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The Total Economic Impact™ Of IntraLinks For M&A

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Executive Summary

In January 2010, IntraLinks commissioned Forrester Consulting to examine the total economic impact and potential return on investment (ROI) that enterprises may realize by using IntraLinks M&A solutions. IntraLinks' software-as-a-service (SaaS) solutions enable organizations to manage and accelerate complex financial interactions, such as mergers and acquisitions (M&A), from the beginning to the end of the process. This study illustrates the financial impact of using IntraLinks to facilitate M&A activities on the buy side and sell side for the corporations and advisory firms interviewed.

In conducting in-depth interviews with five existing customers, Forrester found that these companies achieved cost savings on buy-side as well as sell-side deals. The benefits were shared among advisors and corporate development professionals and helped shorten the time to completion of M&A deals. The ROI was further improved because these organizations used IntraLinks early in their M&A processes to securely collaborate internally and to easily extend and customize information for viewing and collaboration by outside parties. By reducing the administrative effort that goes into monitoring multiple means of communication and efficiently tracking a deal's progress, our interviewed organizations were able to shorten the time they needed to reach a bid.

For this study, we choose a corporate development unit of a large multinational corporation as a composite organization. This group manages 40 M&A deals on the buy-side and sell-side annually. The readers should note that this analysis and related costs and benefits apply to an enterprise as well as to an advisory firm that uses a similar deal flow.

Purpose

The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of IntraLinks for M&A on their organizations. Forrester's aim is to show clearly all calculations and assumptions used in the analysis. Readers should use this study to better understand and communicate a business case for using IntraLinks' solution.

Methodology

IntraLinks selected Forrester for this project because of its industry expertise with collaboration tools in M&A and because of Forrester's Total Economic Impact™ (TEI) methodology. TEI not only measures costs and cost reduction (areas that are typically accounted for within IT) but also weighs the enabling value of a technology in increasing the effectiveness of overall business processes.

For this study, Forrester employed four fundamental elements of TEI in modeling IntraLinks:

1. Costs and cost reduction.

2. Benefits to the entire organization.

3. Risk.

4. Flexibility.

Given the increasing sophistication that enterprises have regarding cost analyses related to technology investments, Forrester's TEI methodology serves an extremely useful purpose by providing a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

Approach

Forrester used a five-step approach for this study:

1. Forrester gathered data from its existing research relative to M&A and the enterprise collaboration market in general.

2. Forrester interviewed IntraLinks marketing and sales personnel to fully understand the potential (or intended) value proposition of IntraLinks for M&A.

3. Forrester conducted a series of in-depth interviews with five organizations currently using IntraLinks' solutions.

4. Forrester constructed a financial model representative of the interviews. This model can be found in the TEI Framework section below.

5. Forrester created a composite organization based on the interviews and populated the framework using data from the interviews as applied to the composite organization.

Key Findings

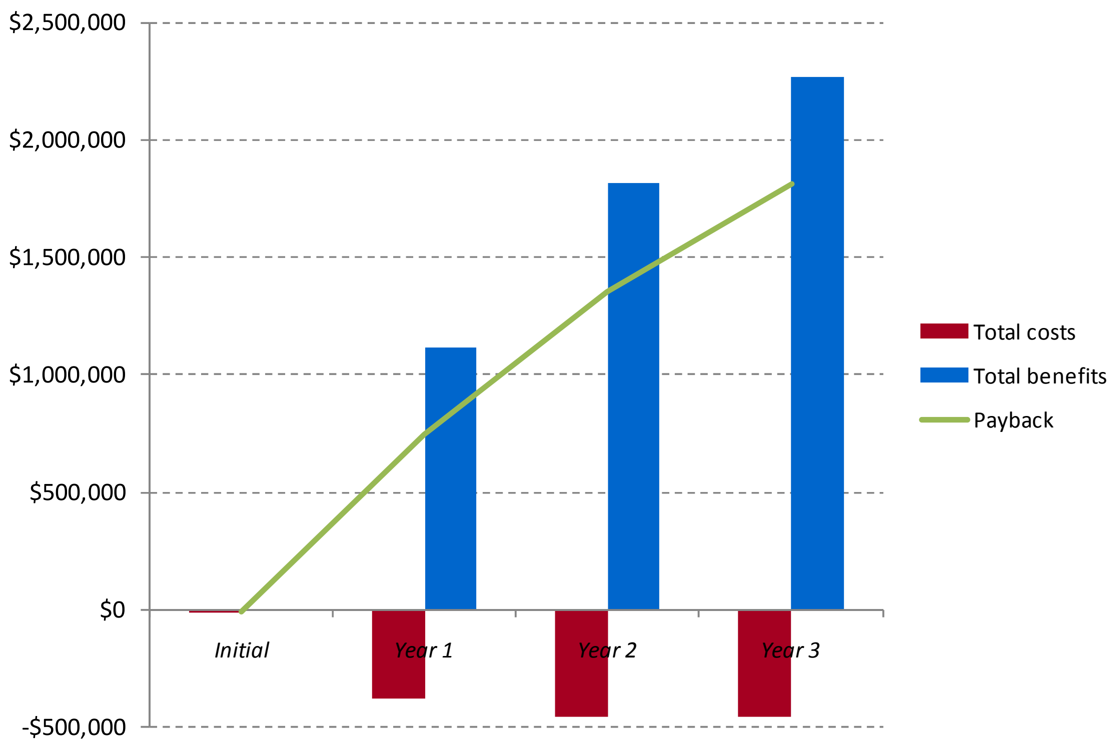
Forrester's study yielded a number of key findings (numbers have been rounded throughout the case study):

