Where Due Diligence Scores

Verticalized, Scorecard-Powered M&A Due Diligence Software for Optimized Post-Transaction Results

DiliVer Business Opportunity

The Problem: Lack of Post-M&A Transaction Success

A merger and acquisition (M&A) transaction between a buyer and a seller may be driven by a variety of business reasons, including:

- Increasing Shareholder Value/Return-On-Investment (ROI)
- Expanding Market Share Through Sector/Industry Leadership
- Extending Geographic Coverage Regionally/Internationally
- Improving Core Competencies with Established Solution Offerings
- Creating New Specialization Areas for Differentiation

Prior to the 2008 financial crisis in the United States, the global M&A business climate was dynamic. In 2007, the peak year for M&A, trade associations estimate that over 10,000 M&A transactions were executed in the US with values exceeding $5M each. Another 10,000+ similar-size transactions were completed internationally.

While the number and deal size of M&A transactions were rapidly increasing worldwide (and presumably this trend will re-emerge as companies position themselves for future growth in 2013 and beyond), the derived business value of the combined entities, when measured after the integration of the buyers and sellers, often did not meet expectations:

> *"…82% of all M&A transactions fail to drive value…"*
> *PricewaterhouseCoopers*
>
> *"…50% of M&A transactions erode shareholder value…"*
> *McKinsey & Company*
>
> *"…Revenue growth is found to decline post-merger for both the target and the acquiring firm in a majority of cases…"*
> Federal Trade Commission

No matter how noble the dealmaking thesis on paper appeared to be for the buyer and seller who were hoping to form a stellar combined entity, this lack of post-M&A transaction success could be attributed to a combination of macro-level and micro-level causes. At the macro level, contributing causes may have included the inability of the deal team to manage the transaction end-to-end due to its sheer size and complexity, as well as the inconsistency of advice presented to the deal team by a long list of semi-independent representatives, such as law firms, accounting firms, tax firms, M&A advisors, broker-dealers, banks, and other specialists. At the micro level, day-to-day causes for bad outcomes may have included a mixture of classic, but real, inhibitors—not enough time, not the right expertise, not a sufficient transition period, and, most importantly, not the right critical data in the hands of the decision-making executives when they most needed it.

<u>Some Help: Existing M&A Software Tools – General-Purpose and Process-Driven</u>

Automated M&A dealmaking tools have helped mitigate some of these macro and micro pre- and post-transaction issues, but the current M&A application software market remains unsettled and incomplete.

A plethora of commercial-off-the-shelf (COTS) software packages are used by buyers, sellers, combined entities, and intermediaries anywhere or everywhere along an M&A transaction life cycle that help track common deal team deliverables, such as business case justifications, due diligence compliance materials, valuation term sheets, acquisition proposals, letters of understanding, definitive agreements, and settlement papers. These packages include office suites, workflow, document management, project management, contact management, virtual data rooms (VDRs), and a relatively new and broad category called "enterprise M&A software," which offers comprehensive M&A functionality that attempts to consolidate many of the key functions of the other categories.

All of these categories of software packages are ***"process-driven"*** M&A tools that are largely content independent. This means that such tools (collectively) provide deal teams with the ability to monitor and track the ongoing status of defined M&A processes and centrally store the input/output data of these processes (e.g., documents for the buyer about the seller) without knowing or caring qualitatively what the data actually means. In short, this type of software, which is quite useful in collecting, archiving, and distributing transaction information, provides a "breadth" of general-purpose (i.e., horizontal market) solutions to the deal team.

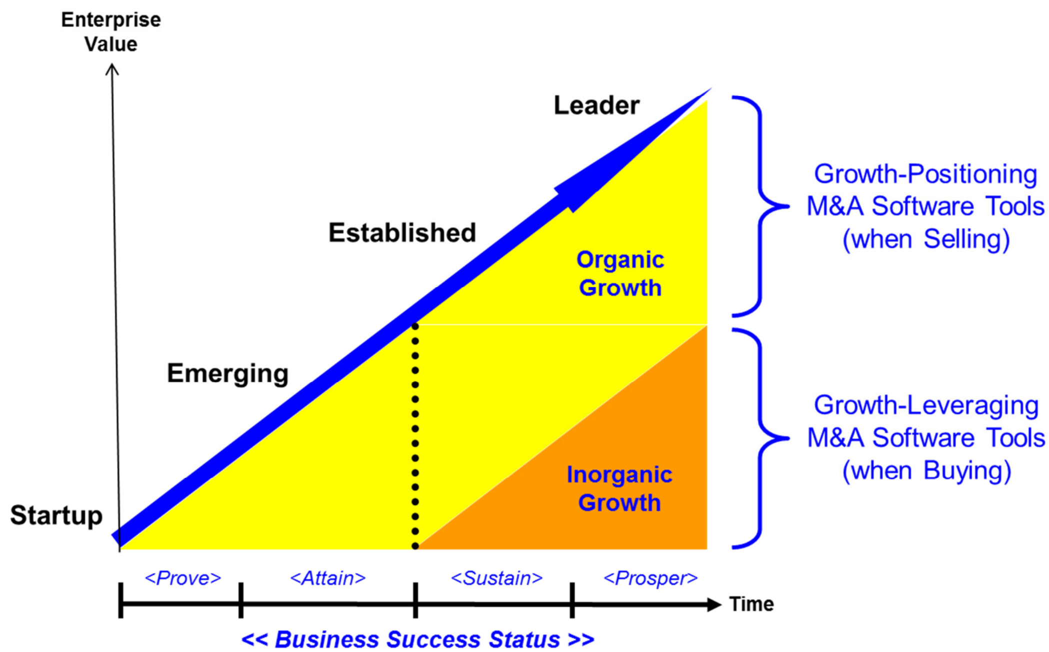
The business opportunity for this type of M&A software, even in its current form, is significant. According to benchmark statistics, more than $4 Trillion worth of M&A deals took place globally in 2007, the benchmark year, with $120 Billion (3%) reserved for M&A dealmaking. If only 2% of that total was allocated for M&A software specifically (per the trade associations), it would reflect a <u>$2.4 Billion yearly market</u>. That makes an impressive target for 2013 and beyond as the economy rebounds.

