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Where deals are made

The New State of M&A

An **Americas** Perspective

2020-2025

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Executive Summary
An Americas Perspective

For all the advances that have been made, just how digitally mature and technologically sophisticated is the M&A, due diligence and asset marketing process for practitioners across the Americas?

In addition, what ultimately does the process look like for them today, in the future, and how much of it can and should be automated and in what areas?

These are some of the key questions we wanted to answer by surveying 706 Americas based M&A practitioners from corporates, private equity firms, investments banks, law and professional services firms for their views on the subject.

The Americas responses, which formed part of a global survey of 2,235, revealed many aligned perspectives with the other regions while revealing distinct differences as well.

706 Americas-based M&A practitioners surveyed

Regional differences in digital maturity and technological sophistication

For instance, while most practitioners around the world expect digital maturity of the M&A process to rise to a high level in five years' time from a medium level today, processes in the Americas are currently most advanced. Notably more practitioners in the region, for example, assess today a high level of maturity and sophistication at their company and industry-wide compared to their peers in EMEA and APAC.

What's more, US practitioners, perhaps unsurprisingly, are showing the greatest level of maturity and sophistication among their peers in the Americas, and throughout the rest of the world.

There are several reasons why this might be. But one of the main reasons is the global leadership the US has historically demonstrated, via Wall Street and Silicon Valley, in finance, financial advisory and technology. Another is that other markets have simply not invested in technology to the same extent or in the same way.

Room for Improvement

The US M&A market may be the most advanced, but what's interesting is that practitioners there, as across the Americas, believe there is still much than can be improved using technologies, such as AI and big data, in the dealmaking process. This is especially true in due diligence, the most time-consuming and delay-prone phase of the M&A process for Americas practitioners.

There are two clear issues that slow diligence:

Incomplete or inaccurate deal documents and information; and, for Canadian and Colombian practitioners in particular, inadequate technology supporting the process. Technology may not be able to materially improve the completeness and accuracy of deal information provided by sellers, but it certainly can help support the process in multiple ways.

Americas practitioners believe new technologies will not only help accelerate due diligence over the next five years, they also expect technologies to enable greater analytical capability, security and to simplify the entire process. Greatest hope is being placed in AI and machine learning technologies, especially as part of virtual data rooms, to improve, enhance and thereby accelerate due diligence the most.

In recent years, significant technological advances in the M&A and due diligence process have occurred. Yet in the next five years and beyond, new technologies, perhaps built-in to the next generation of VDRs, could potentially see the M&A and due diligence process transformed.

Americas practitioners are placing greatest hope in AI and machine learning technologies

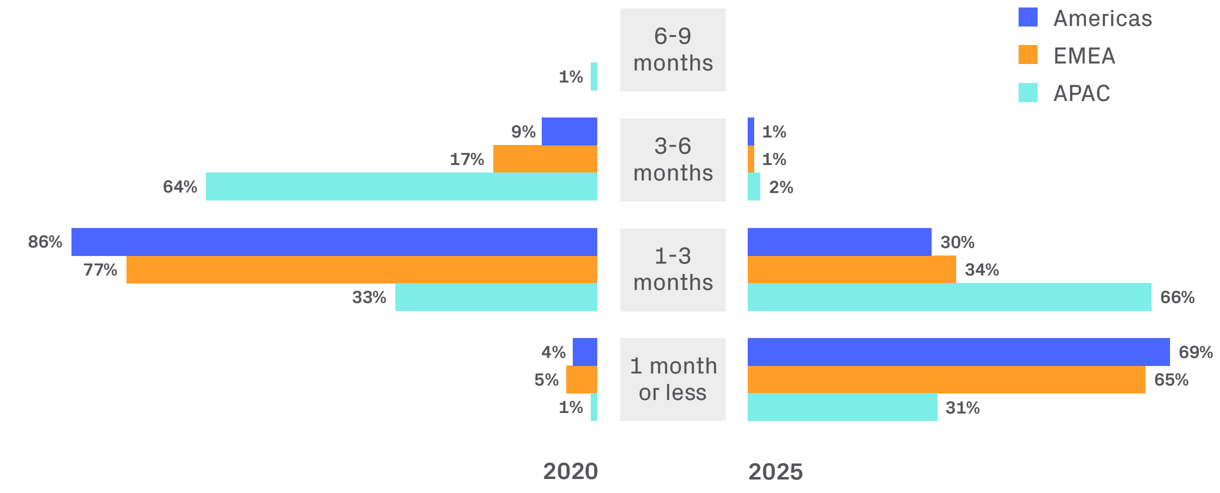
Analysis:
The Americas vs EMEA & APAC

As might be expected, the views of Americas practitioners are different to their EMEA and APAC peers in certain areas.

The need for speed

On the speed of due diligence, for instance, Americas practitioners assess the process in their region is the quickest at less than three months. They are also more confident than their EMEA and APAC peers that the process can accelerate to one month or less come 2025.

