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Using social media analytics to enhance M&A due diligence

Gone are the days when a company could simply point to its profitability and solid business model and investor money would flow in. What matters most now, in the era of “ESG” and socially responsible investing, is how its profitability is achieved. The ubiquity of social media shows that the public’s perception and opinion of a company and its management can be a harbinger of its financial success. For this reason, robust reputational due diligence before investing that incorporates a review of social media can help ensure that meaningful information isn’t overlooked. The objective is to enhance traditional qualitative due diligence by leveraging analytical tools to swiftly illuminate the social media aspects that may impact your overall confidence in a prospective investment.

Does social media really matter?

Investigative due diligence of key management of a target company has been standard practice in M&A deals for decades: are there undisclosed business interests, conflicts of interest, or unexplained gaps in their CVs; has the company or management been sued, have they sued others; are there financial difficulties or criminal records; does the media portray them adversely; does an executive claim to have an MBA he/she did not earn? No? Before you breathe a sigh of relief, consider whether you have vetted the most “public” of all public records—social media. One problematic tweet or post, regardless of intent or accuracy, can circle the globe in an instant, with a profound effect on a business and its leadership.

Some executives commenting on current issues, such as COVID-19 or the public protests for racial justice, have experienced financial backlash from consumers and affiliated companies due to the rapid and amplified spread of their remarks on social media.

Public sentiment has power. It moves money.

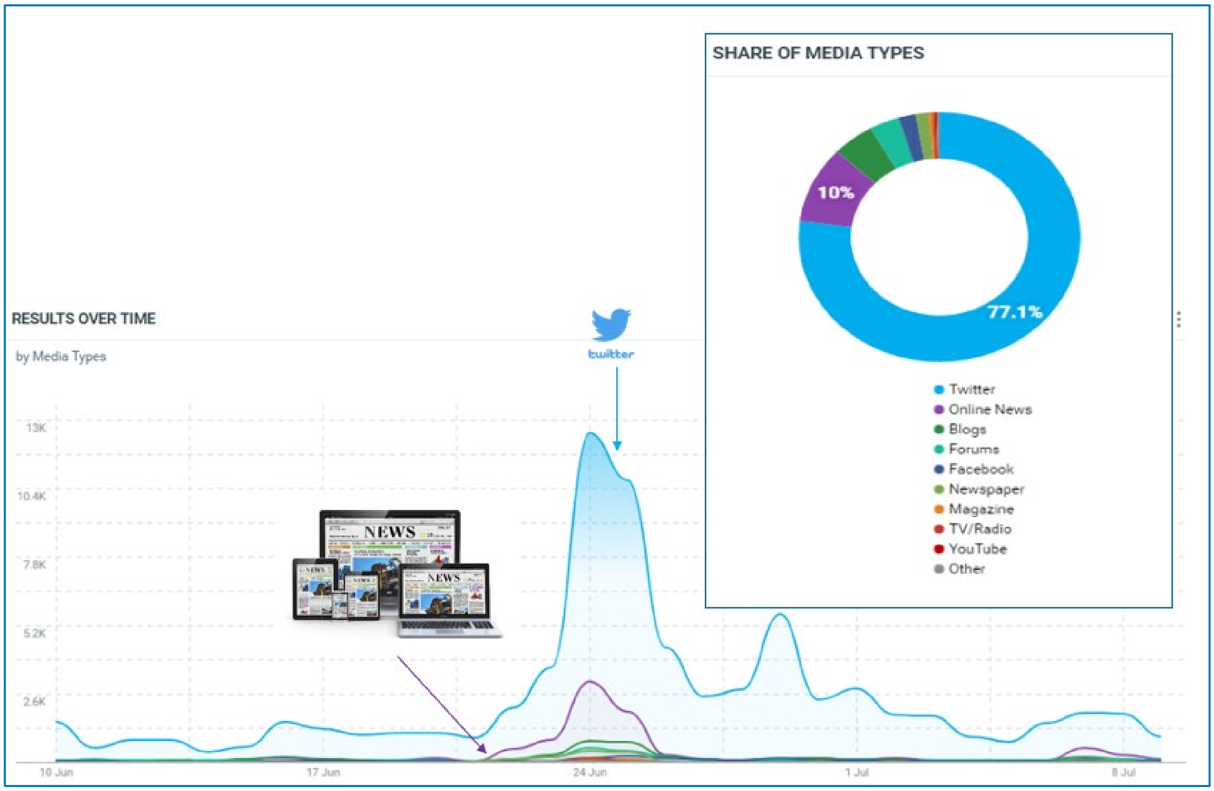
Analyzing social media before investing

The sheer volume of social media posts on countless topics on multiple platforms makes analyzing them in a due diligence context a daunting prospect. However, sophisticated social media analytics tools allow for targeted research to avoid getting lost in the weeds and wasting time. Specialized software can efficiently gather information across multiple social media platforms to identify and measure what people are saying about a company or its management, who is saying it, and how it resonates and is amplified. It can also reveal who is connected to whom. The results can illuminate problematic issues that prospective investors can address in the investment calculus.

