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METHODOLOGY
In Q3 2016, Mergermarket surveyed 50 senior global executives in order to better understand their strategy and views regarding M&A due diligence. Respondents were split geographically across the US (33%), Western Europe (33%), and Asia-Pacific (33%), as well as divided among corporates (50%) and financial advisors (50%).
Doing an M&A deal is a delicate process. Preparation by the acquirer at every stage is key to achieving success, and one of the most vital stages is due diligence. Understanding the potential pitfalls and best practices of this stage can make the difference between a transaction that brings ample benefits to both sides and one that collapses spectacularly.

Two of the most important components of a successful diligence are an effective team and open channels of communication. But who exactly should be on the ideal diligence team? And what are the best methods of communicating, especially when teams are stationed many time zones apart? In order to better understand these fundamental parts of due diligence, RR Donnelley conducted a survey of global M&A executives in partnership with Mergermarket.

If due diligence goes well, crucial information is collected on time, major stakeholders are kept informed, and the integration process is set up to proceed swimmingly. The right diligence team requires people who are empowered to make tough calls, as well as experts who can identify areas of danger. Maintaining clear responsibilities among team members is vital.

The way in which advisors are used depends largely on the situation. In some cases, advisors should be brought in early to lend their knowledge and contacts within an industry during the targeting phase. In others, they are only needed due to special circumstances, such as a cross-border deal.

Key findings from the survey include:
- **The contributions of legal advisors are paramount in due diligence, while board directors are rarely involved.** Nearly three-quarters of respondents (71%) said legal advisors play one of the most important roles in diligence, while just 8% said that board directors do.
- **Companies prefer to combine the efforts of the diligence and integration teams.** More than half of all respondents said the success of post-merger integration depends entirely (16%) or to a large extent (42%) on whether the two teams collaborate actively.
- **Building a friendly rapport with the target is essential.** Half of all respondents said that unwillingness to share information on the part of target firm employees represented one of the biggest challenges in due diligence communication.

M&A deals can bring enormous benefits to a buyer, but only if the deal process is rigorous and well-planned. The role of personnel and communication should not be underestimated as part of this process.
M&A due diligence is always a team endeavor, but no two diligence teams look exactly the same. This is natural – different resources are required for vetting a startup with only five employees and a multinational corporation with 50,000.

Some components of the team are nearly universal, however. Almost 9 in 10 respondents (88%) said that internal staff contributed to the diligence process in their last M&A deal, while 80% said legal advisors were involved and 76% had senior management play a role. More than two-thirds (70%) said strategic consultants were on the team and an equal proportion had a third-party firm take part.

The head of strategy for a European pharmaceutical firm said they used outside diligence companies in their last deal due to its special nature – a high-value cross-border acquisition. “We carried out a very large deal and needed the help of third-party teams across different regions,” he said. “Our legal advisors and strategic consultants worked also very hard to make sure we obtained a comparative advantage.”

Interestingly, only 32% of respondents said board members participated in their last due diligence, although many noted that the board was involved in making other key decisions related to the deal. As M&A activity has boomed over the last two decades, a variety of studies...
have indicated that anywhere from 50% to 90% of deals do not live up to expectations, and one reason may be the lack of board participation in the information-gathering phase. Senior management and other internal employees may not have the same motivation for doing a deal as shareholders, and if the board is not involved, a mismatch in views can be overlooked.

STAR PLAYERS
Certain roles on each diligence team are inevitably more vital than others. According to our survey, legal advisors are among the most crucial of all: 71% of respondents said they play a key role, compared to 63% who said the internal team is critical and 47% who value the work of third-party firms.

Especially in sensitive sectors, such as financial services and healthcare, compliance can be incredibly important in the dealmaking process. Jeremy Levine, a partner at Bessemer Venture Partners, said in July that regulators such as the Consumer Financial Protection Bureau have been cracking down on startups with questionable practices, forcing investors and buyers to tighten up their diligence, the Wall Street Journal reported. This comes at the same time as buyers are trying to speed up the acquisition process due to intense competition for deals, he said.

