

Future Ready Finance Podcast Series

Accenture's acquisitions - a strategic lever to capture value and fuel growth

Julie Spillane [00:00:05] So welcome to this episode of the Accenture Future Ready financed podcast series, and today our topic is Accenture's acquisitions, a strategic lever to capture value and fuel growth. I'm Julie Spillane and I'll be your host today. I'm a global managing director in Accenture Finance and I'm pleased to be here today with my colleague, Stuart Nicoll.

Stuart Nicoll [00:00:27] Hi Julie.

Julie Spillane [00:00:28] Morning, Stuart. So Stuart is a senior managing director who oversees our corporate development team. His seasoned team is responsible for all of the financial oversight of our large and complex client opportunities, our go-to-market ventures, our acquisitions, divestitures and other strategic investment transactions. It's great to have this conversation today because Bloomberg recently crowned Accenture the world's most acquisitive company. So today, Stuart and I will explore all things acquisition-related at Accenture and how they play a key part in our strategy to capture value and fuel growth. So, Stuart, maybe to kick off a good place to start would be would you give our listeners a high level understanding of how we think about acquisitions and how they've become a core part of our strategy?

Stuart Nicoll [00:01:21] OK, yeah, will do Julie, and that's a great question to start. You know, it's funny when I think about where we are today and just the volume of acquisitions and the kind of acquisitions that we do to cast my mind back to, say, 10 years ago or longer, we did very few acquisitions at all. We did maybe a couple of year at the most. They were very hard to convince people as to why we should we should be exploring them. And there's a general view in Accenture that we've been so successful as an organic growth company and building whatever we felt was needed in terms of offerings and capabilities and skills that our clients wanted. It was almost like to say we needed to buy something would be some admission of failure, that we'd fail to build something. And so there was a sort of a negative connotation about anybody coming forward with an acquisition idea. And our then CEO, Pierre Nanterme, decided that needed to change, you know, the world, the market, our clients demands that the kind of things Accenture needed and wanted to offer to its clients was evolving so rapidly. I think we all recognized we just whilst we'd remain largely an organic growth company, that inorganic growth through M&A would have an important role to play in our future.

Julie Spillane [00:02:38] Very good.

Stuart Nicoll [00:02:40] I would say I think probably you know, prompted by our CEO and supported by our CFO at the time, we really did focus on I think three things had to change. One was developing a higher tolerance for disruption. And what I mean by that is, acquisitions are hard and we at Accenture, like many companies, have a certain way of doing things....processes, systems, approaches to the market, the way we manage talent and so on. And when we started to look at other companies, we saw that they would do things maybe differently to us, sometimes better, sometimes not as well as us. But we did have to develop a real understanding of what was different and unique about the companies that we were looking at and why we would and how we would accommodate them and bring them into it to Accenture in a way that wouldn't sort of crush, you know,

have the Accenture machine crushing the very reason that we bought those companies because they were bringing something different to us. So you don't buy something, you know, invest in something in order to then make it conform in every shape and form to what we already had. So I think that was the first thing is develop, that collectively institutional acceptance of of disruption that comes with M&A. I think the second one that we learned and when I talk to corporate development peers around the world and our clients, this is one of the hardest things for them as well...is really shifting the focus of corporate development from being a top down organization, sort of the corporate center, driving and dictating the deals that need to be done into one that's really partnering with the business. So working with the business to identify their needs and then engaging with them to understand the kind of targets that they're interested in and then and then going and exploring those again, I think partnering with the business was really a, definitely an important change that we had to drive. And I think the third. Was it just came through building experience was being seen as a good acquirer by our targets, by the target leadership and by the targets people. The majority of deals that we do, acquisitions that we do are found to manage your own still. And those founders, those managers are of course, they care about the price that we might be paying for their company. But a lot of them, all of them, in fact, care much more so about the what their future roles and their future work is going to be like both for them and their people, they have a very high degree of passion for doing great work for their clients and for having interesting work for their people. And so I think building that reputation is as a good acquirer, as we call it, a place that people want to become part of because they can continue to do the things that they want to do but in a bigger sandbox with more assets, more capabilities, more capital behind them, I think that was really the third factor that we shifted over a number of years.

