

How Deal Terms Impact Due Diligence

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About this report

This report is the second in a four-part series. The first explored the length of time taken for due diligence; the third will cover the fallout from deal leaks; and the final report will examine the extent to which dealmakers are making use of technology in the due diligence process.

Introduction

A decade ago, The M&A Research Centre at Bayes Business School and SS&C Intralinks published groundbreaking research into the impact of a variety of metrics on the mergers and acquisitions (M&A) due diligence process and how these affect the outcome of transactions.

This analysis and the subsequent report, *When No One Knows: Pre-announcement M&A Activity and Its Effect on M&A Outcomes*, were unlike anything that had previously been published in the market.

They explored the overall length of time taken for pre-announcement due diligence and how the timeframe affected the outcome; how the size, type and geography of a deal impacted the due diligence process; the relationship between leaks and deal outcomes; and the extent to which dealmakers were making use

of technology and, in particular, virtual data rooms (VDRs).

In the intervening decade, there has been no equivalent research on this subject and therefore, 10 years on from the original analysis, we have decided to revisit *When No One Knows* and explore how these factors affect the dealmaking market in a much-changed world. And we have found significant differences.

In a four-part series, we examine how today's due diligence process has changed, and the fundamentals on which dealmakers need to concentrate to achieve a successful outcome.

This second report, *How Deal Terms Impact Due Diligence*, explores how the target size, deal type (public or private), deal location and the territorial nature of the deals (cross-border vs. domestic) impact due diligence periods.

Key Findings

1. Larger deals involving public companies require shorter due diligence periods.

The average due diligence period for a larger M&A transaction is 140 days — almost a third less than other deals.



2. Private targets involve more data and require more people.

In the average private deal, 7,583 files are uploaded to the VDR, compared to 4,896 in a public deal.



3. Medium-sized deals are even more burdensome.

In the average medium-sized deal, 8,069 files are uploaded to the virtual data room, compared to 5,830 and 7,110 in small and large deals respectively.



4. Due diligence processes vary considerably by target location.

Cross-border deals tend to require longer due-diligence processes than domestic deals — on average, due diligence takes approximately one month longer for cross-border deals.

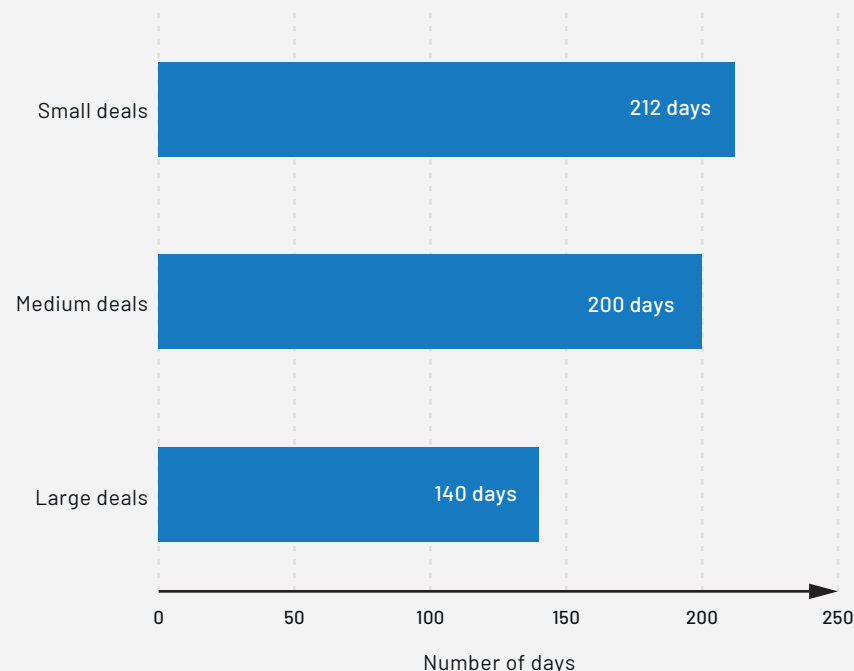


Size and Ownership Status Really Matter

This research has already established a clear link between the duration of the due diligence period on an M&A transaction and its eventual outcomes. We have shown how medium-length due diligence periods are associated with positive impacts such as higher completion rates, better-value acquisition prices and superior investor returns. In this second report, we explore the factors that drive due diligence duration.

