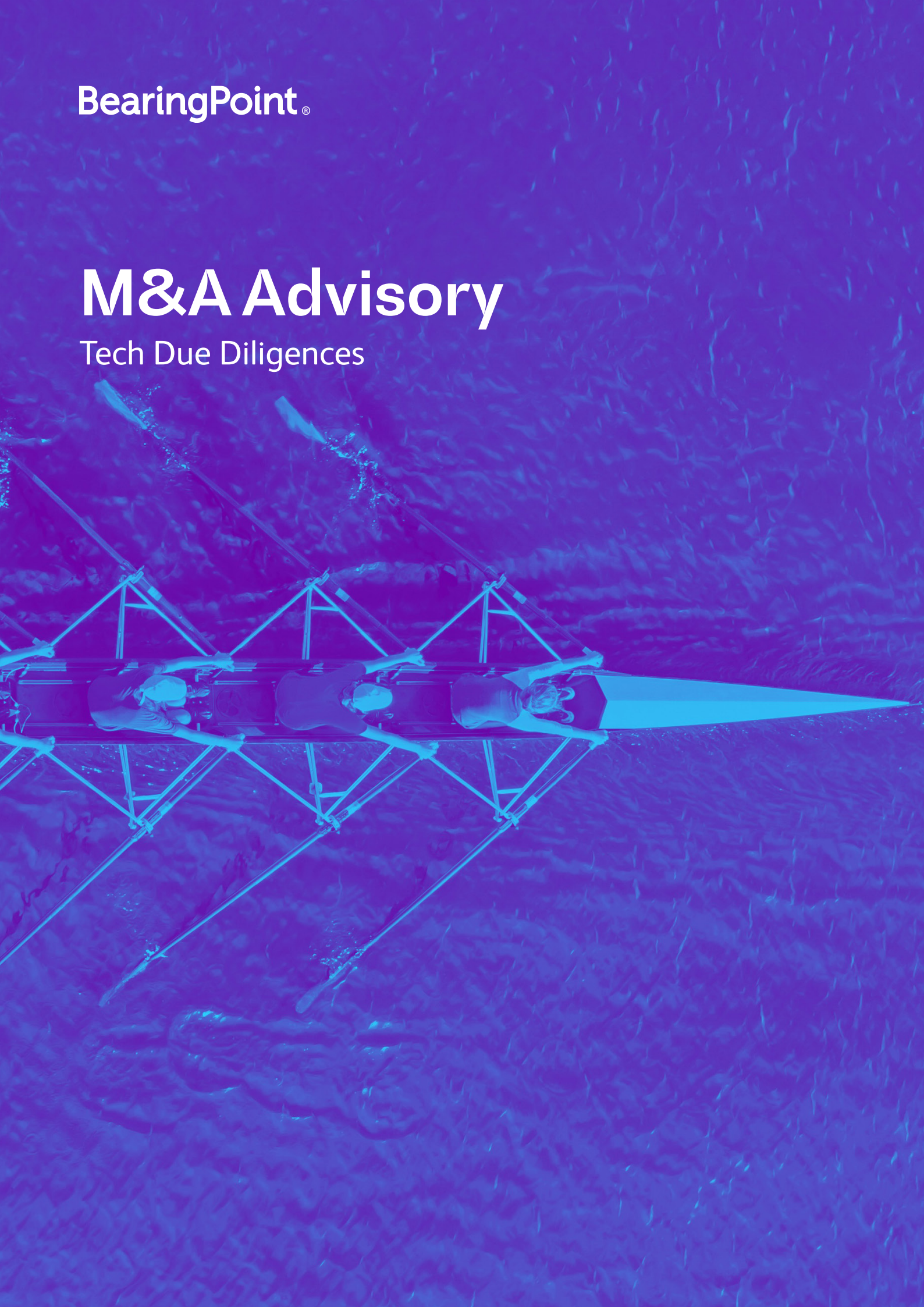
BearingPoint®

M&A Advisory

Tech Due Diligences



BearingPoint®

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The M&A advisor that makes the difference

BearingPoint is an international strategy and technology consulting company

BearingPoint is an independent management and technology consultancy with European roots and a global reach. BearingPoint has a global consulting network with more than 12,000 people and supports clients in over 75 countries. It operates in three units: Consulting, Business Services, and Capital. Consulting covers the advisory business; Business Services offer managed services to clients based on BearingPoint IP; and BearingPoint Capital manages the firm's portfolio of software companies, supports with development of the firm's Ventures investments, and provides tech-based M&A advisory to our clients.

