How to be a savvy M&A player – insights from Corp Dev executives within TMT

2024

EY Parthenon
Building a better working world

As companies face ongoing ROI pressures, they need to evolve their strategies to increase their deal success rates

36% of executives expect to pursue M&A in 2024

Pressure to achieve deal value is still high due to elevated cost of capital

About 50% of acquisitions fail to meet pre-deal KPIs

Now is when to learn how best to succeed in M&A practices

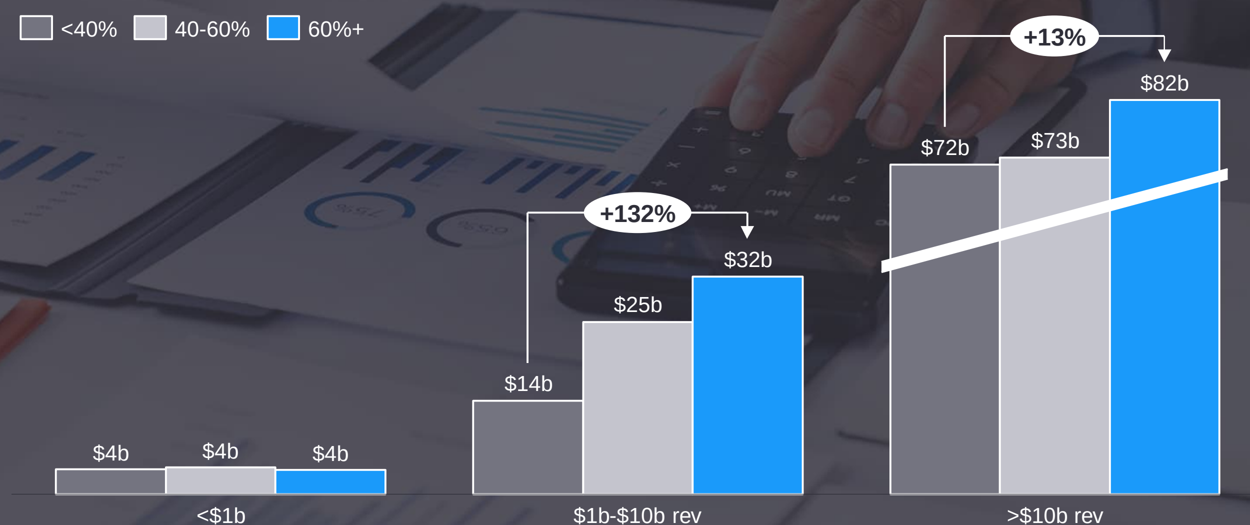
Source: EY CDO Survey, EY CEO Pulse Survey

Larger ($1b+ in revenue) companies that are successful in M&A see greater market capitalization

Q: What percentage of deals completed over the past two years have been successful? (n=175)

Market capitalization[1]

Market capitalization by revenue range and deal success rate[1,2,3]



The more successful companies see greater market capitalization, potentially due to investor confidence in their ability to achieve M&A goals and the boost these goals provide to top and bottom line. Notably, the study shows the greatest impact for companies that went through the initial business scaling.

1. Metrics respondent reported
2. Does not include "I don't know" response
3. For companies that reported market capitalization over $100b, the analysis assumes $100b. A larger number would result in more advantage to companies successful in M&A.

