There is no substitute for competence

IT Infrastructure

Software Technology

Telecommunications

IT Due Diligence Services
for mergers and acquisitions, joint ventures and private equity investments.
Contents

- Initial Technical Due Diligence Experiences and Observations
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- When you might need our Technical Due Diligence Services
- What makes us Unique
First exposed to Due Diligence in 1998, 1999 and 2000 on the Sellers side.

After the acquisition of our 1st company, we received frequent requests from business acquaintances to execute Technical Due Diligence on their behalf as Buyers.
Early Observation - DD “Blind Spot”

- True value and risks are not recognized.
- No longer a matter of choice - simply a chore - it’s an obligation due to the sheer size, complexity and criticality of IT.
- Technical DD is crucial to the long-term success of any acquisition.
We need to know what kind of systems the target company actually has,” says CFO Steve Kotler; “and how much it will cost to either separate or integrate those systems.”

These days, that’s crucial information.

As IT systems are increasingly central to business organizations, IT due Diligence is now just as important as traditional examination of balance sheets and market prospects.

CFO Magazine - an Economist Group Business
“Aquiring Minds Want to Know” - Dec. 2007

In a study, Accenture found that 70 percent of M&A transactions that included thorough IT Due Diligence were deemed success, compared with a success rate of 18 percent for those that did not follow such a process.

Ref: accenture - Outlook - June 2006, No. 1
We have acquired considerable knowledge in software and IT related Due Diligence over the years.

The lack of existing TDD methodology motivated us to groom and maintain our experiences in the form of our own TDD Best Practice Guidelines.

Using this knowledge we offer two distinct services:

- **Software Technology Due Diligence**
  for companies with a focus on Software development.

- **IT Due Diligence**
  for any organization using IT to conduct its business.
The longer term value of a software company lies in its software assets, the value proposition of its products and the people that created them.

These “crown jewels” deserve diligence if one is to recognize opportunities and true value, but also determine liabilities and mitigate risk from the outset.

If this sounds too abstract, let me provide some examples on the next slide.
Manage Software Technology Risks

- Paradigm shifts can render acquisition worthless, or even a huge maintenance liability.
- IP with Skill/Knowhow deficit.
- Unwieldy poorly maintained or even missing code that requires considerable investment.
- Misuse (usually unintended) of Open Source.
- Low levels of productization i.e. projects frequently presented as products.
- Reliance on 3rd party licenses that were not transparent from the outset.
- Poorly documented, or lack of development and test processes.
- A huge technology under investment at all levels that has to be made up for.
- Inappropriate use of 3rd party IPR that may not be apparent to management.
Software TDD Best Practice Guidelines
Software TDD Best Practice Guidelines

SOFTWARE & TECHNOLOGY

a. Scope of Diligence
b. History and Evolution
c. Code Buildability
d. Implementation Technology
e. Source Code Volume
f. Source Code Quality
g. Source Code Rate of Change
h. 3rd Party Dependencies
i. GPL Contamination
j. IPR Ownership
k. Technical License

Scope of Diligence

A common danger with complex technology based transactions is that there is frequently a discrepancy between what the client believes to have purchased and what in fact they have actually purchased. This can lead to additional unexpected post-acquisition costs.

Goal: Determine scope of the Technology Diligence:

- Determine precisely which technology, products, tools, internet domains, patents, copyrights, brands and source code are part of the transaction.
- Which parts - if any - are not part of the transaction?
- Determine why & whether this is in the interest of the client!

Action: Document the findings precisely.

History & Evolution

Understanding the history and evolution of the product or source code may tell you a lot about your target.

Goal: Establish precisely the chronological History and Evolution of the Intellectual Property. Understand why certain events took place. Issues you might wish to be particularly cautious about include:

- Determine whether the target company are the true originators of the product!
- Do they still possess the knowledge & skills required to maintain and further develop the product.
- Has the source code (or parts of) been OEM'd to 3rd parties?
- Do shared rights to the source code exist as part of a company split in the past?

Action: Document the findings precisely.

Code Buildability

A major factor of a product that is well managed by a diligent team of professional software developers, is that the software can be built at will, or at least with a minimum of effort.

Goal: Determine whether the code can be built. Witness this with your own eyes.

- Have the Target Company software integration person perform a clean build of the entire code tree from source to a finished software package.
- If the code does not build, give the target company an opportunity (hours, not days) to try again.
- If they are still unable to build, determine precisely why this is the case. I.e. simple sloppiness? Have parts of the source gone missing? Have unresolved conflicts lead to the code no longer being buildable in its current state.

Action: Document the findings precisely. It is particularly important to differentiate between the various levels of success or failure.
IT TDD - Buyer Side

Why you need IT Due Diligence

- Take the guesswork out of assessing a target company’s IT.
- Have every piece of conceivable information when negotiating a deal.
- Know what legacy costs through possible under-investment you will be taking on.
- Consider the possibility of the target company having more suitable IT in place than the acquirer.
- Know what post-merger transition and integration costs to expect.
- Have a plan!
Vendor IT Due Diligence should be viewed less as an imposition & more as a potential lifeline.

Being able to adequately document your systems, processes, software assets, outsourcing commitments, business continuity plans & even your staff skills, proves you are running a tight ship.

It can convince potential purchasers of the value of you and your team to a merged operation.