The first significant aspect is the size of the target company. While deals involving larger businesses might be regarded as more complex and therefore require longer due diligence periods, this research suggests the opposite is true. The largest deals in our study involved due diligence periods averaging 140 days (from the opening of the VDR to the public announcement of the deal). By contrast, medium-sized and smaller deals typically have longer due diligence periods – 200 and 212 days, respectively.

**Average due diligence period
(from VDR opening to public announcement of deal)**

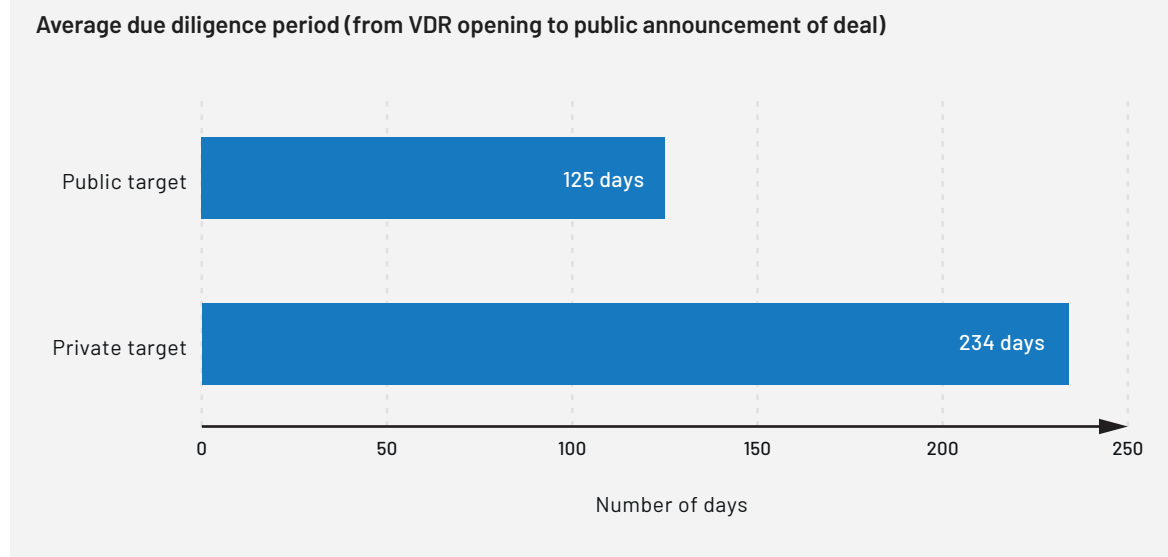


SIZE AND OWNERSHIP STATUS REALLY MATTER

There are several reasons behind this disparity in duration. First, argues a partner in a Malaysian law firm, “large targets tend to have everything already in place.” Such businesses have typically had to prepare detailed financial statements and reports, and are more likely to be subject to regulatory and compliance requirements. They also have more internal staff and external advisers able to respond to requests for data and information. “Turnaround times for data will therefore be much quicker,” the partner adds.

On the buy-side, says the partner of a U.S. law firm, more original work is often needed. “For smaller deals, the buyer may have to do a lot of research to make well-informed decisions about valuations and other key questions; it will therefore take longer to conduct due diligence.”

A similar story applies to ownership. Due diligence on deals targeting public companies takes an average of 125 days. By contrast, due diligence on a private company deal (including private equity portfolio transactions) averages



234 days. Put simply, on private deals, it routinely takes more than twice as long to complete due diligence work.

The difference reflects, in part at least, the fact that public companies will already have had to prepare detailed financial statements and reports to comply with regulatory requirements. Private companies may be collecting much of this data from scratch as they are subjected to due diligence.