What are people saying on social media about the business or management?

In a due diligence context, it makes sense to first understand whether the world is commenting at all on the management or business of your investment target. If they are, what is the volume of that conversation? And what does the conversation look like over time? That conversation can be measured in a way that provides intelligence useful in an M&A context. Commentary can be analyzed in great detail, or viewed at a more macro level that displays the channels where the conversation is happening and the volume and pattern of the conversation. Figure 1 is an example of a query on a company's product that returned over 93,000 results in June 2020. The breakdown shows that most of the conversation is not happening in online news but rather on Twitter.

Figure 1: Identify where the conversation is happening



Obviously, no one wants to spend time reading through 93,000 results. The tools provide the ability to analyze online commentary and perform keyword searches to prioritize results in a way that is meaningful to your investment decision. "Sentiment analysis" places what people are saying about a topic into positive, negative, and neutral categories. Figure 2 shows that 46% of the commentary about this company's product is negative.

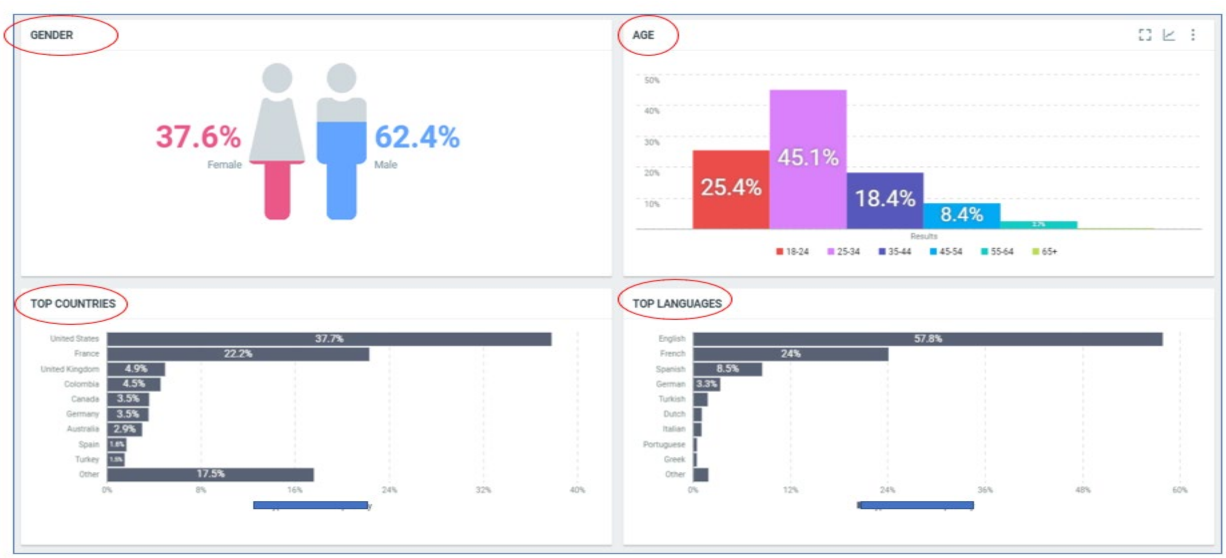
Figure 2: Sentiment analysis

In a pre-deal context, you would likely require a deeper, more qualitative understanding of what is being said, who's talking, and who's listening. Social media analytics tools tackle that need by quickly identifying "top influencers" in a conversation (those with the largest audience) and allowing for examination of the core of their commentary.

If warranted, background research can be conducted on those top influencers to determine their possible motivations, especially with regard to negative comments—perhaps the poster is a disgruntled employee, competitor, or short seller.

As shown in Figure 3, other aspects of the results may also be relevant to your due diligence, including the geographic spread of the conversation and demographics such as gender and age, all of which are difficult to measure without employing tools to speed up the process.

Figure 3: The demographics of the conversation



A deeper understanding of the conversation trends about a company or its product, service, or management can be incorporated into your due diligence and may alter your view of the prospective investment.

How do the personal social media profiles of management factor into your due diligence?

As we know, businesses are the people who run them. And businesses are not social beings; people are. It stands to reason that going beyond a traditional background investigation of key management to meld in a social media analysis can only strengthen your decision-making. The social media aspect gets you closer to understanding what makes the executives of a particular company tick. It's a window into the human aspect of those people—what they believe, what they feel, and who and what is important to them—if they choose to publicly share that information.

