

TOP TEN WAYS

**A Virtual
Deal Room
CAN HELP YOU DO
Better Deals**

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Beyond Due Diligence – Using Your VDR to Do Better Deals.

In M&A, doing business means doing deals. As the global economy continues to grow, so too does the volume of mergers and acquisitions. Over the last three years, more than 40,000 businesses have traded hands in the United States alone. Globally, that figure reaches more than 70,000, representing transactions worth over a trillion dollars a year.

Given the complexities inherent in managing and closing transactions, and the vast number of deals in play, it's not surprising that dealmakers have turned to virtual deal rooms (VDRs) as a faster, more efficient and more productive way to manage due diligence. In fact, online solutions are rapidly becoming the standard, and adoption is growing at a rate of over 100% per year, causing industry experts to predict that paper data rooms will be all but extinct in less than three years.

Whether you are an investment banking, private equity, legal, or corporate M&A professional, odds are you have interacted with a VDR, either as a seller or buyer, on at least one deal, probably more. So how can you use this enabling technology to optimize every M&A deal you do? We've drawn from our experience implementing thousands of virtual deal rooms to present ten of the best ways you can leverage a VDR to conduct easier, faster and smarter deals.

We hope you will find the contents of our "Top Ten" guide informative and insightful, and a valuable tool for better deal-making.

Thank you!

Dealmakers have turned to virtual deal rooms as a faster, more efficient and more productive way to manage due diligence.

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Make Sure Your User Interface is a *Useful* Interface.

In the digital world, the graphical interface is your virtual representative, the perpetual lens through which potential buyers experience and research the asset for sale.

To conduct due diligence, you must organize and present thousands of documents in various formats that must be made available for rapid reference and review. And on the buy-side, there are multiple representatives across many different buyers, each with a different level of computer skills. All must be able to use the interface immediately, without prior training.

To ensure that contents are clearly indexed, documents are easy to reference and find, and that the process is managed professionally, choose an interface that includes the following characteristics:

- ▶ **A familiar “look and feel”:** Your deal is not the time for transaction participants to learn a new program. Opt for a document file-folder metaphor that everyone can use without training.
- ▶ **Intuitive, customizable document management:** To maximize ease of use and productivity, set up your virtual documents to conform to your established best practices for paper – organizing contents in your own virtual folders, boxes and cabinets.
- ▶ **Instant online help:** Make sure the interface provides online help with familiar icons, clear labels, and “hover-over” text tools to help even first-time users quickly become productive deal participants.



To maximize ease of use and productivity, set up your virtual documents to conform to your established best practices for paper.

“Training? We didn’t need any. Our interface looked like Microsoft Outlook®, so everyone knew how to use it from day one.”

**Senior Analyst,
Investment Bank**

The Real Deal:

A large corporation decided to implement a VDR for each of its owned assets, so potential buyers could review any business online, at any time. Because the interface was Microsoft Windows®-oriented, employees were able to be productive, and potential buyers were able to efficiently review assets, immediately.



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**VDRs can accelerate****deals at every stage****of the process.****But not all virtual****deal rooms are****created equal.**

"Our deal was time-sensitive, so we had to move fast. We were able to get online in days, and we carved weeks out of the due diligence process."

**Corporate Development
Professional**

Time is Money. Accelerate Every Aspect of the Deal.

VDRs squeeze the delays inherent to paper out of every deal. By enabling concurrent review by multiple parties across an unlimited number of bidders, you can shorten the bid period while actually expanding access, a win for both sellers and buyers alike.

