

A SPECIAL REPORT

Information Technology in the Acquisition MarketPlace®

*An Overview of the MoneySoft® Financial Network:
A community of M&A practitioners using the power of the desktop
and the global reach of the Internet to streamline the process of
initiating, negotiating and financing successful middle-market acquisitions.*

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This paper provides an overview of the current state of Information Technology (IT) within the M&A community and the opportunities and challenges for a more efficient acquisition marketplace.

The M&A community consist of buyers, sellers and funding sources along with the people who serve and advise them. The universe of service providers includes intermediaries, accountants, attorneys, appraisers, management consultants and risk managers. This paper focuses upon buyers, intermediaries and practitioners active in the **middle market**.

The Present State of M&A Technology

In general terms, currently available technologies allow us to create content, store information, use information to support planning and decision making, transmit and distribute information and manage automated systems. The following is an overview of the technologies and the way in which they have been used in the dealmaking community:

- ▶ **Enable the creation of printed materials and digital content.** Content creation technology includes desktop applications such as word processors, spreadsheets, digital scanners, digital cameras, graphic software, music coding software such as MP3, and web development software. The M&A community has adopted content-creating desktop applications to prepare descriptive memoranda, business plans, marketing materials, and websites. Most of this work is **performed offline**.
- ▶ **Store, manage and retrieve information and content.** This includes internal databases of client and prospect information as well as a host of privately and publicly available databases (offline and online) that cover every conceivable topic. The M&A community utilizes contact management systems and databases containing client and prospect information. External databases provide information for benchmarking performance, valuation, risk-rate assessment, developing an economic and market outlook, and locating deal opportunities.
- ▶ **Organize and analyze information to support decision-making.** This includes home grown and developed systems for analyzing financial and economic data, tracking trends, forecasting, and planning. M&A practitioners use a variety of home grown spreadsheets. Several thousand have already **migrated to third-party software systems** such as MoneySoft's *Buy-Out Plan*® which is used to analyze, benchmark, value, price, structure, forecast, and finance middle-market acquisitions.

- ▶ **Transmit and distribute content and information.** Information can be distributed across one or more networks such as the Internet, an Intranet, a private WAN or LAN. There is an entire universe of software and protocols that provide the infrastructure to direct digital traffic, administer roles and user rights, and enable clients and servers to communicate with each other. Virtually every serious M&A practitioner utilizes email. There are now several companies that have created secure Internet environments for document distribution and management.
- ▶ **Manage and control processes, systems and transactions.** This includes the entire area of e-commerce (where business is actually transacted online), securities trading, electronic fund transfers, the management of networked systems such as a power grid, automated inventory and order fulfillment systems, and computer aided manufacturing. Other than the online payment system for M&A deal flow and information sites, the M&A community has not engaged in online transaction processing. Current **securities laws and regulations present a major challenge** for a pure e-commerce M&A auction or exchange.

Other than deal-matching websites and limited content, the M&A community has been slow to adapt to the opportunity of the Internet and related technologies. An article in the April 3, 2000 issue of the Industry Standard entitled *One More Crack At Online M&A*, offered the following rather harsh observation: “After several years, few sites are more than information clearinghouses, similar to classified sections for corporate lonely hearts.”

An informal survey of buyers who have participated in the deal matching sites, revealed the perception that:

- ▶ The deal content is highly redundant between the various sites. This is attributable to the limited number of intermediaries that submit deals to the widest audience.
- ▶ The deals are often shop-worn and smaller, and are not quality investment prospects. There is doubt as to whether the quality deals ever find their way to the listing sites.
- ▶ Even the middle market deals tended toward the lower end of the spectrum. The majority of companies listed post less than \$5 Million in annual sales.

While deal content is redundant, the sites **distinguish themselves by the look and feel of their graphic interface and pricing model.** Pricing models include subscription, pay per listing, or pay per view. In some cases, the deal sites are maintained as an electronic brochure for intermediaries seeking to showcase their engagements and attract new clients. **Intermediary deal sites did not typically charge access or subscription fees** since their payoff is increased exposure to buyers for their client companies. The buyers we polled indicated that the cost of their participation in the deal sites was an **investment in deal flow.** One buyer indicated that even if they only close one deal in three years, the aggregate cost of their subscriptions was worth the money.

