

Tool

TECH VENDOR DUE DILIGENCE

An introduction to Implement's Tech Vendor Due Diligence approach

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What is a tech vendor due diligence and why should you conduct one?

A tech vendor due diligence is an **assessment** of a **technical/software company**¹ commissioned by the seller and performed by an external and unbiased partner.

The main purpose is to provide an **objective analysis of the tech company** by highlighting key tech topics. By doing this, uncertainties are eliminated, increasing the confidence of the buy side and thus **maximising the possibility of a successful transaction**.



¹ A tech native company with core products and/or services that are digital.

Three key questions are answered in a tech vendor due diligence

1. How technically mature is the company?

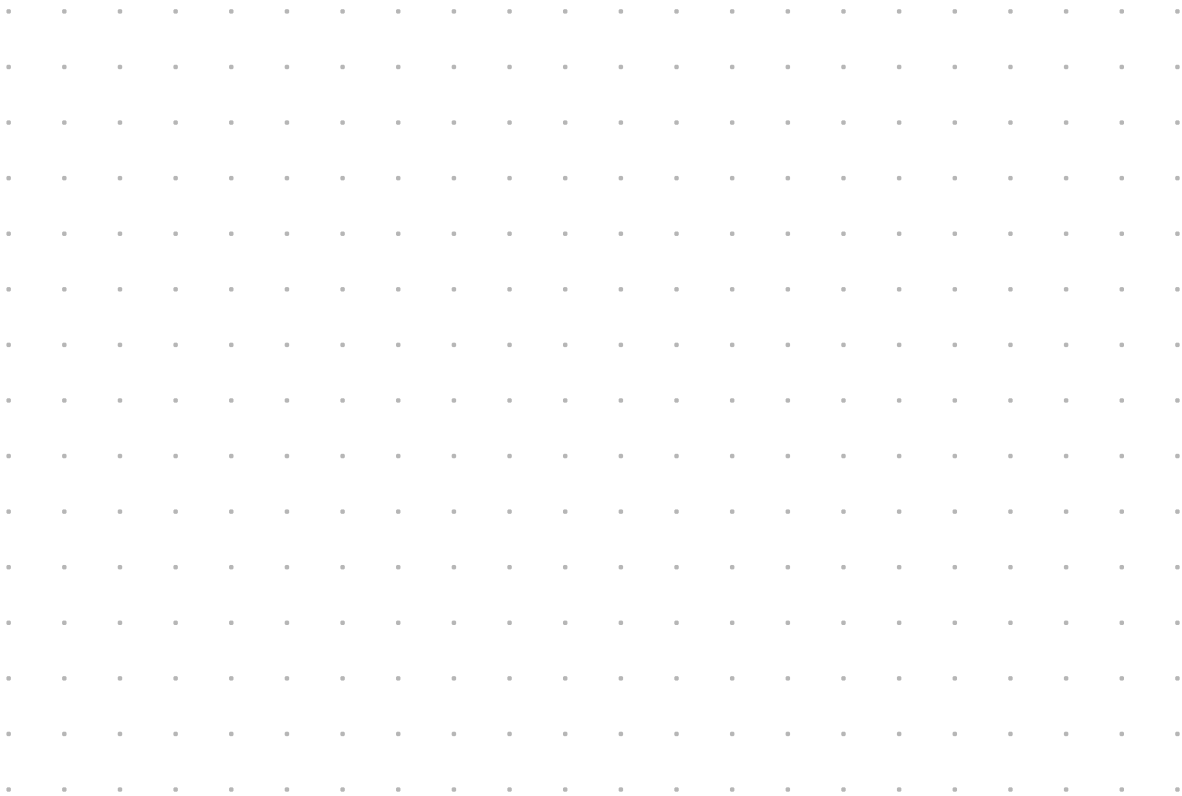
- What is the company's general level of maturity regarding technology?
- What is Implement's overall assessment of the status and quality of the company?

2. Does tech support commercial growth ambitions and scalability?

- What is the company's general level of scalability as regards increasing the number of users/customers, the number of transactions on the platform, the width of the offering/functionality of the platform and/or the number of geographical markets?
- Does the platform, organisation, development processes, supporting processes and infrastructure support the commercial growth ambitions?

