

Selling or Buying – How to Exit

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Agenda

- ▣ Choose Your Own Adventure!
- ▣ Market Conditions
- ▣ Building a Market Map
- ▣ Valuation and Terms
- ▣ Due Diligence
- ▣ Business Development as a Process
- ▣ Q&A



Market Conditions

Buying or Selling?

- Reasons to Sell
 - Retire
 - Just tired?
 - Exit value – start something new

- Reasons to Buy
 - Extend your geo
 - New business lines
 - Getting a deal that will help grow

To Whom?

- ▣ Outside company
 - ▣ Have cash to buy
 - ▣ Likely earnout – you run the business with 5 year payout
- ▣ Employees
 - ▣ Don't have cash to buy
 - ▣ They use your \$\$ over time to buy you out
- ▣ Family Members
 - ▣ Don't have cash to buy
 - ▣ They use your \$\$ over time to buy you out

Choose Your Own Adventure

Bankable?

- Predictable & forecastable revenue
- Annual Growth with Assets

Time to Sell?

- Support from existing investors or tired
- Solid growth <50% annually

Time to Buy?

- Drive to grow
- Opportunity

About You?

- Ready for the next adventure?
- Material return for founders and team

Market Map: Key Factors for Different Acquirer Groups

Strategic Acquirer

- Build vs buy to fill market gap
- Revenue/growth rate/profitability validate team, product, and Go-To-Market
- Prefer to acquire companies that they already have a working relationship with
- Positioning for sale at best valuation can take 12 months or more

PE Firms/Aggregators

- Typically looking for a minimum of \$3-5M in revenue
- Rule of 40: Growth rate + EBITDA rate > 40%
- Breakeven or Profitable (path to \$1M annual EBITDA)
- Buying based on financial model and sector potential
- Acquisition discussions can move much faster than those with strategics

Private Company multiples tend to run at 25% discount to public due to lack of liquidity (Service Company multiple is .75-1.5x TTM, Product is >4x)



Exit valuation drivers

Company Revenue

Company Growth Rate

Sector and Addressable Market

Profitability (if profitable, brings PE firms into play)

Customer Retention Rate



Multiple Bidders can increase Exit Revenue Multiple by 20-50%

Valuation Factors

Acquirehire

- ▣ Usually means:
 - ▣ Place to land the team or product
 - ▣ Minimum return for investors
 - ▣ Employment agreements with bonus potential
- ▣ Price based on number of tech talent on the team
 - ▣ \$ per engineer
 - ▣ \$ per product manager
 - ▣ No \$\$ for business people

As a Buyer

- ▣ Cash requirements can be limited
 - ▣ e.g. 50% up front and 50% over five year
 - ▣ Asset purchase – leaves liabilities with seller
 - ▣ Provide seller with a job
 - ▣ Provide operating cash and expertise to grow
 - ▣ Pay the seller over time – with proceeds from growth
- * Requires you have confidence in growth

Typical Offer Components

Deal Structure

- Asset vs Share Purchase
- \$ to shareholders upfront
- Escrow
- Earnouts

Key Employee Packages

- Move to market rate salaries
- Time based milestones and/or earn-outs over 2-3 years

Due Diligence Checklist

- Financial Statements
 - Three Year – non audited
 - Balance Sheet & Income Statements
- Forecast or Pro-Forma
 - Future growth
- Corporate Docs
 - Articles, Bylaws, Minutes
- Securities/Indebtedness
 - Stock or debt docs
- Employee/Service Provider Agreements
 - Current and Past employees
- Contracts
 - Customers
 - Leases
- Disputes and Litigation
- Regulatory – if any
- Taxes

*Link above to 4 Page DD checklist

Deal Blockers Breakers



Inflated Exit Expectations

("I wish I had taken the deal is #1 lament....")



Poor Corporate Hygiene

(Taxes, Corp Docs not in order)



Bad or Unknown News

(Moral is to get deal done ASAP)



Surprises in Diligence

(Better to confess than be found out)

Case Study – Family Transition

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Third-Gen Family Company



Three sons applying to run the business. Two work for the company



Negotiated price between Dad and Sons. Set annual salary



Build a growth plan with new leadership



10 Year Payback Window

Case Study – Strategic Exit

Early
Stage
B2B
Software
Company



Ongoing Business Development Discussions with Strategics



One strategic indicated working toward an LOI



Ran a Dual Process of Fundraising and M&A Discussions



Contacted all other strategics to assess their buy vs. build interest level



Within 30 days, closed with a different strategic from the initial bidder with an 88% premium over the initial bid



Extremely high TTM multiple based on technology fitting market cap

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Business Development Driven M&A



Strategics

Build Market Map and prioritize targets based on product fit and business case

Outreach to establish working relationships (integration, OEM, reseller, etc)

Focus on top 3-5 potential acquirers and prove out the business case

Goal is to establish an anchor bidder and then run process around them



Private Equity

Build list of relevant midmarket private equity firms

Prepare diligence materials and begin outreach

If running a strategic BD process, can drip market PE firms along the way

Q&A