More Help Coming: New M&A Software Tools – Industry-Specific and Data-Driven

What these statistics do not address and what the M&A application software market is missing today is comprehensive ***"data-driven"*** tools that are content dependent. Such tools would provide deal teams with the ability to generate and analyze the input/output documents themselves to better reflect, for example, the true health of a seller and its preparedness to be integrated into a buyer. This type of software would offer the deal team the crucial "depth" of industry-specific (i.e., vertical market) solutions that can increase visibility into and understanding of the buyer's and seller's respective enterprises to help ensure long-term success after the M&A transaction.

Another way of viewing this new type of buyer/seller M&A software tools is in terms of *enterprise growth stages*. "Growth" may take many forms, such as an increase in revenue, profit, market share, employee headcount, or geographic locations, but, in general, it is a positive indicator that trends with an enterprise as it increases in value. The path it most likely takes progresses from "startup" (where the enterprise will demonstrate a prototype solution to prove a concept) to "emerging" (where the enterprise will begin to attain business success with production solutions for select customers) to "established" (where the enterprise will reach a certain level of productivity and efficiency such that it will sustain its success over time with many satisfied customers) to "leader" (where the enterprise will reach a level of market differentiation and business excellence such that it will prosper compared to its competitors).

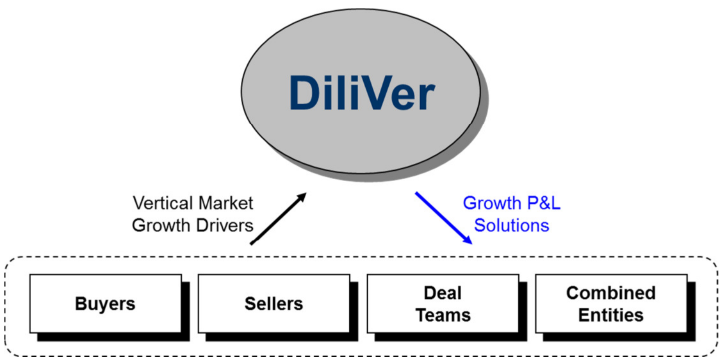
We see by the graphic below that an enterprise should continuously be positioning (or repositioning) itself as it grows organically by standard business operations, and it could potentially use sell-side growth-positioning software tools anywhere along the growth curve. However, an enterprise must normally be well established before it has enough resources and influence to begin taking advantage of its growth inorganically by acquiring other enterprises. At this nexus, the enterprise would also be ready to use buy-side growth-leveraging software tools to assist it.



DiliVer Introduction

Mission

As a first step in filling this tool gap, **DiliVer LLC** was founded with the mission to develop innovative **due diligence software** to help buyers, sellers, and deal teams in select vertical markets optimize the combined entities they are forming through M&A transactions. Our industry-specific, data-driven software products are complemented by professional consulting services and analytics data that collectively allow DiliVer to provide M&A growth positioning and leveraging (i.e., the new "P&L") solutions to our customers:



The growth P&L solutions are fueled by *vertical market growth drivers* and are enabled by *electronic scorecards*. As background, a growth driver is a positive internal or external force (e.g., education, collaboration, and innovation) that tends to stimulate growth (i.e., advancement along the enterprise growth curve). Such drivers are expressed as business success criteria along with their associated metrics. A scorecard is a type of graded, multi-tier report card for algorithmically measuring the resulting success (or lack thereof) of the enterprise against that criteria. It is a popular performance management tool often associated with various business excellence frameworks (e.g., Balanced Scorecard, Lean, Six Sigma, Total Quality Management). DiliVer has extended this scorecard concept to M&A transactions to create a new paradigm for conducting due diligence.

