Driving Transaction Efficiency on Virtual Data Room Best Practices
INTRODUCTION

With the market for M&A transactions expected to remain robust for the immediate future, the ability to complete deals faster and more efficiently has never been more critical. Consequently, there has been a natural pressure to compress the amount of time allotted for due diligence in the deal cycle. As a result, the market has been driven to seek out technology and service firms that can help reduce the risks, time, and costs associated with M&A transactions. No technology advancement has had a greater impact on the way due diligence is conducted than the virtual data room (VDR).

Due diligence is one of the most important steps in M&A transactions, and it has traditionally been an extremely labor-intensive and time-consuming task. Until just a few years ago, due diligence was primarily conducted in massive paper-based physical data rooms where a buyer’s team of lawyers and bankers would have to sift through shelf upon shelf of three-ring binders or—even worse—cluttered boxes of contracts, filings, schedules, and other corporate documentation being disclosed by the seller the seller. With both parties often under pressure to complete deals quickly—in particular, to avoid leaks to the public about the transaction—potential buyers were susceptible to making critical oversights during due diligence.

Nowadays, sellers and buyers alike can benefit from the technological advancements that have brought about the VDR. An electronic equivalent of the traditional paper-based physical data room, the VDR allows sellers to easily upload digital documents (or scanned versions) to an Internet-based repository. Using a Web browser, buyers can access this repository from anywhere in the world to efficiently retrieve disclosure documents. The VDR has revolutionized the way due diligence is conducted—streamlining communication between buyers and sellers and rendering the physical data room a relic of the past.

ADVANTAGES FOR SELLERS

Perhaps more than any other stakeholder in a transaction, the seller has numerous tangible benefits to reap from the use of VDRs. With the paper-based data room method, sellers had to take the time to physically gather documents and organize them in a sensible way that would make it easy for buyers to retrieve important information during due diligence. These paper-based data rooms also presented maintenance and scheduling challenges to sellers. Needing to maximize efficiency and maintain the anonymity of their prospective buyers, sellers would often operate multiple data rooms simultaneously. This put constraints on both costs and space. Furthermore, for security reasons, buyer access to these data rooms had to be closely monitored by the seller. All of these challenges added up to a prolonged deal cycle.
With the advent of the VDR, sellers are now able to utilize a single Web-based electronic document library into which all pertinent disclosure documentation can be easily uploaded and indexed in a secure environment. Facilitating access to their documents has eliminated the need for sellers to be physically present to monitor buyer activities. Any number of buyers can now conduct due diligence at the same time, thus maximizing the pool of buyers for the seller. For sellers, a larger pool of buyers means a more efficient market and a better chance at closing a deal on more favorable terms.

Allowing due diligence to be conducted through a VDR is a best-practice methodology that provides heightened insight for sellers. Reporting functions within the VDR allow sellers the ability to generate activity reports showing which buyers are reading which documents. This information can help sellers gauge the level of interest of a particular buyer. The seller's influence over the entire diligence process is improved by the ability to use this information. Knowledge gained through a VDR's reporting features also helps sellers identify which areas may be of concern to their prospective buyers so that a strategy can be developed to address those concerns.

Another more obvious benefit for the seller is the cost-saving that the use of a VDR can generate. The cost to set up and store documents on a VDR more than offsets the costs of photocopying documents, hosting, and supervising the paper-based physical data room.

**Security Features**

Because sellers are disclosing their most sensitive information during due diligence, security is a great concern. Here are a few of the most common security features offered by VDRs:

- Documents can be set to “read only,” preventing buyers from saving or printing.
- Watermarking allows sellers to trace printed documents to the user who printed them.
- SSL encryption is used to protect data over the Internet.
- Click-through confidentiality agreements legally bind readers to respect the provision to not disclose sensitive material.
- SAS70 hosting facility is the gold standard for safeguarding electronic data in the financial services industry.
- Latest intrusion detection and prevention technology.