- **ROI.** Based on the interviews with the five existing customers, Forrester constructed a TEI framework for a composite organization and the associated ROI analysis illustrating the financial impact areas. As seen in Table 1, the risk-adjusted ROI for the composite company is 294%, with a payback period of less than a month. From interviewing IntraLinks' customers, Forrester learned that these organizations begin using IntraLinks with a small set of the M&A deals that they plan to manage over the course of a year. As a SaaS offering, project costs can be divided over the duration of a project with a proportionally small startup or upfront cost. Therefore, the organization pays only for the first portion of the first set of projects during the initial period. Forrester defines the initial period as the time zero of investment period. Time zero begins on the date of the first cash outflow, which, for a SaaS solution, can be a matter of days prior to use.

- **Benefits.** The organizations that we interviewed used IntraLinks to manage their M&A initiatives. These organizations were looking to improve their M&A processes. Their goal was to increase the efficiency of deals and reduce the risk associated with delay and leakage of information. IntraLinks' SaaS-based solutions allowed the organizations to reduce the time to complete each phase of the M&A process, enabling and accelerating the secure exchange of critical business information among the sellers, buyers, and their respective advisors. This study will quantitatively estimate the benefits associated with productivity gain within the deal preparation and marketing phases as well as improved efficiency during the due-diligence phase for both sell-side and buy-side deals. The study will also qualitatively describe the reduction in the cost of M&A leaks. The present value (PV) of the risk-adjusted total benefits is equal to $4,223,464. Forrester estimates that the composite organization begins realizing benefits starting in Year 1. We have reduced the Year 1 benefit by applying a "Year 1 benefit factor." This factor takes project length into account. This means that the shorter the average project length, the higher this factor will be, because more projects will start and culminate in Year 1, enabling a higher proportion of benefit to be realized in Year 1. For longer projects, more benefit will be realized outside of Year 1, i.e., in Year 2, causing the Year 1 benefit factor to decrease. This benefit factor is relevant only for Year 1, as project initiation and completion will have reached steady-state by Year 2.

- **Costs**. The cost to use IntraLinks includes base and incremental usage fees and the expense of receiving a compliance archive (usually in DVD format) after each deal is completed. For the purpose of this study, based on the interviews with customers, we have estimated the costs associated with using the IntraLinks solution during the deal preparation, deal marketing, and due-diligence phases. The PV of the risk-adjusted total costs equates to $1,072,315. In these calculations, Forrester employed IntraLinks' list prices; normally, discounts of varying levels may apply. For the cost portion of the study, Forrester again estimates that the composite organization will begin using IntraLinks for a few projects during the initial period of investment and will initiate additional projects over the course of Year 1. We estimate that, as a result, not all M&A deals that begin in Year 1 will close in Year 1, with some running into Year 2. Therefore, we incorporate a "Year 1 cost factor," which takes project length into consideration, to proportionally reduce Year 1 costs. This means that the shorter the average project length, the higher this factor will be, because a higher proportion of projects that start in Year 1 will be paid for in Year 1. For longer projects, more projects will run into Year 2, and therefore more payments will occur in Year 2, causing the Year 1 cost factor to decrease. This cost factor is relevant only for Year 1, as project initiation and completion will have reached steady-state by Year 2.

Figure 1: Financial Summary Result, Risk-Adjusted



Source: Forrester Research, Inc.

Table 1 illustrates the risk-adjusted cash flow for the composite organization, based on data and characteristics obtained during the interview process. Forrester risk-adjusts these values to take into account the potential uncertainty that exists in estimating the costs and benefits of a technology investment. The risk-adjusted value is meant to provide a conservative estimation, incorporating any potential risk factors that may later impact the original cost and benefit estimates. For a more in-depth explanation of risk and risk adjustments used in this study, please see the Risk section.

Table 1: Composite Company ROI, Risk-Adjusted

Summary financial results	Original estimate	Risk-adjusted
ROI	322%	294%
Payback period (months)	Less than one month	Less than one month
Total costs (PV)	($1,061,698)	($1,072,315)
Total benefits (PV)	$4,589,595	$4,223,464
Total (NPV)	$3,527,897	$3,151,149

Source: Forrester Research, Inc.

Forrester found that higher ROIs were associated with companies that were using IntraLinks early in the M&A process and across a wide range of M&A activities. The IntraLinks solution was used to provide sellers, buyers, and advisors with customized document access. Administrators can identify and quickly upload documents into the secure virtual data room while easily and efficiently sharing the information as new users join. The ability to exchange critical business information, track usage, and monitor version control and communication minimizes the disruption of deal operations.

Disclosures

The reader should be aware of the following:

- The study is commissioned by IntraLinks and delivered by the Forrester Consulting group.

- IntraLinks reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

- The customer names for the interviews were provided by IntraLinks.

- Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers should use their own estimates within the framework provided in the report to determine the appropriateness of an investment in IntraLinks.

- This study is not meant to be used as a competitive product analysis.

IntraLinks Overview

IntraLinks is a provider of software-as-a-service solutions for securely managing content, exchanging critical business information, and collaborating within and among organizations.

According to IntraLinks, “More than 1,000,000 professionals in multiple industries and 800 of the Fortune 1000 have utilized IntraLinks’ easy-to-use, cloud-based solutions.” IntraLinks indicates that its users “can accelerate information-intensive business processes and workflows, meet regulatory and risk management requirements, and collaborate with customers, partners, and counterparties in a secure, auditable, and compliant manner.”

IntraLinks’ solution has been used by the top 50 financial services companies and top 25 law firms in the world for M&A deals. M&A professionals specifically utilize IntraLinks to accelerate deals, whether for deal preparation and setup, enabling multiple interested buyers to conduct due diligence simultaneously, or easing the post-integration process by having electronic copies of all key company information organized and accessible in one place. In addition to English, IntraLinks provides its solutions in Brazilian Portuguese, French, German, Japanese, Simplified Chinese, and Spanish.

Analysis

As stated in the Executive Summary, Forrester took a multistep approach to evaluate the impact that implementing IntraLinks can have on an organization:

- Interviews with IntraLinks marketing and sales personnel.
- In-depth interviews of five organizations currently using IntraLinks.
- Construction of a common financial framework for the implementation of IntraLinks.
- Construction of a composite organization based on characteristics of the interviewed organizations.

Interview Highlights

A total of five interviews were conducted for this study, involving representatives from the following companies:

1. Senior analyst at a global M&A advisory firm.
2. Partner at a global M&A advisory firm.
3. Corporate counsel for a large chemical manufacturer.
4. Senior corporate development executive of a large pharmaceutical firm.
5. Vice president of a global M&A advisory firm.

The five in-depth interviews revealed that:

- The organizations interviewed achieved sell-side as well as buy-side cost savings pertaining to their deals.
- By using the IntraLinks SaaS-based solution, the organizations were able to reduce the time for each phase in the M&A process because of their ability to access resources. Having access to internal experts on the seller or buyer side improves the quality of due diligence, accelerating time-to-completion.
- One interviewee mentioned that, regardless of the size of the deal or the number of bidders, using IntraLinks has enabled the organization to run a smoother and more intelligent deal management process. The reduction in travel time for all parties, the ability to view information from the comfort of one's desk, and the ability to offer a robust audit trail are some of the hard and soft benefits. The administrator — who can be either the seller or its respective advisor — can customize access to the information offered.
- Ease of use is another differentiating factor stated by the interviewees. The ability to immediately use the solution improves adoption throughout the M&A processes.

TEI Framework

Introduction

From the information provided in the in-depth interviews, Forrester has constructed a TEI framework for those organizations considering implementation of IntraLinks. The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that impact the investment decision.

Composite Organization

The composite is a corporate development unit of a large multinational corporation. This group manages 40 M&A deals annually. From this number, 25% (or 10 deals) do not reach the M&A due-diligence phase due to lack of interest or changes in market condition. The remaining 75% (or 30 deals) are divided into 21 buy-side and nine sell-side deals. When the organization hires outside advisors, it pays a monthly retainer fee plus a percentage of the final deal value.

The readers should note that this analysis and related cost and benefits apply to an enterprise as well as to an advisory firm that manages buy-side and sell-side deals. Based on the interviews with customers, we identified that deals processes are consistent.

Framework Assumptions

Table 2 lists the discount rate used in the PV and NPV (net present value) calculations and time horizon used for the financial modeling.

Table 2: General Assumptions

General assumptions	Value
Discount rate	10%
Length of analysis	Three years

Source: Forrester Research, Inc.

Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult with their finance departments to determine the most appropriate discount rate to use within their own organizations. In addition to the financial assumptions used to construct the cash flow analysis, Table 3 provides salary assumptions used within this analysis.

Table 3: Salary Assumptions

Ref.	Metric	Calculation	Value
A1	Hours per week		40
A2	Weeks per year		52
A3	Hours per year (M-F, 9-5)	A1*A2	2,080
A4	Fully loaded administrator salary		$114,400
A5	Fully loaded hourly rate	A4/A3	$55

Source: Forrester Research, Inc.

Costs

This section outlines the investment made by the composite organization in IntraLinks. The M&A deal process is divided into five phases: client-relationship building, deal preparation, deals marketing, due diligence, and questions and answers (Q&A). Our interviewees primarily used IntraLinks during the deal preparation, deal marketing, due-diligence, and Q&A phases. Forrester has separated the cost categories between buy-side and sell-side deals. Readers should note that the cost information is taken from a combination of interview data and list prices and is not presenting any negotiated or actual client pricing.

Software License Fees — Due-Diligence Phase — Buy-Side Deals

Based on the interviews with the customers, we estimated that the composite organization will be using the solution to manage buy-side deals. The solution will be used mainly to facilitate the collaboration between the buyer and its outside advisors in a secure environment. The organization will use IntraLinks for an average of eight months ("project length") at $7,000 per project. It can upload up to 4,000 pages and allow up to 500 users to participate during the subscription period. After the deal is closed or eliminated, the organization has the ability to request a compliance archive DVD to archive materials for future use. The cost to receive a compliance archive DVD is $1,000.