Source: EY CDO Survey

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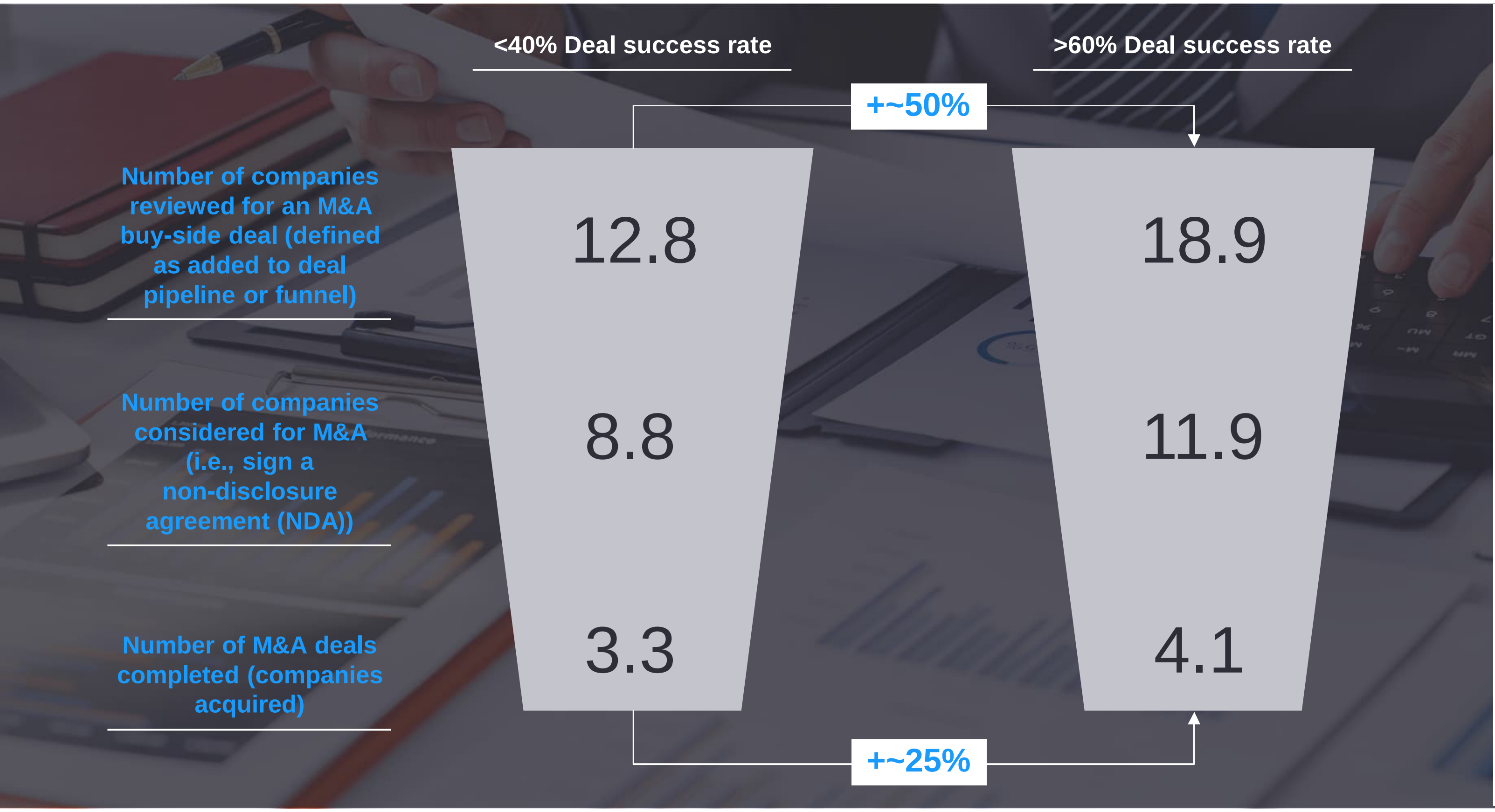
As firms engage in better practices, they achieve 25-50% higher deal throughput and their M&A patterns become more programmatic, driving a success loop



Structural and cultural differences within Corporate Development, allow more successful companies to review ~50% more and acquire ~25% more M&A targets[1]

This in turn allows them to capture even more learnings and productivity.

1. On average, compared to those less successful

Source: EY CDO Survey

EY Parthenon

Our 2024 survey of corporate development leaders across 175 US TMT companies reveals 7 characteristics of savvy M&A players

The more successful M&A players …

1. are 3x more likely to see 4+ members of leadership involved in deal oversight.

2. with structured integration processes are up to 50% more likely to succeed.

3. go beyond financial KPIs by tracking additional metrics, such as culture assessment.

4. are 50% more prepared to tackle complex deals.

The more successful Corp Dev teams …

5. source 175% more deals from the BUs and 70% more from Corp Dev.

6. with longer tenures are up to 50% more likely to succeed.

