SYNTAX

Whitepaper

ERP Cloud Transformation in Private Equity: A Strategic Imperative for Value Creation and Exit Optimization

Discover how ERP Cloud and digital transformation unlocks scalable growth, operational excellence, and higher valuations

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Executive Summary

- Modern ERPs serve as a digital foundation that drives innovation and competitive differentiation. Transformation of this nature can offer a significant value creation opportunity during the investment lifecycle.
- A portfolio company's valuation will be discounted if its ERP system is outdated or approaching end of life.
- Depending on their holding stage in the investment cycle, PE firms can decide to implement ERP transformation in its entirety or lay the foundation for a modern ERP and leave completion to the new buyer.
- Before initiating an ERP transformation, PE firms must understand common pitfalls that can derail success, so they can proactively mitigate risks and plan with greater precision.
- The first step in any ERP transformation project is performing an assessment that results in a phased roadmap including sequencing of stages, scope, timeline, and budget.
- The combination of GenAI and SAP's widely adopted ECC solution being phased out, requiring portfolio companies to transition to SAP S/4HANA or another modern alternative by 2030, is driving the push for ERP modernization.

The Strategic Imperative

The private equity (PE) sector is undergoing a profound shift, moving beyond traditional financial leverage to embrace operational and technological advancements as primary drivers of value creation. In 2025, digital transformation and artificial intelligence (AI) integration have become essential for PE operating partners seeking to drive scalable growth and harness untapped value across portfolio companies. In fact, 78% of PE firms have increased their investment in digital transformation initiatives since 2020.

This evolution is fueled by extended holding periods—now averaging more than six years—which demand consistent operational excellence over time. To meet this challenge, PE firms are turning to advanced technologies that enhance efficiency, scalability, and insight generation. At the core of this digital shift are modern enterprise resource planning (ERP) systems, which enable next-generation tools like AI and analytics.

By contrast, legacy ERP systems perpetuate data silos, obstruct decision-making, and limit the deployment of AI-driven solutions. Thus, establishing a cloud-native ERP foundation early in the investment lifecycle is critical for delivering scalable growth, better decision-making, and long-term operational excellence.

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Rewriting the Rulebook: Cloud ERP and PE's New Reality

Despite their strategic importance, ERP transformation initiatives are often stalled due to outdated perceptions of cost overruns and prolonged timelines that risk consuming a significant portion of the investment holding period. However, the reality is very different.

Far from the rigid, legacy platforms of the past, today's cloud ERP platforms have fundamentally changed the implementation model, reducing timelines from years to months, and lowering cost and complexity. What was once a barrier is now a catalyst—ERP modernization is enabling faster returns and more agile execution across the investment lifecycle.

Because of this, PE managers are increasingly viewing ERP cloud transformations as a critical lever for strategic value creation—one that is foundational for operational excellence, data-driven decision-making, and ultimately, enhancing enterprise value for a successful exit.

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Strategic Value Creation Opportunities

ERP modernization drives digital transformation, which provides substantial value across the investment lifecycle. Modern ERP systems harmonize operating models, processes, and data, enabling integration, scalability, flexibility, and innovation.

In our experience, quantifiable benefits include a 2% to 4% revenue boost from improved demand forecasting; 50 to 250 basis point gross margin improvements from smarter product targeting; and 5% to 20% inventory reductions from enhanced supply planning.

An ERP's health should be carefully evaluated during due diligence and integration. An outdated and heavily customized ERP can be challenging for a rapid and successful M&A integration. This means PE firms should factor in ERP transformation costs during due diligence, viewing it as an investment in future M&A capabilities.

Maximizing Exit Valuations

Continued reliance on legacy or end-of-lifecycle (EOL) ERP systems poses escalating risks to PE portfolio companies—directly threatening both valuation and exit outcomes. Once considered adequate, these aging systems are now liabilities: burdened by technical debt, increasingly unsupported, and misaligned with modern business requirements. When a portfolio company runs on outdated ERP infrastructure, its value proposition is immediately weakened. Legacy systems inflate integration and upgrade costs, increase operational inefficiencies, and delay time to value. **Worse, during due diligence, these environments often surface as red flags—triggering deal renegotiations, price adjustments, or in some cases, outright deal abandonment.**

The longer these systems remain in place, the more risks accumulate. Deferred modernization effectively becomes a strategy of compounding exposure. As regulatory demands intensify and cybersecurity expectations rise, unsupported ERP systems create vulnerabilities that extend far beyond IT—impacting compliance, finance, and operational integrity. In an environment where execution speed and predictability are critical, these risks can erode buyer confidence, devalue the asset, and stall or sink the path to exit.

