Start with the Exit in Mind:

M&A Planning for Startups

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Your Presenter

- Sell-side specialist with 20+ years experience advising technology companies on M&A, Investment, and growth strategies
- Managed transactions with Microsoft, Google, Intel, Symantec, and many other global organizations
- Raised capital from Vista Equity Partners, Intel Capital, Carlyle Group, Marlin Equity, and other leading private equity firms
- Involved with startups that have sold to Google, Microsoft, and others
- Frequent guest on CNBC and a nationally recognized speaker at industry conferences
- B.A. Japanese literature from Yale, J.D. from UCLA School of Law

Nat Burgess
TechStrat Founder

TechStrat has invested in Cequint TechStrat

TechStrat has invested in sitescout TechStrat

TechStrat has invested in Vizify TechStrat

TechStrat has invested in pokitdok TechStrat

EOC CAPITAL INDUSTRY INVESTMENT have invested in Midaxo TechStrat

CS INSIGHTS, INC. has acquired cell systems

ANSYS has acquired ESTEREL Technologies

Google has acquired instantiations VA Smalltalk

EQUIFAX has acquired INFFINIX

intel has acquired olaworks

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TechStrat
Technology Mergers & Acquisitions

Please focus on building a great company

Step 1: Create a product/service that customers want to buy
Step 2: Hire a talented, cohesive team
Step 3: Align everything your company does around a compelling mission
Step 4: Add customers, by building a scalable path to market
Step 5: Defend market, customers and prospects with strong differentiation
Step 6: Partner early and aggressively with larger companies
Step 7: Work relentlessly toward cash-flow positive
Step 8: Maintain thought leadership with continuous improvement

Ignore the M&A myths

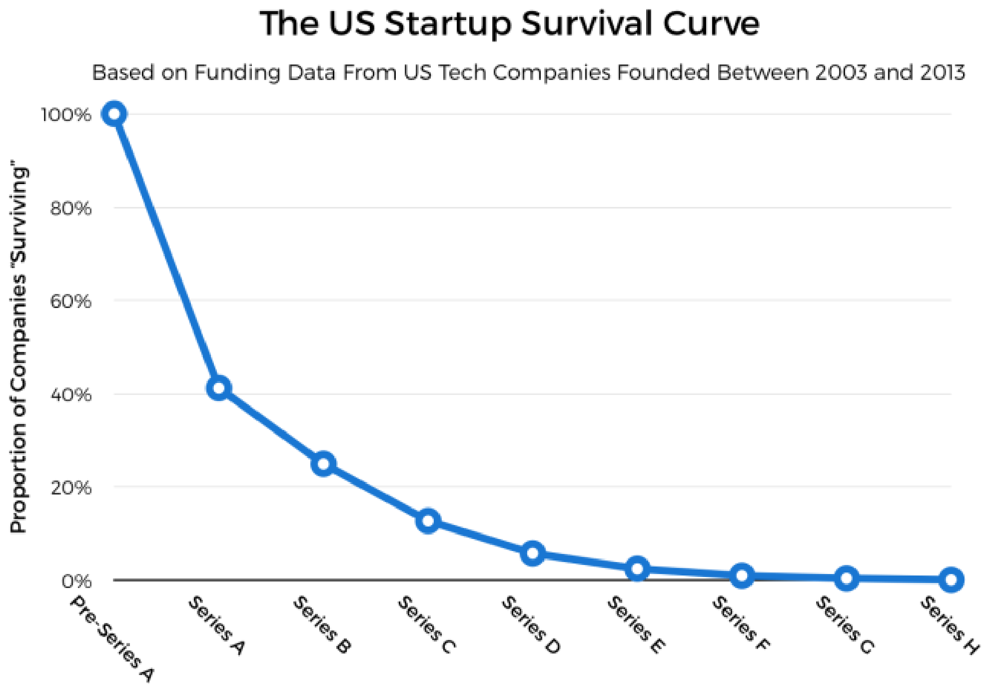
- “If things don’t work out, we can always sell the company”
- “‘Acqui-hire’ buyers will pay $1 million a head”
- “Big tech companies routinely buy startups”
- “My company will be valued the same way by Acquirers and Investors”
- “Startups should start positioning with acquirers from day one”
- “If a strategic buyer offers to pay a premium for my startup, I should play hardball and stall them while I shop the company”

