# Blue Saffron
more than just IT



# IT Due Diligence

According to current research (1), a staggering 70% - 90% of merger and acquisition deals fully justify expectations. To gain from such consolidation and integration, and to get a more precise definition of the business value and avoid unplanned expenses, the role of information technology (IT) and its impact on the company's business should be given serious consideration.

## Merger and acquisition deals and IT

In some case more than 40% of the synergy impact from merger and acquisition deals can be achieved through IT consolidation, integration and implementation. To obtain the desired result and avoid possible risks of failing to meet expectations, risks associated with this activity need to be clearly understood and the financial implications of using the IT evaluated. An inaccurate assessment of such risks could lead to a decrease in the company's financial and operating indicators after the merger.

IT costs can make up 30–40% of a company's operational costs, and are a serious factor in transaction cost assessment. The efficiency of IT investment management directly impacts a company's stability and value. Therefore, it is vital for the buyer and the seller to obtain full information on potential IT risks and problems.

## Blue Saffron's services

**Our IT Advisory professionals are able to:**

- Advise a potential investor during the IT due diligence; identify the issues and potential risks that may affect the company's revenue, its costs and the purchase decision as a whole

- Assess the reliability and scope of IT applications, processes and infrastructure, and how well they meet current and future business requirements

- Assess the real IT costs, identifying hidden expenses and areas of potential financial risk

- Help with defining transaction terms in detail based on IT impact analysis.

## Blue Saffron's approach

Our professionals provide unbiased and detailed consultations on possible integration options and IT strategy development after the deal, identify potential commitments in this area (licensing, third-party dependencies, etc.)

We offer a wide range of IT due diligence services for both the buyer and the seller. These services can cover all merger and acquisition transaction phases, including IT due diligence, negotiations assistance, contracting and follow-up integration.

## Deal preparation

The main IT analysis objectives here are:

- To assess the capabilities of IT to support sustainable growth of the company's business

- To identify potential technological limitations, risks and possible expenses related to the initial phase of the merger

- To the impact of IT on revenue, expenses and the goals of the future synergy. Depending on the agreed scope of work, we can offer two IT assessment options: an IT review involving a brief analysis of the current state of the IT and the changes planned for it; and detailed IT due diligence – a deeper analysis of the state of the IT state, covering a wide range of areas.

## During negotiations

After IT analysis and assessment we can help to improve the transaction model based on the information found. Such help includes identifying additional synergies, detailed analysis of unplanned expenses or help in integration plan development.

## After the deal

After the deal closure Blue Saffron can assist in IT integration in the merged company, particularly in: Developing a target IT organization model, including an IT operational model, organizational structure, roles and responsibilities, and key performance indicators

- Developing or amending the IT strategy and updating the IT project portfolio

- Replacing or enhancing key business applications

- Defining and helping to create an IT cost optimization strategy

- Optimizing IT project management and IT department operations

- Monitoring implementation of the plan for integration and consolidation activities

- Separating IT environments during the sale of business part of the company

## Blue Saffron advantages

- **Comprehensive deal support:** We offer due diligence services together with the services of our Transactions & Restructuring and Risk Management departments.

- **Objective and independent consultations:** We operate independent of IT system and equipment manufacturers

- **Domain Experience:** A proven track record of working with professional services, recruiters and the third sector since 2004

- **Methodology:** We use proven methodologies for rapid and in-depth analysis of IT

- **Operating Experience:** We draw on real world experience of operating and supporting IT environments in our focussed vertical

| Analysis areas | IT review | IT due diligence |
|---|---|---|
| **Organizational structure and IT management** | • A review of the current organizational structure and IT management<br><br>• A review of the IT control environment<br><br>• A review of IT outsourcing arrangements (if applicable) in the context of service delivery and payment terms | A review of the current organizational structure and IT management<br><br>• A review of the IT control environment<br><br>• A review of IT outsourcing arrangements (if applicable) in the context of service delivery and payment terms<br><br>• A review of the current organizational structure and IT management<br><br>• A review of IT outsourcing arrangements (where applicable) in the context of service delivery and payment terms |
| **Applications, infrastructure, IT costs** | A review of the IT systems, including:<br><br>• Key IT systems and their basic functionality<br><br>• Top-level architecture of the IT infrastructure: system software, hardware, communications equipment<br><br>• Analysis of the IT costs and their dynamics | A review of the current IT architecture and its development areas:<br><br>• Key IT systems and their basic functionality, licensing and contractual agreements<br><br>• Top-level architecture of the IT infrastructure: system software, hardware, communications equipment<br><br>• Analysis of the IT costs and their dynamics<br><br>• Analysis of capital IT costs (dynamics of the costs to date compared to the budget and the implementation plan for ongoing and completed projects) |
| **IT strategy and projects** | Review of strategic direction of IT development, which includes:<br><br>• IT strategy and its relevance to business strategy<br><br>• Key strategic initiatives in the field of IT<br><br>• Past, current and planned IT projects | Review of strategic direction of IT development, which includes:<br><br>• IT strategy and its relevance to business strategy<br><br>• Key strategic initiatives in the field of IT<br><br>• Past, current and planned IT projects |
| **The control environment and business continuity** | | • Review procedures:<br>  – Change management and IT system development documentation<br>  – Operation and maintenance of IT systems<br>  – Performance management, including monitoring the capability of systems to support growing business needs<br><br>• A review of physical security measures (control of the physical integrity of the IT components)<br><br>• A review of IT system accident recovery measures (plans and procedures concerning the loss of key IT components; the effectiveness of disaster recovery procedures in test conditions)<br><br>• A review of the information security management system, including information security risk management procedures, particularly with regard to customer data confidentiality and integrity |

*\* Subject to change depending on the size of the company and the ability to provide information and arrange meetings with company representatives.*