Leading EOL ERP Systems and Their Implications

ERP System	End of Mainstream Support	End of Extended Support	Primary Risks of Non-Migration	Recommended Transformation Options
SAP ECC 6.0	2025 (initially), extended to 2027	2030 (Core Support); "Private Edition, Transition Option" until 2033	▪ Lack of updates, security patches, functional improvements; increased security risks; regulatory non-compliance; loss of competitiveness; higher long-term costs	▪ SAP ERP Cloud (previously referred to as "GROW" or "S/4HANA Public Cloud") and SAP ERP Private Cloud (previously referred as "RISE" or "S/4HANA Private Cloud")
Oracle E-Business Suite (12.2)	Ongoing (Premier Support until at least 2036)	N/A	▪ Risk arises from not adopting continuous updates. Older versions do not get security patches or regulatory updates, hence risk of operational disruptions. High cost of custom support	▪ Stay on EBS 12.2 and move to Public Cloud (OCI - Oracle Cloud Infrastructure, Azure, AWS, GCP) ▪ Leverage Hyper-automation solutions like PowerApps, Advanced Analytics with PowerBI, Gen-AI chat agent/agentic solutions to enhance productivity, or implement net new best-in-class Cloud ERP
JD Edwards EnterpriseOne (9.2)	Ongoing (Premier Support until at least 2036)	N/A	▪ Risk arises from not adopting continuous updates. Older versions do not get security patches or regulatory updates, hence risk of operational disruptions. High cost of custom support	▪ Stay on EnterpriseOne 9.2 and move to Public Cloud (OCI - Oracle Cloud Infrastructure, Azure, AWS, GCP) ▪ Leverage Hyper-automation solutions like PowerApps, Advanced Analytics with PowerBI, Gen-AI chat agent/agentic solutions to enhance productivity, or implement net new best-in-class Cloud ERP

For PE firms, addressing legacy and EOL ERP systems is no longer just a back-office concern—it's an operational necessity to protect enterprise value, preserve deal velocity, and ensure a clean, competitive exit.