Third-party firms often do the bulk of the legwork in due diligence, said a managing director at a boutique European bank. “The legal side is needed to look for any problems or debts the company has. But it is the third-party due diligence team that can analyze everything in detail and identify the key information about the target,” he said.

SETTING THE STAGE
Our survey showed that most acquirers bring in external advisors to assist with the deal process, but the stage at which they enter differs widely. After all, if a company has long had its eye on a specific deal target — such as a regional medical system coveting a growing local hospital — advisors aren’t needed in the targeting phase.

“The legal side is needed to look for any problems or debts the company has. But it is the third-party due diligence team that can analyze everything in detail and identify the key information about the target.”
Managing director, boutique European bank
PLANNING FOR INTEGRATION
The integration process lies at the heart of a profitable deal, and for many acquirers, planning for the process begins during diligence. A majority of respondents said the success of integration depends entirely (16%) or to a large extent (42%) on the due diligence and integration teams working together, while 70% said it is important for the integration team to contain some of the same members as the diligence team.

A vice president for strategy at a large-cap US industrials firm said successful integration depends “entirely” on the two teams collaborating, arguing that they develop a rapport in this way, which improves communication. “The sharing of input is easier and faster than if the two teams are separated,” he said. “Data is also more easily shared, and question areas can be clarified right away.”

In many cases, collaboration between the two teams can help the integration team get a head start on “thinking big” and planning for large-scale business optimization, going beyond the more limited scope of due diligence. In a Bain brief from February 2016, partners Jason Heinrich and Laura Miles gave an example of this approach: “One diversified industrials company … set bold synergy targets that were above those identified in due diligence. Instead of taking an incremental approach, it used the integration process as an opportunity for a broad transformation of both companies. It met synergy targets identified in due diligence, yet executives repeatedly looked at the game plan ahead and asked, ‘When will we be in the top quartile of our industry?’”

The most direct way for the diligence and integration teams to work together is for them to contain some of the same members. As the CFO of one Asia-Pacific mining company pointed out, this is often a natural fit. “The diligence team typically has a good understanding of the acquired company and its corporate culture,” he said. “This can be helpful to the integration team and can hasten the integration process, by providing immediate insights into the company and the needs of its employees.”

Almost one-quarter of respondents (24%) said the makeup of the integration team should depend on the specific nature of the deal. The head of M&A at a US investment bank said that having the two teams overlap is not necessary in smaller deals. He also argued that a well-trained integration team will be able to excel without having participated in the diligence.
AT WHAT STAGE OF THE DEAL PROCESS IS IT MOST CRITICAL TO BRING IN EXTERNAL ADVISORS TO WORK ON DUE DILIGENCE?

Key:

- 0-20%
- 20-40%
- 40-60%
- 60-80%

46.9% Before requesting information from the target
30.6% In the targeting phase
16.3% After requesting information from the target
6.1% Depends on the nature of the deal
Indeed, most of our respondents (47%) said they hire advisors before requesting information from the target, so that they can strategize about the types of intelligence to collect. Just 31% find it useful to bring them in during targeting and 16% after requesting information from a target.

It may seem counterintuitive to involve advisors only after requesting details from the seller. But there are instances in which it can make sense. Take the approach suggested by Arthur Rothberg, a managing director at outsourcing firm CFO Edge — he recommends hiring a second strategic advisor in order to play “devil’s advocate” and argue against an acquisition. In this way, an acquirer can test their assumptions and make sure their primary advisors are being rigorous enough in their analyses.

TRANSPARENCY VS. SECRECY

After the diligence team gathers the essential data from a target, the next stage is hugely important — getting the information vetted by key stakeholders. Enough people must be involved to receive a well-rounded opinion about the deal’s value, while avoiding the risk of leaks and maintaining deal deadlines.

