

Business Growth Optimization

Strategies to Accelerate Growth Via Acquisition

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Why Buy?



EXPAND GEOGRAPHIC
COVERAGE – BOTH
NATIONALLY, AND
INTERNATIONALLY



ACQUIRE MORE CUSTOMER
LOGOS TO CROSS-SELL, UP-
SELL OTHER PRODUCTS



EXPAND INTO NEW
VERTICALS OR SUB-
VERTICALS



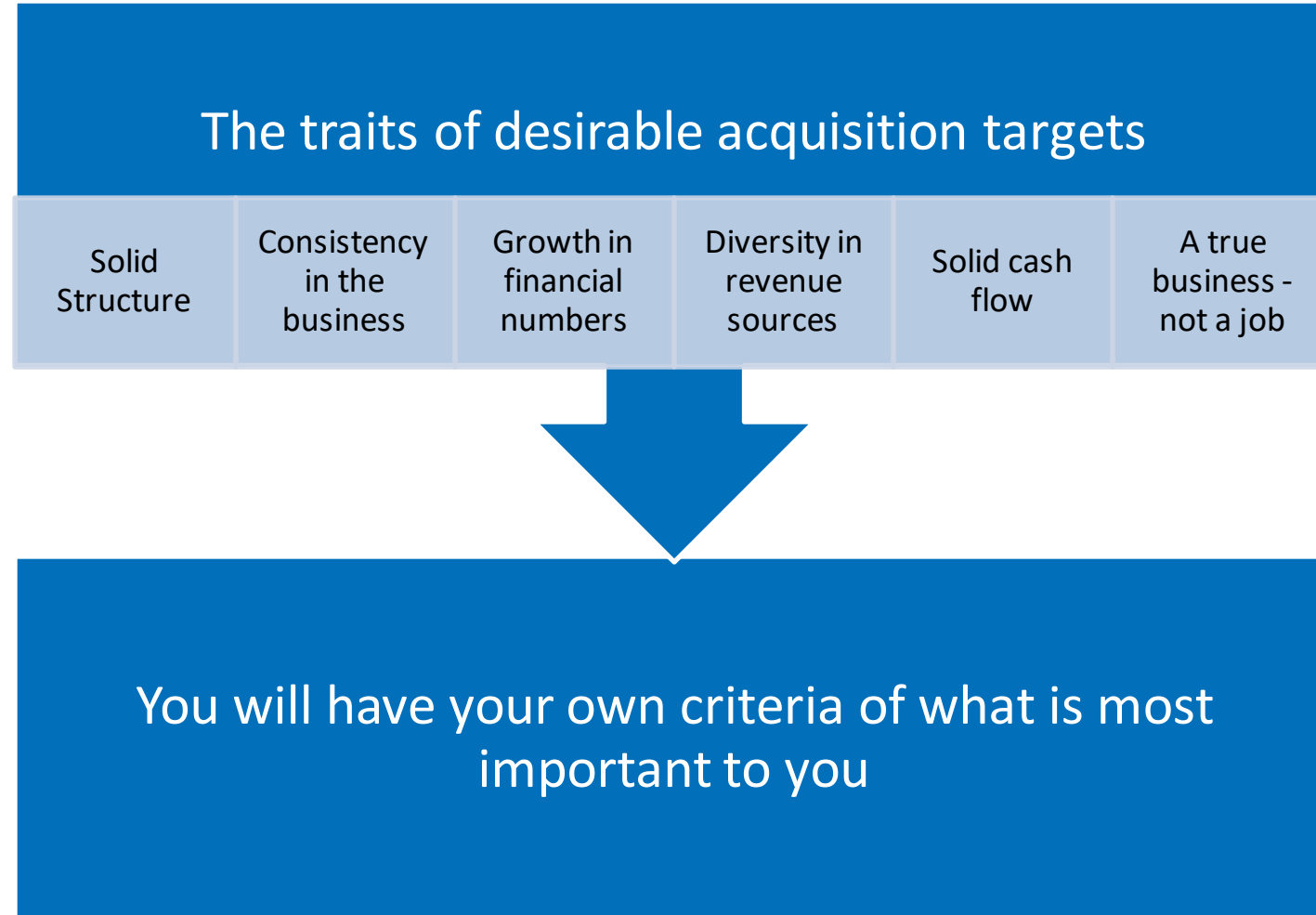
CREATE A LARGER COMPANY
WITH CENTRALIZED
ECONOMIES OF SCALE



REMOVE A STUBBORN
COMPETITOR

Courtesy of Jay McBain - Forrester®

What are You Looking for as a Buyer?



Courtesy of Jay McBain - Forrester®

What is a Business Worth?