It is important to note that any changes to project length will increase or decrease the costs incurred in both the initial period and Year 1. For the initial period, if the average project length is shortened to 6 months, the total project cost of $8,000 will be divided by 6, and the initial-period cost for one project will increase to $1,333 from $1,000 (for when the project cost is spread over 8 months). The reverse calculation applies if the project length is more than 8 months.

We are applying a "Year 1 cost factor" to costs incurred for due-diligence-phase buy-side projects to reflect the ramp-up time. In reality, the deals come on throughout the first year, and system usage ramps up until deal capacity and full scale are reached. In Year 2 and beyond, deal capacity holds stable as new deals initiate while existing deals are closed. This factor will change as deal length changes. This means that the factor (percentage) increases when project length is shorter, allowing for faster completion and recognition of payments per engagement.

To calculate this cost, we estimate that the composite organization engages in the evaluation of 21 buy-side deals. Table 4 illustrates the calculation.

Table 4: Software License Fees — Due-Diligence Phase — Buy-Side Deals

Ref.	Metric	Initial	Year 1	Year 2	Year 3
B1	Average cost per deal (buy-side due diligence)	$1,000	$8,000	$8,000	$8,000
B2	Annual number of buy-side deals	2	21	21	21
B3	Average project length	8			
B4	Year 1 cost factor	78.125%			
Bt	Software license fees (buy-side)	$2,000 B1*B2	$131,250 B1*B2*B4	$168,000 B1*B2	$168,000 B1*B2

Source: Forrester Research, Inc.

Software License Fees — Deal Preparation And Marketing Phases — Sell-Side Deals

This section describes the usage subscription fees paid for the duration of three months to use the IntraLinks solution to facilitate internal collaboration during the deal preparation phase and efficiently extend the usage to external parties during the deal marketing phase. Based on discussion with the interviewees, the use of IntraLinks for three months will cover these phases. The total cost per deal is $4,000, and the organization has the opportunity to request an archive DVD for $500 per deal. We estimate that the organization evaluates 19 deals annually. During these phases, the organization will reduce the number of deals due to identifying changes in market condition or lack of interest. Table 5 represents the calculation.

Table 5: Software License Fees — Deal Preparation And Marketing Phases — Sell-Side Deals

Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
C1	Average cost per deal (sell-side deal preparation and marketing)		$2,250	$4,500	$4,500	$4,500
C2	Number of sell-side deals (deal preparation and marketing phase)		2	19	19	19
Ct	Software license fees (sell-side deal preparation and marketing)	C1*C2	$4,500	$85,500	$85,500	$85,500

Source: Forrester Research, Inc.

Software License Fees — Due-Diligence Phase — Sell-Side Deals

Nine of the 19 deals on the sell side will move to the due-diligence phase. During this phase the composite organization will pay for eight months of system usage at a cost of $21,251. This investment will allow for 1,000 users to participate in the due-diligence phase. After the deal is closed or eliminated, the organization has the ability to request a compliance DVD to archive the material for future use. The cost to receive a DVD is $1,000. Readers should note that changes to project length will increase or decrease the cost both in the initial period and Year 1. For the initial period, if the project length is decreased to 6 months from 8 months, the project cost of $22,251 is then divided by 6 and the initial-period cost will increase to $3,709 from $2,781 (which is $22,251 divided by 8). The reverse calculation applies if project length is increased. Also, by applying the "Year 1 cost factor" to due-diligence-phase sell-side deals, the model adjusts for project ramp-up. It is important to highlight that we have estimated zero deals to start in the initial period for this cost because the due-diligence phase follows the deal preparation and marketing phases (see Table 5 for additional comments). Thus, the composite organization doesn't engage in the due-diligence phase for any of their deals in the initial period. Table 6 demonstrates this calculation.

Table 6: Software License Fees — Due-Diligence Phase — Sell-Side Deals

Ref.	Metric	Initial	Year 1	Year 2	Year 3
D1	Average cost per deal (sell-side due diligence)	$2,781	$22,251	$22,251	$22,251
D2	Annual number of sell-side deals	0	9	9	9
D3	Average project length	8			
D4	Year 1 cost factor	78.125%			
Dt	Software license fees (sell-side due diligence)	$0 D1*D2	$156,452 D1*D2*D3	$200,259 D1*D2	$200,259 D1*D2

Source: Forrester Research, Inc.

Total Costs

The Year 1 costs for due-diligence phase for buy-side and sell-side projects are lower than Year 2 and Year 3 costs due to the "Year 1 cost factor" as explained above. Year 2 and Year 3 costs remain steady as new deals initiate while existing projects are currently in process and while other existing deals are closed. Table 7 illustrates the total costs to use IntraLinks for the composite organization.

