Quantios

Building a business case for tech investment

Unlock value, pursue growth and attract inward investment through digitalisation

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"We'll demonstrate how technology investment and digital transformation can present a strong business case as a component in unlocking growth and improving the enterprise value of your business."

Secure tech investment and unlock value

Robert Browning, Chief Operating Officer, Quantios

Unlocking enterprise value and attracting investment for Trust & Corporate Services providers (TCSP) is vital to remain competitive, and business leaders in the sector openly acknowledge the urgent need for digital transformation within their businesses to achieve that.

In Quantios's latest Future Focus Report, around 80% of decision-makers see digitalisation as a key enabler for growth, inward investment and enterprise value. Yet, many of those leaders feel overwhelmed by the expected costs, and are unable to articulate a robust business case as to how those benefits can be measured. We'll describe the key KPIs you should consider when putting your business case to stakeholders which will unlock value, growth and investment into firms in the sector.

Benefit from three perspectives

We're offering three different perspectives that, in combination, offer a unique insight into how to articulate investment and deliver a successful digitalisation for firms in the sector. Through this unique combination, we'll demonstrate how technology investment and digital transformation can present a strong business case not only from an operational perspective, but as a component in unlocking growth and, most importantly, improving the enterprise value of your business by linking technology investment to business value.

Perspectives

1 The inward investment and Private Equity (PE) market

2 Building the business case for technology investment

3 Securing investment – a real world example

1

The inward investment and Private Equity (PE) market

Key themes

- 6% – 8% of revenue should be spent on technology stack.
- Entities administered by size of team.
- Corporate actions per quarter, per head.

Jacob Van der Wiel, Investment Professional at EQT Partners & Jos Gritter, Investor at Hg:

"For investors, software-as-a-service [SaaS] and cloud platforms tick many of these boxes and inspire high confidence in a business"

Technology investment focusing on EBITDA x a multiple to establish enterprise value is a common metric; money needs to be spent, but savings are available from increased efficiency, and revenue opportunities are unlocked by integrated, scalable technology that can generate operating leverage.

In short, EBITDA x a multiple are the multiple-improvement and simplification effects of tech investment. But what impacts the multiple in that formula, and is the investment process as mathematical as the formula suggests?

There is no right time to invest in your business

From an investor's perspective looking for TCSPs that are either attractive enterprises for inward investment or to add to their portfolio, the state of the market is clear: when it comes to digital transformations, it's about when, not if. And although timing isn't entirely immaterial, it's important that the technology investment is made as soon as possible. Hg investor Jos Gritter tells us, "I think the one thing that really resonates with us is, it's really not a question of if, it's a question of when."

Percentage of revenue on tech

What's more, it's not just the type of technology that ticks certain boxes or raises red flags; it's also the level of technology investment in the business. This key metric varies between investors' particular benchmarks, but they typically look for somewhere between 6% to 8% of revenue spend on technology and digital platforms. Anything less will likely raise a red flag and draw attention to a firm's lack of an adequate digital strategy. Excessive spending on systems also highlights possible issues, leading to more questions: is the business operating on multiple legacy platforms? Has the firm simply invested in the wrong kind of platforms for their business?

> "I think the one thing that really resonates with us is, it's really not a question of if, it's a question of when. It's just very important that it gets done."
>
> **Jos Gritter, Investor, Hg**

Multiple-improvement and simplification effects: a simplified environment

Crucially, what resonates well among inward investors and PE firms is seeing that the investment in technology is focused on creating a simplified environment, not a spider's web of disparate homegrown solutions. Simplified systems mean that technology is scalable to support growth within the organic business and to simplify the integration process following any M&A activity, but also within the wider M&A environment. For investors, SaaS platforms tick many of these boxes and inspire high confidence in a business.

Reliable and consolidated data

When PE or inward investors assess TCSPs, they look for a well-managed data-driven business, and the priority given to data will invariably inspire confidence. Tech due diligence will identify whether a firm is data-driven and that they're tracking the right KPIs, for which you need credible technology across the stack. When data is reliable and comes from a simplified environment levels of confidence are improved.