The first step is to determine if the investment target's executives even have social media profiles. Some executives have no profiles, which is a useful data point in itself. Some have profiles but enable privacy settings so the information isn't publicly visible. However, if an executive has a Facebook, Instagram or Twitter profile, understanding that content may be quite useful. Consider the following three scenarios:

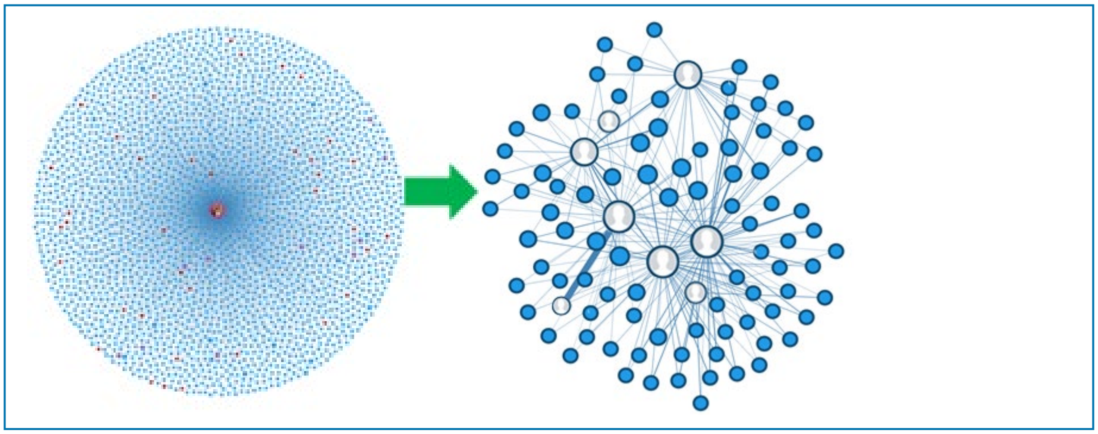
- The CEO posts mostly about family vacations and the kids' hockey games.
- The CTO's tweets highlight the company's engagement with several charitable organizations to improve their technology.
- The CFO's posts consist mainly of photos of his vintage car collection and parties on his yacht.

Their posting habits create different impressions. More importantly, when this kind of information is viewed in tandem with the results of a traditional background investigation, the overall reputational picture may be more illuminating. For example, if the background investigation of the CFO reveals a personal bankruptcy filing, unpaid tax liens, and an undisclosed business entity, the expensive lifestyle may be a red flag that compels a closer examination of the company's finances before you invest.

The other aspect of an executive's social media profile that may prove relevant is who they are connected to. An executive's connections may consist only of family and friends, or they may also include people who are cause for consideration (positive or negative), such as government officials, politicians, or people at a competitor firm. Some connections could be more problematic: for example, the executive may be tied to individuals or groups espousing controversial political or social views. Although the executive may not hold the same beliefs, this is where the "guilt by association" factor comes into play. If a clever journalist could uncover the same connection, your perspective investment may be in peril, especially if the controversial views are at odds with the social responsibility mandated by your own firm and your own clients.

Analytics improves research efficiency by algorithmically identifying and aggregating valuable information, such as where those connections work or live, and categorizing the connections as "family" or "friend" or "business." As shown in Figure 4, search results can be filtered by keywords to highlight only the most relevant connections, eliminating the overwhelming task of looking at the profile of every person in an executive's network of potentially hundreds or thousands of connections. And instant analyses of groups can be conducted to reveal who relevant individuals know in common—connections that might otherwise never be known.

Figure 4: Analysis of mutual connections on Facebook



Depending on the nature of the business and its location, executives having direct or indirect connections to government officials or people working for a competitor may be noteworthy. In the CFO example, seeing that the CFO has numerous Facebook connections based in offshore tax havens may intensify your financial due diligence before you invest. In sum, analytics speed up the due diligence process by revealing a much smaller, more manageable data set on which to focus.

Investors have a duty to their clients to ensure that their due diligence is as thorough as possible. More information is always better than less, especially if there is a simplified way to gather and measure it. Unlike static public records, business track records, and financial documents, social media can be thought of as a perpetually evolving "record" of information—in real time. A groundswell of sentiment in one direction or another could affect a company's reputation and, in turn, its financial performance.

While it is unlikely that an investment decision will ever hinge on social media posts by or about an executive or the target company, understanding this domain may affect the terms and structure of your investment and how you interact with the executives.

The goal is to efficiently distill meaningful intelligence from voluminous social data to complement and bolster traditional due diligence methods and results. It provides a strategic insight that may give you a more fulsome and refined picture of your investment targets and a higher degree of confidence in the success of your investments.

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