The first generation of technologies were aimed at helping practitioners be more productive as individuals and to create new channels for marketing (sourcing and searching) deals. The current generation of deal flow web sites are primarily replacements for classified advertising and direct mail. **The first generation has established a foundation upon which the next generation of technology can be erected.**

It seems likely that competitive pressures and the increasing expectations of the M&A community's constituency will be the forces that drive the next round of M&A related technology. Increased personal productivity will remain important, but the scope will expand to **increasing the operational efficiency of the M&A marketplace and to add value to the decision-making process.**

The Potential Power of Technology For the M&A Community

Gerard I. Nierenberg, author and recognized expert on the subject of negotiation, defines power as the ability to meet needs. The ability of technology to meet the needs of the M&A community is going to guide the development of technology and the degree to which it is adopted by the industry.

The next generation of M&A technology is going to:

- ▶ Integrate desktop analytical and decision support systems with the reach and speed of the Internet.
- ▶ Accelerate the velocity of information flow between advisors, buyers and acquisition funding sources.
- ▶ Maintain the confidentiality of sensitive information.
- ▶ Facilitate the process of funding transactions.
- ▶ Stimulate quality, middle-market sellers to enter the marketplace.

Integrating the power of the desktop with the reach and speed of the Internet: At the present time, when a seller provides financial and other information to an intermediary or buyer, the information is usually in printed form. Ideally, this information is analyzed and organized by the intermediary on his desktop. The results provide the intermediary with insight into the company's position and future prospects, and allow him to advise on price, develop a marketing strategy and prepare the necessary presentation materials. Information can be obtained from both online and offline sources as part of this preparation. Although much of the information is in digital form, **most presentations are printed and transmitted by US Mail or overnight delivery services.**

Upon receipt of descriptive memoranda or similar presentation materials, the buyer will usually input the information into his PC where the data will once again be analyzed and prepared for presentation within the buyer's organization. This process repeats itself when the information is prepared for funding sources and again, by the funding sources during the underwriting process.

By integrating desktop applications with the Internet, data and content from online sources can be added to create relevant, information-rich analysis and descriptive memoranda. In addition, with the acceptance of standardized analysis applications by buyers, intermediaries and funding sources, **data can be transmitted from one party to another over the Internet thereby eliminating the need for data entry and enabling the participants to have a common database and model for viewing and framing a deal.**

Accelerating the velocity of information flow: Information is fluid and moves from seller to intermediary and then to the buyer. It doesn't stop there. Information is then transmitted between different parts of the buyer's organization including outside counsel, accountants, risk managers, and other outside advisors. The buyer also passes the information to potential funding sources that may have several people involved in the underwriting process.

By accelerating the velocity of information, the time needed to identify an acquisition candidate, perform the initial evaluations, estimate market value, prepare an offer, perform due diligence, and obtain funding can be significantly compressed. Information moves both within and between organizations.

Maintaining the confidentiality of sensitive information: Protecting confidentiality is a pivotal concern to M&A participants, especially for the closely held, middle-market company where the sellers may have personal privacy issues regarding financial information. In addition to privacy issues, a seller is concerned that any breach of confidential information can interfere with the company's relationship with employees, creditors, customers, prospects, partners and alliance members, suppliers, and other members of the business community.

Unless a buyer is providing its confidential information as part of the negotiating process, its primary need for confidentiality is to keep negotiations secret for competitive reasons and to keep other prospective buyers from opening their own dialogue with a "willing seller."

An intermediary has two primary interests in maintaining confidentiality. First, there's a fundamental duty of confidentiality to the party that they represent whether it be seller or buyer. Secondly, the intermediary wants to protect its ability to perform its job and earn a fee without interference from other intermediaries.

For the M&A community to make greater use of the Internet, the issue of confidentiality will need to be addressed. The existing deal-sourcing sites provide confidentiality through “blind listings” that only offer a very general description of the business. Richer content could be exchanged through the Internet, but that information can be intercepted unless it is handled in a secure fashion.