Table 7: Total Costs, Non-Risk-Adjusted

Costs	Initial	Year 1	Year 2	Year 3	Total	PV
Software license fees (buy-side deals)	($2,000)	($131,250)	($168,000)	($168,000)	($469,250)	($386,382)
Software license fees (deal preparation and marketing phase)	($4,500)	($85,500)	($85,500)	($85,500)	($261,000)	($217,126)
Software license fees (sell-side deals)	$0	($156,452)	($200,259)	($200,259)	($556,970)	($458,190)
Total costs	($6,500)	($373,202)	($453,759)	($453,759)	($1,287,220)	($1,061,698)

Source: Forrester Research, Inc.

Benefits

This section describes the benefits when an organization uses IntraLinks' solution for its M&A activities. Benefits are divided into two sections: quantitative and qualitative.

The following benefits are quantified for the composite organization based on interviews with five existing customers:

- Productivity gain related to deal preparation and marketing.

- Buy-side cost avoidance associated with the cost to attend a physical data room as well as the reduction in due-diligence efforts on the buy side.

- Sell-side cost avoidance associated with the cost to host a physical data room as well as the reduction in time resulting from eliminating unsuccessful deals earlier in the due-diligence phase and receiving bids earlier in the process.

The following benefit is qualitatively described because the value to quantify this benefit is case-specific:

- Cost avoidance associated with M&A leaks.

Readers should note that Forrester has included two adjustments to the model to remain conservative when calculating benefits.

1. For benefits related to due-diligence-phase projects, we apply a "Year 1 benefit factor" to ensure the benefit percentage realized is consistent with deal and system usage ramp-up over the course of Year 1. This factor is equal to the "Year 1 cost factor" that is directly derived from project length. As average deal length increases or decreases, this factor adjusts the amount of benefit realized in Year 1. For shorter projects, the Year 1 benefit factor is larger, as more benefit is realized in Year 1. For longer projects, the Year 1 benefit factor is smaller, as less benefit is realized in Year 1. Note: this factor is not used in Year 2 or Year 3, as project initiation and closure have reached a steady state.

2. For all quantified benefits, based on the interviews with customers, we are realizing benefits at a lower rate than 100% to account for the learning curve for an enterprise. Customers interviewed explained that, as new members join internally and externally, there is a brief period when the administrator needs to work with new users to ensure that they can take full advantage of the system and its functionality. We realize benefit at 60% in Year 1, 80% in Year 2, and 100% in Year 3.

Productivity Gain — Deal Preparation And Marketing Phases

Interviewed organizations that implemented IntraLinks earlier in their M&A process were able to reduce the time spent gathering and sharing information with their external advisors during the deal preparation phase. Prior to using IntraLinks, they used shared folders on the network or behind the firewall collaboration tools. They were seeking a secure method that would allow the internal parties to collaborate without compromising the security of their corporate documents. However, these methods did not offer any version control, and the administrator was required to monitor the changes frequently and then duplicate this effort when sharing information with the outside advisors. Using IntraLinks allowed these organizations to securely collaborate and collect information that can easily be extended to external parties. The version control tracking allows administrators to quickly monitor the changes.

We estimate that the administrator spent 40 hours collecting, uploading, and monitoring new and revised documents. By using IntraLinks, the administrators at the interviewed organizations reduced this effort by 50%. At the rate of a fully loaded salary, the administrator manages 19 deals annually during the preparation phase. Table 8 presents this calculation.

Table 8: Productivity Gain — Deal Preparation Phase

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
E1	Average time required to collect and upload documents (hours)		40		
E2	Percentage of time reduced when moving documents		50%		
E3	Average fully loaded salary of administrator (hourly)		$55		
E4	Number of deals annually starting in deal preparation phase		19		
E5	Percentage of benefit realized		60%	80%	100%
Et	Productivity gain (deal preparation phase)	E1*E2*E3*E4*E5	$12,540	$16,720	$20,900

Source: Forrester Research, Inc.

As organizations move to the marketing phase, they are required to share collateral with buyers and their respective advisors. Sending material via email or mail forces the seller's advisor to spend billable hours on monitoring and tracking documents in addition to deal evaluation and due diligence. By using IntraLinks, the advisors spent 50% less time during the deal marketing phase on monitoring communication among potential buyers. Our interviewees mentioned that, by using

IntraLinks, they could filter serious potential buyers from the group and reach due diligence more rapidly.

Based on the interviews, we estimate that the organization identified 10 potential buyers that received marketing blasts and moved to the confidentiality agreement phase to review marketing collateral for nine deals that remained from the 19 original deals during deal preparation. The advisors spent 15 hours per buyer per deal to monitor communication, share information, and review progress. Based on the estimated 50% reduction and a blended hourly rate of $350, the organization will reach annual savings of $236,250. Table 9 illustrates the calculation.

Table 9: Productivity Gain — Deal Marketing Phase

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
F1	Number of potential buyers		10		
F2	Number of deals annually starting in deal marketing phase		9		
F3	Average time to monitor communication per buyer per deal (hours)		15		
F4	Reduction in time to monitor communication per buyer per deal		50%		
F5	Advisors' blended hourly rate		$350		
F6	Percentage of benefit realized		60%	80%	100%
Ft	Productivity gain (deal marketing phase)	F1*F2*F3*F4*F5*F6	$141,750	$189,000	$236,250

Source: Forrester Research, Inc.