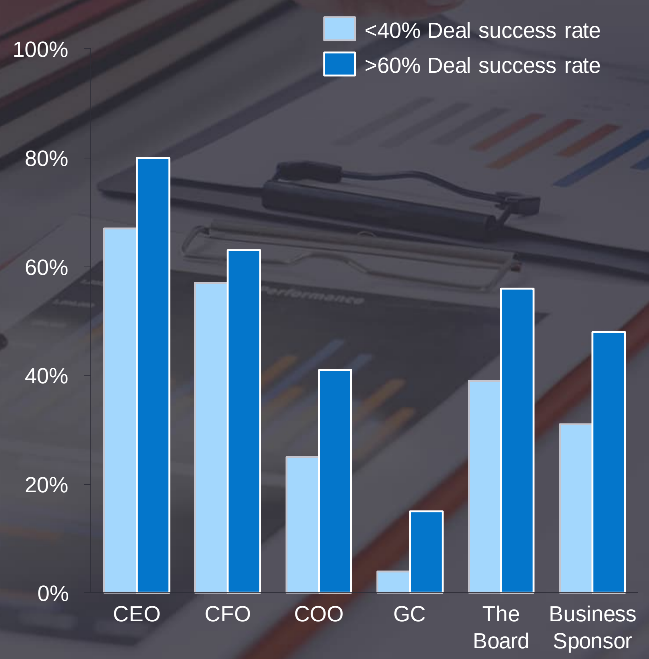
7. who take charge of the end-to-end deal process are up to 70% more likely to succeed.

Source: EY CDO Survey

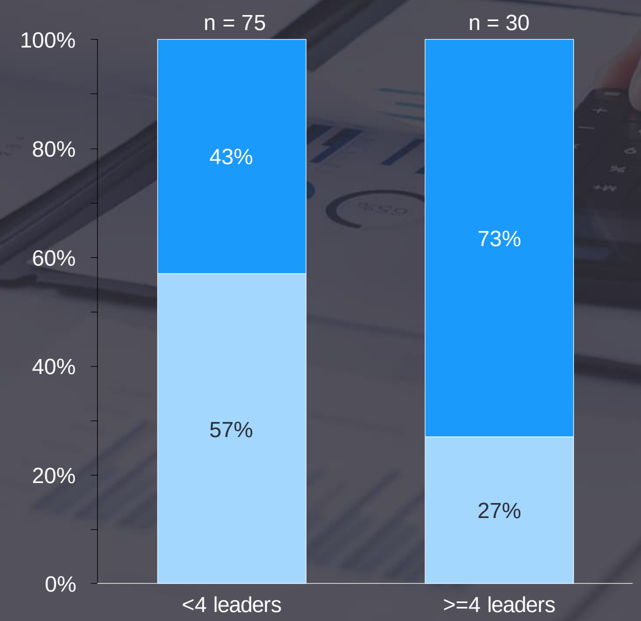
Companies that have 4+ members of leadership involved in deal oversight are ~70% more likely to more successful in the deal process[1]

1. Leadership engagement

Q: To whom are the results of integration monitoring reported to? (n=175)



Q: How many leadership members does the integration monitoring report to? (n=175)



Organizations achieve higher deal success rates when firm leadership — including the C-suite, general counsel, board and business sponsors — actively engages in and oversees the deal process.

These greater levels of engagement promote accountability and effective decision-making while allowing for greater alignment with strategic vision and increased risk management, leading to smoother integration and improved deal success rates.

1. Compared to less successful companies

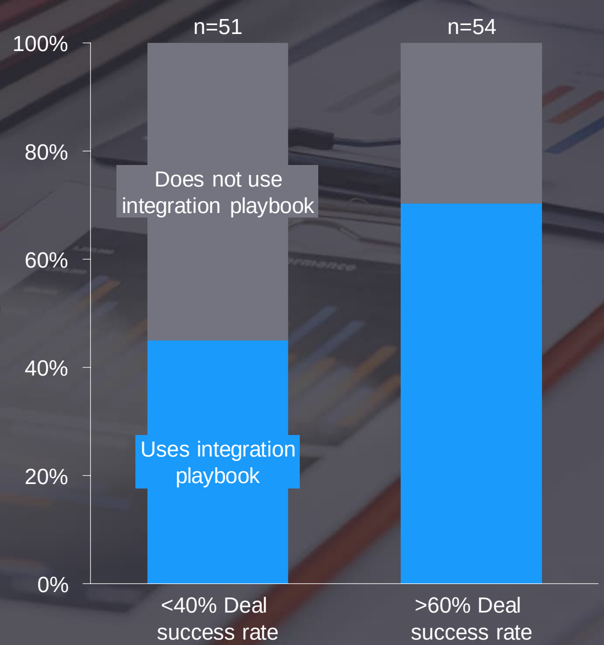
Source: EY CDO Survey

Companies that adopt more structure in deal execution and integration are ~50% more likely to succeed[1]

