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Building Platform IT into your Platform Investment
August 13th, 2019

AGENDA TOPICS

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2 KEYS TO SUCCESS: CREATING PLATFORM IT EARLY IN THE CYCLE

3 PLATFORM IT: SHARED SERVICES MODEL FRAMEWORK

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COMMON THEMES OF A FAILED CONSOLIDATION

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COMMON THEMES OF A FAILED ROLL-UP CONSOLIDATION

Add-ons Run Independently

1 Add-ons continue to run semi-independently with separate P & L's, separate financials, and with duplicate finance and IT staff in each entity deep into the holding period.

Lack Real-Time Decision-making

2 Disparate financial and customer management systems limit organization-wide visibility into trends and KPIs, impeding real-time decision-making.

Unnecessary Band-aid Projects

3 Unnecessary band-aid IT projects emerge to work around the delay in systems consolidation. For example, implementing a new system that can take the disparate financial systems and consolidate them for PE reporting.

IT Staff Performs Consolidation

4 IT consolidation plan is performed by internal IT Staff to develop, execute and oversee, thus becoming quickly overwhelmed trying to balance between running the business and integrating add-ons. Unfinished consolidation projects begin to stack up as attention is diverted to absorbing new add-ons.

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COMMON THEMES OF A FAILED ROLL-UP CONSOLIDATION

ORGANIZATIONAL MATURITY IS PREDICATED ON CONSOLIDATING CORE SYSTEMS

Profitability Problems Limit IT Projects

5 Profitability challenges begin to test organizational tolerance to fund transformation projects that have limited tangible progress.

Organizational Development on Hold

6 The organizational maturity and ability to operate as one postponed until IT projects are finished, resulting in excessive internal politics and sluggish decision-making and execution. Processes and staffing can't be consolidated until the systems are centralized.

Permanent State of Transition

7 New organization enters into a state of permanent transition after 2-3 years of consolidation efforts, impacting value creation efforts, culture and politics.

Underperforming Company Sold "As Is"

8 Private Equity Firm sells underperforming company "as is" or executes a large Exit readiness project late in the hold period to prepare the company to sell.
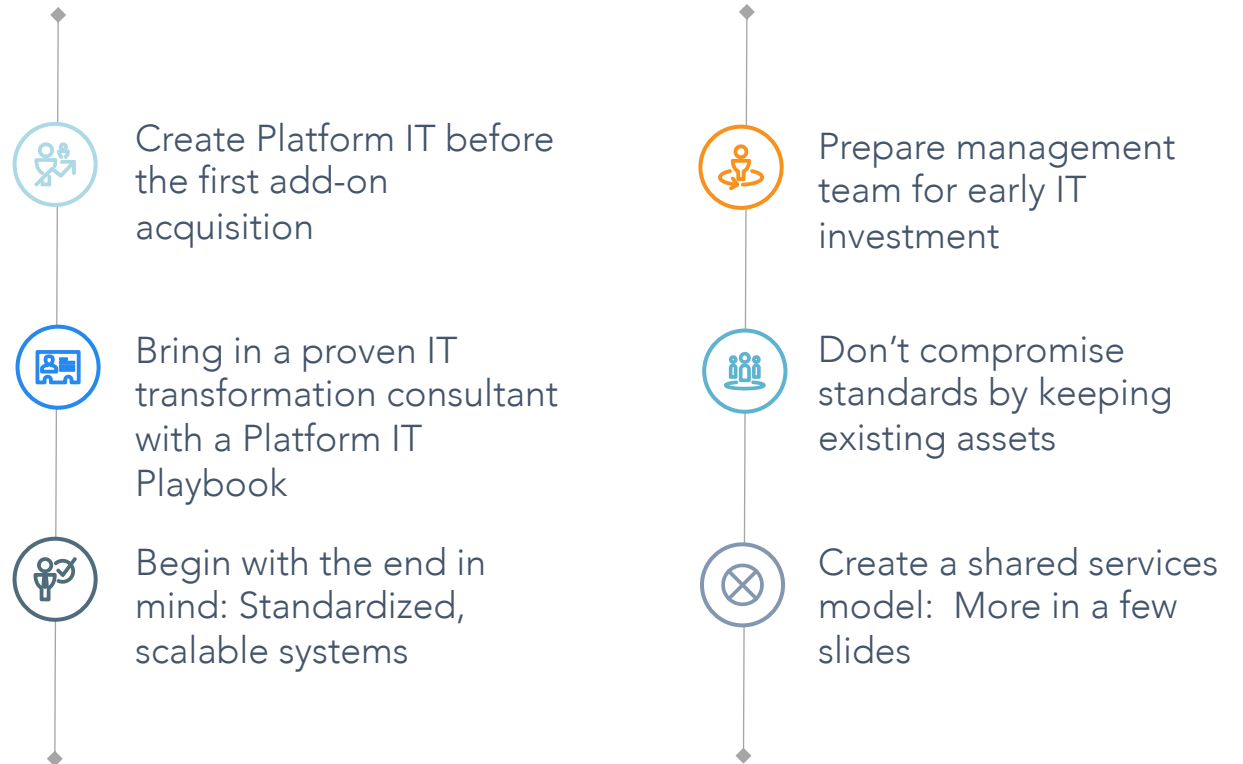
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KEYS TO SUCCESS: CREATING PLATFORM IT EARLY