3. What technical risks exist that impact the business?

- Are there any high or critical risks identified related to tech within the company that might impact the business?
- How significant are these risks, and what efforts are needed to mitigate them?



A tech vendor due diligence identifies pitfalls and risks that can have a significant impact on valuation of tech companies and even become showstoppers in a transaction

Examples

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Insufficient cybersecurity

Insufficient cybersecurity measures can lead to significant risks for tech companies, putting operations, clients and data at risk. Naturally, this can lead to an investor backing out of a process.



Typical examples are:

- No regular penetration testing of the platform.
- Lack of control over open-source components.
- Lack of encryption of data and devices.
- Insufficient disaster recovery and backup routines.



Technical debt

Technical debt and legacy components imply that management has underinvested in technical modernisation, and that major investments might be needed to:



- Enable increased scalability.
- Add modern features.
- Reduce risks.
- Improve platform performance etc.



The need to invest heavily will impact an investor's valuation of the target.



Inhibited scalability

Ambitious growth supported by high technical scalability is at the core of the majority of investment theses for tech companies and thus evaluated thoroughly by an investor.



Legacy infrastructure, non-scalable platform architecture, key man risks and bottlenecks in customer onboarding processes are examples of inhibitors for scalability that will impact the growth potential for a tech company and thus valuation.





Lack of strategic alignment

Building tech companies and technical platforms requires expertise in both business and technical domains and a high level of alignment between business strategy, technical and product strategy and the road map.

Product development and technical initiatives must support commercial aspirations, and commercial aspirations must take technical prerequisites into account.

Misalignment between the two domains will have a large impact on a multitude of domains in the organisation and reduces an investor's perception of maturity.

The tech vendor due diligence is a crucial step in preparing for a divestment process; maximising valuation, streamlining the process and enhancing credibility with potential buyers

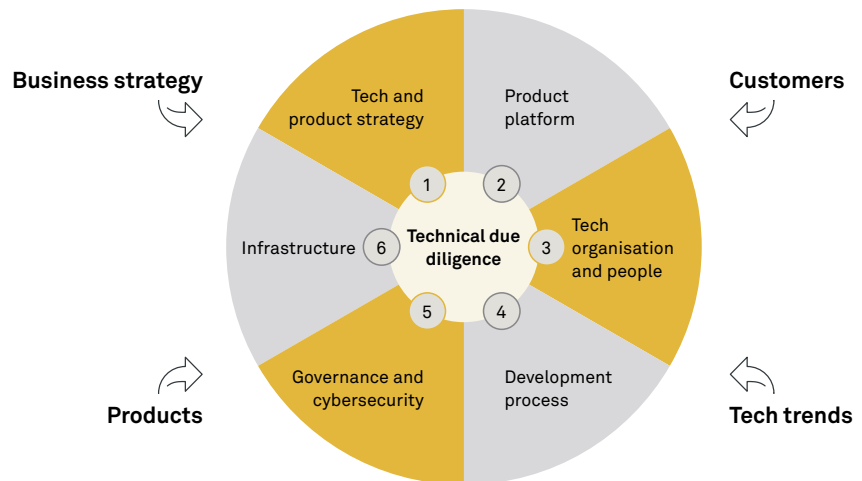
	Reducing risk in the transaction	Coaching the management team	Displaying ownership of action plans	Documentation support
Challenge 	<p>Tech and SaaS transactions carry risk of potential dealbreakers due to the complex nature of tech companies and the substantial business impact of technical risks.</p>	<p>A due diligence is an intensive process with numerous pitfalls, especially for a management team with no due diligence experience.</p>	<p>Risks and improvement areas exist in all tech companies. These will be identified by the buy-side due diligence team.</p> <p>Buy-side perception depends heavily on whether risks have been identified together with mitigating action plans by the target.</p>	<p>Presenting high quality and up-to-date documentation early in the process is critical for buyers to make a fair assessment.</p>
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Solution 	<p>Implement has performed 100+ buy and sell-side tech due diligences and can identify dealbreakers to resolve before a transaction.</p> <p>Implement performs the vendor due diligence as an unbiased partner, strengthening the credibility of an existing investment memorandum and other documentation.</p>	<p>With extensive buy-side experience, Implement coaches management on what a buy side typically pushes and probes for.</p> <p>Implement also helps management map which employees need to be involved to answer buyer questions.</p>	<p>By identifying risks in a tech vendor due diligence, management can display maturity and credibility with mitigating action plans.</p> <p>Better still, Implement can revisit and update the vendor due diligence report at a date closer to the sales process, creating a stronger report.</p>	<p>In a vendor due diligence, Implement supports in assessing and prioritising documentation to be provided for the buy-side due diligence team.</p> <p>Implement also coaches on documentation quality, ensuring that management meets buyers' documentation standards.</p>