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

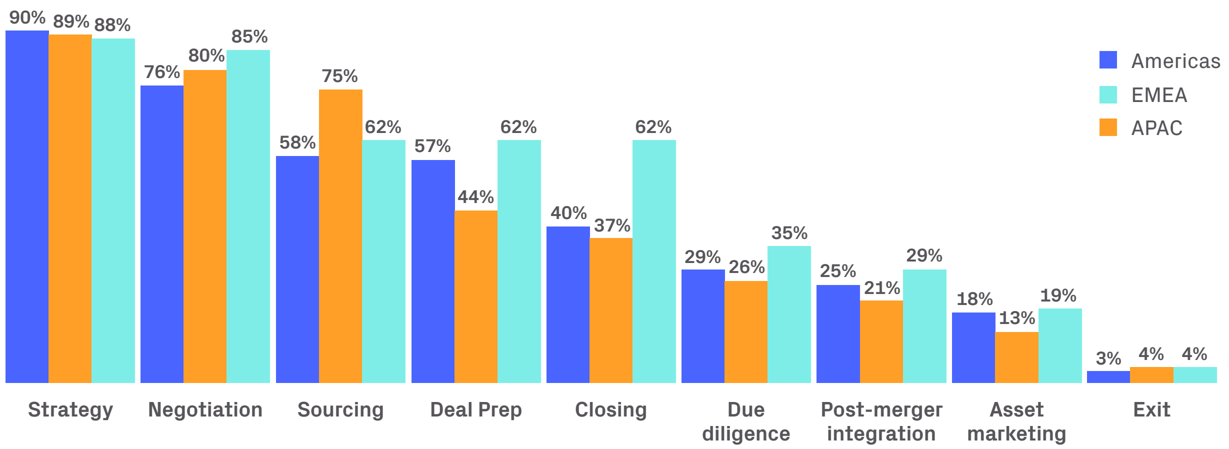


Access and analysis

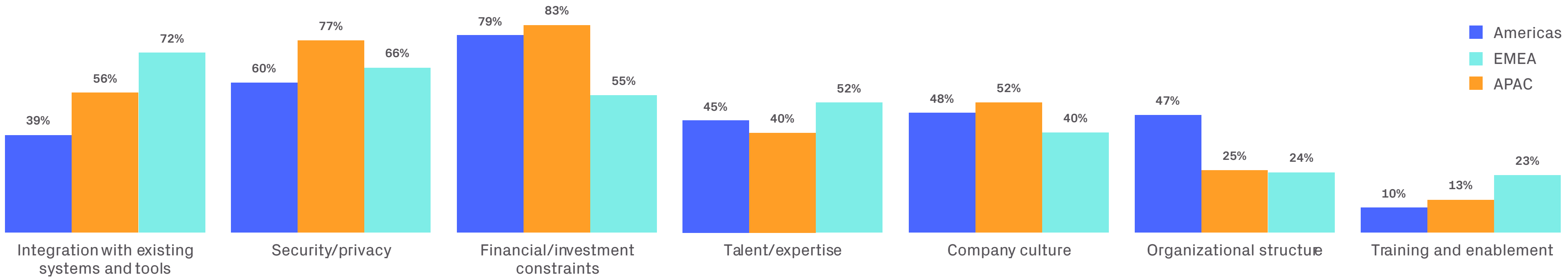
Also interesting is that there is greatest belief among Americas practitioners that part of the due diligence process can be automated. By comparison, practitioners in EMEA, and especially APAC, are not quite so convinced. Supporting this, significantly more Americas practitioners compared to their peers believe due diligence is the stage of M&A that could be enhanced most by new technologies and digitization.

There are challenges to technological advancement, however. A significantly higher percentage of Americas practitioners compared to their peers see the rigidity of their company's organizational structure as one of the main barriers to adopting new M&A process related digital technologies.

Which area(s) of M&A do you think cannot be automated?



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



2020 The current state of M&A

Technological sophistication

78%

of Americas practitioners say the M&A process industry-wide – and 72% at their company – has a medium level of digital maturity and technological sophistication.

Barriers to digitization

79%

of Americas practitioners say financial or investment constraints is one of the main barriers to adopting M&A process-related digital technologies.

Diligence speed

85%

of Americas practitioners say due diligence takes on average 1-3 months to complete on a successful deal. However, 30% of Brazilian practitioners say it takes on average 3-6 months.

Cyber security risk

47%

of US practitioners say data or cyber security concerns is the most common issue uncovered in due diligence that causes the withdrawal from a deal – the highest percentage across the Americas.

ESG in focus

87%

of Mexican practitioners say they have worked on M&A transactions that have not progressed due to concerns about a target company's ESG credentials – the highest percentage across in the Americas.

2020 The current state of the M&A

Prime for transformation

61%

of Americas practitioners say due diligence is the area in M&A that could be enhanced most by new technologies and digitization

Data privacy in focus

49%

of Colombian practitioners say they have worked on M&A transactions that have not progressed because of concerns about a target company's compliance with data privacy regulations – the highest percentage across the Americas.

Information deficit

30%

of Chilean practitioners say inadequate technology supporting the process is the factor that slows due diligence the most.

Poor visibility

53%

of Canadian practitioners say a lack of insights on buyer behavior across mandates is the most challenging aspect of marketing an asset for sale.

Asset integration

73%

of Americas practitioners say planning and executing the integration process is the most important success factor in M&A.

2025 The Future State of M&A

Technological sophistication

77%

of Americas practitioners say the M&A process at their company will have a high level of digital maturity and technological sophistication come 2025 – the highest percentage across the three main economic regions. Some 71% say the same of the M&A process industry-wide.

Transformational tech

31%

of Americas practitioners expect big data to have the most transformational impact on the M&A process over the next five years.

Diligence accelerates

69%

of Americas practitioners believe due diligence will take on average less than 1 month on a successful deal in five years' time.

AI enabled VDRs

46%

of Colombian practitioners say accessing a virtual data room with AI and machine learning technologies would help accelerate due diligence the most – the highest percentage across the Americas.

AI for info review

30%

of US practitioners believe harnessing AI and machine learning technologies to review and analyze data would help accelerate due diligence the most.

2025 The Future State of M&A

Advanced analytics

72%

of Canadian practitioners believe new technologies should enable greater analytical capability in the due diligence process in five years' time.

ESG more in focus

72%

of Americas practitioners believe ESG factors will be a very important consideration in M&A due diligence in five years' time – up from 16% of practitioners today.

Data privacy more in focus

64%

of Americas practitioners say data privacy regulation (e.g. CCPA in the US and t he EU's GDPR) will be a very important consideration in M&A due diligence in five years' time – up from 7% today.

Process security

32%

of Americas practitioners believe technology will help improve secure end-to-end process, data management and communications the most.

Modelling scenarios

16%

of Mexican practitioners believe technology will help improve running multiple scenario analyses or financial modelling in the future.

Case Study: Houlihan Lokey

How the crisis has brought M&A's digital future closer

Big transformational corporate mergers have ground to a halt across the world as a result of the coronavirus outbreak, but companies in the US mid-market could be the first to lead the deal rebound.

"Mid-market deal activity tends to fluctuate far less and while dealmaking is certainly more difficult for deals with of value of $1bn or less, the drop is far less dramatic than at the top end of the market," says Scott Adelson, co-president of Houlihan Lokey, a Los Angeles headquartered, global investment bank.

Based in Los Angeles, California, **Houlihan Lokey** is a leading global investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and valuation.

Scott Adelson
Co-President
Los Angeles

HOULIHAN LOKEY

Changing the Rules of Engagement

For those acquirers still pressing ahead with deals, the coronavirus outbreak has not just slowed down the pace of M&A activity, it has changed the rules of engagement.

With the majority of M&A and corporate professionals working from the home, dealmakers have become more reliant than ever on technology to stay connected and negotiate deals, to some extent giving a glimpse of what the future of dealmaking may look like. “Virtual meeting spaces are the new norm,” says Adelson.