Respondents also argue that deals for private companies are often predicated on different value drivers. “For private company targets, the deal intentions dictate the due diligence process, which is mostly conducted to limit the risk exposures,” says a partner at a Hong Kong law firm. “Public company deals are done for industry consolidation and to deliver synergetic value; these factors may be less research-intensive during due diligence.”

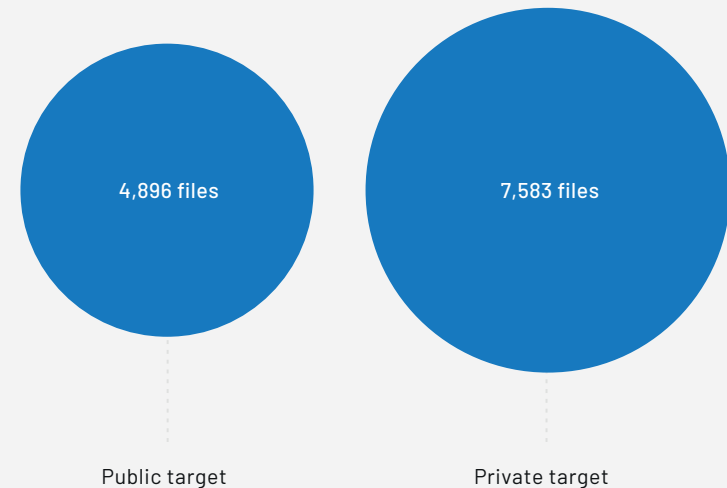
The Pressure of Private Due Diligence

Buying a privately-owned company creates particular challenges. Such businesses are often less transparent and, in the absence of accepted standards, may account and report in multiple different ways. They may have fewer resources available in-house and less to spend on external advisers. There can often be a paucity of information and analysis on such businesses.

While this may not always be the case, it explains why purchasing a private company can be more burdensome. It's not simply that these transactions tend to require a longer due diligence period, but also that there will often be more information required to validate the business case for the deal and to identify potential risks.

As such, during the average deal for a private company, our research reveals that 7,583 files were uploaded to the virtual data room serving the transaction. By contrast, deals for publicly-listed companies required an average of only 4,896 — more than a third fewer.

The transaction process by deal type:
Average number of files (from VDR opening to public announcement of deal)



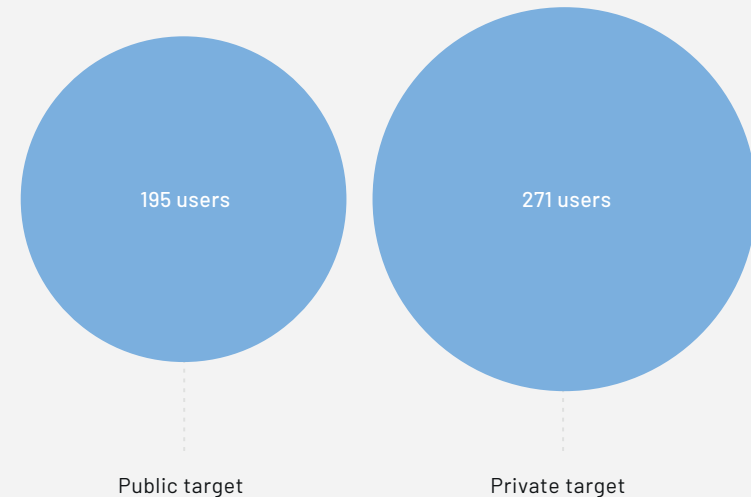
THE PRESSURE OF PRIVATE DUE DILIGENCE

Similarly, an average of 271 people accessed the virtual data room prior to the announcement of those private deals; for a public company, user numbers averaged only 195.

“The level of secrecy in private companies can be a challenge to overcome,” says a partner in a U.S. law firm. “Private companies are often not forthcoming with information requested during due diligence, while public targets are more open and transparent.”

Overcoming these challenges — and then collecting, managing and analyzing this data — can be a time-consuming process.

