

Planning for the Exit Seminar

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Numerous Considerations Can Drive the Timing of a Sale

Internal Catalysts

Founder is Ready and Wants to Sell

Funding Hurdle

Internal Dynamics Among
Management and/or Board

Confidence in Prospects for Future

Complicated Capital Structure

External Catalysts

Inbound M&A Offer(s)

Change in Market Dynamics

Leading Competitor Acquired

The Decision to Embark on the M&A Process is an Important One

Challenges

There is a lot more to the M&A world than meets the eye.

There are many types of mistakes that can be made.

Mistakes can have a big impact on the outcome, even when that impact is not immediately apparent.

Good News

There is real opportunity in the M&A market.

The decision to embark on the M&A path is a strategic issue.

You can avoid making mistakes if you are well-advised.

Characteristics of the M&A Market

- **Dynamic and Fluid**
- **Competitive**
- **Highly Imperfect**
- **Numerous Inefficiencies**
- **Characterized by Wide Valuation Disparities**

The Sale Process Involves Numerous Elements

- **Sign Confidentiality Agreements**
- **Create and Distribute Investor Presentations**
- **Negotiate a Letter of Intent/Memorandum of Understanding**
- **Deliver Management Presentations**
- **Perform Due Diligence**
- **Negotiate a Merger Agreement**
- **Create Disclosure Schedules**
- **Other Signing and Closing Requirements**

Companies Can Take Steps to Prepare Themselves

- **Track Key Operating Metrics that Will Be Important to Acquirers**
- **Demonstrate Ability to Grow Within Your Existing Customer Base**
- **Product Roadmap and Growth Plan Must be Supportable**
- **Large and Growing Pipeline and Ability to Convert Pipeline Historically**
- **Acquirers Like Clean Capital and Legal Structures!**
- **Get an Audit**
- **Identify Potential Issues Early**
- **Establish Relationships with Logical Acquirers Early (Customer Relationships, Partnerships, etc.)**
- **Stage M&A Process – Logical Buyers May be Cross-Border**

Creating Value is a Combination of Art and Science

$$\text{Price} = V + (S + C)^e$$

“Scientific” Value (Baseline)

Story (Developing a Compelling Story)

Competition (Use a Competitive Process)

emotion (Evoking Buyer Emotion)

Approaches to Valuing a Business

Each of the Below Methodologies Provides Insight Into the Valuation of a Business.