Julie Spillane [00:05:50] You know, it's very interesting. You talked about a number of things there that showed we had to make a huge step change in how we did this, whether it's volumes from you said about one or two a year, 10 years ago to now, this year, we'll do somewhere between 35 or 40. You talked about marrying bottom up and top down. You talked about being a good acquirer. So we clearly had to put a lot more thinking into how we approached acquisitions. So tell me a little bit about the structure and process we have in place today.

Stuart Nicoll [00:06:19] OK, yeah, I'll try and make this brief. We are Accenture, so of course, we like structure and process. I'd say let me break it into different parts. I think we'd start with origination and I think that was I think a lot of companies, again, when I talk to corporate development peers in the market, I often find is that there can be an overreliance on bankers and others in the ecosystem bringing ideas to the company and when you see something I'm very proud of, is that we in Accenture do originate probably a good 90 percent of the acquisitions we do. Yes, we do have great relationships with the banking community and other M&A advisors, and occasionally they'll bring us something interesting. And we're very, very happy when they do. But at the same time, it's said we view it as our responsibility to to have a good understanding of all the markets in which Accenture operates and in our strategic priority areas, how and where we can identify our ability to identify new opportunities and have knowledge of the market itself. So I think that that certainly helps. Then on the governance we do have a very structured process, as you would expect. We have very clear criteria about the stages which a deal goes through a pipeline. We have very clear criteria required to advance from stage zero to stage one and stage two and so forth. And we have an investment committee or a series of investment committees, depending on the deal size, pretty experienced group in in evaluating whether an acquisition opportunity is the right opportunity for us to pursue. So I think that governance is important. And then after we've done a deal, we have what's called a

lookback process, which every six months we every acquisition we did, we expect the sponsoring team to bring that acquisition back to the cabinet committee and report on how it's performing, both in its financial performance, its client impact, various metrics, and really a basket of qualitative and quantitative metrics in how the investment is performing. That gives us an opportunity to course correct if an acquisition is maybe behind its business case, but also more importantly, gives us the chance to collectively learn so that the committee learns from the experiences of each individual acquisition and where we capture that knowledge and then share that with teams of future deals. And I think that sort of virtuous feedback loop is very, very helpful to us as well. By the way, in that governance, we do also make sure it's not to beat up on the teams or anything like that. It's really to encourage an open and frank discussion about what's working and what's not working so well and make sure that we fix what needs to be fixed. And we keep doing more of what we need to keep doing more of.

Julie Spillane [00:9:27] Great.

Stuart Nicoll [00:09:28] OK. And lastly, I think the other area that we've developed very successfully is the post-merger integration activity. Whilst I think most people view the idea deal making part as the kind of cool, sexy part, I'd say that the hard work and the ultimate driver of success of an acquisition is very thoughtful, methodical post-merger integration activity. At the end of the day, we're buying people-based businesses. And if people don't enjoy where they've come to their new home in Accenture, then they're going to ultimately vote with their feet and walk out of the door. So it's really important that we make the post-merger integration activity a great experience for all of the acquired leaders and employees. And they get to connect. They get connected up in the right way with all the great things about Accenture and, you know, like our access to a bigger client base, access to more capital, the ability to accelerate their own growth, the ability to provide more end to end type of services and have a bigger impact, you know, those kind of factors. The other aspect to post merger integration is very interesting for us is it really is a team sport and it involves many, many functions from across the firm. For example, Julie, in your own finance team, we have a finance post-merger integration group that helps every acquisition get integrated financially. We have an HR team that helps ensure that all the people side of things is integrated properly, CIO, facilities and services, all of the different corporate functions coming together and making sure that the company is integrated in the right way.

Julie Spillane [00:11:15] So, Stuart, that was a great whistle stop tour from origination right the way through to post merger integration. When I hear the complexity of all the things that you're talking about that your team is heavily involved in. And clearly that's changed fundamentally in 10 years. Tell us a little bit about your team, how you had to think about building a team. You clearly needed more people and very different skills over time. So what's your broader approach to talent and building your team being in that period of time?

