The Hidden Tech Debt Tax

Mitigating ERP & Document Risk During PE Due Diligence

Accelerating Value Creation
Across the PE Investment Lifecycle

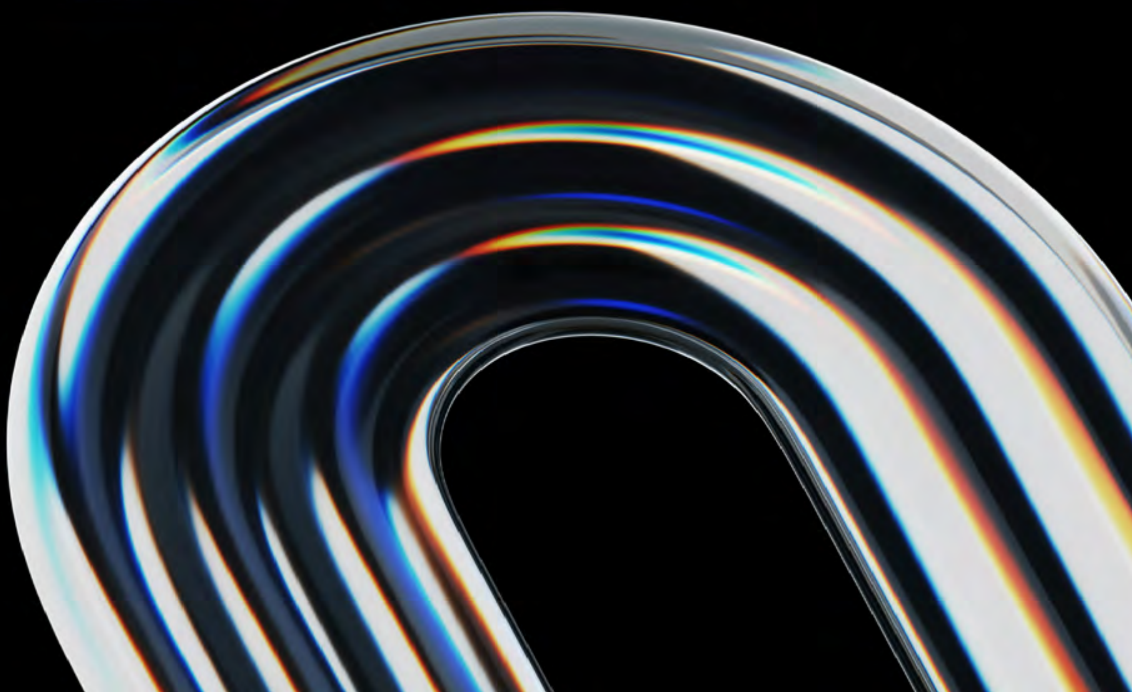


TABLE OF CONTENTS

THE HIDDEN TECH DEBT TAX: MITIGATING ERP & DOCUMENT RISK DURING PRIVATE EQUITY DUE DILIGENCE

Executive Summary

The margin for error has never been thinner in the high-stakes world of Private Equity (PE) acquisitions. While financial and legal due diligence remain the bedrock of any transaction, a new and more insidious liability has emerged: technical debt. In the context of mid-market enterprises, technical debt, the cumulative cost of quick-fix legacy systems, fragmented data, and manual workarounds, acts as a silent tax on EBITDA. It erodes productivity, delays the 100-day plan, and can eventually shave points off an exit multiple.[1] This white paper examines the mechanics of this Tech Debt Tax and outlines a strategic framework for mitigation. By leveraging the strategic advisory of Trajectory and the specialized automation capabilities of InitusIDP and InitusIO from its sister company, Initus Technologies, PE firms can move beyond traditional audits to Digital Due Diligence. This approach identifies risks and provides a roadmap to turn a target's technical liabilities into a scalable, high-multiple technology platform.

01. The New M&A Risk Frontier

For decades, the private equity playbook was centered on financial engineering and operational streamlining. You looked at the balance sheet, you looked at the management team, and you looked at the market. Today, however, that view is incomplete. Every company is now a software company, whether they manufacture valves, distribute medical supplies, or manage logistics. A company's true value is now inextricably tied to its digital engine.[2]

Despite this, many PE firms continue to treat technology ecosystems as a back-office concern, a line item to be managed rather than a core investment risk. This oversight is becoming increasingly costly. According to KPMG's 2024 Technology M&A Survey, 74% of corporate dealmakers cite the overestimation of growth trajectories as the primary driver of the synergy gap. Additionally, 59% of corporate respondents reported that underestimating integration costs (specifically those related to technical and operational complexity) led to significant discrepancies in realized value.[3] While cultural friction is often the post-mortem excuse, a more pervasive, measurable cause is digital friction. This is the sheer inability to merge disparate systems or extract clean data from a target's fragmented, aging infrastructure.