The transaction process by deal type:
Average number of users (from VDR opening to public announcement of deal)



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Partner, U.S.-based law firm

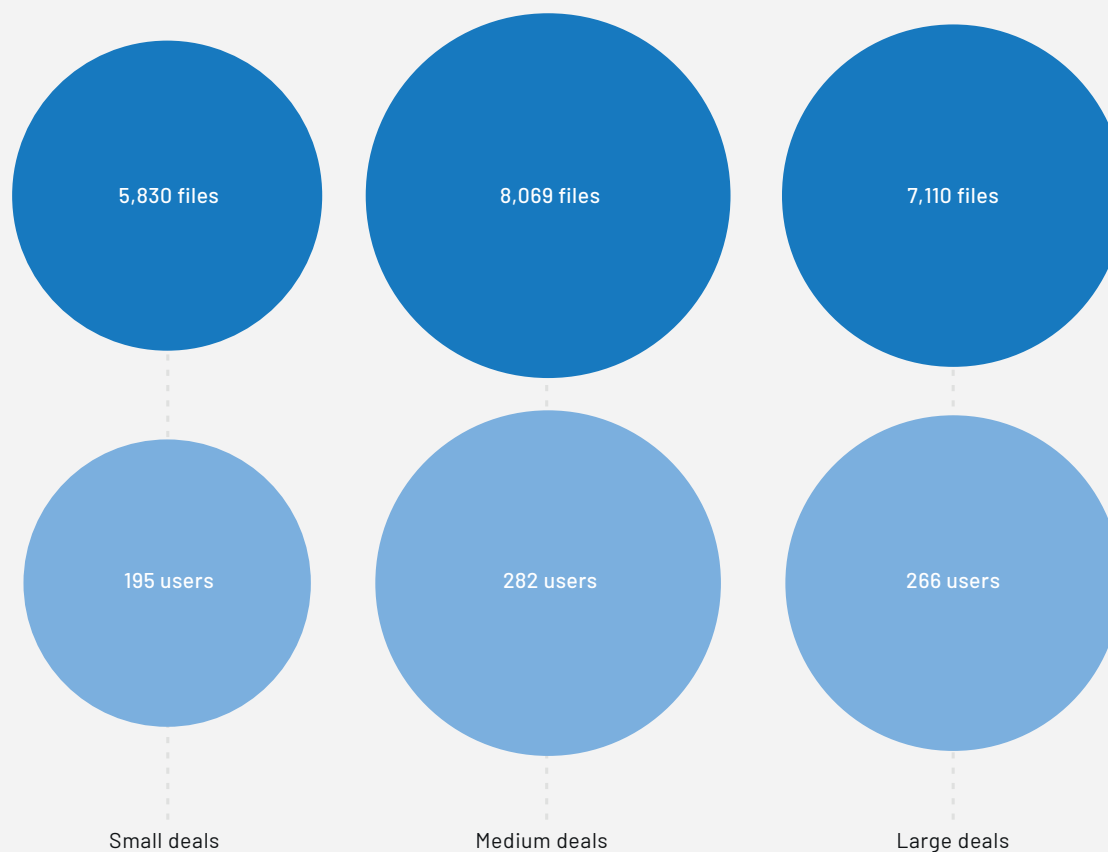
The Mid-sized Deal Dilemma

While deals involving larger companies might be expected to generate more requests for data and involve additional information, this is not always the case. In our research, the average transaction targeting a larger company saw 7,110 files uploaded to the deal's VDR. That was well ahead of the 5,830 files uploaded during smaller deals. But deals for mid-sized companies saw even larger volumes of information, with an average of 8,069 files uploaded.

Equally, during the average mid-sized deal, 282 users had access to the VDR. For large and small transactions, the number of people with access dropped to 266 and 195, respectively.

The data demonstrates that acquiring mid-sized companies can prove particularly challenging. These organizations are less likely than their larger counterparts to have standardized information easily available

**The transaction process by deal size: Average number of files and users
(from VDR opening to public announcement of deal)**



THE MID-SIZED DEAL DILEMMA

during a due diligence process, thus requiring greater levels of inquiries and investigation. And while these problems may also apply to smaller companies, the size of these targets mean that deals are potentially more straightforward.