Stuart Nicoll [00:11:46] Thanks, Julie, that's an excellent question, and, you know, again if I go back in history, maybe 10 years ago, we actually had two separate teams within our finance organization focused on deal making. We had a client team focused on doing the biggest client deals and the structuring and pricing of that work. And then separately, we had an M&A team focused on M&A. I think one of the best things we did, we merged those two teams together to form one combined group, and that certainly opened up a lot more, say, synergy opportunity between those teams and made a lot more talent available from our client deal side corporate development team available to work on the M&A deals as

well. And essentially that the skills are very much the same, but with a different emphasis. Really, you're you're buying rather than selling. But the fundamental core skills are remarkably similar. And I think it helps us a lot that our M&A team is does have experience of working on the client deal side as well, because at the end of the day, we only acquire new companies in order to serve clients. And I think when people come at it with this client focused mindset, it enables them to much more quickly understand what a target company does and how it does it and whether it would be a good fit for Accenture in terms of its ability to ultimately integrate and help serve our clients. I think that's been one of our biggest factors in building the highly capable world class team that we have today.

Julie Spillane [00:13:25] Great.

Julie Spillane [00:13:26] And I guess that ability to work on client deals and on M&A probably gives people better career development opportunities, better proposition, because I guess they can rotate through them. Do you have examples of people who've rotated through that and sort of built their skills?

Stuart Nicoll [00:13:40] That's right, I said, that's an excellent point, Julie. Certainly the ability to rotate and learn different skills and and work on different kinds of deals, I think keeps people, you know, mentally agile and learning new things in the same way. We also have some of our people working on deals and then also going on to leave the post-merger integration activity. The eat what you kill philosophy, I guess some people would call it. But that's great for food if you're always only doing deal making if you don't appreciate what it takes to integrate a company later. I don't think you're as effective as if you have done integration work as well. So certainly, both horizontally and vertically, we like to give people different kinds of deal experience.

Julie Spillane [00:14:24] OK, great, good. And can we come back maybe then to this point about post-merger integration and development? A little bit more on that. You mentioned Pierre Nanterme, our former CEO earlier, and he used to always talk about a culture of cultures and Accenture. I think that's a great way to describe us. And, you know, more so as we bring acquisitions together that, you know, continues to develop all these different cultures coming together. So what's your sense about how we make that work? How do we make sure that acquired companies feel like they are part of the bigger Accenture as they joined together? What's our what's our secret sauce to making that work?

Stuart Nicoll [00:14:59] That's there's another excellent question is something that we think about a lot and it's fascinating when we look at the acquisitions that the kind of companies we buy these days. And on one level, the cultures could be seen as quite different. For example, when we acquire a creative agency as part of our Accenture interactive business, you know, on the surface, a lot people outside looking in have said, hey, well, you know, those creative types, how would they work in a consulting firm? We can't imagine that's going to that's you know, that's not going to work. Well, what we found was that at the end of day, creative agencies are professional services, people based businesses focusing very focused on serving their clients. And so is our consulting business. So that's what Accenture is about, too. So, yes, at one level, the work they're doing in the way you do it might be a little different to a creative person than to a technologist, for example. But at its heart, what's most important to them is client value creation and delivering big and exciting projects for their clients. So when we can recognize the similarities as well as the differences and accommodate those, then we found it. I wouldn't say easy, but certainly may be easier than some people on the outside

looking in might have thought. Another example of where we see the cultural differences but where we find common ground would be, for example, with cyber security acquisitions. When we acquire a cyber company, we find that the folks there are very focused on what they call the mission. The mission being to protect their clients from hackers, from cyber terrorists, et cetera. You know, again, that's all about serving clients, so the way they might do that work might be different to a technologist or a consultant, but it's hard out. The culture is very much about, in that case, protecting their clients environments and advising their clients on how to improve their defenses. So we see, as we understood that what motivates and excites cyber professionals, we were able to adapt our integrations to be more relevant to the things that interest them and which are really those those kind of examples.