In addition, VDRs can accelerate deals at every stage of the process. But not all virtual deal rooms are created equal. Make sure yours passes this "quick-test":

- ✓ **72-hour set-up:** Every document is indexed and scanned, and the entire database repository created, in less than 72-hours.
- ✓ **New document alerts:** Automated alerts direct bidders to new documents as they arrive, and allow users to summon all new documents by date.
- ✓ **Integrated Q&A:** Q&A is automated and integrated within the VDR and its contents, so you can make the communication process faster across all participants.
- ✓ **Online Collaboration:** Includes collaborative document management features like prescribed folders, so sellers and buyers can easily share, review and monitor information, resulting in smoother, faster deal flow.
- ✓ **Source Document Bar-coding:** Paper source documents are pre-formatted using bar-codes to create an auto-electronic document index that streamlines the digitization process.
- ✓ **Flexibility to Change:** Has advanced document features like self-uploading of native files and "on-the-fly" changes.

The Real Deal:

A well-publicized organization recently went into bankruptcy and was eventually sold for over \$17 billion. The deal room consisted of tens of thousands of documents and was made available to hundreds of participants – it was all up and running in just three days.



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**Promote the****sophisticated****electronic data****repository you've****created as an****added "bonus"****to the buyer.**

"Presenting our documents in a VDR format made our company look so much better. And our deal team figured out how to incorporate certain documents in the best way, which helped the deal."

**CFO,
Midwestern Manufacturer**

Package, Present and Promote Your Asset.

Just as you carefully select your business attire to represent you, use your virtual deal room to create a positive first (and lasting) impression to all potential buyers. In short, image matters.

By going digital, not only are you streamlining paper, you also have at your disposal a valuable technology tool that you can use to package and present the asset for sale more effectively. To best promote your asset:

- ▶ Package related content so that documents on a particular subject are automatically linked to each other for easy review and cross-reference.
- ▶ Include design elements, such as color, charts and graphs, and multimedia capabilities that can make crucial documents, such as the Offering Memorandum, more appealing.
- ▶ Incorporate helpful visual documents – like CAD drawings, blueprints, and schematics – in their appropriate file formats. In fact, the best VDR solutions allow authorized professionals to view these files through the appropriate source software, while also allowing ordinary participants to see them as TIF files for immediate review.
- ▶ Promote the sophisticated electronic data repository you've created as an added "bonus" to the buyer, who will appreciate a fully functional, indexed and organized digital library of documents after deal is done.

The Real Deal:

In the heat of the sale of a chemical company, the ultimate buyer needed to quickly review complex data on waste storage and disposal. The seller quickly added complex schematics and process diagrams to the deal room, and put the issue to rest the next day.

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Get More Qualified Buyers Competing for Your Assets.

Traditionally, one of the barriers to greater competition has been the logistics of paper-based due diligence itself, which limits access to one potential buyer at a time and also limits the number of professionals a given buyer can involve in the deal. And many otherwise good buyers, concerned with anonymity, may avoid the deal altogether.

Use a virtual deal room to realize a number of important gains:

- ▶ **Speed:** On average, virtual deal rooms condense total deal times by as many as 40 days or more.
- ▶ **Higher bids:** Greater competition means higher bids – period. Expanded access is the best way to get maximum value for an asset.
- ▶ **Simultaneity:** Sellers can host as many bidders as they wish without extending the transaction period. Multiple bidders may review the same documents at the same time.
- ▶ **Fewer holdbacks:** Comprehensive access to documentation inspires greater bidder confidence. So they will be less likely to submit “low-ball” bids or demand aggressive holdback agreements to remedy undiscovered defects.
- ▶ **Confidentiality:** Only the seller can “see” who’s online; the bidders remain invisible to each other. Furthermore, all bidders can maintain anonymity without fear that their behaviors will trigger unwanted attention.
- ▶ **Cost savings:** Expenses remain fixed. For sellers, adding bidders does not place additional demands on their resources. And bidders can add or delete team members as they wish at no additional cost, resulting in better due diligence.



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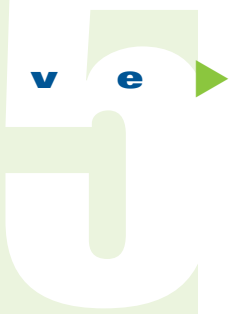
“We’ve been in the business of getting the best possible return on our investments for a long time. We now use virtual deal rooms on every deal, and I can tell you, we are doing better deals.”

