

# Tax in asset management: Data analytics

Transcript

SPEAKERS:

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**ERIC COOMBS:** Welcome to the Grant Thornton podcast where we share information about the latest trends and business issues of the day.

My name is Eric Coombs and I'm the Tax Services Leader for Grant Thornton's asset management practice.

As part of our series on key issues in the asset management industry, I'm speaking today with Tara Soileau, a Managing Director with our data analytics team, about how data analytics can be effectively utilized in the due diligence process and beyond. So, Tara, thanks for joining the discussion today.

**TARA SOILEAU:** Yeah, thanks so much for having me.

**ERIC COOMBS:** Yep. So maybe you can just shed a little light on how asset managers can effectively utilize data analytics during the due diligence process to identify opportunities for operational improvements and efficiencies.

**TARA SOILEAU:** Yeah, sure. So maybe it would be helpful to kind of define what we're talking about with data and analytics.

Particularly, we're talking about data sets that support or break out the revenue and earnings-generating engine of a company. So think segmented revenue, profits, operating costs, line-level details, and all of that visualized in ways that help clients kind of draw insights out of what otherwise is just a pile of data, right? And loose facts until we structure it together.

So I would say asset managers can effectively utilize data and analytics during a process really by engaging with your process stakeholders and those you have running your diligence analyses really to think about how to better understand the company's growth story at deeper than surface level and try to de-risk a transaction

by validating your assumptions and beliefs about an organization all the way down to their granular levels of detail.

Our clients leverage our services essentially to better understand real risk profile on earnings and on a potential acquisition target before they get into that first hundred day scenario.

And they're dealing with surprises, right, to inform pre-deal negotiations, conversations with their seller and ultimately to have a more competitive bid, purchase price and investment decision, right, that is rooted in actual facts.

So clients we find who are effectively utilizing data and analytics in a pre-deal scenario are those who are best poised to then identify and monetize a lot of those opportunities that exist in a post-deal environment related to value capture and kind of realizing the investment over a long-term time horizon.

**ERIC COOMBS:** Fantastic, and just maybe as a as a follow-up question, how frequently do you do you see acquirers utilizing data analytics in their diligence process, and would you define it more as a necessity at this stage, or is it just a nice-to-have?

**TARA SOILEAU:** So I would say it really depends on your business. We see data and analytics employed on probably 30% to 50% of buy-side transactions. And on the sell-side transactions, it's even more significant. It's something like three out of four will have sell-side due diligence that utilizes and anchors to data and analytics. And I would say in any scenario where you have an investment decision to make that involves risks and priorities, or you have a lender involved where you need a quality of earnings and it's necessary to really validate assumptions and beliefs about a business at lower than surface level, a little bit lower than high-level financial statement results, then data and analytics can drive real value.

Anytime you have data segmentation, I would say there are risks in the insights and the information that you might potentially pull out in that underlying data. There are risks in the business that sometimes you can only observe in the underlying data. So I would say there's always value to be added by bringing in an extra level of diligence in your in your pre-deal processes.

**ERIC COOMBS:** Fantastic. So I've been fortunate enough to sit through a number of your presentations at this stage and certainly have been able to witness sort of the

value proposition myself.

We've talked about the way that data and analytics can provide value during the diligence process, but maybe you can talk about the role that data and analytics can play in optimization of the business post transaction.

**TARA SOILEAU:** Sure. So when we when we work with clients who are leveraging data and analytics on the diligence side, the objective naturally is to own and operate a business and realize some kind of value out of it.

And so our clients who have leveraged our services in a pre-deal environment effectively have a day-one jumping off point. They don't really have to wait for ERP conversions. They don't have to wait for finance transformation projects to get underway or get completed.

That first year, the first holding period year, is really when a lot of our clients are trying to turn a business around and change its operating direction.

The role of data and analytics is really to provide that high-level view into risks and opportunities in the business where those opportunities exist, how efficient an organization might be in trying to capture that value, and they can set priorities, day one and bonus on that is where you have data and analytics, you have a benchmark as to what you should expect from ordinary performance. You also have a basis for comparison, so as a new owner, you know in real time whether your interactions with the company are meeting those value capture targets that you have in your pre-investment assumptions and goals.

**ERIC COOMBS:** Fantastic. Yeah, that's a really powerful point in having that at your fingertips on day one, as opposed to having to wait for some period of time before you can hit the ground running.

So fantastic point there.

Are there specific data points or patterns that asset managers should focus on to enhance the diligence process?

**TARA SOILEAU:** Yeah, sure. So what we're trying to answer really are, where are the opportunities and where are the risks and how do we balance them?

So at lower than surface level, when we're thinking about revenue growth or profitability, what is driving that growth specifically?

Is it customer relationships?

Is it a specific product?

Is it pricing? And at the end of the day, is it sustainable whatever is driving growth, are these sustainable changes?

Do they look to be one-time non-recurring or something that is relatively unexpected in the business, particularly if you're a new owner or potential buyer, what is driving growth and really is it the segment of the business that you expected, that you're really looking to invest in? Some other patterns to look for is how much variation or uniformity is there in performance outcomes?

And so when we have granular detail, we can pinpoint whether we see uniform distribution across customers. Is it one customer or is it all, right? Do we have a systemic pattern or do we have something that's really related to a very specific event and that often is a very significant differentiator in the types of earnings that that our clients are wanting to invest in and wanting to grow.

**ERIC COOMBS:** So, Tara, maybe you can expand upon some instances where data and analytics is being utilized in the diligence process specific to the tax function.

**TARA SOILEAU:** Yeah, Eric, there are definitely use cases for this in tax. Where we see use cases for data and analytics on the tax side, especially in a diligence environment, are going to relate to tax treatment of employee costs and purchases. So think about sales tax across a body of different types of vendors where the task is to figure out what kinds of products or services is this business buying and where does that risk potentially sit across that base of vendors or buckets of spend across the organization.

And so we get in, we use data and analytics to pinpoint taxable versus nontaxable vendors, for example, and quantify very specific segments of purchasing that are relevant to a tax diligence scenario, such as sales and use tax as well as employee classifications and classifications of employee spend.

**ERIC COOMBS:** That's fantastic, Tara. I really appreciate you spending some time with us today. I certainly can see the value add in using data and analytics throughout the diligence process and post-acquisition. I appreciate the insights and look forward to talking with you again.

**TARA SOILEAU:** Yeah. Thanks so much, Eric, for having me on the podcast and staying curious about data and analytics.

ERIC COOMBS: Thank you to our listeners for tuning in to the podcast. For more information, please log on to our website at [gt.com](http://gt.com).