Tech-based M&A
Professional and rapid execution of transactions, sell & buy side transaction advisory and Tech Due Diligences

Solutions Businesses
Standalone businesses within BearingPoint to enable their profitable growth ambitions.

RegTech Beyond

Venture Investments
We explore new ways of cooperating with our clients through investing in IP generation, client joint ventures and new business models.

As BearingPoint Capital M&A Advisory, we work on M&A projects that require cross-border management and capabilities – providing our respective clients with access to locally based resources and specialized global expertise, and intellectual capital. We support leading international companies across the whole transaction lifecycle with a focus on the execution of Tech Due Diligence. Based on an overall due diligence framework, we offer our clients an efficient way to determine the state of technology within an organization.

BearingPoint Capital is driven by an experienced and committed core M&A team, being supported by a consultancy resource pool of 4,500 professionals to draw from. This enables us to master any complexity across industries and technologies to meet the individual goals and needs of our clients.

This is made possible by passionate people at BearingPoint Capital. We are determined to deliver excellence by setting the highest possible standards for supporting any transaction and securing maximum potential. We lead by example and strive to be the best at all the projects we take on. Ultimately, we are dedicated to your success!

Therefore, we are the preferred Tech M&A advisor for leading Private Equities, Investment Banks and Strategics in Europe. Our three services within our M&A advisory are as follows:

A | TRANSACTION ADVISORY FOR TECH COMPANIES

BE Capital provides holistic support during the entire transaction process – from defining seller or buyer criteria to closing the deal.

B | TECH DUE DILIGENCE SERVICES

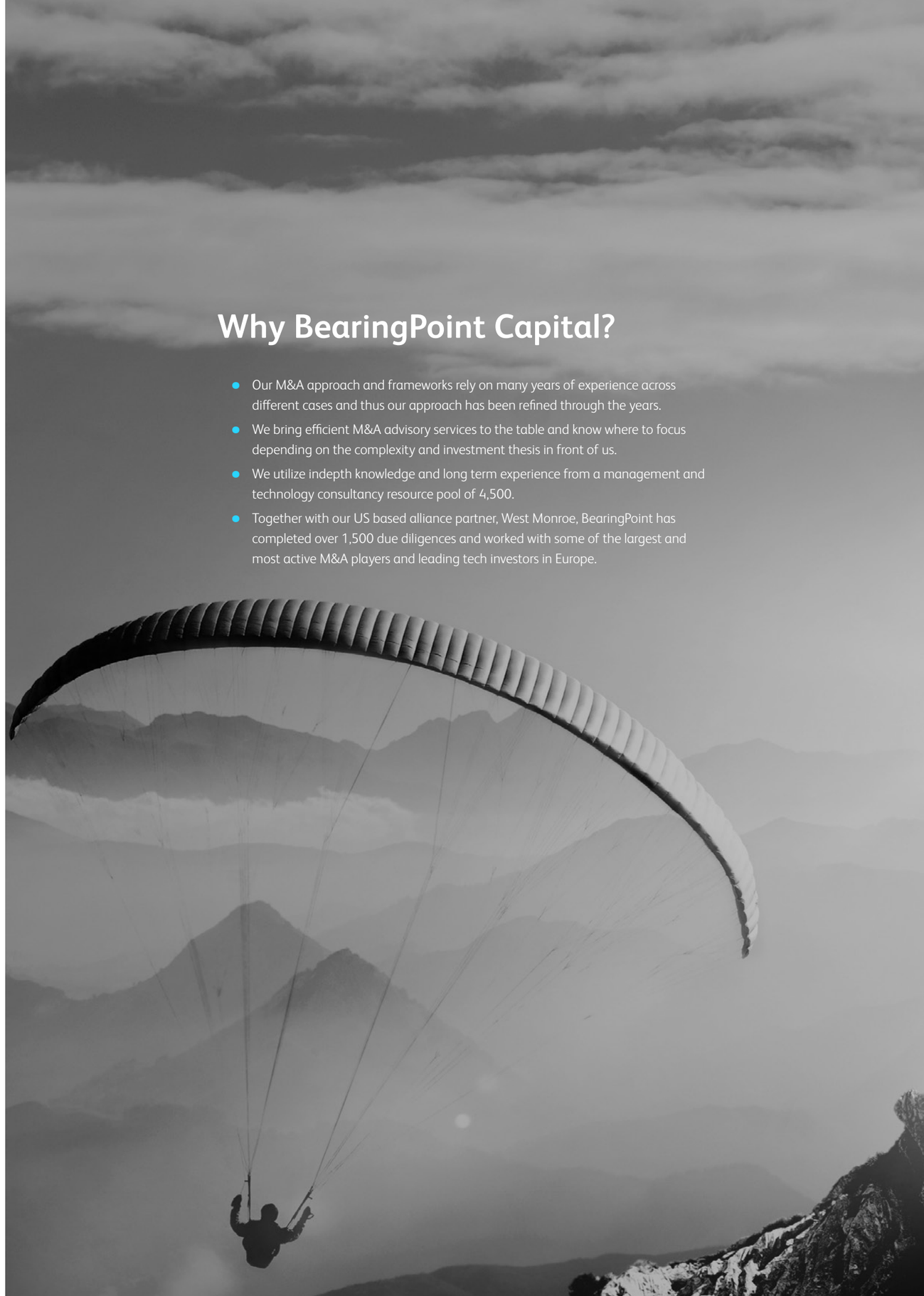
BE Capital continuously provides diligence services to both buyers and sellers where tech and tech-enabled companies are the focal point. This includes pre-, during and post-transaction analyses of the technological, commercial, and operational aspects of the business.

