

PREPPING FOR EXIT

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Agenda

- Introductions
- Choose Your Own Adventure!
- Building a Market Map
- M&A Process
- Pricing and Terms
- Business Development as a Process
- Q&A

About Dave

- 5X founder, raised \$12M, exited \$85M
- Former CEO of The Entrepreneurs' Organization, COO/ SVP Programs at UP Global (Startup Weekend) sold to Techstars
- Author – "[Trajectory: Startup–Ideation to Product Market Fit](#)"
- 3X VC (Random Angel) ~80 early-stage deals
- >20 transactions actively through [NextPath Advisors](#)

Market Conditions



Choose Your Own Adventure

- Fundable?
 - Predictable & forecastable revenue
 - Marketing and Sales Motion
 - >50% Annual Growth
 - Raise \$5M exit >\$50M
- Time to Sell?
 - Support from existing investors or tired
 - Not on the Unicorn track
 - Solid growth <50% annually

Decision Tree

- Start with You: your motivations, drive, energy, and timing
- Stake holder impact
 - Employees
 - Investors
 - Customers
- “LiqPref” waterfall – know the numbers
- The Board

Mechanics

- Professional Team
 - Transaction Attorney
 - Advisor vs. Broker/Dealer
 - \$50M was the guideline – then it got murkier. Selling stock is not murky – BD. Company sales can go either way
- Fees
 - Success Fee 2.5-3.5%
 - Retainer

Market Map: Key Factors for Different Acquirer Groups

Strategic Acquirer

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

PE Firms/Aggregators

- Rule of 40: Growth rate + EBITDA rate > 40%
- Profitability (path to \$1M annual EBITDA)
- Buying based on financial model and sector potential
- Acquisition discussions can move much faster than those with strategics
- Quality of business diligence materials very important

Private Company multiples tend to run at 25% discount to public due to lack of liquidity (Median private company SaaS multiple is 4.5x TTM)