As a growth P&L specialist, our solutions offer the following benefits:

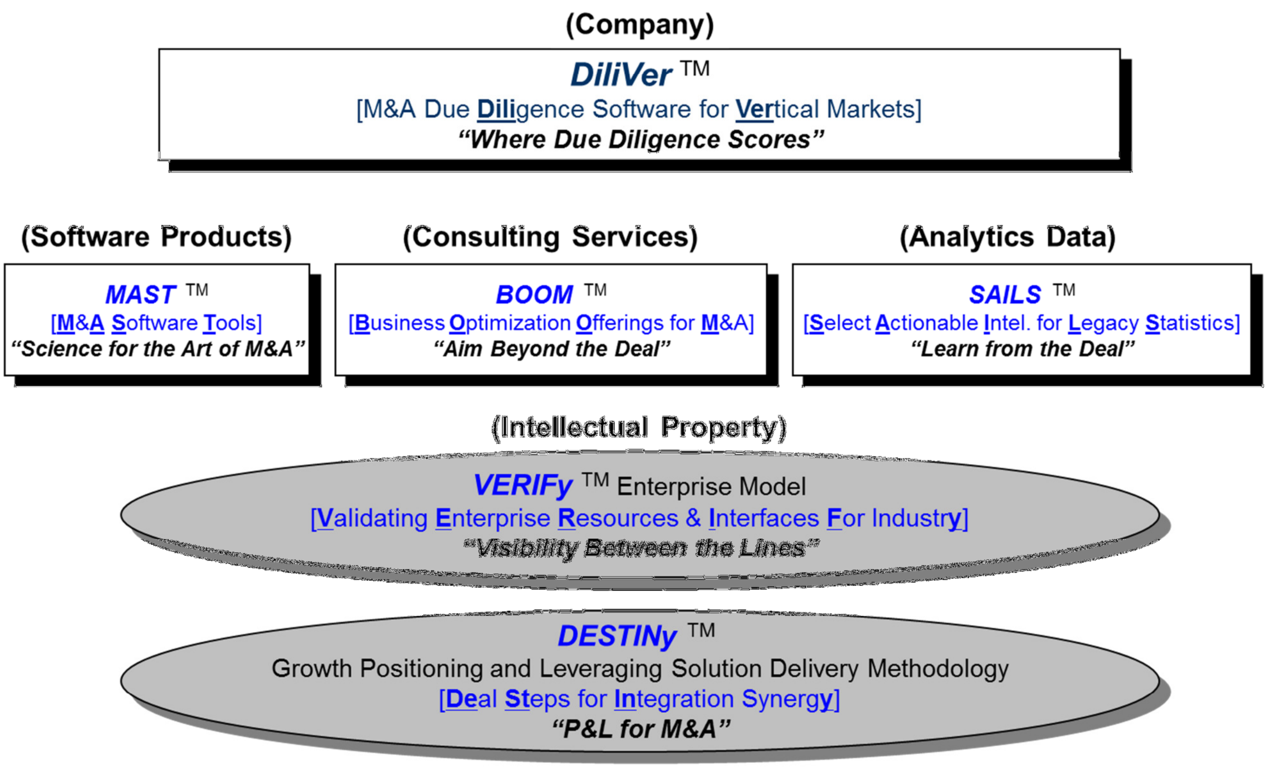
- *"Better" Results* – using new verticalized, scorecard-powered due diligence applications, analyze growth driver performance that will influence valuation and provide a more insightful transition and integration of the buyer and seller into the combined entity

- *"Faster" Processes* – using a unique buyer and seller due diligence scorecard unification capability, quickly bridge the divide between the "bid" and "ask" sale prices by leveling each side's valuation expectations and enabling good deals to close quicker

- *"Cheaper" Deals* – using preparatory and self-service methods, establish early on in the transaction life cycle if both sides are "on the same planet" to warrant doing a deal together before spending significant resources on due diligence and valuation, and then apply those resources judiciously by focusing on the relevant business criteria that will be measured

Branding

DiliVer's branding of the company, its solutions (products, services, and data), and its intellectual property (all patent pending) is summarized in terms of name, acronym, and tag line:



