

**Deloitte.**

## Vendor Due Diligence Advantages



# Vendor Initiated Due Diligence

## What is vendor initiated due diligence?

- Normally goes hand in hand with managed sale process and controlled dataroom access
- Independently prepared report used as part of the sales process
- Terms of reference set by the vendor, based on consideration of likely bidders diligence needs
- Conducted from the purchaser's perspective to facilitate sale - not a soft option
- Report is cleared with vendor/management for factual accuracy but editorial rights remain ours
- All prospective purchasers receive identical independent information
- Report is signed over to the ultimate purchaser with a full duty of care
- Subsequent work may be carried out for preferred purchaser (only with the prior approval of the vendor)

## Advantages of VDD

- Recognised as being a pre-requisite for all major disposals where an auction will maximise value
- Accepted by buyers as an efficient part of a well managed process
- Vendor retains control of the process
- Advance notice of potential issues - minimises price negotiation issues
- Indicative bids are of better quality
- The vendor only goes through the due diligence process once
- Competitive purchase process with exclusivity awarded at a late stage
- Timing of due diligence team access under control of vendor

# Vendor due diligence: your concerns

## How would we address your concerns?

Possible concerns	Our solution
<ul style="list-style-type: none"><li>The purchasers will still do their own due diligence</li></ul>	<ul style="list-style-type: none"><li>With an attractive asset and high quality vendor due diligence, you control the auction process and can dictate that this does not happen</li></ul>
<ul style="list-style-type: none"><li>You will not recover the fees you have spent</li></ul>	<ul style="list-style-type: none"><li>We know from past experience that purchasers do fully value the fees they save - offer prices are higher as a result</li><li>Or the ultimate purchaser can pick up the cost directly (gives the same financial outcome for you)</li></ul>
<ul style="list-style-type: none"><li>You might disclose issues unnecessarily</li></ul>	<ul style="list-style-type: none"><li>We believe that a managed disclosure process (rather than one of late surprises) is more likely to maintain offer prices</li></ul>
<ul style="list-style-type: none"><li>The process will be too demanding on management's time</li></ul>	<ul style="list-style-type: none"><li>Our analysis suggests that, on average, every extra day of vendor planning time saves a week of purchaser execution time</li></ul>
<ul style="list-style-type: none"><li>The vendor due diligence report might be too negative</li></ul>	<ul style="list-style-type: none"><li>Before we write our report, you will be aware of any issues we have and have an opportunity to address them. This would not be possible if the purchaser was conducting their own due diligence</li></ul>



# Vendor due diligence: your concerns

## Conflicts of interest

Your concerns	Our response
<ul style="list-style-type: none"><li>The purchasers will be concerned about our independence</li></ul>	<ul style="list-style-type: none"><li>Non contingent fee arrangement for VDD (Institute Requirement)</li><li>TS engagement letter is novated to the ultimate purchaser</li><li>This provides a full duty of care on the VDD, as if the purchaser had commissioned the report themselves</li><li>Therefore the purchaser is our ultimate client</li></ul>
<ul style="list-style-type: none"><li>The purchasers will try to bring in another firm to duplicate our work</li></ul>	<ul style="list-style-type: none"><li>We are confident that the quality and transparency of our report will make this unnecessary</li><li>Many of the likely buyers already rely on Deloitte reports as a matter of course</li><li>You can simply prohibit purchasers from doing this, if they wish to be selected as a preferred bidder</li><li>Only legitimate additional areas of enquiry that could not have been reasonably anticipated are permitted</li></ul>



# Vendor due diligence: the benefit to you

## When is vendor due diligence appropriate?

- There are enough potential purchasers to generate an auction process
- The nature of the transaction means due diligence will be performed
- The sale process would benefit from the credibility of an independent opinion
- The timetable is tight
- Confidentiality is important
- Disruption to the business is to be avoided
- The transaction is complex
- The business operates through multiple operating units and geographies

## Your objectives

- Maximise the value of the business or division being sold
- Effect the transaction quickly and efficiently
- Retain control of the sales process
- Avoid unnecessary risks

## How we can add value

- We focus initially on pre-sale risks and opportunities in order to provide timely solutions and avoid surprises
- We produce balanced and credible reports which address the requirements of both trade and financial buyers and reduce the need for protracted due diligence and negotiation
- We work closely with you to protect confidentiality and minimise disruption to your business
- We continue to work with you after reporting, providing input to contract negotiations and helping you anticipate issues

The benefit to you -  
maximise value  
of investment

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## Comparison of traditional due diligence process and vendor controlled auction

### Traditional due diligence process



### Vendor controlled auction



#### First round offers are obtained

We can tailor our scope if needed, such that we are confident it will meet the needs of the identified prospective purchasers

#### Vendor due diligence released

We can present our findings to potential purchasers and deal with questions as appropriate

#### Second round offers obtained

We can provide feedback on the appropriateness of outstanding issues or further information requests included in those offers

#### Confirmatory due diligence commences

We can assist in providing documents and the data needed to close off the confirmatory due diligence process  
If the prospective purchaser has legitimate additional questions, we could assist in satisfying those concerns

#### One/two bidders proceed to contract negotiations

We can help prepare the financial information needed to support the closing mechanism such as average levels of working capital, inter group debt and accounting definitions and assist you in these contract negotiations

### Further information

Please contact Deloitte FAS if you need further information:



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