Methodology

Comparison to Publicly Traded Companies

Comparison to Related M&A Transactions

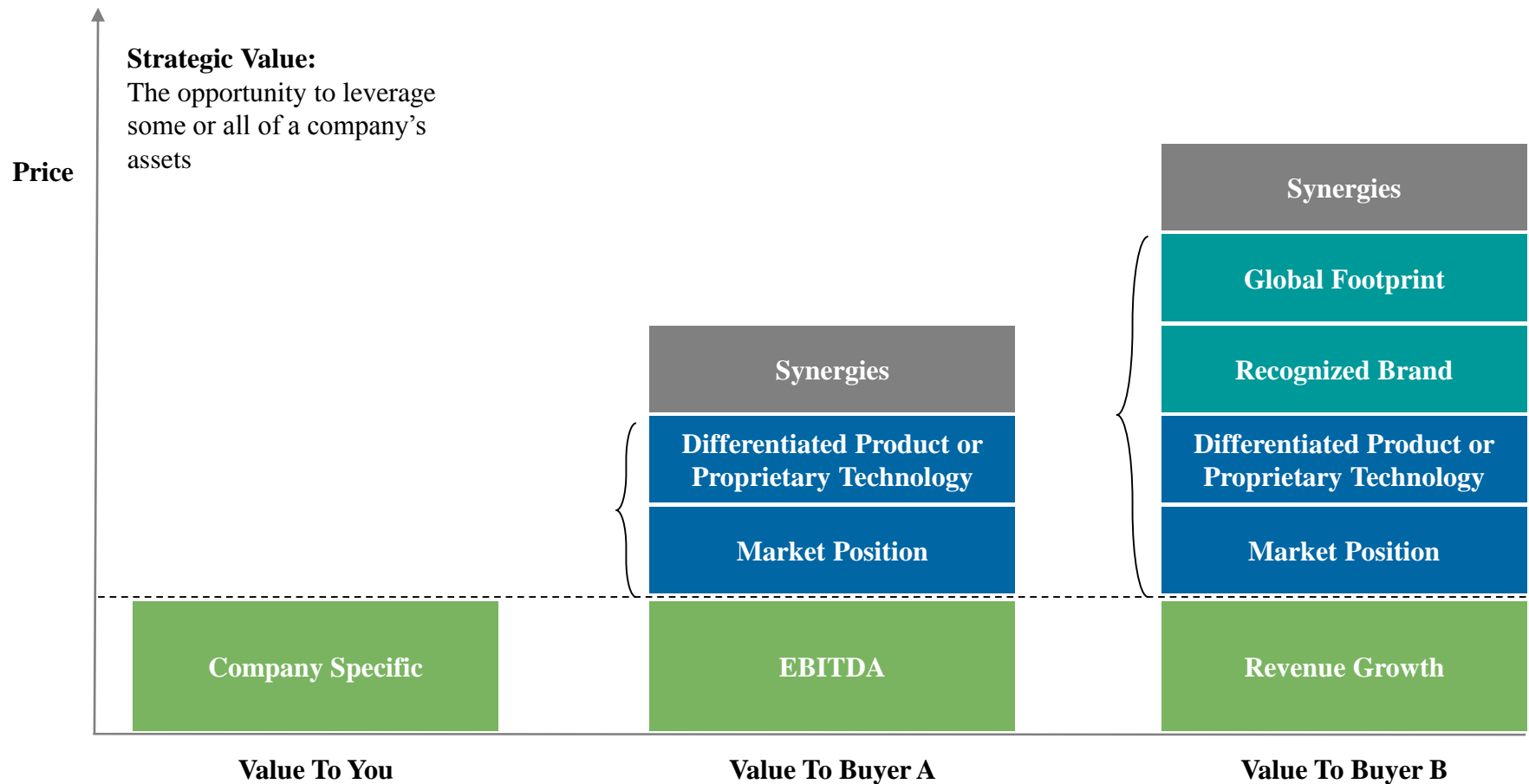
Discounted Cash Flow Analysis – Terminal Value Method

Leveraged Buy Out and VC Investment Analysis

Synergy Analysis

At the End of the Day, A Business is Worth What Someone is Willing to Pay For It

Different Buyers Have Different Valuation Frameworks



Source: Navidar and Other Sources.

Having a Strategy for Creating the Outlier Bid is Critical

- **Create Compelling Positioning Story that Clearly Differentiates the Company**
- **“Frame the Debate” – Take Steps to Ensure that the Company Is Evaluated By Acquirers In the Most Advantageous Way**
- **Present Financial Projections that Will Withstand Diligence Scrutiny**
- **Create Valuation Framework that Is Both Analytically and Story Driven, and Customized For Each Buyer**
- **Prepare the Company For Diligence and Address Deal Issues Well In Advance**
- **Canvass Broad Set of Potential Acquirers, But Create the Sense of a Narrow and Targeted Auction**

Key Mistakes to Avoid in the M&A Process

Mistakes Can Decrease the Value of a Company:

- **Negotiation Strategy Mismatched With Actions**
- **Anticipating Deal Issues Too Late**
- **Lackluster and Unfocused Process**
- **Improperly Positioning the Story**
- **Disconnect Between Market Opportunity and Model**
- **Analytical Support Not Fully Developed**
- **Answering Due Diligence Questions Poorly**

Concluding Thoughts

- **The Decision to Sell is an Important One**
- **The M&A Market is Very Inefficient**
- **It Pays to Prepare Early for the Sale**
- **Valuation is Multi-Pronged**
- **Positioning Your Story for Buyers is Key**
- **Avoid Mistakes and Get Good Advice**