DiliVer Solutions

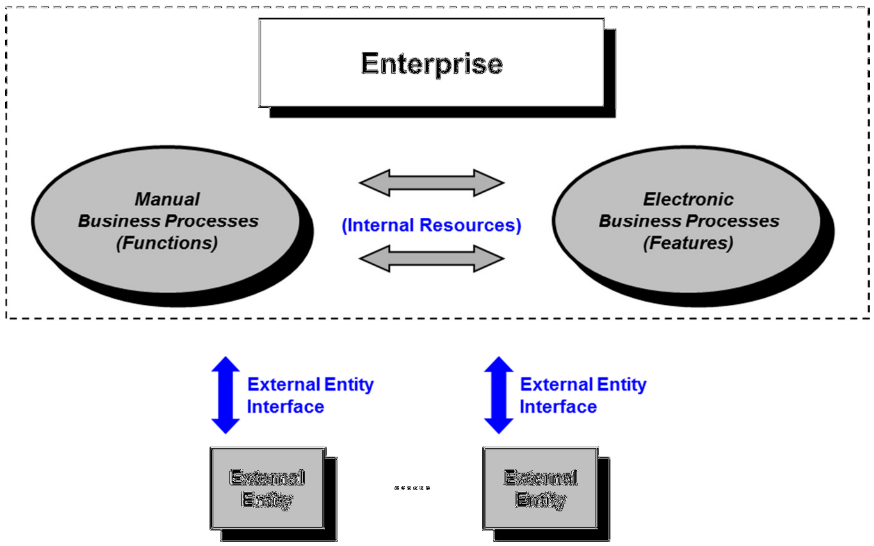
Enterprise Model and Solution Delivery Methodology

DiliVer's proprietary due diligence software products, consulting services, and the associated analytics data generated are all derived from our intellectual property—namely, the ***VERIFy***™ *enterprise model* and the ***DESTINy***™ *solution delivery methodology*.

NOTE: Both of these competitive differentiators may be demonstrated in detail under a non-disclosure agreement (NDA) to select audiences.

The *VERIFy* model is a representation of an enterprise based on a value allocation classification method that provides visibility into an enterprise's key internal resources and interfaces to external entities (summarized in concept below) so that its performance can be measured and optimized. Think of this model as the window into the data.

VERIFy
Enterprise Model



The overarching model (with its underlying submodels) uniquely promotes such *"visibility between the lines"* because:

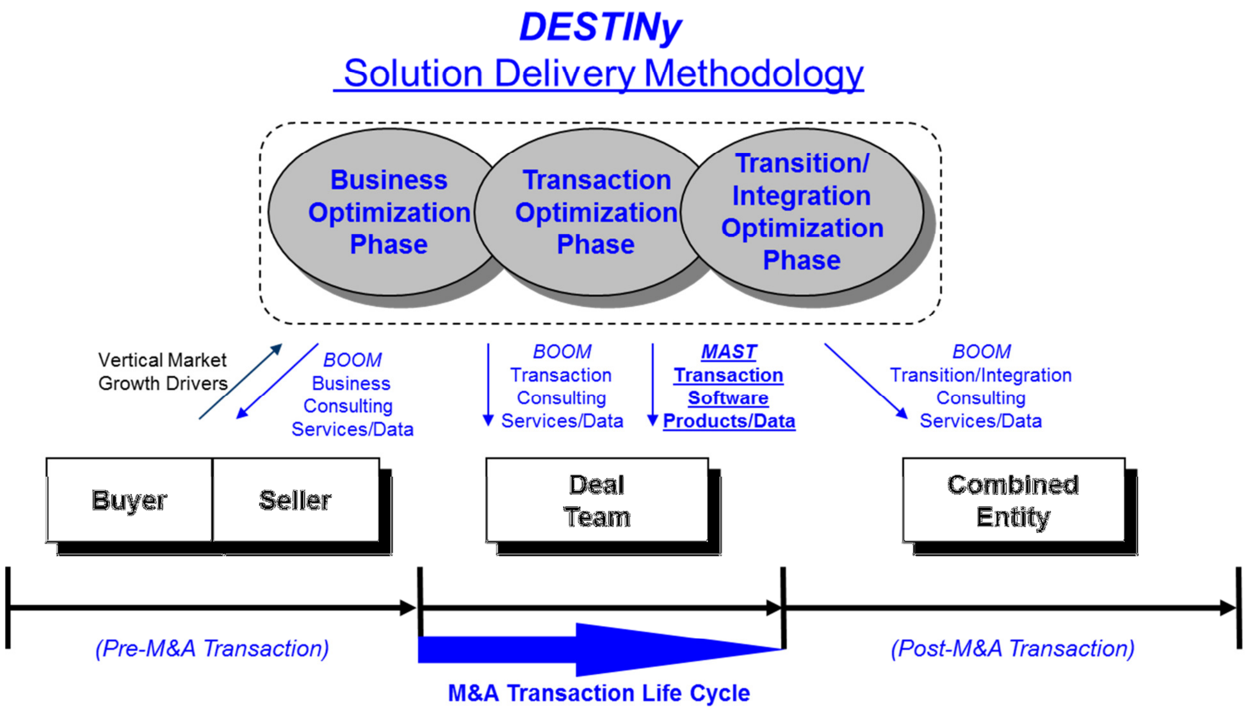
- Its core due diligence metrics are based on internal resources (e.g., human, automation, information), as opposed to organizational units or other groupings, so they map directly with assets and liabilities to ease the valuation process.
- It includes additional metrics for external entity interfaces (e.g., customers, prospects, partners), often overlooked or trivialized during valuation because they are difficult to quantify.
- It complements the formal valuation process typically performed by certified valuators by adding levels of granularity to clarify the commonly-used but overly broad classification schemes of "financial," "legal," and "operational" due diligence that provide input to it.

