

Strategic value of Vendor Due Diligence

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Plan of talk

- Motivation and purpose
- Methodology
- Industry observations
- Transaction structure
- Theoretical model and observations
- Summary

Motivation – industry experience

VDD should help the vendor to close the deal and get a better price ...

VDD is costly ...



... but, is it worth the money and effort?

What is vendor due diligence?



Hidden private information about asset



Too costly for buyer to obtain



Due diligence commissioned by the vendor



Independent external expert report



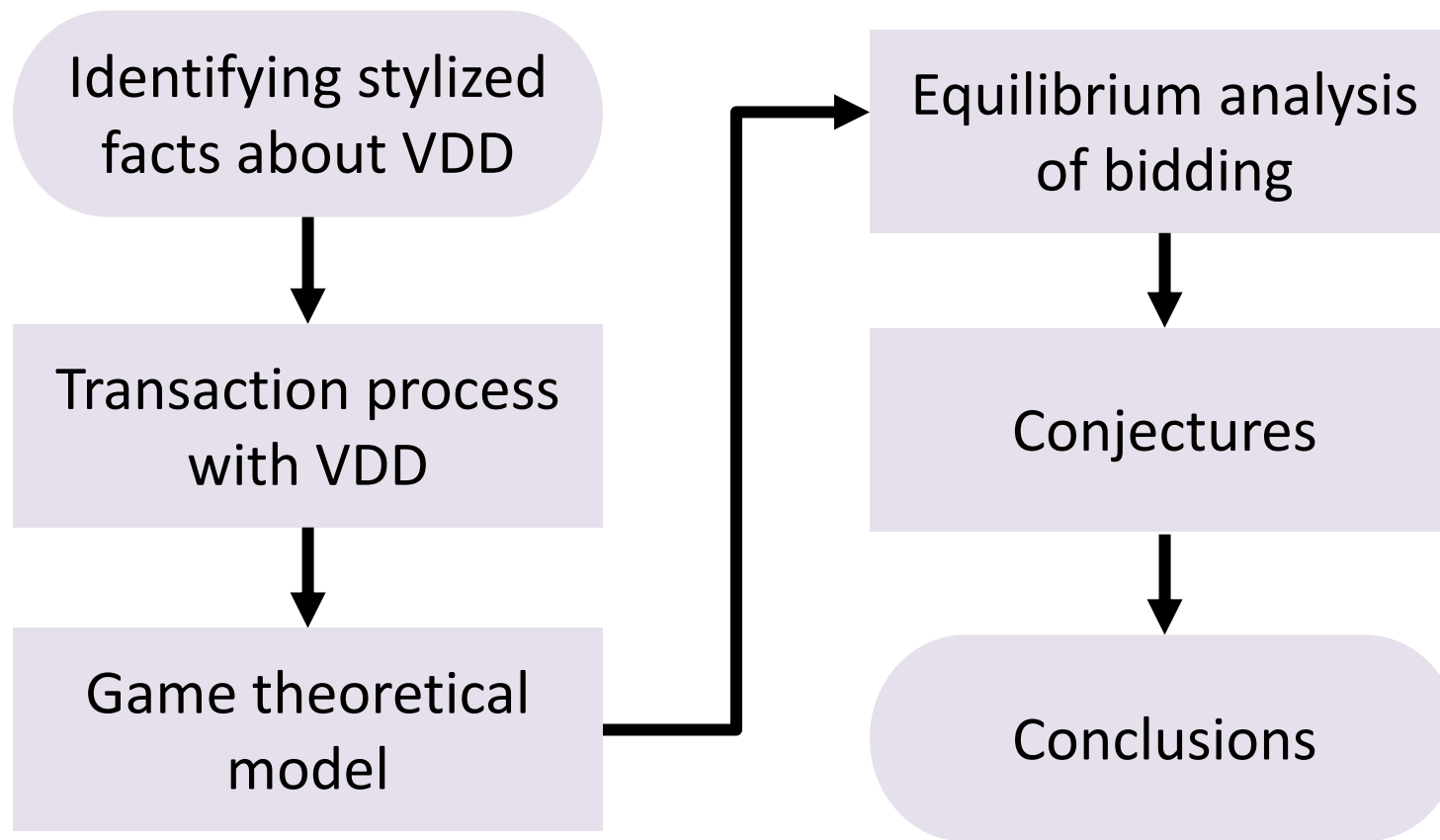
Released to the potential buyers for their reliance

Purpose of the study

In what auction environments will the vendor benefit from VDD?

If the vendor benefits from VDD, can it also benefit the buyers?