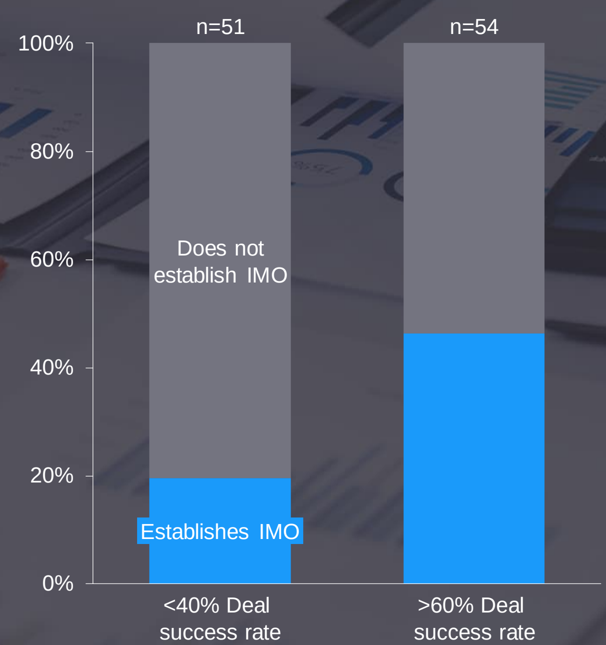
2. Process institutionalization

Q: What percentage of deals completed over the past two years have been successful? (n=175)

Integration playbook usage (n=175)



Integration management office (n=175)



By institutionalizing a consistent framework for deal execution and integration, companies can minimize risks, enhance collaboration and ensure smoother transitions, leading to higher overall success rates in their deals.

Additionally, as these processes become more institutionalized, they contribute to the fabric of the culture that supports and underpins M&A activity.

1. On average, compared to companies that adopt less structure

Source: EY CDO Survey

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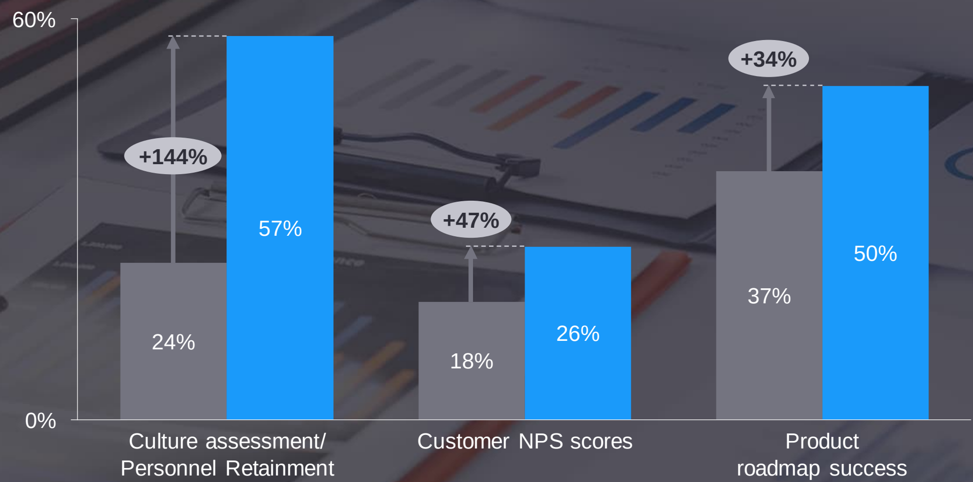
When defining KPIs, more successful companies expand beyond traditional financial metrics, into culture assessment, customer NPS, and product roadmap

3. The definition of success

Q: Which of the following metrics are tracked to measure post-deal success? (n=175)

Nonstandard metrics tracked



Number of metrics tracked

By closely monitoring these varied areas, firms can make better-informed decisions, identify potential challenges earlier and ensure smoother transitions, all of which contribute to higher overall success in their deals due to a more comprehensive understanding of the target company's internal and external environment.

Source: EY CDO Survey

Companies with low deal success lack teams prepared to tackle complex deals and leverage fewer advisors throughout the deal process

4. Preparedness and advisors

Q: Which of the following functions do you think are prepared without external advisor assistance to execute a transformational/highly complex deal (including diligence and integration)? (n=175)

Companies with lower rates of deal success do not have teams prepared to execute complex deals without external advisor assistance, yet still leverage ~11% fewer advisors than companies with higher deal success.