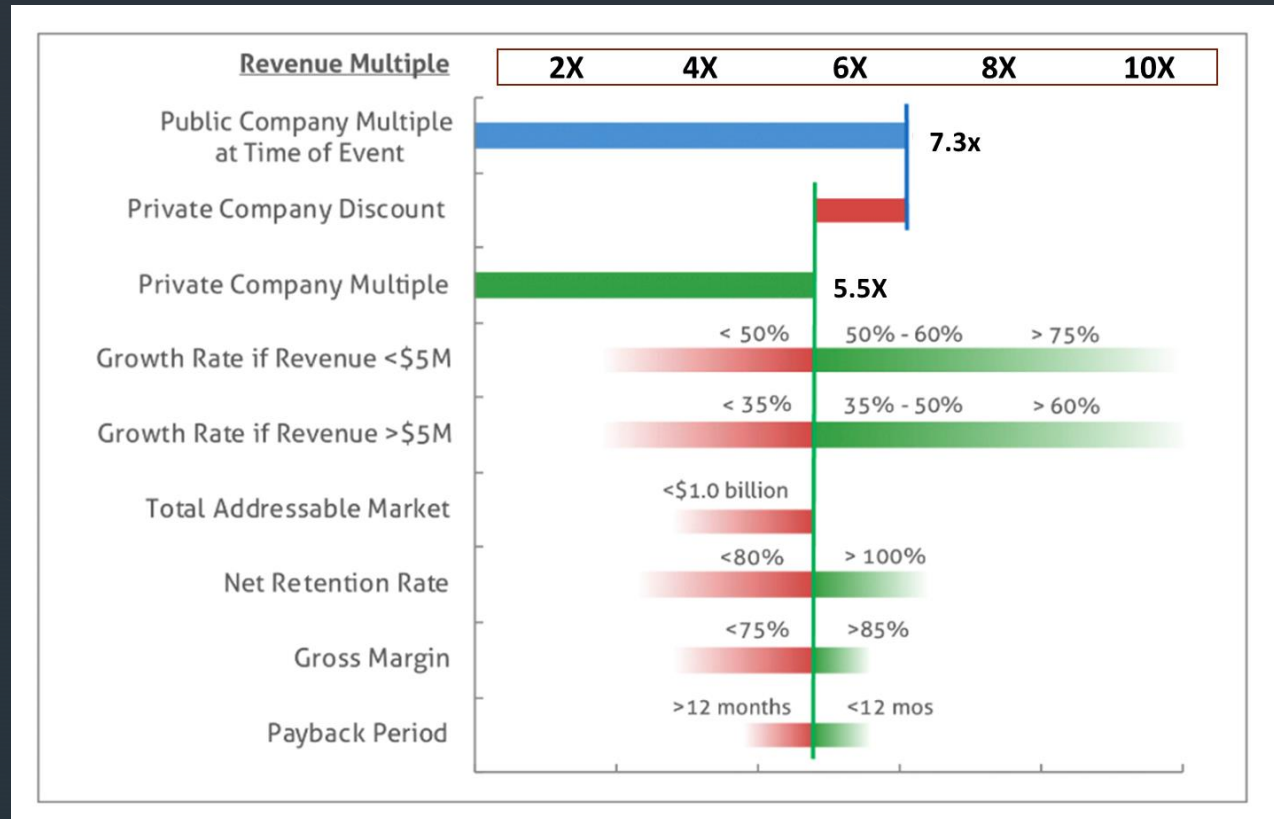
Exit valuation drivers

Company Revenue	Company Growth Rate	Sector and Addressable Market	Profitability (if profitable, brings PE firms into play)	Customer Retention Rate
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Multiple Bidders can increase Exit Revenue Multiple by 20-50%

Valuation Factors

Valuation Multiple Influencers



Typical Offer Components

Deal Structure

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

Retention Packages

- Typical 2-3 years for key employees
- Time based milestones and/or earn-outs

Process

- Advisor/BD builds a market map
- Targeted buyers – with a history of M&A and cash to make the acquisition – generally publicly available.
- Concurrent outreach builds momentum
- Demo and DD calls
- LOI – no shop
- Final DD
- Closing
- 6 months timeline

Data Room

- Secure version of a Gdrive – track user, tiered access, watermarked
- Content
 - Corp docs – incorporation
 - Cap table and stock purchase docs
 - Founder docs – assignment agreements
 - Employee docs
 - All contracts

Due Diligence Checklist

- Organizational Matters
 - Articles of Incorporation, Bylaws, Minutes
- Founder Matters
 - Stock Purchase Agreements, Vesting Schedules, IP Assignment Agreement
- Financial Statements
 - Balance Sheet, Income Statement
- Security Issuances
 - Prior Funding docs
- Employee /Service Provider Agreements
 - List of all persons providing services, Current and past employees
- Intellectual Property
 - Patents, Trademarks, Copyrights
 - Domain Names
- Material Agreements
 - Standard Form Agreements
- Insurance
- Indebtedness
- Leases
- Real Estate
- Disputes & Litigation
 - Any correspondence threatening action
- Regulatory Matters
- Inquiries or applications
- Taxes
 - CPA Firm
 - Tax Returns

Link above includes 4-page detailed downloadable Word Document



Why Deals Fall Apart

- Due Diligence – corporate hygiene
- Bad News
- Overselling
- Founder Expectations



Case Study – Strategic Exit

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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 bidder



Extremely high TTM multiple (>100X) based on technology fitting market gap



Case Study – PE Exit

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Mid-stage B2B Software Company



Focus on Business Development with goal of M&A within 12 months



Identified 5 New Industry Segments and 57 Potential Partners



Revamped website, product roadmap, and demos to address overall market positioning and new categories



Contacted the prioritized partners at senior executive level to assess fit and partner interest. Developed GTM plans with engaged strategics



Drip marketed private equity firms



Unsolicited bid made for company as a result of process with a negotiated exit well above market (8.3X TTM).



Partner Development Process – 7 months, M&A Process - 2 months

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 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