Facilitate the process of funding transactions: Once an offer to purchase has been agreed upon, the buyer will need to obtain the financing necessary to close the contemplated transaction. Funding the transaction is often undertaken while due diligence is being performed. According to statistics released by Mergerstat in April 2001, 30% of sellers were paid in stock, 45% received cash, and 23% were paid a combination of both. The buyer can obtain cash from its own treasury or from outside sources, usually from senior or mezzanine lender.

Whether funds are obtained from treasury or outside sources, a funding request or proposal will need to be prepared to detail the company, its operations, financial position, future prospects, the proposed price, amount of funding required, use of proceeds, repayment capacity, returns on investment and a discussions of the risks and threats.

By establishing cross-industry standards for transmitting financial data electronically, the process of preparing funding documents as well as the underwriting and negotiating of funding can be accelerated by eliminating data entry and providing a common reference point. Financial information can be imported into analytical and decision support applications for deeper insight into the financial position, future of the company and the risk associated with the investment.

Stimulate quality, middle-market sellers to enter the marketplace: At any given time, there are a number of companies that are interested in exploring possibilities of being acquired, merged or entering into strategic alliances or partnerships with qualified parties. Some of these companies will respond to the solicitations of intermediaries. Others will prefer to obtain a referral from a respected source. However, there are some sellers who are interested in exploring the possibilities of a sale or other strategic relationship, but are reluctant to “put the company on the auction block” by engaging an intermediary.

Technology can be adapted to provide a safe, confidential method for prospective sellers to “test the waters” without retaining an intermediary or cold calling prospective buyers. At the same time, this testing process should be structured in a way that does not generate false leads that result in buyers wasting precious time.

The MoneySoft Financial Network

The MoneySoft Financial Network (MSfn™) is envisioned to be a fully integrated community of corporate finance professionals using the power of knowledge-based desktop software and the global reach and speed of the Internet to efficiently acquire and finance middle-market corporations. Membership is available to acquirers, intermediaries, and funding sources that utilize MoneySoft's desktop applications.

DealSync™ : DealSync is a web-enabled component of MoneySoft's application software that allows members of MSfn to share and utilize financial data efficiently and confidentially. This helps members streamline the process of initiating, negotiating and financing successful acquisitions. Here's how the process works:

- ① An intermediary or advisor uses a DealSync enabled application from MoneySoft to evaluate the selling company and to help prepare a descriptive memorandum or selling book.
- ② The intermediary creates a DealSync package that includes the financial statements in digital form and can attach additional files such as a descriptive memorandum or selling book.
- ③ Upon command, DealSync encrypts the contents of the DealSync package, opens the user's email program and includes the package as an attachment to the email.
- ④ The email is then forwarded to the buyer along with a password created by the intermediary.
- ⑤ Upon receipt of the DealSync package by the buyer, the package is de-encrypted and written to the appropriate folder.
- ⑥ Importing the DealSync data into the MoneySoft application is as simple as opening the program and clicking on the file. If the buyer is using DealSense, the information is automatically imported and the buyer is ready to go to work on the file.
- ⑦ Any other files that were included with the DealSync package, such as a Word document can be opened from Windows Explorer.
- ⑧ If the buyer desires to forward this information to a funding source, he or she merely repeats steps 1 to 4.
- ⑨ MoneySoft will provide a private website that MSfn participants can use to find intermediaries, buyers and funding sources in the network.

The MSfn is not intended to become a replacement intermediary. It is not intended as a replacement for human interaction. Rather, it is intended to facilitate the deal-making process by making it easier for buyers, advisors, and funding sources to **increase deal flow and to confidentially exchange information at internet speed and then hasten and enrich the decision making process to decrease the response time**. People negotiate deals with people. MoneySoft's goal is to help them do it with less friction and greater insight.

About MoneySoft, Inc.: Established in 1991, MoneySoft publishes software and information products that help managers and decision-makers create value through mergers, acquisitions, corporate finance, and strategic planning.

MoneySoft's mission is to provide the software applications, communication network, and information needed in order for the acquisition marketplace to operate efficiently. We believe that the M&A marketplace works efficiently when the parties to a transaction have timely access to the information necessary negotiate price and terms that reasonably address each party's assessment of the transaction's economic benefits and risks—immediately and in the future.