Engaging with experienced advisors at various phases of deals could provide these companies with valuable support and expertise, helping to bridge the gap in their current approach to complex deal-making.

Source: EY CDO Survey

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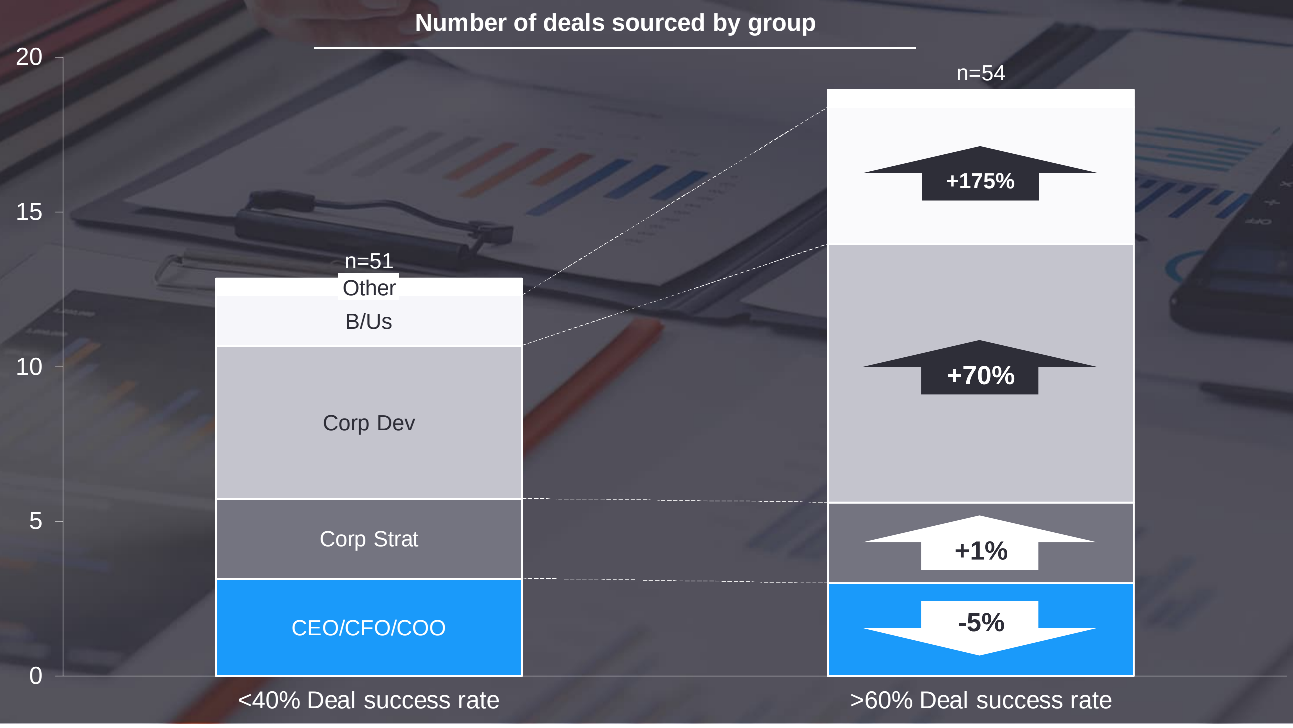
The more successful companies originate, on average, 50% more deals, and source these incremental targets from Business Units and Corp Dev team

5. The source of deals

Q: What percentage of deals are sourced by each of the following groups on an annual basis?[1] (n=175)



Companies see greater deal success when they rely on the BUs and Corp Dev to source more deals than lesser successful companies.

This is likely a result of a more strategic, informed and holistic approach to M&A deals, thereby ensuring more nuance, deeper understanding and broader on-the-ground knowledge of what will and won't work.

Further, involving BUs in the process gives them a vested interest, thereby increasing their dedication to the deal's ultimate success.

1. Data determined by taking average number of deals reviewed for M&A (12.8 for <40% deal success rate and 18.9 for >60% deal success rate) and multiplying by the respondent-reported percentage of deals sourced by each group to determine the average number of deals sourced from each group.

