

Article 4 of 6 of The Race to Recapitalise Managing the details: best practices for due diligence and data room management

Stephen Murphy - 29 April 2020

Stephen Murphy has been a specialist Transaction Execution Manager since 2012 following a 30-year career in the insurance industry. Over the past eight years Stephen has successfully completed a dozen transaction execution mandates with clients ranging in size from £100m to over £3bn across a range of industry sectors including technology, leisure, logistics and financial services. Transaction management experience covers both private and listed companies and includes IPO and trade sale, divestment, redomicile and demerger. Stephen is a Consultant with The Deal Team.

In our series of articles on the “Race to Recapitalise” we have illustrated some of the key issues to consider to win that race. We thought it would be useful to focus on one particular aspect of corporate transaction execution that can be started early to get ahead – due diligence and data room management.

A corporate transaction, whether it requires a prospectus / listing document or involves the sale of assets, will require the company to collate a significant number of documents and make them available to external parties utilising a virtual data room (“VDR”).

1. Mobilise the internal team before starting work

Spend some time planning how to set-up and manage the process, before gathering documents and commissioning the VDR. An individual within the company should be appointed as the VDR Administrator to coordinate document gathering and to manage the VDR, not forgetting to ensure they work closely with a colleague to cover for absences. Bear in mind they will be handling a significant number of highly confidential documents. The VDR Administrator will need to manage document requests, load documents in the VDR, make them available to external parties and manage user access.

Also consider appointing internal Subject Matter Experts (“SMEs”) to be responsible for coordinating document requests for particular entities or business units. Also think about any practical issues in accessing documents where the company may not have direct control of them.

2. Get a consolidated document request list agreed across the advisers

The document requests will come from your advisers so agree the level of materiality and scope (i.e. which entities are subject to the requests).

It is advisable to get the request lists as early as possible as there will be some duplication. It is a good idea to ask one adviser to prepare their list first and then ask the other advisers to add their specific requests - you only want to be working from one list. Have the request list in Excel to facilitate internal allocation of requests and monitoring progress - it is typically more useful than Word in order to use conditional formatting and drop-down lists. We have found there is little value in having requests prioritised high / medium / low as we rarely see requests marked low priority. Instead, agree up front with the advisers a manageable number of key requests that will allow them to start their work.

3. Manage the internal process

Once you have the consolidated request list, the VDR Administrator should take control of it and allocate one SME to each request who will be responsible for fulfilling it. Ensure each individual request is allocated a unique reference number which will then be used when creating the folder structure in the VDR - documents can then be located easily in the VDR.

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When setting up the VDR, give some thought to the folder structure – for example, when providing Board packs, decide whether they will be provided by entity within year or by year within entity. Find the right balance between having too few folders leading to lots of unrelated documents in a single folder and having numerous sub-folder levels making navigation a challenge. Consider also whether to have restricted folders for very sensitive documents. It is useful to replicate the VDR's folder structure on the company's network as back-up.

There are also some practical matters to consider such as how documents are going to be provided to the VDR Administrator and how to utilise your existing document management systems such as email, SharePoint or network drives. Consider document security and limit the use of password protected documents as passwords can delay loading documents in the VDR.

Document redaction is critically important. You will need to redact documents for GDPR requirements and depending on the nature of the corporate transaction, regard should also be given to matters such as client confidentiality and commercial sensitivity. Some VDR providers have redaction tools embedded within their products which could assist.

The VDR Administrator should be the only person who can load documents in the VDR. When documents are provided by internal SMEs the document title should make it clear what the document is, and begin with the corresponding reference number from the request list. Indicate on the request list, any requests that will not have any documents provided so advisers know not to expect anything.

4. Governance and progress monitoring

Agree a workable internal governance process for documents to be reviewed, approved and signed-off before being sent to the VDR Administrator for loading. The SMEs should manage this as they are best placed to know when a particular document can be provided.

Have regular and short internal catch up calls to review progress and provide an opportunity for any questions or concerns to be raised – use the request list to monitor how many requests each SME has outstanding / in-progress / completed.

Also, have weekly check-in calls with advisers to ensure everything is on track – this will provide an opportunity for advisers to highlight any requests which are becoming a priority and to answer any questions the company has.

5. ...and finally

The due diligence process is not a one-off, the company will be under a continuing obligation to provide documents throughout the transaction and will need to ensure new documents such as monthly management packs and Board packs are added to the VDR promptly. There may also be further documents required to support new disclosure arising during a prospectus drafting process.

There will usually be a follow-on Q&A process. Some VDRs have a Q&A tool embedded however Q&A can also be managed using a separate Excel tracker.

Once it is OK to do so, close down the VDR and ask for the VDR provider for a copy for the company to retain. Ensure that if needed, audit trail reports on VDR activity can be run at a later date.

Watch the video accompanying this article [here](#)

About The Deal Team and the Race to Recapitalise series

The Deal Team is the first professional transaction manager for public equity and debt capital markets transactions and M&A, providing dedicated Deal Captains to project manage

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transactions within existing management teams. Based in London and working across Europe, we know how to maximise the speed and efficiency of execution for deals such as rights issues, high yield bonds, and M&A disposals, among others.

Through April and May 2020, we will publish weekly articles on the internal execution steps a company should consider in order to win the Race to Recapitalise. This is the fourth in the series – which will continue as follows:

1. The key lessons of crisis management
2. Getting to an answer fast: Financials and Forecasting
3. Tapping your shareholders: Rights issues best practice
4. *Managing the details: best practices for due diligence and data room management*
5. Preparing for the first listed bond
6. Disposals – how to take control and avoid the fire sale

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