

The future of due diligence

Beyond the new normal





Introduction

Have mergers and acquisitions (M&As) been on pause in 2020? Not quite. Although the market has slowed considerably, we have seen many organisations stay positive and show a tremendous willingness to get deals done.

For example, we've seen mega-deals like the pending £31bn merger between Virgin Media and O2 continue to gather pace. According to M&A Leadership Council research, nearly a quarter of global C Level execs (23%) have said they are actively speeding up deal volumes this year.

Clearly, despite the limitations of the current environment, there is still a strong will towards M&As in some sectors.

The future will no doubt be brighter too. Businesses and private equity funds that paused their investment and acquisition plans are now sharpening their focus on software, pharmaceuticals and other sectors that have thrived while others have stalled. They have a lot of dry powder on their hands, and they will want to use it soon.

We have already learned some valuable lessons that will help to make this happen. In particular, 2020 has been a learning curve where sellers and M&A consultants have had to work out how to expedite due diligence in a world where contact and travel is limited.

This could well be the blueprint for how M&As are conducted in our 'new normal' for many years to come. So, in this guide, we look at exactly what has been learned, how the due diligence process has changed, and what it will mean long-term.

Specifically, we examine:

- What has been learned from the experience of 'virtual' due diligence so far
- How organisations can refine processes for working remotely
- Which practices need to be reviewed
- How we can emerge with better processes for a long-term new normal and beyond

Learnings from the shift towards remote working and virtual data rooms

How due diligence processes have changed

The biggest change we have seen with organisations in general during the pandemic is the acceleration towards digital transformation and virtual collaboration ¹.



In the M&A world specifically, this transformation has hastened and finalised the transition from physical data rooms (where documents and files are stored in a physical room on the sellers' premises); to virtual data rooms (where the same information is stored online and accessed through a secure online portal).

Much like remote working, virtual data rooms are not new though.

In many organisations the transition was already happening. Covid-19 has merely accelerated adoption. This is because virtual data rooms offer many long-established benefits, including:

- **Lower setup costs**
Because there's no requirement to rent or secure and maintain physical space.
- **Global accessibility**
Because all parties can access the virtual data room from wherever they are.
- **Faster resolution of deals**
Because with fewer physical meetings transactions can be resolved more efficiently.
- **Lower operational costs**
Because there's no need to pay for travel to physical sites.
- **Reduced carbon footprint**
Because reduced travel means reduced environmental impact too.

Organisations involved with M&As that have already adopted a virtual data room will undoubtedly be feeling these benefits now. The challenge going forward will be to maintain momentum, review what's worked well or not so well, and make refinements that will help to ensure that they can continue to reap these benefits long term.



How organisations can improve moving forward

“Covid-19 has been a game-changer that has driven the digitalisation of the M&A market. It has become more common to have introductory meetings online - something that saves time for everyone, and of course is also environmentally friendly.”

Sindre Talleraas Holen, M&A Director at Visma.

On the whole, most organisations who have now adopted virtual data rooms are using them successfully.

There is one significant area they can improve on though: the preparation that leads up to due diligence.

Right now, it is difficult to build trust into relationships during preliminary M&A talks because of the lack of physical meetings. This means trust based on accuracy is paramount. There is no room for error when preparing for a sale, and preparation pre-due diligence is taking longer just to make sure all information is current.

To help solve this problem, and fully prepare for this ‘new normal’, sellers and M&A advisors can improve and refine the way they work by making use of a preparation portal.

A preparation portal is a restricted data room that contains all the necessary functions for preliminary work and preparations before potential buyer groups are invited into the data room. It can be vital for making sure all information is correct before proceeding to a potential sale.

Most organisations who adopted virtual data rooms before Covid-19 are already using preparation portals, starting their prep on average six months before opening their information up to buyers.

Organisations that have adopted a data room solution more recently - perhaps in haste - now need to think about doing the same.



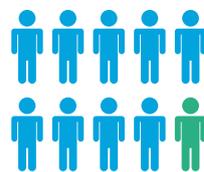
Learnings from due diligence security considerations

How due diligence processes have changed

Due to the sensitive nature of due diligence and M&A, security has always been a top priority when it comes to consuming and sharing documentation.

