

# IT due diligence

According to a KPMG study conducted in 2011, just 31% 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

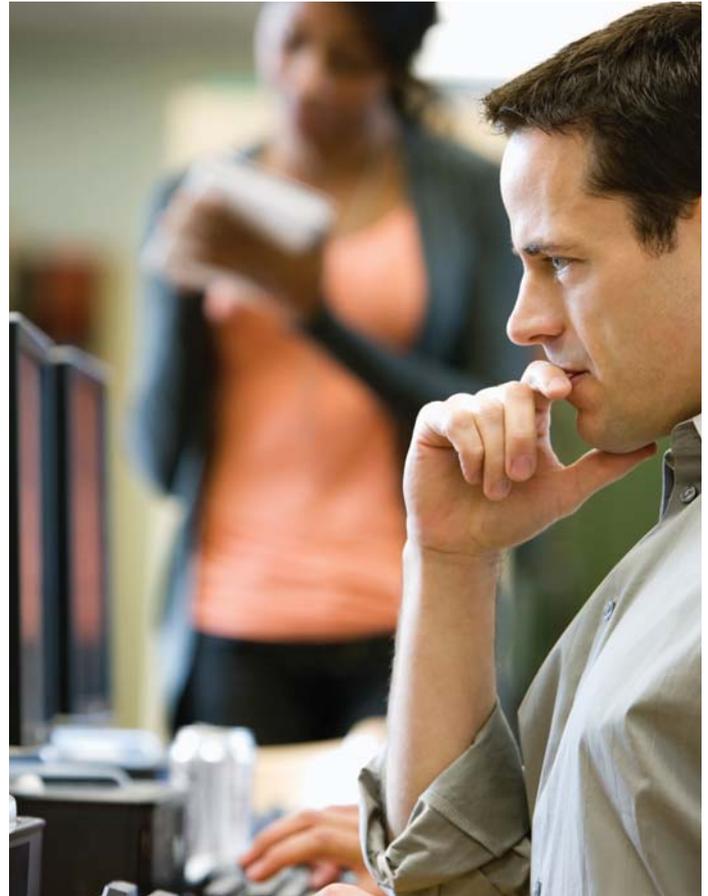
More than 40% of synergy effect from merger and acquisition deals is achieved through IT consolidation by the integration and implementation of new systems and IT services and appropriate allocation of IT resources. To obtain the desired result and avoid possible risks of failing to meet expectations, these risks 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.

## KPMG'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.



## KPMG'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.) and numerically estimate the synergy effect of using IT in order to show its potential and its positive impact on the financial side of the deal.

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

## IT due diligence: Key factors

The main prerequisites and goals of a merger, defined at the initial transaction phase, influence the areas of IT due diligence. Depending on the business goals, this can be:

- **Obtaining synergy** – businesses integration through IT assets
- **Optimizing operations** – reduction of future IT costs
- **Business growth** – IT applications and infrastructure scalability
- **Market leadership** – use of IT best practices
- **Competitive advantages** – competitive advantages gained with the help of IT

We analyze the state of IT based on these factors and determine their potential significance for the deal closure.

## 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

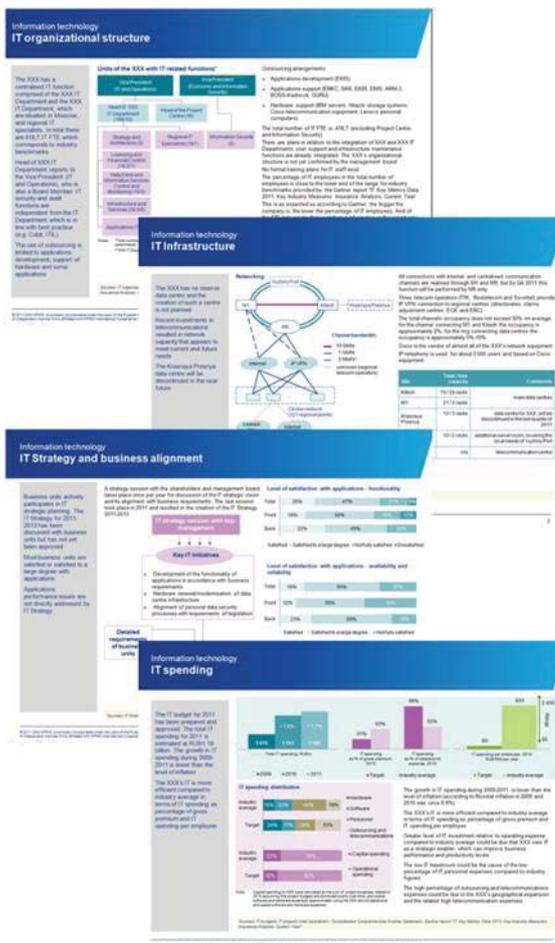
After IT analysis and assessment we can help to improve the transaction model based on the information found. Such help includes identifying additional synergies, detailed analysis of unplanned expenses or help in integration plan development.