Data leverage

As PE or inward investors go ever deeper into diligence, they're trying to assess the efficiencies these systems are generating. For example, they might look at key performance indicators (KPIs) such as the number of entities administered. The operating leverage that efficient systems enable can often lead to a multiple of around 1.5 x when it comes to enterprise value. And this gives inward investors or PE firms the confidence to proceed, because a recent investment in technology is delivering that leverage.

> "Many investors have different benchmarks, but we typically look for 6% to 8% of revenue spent on technology and digital platforms."
>
> **Jacob Van De Wiel, Investor Professional, EQT**

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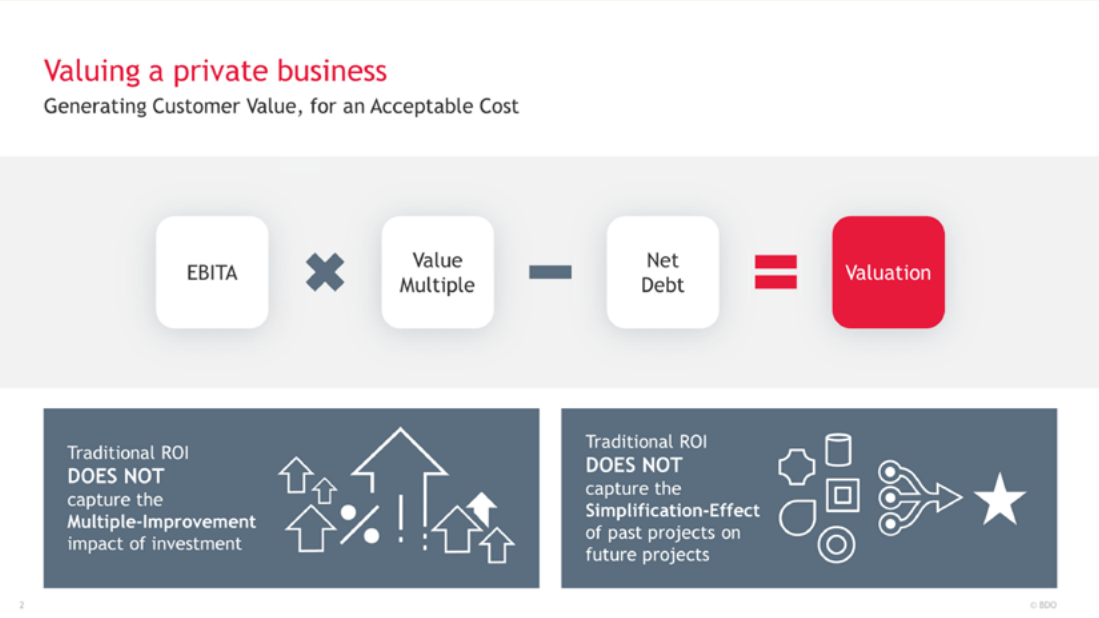


"I think the one thing that really resonates with us is, it's really not a question of if, it's a question of when. It's just very important that it gets done."

Jos Gritter, Investor, Hg

IT spend & investment cycles

In a broader sense, investors also tend to zero in on what systems or platforms are already present in a business. Ten or 15 years ago, investors who were coming to the end of their investment cycle were more likely to hold off and let the next buyer take the hit for investment. These days, regardless of where you are in the investment cycle, there's going to be an expectation that you have a best-in-class set of systems and processes, and a lower EBITDA valuation is accepted if tech investment is clearly visible. In fact, it's likely to show a level of maturity and an advanced analysis of the link between your tech strategy and business strategy. The recommendation is not to under-invest in the hope that you'll see a better valuation of your business.

Regulatory risk

Yet another key area of scrutiny for investors is to identify areas of risk, as well as how the business identifies risk. In this process, they're on the lookout for what systems firms use to ensure that regulatory-filings data is accurate. And having good, integrated cloud platforms in place offers significant assurance to investors that the firm is operating within a strong regulatory risk framework.

In summary, investors want to be able to track a firm's performance against a specific set of metrics to measure the promised impact of technology investment.