As such, a majority of respondents said it is important to share sensitive data with board members (76%), employees who will be involved in integration (70%), and major investors (64%). A much lower proportion sees value in sharing such information with senior employees not involved in the deal (28%) and minor investors (20%).

The finance director at one Asia-Pacific energy company argued that it is best to be forthcoming with key stakeholders in the M&A process. “We are very transparent and believe in divulging information to our shareholders and investors,” he said. “We do this to maintain their trust. We have quite a few investors, and withholding information goes against company policy.”

Another respondent, an M&A general manager at an Australian real-estate firm, said they share sensitive deal details only with the board in order to avoid leaks. Indeed, many companies have become stricter about gossip surrounding deals. A Cass Business School analysis showed that only 6% of global acquisitions were leaked in 2014, compared to 8.8% in 2013. This is in part due to regulations such as the UK’s Takeover Panel rules, which can require companies that are the subject of M&A rumors to publicly acknowledge their interest in doing a deal or be forced to shelve talks for six months.

A GROWTH OPPORTUNITY

One demanding yet underestimated part of the deal process is managing operations while conducting due diligence. Our survey revealed two distinct strategies used by respondents: either they prefer to save resources by letting the business slow down while employees handle diligence, or they take the opportunity to grow the company by adding new staff and promoting existing workers.

The strategy favored by a majority is to use the deal process to fuel growth, by re-assigning critical tasks to employees not involved in diligence (52%) and hiring additional personnel as needed (50%).

6%
Percentage of M&A deals that were leaked globally in 2014, compared to 8.8% in 2013
Source: Cass Business School
As one managing director at a boutique investment bank said, these options can turn a problem into a potential positive. “Assigning additional responsibilities to employees tends to boost morale when everyone is working toward a single goal,” he said. “It can actually improve overall business performance. As a result, we also do not hesitate to add more resources to manage our operations. We understand the value of keeping our operations in top-notch condition.”

One of the alternatives – asking members of the diligence team to work extra hours, chosen by 30% of respondents – runs the risk of inducing employee burnout. Multiple studies, including a 2012 paper in the Journal of Management, have found significant correlation between worker burnout and low employee engagement, which is one of the key drivers of corporate performance. Another option – slowing down operations to compensate for the hours spent on diligence, chosen by 38% of those surveyed – may be preferable if resources are strictly limited.
In our survey, 71% of respondents said legal advisors play one of the most vital roles on a due diligence team. What makes legal advisory so critical to the buy-side deal process?

Each firm is comprised of a web of relationships among customers, management, suppliers and so forth. Those relationships tend to be defined by contractual rights and remedies. So, to learn about a firm, you ultimately need to learn about the structure and the terms of those contractual relationships.

The second aspect is that the legal advisor is the one constituent who should — indeed, must — have a comprehensive view of the whole transaction. Think about the lawyer as being the sherpa — it’s the lawyer’s job to get you to the top of the mountain. And that means the lawyer needs to understand all aspects of what it takes to get the deal done. There is no other constituent who is going to be looking across all disciplines and making sure that each of the elements is being completed. The lawyer must tie everything together, ultimately through a transactional document, but also by communicating with the client and the other parties to the transaction on behalf of the client. That second factor really drives the role of the lawyer.

In your experience, what are some of the main red flags that come up in a buy-side legal M&A diligence? Can you provide an example of an issue that has come up in a deal?

You see something come up in every deal, and the transaction I like to point to is more than 20 years old, which is Quaker Oats’ acquisition of Snapple in 1994. This is one of the most dramatic examples of a due diligence challenge that wasn’t properly met.

A key aspect of Snapple’s business was its bottling contracts. During due diligence, Quaker Oats reviewed and identified key features of those contracts. One of the features was that Snapple had entered into “take or pay” arrangements with each of the bottlers to lock in capacity. This meant that Snapple would either pay for product to be bottled or pay for the capacity anyway. But the contract amounts were based on ambitious projections for continued growth in Snapple sales.