Methodology



Industry observations

Vendor's perspective

Advantages	Disadvantages
<ul style="list-style-type: none">• ↑ Transaction transparency• ↑ Transaction value• ↑ Control over negotiations• ↓ Transaction process	<ul style="list-style-type: none">• ↑ Transaction prep time• ↑ Upfront costs• ? Impact of VDD matters• Risks:<ul style="list-style-type: none">• Information leakage• Deal complexity• No price improvement

Industry observations

Buyer's perspective

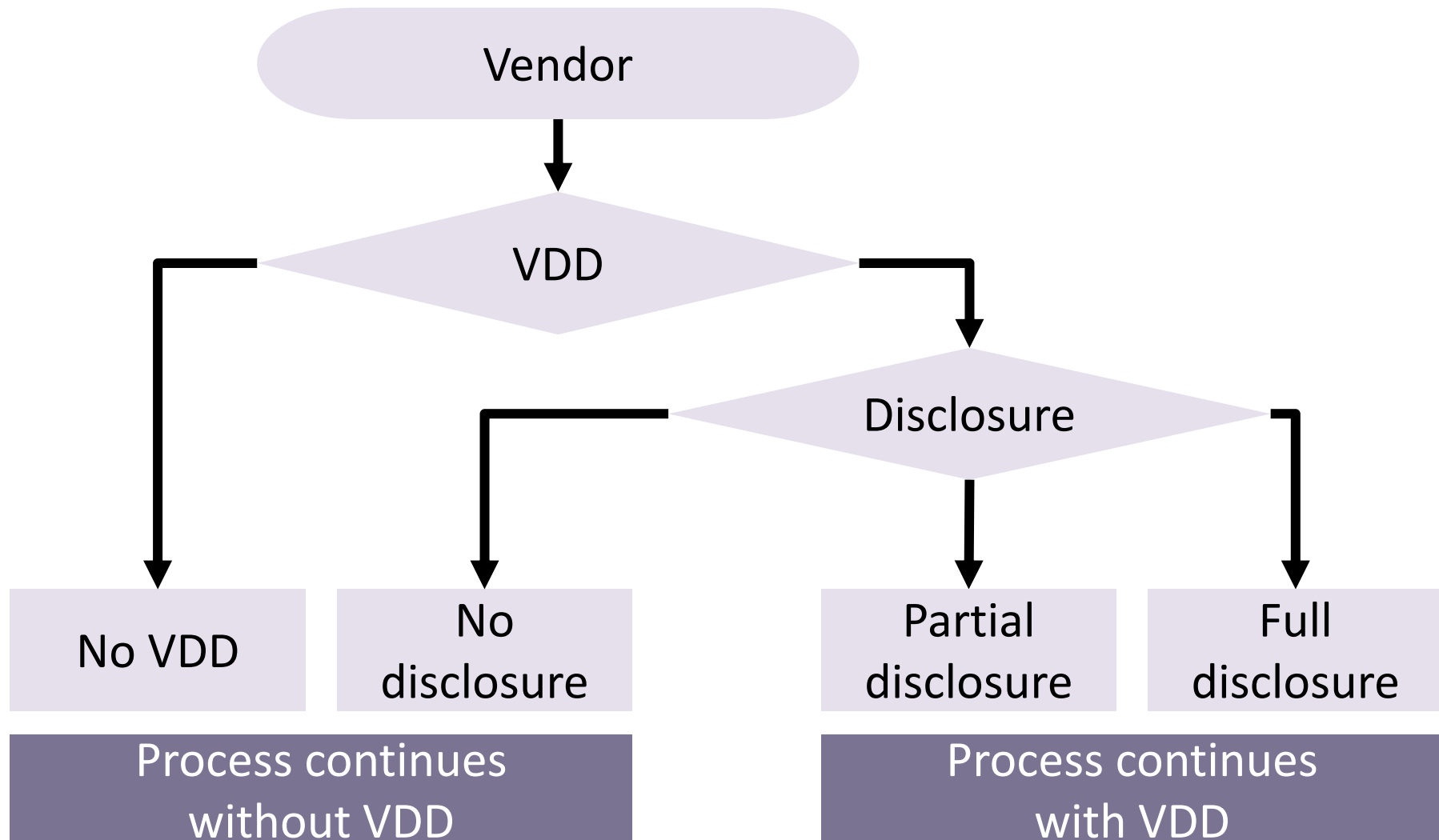
Advantages

- Early go / no-go decision
- ↑ Confidence in the transaction process
- ↓ Due diligence costs
- ? Accelerated process
- ↑ control over bid pricing

