MOORE Intelligence

FAST FORWARD TO THE DIGITAL REVOLUTION

Smart technology is helping companies survive the pandemic and driving an M&A boom

$28 trillion

Forecast lost economic output this year due to COVID

A digital revolution among small and medium size enterprises (SMEs) worldwide is accelerating at an unprecedented pace as business owners invest in data analytics and automation to survive and thrive in a fiercely challenging environment.

Hard-pressed SMEs are rapidly adopting digital tools as they seek to cut costs and eradicate inefficiencies in order to remain viable. However, financial hardship is not the only driver of digital change.

At the other end of the financial spectrum, well-capitalised companies and deal-hungry private investors are using Big Data, analytics and Artificial Intelligence (AI) to identify and appraise potential acquisition and investment targets.

Moore corporate finance experts say digital tools are increasingly being used to turn data into investment opportunities, stoking a global merger and acquisition boom. Sectors currently attracting keen investor interest include fintech and medtech while consolidators are also eyeing the consumer electronics sector.

The backdrop to these changes is the global pandemic that has thrown the global economy into reverse and will cost an estimated $28 trillion in lost economic output in 2020, according to the International Monetary Fund (IMF). The fallout is impacting enterprises of every size and has left few industry sectors unscathed.

Experts across the Moore Global network say it is not just ‘new economy’ businesses that are aggressively pursuing digitalisation and automation. The pandemic has forced more traditional industrial, manufacturing and services businesses to hit the fast-forward button - reducing timescales for digital transformation from five years to two or even less.

Moore Belgium has made a significant investment in Artificial Intelligence tools, data analytics, Robotic Process Automation (RPA) and automated accounting solutions. It is among several firms in the Moore network emerging as leaders in the field, having deployed these tools on behalf of clients for several years and generated evidence of quantifiable benefits.

"We've been talking to clients about these tools for two years and those that have used them are already realising major cost and efficiency benefits - others are turning to them now because Covid has forced them to operate differently," says Philippe Craninx, managing partner corporate finance, Moore Belgium and leader of Moore Global Corporate Finance.

Craninx says businesses increasingly recognise that in particular, automated accounting can not only make repetitive time-consuming tasks more efficient and cost-effective, it can also provide real-time actionable data related to missed payments or changes in key financial ratios. It can also generate business intelligence for predictive modelling and frees accountants and business consultants to perform more value-added tasks that can help clients build their companies.

"The number of clients using automated accounting has more than doubled in the last few months. The fact they cannot physically come to our offices now is prompting them to use this technology... It is absolutely the beginning of a revolution," Craninx says.

Automated accounting is just one aspect of the multi-faceted digital transformation which is taking place in workplaces around the world.

For example, Craninx says an audit team dedicated to business analytics is delivering major improvements for clients. It used a combination of AI and analytics in a project for a client whose company maintains cooling systems for customers.

They extracted management data from the cooling systems and converted it into an AI tool capable of predicting when equipment is likely to break down or need maintenance work.

Philippe Craninx, managing partner corporate finance, Moore Belgium:

"It is the beginning of a revolution."

>100%

increase in clients using automated accounting

$2 trillion

Global firepower of private equity firms

"The fact you can plan maintenance interventions has a double positive effect. Our client's customers are happy because they have fewer breakdowns in their equipment and associated productivity losses and our client can plan his business more efficiently."

Analytics experts also helped a food processing company reduce buffer stocks of raw materials in its production line, resulting in a reduction in working capital requirements.

Reducing cash requirements can make a critical difference in the current climate.

Depending on how efficient a company is prior to introducing process analytics, they can potentially reduce inventory requirements by between 5% and 30%, Craninx says.

He says twin forces are driving digitalisation and greater use of analytics: "On one hand, companies operating in sectors hardest hit by the pandemic are under severe financial pressure. They recognise that they need new digital tools in their armoury to remain viable in a rapidly-changing global economy."

"At the other extreme, well-capitalised ambitious and thriving companies, are using sophisticated analytics not only to help their businesses run more efficiently but also to run a rule over potential acquisition targets."

