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Virtual M&A rooms to rise by 50%

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Virtual data rooms for mergers and acquisitions, which allow banks and companies to carry out due diligence online during mergers and acquisitions, are predicted to rise by 50 per cent in the second half of this year as job cuts, fear of flying and the impact of Sars take their toll.

IntraLinks, which provides online data rooms to investment banks such as JP Morgan Chase, Deutsche Bank, Bear Stearns and Dresdner Kleinwort Wasserstein, saw a 566 per cent growth in the M&A industry moving online over the past year and the growth looks set to continue.

Larger capitalised companies such as Novartis, the healthcare group, are catching on. It used IntraLinks' online service for its due diligence process when it sold Novartis' food & beverage business to Associated British Foods last year.

Frank Brunetti, vice-president of business development at IntraLinks, said companies were starting to digest the cost benefits from using online data rooms.

"Due diligence is becoming incredibly expensive, especially on global transactions where there are often two or three physical data rooms in several locations and with the market changing so quickly. Virtual data rooms save time and money on transactions," Mr Brunetti said.

Traditionally, investment bankers looking to do due diligence are given access to physical rooms packed full of confidential deal information, where they can spend days wading through paperwork.

But by scanning and posting information online, M&A advisers are able to cast a wider net and reach more potential buyers in less time, without the hassles of scheduling buyer visits.

"A well-organised online data room can shave at least 30 days off the time it usually takes investment bankers to carry out their due diligence," Mr Brunetti said. "It also reduces the geographical limitations bankers are faced with on global deals".

Due diligence has become increasingly important for investment bankers after a series of US accounting scandals led to the collapse of companies such as Enron, the energy trading company, and fraud was uncovered at companies such as WorldCom, the telecommunications group that made its name at the height of the M&A boom in 2000 through a series of acquisitions.