Now with the increase in remote working, and a potential increase in security threats to employees working 'off-site', security has become an even bigger consideration within the due diligence process. All organisations are affected. Even the World Health Organisation², for example, has reported a fivefold increase in attacks – especially targeting employees.

This situation is here to stay for some time. According to recent research³,



Nine out of ten employees who have worked at home during the Covid-19 crisis say they want to carry on doing so in the future.

The threat to these employees will not go away.

Organisations now need to adapt to this new reality – accept it is here for the long term – and respond accordingly.

How organisations can improve moving forward

Organisations now need to look at three main areas to ensure they have all the necessary security measures in place to help guarantee all communication around due diligence is secure.

Make sure secure messaging channels are used

The good news for those that have adopted a virtual data room approach for their due diligence process is that they are already largely set up for this new normal. Virtual data rooms have security and secure communication built-in.

For example, at Admincontrol our virtual data room product includes a Secure Messaging module that enables users to send and receive confidential messages within the platform. The module is a hybrid between mail and chat, allowing users to communicate securely within their respective teams.

There is a problem though – and it's a human one. In our experience, communication between seller and buyer teams still often takes place on non-secure channels like email, despite the availability of a secure messaging option.

As a first step in their due diligence security review, organisations need to create and enforce policies that ensure all written communication relating to due diligence takes place within secure and ringfenced channels.

Make sure all other communication is secure

What we also need to remember is that with employees working remotely, they are using other tools like video conferencing and electronic signing outside of data rooms to facilitate collaboration and get the job done.

Whilst these are useful and necessary tools for day to day remote working, organisations need to make sure that video and collaboration platforms like Microsoft Teams or Zoom are NOT used to share confidential due diligence information or documents.

This too needs to be formalised within remote working policies.

Review data room security certification to make sure it fulfils requirements for due diligence

Now that the initial rush to near-universal remote working has settled, organisations also need to take the time to review the solutions they have put in place. In terms of data rooms, this should involve not only a review of functionality like encrypted messages, but also reviewing certification and support for standards and regulations like SOC 2, ISO 27001:2013 and GDPR. It's also a good idea to review access controls. For data rooms, access controls should include measures like Two Factor Authentication as a minimum.

By conducting a thorough review in this way, organisations can make sure they are fully in line with industry best practices and established frameworks – and in the best possible position to work safely and securely through all due diligence processes.



Concluding thoughts

Over the last year it's become clear that digital transformation allows businesses to stay productive in even the most testing circumstances.

It's exactly the same for teams working around M&As – where digital channels have allowed transactions to proceed with efficiency against the odds.

By using virtual data rooms, sellers and M&A consultants can help to complete transactions virtually. They can also achieve additional benefits that include lower costs, global accessibility and reduced carbon footprint.

Moving forward, M&A teams now need to capitalise on what they have learned and make sure they retain the benefits of virtual working long into the future.

No one knows yet whether we will ultimately return to face-to-face working, carry on with remote working, or we will see a hybrid of both.

Whatever the future holds, it's clear that virtual data rooms will be part of the solution.

Next steps

The coming year will be the most important in the history of many organisations. At Admincontrol we are monitoring how this fast-moving environment is impacting due diligence processes and the need to evolve to help secure the futures of M&A transactions.



Do you have everything you need for due diligence?

We'd recommend our easy to use due diligence checklist.

Admincontrol, a leading provider of Board Portals and Virtual Data Rooms in the Nordics, offers a smart and secure collaboration platform for due diligence and other business-critical processes. Founded in Norway in 2005, Admincontrol has since established local offices across the Nordic region and in selected markets in Europe such as the UK and Netherlands. More than 4000 companies and 85,000 users enjoy the benefits of Admincontrol's platform today.

Since 2017, Admincontrol has been a part of the successful Visma Group, Europe's largest SaaS company.

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Sources:

1. Harvard Business Review. What M&A looks like during the pandemic, 2020
2. WHO press release, 2020
3. WISERD, Homeworking in the UK: Before and during the 2020 lockdown, 2020