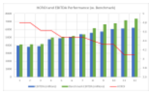
HCMetrix™
QUANTIFYING RETURN ON PEOPLE INVESTMENT

Enhanced M&A Due Diligence Unlocks Hidden Value

A New Way to Measure Human Capital ROI

 Customer	 HCMetrix Delivered	 Region
Technology Software & Consulting	Human Capital Analytics & Interpretation	North America

Business context & challenge

Company A is a software and consulting service provider, whose growth strategy includes selective acquisitions. During due diligence for the software company targeted for acquisition, they prepared a 3-year financial projection that promised strong revenue and EBITDA growth. This was based primarily on historical financial performance and several operational assumptions and the CEO of Company A wanted the seller's human capital valuation tested more rigorously as part of the M&A due diligence.

Analytics delivery & solution

HCMoneyball deployed their HCMetrix™ platform to provide a rapid assessment of the target company's human capital valuation, by correlating key human capital metrics with financial performance. Top-level indicators including Human Capital Return on Investment (HCROI) identified inherent performance and productivity issues, indicating that Company A was unlikely to attain the projected post-deal revenue or profit growth. Analytics showed that the return on each dollar being spent on human capital was insufficient to achieve the financial projections.

The HCMetrix analytics prompted a closer look at the company's historic, and current, workforce composition. The review quickly noted that the majority of employees were split across two groups of software engineers, one focused on development and the other on pre-sales, sales, and support. Combined, these groups represented around 80% of total human capital costs. It also brought attention to a gradual shift that correlated to the trend in declining productivity and HCROI performance. Product innovation had been the driver of value creation and growth for the company, heavily dependent on new development. However, more recently, development had gradually transitioned into maintenance mode. The allocation of human capital investment had not been realigned along with this shift. This showed that the development team was over-staffed and under-utilised and that the product/sales team would not, in its current form, be able to achieve the projected revenue target. Further, deeper-level HCMetrix analysis, using additional human capital data, also provided evidence of increasing employee turnover, a fall in average tenure and poor recruitment effectiveness. All these factors were contributors to reduced productivity.

While the target acquisition remained profitable, the analyses indicated that they would miss the projected growth targets unless swift remedial action was taken. Without this insight these critical correlations between human capital factors and financial results would have remained hidden.

With a greater understanding of the human capital issues, and the projected impact on performance, company A negotiated a lower deal price. They were also equipped with the insight required to make critical changes to underpin post-transaction value. As a result, the core teams were rebalanced. The development team was reduced in size, with some engineers transitioned to the pre-sales and support group, aided by training and coaching to accelerate this process and help with post-transaction integration. A new compensation model was also introduced to better align rewards. The company A acquisition team admitted that without the insight delivered by HCMetrix analytics, they would have over-paid to acquire the target company, and would not have identified the underlying issues for some time, undermining future financial performance and ROI.

3 Year Post-Acquisition Results

Revenue		OPEX		EBITDA		Productivity		Attrition
↑	$7m	↓	($4.2m)	↑	22%	↑	27%	↓

Key learning points

The value added by HCMetrix to the overall acquisition process and post-deal value creation plan came in two parts, both equally important.

The insight derived from HCMoneyball's approach provided a more comprehensive view of the targeted acquisition company by highlighting crucial human capital insight and then relating it directly to business performance expressed in financial ratios. This provided company A with the means to structure a better deal and to plan more effectively for future profitable growth – post acquisition.

The numbers tell one story, but the changes also positively impacted employee engagement, agility, and flexibility – all essential factors in making the business "fit for the future."

The platform also embedded a consistent and reliable way to measure, track and correlate key human capital and financial metrics on an ongoing basis, to better inform decision-making and enable the senior leadership team to test assumptions around variations in core KPIs.

"The HCMoneyball team really opened our eyes to the importance of measuring and tracking the relationship between human capital metrics and our results. This made a material impact on how we structured the post-transaction operational plan and delivered higher profitability for all our stakeholders."

CEO, Company A

"What struck me was how quickly HCMoneyball pulled together this insight. It added another layer of value to the due diligence process and helped us to achieve a better deal price."

Partner, M&A Consultants to Company A