New research shows longer due diligence in M&A linked to significant increase in deal success for acquirers, but lower takeover premiums for sellers

Intralinks and Cass Business School research also shows, for the first time, that most M&A deal leaks are intentional

New York, NY & London, UK, November 14th, 2013 — Intralinks® Holdings Inc. (NYSE: IL), a leading, global SaaS provider of inter-enterprise content management and collaboration solutions, today released a new research report that shows, for the first time, the financial impact of pre-announcement M&A activity on acquirers and sellers. The research findings demonstrate that deals which have a longer due diligence period deliver significantly higher long term shareholder returns for acquirers, while also being associated with lower takeover premiums for sellers. Other results also show that the majority of M&A deal leaks are deliberate and are intended to influence the outcome of the deal to the advantage of the leaker.

Conducted in association with the M&A Research Centre (MARC) at Cass Business School, City University London, the report titled "When no-one knows: pre-announcement M&A activity and its effect on M&A outcomes", is based on research on a sample of 519 publicly announced M&A transactions which used an Intralinks virtual data room (VDR) for due diligence between 2008 and 2012. In conjunction with the research, 30 M&A professionals were surveyed by Remark to comment on the findings.

The research is the first to provide real evidence to support the widely held belief that a longer due diligence process results in better deal-making by acquirers. The results of the research show that acquirers derive a significantly higher financial benefit from deals with a longer due diligence period – which, according to the survey comments, provides those acquirers with additional information on the target that can be used to negotiate a lower price. Sellers, on the other hand, appear to be at a disadvantage from deals with a longer due diligence period, and may thus be motivated to try to limit the amount of time allowed for due diligence.

The research also provides strong support for the popular conviction that most M&A deal leaks are intentional. For those deals in the data sample that had a publicly listed target, the study found no evidence of M&A leaks either before the opening of the VDR to external users for due diligence or up to 40 days afterwards. Instead, the study showed that any leaks that take place happen much further into the due diligence phase, when either the seller or acquirer may have something to gain from a leak. The study also showed that the timing of a leak does not appear to be related to the date that the VDR opens, but is more closely linked to the deal announcement date. This provides further evidence that most M&A leaks are intentional, rather than accidental, and are intended to try to influence the deal to the advantage of the leaker.

Our previous report released earlier this year showed that leaked deals were associated with significantly higher takeover premiums, compared to non-leaked deals. The report released today also shows that deals with a shorter due diligence period have significantly higher takeover premiums. Together, these results strongly support the belief that leaking is being used as a tactic to shorten due diligence, increase competitive tension and thereby achieve a higher sale price.

The report also reveals new statistics on deal preparation and the due diligence process. According to the report, the average length of the due diligence period is 124 days, with an average of 152 users given access to the VDR and an average of over 34,000 pages of due diligence information being disclosed to bidders. The large number of individuals involved in a deal explains the difficulty that could arise in trying to identify the source of any intentional leak.

Professor Scott Moeller, Director of the MARC, commented: *"We believe that this study is unique in its ability to analyse the impact of due diligence on M&A. This research indicates that those acquirers who take the time to conduct a longer due diligence, presumably to understand better whether the business case stacks up and the valuation is realistic, do benefit significantly. For sellers with high quality assets, competition for those assets should ensure premium valuations. However, for those unfortunate deals with limited competitive interest, this research implies that acquirers can press their advantage to lengthen the due diligence period to attempt to discover information that can be used to lower the price paid."*

Philip Whitchelo, vice president of strategy and product marketing, Intralinks, commented: *"This study reaffirms the importance of due diligence in the M&A process and provides a very strong incentive for sellers to provide relevant and well-organised information to bidders in a VDR which is easy to use. This is to ensure a reasonable, but not overly lengthy, period of due diligence. This applies particularly to smaller companies, or those infrequently engaging in M&A, who may lack the experience or resources compared to larger or more M&A-active companies. In these cases, the role of qualified advisers is obviously very important."*

Intralinks Dealspace™ is the market-leading VDR for supporting strategic business transactions, and has been deployed successfully since 1997 to facilitate deals with an aggregate value of over $23.5 trillion.

The report can be downloaded here.

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Methodology

M&A transactions that used the Intralinks virtual data room (VDR) platform between 2008 and 2012 were matched with publicly announced M&A transactions from the Thomson Reuters SDC Platinum™ database. After excluding deals for which a definite match could not be established, the process resulted in a data set of 519 M&A transactions. This unique data set allowed metrics from the pre-announcement due diligence process to be compared with public data on variables including deal type, size, price and performance. A multivariate analysis on these parameters established where a statistically significant relationship existed, allowing inferences to be drawn on how the due diligence process is affected by the properties of the deal as well as the impact of due diligence on deal negotiations and deal success. The relationship between VDR use and deal leaks was also investigated using event study analysis. Significant abnormal price movements were identified to establish how incidences of significant preannouncement trading (SPAT) are related to VDR opening and deal announcement. In conjunction with this research interviews were conducted with 30 M&A professionals (10 lawyers, 10 accountants and 10 corporate executives) to get a clearer picture on how due diligence impacts the deal making process, the tactics used by participants to push the process in their favour and the relationship with leaking.

About Cass Business School and the M&A Research Centre

Cass Business School, which is part of City University London, delivers innovative, relevant and forward-looking education, consultancy and research. Located in the heart of one of the world's leading financial centres, Cass is the business school for the City of London.

MARC is the Mergers and Acquisitions Research Centre at Cass Business School - the first research centre at a major business school to pursue focused leading-edge research into the global mergers and acquisitions industry. MARC blends the expertise of key M&A market participants with the academic excellence of Cass to provide fresh insights into the world of deal-making.

About Intralinks

Intralinks Holdings, Inc. (NYSE: IL) is a leading, global technology provider of inter-enterprise content management and collaboration solutions. Through innovative Software-as-a-Service solutions, Intralinks solutions are designed to enable the secure and compliant exchange, control, and management of information between organisations when working through the firewall. More than 2.7 million professionals at 99% of the Fortune 1000 companies depend on Intralinks' experience. With a track record of enabling high-stakes transactions and business collaborations valued at more than $23.5 trillion, Intralinks is a trusted provider of easy-to-use, enterprise strength, cloud-based collaboration solutions.

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