C | M&A STRATEGY ADVISORY

As an advisor for M&A Strategy, BearingPoint Capital forms a long-term strategic partnership with its clients to support all matters associated with inorganic growth, whether it be strategic or operational aspects of M&A.

Why BearingPoint Capital?

- Our M&A approach and frameworks rely on many years of experience across different cases and thus our approach has been refined through the years.
- We bring efficient M&A advisory services to the table and know where to focus depending on the complexity and investment thesis in front of us.
- We utilize indepth knowledge and long term experience from a management and technology consultancy resource pool of 4,500.
- Together with our US based alliance partner, West Monroe, BearingPoint has completed over 1,500 due diligences and worked with some of the largest and most active M&A players and leading tech investors in Europe.



Tech matters to M&A

Playing in the Champions League requires a number of qualities in order to be able to leave the pitch as a winner: a sixth sense for rising stars, the ability of master complexity triggered by manifold interdependencies and dynamics and not least, the awareness of intensive and holistic analyses prior to a transaction.

Mistakes made during M&A transactions are not limited to only one side of the bargaining table. Unbiased by available capabilities and tools, it is even more surprising that a predominant number of M&A leaders do not notice the creeping upheavals: An increasing maturity level of applied technologies across all industries, whether technology is taking on support functions or is representing the business model itself. Those who want to set the ground for their next deal success do need more insights than ever before. Accordingly, buyers and sellers do constantly face the risk of over- or undervaluation and are equally at risk of failing at even the best potential transaction. Therefore, experience of substantial losses have made investors increasingly concerned with risks associated with IT and Technology, which is driving their demand for DD in the area. The following table gives a very clear picture of its relevance.

What makes Technology Due Diligence indispensable?

More than 85% of businesses we have reviewed in the past 3 years have **medium to severe security related risk issues** that required remediation in the first 90 days of ownership.

Technology Diligence often has a **negative impact on deal valuation** - up to 40-65% depending on the deal type (higher for carve-out deals).

In more than half of the cases in the last three years, significant future **unbudgeted IT funding requirements** at both the CapEx and OpEx levels were identified that had a material change on deal models.

In more than 50% of the cases, we identified that whether IT lacks in strategic direction or an existing IT <strategy is **not aligned with the business**.