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KEYS TO SUCCESS: CREATE AN IT PLATFORM EARLY

Organizations often underestimate the positive impact of creating an IT platform early in the deal cycle.

Instead of starting the integration process 2-3 years into the deal cycle, you should be planning a profitable exit.

Keys to Success

- Create Platform IT before the first add-on acquisition

- Bring in a proven IT transformation consultant with a Platform IT Playbook

- Begin with the end in mind: Standardized, scalable systems

- Prepare management team for early IT investment

- Don't compromise standards by keeping existing assets

- Create a shared services model: More in a few slides

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EARLY IT PLATFORM CREATION

BENEFITS

01 **LESS EXPENSIVE**

Creating a platform and moving add-ons into that platform will be much less expensive and time consuming than trying to consolidate the entire company during a large, disruptive event.

02 **CAPTURE SYNERGY EARLY**

Why not capture synergy, cost savings and business efficiency right away versus distracting the company in an elongated process deep into the hold period?

03 **SIMPLIFIES DUE DILIGENCE FOR ADD-ONS**

IT due diligence on new companies becomes irrelevant. Instead of "how well are they doing," the process is simplified to "can this new company work on our platform."

04 **DE-RISK ADD-ON PROCESS**

It will de-risk the add-on buying process since add-on IT is somewhat irrelevant.

05 **ESTABLISH PREDICTABILITY OF IT BUDGET**

You already know what IT will cost before you buy the company. Establishes predictability of end state so you know up front what a new buy will end up being.

06 **CLARIFIES IT OPERATIONAL RUN RATES**

Performing large projects late in the hold period makes it difficult to baseline actual run rates. It's hard to tell the staff to cut costs and optimize while they are in project improvement mode.

07 **IT BECOMES A COMPETITIVE ADVANTAGE**

IT will become a competitive advantage that enhances valuation versus becoming a liability.

08 **EMPLOYEES ARE OPEN FOR CHANGE EARLY**

Waiting allows new norms, politics and organizational structures to get imbedded, which inhibits peoples' willingness to be part of the solution. The longer you wait, the more likely employees become political.