**Managing Partner,
Private Equity Firm**

The Real Deal:

One Midwestern professional services group invited twice the number of potential buyers than it had hoped to include. The added competition enabled them to be more assertive in negotiations – and resulted in a 12% premium over the targeted sale price.

f i v e



Want to know who's

really serious about

the deal? Examine

VDR activity logs and

watch for executive-

level usage.

"By keeping an eye on who was doing what, we knew where to concentrate our attention, and our limited time. And we had a good idea of what to expect at negotiations."

**Analyst,
Investment Bank**

Track Buyers Online to Find Out Who's Hot and Who's Not.

Few things give you a greater edge when making a deal than actionable intelligence about buyers, their behavior and their intentions. In fact, real deal insight can be the difference between doing a good deal and a great one.

VDRs allow participants to find, search and review large quantities of content. This activity leaves a tell-tale trail that can not only reveal a buyer's interest level, but provide clues to concerns, and potential negotiating points, on the deal.

First, make sure your VDR lets you track this activity easily and in a meaningful way. At a minimum, you should be able to see what documents, and which specific pages, were viewed by whom and when – to the exact date and time – and for how long.

Want to know who's really serious about the deal? Examine VDR activity logs and watch for executive-level usage. As interest rises, so too will the number of senior players. You can also monitor the size and make-up of bidder teams to understand who comes in and when. And watch for other signs of interest, such as high print volumes of certain documents, which can tip you off to a potential issue.

The Real Deal:

For a European company for sale, monitoring the size of the bidding teams gave them precious insight into buyer intentions. When one team expanded to twelve members who spent considerable time on specific documents, the Europeans knew they were dealing with a serious player – and entered into negotiations with confidence.



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**Tag and append****relevant digital****documents directly****to responses, to****provide a thorough****answer and minimize****time-consuming****follow-ups.**

"We really wanted to acquire this company, but we had real questions about certain aspects of the deal. We not only got answers, we got quick and thorough responses that made us feel much more comfortable."

**Corporate Counsel,
Acquiring Entity**

Automate Q&A to Improve Responsiveness and Confidence.

Experts estimate that over 50% of due diligence time is absorbed in the give and take of questions and answers. By handling Q&A online, and integrating it with the contents of the VDR, you can make the entire process faster, easier and more responsive. More importantly, prompt, accurate and full responses increase buyer confidence in both the process and in the ultimate quality of the asset.

Q&A Basics: Use a VDR to automate Q&A as follows:

- ❶ Predetermine who on the sell-side will be the point person to get answers for specific types of questions.
- ❷ Organize buyers into "communities" – one for each logical topic (e.g., legal, financial, real estate, etc.), and assign one person per community, per buyer, to review submitted questions and distribute answers to the group.
- ❸ Have your administrator gather questions from each community, assign them to the appropriate point person, then publish the answers back to the requesting communities.

Q&A Advanced: To truly optimize Q&A, pick a VDR with advanced features to help you manage the process even more effectively:

- ❶ Pre-assign categories to seller-appointed representatives. Buyers can then "drag-and-drop" their questions into icons for subjects such as "HR" or "Financial," and their questions will be automatically directed to the appropriate experts.
- ❷ Allow participants to prioritize questions, which are then automatically filtered in order of importance so that the most urgent issues are resolved first.
- ❸ Tag and append relevant digital documents directly to responses, to provide a thorough answer and minimize time-consuming follow-ups.

The Real Deal

During the sale of large manufacturer, the company's equipment leases became an issue. The seller was able to quickly satisfy multiple queries by publishing detailed information about leasing agreements, depreciation methods, and related insurance binders – all in a cross-referenced set of links with attachments. Problem solved.