Video conferencing is not new, but what’s changed is an acceptance by bankers that in times of crisis it can provide a substitute to face-to-face negotiation. The willingness to accept methods that would have been unthought of a few months ago, is down to the fact that all firms are adapting at the same time, so there is no first mover disadvantage in adapting new technology. “This is a shared global experience and people want to keep working,” says Adelson.

This way of working is more efficient, and clients want to keep in contact with their regular advisors. “It’s not as good as a face-to-face meeting, but it is not that bad either,” says Adelson. “It likely will raise the bar in terms of the need to travel to a client in the future. Where we have encountered problems on deals, it has not been due to technology.”

The Return of Dealmaking

When dealmaking returns, the ability to conduct comprehensive due diligence will be more relevant than ever; companies will need to add an extra dimension to their due diligence process to analyze deals for coronavirus risk, depending on the sector in which they operate.

If the pandemic has increased digitization in the M&A process, the question is whether or not this marks a permanent shift among dealmakers?

Bankers have realized unforeseen efficiencies in the current environment, but Adelson does not envision an end to the role of the trusted advisor just yet. “Technology is a valuable building block in the M&A process but so far we have not seen a fintech solution that can replace the bespoke role of the advisor.”

Case Study: Deloitte

Analytics are transforming the M&A process

The M&A process is being disrupted as analytics empowers advisors to process greater levels of data and enables clients to gain a competitive edge.

“Around five years ago we were aware that the diligence process was producing a level of data that was difficult to process manually and that was when we began tilting our business model towards what we call next generation services,” says Chris Woolley, partner at Deloitte.

The step change in available data meant that there is the scope to learn more about a business than ever before and the use of analytics means buyers can make a judgement based on facts with depth, speed and confidence.

Based in New York City, **Deloitte** provides audit, consulting, tax, and advisory services to nearly 90 percent of the Fortune 500 and more than 5,000 private and middle market companies.

Chris Wollet
Partner
New York

Deloitte.

This is particularly relevant in a traditional M&A auction sales process, where a range of bidders are competing for an asset. For the seller there is an opportunity to present the data in a way that shows a coherent story for potential bidders.

On the buyside, the availability of data and the ability to analyze it rapidly may make a potential acquisition more deliverable. "In the due diligence process, data can enable a bidder to steal a march on their competitor," says Paul Leather, M&A analytics lead at Deloitte.

Enabling Deals with Technology

Technology is enabling deals by opening up acquirers to previously unforeseen opportunities. For example, Deloitte worked for a private equity buyer, with existing investments in the technology sector, that wanted to make a bolt-on acquisition. However, the target company used a different accounting method for recognizing revenues, which would have been a stumbling block to completing a deal.

Yet Wooley, says: "By using analytics we were able to re-base the revenue recognition system onto the acquirer's revenue recognition basis they could make the acquisition work. By using analytics this was achieved in a matter of hours."

Another example is the use of geo-location technology in the diligence process. "This provides analysis around where the nearest competitor is located or how greater cost savings or value can be realized by re-locating stores, the sort of dynamic modelling that would not have been possible five years ago," says Leather.

Deloitte has also used analytics to help companies avoid making costly acquisitions. "We were helping a client which was looking to acquire a credit business," says Leather. "The valuation of the business was based on having a high-quality loan book. Our analysis revealed this not to be the case, so our client walked away."

To be sure, the use of analytics in M&A is set to drive further change. "We are seeing disruption at every stage of the M&A process from target identification to value creation," says Woolley. For example, in the last five years the concept of M&A due diligence as a discrete activity has changed and has now become an ongoing part of business operations.

"M&A transactions represent a unique opportunity to understand what drives the performance of a business," says Wooley. "With analytics there is scope to apply this to the day-to-day running of the business and drive value creation once the deal has completed. This will boost the success rate of acquisitions in the post-integration phase. That means due diligence is not simply a one-off exercise but one which can drive future performance."

Case Study:
BTG Pactual

Harnessing the power of data in M&A

The Cross-Country Regulation Challenge

Latin America is a region that offers big risks and rewards for local and overseas acquirers. Understanding how and why these risks and rewards vary across the region's economies is an important first step in being able to identify investment opportunities that are worth pursuing and, just as importantly, those that are not.

"Even within LatAm it is not easy, for instance, for a Chilean buyer to quickly understand tax legislation in Brazil, or for a Brazilian buyer to understand foreign exchange rules in Argentina," says Bruno Amaral, partner and head of M&A at São Paulo headquartered investment bank BTG Pactual. "Advisors have a key role in helping their clients navigate through these issues when making their long-term investment decisions."

BTG Pactual is a Brazilian financial company that operates in the markets of investment banking, wealth management and asset management. It offers advisory services in M&A, wealth planning, loans and financings, as well as investment solutions and market analyses.

Bruno Amaral
Partner & Head of M&A
São Paulo

Sector Bright Spots in a Challenging Environment

As elsewhere, the coronavirus crisis has hit M&A activity hard in the region, with announced deal volumes falling 30% during the first quarter; suppressed activity that has extended to the end of June. There are, however, signs activity will pick-up again in the coming months, driven by, for instance, companies in the natural resources sector potentially merging or selling-off non-core operations in response to a languishing oil price, and private equity firms that have substantial amounts of capital to deploy across the region.

The New Role of Technology

In the meantime, Amaral says for those acquirers and advisors that are proceeding with deals, video conferencing has become the go-to means to facilitate negotiations, and virtual data rooms have, for the speed, efficiency and security they offer, taken on greater importance in the due diligence phase.

Longer term, Amaral believes technology, particularly its application in helping to analyze data, could help transform the dealmaking process, especially in helping acquirers better identify investment opportunities and assess risks, thereby potentially increasing likelihood of deal completion. This is important in a region where there is a higher degree of execution risk due to a lack of publicly available information on companies.

"Data is the new oil, and I believe we are only in the beginning stages of how technology will allow us to use data in a more efficient and assertive way, particularly in screening new deals, due diligence and valuation," says Amaral. Advisors and their clients are still learning about all the digital tools currently available to them, but Amaral says there are specific examples of where big data, for instance, has facilitated dealmaking.

"Transactions, such as tender offers, benefit from real-time monitoring of investor reactions to transaction terms," he says. "Big data analysis also helps in modelling businesses such as utilities, concessions, oil and gas, technology, among others."