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PLATFORM IT: SHARED SERVICES FRAMEWORK

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BEST PRACTICES CRITERIA FOR PLATFORM IT SOLUTIONS

RKON's criteria for establishing platform IT is choosing solutions and strategies

BELOW BENCHMARK IT SPEND

Reduce complexity of decision-making and change

Provide Instant, incremental scalability

Hosted or cloud based versus client premise solutions

Outsource IT operations where possible

Free-Up Internal IT resources for value creation

Limit license purchases and asset tracking

Simplify financial cost modeling for optimization planning

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PLATFORM IT TECHNOLOGY & SOLUTION RECOMMENDATIONS

OFFICE 365
Moving email to Microsoft even if you already have email internally

AD MIGRATION EXPERTS
Hire experts to consolidate MS Active Directory

CLOUD TELEPHONY
Throw away your premise phone system regardless of how new it is

LAN/WAN REFRESH
Don't keep anything because it's "good enough"

CLOUD BASED ERP
Mission critical: Day one modernization of core financials

CLOUD BASED APPLICATION SET
Compatible with the new ERP

Buy Solutions that:
- Don't require servers
- Don't require you to manage
- Don't require you to host
- Purpose built for mid-market
- Outsource what's left behind

Moving to Shared Services

Enable
- Instant expansion with no planning
- Internal IT to Focus on Value Creation
- Predictable Operational Costs
- Low Cost Security and Compliance
- Early Exit

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PITFALLS TO EXECUTION

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WHY DO COMPANIES WAIT TO CREATE AN IT PLATFORM?

SUMMARY OF MANAGEMENT TENDENCIES THAT RESULT IN COSTLY DELAYS

CONSOLIDATE LATER ALL AT ONCE

Creating an IT Platform that will support a larger end state is an expensive project with little immediate RIO, making it hard to justify unless you have gone through a failed roll-up before.

SAVE MONEY: WE TRUST OUR IT

Companies often have an IT leader they trust, who wants the opportunity to finally improve IT. Management also assumes internal staff know their systems. Internal IT usually do not have the bandwidth nor the experience of an IT transformation and consolidation.

REASONS COMPANIES DELAY

IT WORKS FINE PRIORITIES ARE ELSEWHERE

Management is focused on target acquisition activities and the last thing they want is a tactical distraction like IT. They naturally will push this off until at least the majority of companies are bought.

EARLY DEAL MONEY DIFFERENT THAN LATER MONEY

Once the "honeymoon" period of a new deal is over, the pressure to produce results, including cost optimization, before the transformation has been done is another part of this that runs counter to the goal.