2

Building the business case for technology investment

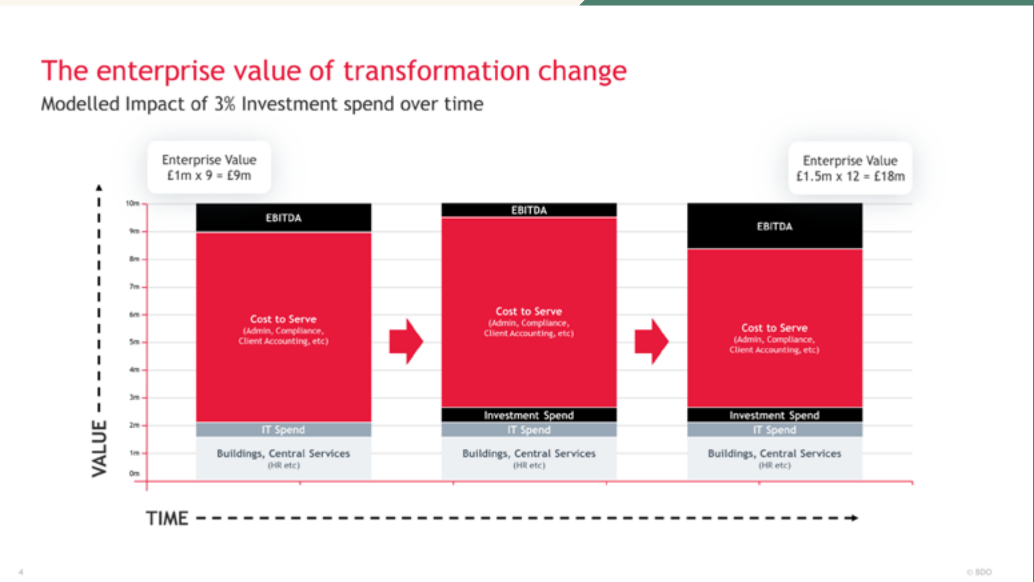
Key themes

- The value of your business is a core KPI.
- Cloud solutions are significantly simpler to upgrade, integrate and scale.
- Measure EBITDA not ROI
- Three foundational stages: core infrastructure, core business systems, data consolidation and integration.

Stuart Richford, Group Commercial Director, BDO & C5 Alliance:

"Think big, start small, move fast"

Unlocking significant enterprise value in a business is often less about radical innovation, and more about having a clear vision for the business, supported by an IT strategy of continuous, iterative and ongoing investment in tech and change.



Building your business case

With an idea of costs, outcomes and KPIs, firms have a chance of articulating the return to the KPI that really matters: the value of the business. And in turn, the board and the management team can be held accountable to those KPIs.

Hybrid approach

Crucially, firms that do digitalisation well will invariably embrace a framework approach of “think big, start small, move fast”. This hybrid approach combines the principles of agile delivery methodologies with the reality of budget and approval cycles.

Mitigation of risk

Perhaps one of the most crucial value levers is the ability of business managers to provide evidence that all significant risk factors have been mitigated or removed, and this can be done with the help of tech and data. When looking at business-case development, typical ROI calculations tend to only look at spend versus cost savings. If firms in the TCSP sector can’t address the benefits of managing and evidencing risk-management activities – and, therefore, the impact on the EBITDA multiple mentioned above – then the business case isn’t fully formed.

Multiple-improvement and simplification-effect impacts

Modern technology born in the cloud is significantly simpler to upgrade, integrate and scale. Therefore, typical ROI calculations often fail to consider the simplification effect of technology, consolidation and integration. From an enterprise-value perspective, the value multiple combined with any EBITDA change outperforms ROI. As you invest and consolidate processes to core technology, you unlock access to further future improvements that can, in turn, be delivered at a lower cost.

EBITDA not ROI

Traditional ROI simply doesn't capture the multiple-improvement possibilities of technology investment, nor does it consider the simplification effect of past projects on future projects.

The value levers and KPIs firms need to concentrate on include EBITDA and cost-to-serve, cash flow and capital management. Improving the cash cycle helps firms reduce net debt and has a beneficial impact on its growth rate and the value of the company.