What Quaker did not fully appreciate was the impact these contracts had on the profitability of the Snapple business if growth projections were not achieved — since the owner of the Snapple business would have to pay for the bottling capacity even if they weren’t using it. As it turned out, a relatively small change in the demand for Snapple had a dramatic impact on the profitability of the business. That’s one of the reasons why Quaker...
bought Snapple at a high price – US$1.7bn – and ended up selling it for just US$300m several years later.

That’s an example of just the sort of problem you need to identify. Due diligence is not just a rote process of seeing what’s in the contract; it is thinking about the implications of what the contract means, and then pressure-testing those assumptions. Another risk you might see today has to do with key IP assets. These are important to all businesses, even ones that aren’t true tech companies. For example, most companies rely on business enterprise software. The licenses that govern such software are both dense and voluminous, and it’s important to identify what happens upon a change in control. You don’t want to be in a situation in which you buy a business and discover that you’ve either lost the right to use the software or that a large payment is required. And everyone today needs to understand a target company’s data security and privacy matters.

At which stage of the deal process do you think it makes the most sense for legal advisors to be brought on board? (i.e., in the targeting phase vs. before requesting information from the target)

I would say the general rule is that you ought to get your legal advisor involved as soon as the buyer becomes serious about a potential transaction. Typically that would be after someone has cleared the indication of interest stage. If you have a good lawyer, the sooner you talk to them, the better off you’re going to be. Experienced deal counsel will know how to modulate the work that’s being performed, recognizing the risk of non-completion. If you call them when you’re just starting to think about a target, that lawyer will know that work doesn’t need to be done yet, until there’s some realistic possibility that the client will be able to acquire the target. There are certain industries where it makes sense to talk to your lawyer even sooner than that. For example, if the target is in an industry that has been subject to a significant amount of litigation, or an industry that is undergoing significant regulatory change, then it makes sense to understand the legal environment that the company is operating in before putting pen to paper and valuing the target. And lawyers can sometimes answer questions without spending a lot of time or money.

How difficult is it to maintain the necessary confidentiality of deal information during due diligence? How do you decide which stakeholders to share sensitive deal information with?

The most important rule for deal counsel is to take direction from your client. For each transaction, you ought to discuss with your client their expectations about how the diligence process will proceed, at what time things will be pursued, and who should be involved. So, rule #1 is: Take direction from your client.
Secondly, recognize that your client is going to be subject to a confidentiality agreement. The confidentiality agreement typically requires that information only be shared on a need-to-know basis, and that’s a good rule of thumb. There’s no reason to circulate every little piece of info to the entire team. It’s a waste of their time and it’s a risk for leaks, when your client has obligated themselves to maintain the confidentiality of the information.

The third thing is just to use common sense. It’s important, for example, that the folks who are working on and have expertise in a certain area be the people who hear about that area first. So, you should coordinate financial information with the accountants – they should be taking the first cut at the financial diligence. Of course, the lawyer should review the accountants’ work and understand what the accountants have identified in terms of financial diligence, because it’s something that will need to be incorporated into the purchase agreement. But just use common sense when considering who to share information with.

In your experience, how do leaks typically occur in a deal? Is it due to things like computer hacks? Or are they intentional?

There can be accidental transmissions. Someone on the transaction team could leave a diligence file in a cab, or could be reviewing material on a train with someone looking over his or her shoulder and reading what he or she is working on. It is important to review material in a way that’s secure, and also to maintain the physical integrity of the due diligence material.

But I think most leaks occur because someone on the team has an incentive to get information out there that’s not directly related to the client. So, for example, someone could be trading information with reporters, or want to demonstrate connectedness or promote themselves in the market as being someone who is at the cutting edge. Clients also worry about the
permeability of the Chinese wall at banks. One of the things our clients do on a regular basis is to keep some of the key price information — what price the bid will come in at — they keep that information close until the final moment, so that there’s no opportunity for breaches of the Chinese wall that banks may have.