In more than half of our Tech Due Diligence projects we have found businesses with no or inadequate **disaster recovery capabilities**.

For lower middle market businesses, about a third of the cases showed **key-man risks** and significant skill deficits in the IT team.

A significant number of deals get cancelled based on risks that could have been identified during a Tech DD.

- Lack of scalability
- Overhaul of business applications needed
- Poor service/design of target architecture
- Large technology debt
- Open-source license violations
- Security issues

The value of Tech Due Diligence services for M&A transactions cannot be overstated. Due Diligence not only provides the information required to reveal potential IT and Technological risks, but also assures that the right investment is made at the right price.

Get ready to face the challenges

When considering acquiring a target company, corporations or Private Equity firms need to perform a Technology (Tech) Due Diligence in cooperation with an independent Tech Advisory practice, due to:

- Confidentiality of potential transactions and conflict of interest avoidance for corporations.
- Limited understanding of new technologies (e.g. Machine Learning, Artificial Intelligence, Blockchain, etc.).
- Overestimation of new technologies that are not mature enough for a significant business impact.
- Limited ability of supporting financial consultancies to provide in-depth and industry-specific tech expertise.
- Potential hidden costs, which may impact overall purchase prices (e.g. legacy systems, licensing issues, etc.).
- Criticality and risks related to tech platforms and their impact on business survival (e.g. use of real-time data).
- Unknown status of target's tech platform regarding the capacity and scalability for further growth.

Key questions that PE firms and corporations need to answer when evaluating a strategic partner for Tech Due Diligence:

- What role does Tech Due Diligence play in your firm?
- How often do you conduct Tech Due Diligence?
- At what point of the overall due diligence process do you perform a Tech Due Diligence specifically?
- How can professional Tech Due Diligence be performed in a timely manner?

Once a strategic partner is selected, a customized and lean Tech Due Diligence process needs to be jointly defined.

Our Tech Due Diligence Services

More than a decade of Tech M&A experience underlines our expertise to identify untapped tech-related hidden risks, to raise pre-investment red flags and to evaluate how technology can contribute to leverage the full potential of the firm. As a result, BearingPoint is established as a premium Tech DD advisor. So, our Tech DD goes beyond building confidence. It also provides validation and input to management´s strategic agenda – and these two factors combined have earned BearingPoint an extensive track-record of delivering Tech Due Diligence to key players in the market.

Together with our US Partner, West Monroe, BearingPoint has completed over 1,500 Due Diligences, serving Private Equities, Investment Banks, Strategics, and many others – this includes both global leaders and mid-size market players.

Our Tech M&A approach relies on many years of expertise and experience across different cases and thus our approach has been refined over time. We bring efficient advisory services to the table and know where to focus the effort depending on the challenge and investment thesis in front of us.

We hold a strong track record in successfully assisting our clients across the whole M&A lifecycle, which consists of five phases: Strategy, Analysis/Due Diligence, Planning, Execution, and Optimization. Within the M&A lifecycle we focus on Tech M&A Advisory services.

We are neutral IT Advisors for the entire M&A life-cycle

Due Diligence

Quantify risk, determine required investments and ensure that portfolio companies can scale. Focus areas include the IT or Tech organization.

Vendor DD

Anticipate the questions potential buyers will ask and be prepared to address these during diligence in order to protect against value erosion.

Merger Integration

Ensure that your aquisition integrations run smoothly and deliver the planned synergies while managing the key risks.

Carve out Readiness & Execution

Create a fully functional IT standalone entity with speed and accuracy. Ensure Day 1 Readiness and support during the implementation phase.

Portfolio Value Creation

Identify the portfolio company's critical operational, technological, and digital capabilities and define the target state, action plan and feasibility for subsequent growth.

Our experience is based on the Technology Advisory practice of BearingPoint that supports a wide range of services such as Tech Strategy, Tech Sourcing, Tech Transformation, Tech Cost Take-out, and Tech Security Management. In our Business Strategy practice we focus on Corporate Performance Improvement, Business Turnaround, Growth Strategy, and Innovation. All this expertise is leveraged in Tech Due Diligences. Our M&A support therefore spans from Buy/Sell Side Advisory and Tech Due Diligence to Post Merger Integration and Carve-Outs.