"You also unlock the ability to make further improvements like improving cyber security, rationalising IT licenses, getting value from our consumed-revenue cost & optimising the business."

Stuart Richford, Commercial Director, BDO Consultancy

Case study

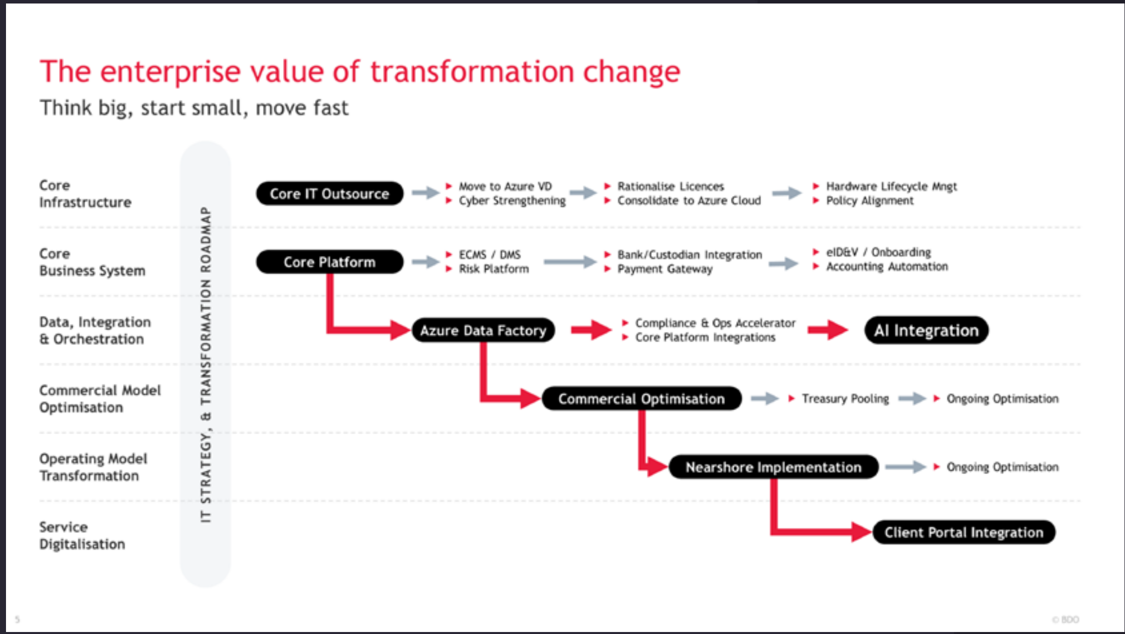
Let's take the example of one £9.7m-turnover firm looking to make a business case for tech investment.

The company was carrying nearly a £2m work-in-progress (WIP) or, more accurately, a £2m business case. In short, its £7.74m revenue had a hole in its WIP recovery of £2m. When corrected, this paid for the transformation program.

The company in this case study have a couple of clients with good revenue but low profitability, and on deeper inspection, those turned out to be the original cornerstone clients of the business, where terms and conditions had been allowed to drift. Further analysis revealed a major issue with fixed-fee pricing and the servicing costs for those fixed-fee clients. In short, an analysis of closed WIP on the client invoice revealed a growth from £7.74m to £9.71m when the WIP value was included.

Over the course of 12 to 15 months, the company resolved around 40% of the recovery issue, which amounted to around £800k of EBITDA or around 10% improvement in EBITDA. This drove the firm's profitability, growing from 10% of EBITDA to 19% EBITDA. Needless to say, this 1,000 basis-points improvement had an enormous impact on the enterprise value of the business. The firm implemented its platform migration in less than a week for a cost of around

> "This 1,000 basis-points improvement, when taken with the multiple, has an enormous implication for the enterprise value of the business."



