impact and subsequent recovery.

Covid-19 impacted companies and industries in vastly different ways. Smaller companies that may not have been interested in selling previously may now view a transaction more positively because they had to put their own cash into the business and endured challenges managing through the pandemic. We already see this across many industries, particularly with healthcare providers.

Add-ons were some of the only deals getting done during the shutdown, and that strategy is only picking up momentum. We're also seeing companies that may not have considered a merger of equals before are now finding that more attractive. To realize the value creation in all these transactions, integration strategy and planning are critically important. ■