



WHITE PAPER

## **Improving Deal Value with Virtual Due Diligence Rooms**

**M&A Transactions  
Investment Banking  
Corporate Divestitures  
Private Equity Investment  
Venture Capital  
Debt Financing  
Investment Real Estate**

**Dan R. Bradbary**

**DUE DILIGENCE ONLINE™**

*Connecting Investors, Buyers & Companies*

## Overview – Virtual Due Diligence Rooms

*Whether a company is up for sale, selling off one of its parts or seeking debt or private equity financing, it needs to present the transaction to potential buyers or investors in an organized and marketable format. Even though this upfront effort provided for potential buyers is frequently called “sell-side due diligence”, the same details are usually required for lenders or investors. Thus, prominently displaying this structured and categorized information in virtual due diligence rooms can considerably improve value, shorten deal times and reduce transaction costs.*

*“Get the right information  
to the right people  
at the right time...”*

*This combination of organized material and its online presence has created a new web-based marketing platform which was formerly reserved for only the largest deals, but it is now readily available for small to mid-sized transactions. In other words, this combination of accurate information and its instant availability through online deal rooms assure that the right information is getting to the right people at the right time.*

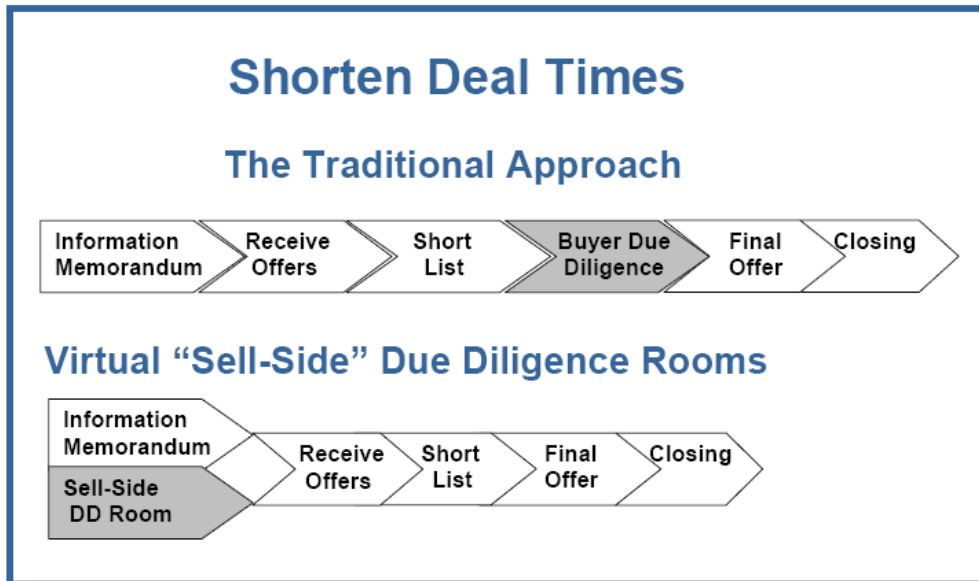
## Organize the Facts - Sell-Side Due Diligence

Often there are many reasons for the divestment of a corporate division, such as disposing of non-core assets, industry consolidation or just the opportunity to sell to a willing buyer at a premium price. Likewise, private equity investment may be utilized for repaying debt or for making strategic acquisitions.

Too often, transaction delays and unwanted surprises adversely impact the financial return achieved. The sell-side due diligence approach allows the company to “put the best foot forward” in displaying in-depth information to address the initial concerns and issues of the potential buyer, lender or investor, therefore streamlining the deal process.

*“Put the best foot forward”*

Owners typically will spend their time and effort running and growing their businesses, not grooming their businesses for sale. Hiring a sell-side due diligence “swat team” to organize accounting records and legal documents, as well as to develop business and marketing plans, may add a small amount to the transaction costs. However, the benefits of this upfront, pre-emptive effort can outweigh the expenses by bringing previously unidentified issues to light early in the process and potentially improving both the economic and non-economic terms of the deal.



From the buyer’s or investor’s perspective, this early due diligence process provides additional control so that resources used pursuing a transaction will not be wasted, because a deal-stopping issue comes to light at the last minute.

## Virtual Rooms Replace Boxes of Paper Files, Conference Rooms and E-mail

There are real reasons why a virtual due diligence room is preferable to the normal practice of assembling boxes of documents in a conference room or simply sending all the documents back and forth between the various parties by e-mail. Probably most importantly, e-mail is not a secure way of sending documents between the parties involved in the transaction. Documents could be intercepted while in transit, since few individuals today make much use of encryption - so the fact is that the document could be read by outsiders. It's like sending deal documents written on a postcard through the mail. Given the sensitivity of many of the deals taking place on a daily basis, this alone is a powerful reason to switch to a secure and controlled methodology.