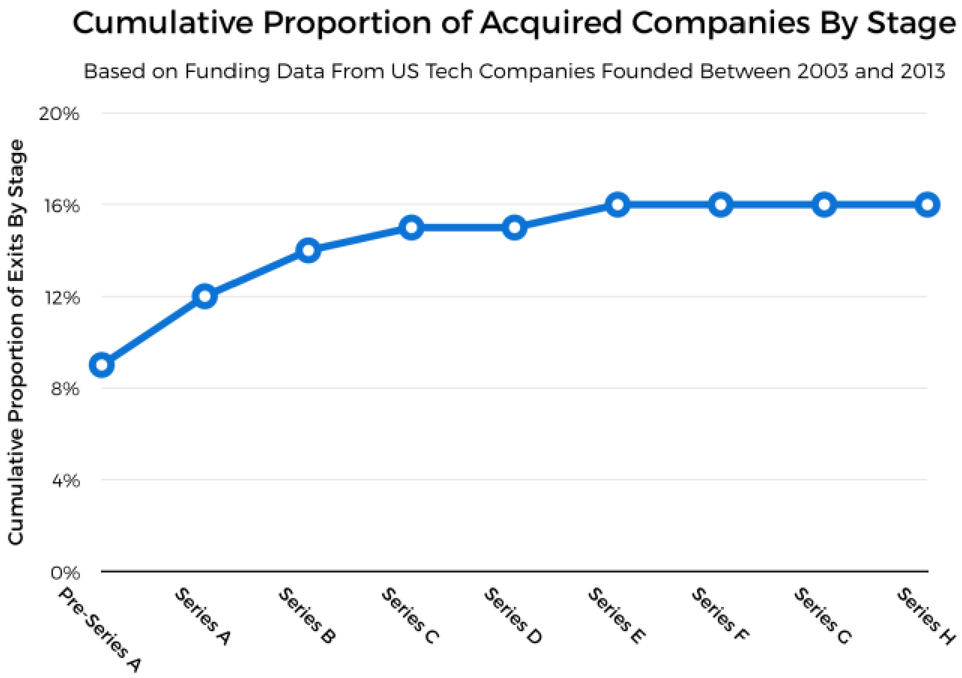
Question for the audience

Out of all the companies that raise Seed, Convertible or Series A funding, how many go on to be acquired?

1 in 6, or 16.7%

Source: TechCrunch (http://tcrn.ch/2pMo1QI)





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Question for the audience

What happens to the other 83.7% of startups that successfully raise funding, but aren't acquired?

Most of them fall into the red zone. . .

- IPO (less than 3%)
- Liquidated or in the Red Zone: Over 80%
  - Insufficient capital to attract new management
  - Founders and/or management have been diluted, or are stuck behind a big preference stack
  - VCs have lost confidence

Good M&A planning won’t compensate for poor execution

Thank you for attending my seminar on M&A planning. Everybody go back to work.

Okay, a couple more things to think about. . .

> Align shareholders, board, management and employees on M&A plan
> Optimize operations to be “diligence-ready”
> Be crisp, professional and effective when fielding inbound inquiries
> Know who your potential buyers are, and how you can help them
> Know your responsibilities (and liabilities) in relation to M&A
> Know when, and how to start and manage an M&A process
> Retain experienced advisors (legal, financial)

Alignment

Motivations

> Shareholders: ROI, trust & confidence, status, timeline, valuation
> Board: Governance (not management); control of decision to sell
> Management: Momentum, ROI, timeline, valuation, roles and responsibilities

Tools

> M&A script ("what we say when we are approached")
> KPIs, valuation range over time
  - Eye on the prize: value we can create together over next 12, 24, 36 months

Alignment - Picking a lane

Sell	Exit Date: 12/31/18			
	Revenue Multiple:		4 x	
	2018	2019	2020	2021
Revenue	$3.00	$3.80	$5.00	$8.00
Equity Cash Flows	$12.00			

BAU	Exit Date: 12/ 12/31/2020			
	Revenue Multiple:		4 x	
	2018	2019	2020	2021
Revenue	$3.00	$3.80	$5.00	$8.00
Equity Cash Flows			$20.00	