“Larger companies may also be more experienced, having done several deals over time,” says the head of M&A at a U.K.-based corporate. “But in any case, they should already be maintaining good transparency in their filings, which can be easily accessed.”



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Head of M&A, U.K.-based corporate

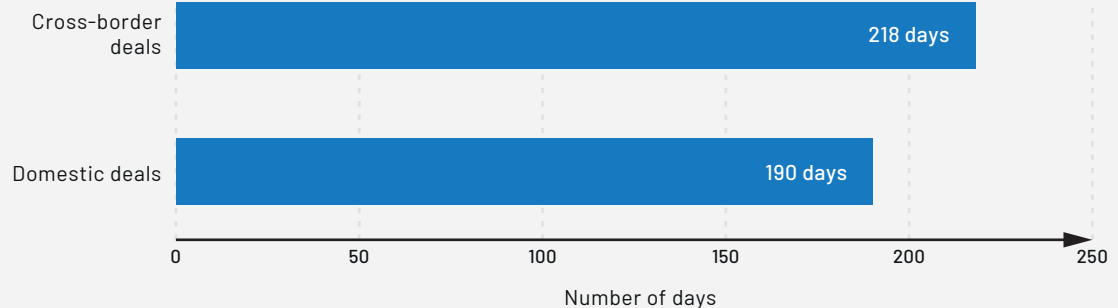
Continental Due Diligence Drift

When it comes to the territorial aspect of M&A, our research shows that pre-announcement due diligence on cross-border transactions takes longer than domestic dealmaking. On average, the due diligence process on such deals takes 218 days. Domestic deals, on the other hand, require an average of 190 days.

Multiple factors play into this gap. For example, buying a business overseas often requires the acquirer to bridge cultural and language differences; the regulatory regime can be more complex; support may be needed from local advisers; and overall, more resources will be required.

“Due diligence methodologies may remain the same, but the process of procuring information may differ,” says a partner at a South Korean law firm. “We may need to consider organizational structures and

Average due diligence period (from VDR opening to public announcement of deal)



hierarchical differences. With domestic deals, everyone tends to be clearer about the expectations and who to approach during the due diligence process.”

The political environment in the target’s home country may also be significant — in some countries, antitrust regulation may be more onerous, for example. In certain industries, foreign ownership rules may

also be a factor, particularly in an era of increasing protectionism.

While cross-border deals are always likely to be more complex, dealmakers are leveraging the power of technological innovation to overcome the complexities of trans-continental transactions. The head of corporate development at a Swiss corporate says, “Digital technologies have reduced the difficulty of

managing cross-border deals. Virtual data rooms can be accessed from anywhere. And video conferencing supports communication and negotiation.”