Implement has a structured framework refined from over 100+ tech due diligences, but each project is tailor-made to be context-sensitive, providing answers to key questions

Implement’s technical due diligence framework

Implement’s approach to technical due diligence is based on an understanding that **context increases value** and anchors analyses to determine a company’s ability to **deliver on an investment thesis**.

Therefore, Implement evaluates **six domains** that together uncover risks and potential, providing support for the overall assessment of a **target company’s technical maturity and scalability**.



Framework domains

1. Tech and product strategy

Is the technical and product strategy aligned with the overall business strategy?

2. Product platform

Are products kept up to date, and is the underlying architecture scalable and modern?

3. Tech organisation and people

How does the current organisational setup support operations, processes and growth ambitions?

4. Development process

Is the development process fit for purpose and efficient in developing the platform and products?

5. Governance and cybersecurity

How mature are internal processes and governance, and how resilient is the target against threats?

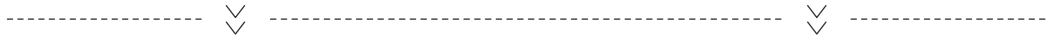
6. Infrastructure

Does the infrastructure in place support current processes as well as future expansions?

There are substantial synergies from combining the commercial and technical due diligence projects together with Implement when evaluating tech companies

Implement is doing many **standalone** commercial and tech due diligences **with strong delivery, but certain aspects will be missed with standalone due diligences** of tech companies.

A combined commercial and tech due diligence with Implement ensures that key commercial and tech due diligence questions are answered but also **leverage synergies in the combined due diligence delivery.**



COMMERCIAL due diligence

Performing only a **commercial due diligence** on a tech target **will not cover critical dimensions on the technical maturity, scalability and risks** related to technology which generally are key to understanding a tech company.



Implement ensures that **all relevant commercial and tech due diligence questions are answered** in a combined tech and commercial due diligence.



Implement performs the project in an **integrated way and shares findings between the workstreams during the project which improves the combined delivery.**

TECHNICAL due diligence

While the **technical due diligence** evaluates tech and product strategy and the product offering from a technical perspective, **it will miss out on assessing the commercial viability** of the product and platform, industry and market attractiveness, review of competitive landscape and management plan.



Implement's holistic evaluation of the case and assessment of the business plan will be based on findings from both the commercial and the tech due diligence workstreams.

A holistic understanding of a tech or SaaS company can only be created when evaluating both commercial and technical topics that are critical to the business



TimePlan – the case

By performing a combined commercial and technical vendor due diligence, TimePlan Software was well prepared for the divestment process by eliminating surprises and increasing confidence

Timeplan – the case

- TimePlan Software is a Danish tech company offering a **SaaS-based workforce management platform**. Founded in 1995 and with DKK ~55 million in revenue, TimePlan is an established player in the Nordics.
- Implement assisted TimePlan with performing a **combined commercial and technical vendor due diligence** in 2022 in support of the divestment of the company to new owners.
- Implement’s key value added and deliverables included:
 - » An extensive **commercial and technical vendor due diligence** report.
 - » An **addendum report** four months after the vendor due diligence report, allowing TimePlan to **mitigate critical risks and outlining road maps** for key recommendations.
 - » **Preparing management** for the coming divestment process and management presentations.
 - » Sparring in the preparation of **road maps and documentation**.