One of the most critical parts of buy-side M&A diligence is communicating effectively with the deal target, in order to receive all the necessary information from them. On the legal side, how do you manage communications with the deal target? How difficult is it to obtain all the information you need?

A clear channel of communication is a key feature of good dialogue with the seller. As a general rule, it’s a red flag if information is being withheld without good reason. Now, if my client is a competitor of the seller, one can see why the company would be loath to provide customer or pricing information without real protections. There are understandable and good reasons for the seller not to provide certain information up front.

But I have run into situations where the target does not provide information it should. The most glaring example of this is a situation I was involved in some 15 years ago, in which I was working with a buyer who was pushing hard to try to get some financial information and was getting unexpected pushback from the target. The seller was always looking for ways to discourage my client from completing the work it wanted to do.

So my client walked away from the deal — and it turned out to be a very good decision. That target was in fact engaged in a massive fraud and collapsed a few years later. There were US$3bn of claims and litigation that took some 11 years to settle. The private equity firm that did actually invest in the company, which looked like it was doing great for a while, was badly burned by the revelations and sudden collapse.

So if folks are not willing to share information and there’s not a good reason for it, then an experienced deal counsel will advise a client that life is too short and you should walk away from that deal. If they are hiding things, it’s usually for a reason.

The last thing I’d say is that you never really know if you’ve received all the information you need to see. At the end of the day, the backstop to diligence is a good purchase agreement. The purchase agreement includes representations and warranties that ask the company, under penalty of a breach of contract claim, to back up what they’re saying about diligence. They’re making statements about customer contracts, about the real estate leases, about the financial statements and so forth, and those reps and warranties are the real hammer to make sure you’ve gotten the information you need. If you haven’t received information, or if someone’s lying to you, you’ve now got a basis for recovery after the fact — which amounts to a right to adjust the purchase price to reflect all the information the buyer should have been given.

“As a general rule, I view it as a red flag if information is being withheld without good reason. If folks are not willing to share information and there’s not a good reason for it, experienced deal counsel will advise a client to walk away from that deal.”

Richard W. Porter, partner at Kirkland & Ellis
PART TWO:
CHANNELS OF COMMUNICATION

In the age of cross-border dealmaking, maintaining effective communication among diligence team members has become a much bigger challenge. How do companies manage the process, and what are the potential perils to watch out for?

Our survey responses indicate that traditional communication options remain prevalent, but that high-tech methods are quickly gaining steam. A 60% majority said holding regular conference calls is one of their top-two preferred methods, while 54% now use an instant-messaging system and nearly half (48%) take advantage of virtual data rooms (VDRs) to communicate.

Examining the deal activity of one of our respondents helps shed light on the reasons for the increased need of high-tech communications. The respondent, the global head of strategy at a European insurance and asset management firm, has made seven acquisitions in the past two years across North America, Europe and Asia-Pacific. Team members have been spread out geographically, and security has been of utmost concern given the sensitive nature of financial services. “We have a virtual data room in place and use it to help in communication,” the head of strategy said. “Security has become a real issue, so we have resorted to using this more often.”

One noteworthy difference appeared between corporates and financial advisors when it came to the use of instant messaging. While 64% of advisors said they prioritize the use of such a system, just 40% of corporate executives do.

DIVISION OF LABOR
The principles of team communication – figuring out how to divvy up duties among team members – are just as vital as the technical methods, if not more so. A majority of our respondents called out one principle in particular as being crucial: establishing clear responsibilities among members for communicating certain types of information to the rest of the team (60%).
Research findings support this idea. In a 2012 Harvard Business Review article, author Tammy Erikson wrote that team collaboration improves when each member has a clearly defined role, rather than having a well-defined team goal but vague individual responsibilities. She studied highly successful teams at BBC and Reuters, and they were able to perform well because each member focused on excelling at a specific task, such as shooting video or obtaining quotes, rather than trying to achieve the larger goal of covering breaking news without set roles.