Source: EY CDO Survey

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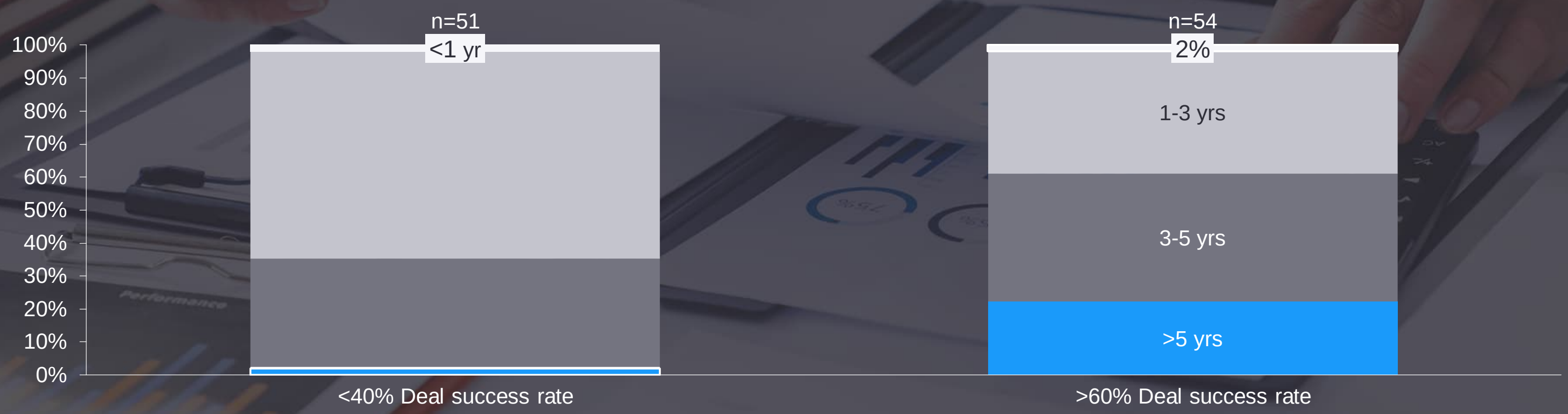
Companies with teams with the longest average tenure see ~50% greater likelihood of deal success than those with shortest average tenure

6. Team makeup

Q: What is the average tenure on your team? (n=175)



Individual experience increases with tenure, thereby leading to greater collective experience, more company and industry knowledge, a wider array of established relationships throughout the market, more refined processes, and greater chemistry, whereas the background of corporate development team members doesn't differ much across success rates.

To retain talent, successful companies generally provide their corporate development teams with substantial incentive-based compensation, as well as connect compensation to individual performance, as opposed to simply corporate performance.

Source: EY CDO Survey

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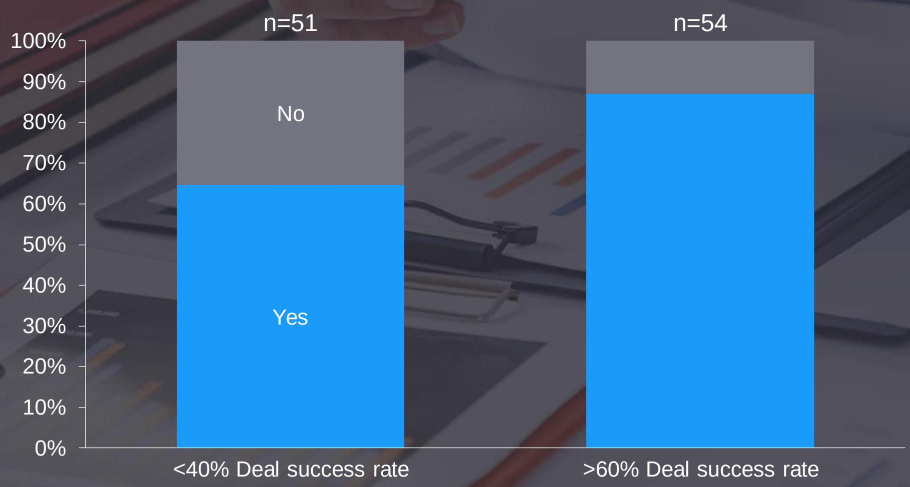
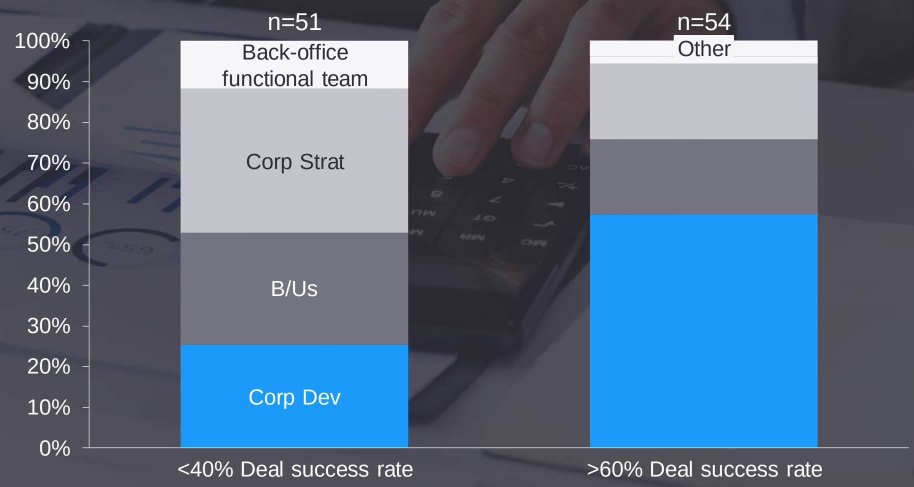
Corporate development teams that own more of the end-to-end deal process see ~70% greater likelihood of deal success than teams that own less