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PITFALLS OF INTERNAL IT THAT DELAY IT TRANSFORMATION
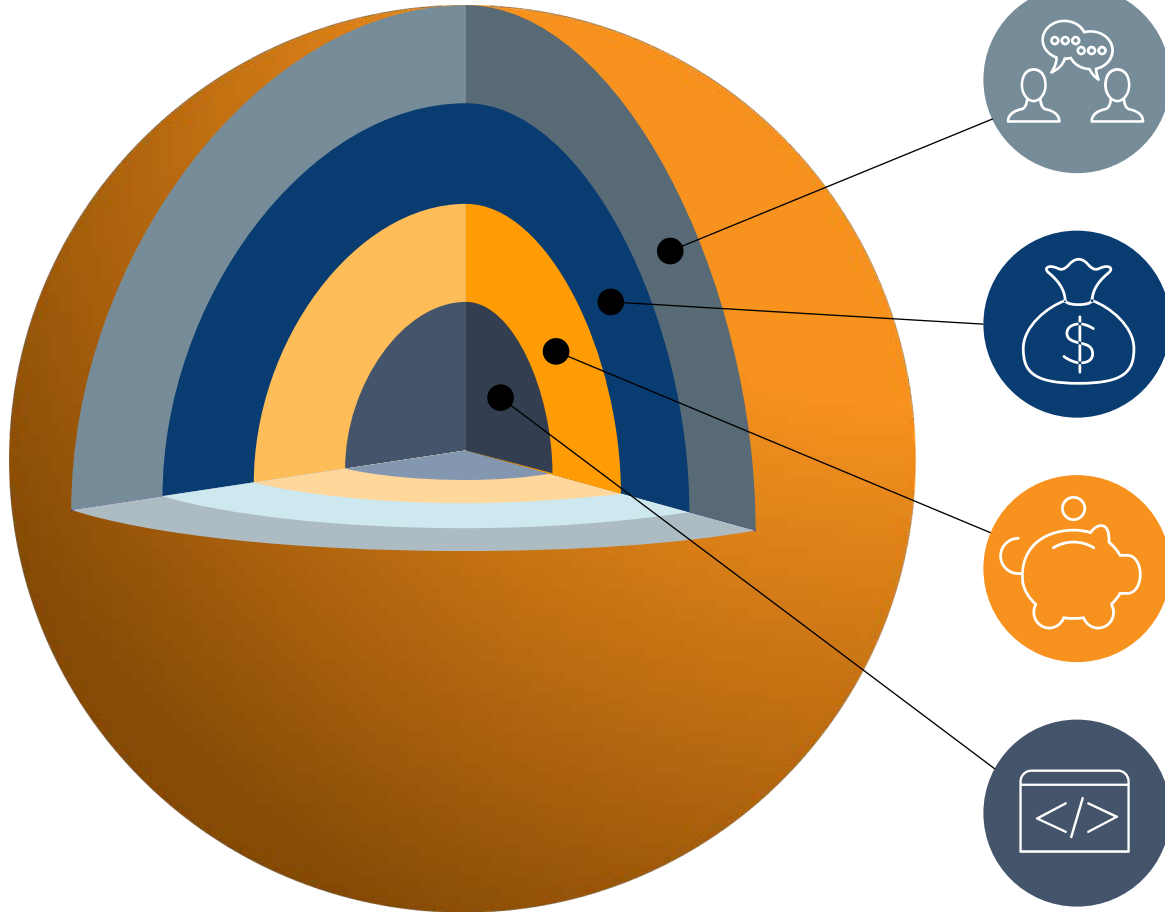
Operation vs. Transformational Skill Sets

Everyone starts in IT on the operational side and only a few get a the chance to be on the transformational side. A transformational skill set takes 5-10 years and 100's of deals to develop. Not to mention, the rate of technology change makes your knowledge set obsolete in 3 years.

Adversity to Outsourcing

The vast majority of IT are hands-on workers and are fundamentally against outsourcing and bringing in third party consultants. In reality internal IT should be focused on value creation for the business and not burdened with operations or one-time IT project work.

Underestimate the Effort

There is a generally accepted theory of taking the "best of breed" from all the companies and forming one stronger entity. This theory does not apply to IT. If you have seven 50 million dollar companies, there is nothing worth keeping.

Building IT in a Private Equity World is Different

The pace, precision and counter-intuitive decisions of a fast-paced Platform Creation and Roll-up initiative are different than "normal IT." The decision processes, methodology and current market experience required to implement a cost-effective, high-performance IT platform are far beyond the experience and skills of any one individual and are a product of 100's of experts with experience with current, ever-changing best practices.

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MYTHS OF IT: PITFALLS TO AVOID

For the Mid-Market

1 — **IT needs to be customized**

IT leaders usually think that each situation requires a custom solution. IT can be done and determined up front

2 — **Insourcing is cheaper**

This is true only if you created a custom IT environment or you have a very large or very small company. Mid-Market IT is different and optimal for outsourcing

3 — **IT Assets are a positive**

Accept that the IT world is moving to an expense "As-a-Service" model and enjoy the huge benefits of high-performance, lower cost IT

There are business reasons and common beliefs that get in the way of executing a proven successful Platform IT playbook

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SUMMARY OF LESSONS LEARNED: Q&A

Create an IT Platform
Immediately

Bring in Platform IT
Specialists

Create Scalability via Cloud
and Outsourcing

Don't Let Old Assets
Dictate your IT
Strategy

Allow Internal IT to
Focus on Value Creation

Keep the Pitfalls In Mind

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THANK YOU