> "With an idea of costs, outcomes & KPIs, firms have a chance of articulating the return to the real KPI that matters: the value of the business."
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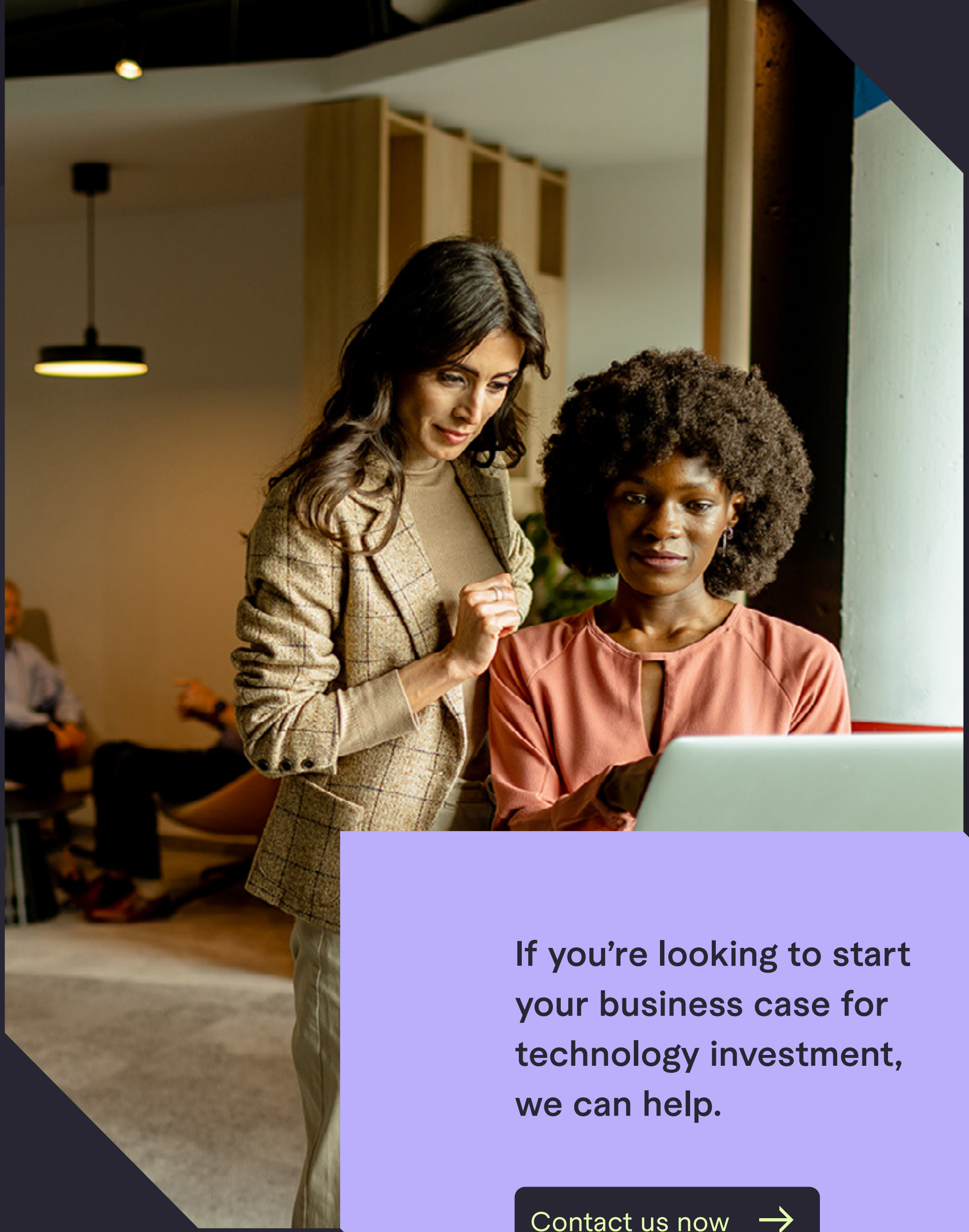
> **Stuart Richford, Commercial Director, BDO Consultancy**

£30k per annum. Other examples show that to get a business set up to take advantage of the vast improvements offered by digital technology, all in all they were looking at a change program of less than a year, and all for less than £150k. This was achieved because rather than investing heavily in hardware and fixed assets, the company was signing up to a service for core infrastructure and business systems that could be easily integrated.

