ACQUISITIONS & TECHNOLOGY

OVER 70%

OF ALL ACQUISITIONS NEVER REALIZE THEIR POTENTIAL

InfoDNA® SOLUTIONS

Data Intelligence

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Executive Summary

Failed acquisitions litter history books and business college lecture halls with average success rates barely reaching 20%. There are many factors that drive down the potential for success of a merger such as:

- The challenges of merging cultures
- Conflicts from incompatible goals
- Changing market dynamics
- Retention of key talent
- HR Issues and maintaining stability
- Technology issues and integration of IT Systems

In addition, for an acquisition to have a positive outcome, the acquirer must create value and efficiently manage risk that maps to the price paid. On the flipside, the organization looking to be acquired needs to have their internal documents and business processes audited and defensible. It isn't enough to have the formal financials audited and validated—but also the sum of the terms and conditions of the business relationships—those intangibles that don't exist on the books.

In 2015 Microsoft wrote off 96% of it's $7.9 billion dollar investment in Nokia's handset business which it had acquired the previous year.[1] Meanwhile, Google sold off for $2.9 billion the handset business it bought from Motorola for $12.5 billion in 2012.[2] Hewlett Packard has written down $8.8 billion of its $11.1 billion Autonomy acquisition.[3] In 2011 News Corporation sold MySpace for a mere $35 million after acquiring it for $580 million just six years earlier.[4]

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[1] https://www.theverge.com/2015/7/8/8910999/microsoft-job-cuts-2015-nokia-write-off

[2] https://www.cnet.com/news/google-sells-motorola-unit-to-lenovo-for-2-9b/

[3] https://www.wsj.com/articles/SB10001424127887324352004578130712448913412

[4] https://hbr.org/2016/06/ma-the-one-thing-you-need-to-get-right

Identifying Potential Risks

One area across all due diligence efforts where greater focus and automation could be applied early in the evaluation would be in the identification of potential risks or opportunities of success is in the area of contract and document mining and analysis. The process of due diligence can last anywhere from 30 days to, and in some complex cases, up to 90 days.

The third-party advisors will spend the bulk of their time at the corporate headquarters of the business reviewing the prepared information. These third-party advisors hired by the potential buyer may include a CPA firm for accounting and tax review, industry consultants to review the company's business model and future opportunities, attorneys for legal review of the due diligence process, environmental consultants and labor attorneys.[5]

The effort should also include technology experts to identify business documents and information relevant to:

- Customer contracts: direct end-users, subscribers, etc.
- Partnering and reseller agreements: resellers, subcontractors, etc.
- Business leases: facilities, equipment, etc.
- Labor and employee contracts: existing or past employees with substantive liability or equity grants.
- Other financial instruments that define the business: litigation, government audit, tax, etc.

A 30-90 day window to accomplish this requires discovery and assessment tools to mine across a heterogeneous array of storage options—whether formal, informal or out in the cloud.

This document will outline how this effort should take place to uncover, early in the evaluation , where the opportunities—and most likely risks are—in the total set of business arrangements that define the business. For the seller, this would provide the opportunity to locate and evaluate the sum of your business agreements across your enterprise as well.

[5] https://pitchbook.com/news/articles/ma-101-the-role-of-due-diligence-in-mergers-and-acquisitions

Identifying Sources

All of this knowledge is buried in the documents that have been executed over the years. Most should be in a digital form—some are probably in a file cabinet or an off-site warehouse aging. For those that are still paper, they should be evaluated and potentially scanned by the seller. Either way, the need to identify the sources and interrogate them is imperative. The difficulty in this is the availability of so many channels of technology at an organization's disposal.

Modern document management repositories have become more complex with the advent of:

- Low cost collaboration-centric 'worksites' (like Microsoft SharePoint) [6]
- Departmental network drives [7]
- Email as a place where documents live as "attachments" within emails
- Formal enterprise content systems (like IBM, OpenText, iManage, eDoc) [8]
- All the cloud options that allow non-technology people to sign-up and create rudimentary document stores for a 'team' that could easily include non-employees (like BOX, Dropbox, OneDrive) [9]
- Microsoft has brought all these options together for an organization and called it Office365! [10]

This is on top of the storage of said documents inside enterprise systems (for example employment contracts in the HRMS system), executed sales contracts inside Salesforce.com and lease contracts residing on someone's laptop drive.

This has resulted in:

- Where is the right version—what is the final 'version of the truth'?
- Non-searchable files—Because someone has to sign it, the document was printed, signed and rescanned and not made searchable (known as an 'image-based scan').
- Duplicate copies—Exists in multiple places, folders, systems, etc.
- Lost copies—The wrong person left the company and their cloud account was canceled, along with the relevant content.
- Documents buried inside email chains—The final fully executed document is still in the email system

Many acquisitions are highly overpriced because the sum of the lost revenue exposure in sales contracts, longer term OpEx exposure in lease agreements, unknown litigation and buy out clauses in employment contracts has added up to a total loss of value of 30-50% over a five-year period.

[6] https://products.office.com/en-us/sharepoint/collaboration

[7] https://www.computerhope.com/jargon/n/network-drive.htm

[8] https://www.gartner.com/doc/reprints?id=1-5OQIPBP&ct=181029&st=sb

[9] https://reprints.forrester.com/#/assets/2/66/RES147856/reports

[10] https://www.microsoft.com/en-us/microsoft-365/business/compare-more-office-365-for-business-plans

Assessment

The searching and automation in the interrogation of these systems needs to take place. Not just a single-threaded approach (one repository at a time) but across all potential sources. [11] This identifies the important and applicable information but also deduplicates and removes the redundant, obsolete and trivial (ROT) [12] and can identify correlations between documents and relationships.