Buy-Side Cost Savings

Our interviews articulated two buy-side-related cost savings: an elimination of the cost of travel to a physical data room and a reduction in time spent to evaluate and analyze buy-side information during the due-diligence phase. Our interviewees mentioned that they review about 21 deals annually that vary in size and complexity. On average, there are four people involved from the corporate development team and from outside advisors. With an average airfare cost of $750 and a nightly hotel rate of $250 for six nights, Forrester estimates the savings in Table 10.

Table 10: Buy-Side Cost Avoidance — Due-Diligence Phase

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
G1	Number of deals annually		2		
G2	Number of staff involved in buy-side due diligence		4		
G3	Average airfare cost		$750		
G4	Average hotel cost		$250		
G5	Number of nights stayed		6		
G6	Year 1 benefit factor		78.125%		
G7	Percentage of benefit realized		60%	80%	100%
Gt	Buy-side cost avoidance	G1*G2*(G3+(G4 *G5))*G6*G7	$8,438	$14,400	$18,000

Source: Forrester Research, Inc.

The next component of buy-side cost savings is the reduction in time to evaluate material. Our interviewees from corporate development and outside advisors offered examples of how they can be more effective when evaluating documents during the due-diligence phase by using a virtual data room. For example, a corporate development member mentioned that he often needs to wait for others to finish their review of a particular binder and that there is only limited time available for any individual to access information during the time offered. The advisors also told us that the cost of travel is prohibitive to enabling more experts to review materials in a physical data room. Additionally, incorrectly cataloged materials may be discovered, requiring experts to return to a physical data room — at significant cost. For example, an advisor may be reviewing documents in a finance folder and find an environmental-related document. Without being able to scan and email the document, the environmental expert will need to return to the physical data room to review the newly identified document. However, if the due-diligence phase is being managed with a virtual data room, the buy-side deal team will have the ability to engage the appropriate resources and will complete a thorough evaluation more quickly and at lower cost.

To estimate the savings for the composite organization, we calculated the benefit based on 21 buy-side deals. Our interviewees estimated that they were able to reduce the due-diligence effort by 30% when they had access to resources. Based on four people involved during the due-diligence phase for six days, attending a physical data room, and working 8 hours per day, participants who attend a virtual data room can achieve a better outcome faster.Table 11 presents this calculation.

Table 11: Buy-Side Reduction In Due-Diligence Effort

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
H1	Number of buy-side deals		21		
H2	Effort reduced		30%		
H3	Advisor's blended hourly rate		$350		
H4	Number of staff involved in buy-side due diligence		4		
H5	Number of days		6		
H6	Number of working hours		8		
H7	Year 1 benefit factor		78.125%		
H8	Percentage of benefit realized		60%	80%	100%
Ht	Buy-side reduction in due-diligence effort	H1*H2*H3*H4* H5*H6*H7*H8	$198,450	$338,688	$423,360

Source: Forrester Research, Inc.

Sell-Side Cost Savings

This section describes the benefits associated with sell-side deals. Forrester has identified three distinct benefits when an organization is involved in sell-side deals. Similar to the buy side, the corporate development members and their advisors are required to set up and manage a physical or virtual data room. Direct cost avoidance on the sell side includes the cost of a physical data room for the nine deals estimated annually. We assume that the organization is using six staff members to host and manage the event. The cost of renting a physical room to facilitate the event is $1,000, and there are airfare and hotel costs necessary for sell-side travelers. Assuming there are three potential buyers, the organization will be required to host three physical data rooms. Table 12 demonstrates the calculation.

Table 12: Sell-Side Direct Cost Avoidance

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
I1	Number of deals		9		
I2	Number of staff involved in sell-side due diligence		6		
I3	Average airfare cost		$750		
I4	Average hotel cost		$250		
I5	Number of nights stayed		6		
I6	Cost of renting a meeting room per day		$1,000		
I7	Average number of interested parties per deal		3		
I8	Year 1 benefit factor		78.125%		
I9	Percentage of benefit realized		60%	80%	100%
It	Sell-side direct cost avoidance	I1*I2*(I3+(I4*I5)+(I5*I6))*I7*I8*I9	$626,484	$1,069,200	$1,336,500

Source: Forrester Research, Inc.

Based on the interviews, Forrester learned that the sellers are asking their advisors to expedite the time to receiving a bid. Therefore, it is critical for advisors and administrators to monitor buyers' behavior in virtual data rooms and isolate serious buyers. It is also essential to identify deals that may not lead to a bid and eliminate them, which will reduce the M&A costs. To estimate this savings, we assume that two of the nine M&A deals are identified as unsatisfactory deals and will not find a buyer. The organization pays $30,000 per month to its outside advisor. When eliminating these deals one month earlier than previously experienced, an annual savings of $60,000 is achieved. Table 13 illustrates this calculation.

Table 13: Sell-Side Efficiency (Unsatisfactory Deals)

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
J1	Number of stopped M&A deals (sell-side)		2		
J2	Average monthly retainer fees		$30,000		
J3	Reduction in months when faced with lack of interest		1		
J4	Year 1 benefit factor		78.125%		
J5	Percentage of benefit realized		60%	80%	100%
Jt	Sell-side efficiency (unsatisfactory M&A deals)	J1*J2*J3*J4*J5	$28,125	$48,000	$60,000

Source: Forrester Research, Inc.