In our Tech M&A methodology we focus on the operational and technological implications of a transaction, combining experienced leadership with proven execution. With our numerous service offerings mapped to your requirements we add value from strategy definition to target optimization – starting at Day 1.

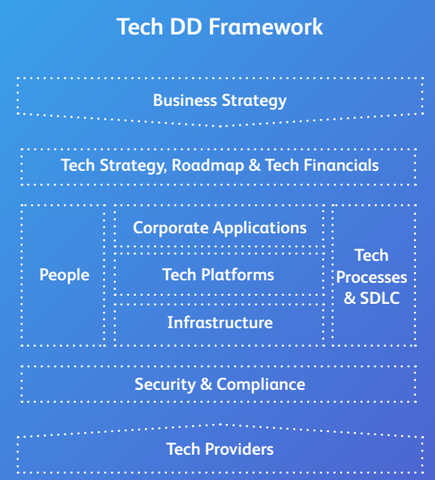
How we add sustainable value to your transaction

Using our Tech Due Diligence approach prior to acquisitions we help companies accelerate the transition timeline, maximize synergy capture and minimize risks of technology issues.

In this context it needs to be differentiated if IT respective technology has a support or enabling function or if technology plays a significant role of the business model itself or is key for a digital product.

For the first scenario an IT Due Diligence is applied focusing on corporate applications and how IT is supporting the underlying core business processes – ideally with a high level of digital maturity.

For the second scenario where IT is typically self-developed a Tech DD is performed with a deep-dive on architecture, software development processes and tech organization. Whether IT Due Diligence or Tech Due Diligence, we have the most suitable approach to meet your needs and achieve your goals.



In the Tech Due Diligence process, we focus on seven key areas when assessing a potential target's Technology:

Tech Strategy, Roadmap & Tech Financials

- Review the product strategy/roadmap and the key planned projects/investments related to technology.
- Evaluate the ability of the target's tech environment to integrate potential future acquisitions.

People & Tech Organization

- Evaluate IT leaders regarding their business understanding and IT competence.
- Evaluate IT organization size and future growth plans to determine if staffing levels are appropriate.
- Identify if any 'key-man' risks exist, based on those interviewed.
- Understand the target's use of outsourcing providers and contractors for IT services.

Technology Platform & Architecture

- Create an overview of the product landscape and the main functionality of the core applications. This includes software developed in-house as well as custom and packaged third party software components.
- Evaluate the product's technical architecture regarding the ability to scale and adapt as well as adherence to best practices.
- Review the technology stack, technologies and frameworks used, as well as software configuration and design.

Tech Processes Software & Development Life Cycle Process (SDLC)

- Evaluate the Software Development Life Cycle processes, supporting tools, and artefacts.
- Review product release and feature management/prioritization/deployment procedures and planned downtime.
- Evaluate of the use of BI and Big Data.
- Evaluate the maturity level of machine learning (if applicable).

Security, Compliance & IT Service Management Processes

- Evaluate IT security policies/procedures/data privacy/GDPR compliance.
- Evaluate the security standards (e.g. protection against malware and ransomware attacks, security measures during product development, data encryption technologies, deployment of software updates, use of VPNs).
- Evaluate the key IT operational processes within the organization, how data is backed up, stored, and secured for employee and application data.

Infrastructure

- Review the (cloud) infrastructure necessary to support the core product scalability.
- Evaluate the network and telecom infrastructure (e.g. LAN/WAN connectivity, and internet access) for appropriateness and scalability.
- Evaluate the data center, server, hosting and storage infrastructure (e.g. hardware, software, virtualization, and refresh cycles) for appropriateness and scalability.

Corporate Applications

- Create an overview of relevant back office applications: vendors, age profile, costs, etc.
- Assess the back-office system (e.g. ERP/financial system, CRM system, payroll, collaboration, file-sharing, time & attendance etc.) & digitalization of processes.
- Evaluate IT infrastructure applications (e.g. active directory, email, file/print, server backup, server anti-virus, DNS, DHCP) in use for reliability, performance, and scalability.