Julie Spillane [00:17:27] And that really resonates with me. I mean, as you know, I'm based in Ireland and we've had a number of acquisitions here, Rothco E.S.P more recently. And I was talking to Richard Carr, the CEO of Rothco recently, and he described it, it's like two tribes coming together for the first time when you're courting from an acquisition perspective. And he said it's hard on both sides. You said that earlier as well. And he talked about there being different languages. We both use the same word, but it means a completely different thing. But almost you got to get past that. And once you land on their sense of shared values and exactly as you said, it is clients, that's the shared value, then everything else falls away. And I'm going to give you this quote he said to me is... 'but aligning culture takes time. But when you find that alignment, magic happens.' I think that's exactly what you're talking about. This combination of these things together, which you can't rush it and, you know, you have to go through that, you know, over time? So I think it's a nice way to think about it.

Julie Spillane [00:18:25] So we talked a bit about the why of acquisitions, we've talked a bit about the how of acquisitions, could we spend a couple of minutes on the what - you know, so what are our priorities around acquisitions like?

Stuart Nicoll [00:18:36] So obviously our priorities change and evolve. The way the process works around strategic prioritization is that our CEO Julie Sweet and our Chief Strategy Officer Bhaskar Ghosh, they work very closely, obviously, in setting the firm's overall strategic priorities. And then we work with Julie and Bhaskar and others running our business to identify, OK, where do we see potential gaps or areas where inorganic or M&A may play? What we do is we really have three strands to that. The first is our regular sort of typical deals, we've repositioned what we call business as usual or programmatic deals to be really driven through our three markets, our leadership in the three markets are driven by the priorities in those three markets. The second area, the way we do that is through setting dynamic global priorities in sprints. So, for example, in late 2019, early 2020, we identified you know Cloud, Industry X and Supply Chain as being the three top priorities. And then we as corporate development team, along with Bhaskar's growth and strategy team, took those challenges on to really push hard on on those areas, to sprint hard on them. Similarly, we found we were not really doing enough deals in Europe. We were somewhat overweighted in terms of deals in North America, and we recognized we needed to step up our game in Europe. So we worked very closely with Jean-Marc Ollagnier in the European leadership to have a European sprint. And so while we still have the business as usual going on that I mentioned, we also have then these sprints driven globally and in the market and through the markets to really push hard on on priority areas. And then the third thing that we're doing is also increasing the systematic exploration for larger scale deals as well. We've really built our reputation on doing what we call a medium sized deals, you know, those 35 to 40 acquisitions a year that you mentioned. But

we now feel, you know, the time is right for us to be starting to look at potentially bigger investments. Obviously, they need to be the right investments. We're not going to do deals, just bigger deals just for the sake of it. But also raising our sights and looking at some things that may have an even greater impact on. Accenture is really the third leg of our strategic activity at the moment.

Julie Spillane [00:21:22] Great. And so clearly, so much done in the last 10 years. And you're talking about raising our sights for the future as well. I mean, it's clearly an area that has you very passionate for you from what you've done and what you do your team has done. What are you most proud of along the journey of the last 10 years?

Stuart Nicoll [00:21:40] Wow, that's a that's a big question. I think well, there's a lot of things that, you know, just seeing our whole organization so grow and learn together, I think I mentioned at the beginning seeing how we've changed our culture ourselves from the inside and being more tolerant of disruption, being more tolerant that there are different ways and approaches to doing things. I think that's something I'm very proud of. I think the other thing that I'm also very proud of is the way that we've connected up between corporate development and our business and when we work with the business that they identify a need, we've adopted a very innovative mindset to things. You know, we have a can-do kind of attitude to the possibilities that an M&A transaction might bring. Eyes wide open with the challenges, of course, but always with a can-do attitude. I think that that helps a lot. And I think the other area maybe for me is we've learned to recognize that it's an Accenture wide team sport, that there are so many different parts of the firm involved in any acquisition. It's not just about what corporate development do. It's really about the corporate development, the business, all of the other corporate functions that are involved in a successful integration. When all that comes together, it's really a pleasure to see. And then when we look at these acquisitions one, two, three years later and we look back on them, we're able to see, you know, such a tremendous effort has led to some great results.

Julie Spillane [00:23:13] Brilliant Stuart. It's a great way to end talking about changing cultures and talking about acquisitions, being a team sport. So huge thank you for taking the time and sharing the journey and your knowledge and your know how and acquisitions really appreciate all of your time today. And to you, our listeners, thanks for joining us on the Accenture Future Ready Finance podcast today. We look forward to you joining another part of the series in the future. So take care and stay safe.