Based on the interviews, we learned that the ability to facilitate virtual data rooms in parallel for all potential buyers can also reduce the time to reach a bid. For example, while multiple physical data rooms in various geographies are costly to manage and host, facilitating them is also time consuming and lengthens the due-diligence phase. For the remaining seven M&A deals, we estimate that the organization can reduce the due-diligence phase by two weeks. With an average cost of $7,500 (retainer fee of $30,000/4 weeks per month), the total annual savings equates to $105,000. Table 14 presents the calculation.

Table 14: Sell-Side Efficiency (Satisfactory Deals)

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
K1	Number of M&A deals that are moving (sell-side)		7		
K2	Average due-diligence phase for each potential buyer (weeks)		1		
K3	Number of potential buyers		3		
K4	Average cost per week		$7,500		
K5	Year 1 benefit factor		78.125%		
K6	Percentage of benefit realized		60%	80%	100%
Kt	Sell-side efficiency (satisfactory M&A deals)	K1*(K2*K3-K2)*K4*K5*K6	$49,219	$84,000	$105,000

Source: Forrester Research, Inc.

Cost Avoidance Related To Merger And Acquisition Leaks

The final qualitative benefit is the ability to prevent M&A leaks. While a small number of deals in the market experience any type of security threat, any organization that has experienced a leak recognizes the resources and financial burden associated with these kinds of security incidents. We have created an outline to allow readers to measure the impact of this cost avoidance for their organizations. The equation has several components: the estimate of the number of deals annually presented on the sell side, the probability of a leak, the average time required to audit and track issues, and the average hourly rate to audit and identify the source of the leak.

Because information can leak anytime during the M&A processes, organizations should estimate the probability of a leak based on the number of transactions and the sensitivity of transactions during the M&A life cycle. The earlier the organizations can track and provide a secure environment for collaboration, the smaller the opportunity for a security threat will be. Table 15 illustrates this outline.

Table 15: Cost Avoidance Related To M&A Leaks

Ref.	Metric	Calculation
L1	Number of M&A deals annually on the sell side	
L2	Probability of leak	
L3	Average time to audit and track issues	
L4	Average hourly rate	
Lt	Cost avoidance related to M&A leaks	L1*L2*L3*L4

Source: Forrester Research, Inc.

Total Benefits

The total quantified benefits expected from using IntraLinks are summarized in the table below.

Table 16: Total Benefits, Non-Risk-Adjusted

Benefits	Year 1	Year 2	Year 3	Total	PV
Productivity gain (deal preparation)	$12,540	$16,720	$20,900	$50,160	$40,921
Productivity gain (deal marketing)	$299,250	$399,000	$498,750	$1,197,000	$976,516
Buy-side cost avoidance	$8,438	$14,400	$18,000	$40,838	$33,095
Reduction in due-diligence effort on the buy side	$198,450	$338,688	$423,360	$960,498	$778,393
Sell-side direct cost avoidance	$626,484	$1,069,200	$1,336,500	$3,032,184	$2,457,300
Sell-side efficiency (unsatisfactory M&A deals)	$28,125	$48,000	$60,000	$136,125	$110,316
Sell-side efficiency (satisfactory M&A deals)	$49,219	$84,000	$105,000	$238,219	$193,054
Total benefits	$1,222,506	$1,970,008	$2,462,510	$5,655,024	$4,589,595

Source: Forrester Research, Inc.

Risk

Risk is the third component within the TEI model; it is used as a filter to capture the uncertainty surrounding any and all cost and benefit estimates. The risk-adjusted numbers should be taken as “realistic” expectations because they represent the expected values considering risk. In general, risks affect costs by raising the original estimates, and they affect benefits by reducing the original estimates. Quantitatively capturing investment risk by directly adjusting the financial estimates results in a more meaningful and accurate projection of the ROI.

Forrester defines two types of investment risk: implementation risk and impact risk.

- **Implementation risk.** Implementation risk is the risk that a proposed technology investment may deviate from the original resource requirements needed to implement and integrate the investment, resulting in higher costs than anticipated.
- **Impact risk.** Impact risk refers to the risk that the business or technology needs of the organization may not be met by the technology investment, resulting in lower overall benefits. The greater the uncertainty, the wider the potential range of outcomes for cost and benefit estimates.

For this analysis, we will only consider the impact risk because this solution does not require any behind-the-firewall implementation. It is easy to set up and can be used as a collaboration tool internally and externally. The TEI model uses a triangular distribution method to calculate risk-adjusted values. To construct the distribution, it is necessary to first estimate the low, most likely, and high values that could occur within the current environment. The risk-adjusted value is the mean of the distribution of those points.

The following risk specific to IntraLinks was considered in this study:

- The ability to consistently offer highly scalable local language support is an important differentiator for non-US-based customers.

- Consolidating the number of plug-in releases would allow organizations to reduce IT involvement. IntraLinks offers software-as-a-service (SaaS) solutions, and not all customers are using the various plug-ins offered. IntraLinks has consolidated its plug-in releases to once per quarter at most. It is important to note that one of the advantages of using SaaS offerings is the ability to minimize IT participation.