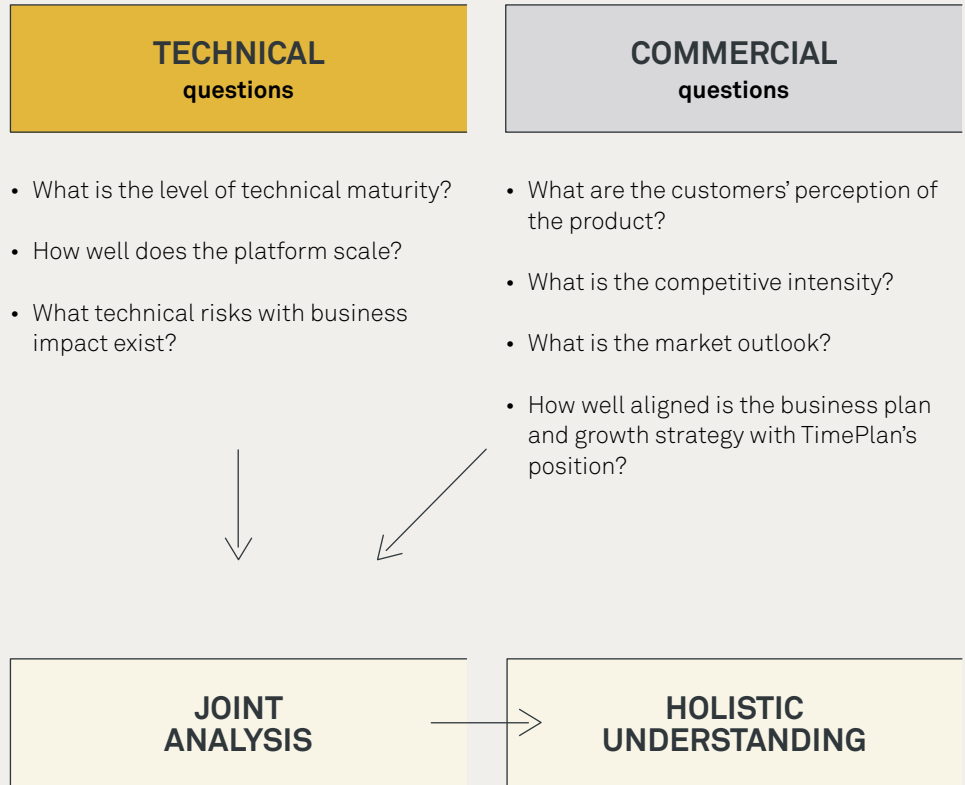


*The **addendum report** was very valuable as it gave us time to address key areas before the process. This gave the organisation confidence in our ability to change.*

Rex Archard Clausager, CEO, TimePlan



Implement's approach



*I was very impressed by the **quality of work and the efficient process**. The material was hands-on and something we could use also after the due diligence.*

Rex Archard Clausager, CEO, TimePlan



Key findings

Platform modernisation needs

- TimePlan's customers perceived the **user interface and mobile application as in need of a facelift** in relation to that of competitors.
- Meanwhile, the **technical architecture and tech stack were in need of modernisation** to allow for an update of the user interface and application.

Detailing of growth execution plan

- TimePlan's growth targets were ambitious but lacked details and road maps for execution.
- Implement recommended to **detail a growth plan, leveraging technical potential** in the offering – a large upsell potential to **increase share of wallet**.

Cloud hosting migration

- TimePlan's infrastructure needed a modernisation in order to **improve scalability and performance**. Customer feedback indicated a potential for improvement of stability and reliability.
- Implement recommended a **migration of the hosting** and the discontinuation of one of the hosting vendors **to enable growth and improve performance**.



As a selling party, I really recommend performing a vendor due diligence as it takes out the surprises of the process. The more surprises you can eliminate, the stronger you stand, and the more confident the buyer will be.

Rex Archard Clausager, CEO, TimePlan

Hello, we're Implement

Scandinavian roots, global perspective

Headquartered in Copenhagen with offices in Aarhus, Stockholm, Malmo, Gothenburg, Oslo, Zurich, Munich Hamburg and Raleigh, NC. With +1.200 consultants, multinational clients and worldwide projects, we offer expertise with a global perspective.

We believe that great organisational impact leads to great impact for humanity. Implement was created to help make true expertise turn into real change.

Founded in **1996**

Average CAGR of **20%**

Employee-owned, employees: +1,200

Working **globally**

FAST FACTS ABOUT IMPLEMENT

Founded: 1996

Number of employees: +1,200

Offices: Copenhagen, Aarhus, Malmo, Gothenburg, Stockholm, Oslo, Hamburg, Munich, Zurich and Raleigh

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