In another simple use case, a modest one-year investment that reduced the firm's cost to sale, more than doubled the business's enterprise value over a three to four year cycle, which aligns with many investment holding periods.

As the case study demonstrates, the foundational technology of a TCSP firm that understands how to go about a digital transformation will consist of a core administration platform with modern core systems that can be easily integrated.

In other words, SaaS platforms that are monitored, secured, and maintained 24/7/365.



"As you invest and consolidate processes to core technology, you unlock access to further future improvements that can be delivered for less."

Stuart Richford, Commercial Director, BDO Consultancy

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3

Securing investment – a real world example

Key themes

- Enterprise value is more important than sale value.
- Link tech investment to enterprise value.
- Couple IT strategy to longterm business strategy.
- Assess revenue generation metrics through tech and data.

James Weatherall, Group Director, Affinity PW, a Quantios customer:

"The board was far more appreciative of the fact that if the IT strategy links to a long-term business strategy, it was significantly easier to understand and therefore justify the tech spend for the business"

Value isn't just about securing external investment; value is what drives your stakeholders, your current shareholders. And just as importantly – and it reflects Affinity's experience of its current transformation – it's also about driving your own staff. If they can buy into that process and understand why a transformation is underway, a firm's digital journey will be much easier and more successful.

> "Benefits should be seen in the context of three-year to ten-year timeframes, especially when talking to the board about a big IT spend."
>
> **James Wetherall, Commercial Director, Affinity PW**

Infrastructure

Firms need to get their core technology and systems in place – the core infrastructure (cloud), the core business systems (platforms in the cloud) and data consolidation. In Affinity's case, it started with a basic migration to Microsoft Cloud. As a next step, it was important to get their data in order and articulate its importance to management and board. In turn, the board was far more appreciative of the fact that if the IT strategy links to a long-term business strategy, it was significantly easier to understand and therefore justify the tech spend for the business. "Once you've got the data right," says James Weatherall, "it starts to give you insights into where you are with your clients, and firms will start to see the WIP (work-in-progress) and how much they're actually recovering on those clients".

Cost-benefit analysis – an incomplete tool

The traditional cost/benefit model often tends to overlook the most crucial assessment of all: where will your change program and digital transformation get you? Under a typical cost benefit analysis, firms focus on costs and how long it's going to take to deliver against a project. And then they try to measure how much it will save them across typically short periods, rather than the future profitability the project can enable.

Firms that know how to do digital transformations understand where it's going to get them because they know the impacts of the multiple-improvement and simplification effects.

In other words, over time, you unlock access to further improvements that can be achieved for less. And whilst it's impossible to completely get away from the cost/benefit model, successful transformations will look beyond the short-term, year-one budget and understand that the benefits should be seen in the context of three-year to ten-year timeframes, especially when talking to the board about a big IT spend.

As James Weatherall, points out: "As long as you know where you're going in the long-term, it's a lot easier to justify the IT spend. That journey is about enterprise value – it's not always about sale value. It is a value to stakeholders and shareholders, staff and management. If you can link it to that enterprise value, it makes that decision for the board much easier."

Data driven insights into customer behaviour

Many firms will think that they're servicing their best clients excellently, but are they? A digital transformation allows directors and client-relationship managers to look into that data, gain innovative insights and establish, for example, that a client may not be generating as much as it could. Whatever the metrics, a transformation starts to enable firms to give that data the clarity and dimension that marks digitalisation out as a true enabler of growth. For Affinity, having that data available to see where they were, to understand the KPIs on a revenue basis day-to-day, in real time, was invaluable.

Accessing that core day-to-day data also allowed Affinity to identify exactly where their pinch points were, where their workflows weren't quite correct, and crucially, what they could do to improve them.

"As long as you've got the data right, firms will start to see the work-in-progress [WIP] & how much they're actually recovering on those clients."