The economic downturn has created opportunities for global consolidation in many sectors, with fintech and health tech among the hottest target sectors.

The initial response to the pandemic was a global freeze on deal activity through Q2 but the M&A market roared back to life in Q3 with global deals amounting to $892 billion, according to Mergermarket.

Moore firms in Europe, Asia and the United States report an upsurge in deal discussions, enquiries and due diligence work both from mid-market businesses eyeing growth via merger or acquisition (M&A) and wealthy clients keen to invest in innovative companies.

A wall of money is driving dealflow: private equity firms currently have an estimated $2 trillion of global financial firepower seeking investment opportunities, according to Morgan Stanley, while family offices are also hunting for deals.

The appetite for deals in Asia-Pacific is particularly strong, says Patrick Rozario, managing director advisory services for Moore Hong Kong and a member of Moore Global Corporate Finance. He says Asia-Pacific focused private equity and venture capital assets under management are currently at a record high of $1.3 trillion.

$1.3 trillion

Asia-Pacific focused private equity & venture capital funds

1.7 billion

adults worldwide are unbanked, with more than half in the Asia-Pacific region

"At this stage M&A activity is below normal here but people are not sitting around - everyone is studying investments and looking at future structures and tax implications," he says. "It is not only Covid that is preoccupying investors, says Rozario, they are also considering the impact of International political developments and trade protectionism.

"I predict deal activity will go beyond normal business levels – it will come faster than Q2 2021 because governments are running out of stimulus packages and accumulating too much debt and support packages to companies will start to wind down. That will accelerate consolidation."

China, the economic powerhouse of the region, stands out among major global economies as the only one expected to advance in 2020 with forecast GDP growth of 1.2% followed by a sharp rise to 8.2% in 2021. It underlines the likelihood of a multi-speed global economic recovery, with China in the fast lane.

Rozario adds that economic growth in China will stoke inflationary pressure and that with interest rates at historic lows, investors are under increasing pressure to invest in assets that can deliver better returns than cash. Currently 23 countries have interest rates of zero or below.

Patrick Rozario, managing director advisory services for Moore Hong Kong:

"There is a lot happening – both fragmentation and consolidation."

"There is a lot happening in our region - both fragmentation and consolidation. We are seeing a lot of restructuring of industry and the supply chain," says Rozario.

Supply shortages and supply chain interruptions during the pandemic are prompting a reassessment of strategic manufacturing locations to reduce dependence on China. Rozario says this will drive new investment in locations such as Vietnam and Cambodia, although China will remain the dominant location for the foreseeable future.

During Covid, Moore Hong Kong has been involved in helping entrepreneurial fintechs with compliance and other issues to avoid them falling foul of regulators as they roll out innovative new digital-centric financial solutions.

Fintech is a growing area of interest for investors. Growth opportunities are significant as 1.7 billion adults worldwide are unbanked, with more than half in the Asia-Pacific region. Rozario says fintechs were instrumental in ensuring financial support could get to workers during Covid, using mobile wallets as a means to distribute money.

"Fintech in China has grown exponentially as less sophisticated legacy banks struggle. Regulators are looking at cross-border money flows and want to ensure fintechs don't make it easier to carry out money laundering or other criminal activities."

Rozario works with private equity firms and family offices throughout the region, including wealthy families from China and Taiwan.

Moore Hong Kong is among 11 firms involved in Moore Global Corporate Finance, a dedicated cross-border M&A team, offering a range of corporate finance services including M&A advisory, transaction and valuation services and debt and equity funding.

Rozario says that he has tapped into contacts across the whole Moore network which spans more than 100 countries, using their knowledge to source expertise for potential deals.

An introduction from a Moore firm in Tel Aviv (Moore Israel - Lion Orlitzky & Co) to a consumer electronics industry expert in the US city of Indianapolis helped him identify an investment prospect for an Asian private equity client.

The US contact has deep expertise in consumer electronics and is applying data analytics to identify potential synergies for consolidation in the sector, identifying which brands would best fit together. "That kind of intelligence and insight can be used to make deals happen. You turn data into deal opportunities," Rozario says.