For Amaral, technology has a critical role to play in transforming the M&A process in the region, as elsewhere. But he says as much as the coronavirus has accelerated digitization, and virtual deal execution, technology is no replacement for the experience and expertise advisors provide in and across developing economic regions.

"In Latin America," he says. "The economic, regulatory and legal environment changes more frequently than in developed markets, so there's no substitute for having on-the-ground advisors who can help clients assess the opportunities and risks of a particular investment and consider the latest developments in each of the markets in the region."

Case Study:
Baird

Process plus technology key to accelerating diligence

Mega-sized acquisitions may grab the headlines, but middle-market M&A is always where most of the action is irrespective of whether the deals are transacted in Europe, Asia-Pacific or the Americas.

In the thick of this activity is Milwaukee-headquartered Baird, a mid-market focused, full-service investment bank that specializes in advising companies, especially private equity firms, on M&A throughout the world. In fact, 80% of its investment banking business is working on sell-side mandates for financial sponsors globally.

The Evolution of Due Diligence

Key to the success of any deal is the due diligence that is done, and for Justin Prichard, managing director and co-head of technology, media and telecoms investment banking at Baird, the technology supporting the process has evolved in recent years, offering new capability to practitioners in areas typically labor intensive.

This includes the adoption of "natural language processing to help draft [due diligence] reports while software is used to interrogate management information systems," says Prichard, adding that, as a result, "long-form due diligence reports" are likely to become a thing of the past.

Baird is a US-based, global financial group providing private wealth management, asset management, investment banking, capital markets and private equity services. The firm has offices in Europe and Asia.

Justin Prichard
Mangaging Director
Milwaukee

BAIRD

Strikingly, he also believes that, so long as companies are comfortable with and adhere to data protection and privacy regulations, such as the EU's General Data Protection Regulation, the industry could move towards "a point in the next five years where qualified parties could be given a log-in to a core set of company information to conduct their own interrogation on that information".

Such access could potentially speed up the due diligence process, but that may depend to some extent on what technology could be used to run the analysis. Technology can, according to Prichard, accelerate due diligence and deal execution, provided it is part of a well-planned M&A sale process, which includes doing as much of the heavy lifting as early as possible.

"We will spend considerable time before launching the transaction working on the financial and commercial due diligence. By doing this early we can ensure that the diligence is aligned with the narrative of the sale process so there are no surprises down the line that could derail the process," says Prichard.

Pre-Deal Due Diligence Enables Faster Execution

Baird ensures all of the financial and commercial due diligence is completed before the sale process kicks off, enabling faster execution. "The more questions we can answer for the prospective bidders in advance, the more we can retain control of the process and the timetable," says Prichard.

Moving from first round bids to closing the deal as quickly as possible, whilst maintaining competitive tension, ensures process control remains with the seller. Baird achieved this in advising private equity firm 3i Group on the recent sale of its investment in Aspen Pumps Group to Inflexion Private Equity.

"We received first round bids on a Friday and signed the deal the following Tuesday morning," says Prichard, adding that speed of execution was in large part down to extensive upfront due diligence preparation.

Being clear from the start keeps everyone on track while comprehensive upfront due diligence means it's easier to narrow the field to the most relevant bidders. "By being as transparent and providing as much information as possible upfront, we can be sure we identify the most relevant buyers," says Prichard.

Recommendations:
Three Ways to Digitize your M&A

The M&A Lifecycle

Strategy → Sourcing → Asset marketing → Deal prep → Due diligence → Negotiation → Closing → PMI → Value capture

Datasite

1 Streamline key activity in the early stages of the M&A process, starting with your asset marketing process. Use technology to:

Fully automate buyer tracking allowing you to review your project status all in one place - from initial contact to negotiating NDAs, sending CIMs and receiving IOIs

Bulk Watermark Documents & Bulk Create E-mails while still owning the communication from your own Outlook

Gain real-time insight with instant reporting for senior management and/or clients

2 Revolutionize the deal preparation and due diligence phase with powerful AI and machine learning capabilities to:

Automatically categorize thousands of documents in minutes

Allocate and index documents into appropriate folders

Bulk redact sensitive information and data in seconds to ensure GDPR/CCPA compliance

3 Manage the most complex and time-consuming stage of the M&A process, due diligence, by using technology to:

Create Customized Analytics allowing you to stay on top of your deal with interactive dashboards that track meaningful buyer activities

Apply advanced Q&A tools for efficient and secure collaboration and communication of all the parties involved in the due diligence process

Research Methodology
An Americas Perspective

The analysis in this report is based on the survey responses from 706 M&A practitioners across countries of the Americas. The responses form part of a global survey of 2,235 M&A practitioners.

Responses were split between the following six countries: US (30%); Canada (14%); Brazil (15%); Chile (14%); Colombia (14%); Mexico (14%).

By institution type, respondents were evenly split between companies and private equity firms (50%), representing M&A clients; and investment banks, professional services and law firms (50%), representing M&A advisors.

By seniority, board and executive management level executives comprised 31% of respondents, with managing partner, managing director and partner level executives comprising 46%. Director, principal, associate level executives comprised 23%.

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Research Demographics
An Americas Perspective

Which of the following best describes your position?

Board level executive	16%
Executive management level executive	10%
Managing partner	12%
Managing director	16%
Partner	13%
Director	20%
Principal / Associate / Analyst	12%