### *“Security is paramount”*

Another issue running through transactions is that the various document drafts contained within e-mails and office document management systems are not always easily accessible when away from the office. Even if one could get to the information, there is constantly the question of whether the most up-to-date information is being viewed. A secure, online deal room solves that problem.

So what is an online deal room anyway? Basically, it is a separate, password-protected website on a secure server. The secure server aspect is critical - it enables the website to be protected against being viewed by anyone other than those logging in with the correct usernames and passwords. If they enter these correctly, they are then in a fully controlled and secure environment.

## Room Levels, Virtual Road Show, Categories and Documents in the Virtual Rooms

Above all, keep it simple to use. To review documents or files, the best approach is merely to “point and click” to retrieve information. Potential investors and buyers clearly want something straightforward that works (and which they can learn to use in a few minutes) rather than attempt something much more ambitious and complex.

Organize the virtual room by levels of security:

**Entry Level** - Contains general information such as a virtual road show, executive summary, outline business plan, CEO video and other general information. This is confidential information that can not be displayed on the company's public web site. In order to proceed to the next level, a document such as an Accredited Investor Questionnaire may need to be completed.

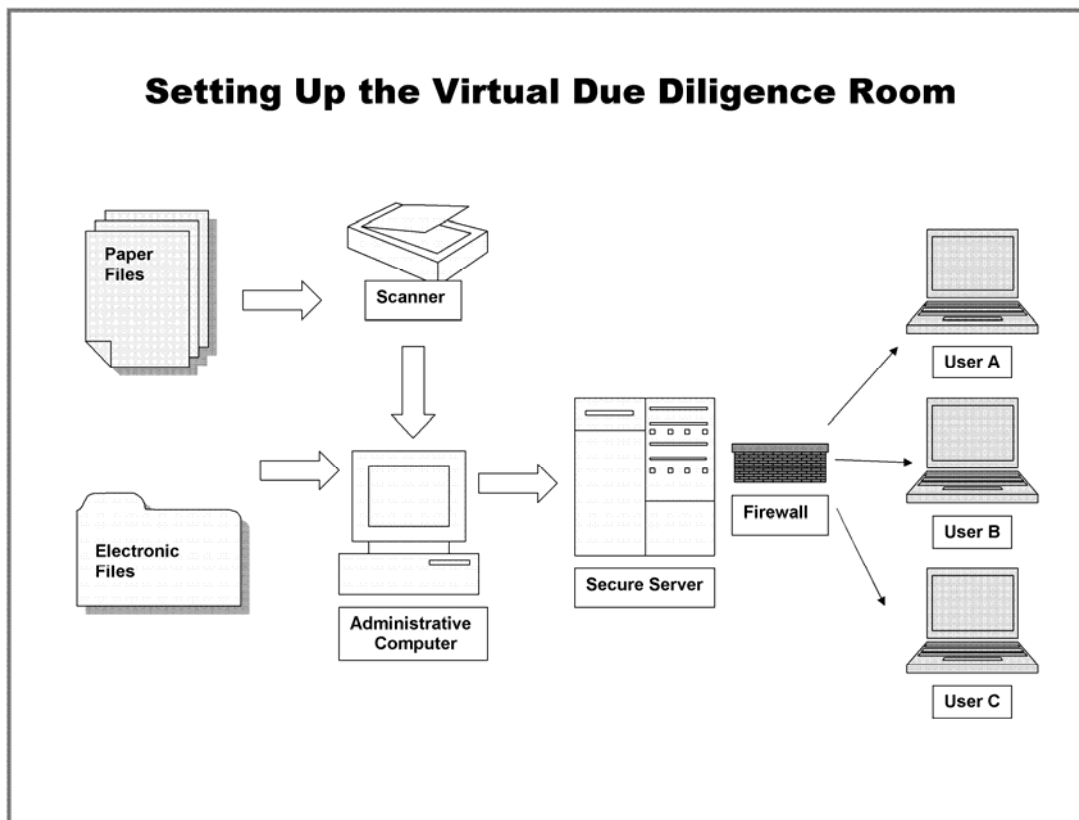
**Mid Level** – This level often can contain the Offering Memorandum or the Private Placement Memorandum (PPM) if a private equity investment is being sought. This approach can also be used for the electronic distribution of the PPM, incorporating the delivery and tracking features to meet the “Blue Sky Laws” reporting requirements.

**High Level** – In order to gain access to this level, quite often a Non-Disclosure / Confidentiality Agreement is required. Contained at this level are the legal documents, agreements and licenses, as well as detailed financial statements, reports and very confidential and sensitive material such as customer lists and detailed marketing plans.

### *A Secure Online Filing Cabinet...*

Effectively, what is developing is an online filing cabinet with a series of drawers where one can store documents, presentations, photographs and audio/video files. This is where structure and control become very important.

For example, on the welcome page of the deal room there should be a welcome message explaining what the site is about. It is a good idea to offer a quick-start guide to those who are new to deal rooms so they can get up to speed literally in just a few minutes. Additionally, the entry page should also have a project directory providing contact information for individuals involved in the deal (surprisingly useful when an individual is stuck in a hotel room and needs to telephone someone) together with any other key information which needs to be shared by the involved parties.