Defining the Tech Debt Tax

Technical debt is the accumulation of sub-optimal technology decisions made over the life of a company. It's the custom script written in 2020 by a developer who is no longer there; it's the manual spreadsheet used to track inventory because the ERP doesn't work; it's the thousands of invoices sitting in a shared inbox that no one has the time to audit.

When a PE firm acquires a company with high technical debt, they are inheriting a liability that compounds like high-interest credit card debt. Every hour your team spends keeping the lights on with a broken technology ecosystem is an hour they aren't spending on the growth initiatives that drive IRR.[4]

02. The ERP Liability: Assessing the Black Box

The ERP system is supposed to be the central nervous system of the enterprise. In a healthy company, it provides a single version of the truth. In a target riddled with technical debt, the ERP is a black box.[5]

The Complexity Trap

Many mid-market companies grow through tactical patches. They implement a base layer of NetSuite or Salesforce and then layer on thousands of lines of custom code to solve immediate, local problems. Over time, the documentation for these changes disappears. The system becomes so brittle that any attempt to upgrade it or integrate a new bolt-on acquisition threatens to bring the entire operation to a halt. During due diligence, traditional IT audits often settle for a green light if the software is running. But functional is not the same as scalable. This is where Trajectory provides a critical advantage. Using a proprietary methodology and tools like InitusDecoder, Trajectory performs what is essentially a deep-tissue scan of the target's codebase.

Trajectory's Strategic Assessment focuses on three pillars:

</> Code Integrity 01

Is the system built on standard logic, or is it spaghetti code that will require a total rebuild to integrate?

Upgrade Paths 02

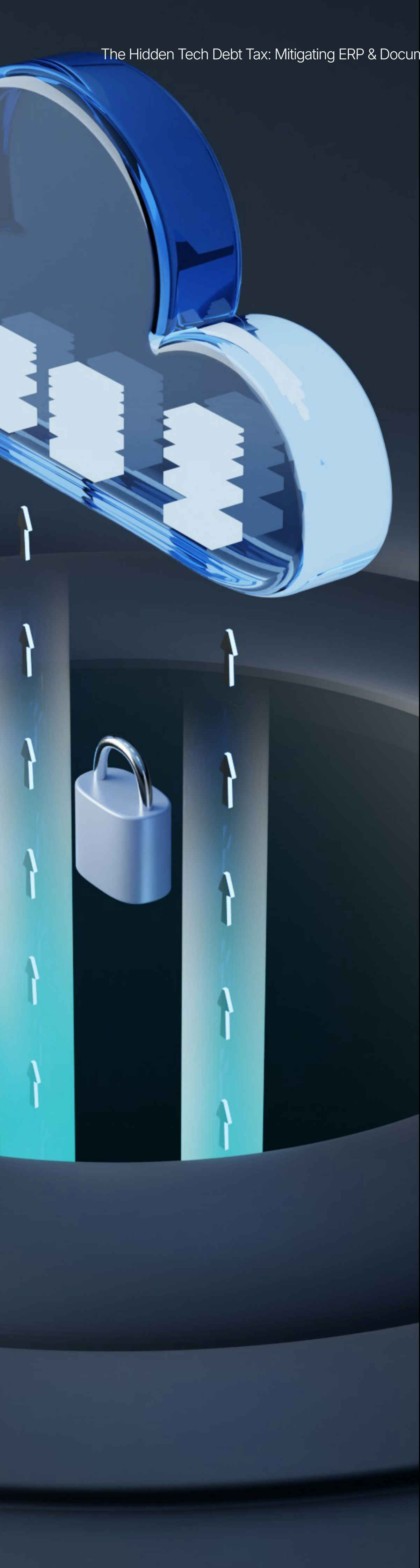
Is the company version-locked? If they haven't updated their core software in three years because they're afraid of breaking it, you are buying a dead end.

The Breaking Point 03

At what transaction volume will this system fail? If your investment thesis involves a 3x growth in volume, you need to know on Day 1 if the system will crash on Day 100.

Quantifying the Impact on EBITDA

Technical debt has a direct, measurable impact on the income statement. Poor ERP health leads to inventory inaccuracy (which ties up working capital), revenue leakage (missed billings), and bloated audit costs. By partnering with Trajectory pre-close, PE firms can enter negotiations with a clear-eyed view of the remediation reserve required, often leading to a more favorable purchase price.