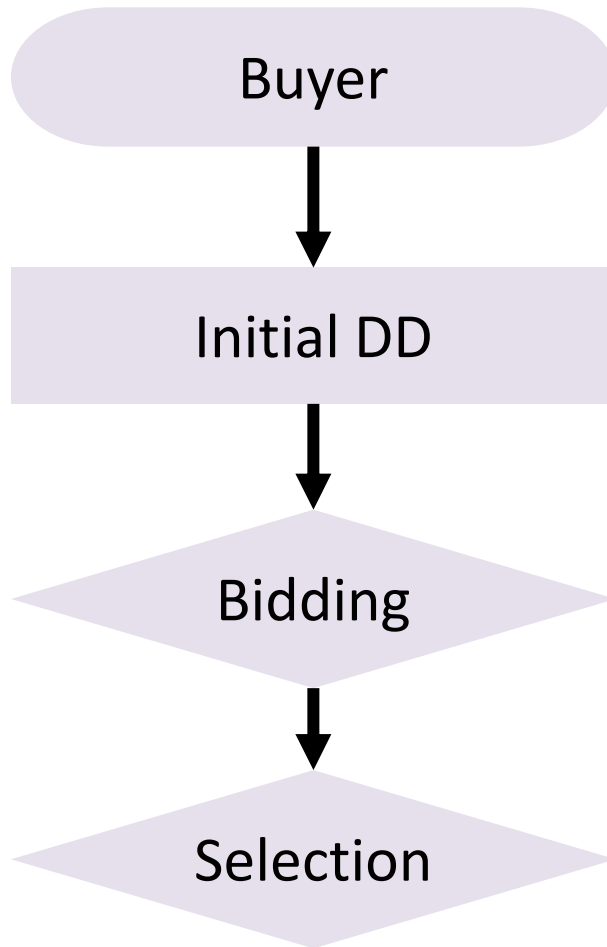
Disadvantages

- Lack of recommendations on VDD issues
- Perception of limited buyer's control over the process
- ↑ competition

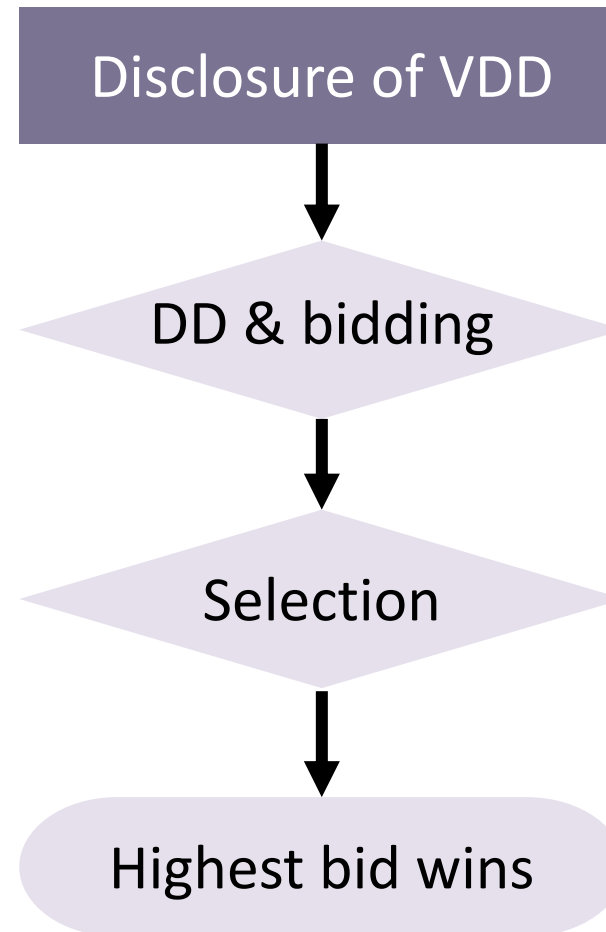
Model – vendor’s initial decisions



Stage 1





Stage 2





Observations

 VDD increases informational efficiency in the market

 Higher VDD disclosure should increase participation

 VDD value increases with the costs of information acquisition

 Vendor - VDD value increases with the precision of their private information about the asset

 Buyer - VDD value reduces with the precision of their private information about the asset

Conclusions

In what auction environments will the vendor benefit from VDD?

When the vendor already has strong private information that the asset is valuable, but not otherwise

If the vendor benefits from VDD, can it also benefit the buyers?

In addition to above, buyers are relatively uninformed

Implications

Industry:

- Vendor – VDD commissioning
- Advisors – Consider the advise
- Non-real estate markets

Further research:

- Consider other markets with similar processes
- Quantify benefits of VDD

Thank you

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