Fail to demonstrate your IT department is up to scratch and it can break the deal.
Borrow from proven industry standard IT governance frameworks and guidelines (such as COBIT*).

Use these frameworks as a compass and fill them with our knowledge and experience.

**ITADD** Framework

- Strategy
- Business Continuity
- Human Capital
- Operations
- IT Assets

**Information Technology Assessment Due Diligence Framework**

*COBIT (Control Objectives for Information and relate Technology) by the ISACA (Information Systems Audit and Control Association, first released in 1996.)*
Our Approach

- Focus of an IT Due Diligence is on the “big picture”, and the buyers objectives.

- “Time is of the essence”: spotting “show stoppers” early on in the IT DD process is essential.

- Keep in mind: according to the ITGI** in a survey* of 749 CEO/CIO in 23 countries, only 16% were using an IT governance framework.

- This does not imply the other 84% are bad companies. Don’t punish them.

- Work as an enabler, mediator and coach to identify the strengths, weaknesses, opportunities and threats, and get the best possible insight.

- Give credit where credit is due.

*Results published in ComputerWoche 14. Feb 2008
**IT Governance Institute
# IT DD Best Practice Guidelines

## ICT Technical Due Diligence
- Best Practice Guidelines

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**ICT Infrastructure Domains**

- **Buyer Objectives**
  - Purchase
  - Leasing
  - Hosting
  - Renewal
  - Service
  - Reporting

- **Key Considerations**
  - ATELIER
  - Accountability
  - Security
  - Safety
  - Environment
  - Management
  - Project Initiatives
  - License Agreements
  - Contracts
  - Supplies
  - Outsourcing
  - Miscellaneous Services

- **Strategic Considerations**
  - Business Goals
  - Operating Environment
  - Technology Trends

- **Operational Considerations**
  - Budget
  - Performance
  - Availability
  - Maintenance

## ICT Business Concerns

- **IT Strategy**
  - IT Support
  - Usage Policies
  - DDC Plan
  - Management

- **IT Maturity**
  - Standardization
  - Level of Automation
  - Alignment to Best Practices

- **IT Infrastructure**
  - Workstation Infrastructure
  - Server Infrastructure
  - LAN Infrastructure

- **Application Infrastructure**
  - Application Development
  - Application Management

- **Security Infrastructure**
  - Access Security
  - Single Sign-On
  - Change Management

**System Software Frameworks**

- **Office Apps/Business Apps**
- **Server Operating Systems**
- **Network Operating Systems**
- **Database Technology**
- **Application Technology**
- **Application Management**

**Corporate Network**

- **Data Access Networks**
- **Remote Access Networks**
- **Network Administration**
- **Application Architecture**

**Communication Technology**

- **Voice Technology**
- **Video Conferencing**
- **Software Applications**
- **Network Management**

**Control, Management & Reporting**

- **IT Management**
- **Auditing & Compliance**
- **Change Management**
- **Resource Management**

**Staff and Organization**

- **Structure**
- **Geography**
- **Accountability and Budgets**
- **Management Culture and Team Spirit**

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Some of our TDD Assignments

- **U.S based IP Networking specialist** - resulted in a 30% stake-hold for our client.

- **U.K based Service Desk company** with software development in India - client followed our recommendation not to pursue.

- **Dutch company with IPR for an enterprise class automated software repackaging & distribution suite** - 100% buyout.

- **Frankfurt based company** providing network and security managed services on a global scale - 100% buyout.

- **Austrian company specializing in Service Desk Software as SaaS** - 100% buyout.

- **A Nuremberg based Logistics aggregation company** with strong links to eBay - substantial private equity investment made.
When you might need our Services

Not only software companies, but any organization using IT to conduct its business may require our services in the following scenarios:

- Acquisition target screening.
- Accompanying an acquisition process.
- Internal sanity check or audit.
- Support in business opportunity scanning.
- Joint ventures or other strategic alliances (e.g. ITO)
- Intellectual property acquisitions.
- VC developing an exit strategy.
Roach & Stolz is an active software technology company involved in product creation in Europe and the U.S.A.

A profound knowledge of software, technology & infrastructure.

Small, agile and independent. No hidden alliances or favored technology providers.

Impeccable interpersonal skills and years of commercial exposure, enables us to rapidly build a solid trust base to our clients and deliver a high quality technical diligence product.
"Roach & Stolz have provided a unique combination of business and technical advisory services, which has been key for the success of Brain Force's business strategy - a strategy which is swiftly taking Brain Force towards the € 100 million mark."

Helmut Fleischmann (2006), Founder & primary shareholder of Brain Force Holding AG, Vienna, Austria

"Quality architecture, design and implementation provided by Roach & Stolz have helped make Load Master what it is today"

Kevin Mahon (2007)
CEO of KEMP Technologies Inc.
New York, USA

"Roach & Stolz's professional solution oriented approach to software design and development has played a major role in elevating the Bavarian Institute for Municipal Data Processing (Anstalt für Kommunale Datenverarbeitung in Bayern) to being market leader in Germany for centralized registry information systems on residents (zentrale einfache Melderegisterauskunft ZEMA)."

Alexander Schroth (2007)
CEO of AKDB
Munich, Germany
Thank you for listening!

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Remember: the seeds of failure are often sown at the time of Due Diligence.