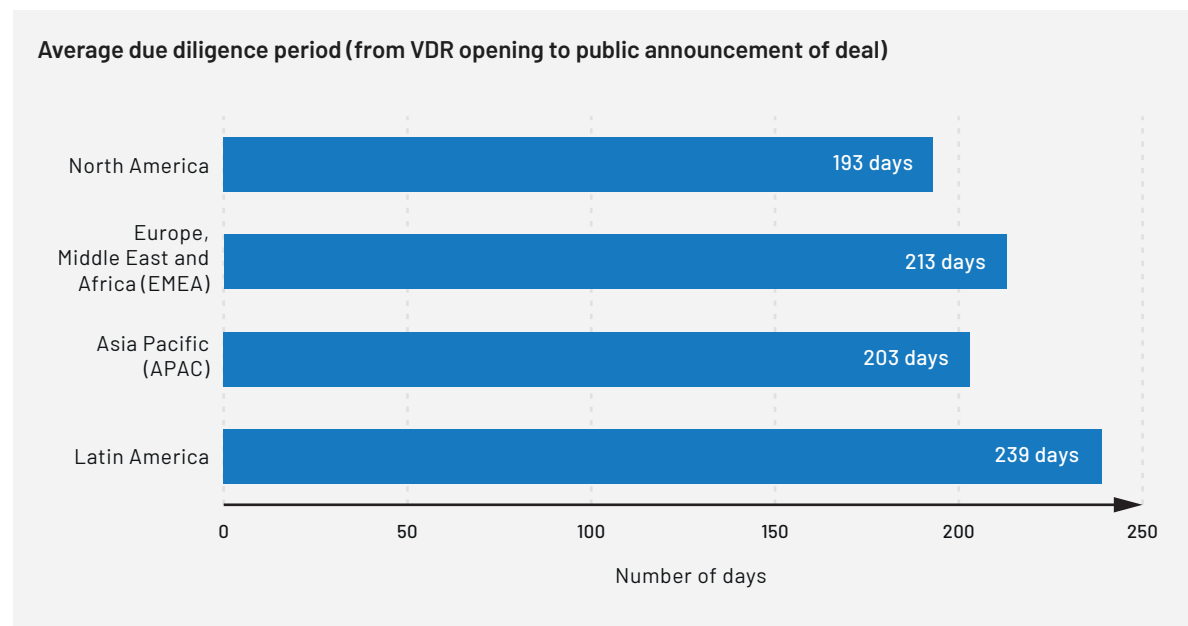
Inevitably, however, dealmakers regard some countries and regions as more challenging than others. Our research suggests cross-border deals in the Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and Latin America (LATAM) regions tend to feature longer due diligence periods than those in North America. The average number of days required for pre-announcement due diligence in EMEA and APAC was 213 and 203, while the total duration in North America was 193. LATAM had the longest due diligence period at 239 days. Deals featuring EMEA targets tended to involve the highest number of virtual data room users.

“We find there is maximum transparency in EMEA and North America, while Asia has improved too,” says the managing director of a French private equity firm. “In Latin America,

language barriers and cultural differences hinder our due diligence processes.”

A partner at a Belgian accountancy adds: “Environmental, social and [corporate] governance regulation in Europe is increasing, so ESG due diligence is more time-consuming; data privacy and General Data Protection Regulation (GDPR) regulation is also more stringent in Europe.”

The devil of any deal will always be in the details – be that the size, location, type or overall structure. While our research reveals that larger, publicly-listed, domestic M&A is likely to hit the sweet spot in terms of due diligence; dealmakers should not shy away from less transparent transactions further afield – they just need to dig in, be prepared and be patient.



Methodology

The M&A Research Centre at Bayes Business School analyzed 900+ global M&A transactions announced between 2013 and 2023 from the Intralinks' proprietary database.

This unique data set allowed metrics from the pre-announcement due diligence process to be compared with public data on variables including deal type, size, price and performance. A multivariate analysis on these parameters established where a statistically significant relationship existed, allowing inferences to be drawn on how the due diligence process is affected by the properties of the deal as well as the impact of due diligence on deal negotiations and deal success.

In conjunction with this research, Mergermarket conducted interviews with 30 M&A professionals (10 lawyers, 10 accountants and 10 corporate executives) to get a clearer picture on how due diligence impacts the dealmaking process, the tactics used by participants to push the process in their favor and the relationship with leaking.

About SS&C Intralinks

SS&C Intralinks is the pioneer of the virtual data room, enabling and securing the flow of information by facilitating M&A, capital raising and investor reporting. SS&C Intralinks has earned the trust and business of many of the Fortune 1000 and has executed over USD 35 trillion worth of financial transactions on its platform.

For more information, visit intralinks.com

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Bayes Business School (formerly Cass) is a leading global business school in the City of London. We are known for our world-class business education, excellent research reputation and our deep engagement with practice. We are part of City, University of London.

For more information, visit bayes.city.ac.uk

About Mergermarket

Mergermarket blends market-leading human insights, advanced machine learning and 30+ years of Dealogic data to deliver the earliest possible signals of potential M&A opportunities, deals, threats and challenges.

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