Giving each person a well-defined set of responsibilities does not preclude asking them to speak up if they spot relevant information. Forty percent of participants deemed this a useful principle. One respondent, the head of new business strategy at a multinational oil & gas company, said this principle was especially critical for risk management. “Risks are present throughout any business, and encouraging team members to communicate any information they deem important helps to reduce the level of risk in a deal,” he said. “If these risks can be identified and mitigated quickly, the chances increase that the deal will get done.”

UNHAPPY TEAMS
Unhappy diligence teams often face similar arrays of challenges, according to our respondents. Thus, a roughly equal number of respondents cited four major issues when it comes to communication: the possibility of confidentiality breaches (38%), the existence of conflicting strategic priorities (38%), managing teams internationally (38%), and differing interpretations of information (36%).

Breaches of confidentiality are all too common in the dealmaking process, and they can be costly for both sides of a deal. In a 2014 case involving Canadian companies Goldcorp and Osisko Mining, the latter launched legal proceedings against the former for allegedly misusing confidential information. They said the information was disclosed as part of a US$2.5bn hostile takeover bid by Goldcorp. Goldcorp rejected
getting out when they share sensitive data. This can lead to confidentiality breaches or other legal problems, which can hinder the deal.”

BUILDING A RAPPORT
Intra-team communication is a delicate issue. But a much thornier problem in communication relates to interacting with the target company. If channels are not opened effectively with the target, a deal can be hindered.

The finance director at a European real-estate leasing company argued that one challenge can beget another in deal communications. “Managing teams internationally and getting them to communicate can be difficult,” he said. “There is a big risk of information being lost or misunderstood.”

WHAT ARE THE BIGGEST CHALLENGES ASSOCIATED WITH MAINTAINING EFFECTIVE COMMUNICATION AMONG MEMBERS OF A DUE DILIGENCE TEAM DURING M&A? (SELECT TOP TWO)

- 38% Possibility of confidentiality breaches
- 38% Conflicting strategic priorities among team members
- 38% Managing teams based internationally
- 36% Differing interpretations of information by team members
- 28% Unwillingness to share information
- 20% Culture clashes among team members

US$1.66 trillion
The total value of cross-border M&A deals in 2015, a 57% increase from 2013
Source: Mergermarket
stall in the early stages, since acquirers need as much access as possible to determine whether the deal is worth doing.

By and large, our respondents support a holistic approach to these communications. They combine regular conference calls (60%) with the use of a VDR (48%) and maintaining a physical contingent of team members at the target’s office (38%). As a managing director at a mid-sized European bank pointed out, the importance of this part of the deal should not be overlooked. “Communication is paramount when trying to raise the level of understanding in an M&A deal,” he said. “In order to make the communication more effective, holding regular conference calls can help the team get closer to the target. It also saves on cost, since visiting the firm again and again can become expensive.”

Raising this level of mutual understanding may be the most vital step of all in communicating with target personnel. In terms of communication principles, 60% of respondents said that establishing a friendly rapport with the target was key. “Having a friendly approach helps the diligence team members to interact without hesitation,” said the head of M&A at a Scandinavian investment bank. “This also helps the data-sharing process and makes communication easier and stronger. Trust is built up that way, and the chances increase of more data being shared.”

Other considerations, such as whether diligence team members are personally introduced to target company personnel (deemed important by 52% of respondents), may depend on elements of culture. For instance, a 2013 report by the Hay Group noted that Japanese automaker Toyota utilizes an approach known as “genba,” in which Toyota managers and dealmakers travel to the target company and meet in person with their executives. This often improves the relationship between the two sides and increases the chances of closing the deal. However, this approach is time-consuming and could turn off certain targets in the West that want a faster buying process.