## After the deal

After the deal closure KPMG 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

## Examples: IT due diligence project results



Analysis areas	IT review	IT due diligence
Approximate time frame*	10 working days	20 working days
<b>Organizational structure and IT management</b>	<ul style="list-style-type: none"> <li>• A review of the current organizational structure and IT management</li> <li>• A review of the IT control environment</li> <li>• A review of IT outsourcing arrangements (if applicable) in the context of service delivery and payment terms</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the current organizational structure and IT management</li> <li>• A review of IT outsourcing arrangements (where applicable) in the context of service delivery and payment terms</li> </ul>
<b>Applications, infrastructure, IT costs</b>	<p>A review of the IT systems, including:</p> <ul style="list-style-type: none"> <li>• Key IT systems and their basic functionality</li> <li>• Top-level architecture of the IT infrastructure: system software, hardware, communications equipment</li> <li>• Analysis of the IT costs and their dynamics</li> </ul>	<p>A review of the current IT architecture and its development areas:</p> <ul style="list-style-type: none"> <li>• Key IT systems and their basic functionality, licensing and contractual agreements</li> <li>• Top-level architecture of the IT infrastructure: system software, hardware, communications equipment</li> <li>• Analysis of the IT costs and their dynamics</li> <li>• Analysis of capital IT costs (dynamics of the costs to date compared to the budget and the implementation plan for ongoing and completed projects)</li> </ul>
<b>IT strategy and projects</b>	<p>Review of strategic direction of IT development, which includes:</p> <ul style="list-style-type: none"> <li>• IT strategy and its relevance to business strategy</li> <li>• Key strategic initiatives in the field of IT</li> <li>• Past, current and planned IT projects</li> </ul>	<p>Review of strategic direction of IT development, which includes</p> <ul style="list-style-type: none"> <li>• IT strategy and its relevance to business strategy</li> <li>• Key strategic initiatives in the field of IT</li> <li>• Past, current and planned IT projects</li> </ul>
<b>The control environment and business continuity</b>		<ul style="list-style-type: none"> <li>• Review procedures: <ul style="list-style-type: none"> <li>– Change management and IT system development documentation</li> <li>– Operation and maintenance of IT systems</li> <li>– Performance management, including monitoring the capability of systems to support growing business needs</li> </ul> </li> <li>• A review of physical security measures (control of the physical integrity of the IT components)</li> <li>• 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)</li> <li>• A review of the information security management system, including information security risk management procedures, particularly with regard to customer data confidentiality and integrity</li> </ul>

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

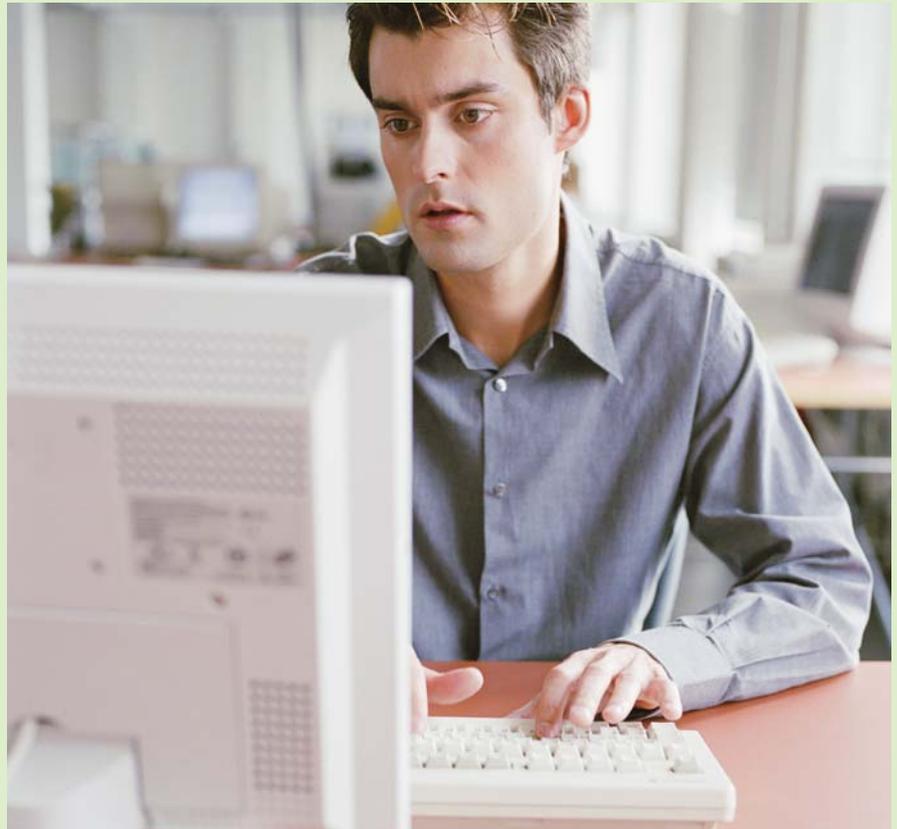
## KPMG's advantages

- **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 are independent of IT system and equipment manufacturers.
- **Privacy:** We do not disclose information obtained in the course of the project, or that you have contacted us
- **International experience:** We are able to engage experts from our other offices and to provide support for international transactions.
- **Methodology:** We use proven methodologies for rapid and in-depth analysis of IT when merger and acquisition deals are being prepared and carried out.
- **Experience:** We draw on our practical experience of major IT integration and transformation projects, and apply proven risk mitigation solutions.

## Information Technology Risks

During the IT due diligence, the potential risks of the IT impact on the transaction outcome may be assessed. These include:

- Existing IT projects under active implementation
- Unplanned, undocumented and overstated IT costs
- Information systems unable to support business growth
- Shortcomings in IT staff competence



## Contacts



**Alexandra Ivanova**  
**Head of Management Consulting**  
Partner  
T: + 7 495 937 4444, ext. 11128  
E: alexandraivanova@kpmg.ru



**German Sukonnikov**  
**Management Consulting**  
Director  
T: + 7 495 937 4444, ext. 18225  
E: gsukonnikov@kpmg.ru

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