As will be shown under NDA, our entire software-based scorecard structure is derived from the enterprise model. More specifically, the model's resources and interfaces are used to create two types of scorecards to be used for due diligence ratings that help measure performance and justify business valuations:

(1) *Buyer (External) Scorecard*—uses resources/interfaces as appraisal categories

(2) *Seller (Internal) Scorecard*—uses resources/interfaces as strategic goals

Used together with the enterprise model, the *DESTINy* methodology is a process-oriented framework based on three optimization phases that promote a viable growth positioning and leveraging path before, during, and after the M&A transaction (i.e., "P&L for M&A"), as follows:



The methodology phases are summarized as follows:

- *Business Optimization Phase* (Pre-Transaction) – prepares the buyer and seller for a potential deal through an integrated planning, executing, reporting, and updating approach
- *Transaction Optimization Phase* (During the Transaction) – allows the deal team to perform the required justification, due diligence, and valuation processes needed to close the deal between the buyer and seller
- *Transition/Integration Optimization Phase* (Post-Transaction) – conducts the essential mass communications, close out, cutover & migration, and launch activities that should gradually lead the combined entity into becoming a sustainable and prosperous enterprise

We will also show under NDA how our software automates select due diligence-related processes conducted in the Transaction Optimization Phase, while our specialized consulting services are offered at each Phase for completion of the methodology's remaining business processes.

Software Products

History has shown that dealmaking in the M&A community tends to be more artistic than scientific, primarily due to the absence of accepted standards and easily-tailored tools. DiliVer contends that it is both possible and desirable to automate M&A transaction steps (no matter how "artsy") using flexible and intuitive rules engine-based software. While adhering to our *"science for the art of M&A"* mantra, DiliVer's ***MAST***™ software product line consists of packaged due diligence applications that automate critical dealmaking processes and generate key outputs associated with preliminary and confirmatory due diligence within the *DESTINy* Transaction Phase.

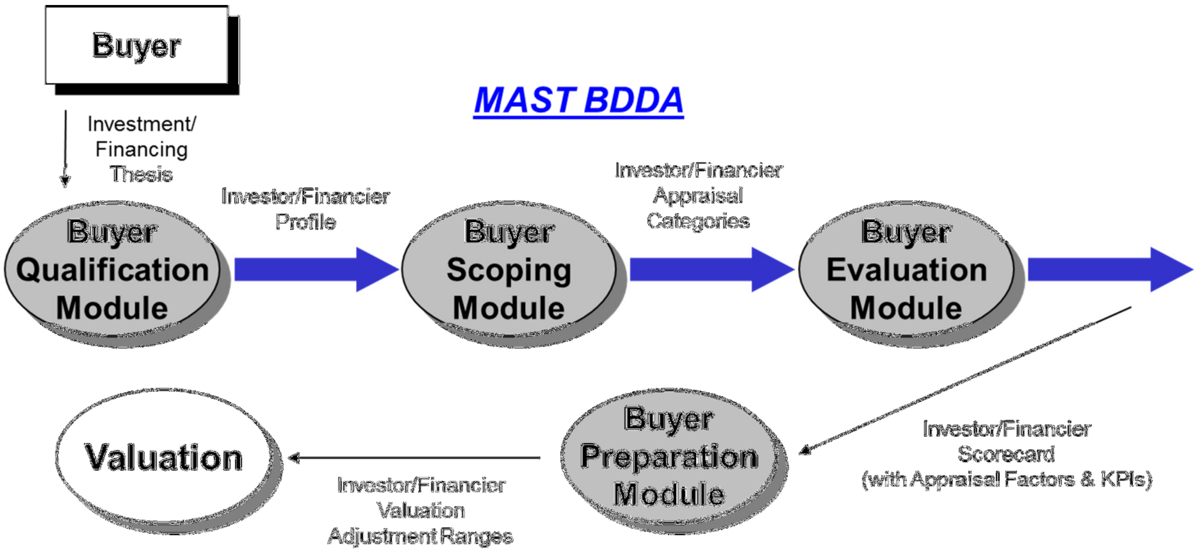
At a high level, the due diligence applications automate a unique enterprise-wide assessment of the seller's overall business health from two perspectives. The buyer application, *MAST Buy-Side Due Diligence Application ("BDDA"),* performs an external, independent assessment of the target seller on behalf of a potential investor/financier. The seller application, *MAST Sell-Side Due Diligence Application ("SDDA"),* performs an internal, self-assessment for an owner/operator positioning his/her company to be acquired. And through the optional *MAST Unification Due Diligence Application ("UDDA"), t*he buyer and seller may consolidate each other's due diligence scorecards to identify value propositions, synergies, and quality/risk conditions that may influence deal and post-deal success. This due diligence information provides input to the Transaction Phase's valuation process while the M&A transaction life cycle proceeds, as well as to the Transition/Integration Phase's migration & cutover process after it is over.