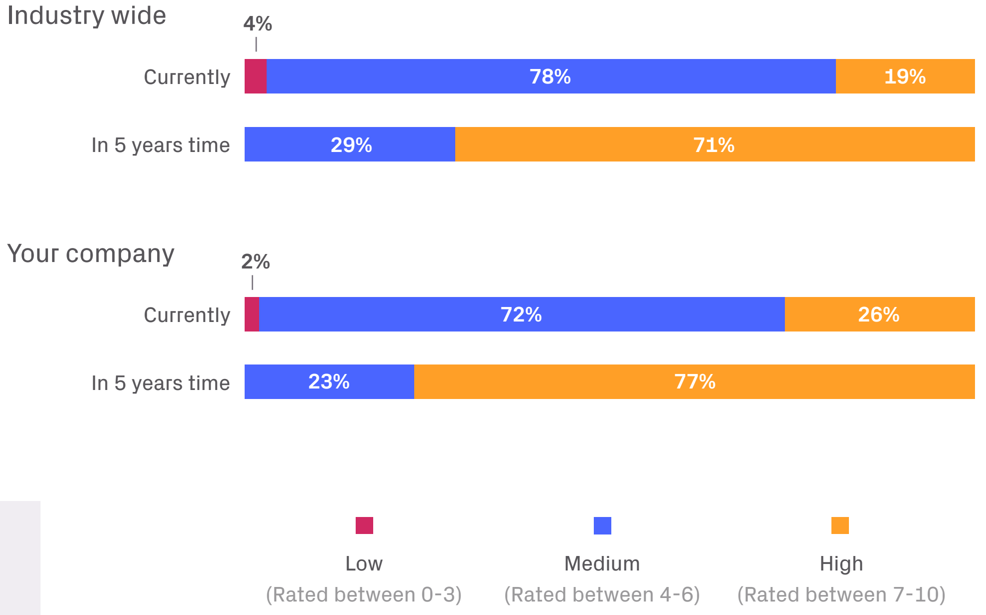
Company type

Company type	
Corporate	25%
Private equity firm	25%
Investment bank	20%
Accountant	9%
Law firm	21%

Results
An Americas Perspective

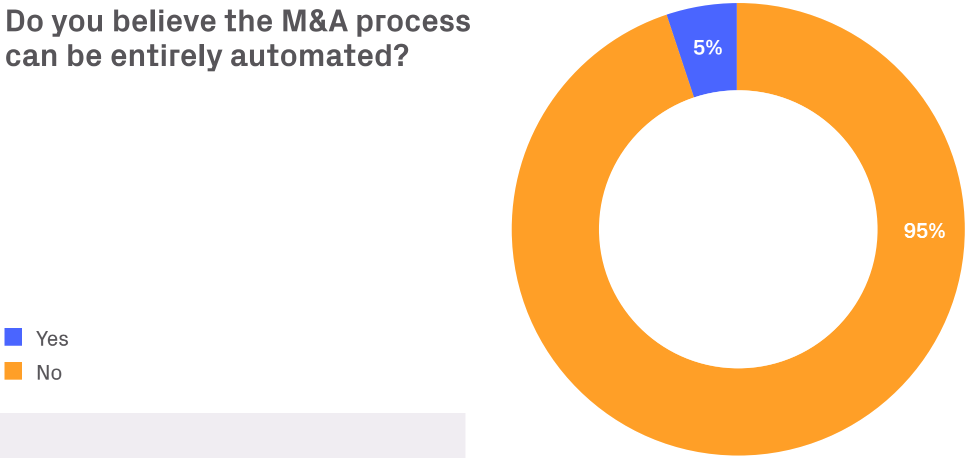
Questions 1+2

What level of digital maturity and technological sophistication would you assign to the M&A process?
On a rating between 0 (Low Level) to 10 (High Level)



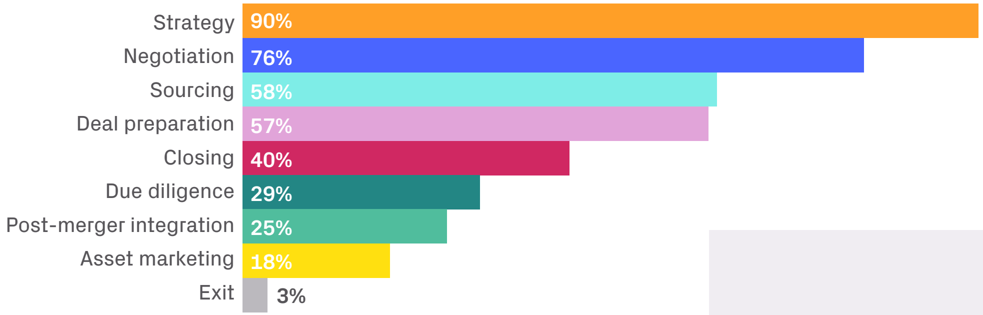
Question 3A

Do you believe the M&A process can be entirely automated?



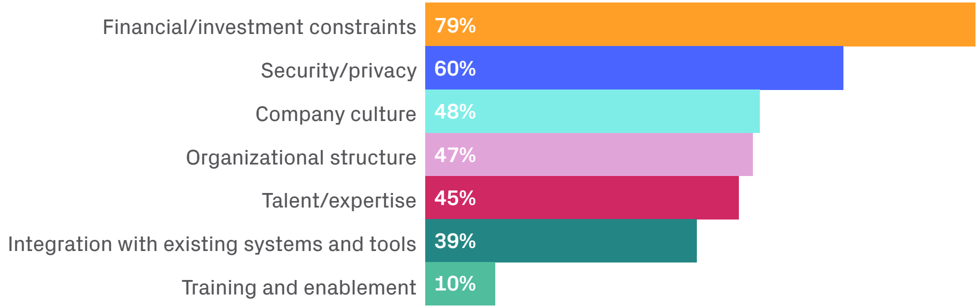
Question 3B

Which area(s) of M&A do you think cannot be automated?



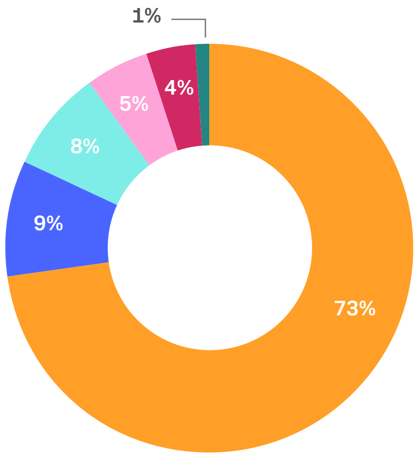
Question 4

Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



Question 5

When thinking about the following key areas or stages of M&A, which is the most time consuming?