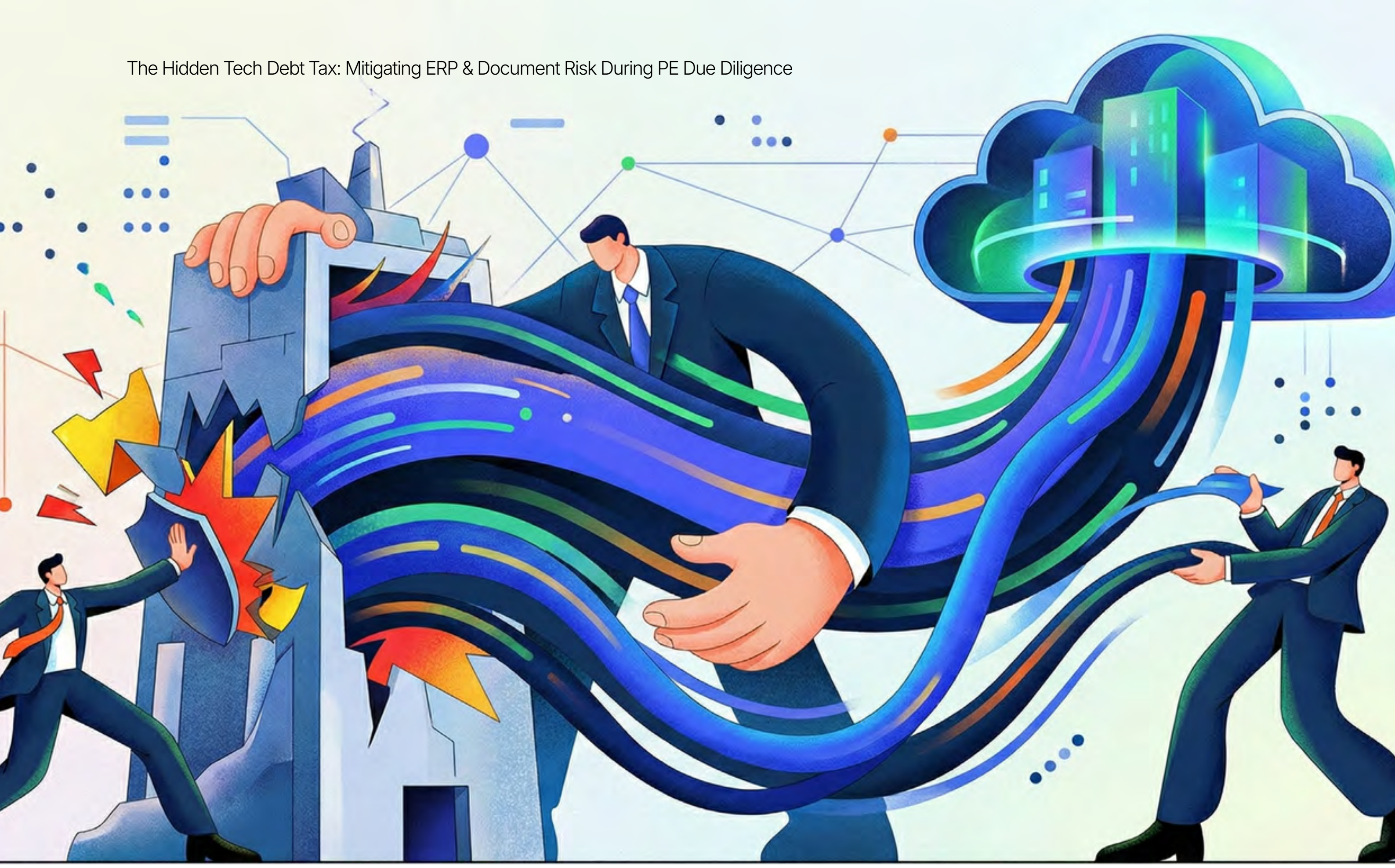
03. The Document Silo: Unstructured Data as a Deal Breaker

One of the most overlooked risks in M&A is what we call the analog anchor. Even companies with modern, cloud-based ERPs often have a shocking amount of business-critical data trapped in unstructured formats, i.e. PDFs, vendor contracts, leases, and shipping manifests.

The Cost of Human Middleware

The hidden tax here is the cost of manual labor. If an acquisition target requires a team of ten people to manually move data from invoices into the ERP, that is a fixed cost that scales linearly with volume. This is the antithesis of the PE growth model, which seeks to decouple revenue growth from headcount growth.