Meanwhile in Los Angeles, Jenn McCabe, consulting partner, business outsourcing for Armanino, part of Moore North America, says the US Presidential election impacted dealmaking activity across the US, not just in California, a state synonymous with entrepreneurship and technological innovation.

Deals slowed amid uncertainty over key issues such as taxation and other critical concerns, making it hard to price deals. Consequently, transactions were either accelerated to beat the election deadline or slowed down to await the outcome.

Jenn McCabe, consulting partner, business outsourcing for Armanino:

"I'm a pipeline builder – the deal work hasn't stopped."

80%

Of mid-size firms say Covid has fast-tracked digitalisation

5,500

Number of private-equity backed deals in first 9 months of 2020

"March to July was crazy for deals then slowed from August to October and entered a holding pattern close to the election in November," says McCabe. "I think deal flow will pick up in Q2 2021 when the legislative and fiscal landscape is clearer.

"Buyers are filling their shopping baskets but not heading to the checkout yet. I'm a pipeline builder – the deal work hasn't stopped, people are running processes even if they're not closing deals."

One of the complications of dealmaking currently is that many firms have taken advantage of the US Federal Government's Paycheck Protection Program (PPP) which was put in place to help retain employment.

McCabe, a PPP expert, says that the complex issue of who assumes responsibility for PPP loans if a company changes ownership has scuppered numerous potential deals among mid-market companies.

Armanino, one of the top 25 accounting and consulting firms in the US, specialises in key sectors including creative industries, technology, non-profit and real estate.

Among these, McCabe says events and entertainment companies, which were in high demand from buyers before Covid struck, are among those hardest hit by the pandemic. With many unable to operate, their strategic options have narrowed, although many have a financial cushion from previous years of strong trading.

Demand from mid-market firms for strategy and transformation services, funding advice and outsourcing services is currently strong across sectors, says McCabe, with interest in digital transformation and automation particularly keen.

McCabe attributes this to the fact that the current business environment is 'VUCA' - volatile, uncertain, complex and ambiguous. "In a VUCA business world people are more open to new ideas and to financial modelling for different scenarios. In uncertain times people want guidance and leadership and they're willing to listen to ideas for transforming their business."

McCabe says one upside of the slowdown is that company leaders have taken time to think deeply about the future of their business and are seeing 2020 as an opportunity to revamp their systems and reset strategy.

She says some business owners are suffering "decision fatigue" and seeking tools to help them develop better-informed strategy as well as to streamline their operations.

They are turning to AI and robotic process automation to obtain real-time intelligence and data that can help with predictive modelling. It can also help with benchmarking against competitors, identifying potential efficiency gains and cost reductions.

$892 billion

Value of global M&A deals in Q3 2020

Armanino has invested heavily in the latest technology solutions and McCabe says a key focus has been on automation and outsourcing of repetitive and voluminous tasks such as accounts payable. "We created our own outsourcing centre of excellence. We had a huge push on this. I'm a serial CFO - we run HR, accounting etc for 400 companies in our back office."

McCabe believes that while investment in technologies such as AI, analytics and automation is proving an important

differentiator for accounting and consulting firms in the current crisis – and, by default, their mid-market clients – this will change.

“Slick technology will soon be just what you need to have a stake in the game - it won’t be a differentiator, it will be expected,” she says.

“But culture trumps technology. In two years’ time the differentiating factor will be having the best minds and the best leadership.”

Craninx says digital transformation has become increasingly important for businesses to remain competitive. However, businesses should also pay keen attention to the fundamental building blocks of: capitalisation, external funding and control of working capital.

He believes corporate finance has accelerated to ‘Corporate Finance 4.0’. The key change is a more sophisticated approach to understanding and mitigating risk, including operational as well as financial risk on transactions.

Rozario meanwhile advocates moving forward with a new mindset. “We cannot have the mindset of the past. Mobility is a key thing and an ability to adapt to change. Humans are opportunistic and investment will go to wherever makes most sense.”

The common message reverberating from experts across the globe is that companies have to learn fast if they want to survive and thrive - because the recovery, when it comes, will be digital.

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