Where is everything and how do you find what you need?

The ability to identify gaps in major relationships should be considered such as information on:

- Contracts
- Litigation
- Assets
- Permits
- Environmental Issues
- Safety Issues
- Personnel Issues
- Sales
- Construction in progress

Only after these are known can a complete due diligence take place. With the window of time given, there needs to be consideration for the number of people and available hours to accomplish this task—this is where automation and digital discovery can augment the human's limit of reading 200-250 words a minute. [13]

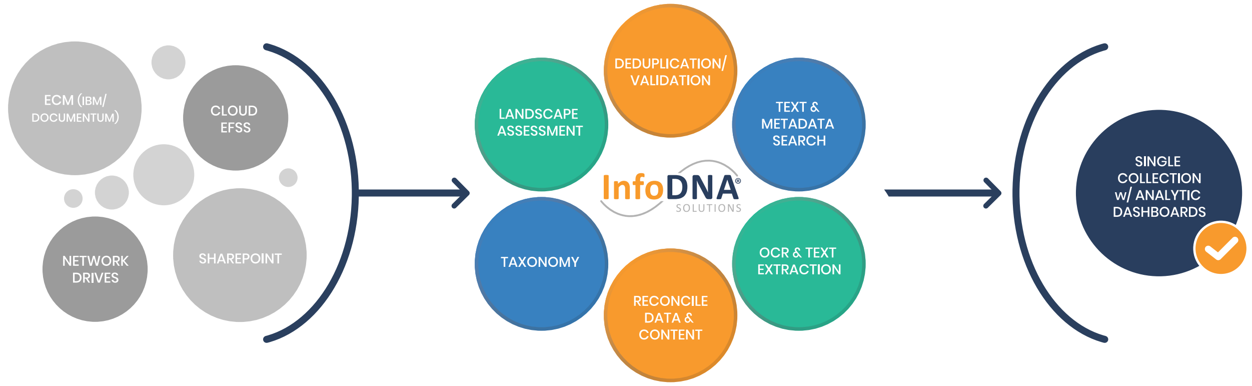
[11] https://infodnasolutions.com/solutions/topla-intensify/

[12] https://info.aiim.org/aiim-blog/newaiimo/2011/09/20/5-myths-about-rot-redundant-obsolete-and-trivial-files

[13] https://secure.execuread.com/facts/

Evaluation

Only through automation can a proper interrogation of all these business documents take place.



This would include, but not limited to:

- **Connectors and crawlers** that know how to search all available repositories.
- **The ability to extract knowledge** from the system-of-record. This becomes complicated because of contract red-lines, files that might not be text searchable, redactions, etc.
- **Conversion** of image-based documents are identified, the ability to convert these to machine readable text through optical character recognition (OCR). [14]
- **The ability to mine** the document itself to identify incremental data points such as entities, concepts and certain 'key phrases' and risk factors. Generally called 'Natural Language Processing' (NLP) [15], this is where the automation of search, categorization and even risk assessment can take place across millions of documents.
- **The creation of a 'single collection'** from multiple heterogeneous repositories to identify 'the truth' in the business practices. This can uncover—for instance malfeasance or intent to not share a systemic sales contract practice with customers that causes undue harm to the business revenues in out years.
- **Data visualizations** for the due diligence team and client to share risk assessments. This would include a 'document landscape' to extract the wheat from the chaff.

The depth and breadth of the potential document landscape,with millions of documents and a short time window, has created a demand for a technology that will provide the necessary safeguards to ensure an efficient and orderly process.

[14] https://en.wikipedia.org/wiki/Optical_character_recognition

[15] https://en.wikipedia.org/wiki/Natural_language_processing

Migration

Potential sellers,will substantially benefit from this as it an opportunity to justify the internal cost of this effort with the end result validating a higher value. Gathering all of this together into fewer repositories, cleaning up the duplicated and ROT documents and having a resulting system with a proper taxonomy [16] is a dividend. There are obvious instances where this may not make sense where complex workflows or business processes exist. In the situation where simple storage or cloud sync-and-share were utilized, an immediate cost savings and efficiency can be realized.

For the potential buyer of an organization, knowing where everything is located post-acquisition creates a shorter time window in realized IT cost savings, a higher retention rate of acquired customers and a greater propensity in realizing cost savings with larger vendors. It also removes the risk of losing the people knowledge of the data and documents with departures of thought leaders and mid-to-senior personnel. The effort will allow immediate integration of data, processes and people into the new, larger entity.

[16] https://en.wikipedia.org/wiki/Corporate_taxonomy

Result

Whether preparing the business to be sold or as the potential acquirer performing their due diligence, the way to reduce risk and properly value a transaction is through proper 'truth management'—managing the documents that define the business. Just as an ERP system manages the business transactions to manage the financial efforts measured in a balance sheet, income statement and cash flow statement—contracts and documents are the root of the real potentials and risks of a business.

InfoDNA Solutions brings knowledge, discipline and technology through their Topla platform [17] ***to make this a reality.***

Through their services that include:

- Enterprise Information Management Strategy [18]
- Enterprise Information Management Project Management [19]
- Content Assessment [20]
- Taxonomy Definition [21]
- Content Migration [22]

It is possible to realize as a seller the true potential of a business or as the buyer where the risk exists within a reasonable time frame.

[17] https://infodnasolutions.com/solutions/topla-intensify/

[18] https://infodnasolutions.com/services/eim-strategy/

[19] https://infodnasolutions.com/services/eim-project-management/

[20] https://infodnasolutions.com/services/content-assessment/

[21] https://infodnasolutions.com/services/taxonomy/

[22] https://infodnasolutions.com/services/content-migration/

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