## Project Management of the Virtual Rooms

From the very beginning a due diligence project manager should be selected to coordinate the information being provided by the different groups or departments. Setting up the virtual due diligence room is a key administrative function. Once the categories and file structure, as mentioned earlier, are established, documents and files can begin to be uploaded to the secure server.

Paper documents such as contracts, agreements and licenses must be scanned into an electronic format such as a “.pdf” file type. Keep in mind that only original, signed legal documents are to be used. This file type creates a document that may not be modified by the end user and is sufficient for most security concerns, in that printing, saving and sharing of the information may be restricted. For business and marketing plans, financial projections and presentations that are already in an electronic file format, merely a conversion of these into the “.pdf” file type is sufficient.

### *“Walk your prospect into the Room”*

Fast, efficient procedures for distribution of usernames and passwords to selected individuals should be implemented. Certain individuals must have the ability to instantly assign usernames and access privileges. For instance, if there is a highly qualified investor or buyer on the phone, give him a username and password and immediately “walk” him into the virtual room and give him a tour.

Brief, weekly coordination meetings are a good idea to maintain the accuracy and viability of the virtual room. Additional and updated information may be posted, and expired or obsolete data should be removed. Any technical issues should be discussed.

### Example Screen: Virtual Due Diligence Room

Confidential & Proprietary

Secured Virtual Due Diligence Room Of  
Justice Correction Systems

**Johnson Partners**  
Investment Bankers

**CATEGORIES**

- \* Welcome
- 01 Executive Summary
- 02 Private Placement
- \* Memorandum
- 03 Operations
- 04 Financial
- 05 Legal
- 07 Regulations and Permits
- 08 Intellectual Property
- 09 Taxes
- 10 Material Agreements
- 11 Sales and Marketing
- 12 Insurance
- 13 Real Estate and Equipment

**01 Executive Summary**  
This Executive Summary Category is an excellent location to feature your Company's management team through a selection of audio/video presentations. Note the audio file below, discussing some general industry information. Just click on one of the Files below or one of the Categories to the left.

File Name	File Type	File Size
<a href="#">A_ Executive Summary</a>	Document	51 KB
<a href="#">B_ Industry Introduction</a>	Audio	563 KB
<a href="#">B1_ Sample Photo</a>	Photo	97 KB
<a href="#">C_ Organizational Chart</a>	Document	25 KB
<a href="#">D_ Professional Advisors</a>	Document	25 KB
<a href="#">E_ Listing Key Management</a>	Document	25 KB
<a href="#">F_ Listing of Subsidiaries</a>	Document	25 KB

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## Conclusion – Virtual Due Diligence Rooms

*Utilizing this technologically savvy, online approach as a platform for marketing deals can very effectively improve value, shorten deal times and reduce transaction costs.*

*With the availability of the Internet, companies are now able to considerably “expand their reach” in seeking buyers, investors or lenders. High-level secure, virtual rooms that display, yet protect, confidential company information have significantly increased the efficiency of all parties involved in these financial transactions.*

*“Comprehensive and confidential information is available... anytime, anywhere.”*

*Hence, through this virtual due diligence room approach, financial professionals, bankers, attorneys and accountants representing potential buyers, lenders or investors are able to simultaneously review this comprehensive and confidential information... anytime, anywhere.*

## Due Diligence Online, LLC

We organize and provide Virtual Road Shows (management presentations) along with Sell-Side Due Diligence (documents and files) inside Virtual Rooms, a novel way to store, display and manage confidential company information securely on the Internet.

Simply put, the traditional due diligence process can be expensive and time consuming for potential buyers, investors or lenders. To support the financing efforts, our "swat team" can assist in organizing, developing and hosting a large amount of confidential information in an online format:

- Corporate Documents
- Company Presentations
- Audio Interviews with Key Executives
- Video Presentations
- Contracts and Agreements
- Financial Statements
- Business Plans

Potential investors, lenders or buyers are able to review company details without leaving the comfort of their home or office, while complete control over the company's confidential information is maintained.

### Dan R. Bradbary

Founder and CEO of Due Diligence Online, LLC, Mr. Bradbary is a successful entrepreneur, business leader and active investor in a variety of pharmaceutical, biotech and service industry ventures. Previously, he founded one of the nation's largest project management consulting firms. His recent book, [Herding Chickens: Innovative Techniques for Project Management](#) is a light-hearted look at the applications of virtual data rooms, intranets and technology for managing complex projects. He holds an engineering degree in addition to an MBA.

**DUE DILIGENCE ONLINE**™

3535 Peachtree Road • Suite 520 • Atlanta, GA 30326  
Phone: (800) 731-6379 • (404) 348-4701 • Fax: (404) 521-4505  
[www.DueDiligenceOnline.com](http://www.DueDiligenceOnline.com)