Furthermore, unstructured data represents a massive compliance risk. During a 100-day plan, a PE firm might want to renegotiate vendor contracts to find synergies. If those contracts are buried in unstructured PDFs, simply finding the change of control clauses becomes a Herculean effort that consumes hundreds of billable hours from legal and operational teams.



The InitusIDP Solution

This is where InitusIDP (Intelligent Document Processing) becomes a primary lever for value creation. InitusIDP uses advanced AI to read and understand documents with human-level accuracy. By implementing InitusIDP early in the hold period, the firm can:

- **Automate Accounts Payable:** Moving from a cost-per-invoice model to an automated, high-speed workflow.
- **Accelerate Quote-to-Cash:** Ingesting customer orders instantly to trigger fulfillment without manual data entry errors.
- **Audit Readiness:** Creating a searchable, digital repository of every legal and financial obligation the company has.

Turning analog liabilities into digital assets is one of the fastest ways to improve EBITDA and prepare a company for a high-multiple exit.

04. The 100-Day Sprint: From Diligence to Value Creation

In Private Equity, the first 100 days are the most critical. It is the period of maximum leverage and maximum urgency. However, this period is often wasted on firefighting technical issues that should have been identified, and planned for, during diligence.

Rapid Tech Alignment & Data Migration for PE Value Creation

The partnership between Trajectory and Initus is designed to compress the timeline from closing to optimization.

1. Future-State Blueprinting: Post-close, Trajectory works with the portfolio company's leadership to define the Future State. This is a tactical plan to eliminate the technical debt identified during diligence. We ensure the technology roadmap is perfectly aligned with your investment thesis.

2. Seamless Integration: Most portfolio companies struggle with island systems: the CRM doesn't talk to the ERP, and the ERP doesn't talk to the logistics provider. Historically, fixing this required expensive, custom-built middleware that eventually became its own form of tech debt. InitusIO, Boomi or Mulesoft can change this. Depending on your needs, one of these integration platforms allows for the rapid connection of disparate systems, ensuring data moves seamlessly.

3. De-Risking Data Migration: If your plan involves migrating the target to a new ERP, data migration is your highest-risk activity. InitusMigrate automates the cleansing and loading of legacy data. This ensures the new system is clean from day one, preventing you from simply moving your old problems into a new, more expensive system.

05. Strategic Recommendations for Investment Committees

Investment Committees (ICs) must evolve. A target that looks profitable on paper may be a digital lemon. To avoid the Tech Debt Tax, ICs should mandate a Digital Maturity Assessment as a standard part of the diligence package.

The New Diligence Checklist[6]

When evaluating a target, PE firms should ask:

- **What is the Human Middleware Ratio?** How many people are dedicated to manual data entry?
- **Is the Infrastructure AI-Ready?** As Business Week recently noted, firms that cannot leverage AI for predictive analytics will fall behind. Does the target have the structured data necessary to feed these models?
- **What is the API Maturity?** Can the target's systems talk to external partners easily, or is every integration a six-month project?

By answering these questions pre-close, the firm can move from a reactive posture to a proactive one. Instead of discovering a broken system six months into the hold, you arrive at the closing table with a funded plan to modernize the stack working with Initus and Trajectory.

Featured Case Study

06. De-Risking the Platform Strategy: OnScent Technology Transformation

The following case study demonstrates how Trajectory acts as a long-term strategic technology partner to navigate the complexities of a high-growth, Private Equity-backed environment.

Background

OnScent, a premier innovator in fragrance solutions and manufacturing, was formed following a merger led by The Riverside Company. Upon acquisition, the organization entered a typical PE environment characterized by high growth expectations and the immediate need for a standardized, data-driven model to meet rigorous reporting mandates.

Following the acquisition, several critical risks threatened the investment thesis:

- **Informal Process Friction:** The organization needed to translate informal legacy processes into a standardized digital model.
- **The Success Tax:** As the business scaled, transaction volumes surged to over 7,300 daily records. Without intervention, skyrocketing licensing costs threatened to cannibalize the ROI of their technology stack.
- **Leadership Bandwidth:** The executive team faced an increasing breadth of responsibilities, creating a void in technology ecosystem oversight.
- **Fragmented Architecture:** The need to orchestrate multiple third-party vendors and systems, including NetSuite and an industry-specific system (BatchMetrics), into a single cohesive ecosystem.

The Value-Driven Partnership

Trajectory moved beyond the role of a one-time vendor, acting as a Digital PMO and long-term partner to engineer a robust digital backbone.