- Due diligence
- Deal preparation
- Negotiation
- Strategy
- Asset marketing
- Post-merger integration

Question 6

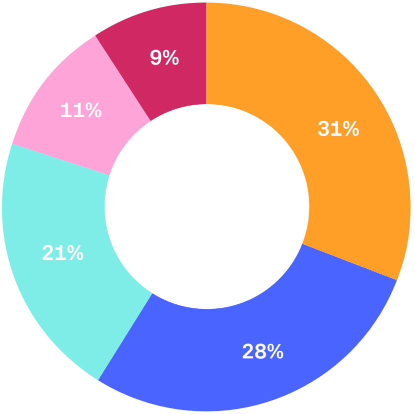
Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

61% Due diligence
13% Strategy
10% Asset marketing
6% Deal preparation
4% Sourcing
4% Negotiation
1% Closing
0% Post-merger integration
0% Exit

Question 7

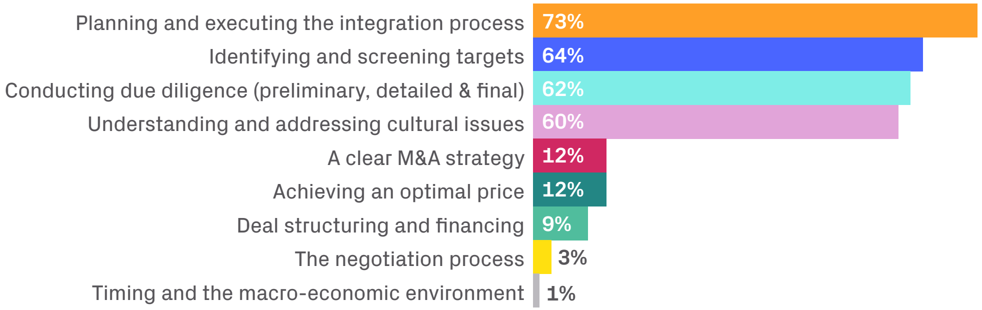
Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?

- Big data
- AI and machine learning
- Blockchain
- Cloud
- CRM (ie relationship mapping) platforms



Question 8

What are the most important success factors in M&A?

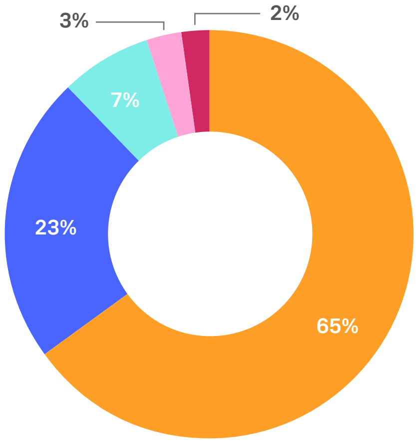


Question 9

In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

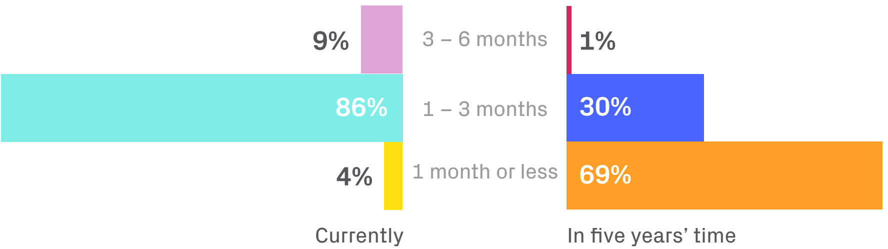
New technologies should...

- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Make it faster to close deals
- Reduce the total deal (resources and time) cost



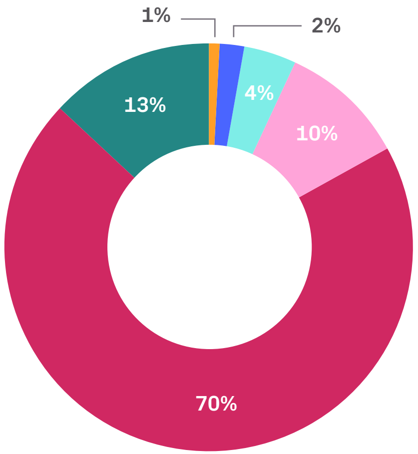
Question 10

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?



Question 11

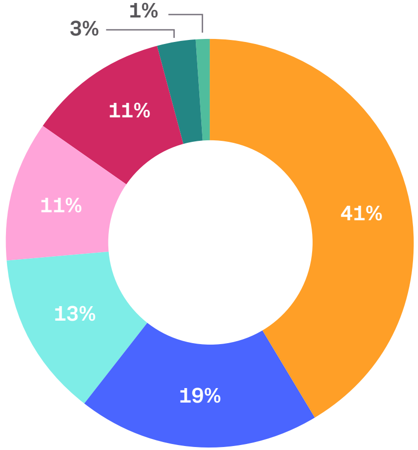
Approximately, what ratio of your deals do not progress because of an issue uncovered in due diligence compared to deals that do progress?



- 1 (does not progress) in 2 (that do)
- 1 in 3
- 1 in 4
- 1 in 5
- 1 in 10
- 1 in 20

Question 12

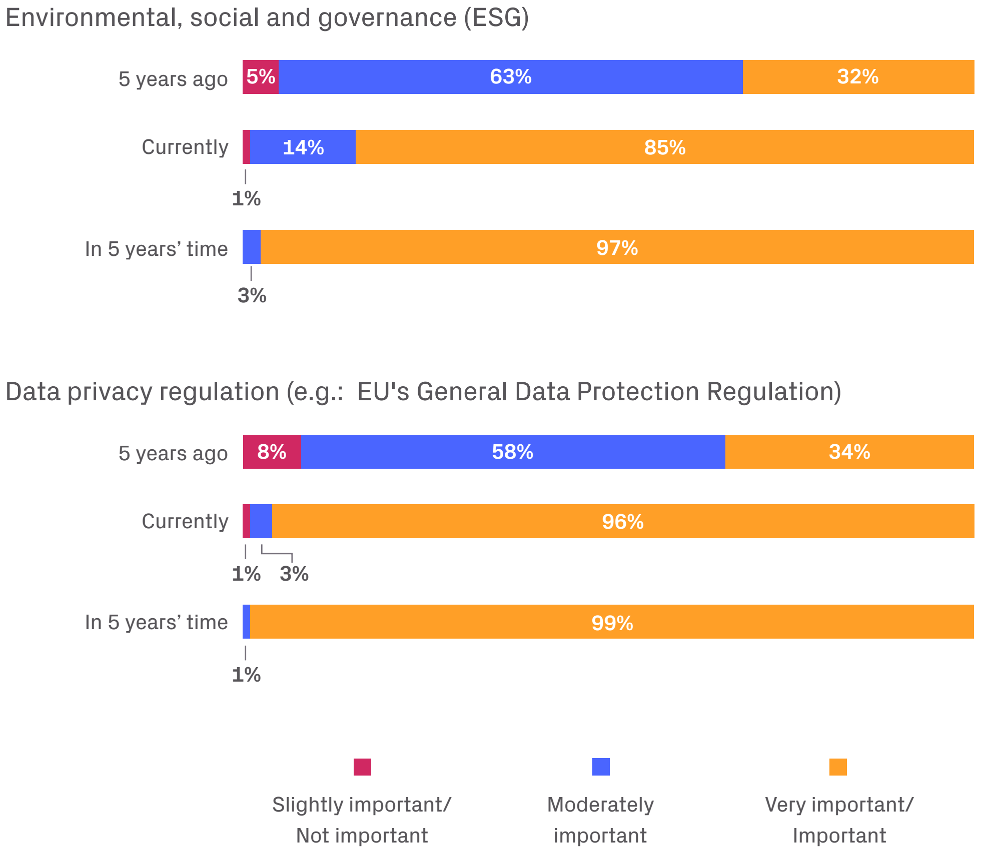
What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?