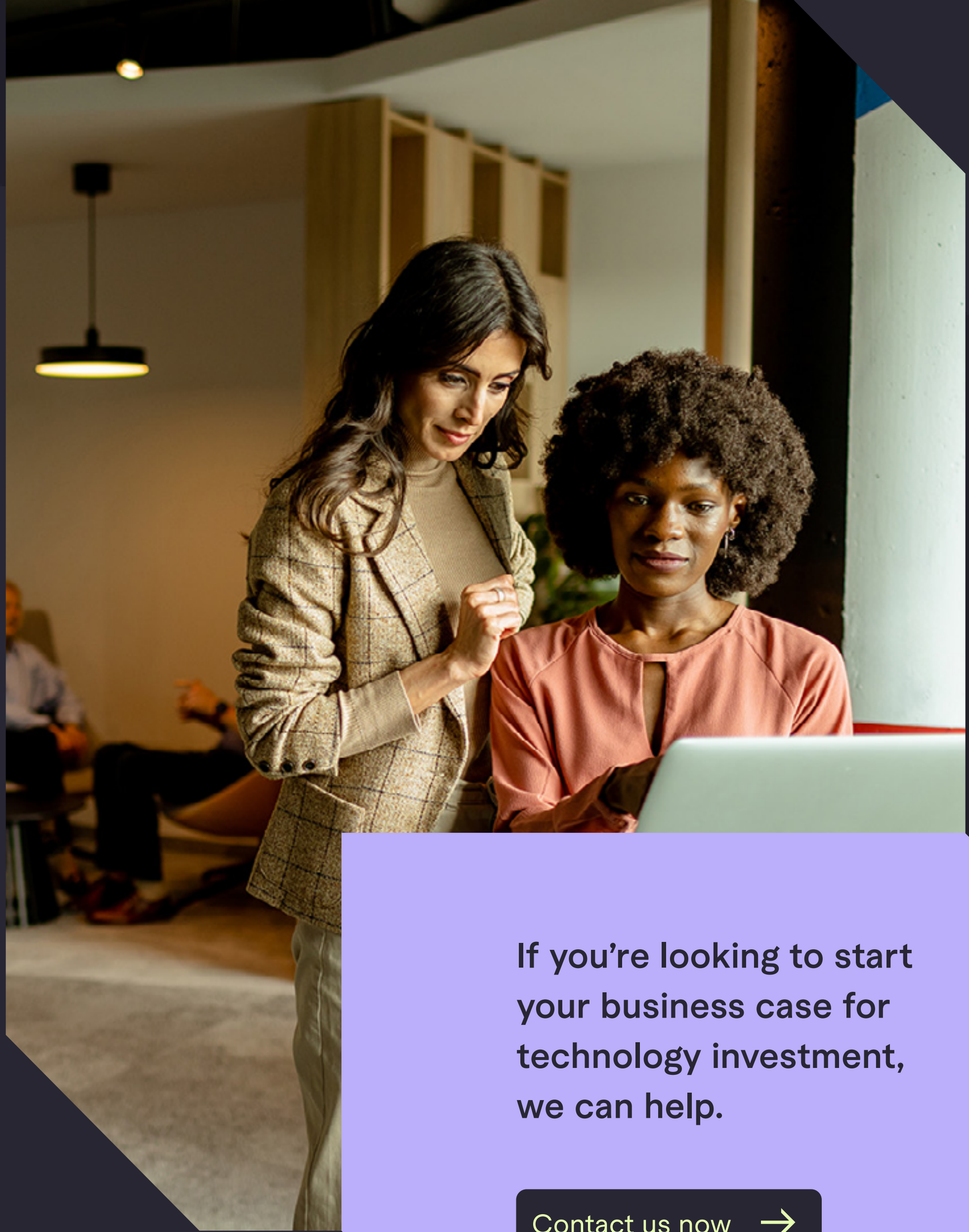
James Wetherall, Commercial Director, Affinity PW

Conclusion

With a clear picture of costs, long-term outcomes and the KPIs and value levers firms should use, TCSP organisations will stand an infinitely better chance of articulating the improvement to the KPI that matters most: the value of your business.

In turn, the supporting KPIs and value levers offer a credible and concrete roadmap for which the board and management team can manage change.

The key to business case approval is to link technology investment to business value.



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Set up an introductory call with the team

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