WHAT ARE THE MOST IMPORTANT STEPS FOR ENSURING EFFECTIVE COMMUNICATION WITH THE TARGET COMPANY DURING THE DILIGENCE PROCESS ... IN TERMS OF LOGISTICS? (SELECT TOP TWO)

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<tr>
<th>Step</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Holding regular in-person meetings with target company personnel</td>
<td>60%</td>
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<tr>
<td>Holding regular conference calls with target company personnel</td>
<td>48%</td>
</tr>
<tr>
<td>Maintaining a contingent of diligence team members at the target company’s office</td>
<td>38%</td>
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<tr>
<td>Use of an instant messaging system (e.g., Slack)</td>
<td>28%</td>
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<tr>
<td>Use of a virtual data room</td>
<td>48%</td>
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WHAT ARE THE MOST IMPORTANT STEPS FOR ENSURING EFFECTIVE COMMUNICATION WITH THE TARGET COMPANY DURING THE DILIGENCE PROCESS ... IN TERMS OF PRINCIPLES? (SELECT TOP TWO)

<table>
<thead>
<tr>
<th>Step</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Making sure due diligence team members have been personally introduced to target company personnel</td>
<td>52%</td>
</tr>
<tr>
<td>Establishing a friendly rapport with target company personnel</td>
<td>60%</td>
</tr>
<tr>
<td>Making sure specialist advisors communicate with specific departments within the target company (e.g., IT, tax)</td>
<td>36%</td>
</tr>
<tr>
<td>Encouraging diligence team members to reach out to any and all relevant personnel at the target company, without adhering to any strict guidelines/restrictions</td>
<td>52%</td>
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Besides trust, security is also a primary concern in communicating with a target firm. For this reason, more than a third of respondents (36%) said it is useful for communication to be funneled through department managers, rather than being distributed widely among lower-level employees. “Sharing information can be sensitive, and we make sure the due diligence team communicates with the heads of certain departments, in order to reduce the number of people involved in sharing data,” said the CFO of a US investment bank.

**RED FLAGS**

The main possible fallout of not establishing trust with a deal target — the unwillingness to share information on the part of target company personnel — is potentially deadly to an M&A deal. Without enough information to judge the true state of a company, a buyer may choose to walk away — or do the deal while having overlooked critical data, which could come back to haunt them. This worse-case scenario is one of the biggest challenges associated with maintaining effective communication with a target, according to half of our respondents (50%).

Two related challenges were also called out by respondents: convincing non-management personnel at the target to communicate openly (chosen by 34%) and culture clashes with target company personnel (30%).

The issue of obtaining necessary target data can be particularly troublesome for financial advisors. As one CFO of an investment bank said: “We’ve faced a situation in which the target company refused to share information with us, and this makes us very skeptical about the deal. The situation is exacerbated by the fact that we are pressured by the company that hires us to complete the deal in a stipulated time frame.”

Indeed, if cultural strain surfaces between two companies already in the diligence process, it may be a useful red flag to scrutinize further. As every student of M&A knows, a union between two companies that don’t get along culturally may end up in a bitter divorce down the line.

**WHAT ARE THE BIGGEST CHALLENGES ASSOCIATED WITH MAINTAINING EFFECTIVE COMMUNICATION WITH THE TARGET COMPANY DURING A DEAL? (SELECT TOP TWO)**

- **Possibility of confidentiality breaches** 18%
- **Culture clashes with target company management** 30%
- **Unwillingness to share information on the part of target company personnel** 50%
- **Convincing non-management personnel at the target to communicate openly** 34%
- **Figuring out the best channels of communication (e.g., phone vs. email vs. instant messaging, etc.)** 26%
- **Chronic delays in receiving responses to requests/questions** 20%
- **Geographical limitations (e.g., different time zones)** 22%
Dealmaking is evolving rapidly around the world. Indeed, cross-border M&A increased 57% to US$1.66 trillion from 2013 to 2015. This rise has precipitated substantial changes in the way deals are done, from strategic planning through to due diligence and integration.

Careful coordination among diligence team members has become more critical as teams have become spread out. Given the high speed at which deals are done, risk management tools must be adapted and improved. Major stakeholders must be present in the process like never before to ensure that the acquirer is achieving maximum value.