- Data or cyber security concerns
- Financial weakness or fragility
- Excessive valuation
- Financial irregularities
- Leadership concerns
- Regulatory non-compliance
- Staff concerns

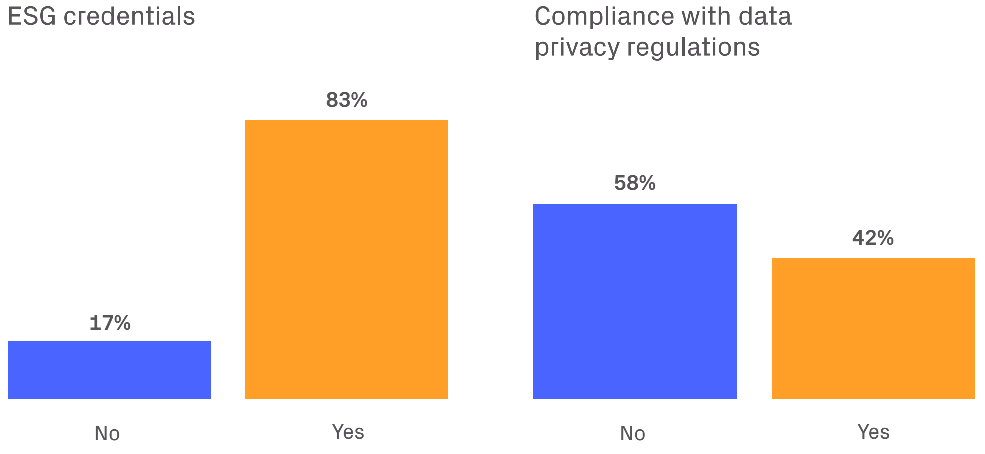
Question 13

As a consideration in M&A due diligence, assess the importance of the following issues:



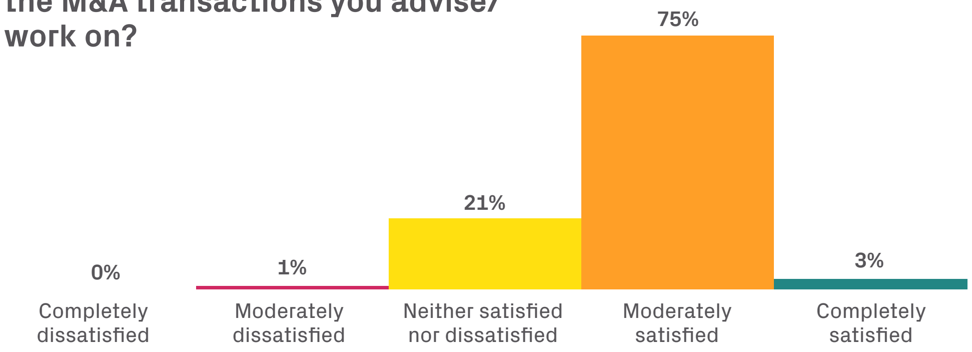
Question 14

Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



Question 15

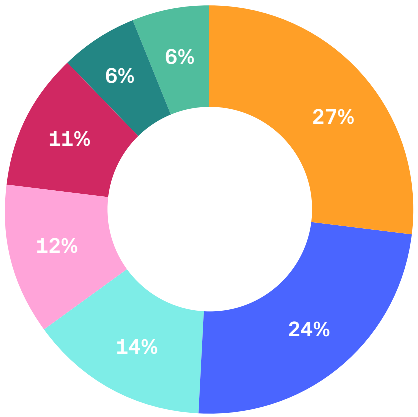
Generally, how satisfied are you with the speed of due diligence on the M&A transactions you advise/ work on?



Question 17

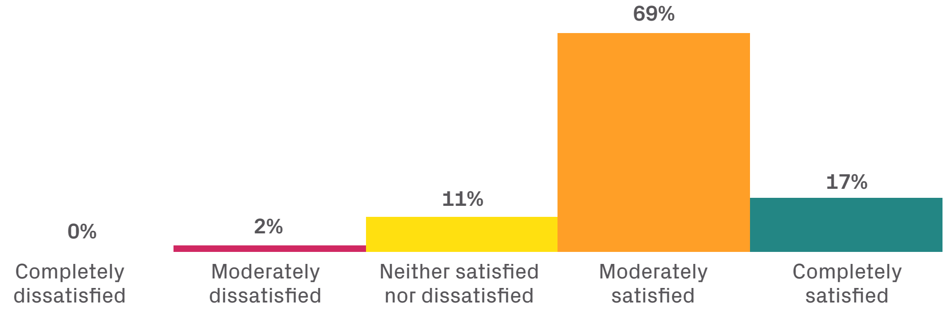
Which of the following factors tends to slow the due diligence process the most?

- Incomplete or inaccurate deal documents and information
- Inadequate technology supporting the process
- Insufficient number of people involved
- Document or contract review and analysis
- Poor communication between parties
- Regulatory compliance
- Too many people involved



Question 16

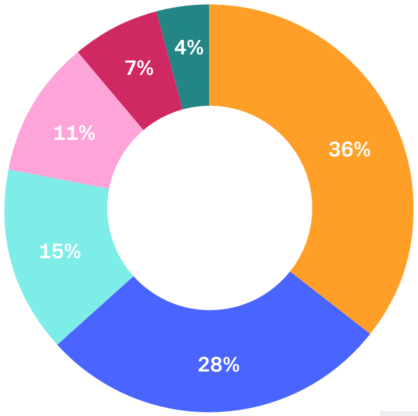
Generally, how satisfied are you with the technology you use to conduct due diligence?