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Improve Navigation, Collaboration and Communication.

Frustration with the due diligence process itself can impede the progress of a deal. The chief concern is getting the right information to the right people at the right time – usually immediately. To eliminate obstacles, your VDR should make it easy for buyers to share, review and monitor information.

All deal participants should be able to collect and organize related material into prescribed virtual folders. By doing so, key documents may be shared by multiple parties immediately. As folders represented by icons, these can be easily moved and manipulated; a simple drag-and-drop will deliver volumes of relevant information to different parties, instantly.

Similarly, you should be able to share intelligence – in the form of activity, security, audit, and other reports – through comparable folder features with password protection for security.

Other significant communication requirements to look for include:

- ▶ **Advanced search** features comparable to those found in popular Internet search engines.
- ▶ **Visual history** of what's been reviewed and what has not, so that potential buyers can see a document's review status at a glance.
- ▶ **"Favorites"** so each participant can mark and store search results and important documents they wish to share with other members of their teams.
- ▶ **Batch markers** that can identify multiple documents for printing, each with its own slip sheet for precise tracking.
- ▶ **Automated Q&A** to compress the time needed to collect and respond to buyer inquiries.



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"With easy-to-use file-folder collaboration tools in place, our VDR practically ran itself.

So our team could focus more on the business aspects of the deal, and less on administration."

**Senior Associate,
Investment Bank**

The Real Deal:

An investment bank recommended that a corporation use a VDR. Not only did the VDR improve the due diligence process, it improved the relationship between the bank and its client. As a result they committed to doing more deals together, using the VDR as a standard platform.

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**Forming a VDR**

creates a tremendous asset – a virtual repository of a company’s most important information.

Get the Most Out of Your Data – Before, During and After a Deal.

During due diligence, and throughout the deal, the virtual deal room is obviously the simplest way for buyers to search and manage documents. But forming a VDR also creates a tremendous asset – a virtual repository of a company’s most important information.

Forward-thinking organizations can proactively host their assets for review. It’s an inexpensive way for private equity, corporate or other type of asset owner to be prepared for any business opportunity *before* it arises.

The repository also becomes a valuable asset to the acquiring entity *after* the deal. It replaces truck-loads of boxes and disparate electronic files with an organized, navigable and ready-made data bank, complete with a working index, that has not only captured previous documents, but can be expanded to hold new data. It can also be easily integrated with the acquiring company’s existing data management technologies and processes.

“When you have command of the information you have command of the deal. It’s that simple.”

**Senior Consultant,
Top Accounting Firm**

The Real Deal:

A private equity firm was executing a roll-up strategy of similar companies. They used a VDR on each deal, allowing them to incorporate all the data into one virtual repository for the new entity. When it came time to sell, the VDR was already in place, helping the firm manage a huge deal – with a large multiple return on its investment.

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**Printed documents****should be automatically****watermarked with****the user's identity,****working group, date****and precise time on****each printed page.**

"Our deal took us on a roller-coaster ride we just didn't expect. Thankfully, we were able to quickly and securely add new participants and assign them permissions on the fly."

**M&A Professional,
Large Corporation**

Protect Your Deal by Managing Access and Change.

Any deal is a dynamic process involving changes in buyer representation, document requests and depth of review as the deal evolves. As a consequence, you cannot anticipate every participant's needs upfront. A successful VDR, therefore, must be designed for on-the-fly flexibility and change without compromising security and confidentiality.

It helps to understand the difference between a flexible solution and an inflexible technology:

Inflexible:

- ▶ You are forced to establish all security privileges upfront, and subsequent changes are difficult or not permitted.
- ▶ Participants must type in a user name and password for each document in order to request downloads or perform key functions.
- ▶ To identify printed documents, only the participant's user name – without any additional supporting information – is added to the requested pages.