- **Custom Ecosystem Engineering:** Trajectory integrated NetSuite with BatchMetrics via Boomi, providing executive-level governance to navigate the high-stakes PE environment.
- **Aggressive Value Engineering:** To mitigate the Success Tax, Trajectory optimized back-office and financial processes. By grouping transactions, they slashed transaction throughput by 90%, directly reducing the licensing burden and reclaiming operational budget.
- **Operational Resilience:** The team engineered advanced integration retry mechanisms to ensure manufacturing never stops, even during individual system downtimes.
- **Resource Continuity:** By maintaining the same core experts from 2022 through 2026, Trajectory preserved institutional knowledge, ensuring no loss of momentum during business transitions.

The Results: Quantifiable Business Impact

The partnership transformed OnScent's technology from a cost center into a competitive advantage:

- **Scale Without Linear Cost:** The 90% reduction in transaction volume allowed for massive scale without a corresponding spike in license fees.
- **Financial Clarity:** Manual, inaccurate processes were replaced with real-time tracking of Cost of Goods Sold (COGS), Work in Progress (WIP), and perpetual inventory.
- **Strategic Maturity:** OnScent transitioned from firefighting to a multi-year roadmap, positioning them to evolve as new market capabilities present themselves.

> "Trajectory is a partner in our business growth. They've seen us through every significant phase of our technology evolution since 2022, adding value and protecting our interests every month."
>
> **Sylvia Cole**
> CFO
> OnScent

CONCLUSION

De-Risking the Exit

The ultimate goal of any PE investment is a high-multiple exit. In today's market, the next buyer whether it's a strategic acquirer or a larger PE firm, will perform their own digital due diligence. If they find a clean, automated, and integrated tech stack, they will pay a premium. If they find a tangled web of legacy debt, they will use it to chip away at your valuation.

Technical debt is a choice, and choosing to ignore it during diligence is a choice to pay a recurring tax on your investment's performance. Choosing to partner with Trajectory and Initus is a choice to de-risk the acquisition, accelerate value creation, and ensure that the digital foundation of the company is as strong as its balance sheet.

FOOTNOTES & REFERENCES

1. The Impact of Tech Debt on Valuation: Lake, N., & Carrel-Billiard, M. (2020, October 6). Tech debt: Reclaiming tech equity from the "tax man" of the past. McKinsey & Company. https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-debt-reclaiming-tech-equity-from-the-tax-man-of-the-past
2. The Digital Engine as Value: Goldman Sachs. (2023). Technology driving growth: Research on why technology is the primary driver of modern corporate productivity. https://www.goldmansachs.com/intelligence/pages/technology-driving-growth.html
3. M&A Failure Rates: KPMG. (2024). Adapting to the shift from headwinds to tailwinds: 2025 TMT M&A horizons. KPMG International. https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2025/mna-quarterly-tmt-horiz-final-secured.pdf
4. Tech Debt and IRR: Deloitte. (2023). Tech debt in private equity: How legacy systems create a "drag" on Internal Rate of Return (IRR) by delaying operational improvements. https://www2.deloitte.com/us/en/pages/operations/articles/technical-debt-private-equity.html
5. ERP as a Liability: Gartner. (2021). Composable ERP: Gartner research on the risks of "legacy ERP" and the importance of a composable strategy. https://www.gartner.com/en/information-technology/glossary/composable-erp
6. The Digital Diligence Framework: PricewaterhouseCoopers (PwC). (2024). Digital due diligence: PwC's perspective on why digital due diligence is now a requirement for mid-market M&A. https://www.pwc.com/us/en/industries/financial-services/library/private-equity-value-creation-through-digital-transformation.html
7. OnScent Case Study: Trajectory. (2024). OnScent case study: Detailed project scope and transformation metrics. https://trajectoryinc.com/cases/onscent-case-study/ . Trajectory: OnScent Case Study

ABOUT THE AUTHOR

Alex Olano
CEO and Managing Partner
Trajectory Group
www.trajectoryinc.com
https://www.linkedin.com/in/aolano/

Throughout his 18-year career at Trajectory, Alex's role has ranged from managing teams and projects to running the professional services organization and mentoring Trajectory's growing number of Consultants. Currently, he leads the Trajectory Team and invests his time ensuring Private Equity avoids key technology risks during their transactions.

Alex understands technology is simply the means for achieving business goals. He has guided Trajectory's organization to form its own version of Operational Improvement which combines industry and business acumen with highly effective technology implementation capabilities.

Prior to joining Trajectory Group, Alex spent 10 years in business consulting, systems advisory, and SAP implementations with IBM Global Services and Accenture.