Each implementation of a *MAST* due diligence application reflects insights about the seller's core business and is represented by a *vertical market software template* (e.g., for information technology, healthcare, or energy) most applicable to that seller. The content of this template is formulated using the high-impact growth drivers as well as other related success criteria, and is formulated by DiliVer's domain experts in the field (e.g., mobile application specialists for the IT template; medical insurance specialists for the healthcare template; or power grid specialists for the energy template). The template presents the deal team participants involved in due diligence with a starting point of pre-populated checklist questions to ask during those processes. The intent is to ask pointed questions that are structured in a way as to be easily scored. These reference questions may be used as-is, modified, or deleted for a particular deal team, and new ones may be added directly or imported via application program interfaces to completely customize the transaction according to the buyer's or seller's own best practices or preferences.

Buy-Side Software:

MAST BDDA is targeted at a buyer wishing to make a change in status through M&A, who has the means to do so, and who ultimately wants to find and attract the right seller among a range of viable targets in the global marketplace. Then, the buyer (like most buyers) works to pay the lowest possible price for that seller. DiliVer's prospective customers for *MAST BDDA* are companies that wish to deeply analyze a candidate seller or a portfolio of sellers in an automated, scored fashion. Such prospects include: *"strategic buyers"* in the same or a related industry that wish to take operational control to begin realizing returns in the short term; *"financial buyers"* making equity and/or debt investments that typically realize their ROI upon an exit transaction in the long term; and *M&A advisors* representing these strategic or financial buyers as intermediaries.

MAST BDDA is built upon four basic modules:



- ***Buyer Qualification Module*** – After defining its M&A transaction expectations for acquiring a seller (i.e., its investment/financing thesis), the buyer performs "preliminary due diligence" to qualify that the seller has the appropriate business attributes relative to its mandatory deal requirements (and also, sometimes, to obtain input for an initial valuation). More specifically, the module automates a ***suitability assessment*** to generate an ***investor/financier profile*** that helps the buyer quickly determine if it makes sense to continue with due diligence.

- ***Buyer Scoping Module*** – Once the green light is given to continue with the due diligence effort, the buyer then identifies the potential business areas of known relevance or potential interest for performing subsequent (i.e., deeper) due diligence on the seller. This module automates a ***screening assessment*** to generate the critical ***investor/financier appraisal categories*** to be measured.

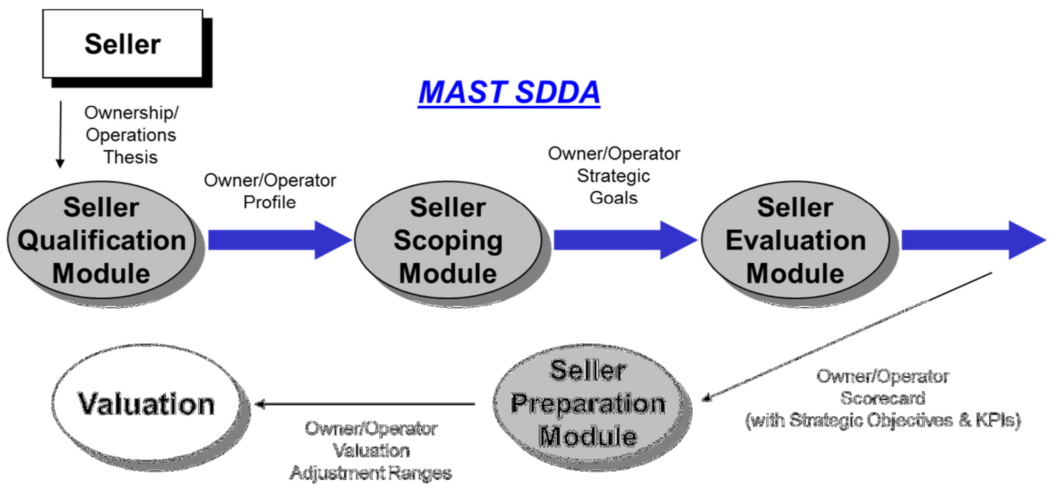
- ***Buyer Evaluation Module*** – Often called "confirmative due diligence," the buyer evaluates the seller's current level of performance at various levels of granularity to identify strengths and weaknesses, and to determine how they may contribute to its future success. To accomplish this, the module automates a ***productivity and efficiency assessment*** to generate an ***investor/financier scorecard*** based on appraisal factors and key performance indicators (KPIs) that assist the buyer in determining how well the seller's internal resources and external entity interfaces perform relative to: its own corporate strategy and tactics; all of the buyer's desirable/optional deal requirements; and the industry's best practices. This level of deep due diligence is ideally performed before the final valuation.