Flexible:

- ▶ Site administrators are enabled to invoke, revoke or reset security privileges on the fly, at any time.
- ▶ "At-a-glance" visual confirmation of every security setting across all participants, including who has privileges to view, print and/or download documents.
- ▶ Printed documents are automatically watermarked with the user's identity, working group, date and precise time on each printed page, plus any pre-determined customized message appropriate for that participant's workgroup.
- ▶ Notifications of changes in access status and other important news are communicated automatically via customized e-mail templates that may be pre-created and later modified.

The Real Deal:

In the middle of the deal cycle a hot bidder, in this case a Mexican resort property, went through a sweeping reorganization – and suddenly changed its entire deal team. Because the VDR allowed instant updates to access and security privileges, the seller was able to adjust permissions instantly and keep the deal team informed and the deal on track.

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**After the deal is****done, detailed****activity reports****serve as legal proof****of disclosure.**

“Right after a deal closed our client got sued for non-disclosure. We were able to produce detailed reports showing that the documents were thoroughly reviewed. The suit was dropped.”

**Advising Attorney,
Top M&A Law Firm**

Remember, Audit Reports Are the Backbone of Successful Deals.

As noted earlier, audit reports can provide valuable insight into buyer behavior during the deal to help identify the strongest buyers. But there are other advantages as well. In the deal's advanced stages, the VDR's vast body of instantly available data helps sellers fend off holdback requests. And after the deal is done, detailed activity reports serve as legal proof of disclosure, which can help you respond to a post-deal charge immediately, with documented proof.

Use the following tools to gain an advantage early in the deal cycle, during negotiations and after the deal is complete:

- ▶ An aggregate log that precisely records which individuals accessed which specific documents – and when.
- ▶ Detailed reports by individual name that list which documents were seen and at what time. Likewise, you should be able to compile reports by date, revealing who looked at what within that time period.
- ▶ Complete tracking of security requests and authorizations throughout the due diligence process.
- ▶ Reporting by document type – such as “real estate” versus “investments” – that allows you to see activity by category.

The Real Deal:

Holdbacks: Every experienced dealmaker has been hit with one. Recently, an acquirer demanded a \$20-million holdback at the 11th hour because it contended that certain information was not made available and posed a risk. The seller provided a detailed audit report showing that five buyer representatives had spent a total of sixteen hours reviewing the “unavailable” information. As a result, the hold-back request was withdrawn.

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It's More than Just Technology – Why Service Matters.

In the real world of high-stakes M&A, execution is everything. So when it comes to VDR solutions, service is every bit as important as technology. When you're looking for the right VDR partner, be sure to look behind the curtain at the people and the company behind the product.

Inevitably, someone will need immediate assistance, typically at a critical point in the deal. That's why it's important to ensure that 24/7/365 technical support is included.

Also, you should understand what you will get, when you will get it and who will provide it. The set-up of your deal room, for example, is critical. There's little room for error – documents must be gathered, scanned, indexed and organized in a precise and timely manner. To avoid risk and confusion, use a turnkey provider who can manage every aspect of the deal room for you.

If you're looking for a VDR that has all the functionality you want, and all the support you need, consider Merrill DataSite, your experienced one-stop partner in online due diligence management.

No one has hosted more successful virtual deal rooms than DataSite, an operating unit of Merrill Corporation, a \$700-million leading global provider of document management, financial printing and brand management solutions. We are the leading provider of turnkey Virtual Deal Rooms. Every day, we deliver solutions to our clients in North America, Central America, Europe, Asia – all over the world.



To avoid risk and confusion, use a turnkey provider who can manage every aspect of the deal room for you.

"We are committed to making every VDR a success. We have the best product, and the most experienced, professional staff. Let us prove it to you."

Ed Bifulk
President, Merrill DataSite

For more helpful information on making your next deal a good deal better, visit www.datasitedeal.com/topten. For more information on DataSite™ please contact us at (866) 399-3770 or email us at info@datasitedeal.com.