Question 18

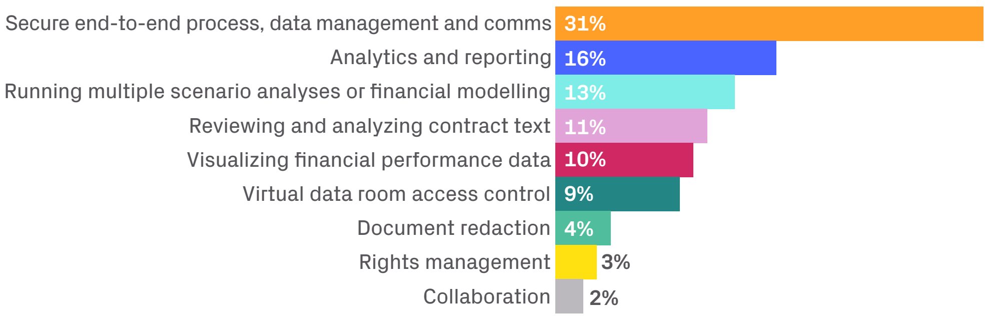
Which of the following would help accelerate the due diligence process the most?

- Accessing a virtual data room with AI and machine learning technologies
- Harnessing AI and machine learning technologies (to review and analyze data)
- Standardization of documents and processes
- A smaller more specialist due diligence team
- A larger due diligence team
- De-regulation in certain areas



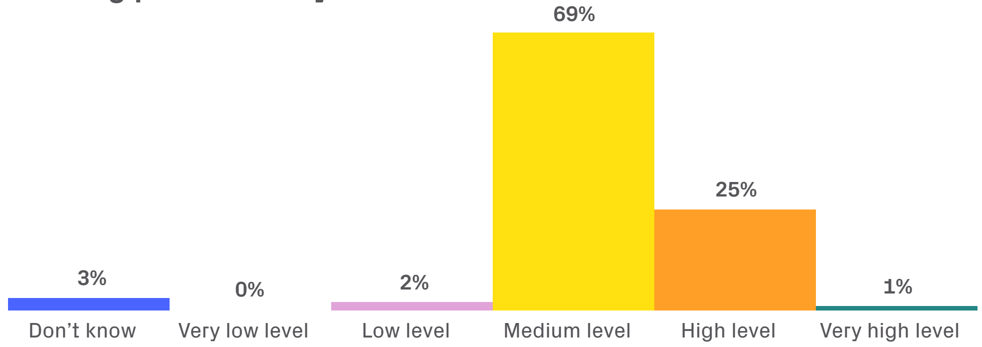
Question 19

Which of the following do you believe technology could help improve the most?



Question 20

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



Question 21

When marketing an asset for sale, what is most challenging?

52% Lack of insights on buyer behavior across mandates

29% Poor visibility on activity around specific projects

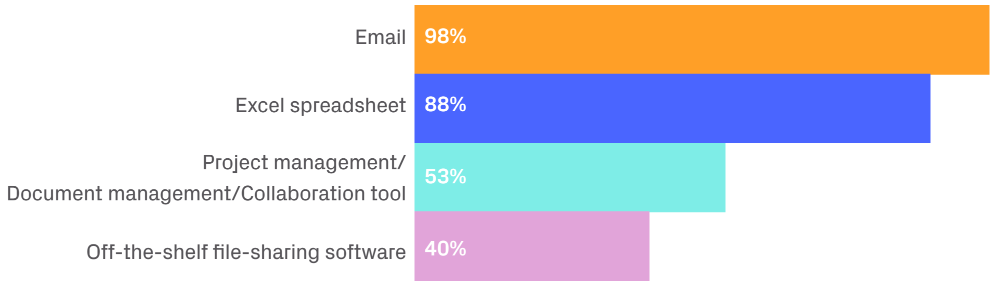
9% Provision of client information on project status

6% The inefficiency and manual nature of the process

3% Watermarking and emailing teasers, NDAs etc

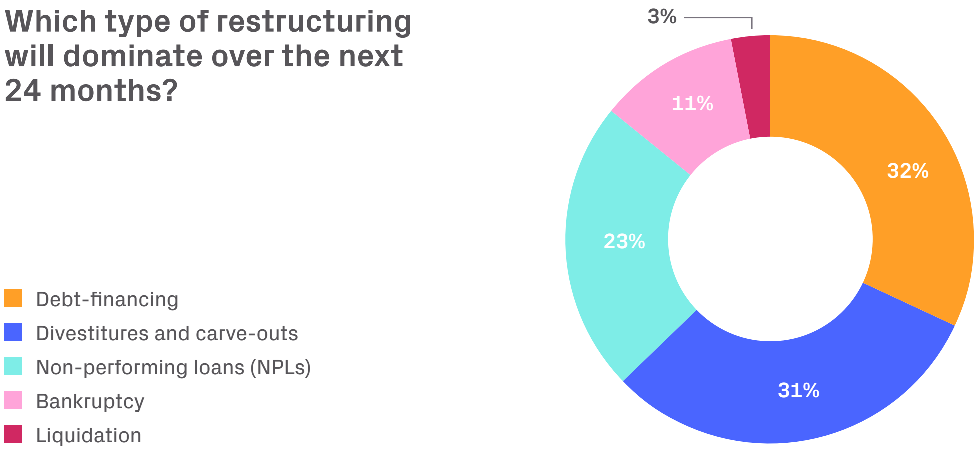
Question 22

What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?



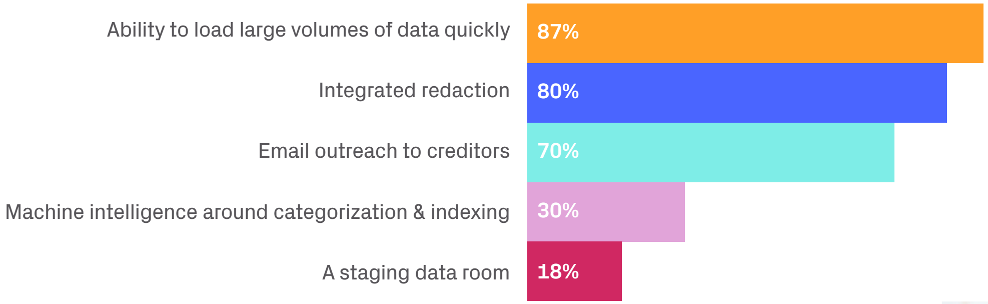
Question 23

Which type of restructuring will dominate over the next 24 months?



Question 24

What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

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