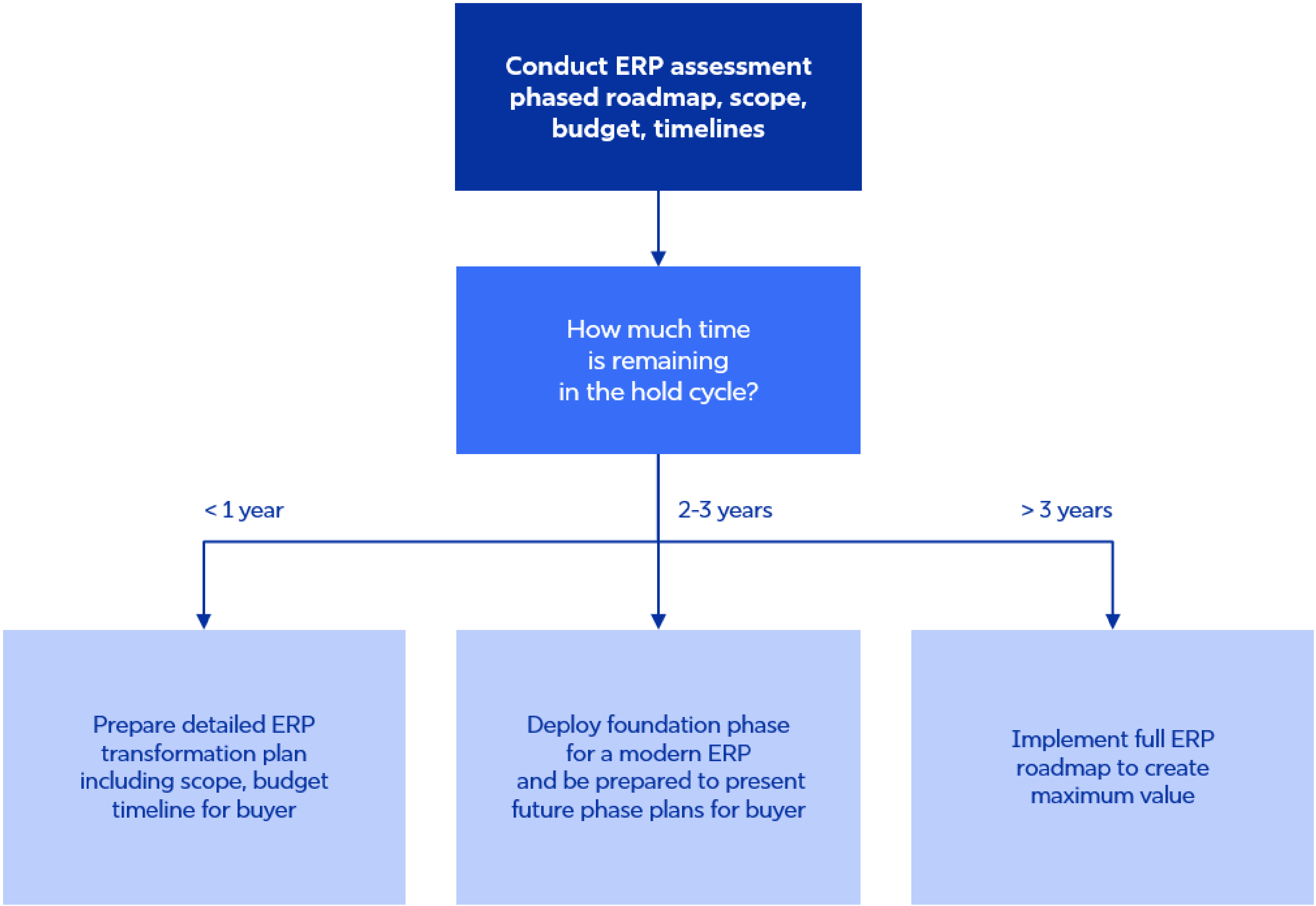
Considering the below factors, PE firms face a critical decision when it comes to ERP modernization: whether to fully implement a cloud ERP transformation during their hold cycle or to lay the groundwork for future modernization, leaving the completion to the next owner. In the latter scenario, it's crucial to demonstrate that comprehensive ERP migration plans are in place, ensuring potential buyers feel confident that the associated risks are well-managed.

ERP Transformation Considerations

Considerations	Start Cloud ERP (SaaS) Transformation	Migrate ERP to Cloud (non-SaaS) and modernize	Stay On-Premise ERP
EOL Support Risks	None	Medium (risk of termination of mainstream product support)	High (infrastructure + termination of mainstream support risks)
Implementation Costs	High	Low	None
Business Disruption Risk	Medium	Low	Very low (no impact on current operations)
Business Continuity Risk	None (modern platform)	Medium (limited modernization)	High
Value Creation Opportunities	Enabled	Moderate	Limited
Long Term Costs	Low	Medium	High
IT Spending at Exit	Low	Medium	High
Valuation at Exit	Increase in multiple (future proof system)	Moderate decrease	Significant decrease (technical debt)
Conclusion	Earlier investment, high returns, and immediate value creation	Low investment, moderate returns, and some value creation	Delayed investment and value creation, high future cost

This decision hinges on multiple factors, including the time remaining in the hold cycle, the desired impact on valuation, and the level of disruption the firm is willing to tolerate.

By carefully assessing the time remaining in the hold cycle and adopting a structured approach to ERP modernization, PE firms can ensure their portfolio companies are well-positioned for growth and success—whether under their ownership or with future buyers.



Estimating ROI: The Financial Case for ERP Transformation

Investing in ERP modernization is not merely a technological upgrade—it's a strategic value creation exercise with measurable returns.

Migrating to a modern cloud ERP typically entails an investment ranging from 0.6% to 1.3% of a company's revenue, influenced by factors such as scope, geographical footprint, adherence to industry best practices, and system complexity. For example, a portfolio company with $500 million in revenue that re-platforms to SAP Cloud ERP could experience costs ranging between $3 and $6.5 million.