How we get it done, tailored to your needs

Tech Due Diligence approach:

A proactive, pre-acquisition assessment to determine the technical capability, risks, and opportunities within IT and related operational functions in the light of the client's strategic decision.

DD Core Team/DD Experts and Support

Project Lead Engagement Manager	**Technology Architect** Senior Advisors	**Industry Expert** Senior Advisors	**Project Support** Core-Team Member

Buy Side: 2-4 Weeks
Sell Side: 4-6 Weeks

3-5 Persons

35-60 Pages Report

Initiation	Preparation	Access	Analysis & Interviews	Results
• Establish business and Tech context behind the assessment • Adjust assessment to fit the divestment thesis • Establish key questions to be answered	• Define on site agenda and participants • Schedule interviews/ workshops/ site visits/ calls • Information Request Lists for VDR • Pre-assessment client material	• Meetings with relevant stakeholders • Break-outs on selected focus topics • Request for additional information • Red Flag Report produced and sent	• Analysis of documents and interview findings • Alignment and potential adjustment of focus based on findings (client and advisors) • Complementary interviews on selected topics	• Tech Assessment • Recommended Actions & Projects • Final report • Readout • High Level scope for VCP

Note: Figures refer to standard due diligence projects, but processes are tailored to meet investment thesis/client needs.

Our solutions:

- Align with your investment thesis.
- Quantify and manage risks.
- Determine whether technology and processes are compatible, easily integrated, and scalable.
- Ensure data quality, integrity, security, and compliance.
- Identify required IT investments and improvement opportunities to hit investment targets.

Project value:

- Scalability/Maturity: Assess the ability of the entire IT organization (strategy, people, process, and technology) to scale in order to support the investment thesis.
- Risk Avoidance and Capital Requirements: Identify applicable IT risks and expected IT spending that might be required to mitigate risks and avoid unexpected surprises (time, customer retention, etc.) during the ownership cycle.
- Opportunity: Identify potential business improvement opportunities by leveraging the power of existing IT, as well as finding ways to potentially reduce IT spending.

Project setup and deliverables:

- Short duration for standard Tech Due Diligence.
- 3-5 team members per project, with part time subject matter expertise assistance as required.
- PowerPoint summary of findings (35-60 slides), coupled with a Read Out/meeting to review.

Get ready to bear the risks

Experience of substantial losses have made investors increasingly concerned with risks associated with IT and Technology, which is driving their demand for DD in the area.

Over the last few years, the IT function and technology evaluation have become more and more relevant to the success of transactions. Nevertheless, the impact of the target's IT and technology consistently remains underestimated, which leads to differing ways of handling the IT function and technology side during the due diligence process.

No Tech Due Diligence performed at all?

- Unnecessary or do not see value
- Risk: Investments/acquisitions made without the full understanding of IT risks, scalability, and opportunities

Go to a Financial Due Diligence firm?

- Large accounting firms - "We'll throw in the Tech Due Diligence for free"
- Risk: Not their core competency and IT report is typically very high level, with limited focus (2 pages out of 80 are about IT); projects are staffed based on "availability", not expertise

Hiring independent contractors?

- Ex-CIO or independent "friend"
- Risk: Challenging for one person to have the depth and breadth of IT knowledge - strategy, process, people, and technology; potential lack of industry expertise; typically lacks project methodology

Utilizing existing portfolio resources?

- Employ IT resource from within one of their portfolio companies
- Risk: Challenging for one person to have the depth and breadth of IT knowledge - strategy, process, people, and technology; potential lack of industry expertise; typically lacks project methodology

Shop at boutique Tech Due Diligence firms

- Small team/firm specialized on Tech Due Diligence
- Risk: Lack of industry breadth and limited resources for post-close execution work

From our point of view, the IT function needs adequate attention for the investment decision and therefore a neutral assessment by specialized IT advisors. Our experienced experts ensure that risks can be avoided and provide you with a full, evidence-based picture of how the target's IT aligns with the investment thesis.

Get in touch

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About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in four units: Consulting, Solutions, Business Services, and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, advanced analytics and regulatory requirements; Business Services provides managed services beyond SaaS; Ventures drives the financing and development of start-ups. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

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