**ADVANTAGES FOR BUYERS**

VDR technology has greatly improved the way buyers conduct due diligence. The physical data room limited the number of resources that buyers could assign to conduct
Driving Transactional Efficiency

**TIME TO COMPLETE DUE DILIGENCE PHASE OF TRANSACTION**

**Physical Data Room**

1. Venue(s) Determined
2. Documents Copied
   - Documents Transported to Venue(s) & Organized
   - Buy 1
   - Buy 2
   - Buy 3
   - Buy 4
   - Buy 5
   - Buy 6
   - Buy 7
   - Buy 8
   - Buy 9
   - Buy 10
   - Buy 11
   - Buy 12
3. Diligence is Complete

**Time to Complete Due Diligence Phase of Transaction**

**TransPerfect Deal Interactive Virtual Data Room**

1. Documents Scanned
2. Documents Loaded to VDR
3. Administrator Training
4. Buyers access VDR
   - Buy 1
   - Buy 2
   - Buy 3
   - Buy 4
   - Buy 5
   - Buy 6
   - Buy 7
   - Buy 8
   - Buy 9
   - Buy 10
   - Buy 11
   - Buy 12
5. Diligence is Complete

**Time to Complete Due Diligence Phase of Transaction**
due diligence at a given time. Travel costs and time to reach the physical data room further constrained due diligence activities. Another shortcoming with this method was that, because the buyer’s representatives had to painstakingly sift through disorganized stacks of corporate documents, their analysis of the potential investment was often limited in breadth and detail.

The VDR provides buyers a tangible ease-of-use benefit that a physical data room cannot. Instead of scrounging around boxes of papers, buyers can find the information they are looking for and retrieve electronic filings by simply typing in key words or by referring to the VDR’s index. Logical indexing within the VDR facilitates the location and retrieval of desired corporate documentation. This level of usability helps buyers maintain their focus during due diligence and allows them to make informed decisions more quickly.

Through the use of VDRs, buyers now have 24/7 worldwide access to all due diligence documentation. Time and money is no longer spent flying teams of lawyers and bankers to the site of the seller’s data room. This flexibility also alleviates the limits buyers had as to whom they could send to conduct due diligence. The result is a more comprehensive analysis.

VDR providers should be focused on these key factors in order to ensure the success of clients’ transactions:

- Intuitive Design
- Robust Security Features
- Speed
- Detailed Activity Tracking
- 24/7/365 Client Service
- Customer Support
- Ease of Use
OPTIMIZE M&A WITH A TRANSPERFECT DEAL INTERACTIVE VIRTUAL DATA ROOM

TransPerfect Deal Interactive’s VDR solution is a leading alternative to the traditional physical data room. Created to optimize due diligence during M&A transactions, TransPerfect Deal Interactive offers a Web-based interface whereby sellers can easily publish due diligence documents and prospective buyers can easily view them. The result is a more streamlined process, as travel costs and time are eliminated and disclosure gaps are greatly reduced.

Why TransPerfect Deal Interactive?

- Easy Implementation — TransPerfect Deal Interactive’s VDR solution can be rolled out within hours. Additionally, our technical support services are available 24/7.

- Intuitive Interface — TransPerfect Deal Interactive provides an easy-to-use Web-based interface. This simplicity reduces training time so that users can begin archiving and viewing documents immediately upon installation.

- Advanced Security — Sellers have complete control over TransPerfect Deal Interactive’s security functions. Varying degrees of authorization can be assigned to any user or group, and encryption assures that sensitive documents will be protected over the Internet.

- Secure Hosting — Our facilities are SAS 70 Type II certified, making them compliant with the financial industry’s standards for protecting critical data.

- Advanced Search Functions — Powerful Boolean searches make locating information within the VDR as easy as possible.

- Real-Time Reporting — TransPerfect Deal Interactive’s audit trail shows sellers who is viewing what information.

- Value and Cost-Effectiveness — Scale and internal efficiencies allow our solutions to be provided at a modest cost relative to their value.