Raise Capital	Exit Date: 12/ 12/31/2021			
	Revenue Multiple:		4 x	
	2018	2019	2020	2021
Revenue	$3.00	$6.00	$10.00	$16.00
Equity Cash Flows	-$3.00			$61.00

Alignment-Valuation

Valuation

> Based on different metrics at different stages

ROI

> Heavily impacted by dilution and the passage of time

CONCEPT

Objective:

Raise money to execute and build value

Valuation Driver(s):

Acquihire (recruiter fees)

EARLY STAGE

Objective:

Deploy technology at a real live customer
Validate ROI to customer
Validate technology
Refine business model

Valuation Driver(s):

Acquihire (recruiter fees)

Time to market
Potential upside (earnout)

GROWTH STAGE

Objective:

- Re-architect product for scale
- Create unique value proposition (*Google AdWord test*)
- Get reference customers
- Build viable financial model around gross margins

Valuation Driver(s):

- *Acquihire (recruiter fees)*
- *Time to market*
- *Potential upside (earnout)*
- Replacement Value
- DCF

MEZZANINE STAGE

Objective:

Growth
IPO and M&A Readiness
EBITDA
IP Strategy (Patent Portfolio)

Valuation Driver(s):

Acquihire (recruiter fees)
Time to market
Potential upside (earnout)
Replacement Value
DCF

Market Multiples

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EXIT STAGE

Objective:

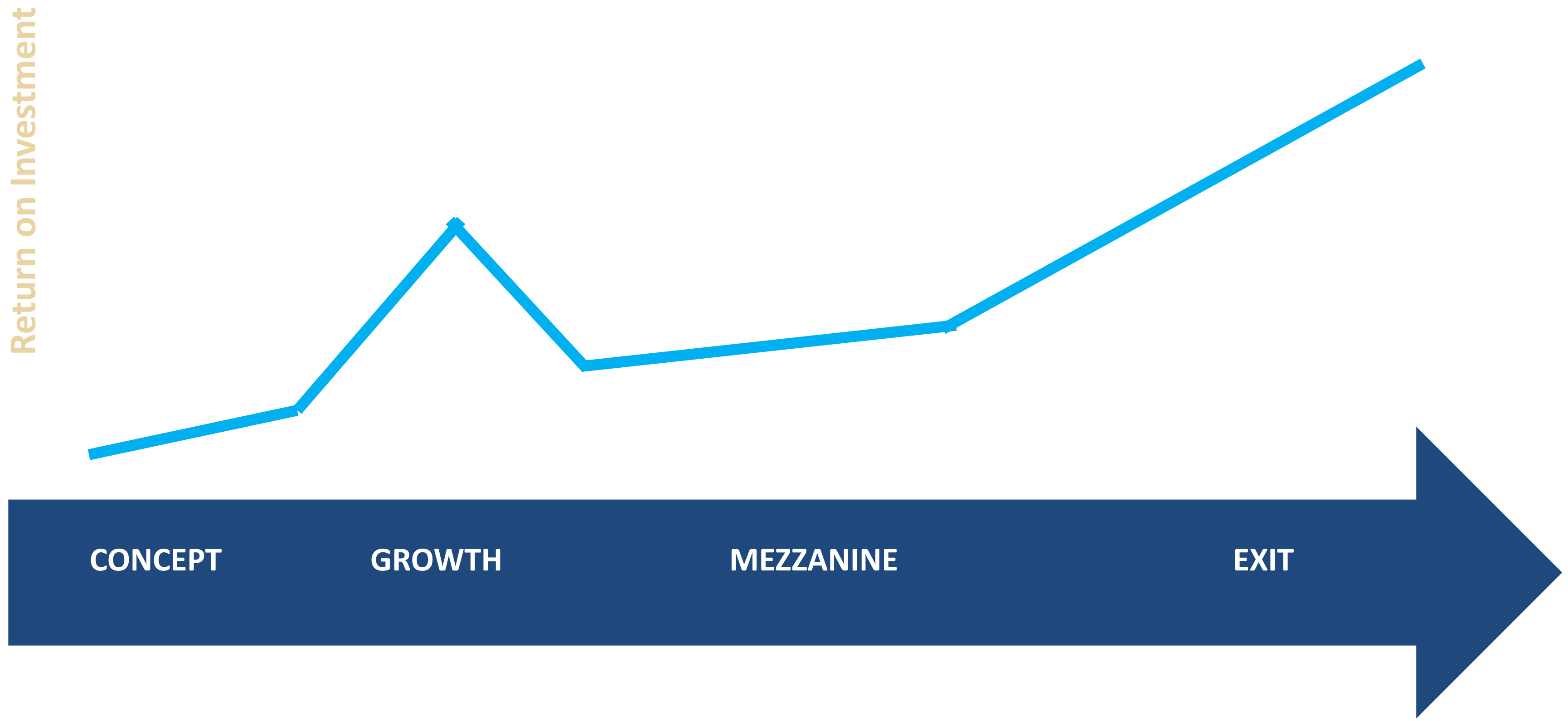
Market Dominance
Sustainable Earnings

Valuation Driver(s):

Acquihire (recruiter fees)
Time to market
Potential upside (earnout)
Replacement Value
DCF
Market Multiples (private)

Market Multiples (public)
Forward Growth
Forward Earnings

COMPANY TIMING - ROI



Optimize operations to be diligence-ready

- Virtual Data Room
- Formation, minutes, contracts, cap table, quarterly financials, etc.
- Consistency, tracking of contract terms; knowledge of exceptions
- Careful documentation of encumbrances
- Funnel metrics and trends (aggregate)
- Up-to-date social profiles and web site
- Total alignment of vision from top to bottom of org

Messaging – too early

- “We are creating value quickly; it is too early for us to sell”
- “We are interested in exploring partnership opportunities (not M&A) that can accelerate our growth”
  - OEM
  - Distribution
  - Licensing

Messaging – let's talk

- "We periodically get similar inquires"
- "We have multiple shareholders and a fiduciary duty to protect their interests"
- "We would have to get approval at the board level before we could engage – and they would insist on a formal process"

Know your buyers (*rethinking synergies*)

- What resources do you need in order to grow faster than your market?
  - Is there an acquirer that can efficiently give you those resources?
- What are the acquirer's KPIs?
  - Can you enhance their performance (and valuation)?
- Who does the acquirer sell to? Are they suitable targets for you?
  - Customer size, vertical market, ASP, revenue model
- Ignoring M&A, what would a partnership look like?

Responsibilities (and liabilities) regarding M&A

http://bit.ly/2DBiGBZ

Choosing an M&A Advisor

A Guide for Investors, Boards, and Management

Featured Presenter: Nat Burgess, Founder - TechStrat

Wednesday, November, 15, 2017 | 11AM PDT

Hosted by:

securedocs

TechStrat

The board governs (management manages)

- Decision to sell the
- Liability for not meeting “Revlon” standard of care
- Protected by business judgment rule
- No protection if self-dealing, putting personal interests ahead of company interests
- No obligation to hire advisors, but hiring appropriate advisors helps meet Revlon, reduces potential for real and perceived conflicts, and protects the interests of the shareholders
- Oversee process through an M&A committee (to monitor, not micro-manage)

When to start an M&A process

Strategic Sale

- Board, shareholders and management are aligned around the probable valuation and structure
- You have sufficient internal resources (and external help) to endure the process without damage to your business (the business MUST perform)
- You have a credible approach (or approaches)

Forced Sale

- You have at least six months of runway
- You have a credible value proposition
- You have exhausted the alternatives

How to manage an M&A process

- Small working group (M&A committee)
- Clear responsibilities and milestones
- PCL, CIM, Teaser, Call Script, Confidentiality, Timeline, Process Letter, IOI, LOI, definitive agreement, data room, deal structure, indemnification, earnouts, escrows and holdbacks, employment agreements, retention holdbacks. . .

Retain experienced advisors

Legal: experience, and access to specialist resources

> M&A, contract, employment, tax, IP. . .

Financial (Banker):

> Who will actually do the work? (Personal services contract)

> Transactional experience in your segment

> Relationships with buyers

> Ability to pitch; to craft a "theory of the deal" and get people excited about it

> Negotiation skills

> Put experience on your side; buyers do a lot of deals

Q&A

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