7. Process ownership

Q: Does the corporate development team own the deal evaluation model and go-forward operating model pre-signing? (n=175)



Q: Which function is primarily responsible for integration and conducting post-closing reviews? (n=175)



Empowering corporate development teams to own more of the end-to-end M&A process allows them to act more effectively and efficiently, ensuring that each step is executed with a clear understanding of the strategic alignment, thereby helping the corporate development team align deals to overall corporate strategy, ensuring smoother execution and allowing them to respond more effectively to challenges, ultimately driving better outcomes.

Source: EY CDO Survey

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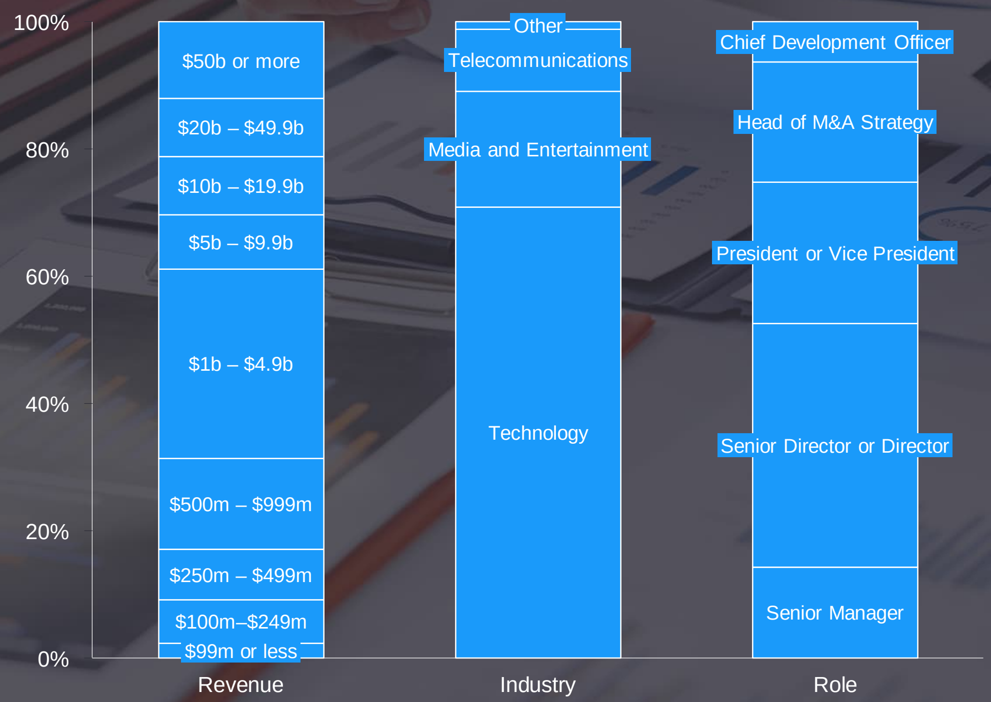
Ernst & Young LLP conducted a survey of 175 US corporate development managers and executives

Company demographics (n=175)



Survey approach

- Ernst & Young LLP surveyed 175 executives and managers within Corp Dev groups at technology, media and telecommunications companies.
- The survey was conducted in Q1/Q2 of 2024.
- Respondents were based in the United States.

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