- ***Buyer Preparation Module*** – The buyer prepares for the formal valuation process by calculating in financial terms how well the seller performed on its investor/financier scorecard during confirmatory due diligence. This module automates a ***quality and risk management assessment*** to generate potential ***investor/financier valuation adjustment ranges*** that allow the buyer, with explicit justifications, to either increase (for high quality) or decrease (for high risk) the baseline valuation amount as will be determined by the buyer's certified financial professionals.

Sell-Side Software:

MAST SDDA is targeted at a seller wishing to make a change in status through M&A, who has built an impressive track record based on performance excellence, and who ultimately wants to find and attract the right buyer among a range of potential suitors in the marketplace. Of course, most sellers work to sell at the highest possible price. This could perhaps lead directly to a successful exit for the owners/operators, but could also lead to a successful integration into the buyer that over time provides sustained business value for the combined entity. DiliVer's prospective customers for *MAST SDDA* include: startups that wish to position themselves on Day 1 to prepare for M&A as part of their exit strategy; proven companies with an excellent track record that are ready for M&A and wish to present themselves in the most attractive light to buyers, reducing the transaction cost/time to those buyers; and companies not yet ready for M&A due to various known problem areas that wish to begin a defined period of disciplined remediation before repositioning.

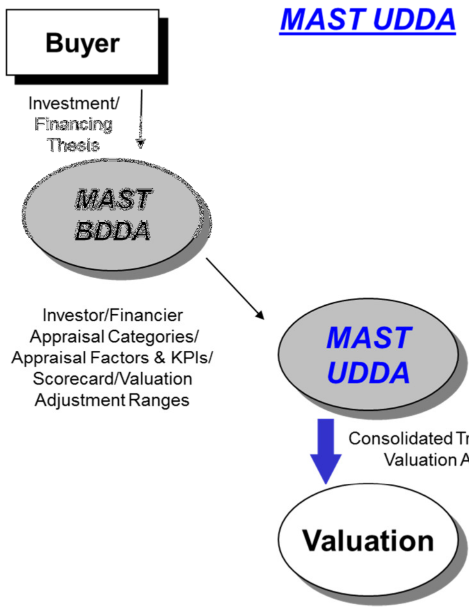
Similar to *MAST BDDA*, *SDDA* has the same four basic modules, but these modules have different inputs and outputs that represent the seller's owner/operator perspective based on strategic goals and objectives (instead of appraisal categories and factors):



Unification Software:

For both the *MAST BDDA* and *SDDA* editions, DiliVer offers an optional *scorecard unification* capability through *MAST UDDA* to a deal team in which the buyer and seller representatives proactively work together for the entire duration of the transaction to help ensure long-term success by optimizing the value of the combined entity. DiliVer's unification approach converges the buyer's confirmatory due diligence scorecard with the seller's scorecard into a final M&A transaction scorecard. This consolidated enterprise scorecard may take many forms. At one extreme, both the buyer and the seller agree (perhaps in advance) to precisely the same evaluation criteria and weighting priorities, so only the subjective scoring needs to be resolved. At the other extreme, each deal team member has a very different view of the seller's perceived value, so a significant amount of influencing and compromising must take place in order to get a deal done. To facilitate this iterative approach, *MAST UDDA* identifies scorecard differences and offers consolidation suggestions to present a unified view of determinants that may influence success and drive valuation.

MAST UDDA works as follows:



With the consolidated transaction scorecard, valuation adjustment ranges, and corresponding due diligence justifications in hand, the buyer and seller can confidently begin the PMI initiatives by following DiliVer's transition/integration recommendations, and begin optimizing the business operations of the combined entity in accordance with the new performance improvement metrics established during the end-to-end process.

Consulting Services

DiliVer's ***BOOM***™ consulting services are used during all three of the *DESTINy* solution delivery phases to enhance the delivery of a quality growth positioning and leveraging solution that ultimately leads to a successful combined entity. To *"aim beyond the deal"* (i.e., achieve post-M&A transaction success), DiliVer's consulting team offers its customers the following *BOOM* services with standard *MAST*-related deliverables:

- Business Optimization Phase – *Business Excellence Services* (Deliverables: Vertical Market Growth Drivers; Scorecard Template)
- Transaction Optimization Phase – *Due Diligence & Valuation Services* (Deliverables: Graded Scorecard; Valuation Adjustment Ranges)
- Transition/Integration Optimization Phase – *Cutover & Migration Services* (Deliverables: PMI Project Management Template; Combined Entity Recommendations)

To support the *MAST* applications, DiliVer also provides *auxiliary services* to the deal team during the transaction and on an ongoing basis to assure a personalized customer experience with our software. These include setup (installation, configuration, and testing), conversion (data migrations for updates/upgrades), training (end user/system administrator education), and customer care (24x7x365 hotline).

