



Information Technology Due Diligence

Acquisitions and investments require due diligence to determine valuation, uncover risks, and identify opportunities for post-deal value creation.

But investors often find it difficult to perform due diligence in one key area—information technology (IT). They often lack the *technical knowledge* to assess current systems, recognize what it will take to fix those that are broken, or identify alternatives for merging or upgrading IT operations. They often don't have the *benchmarking data* to determine whether IT spending is above or below industry norms. And they often don't have *time* to do an accurate analysis.

Strativa is an independent source for IT due diligence. We have broad knowledge and experience in all aspects of IT management. Our association with leading industry research firms gives us practical data for benchmarking the target company's IT spending and preparing a useful economic analysis. Our structured methodology allows us to deliver an assessment within short deadlines. And our strict independence from technology vendors gives us an unbiased perspective that is essential for due diligence.

Assessing the information technology function of a potential acquisition or investment is an important part of due diligence. Our due diligence services can be tailored to your specific deal, from a quick overall assessment to an in-depth analysis of specific areas.

Current State of IT Capabilities

Systems. What application systems are installed, and what shape are they in? Are they suitable for a company of this size, in this industry? If they are packaged systems, how well are they supported by existing staff or vendors? Are users satisfied?

Infrastructure. What IT hardware or lease obligations are on the books? What network infrastructure is in place? Who are the service providers? What problems or issues are there? Are there any issues with software license transfer when corporate ownership changes? What is the market or liquidation value of certain equipment?

Organization. What is the size and skill level of the existing IT staff? How does IT headcount and staff mix compare to others in this industry?

Cost Savings

Spending levels. How does overall IT spending compare with others in this industry? If out of line, why? Should this company be spending more, or less, on IT?

Opportunities for cost savings. Are there opportunities for data center or server consolidation to create value or improve performance? What maintenance, telecom, and service contracts are in place? Are rates competitive? Is there unneeded or unused coverage? Can certain IT capabilities be more cost-effectively performed by outsourcing? If outsourcing is currently in place, can certain functions be more cost-effectively delivered internally?

Risk Assessment

Business continuity. Are IT systems adequately secured against intrusion or known vulnerabilities? Is there a disaster recovery plan? Are backup/recovery procedures implemented and tested? In regulated industries (e.g. life sciences), are there risks of non-compliance?

New systems. What system development projects are underway? What is the status? Should they continue? What should be done to ensure successful implementation?

Personnel. Which key resources need to be retained after the deal closes?

Scenario Planning

Based on our assessment of the current IT capabilities at the target company, we can identify corrective actions needed to fix current problems and outline future scenarios for IT. Future scenarios could include expanding, upgrading, or replacing certain systems, integrating IT operations with a new corporate parent or other division, outsourcing some or all of the IT function, or adopting a new enterprise IT architecture. Scenario planning can be done as part of the initial assessment, or as a follow on project in more depth.

Information technology plays an increasingly key role in business success. During a merger or acquisition, an effective IT due diligence process can minimize risk, improve the odds of success, and increase the value of the deal.