While this investment may seem substantial at first glance, the financial justification becomes clear when considering its impact on exit valuation. For a company with an EBITDA exit multiple of 10, achieving just $0.65 million in EBITDA gains is sufficient to recover the expenditure. This is a feasible target given the operational efficiencies, reduced IT operating costs, and enhanced decision-making capabilities that modern ERP systems provide. Additionally, while the investment horizon might constrain the timeframe for achieving full operational return on investment (ROI) during the hold cycle, the exit event significantly accelerates the payback period. A well-executed ERP transformation can demonstrate value not only through operational improvements but also by enhancing buyer confidence and driving higher valuations—making it a critical component of portfolio optimization strategies.

Navigating the Complexity of ERP Cloud Transformation

Recognizing the strategic imperative of ERP modernization is only the first step. The path to transformation—particularly when migrating to cloud ERP systems—is rarely straightforward. These initiatives are inherently complex and, if mismanaged, can introduce new operational and financial risks that undermine the very value they're meant to unlock. For PE firms, ensuring successful ERP modernization requires more than just intent—it demands a clear-eyed understanding of common pitfalls and a disciplined, proactive approach to execution.

Common detractors in ERP modernization projects include:

- **Resistance to change:** The "human factor" is challenging as employees are often comfortable with existing systems.
- **Data migration complexities:** A significant hurdle and root cause of failures, involving cleansing, validating, and transferring data from disparate legacy systems.
- **Cost overruns:** Underestimating total cost of ownership (TCO) is common as ERP transformations are expensive, and costs can spiral without careful management.
- **Integration difficulties:** Integration challenges arise when connecting new cloud ERP platforms with existing, often aging, systems—especially those with undocumented workflows.
- **Inadequate training and user adoption:** Insufficient training severely hinders system utilization, leading to resistance and errors.
- **Poor project planning and leadership:** Hastily completed planning, lack of clear direction, insufficient executive sponsorship, and team misalignment are common reasons for failure.

By avoiding these pitfalls, anticipating challenges, and adopting a proactive, systematic approach to modernization, PE firms can turn cloud ERPs into a source of competitive advantage—driving operational agility, reducing risk, and enhancing enterprise value all the way to exit.

The First Step in Your Cloud ERP Transformation Journey

For PE firms that decide to fully execute a cloud ERP transformation, the journey may initially appear daunting. But breaking it into incremental, strategic stages can simplify the process. Focus on the first step—which is performing a comprehensive assessment of options for ERP cloud migration.

This evaluation ensures that you can make informed decisions while mitigating risks and aligning transformation with strategic goals. Such an assessment involves carefully considering functional and technical scope, system architecture, customizations, data strategy, organizational change impact, and license considerations.

ERP Cloud Migration Assessment					
Analyze	Asses				Evaluate
Current to Future State	The Art of the Possible				
Understanding your options	What's new?	Functional workshops	Technical workshops	Cloud readiness workshops	Compile findings and roadmap

Conclusion

ERP cloud transformation is no longer an option, but a strategic imperative for PE firms to maximize value creation and ensure successful exits for their portfolio companies. The upcoming sunset of SAP's ECC system and the emergence of GenAI are driving forces that urge PE firms and their portfolio companies to reevaluate and modernize their ERP strategies.

Now is the time to modernize. By avoiding common pitfalls, conducting a structured roadmap assessment, and building a strategic modernization plan, organizations can confidently navigate the complexities of cloud ERP migration—ensuring smooth execution and business success.

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About Syntax

Syntax provides comprehensive technology solutions and trusted professional, advisory, and application management services to power businesses' mission-critical applications in the cloud. With 50+ years of experience and 900+ customers around the world, Syntax has deep expertise in implementing and managing multi-ERP deployments in secure private, public, hybrid, or multi-cloud environments. The company specializes in industry-specific managed and professional services, with services designed to help PE firms drive value throughout the lifecycle of their portfolio investments.

Syntax partners with SAP, Oracle, JD Edwards, AWS, Microsoft, Google and other global technology leaders to ensure customers' applications are seamless, secure, and at the forefront of enterprise technology innovation.

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