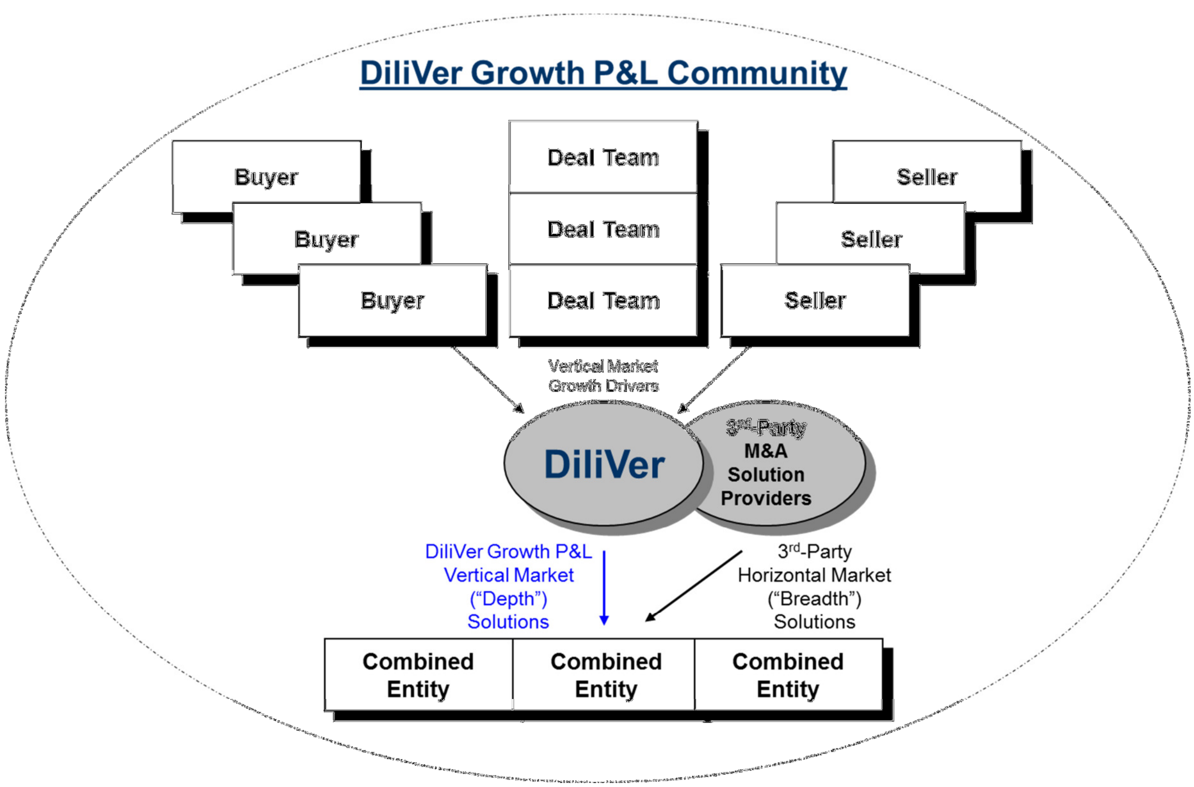
Analytics Data

DiliVer's ***SAILS***™ analytics data is output generated by the *MAST* software that can be used as actionable business intelligence within the M&A dealmaking community. To *"learn from the deal"* (i.e., to continuously improve the community's overall performance based on mining a repository of relevant empirical information), the deal team participants may obtain access to cumulative scorecard data for:

- *Enterprise Outcome Analytics* – business excellence statistics that will help executives evaluate the outcomes of the combined entities after they are formed
- *Deal Flow Analytics* – "white washed" market statistics that will help M&A analytics firms track the size and volume of initiated and completed transactions

DiliVer in the Future

While still specializing in growth positioning and leveraging best practices, the long-term vision of DiliVer is to integrate its new verticalized due diligence software (and any new niche software it develops in the future) with existing general-purpose, process-driven M&A software. Such a fully-integrated product line will then lead to comprehensive "breadth and depth" solutions that may be delivered and cross-promoted within a growth-focused, collaborative M&A community of buyers, sellers, and their intermediaries, as follows:



Over time, DiliVer envisions that the community will feed off of two interrelated scenarios for these M&A dealmaking tools that will not only monitor and track, but will help generate and analyze, the required transaction deliverables for the deal teams. First, buyers in the community will suggest to candidate sellers that they use the *MAST* sell-side application (*SDDA*) if they eventually want to consider an M&A transaction. In fact, if a deal is pending, they may even purchase the software for the sellers. Second, sellers will know that there is a waiting group of buyers that will use, when the time is right, the *MAST* buy-side application (*BDDA*) to conduct their assessments. These sellers will want to be prepared for the eventual M&A transaction by starting to use the software as soon as feasible, while tangentially realizing other business excellence benefits. Once a secure collaborative community takes hold for the DiliVer growth positioning and leveraging solutions, then the community will most likely embrace the *MAST* scorecard unification application (*UDDA*) to further optimize the processes of deal team members working closely together throughout the M&A transaction life cycle.