The following tables show the values used to adjust for uncertainty in cost and benefit estimates. Different cost and benefit estimates have different levels of risk adjustments. Readers are urged to apply their own risk ranges based on their own degree of confidence in the cost and benefit estimates.

Table 17: Risk Factors

Costs	Low	Most likely	High	Mean
All cost categories	80%	100%	103%	94%
Benefits	**Low**	**Most likely**	**High**	**Mean**
All benefit categories	90%	100%	105%	98%

Source: Forrester Research, Inc.

Flexibility

Flexibility, as defined by Forrester's TEI methodology, represents an investment in additional capacity or capability today that could be turned into future business benefits for some future additional cost. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so. The value of flexibility is unique to each organization, and the willingness to measure its value varies from company to company (described in more detail in Appendix A).

TEI Framework: Summary

Considering the financial framework constructed above, the results of the costs, benefits, risk, and flexibility sections using the representative numbers can be used to determine a return on investment, net present value, and payback period. Table 1 shows the consolidation of the numbers for the composite organization.

The risk factors in Table 17 are applied to the benefits and costs listed earlier, resulting in the risk-adjusted cost and benefit values in tables 18 and 19.

It is important to note that the values used throughout the TEI Framework are based on in-depth interviews with five organizations and the resulting composite organization built by Forrester. Forrester makes no assumptions as to the potential return that other organizations will receive within their own environment. Forrester strongly advises that readers use their own estimates within the framework provided in this study to determine the expected financial impact for the usage of IntraLinks.

Table 18: Total Costs And Benefits, Non-Risk-Adjusted

Categories	Initial	Year 1	Year 2	Year 3	Total	PV
Costs	($6,500)	($373,202)	($453,759)	($453,759)	($1,287,220)	($1,061,698)
Benefits		$1,222,506	$1,970,008	$2,462,510	$5,655,024	$4,589,595
Net benefits	($6,500)	$849,303	$1,516,249	$2,008,751	$4,367,803	$3,527,897
ROI	332%					
Payback period (months)	Less than six months					

Source: Forrester Research, Inc.

Table 19: Total Costs And Benefits, Risk-Adjusted

Categories	Initial	Year 1	Year 2	Year 3	Total	PV
Costs	($6,565)	($376,934)	($458,297)	($458,297)	($1,300,093)	($1,072,315)
Benefits		$1,120,254	$1,815,287	$2,269,108	$5,204,649	$4,223,464
Net benefits	($6,565)	$743,320	$1,356,990	$1,810,812	$3,904,556	$3,151,149
ROI	294%					
Payback period	Less than six months					

Source: Forrester Research, Inc.

Appendix A: Total Economic Impact™ Overview

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

The TEI methodology consists of four components to evaluate investment value: benefits, costs, risks, and flexibility. For the purpose of this analysis, the impact of flexibility was not quantified.

Benefits

Benefits represent the value delivered to the user organization — IT and/or business units — by the proposed product or project. Often product or project justification exercises focus just on IT cost and cost reduction, leaving little room to analyze the effect of the technology on the entire organization. The TEI methodology and the resulting financial model place equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization. Calculation of benefit estimates involves a clear dialogue with the user organization to understand the specific value that is created. In addition, Forrester also requires that there be a clear line of accountability established between the measurement and justification of benefit estimates after the project has been completed. This ensures that benefit estimates tie back directly to the bottom line.

Costs

Costs represent the investment necessary to capture the value, or benefits, of the proposed project. IT or the business units may incur costs in the forms of fully burdened labor, subcontractors, or materials. Costs consider all the investments and expenses necessary to deliver the proposed value. In addition, the cost category within TEI captures any incremental costs over the existing environment for ongoing costs associated with the solution. All costs must be tied to the benefits that are created.

Risk

Risk measures the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: the likelihood that the cost and benefit estimates will meet the original projections and the likelihood that the estimates will be measured and tracked over time. TEI applies a probability density function known as "triangular distribution" to the values entered. At a minimum, three values are calculated to estimate the underlying range around each cost and benefit.

Flexibility

Within the TEI methodology, direct benefits represent one part of the investment value. While direct benefits can typically be the primary way to justify a project, Forrester believes that organizations should be able to measure the strategic value of an investment. Flexibility represents the value that can be obtained for some future additional investment building on top of the initial investment already made. For instance, an investment in an enterprisewide upgrade of an office productivity suite can potentially increase standardization (to increase efficiency) and reduce licensing costs. However, an embedded collaboration feature may translate to greater worker productivity if activated. The collaboration can only be used with additional investment in training at some future point in time. However, having the ability to capture that benefit has a present value that can be estimated. The flexibility component of TEI captures that value.

Appendix B: Glossary

Discount rate: The interest rate used in cash flow analysis to take into account the time value of money. Although the Federal Reserve Bank sets a discount rate, companies often set a discount rate based on their business and investment environment. Forrester assumes a yearly discount rate of 10% for this analysis. Organizations typically use discount rates between 8% and 16% based on their current environment. Readers are urged to consult their organization to determine the most appropriate discount rate to use in their own environment.

Net present value (NPV): The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

Present value (PV): The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total net present value of cash flows.

Payback period: The breakeven point for an investment. The point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Return on investment (ROI): A measure of a project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits minus costs) by costs.