Effective communication with the target is an even greater challenge than it used to be. Whether the target is a far-flung mining firm with great assets but questionable management, or a promising startup that has a golden product but no revenue, acquirers are forced to use a nimble approach. Every effort must also be made to establish a rapport with the company’s personnel, since the deal’s success depends in large part on their cooperation.

When performing due diligence on the buy-side, keep in mind these three key facts:

**Compliance is paramount.** Every due diligence team needs an all-star legal player to vet the target. Also consider involving the board of directors more actively in the process, since they will ultimately determine whether a deal is worth doing.

**Plan ahead for integration.** It may seem too early to plan for integration during due diligence – after all, who knows if the deal will even happen? But if you set up the process for a seamless transition, the chances of success could increase immensely.

**Establish clear roles.** Diligence team members should not have blinders on. But the optimal outcome will be achieved if everyone is able to focus on their individual niche, and let senior management put the puzzle pieces together at the end.
INTRODUCING VENUE DEAL SOLUTIONS.

Venue now offers a full suite of Deal Solutions built around the core of our best-in-class Virtual Data Room. We provide the most comprehensive slate of services in the industry to improve every stage of every deal.

These value-added services extend and build upon Venue’s due diligence benefits of cost reduction, time savings, and expert guidance on demand, from the deal’s inception through the integration of the new asset.

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• Deal Sourcing
Our Deal Sourcing marketplace connects companies with capital, leading to a larger field of bidders, more strategic transactions, and greater deal volume overall.

• Deal Marketing
Deal Marketing brings your investment story to life with an interactive, multimedia interface. Clients leverage this unique technology to cast a wider net and better communicate value to potential buyers and investors.

• Data & Analytics
Our Data & Analytics platform provides the tools to better assess an asset’s value via peer analysis, or to better support your valuation with the appropriate comps.

• Contract Analytics
Venue Contract Analytics employs industry-leading artificial intelligence, developed specifically for the M&A space, to reduce the time and cost of due diligence and contract review.

• Roadshow Support
Venue provides a toolkit that eliminates the need for a physical roadshow when soliciting investment in a public offering, or fundraising of any kind.

• Investor Reporting
Venue has long provided dealmakers the ideal platform to streamline Investor Reporting, and continues to deliver a world-class offering.

• Secure File Sharing
With Venue file-sharing technology, share files with your full enterprise in an auditable collaboration space as you integrate a new investment. Maintain the certainty, security and reliability that come with all Venue Deal Solutions, even when you don’t need the complete functionality of a data room.

Bidders sourced from Frankfurt, Shanghai and San Francisco
Questions about asset value were answered — on video — before they were asked
Industry comps from all major international markets a click away
Due Diligence legal costs reduced by half

We ended the deal ready to start the next one.
Venue® Data Room—Revolutionizing Diligence

After supporting thousands of deals over the years, Venue® Data Room is uniquely equipped to streamline the entire due diligence process. Our newly enhanced data room is the portal to the full Venue Deal Solutions suite—offering the most complete slate of financial services in the industry, to improve every stage of every deal.

With the launch of Venue Deal Solutions, RR Donnelley not only provides a transformed data room platform, but also the most complete slate of deal services in the industry to address every stage in the Deal Cycle.

**Venue Data Room—Redesigned with you in mind**

- Sleek new modern interface—clean, clutter-free view of what's most important to you
- Streamlined user experience—fewer clicks and faster access to your most common tasks
- Document management at your fingertips—upload content simply by dragging on top of the interface
- 50% faster core functions to increase your efficiency
- Increased depth and detail to folder and file naming—match your desktop setup exactly
- Security taken to the next level—True Two-Factor Authentication keeps your content even more secure
- One-click access to the full Venue Deal Solution suite directly from your new hub

Sleek New Interface.
Streamlined User Experience.
Unparalleled Deal Solution Platform.
Same Industry-leading Service.
Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Remark, the events and publications arm of The Mergermarket Group, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

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