- Valuation Can Be Significantly Influenced by the Type of Buyer
 - Financial Buyer
 - Strategic Buyer
- 2 Important Factors
 - Valuation
 - Evaluation
- Business valuation is not just based on gross revenue but on profit and cash flow
 - Typically an industry based multiple of EBITDA
 - Gross revenue multiples used if profits match
 - Other methods possibly used are discounted cash flow (also known as income capitalization) and MRR
 - Normally 2 or 3 methods involving 3 years of financial data are implemented and an average taken



High Performer Gross Margin Targets

Gross Margin Goal

Target = >60% for Services &
Subscriptions, 30% for
Hardware

Higher is Better

SG&A Goal

Target = <30%

Lower is Better

EBITDA Goal

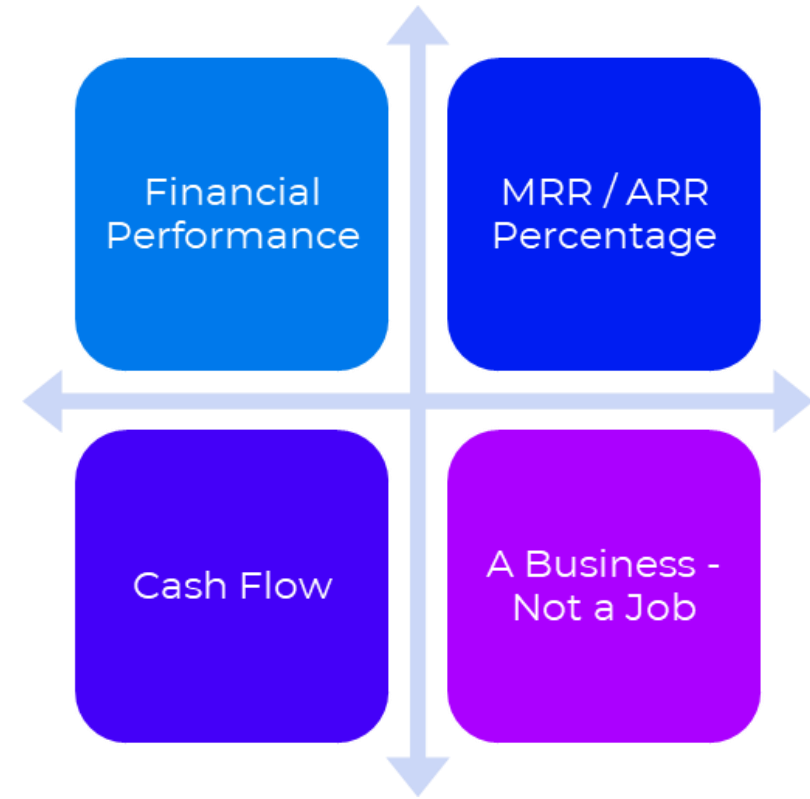
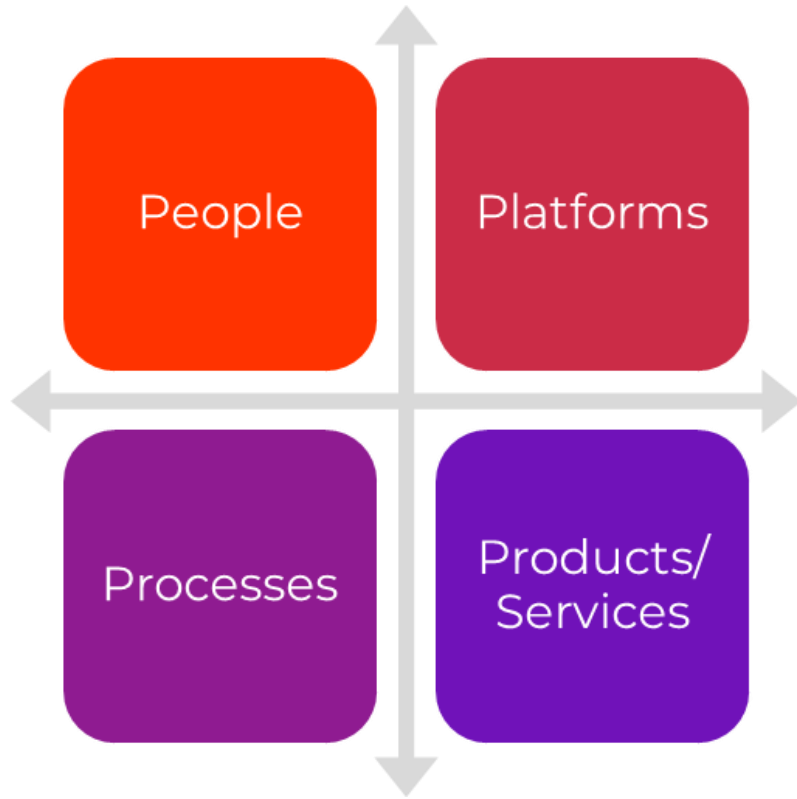
Target = 18%

Higher is Better

What is the Business Valuation Criteria?

Valuation Basis	Non-MRR/ARR Business Model	MRR/ARR Business Model
Revenue Multiple	0.2-1.5x	2-6x
EBITDA Multiple	2-2.5x	5-14x

What is the Business Evaluation Criteria?

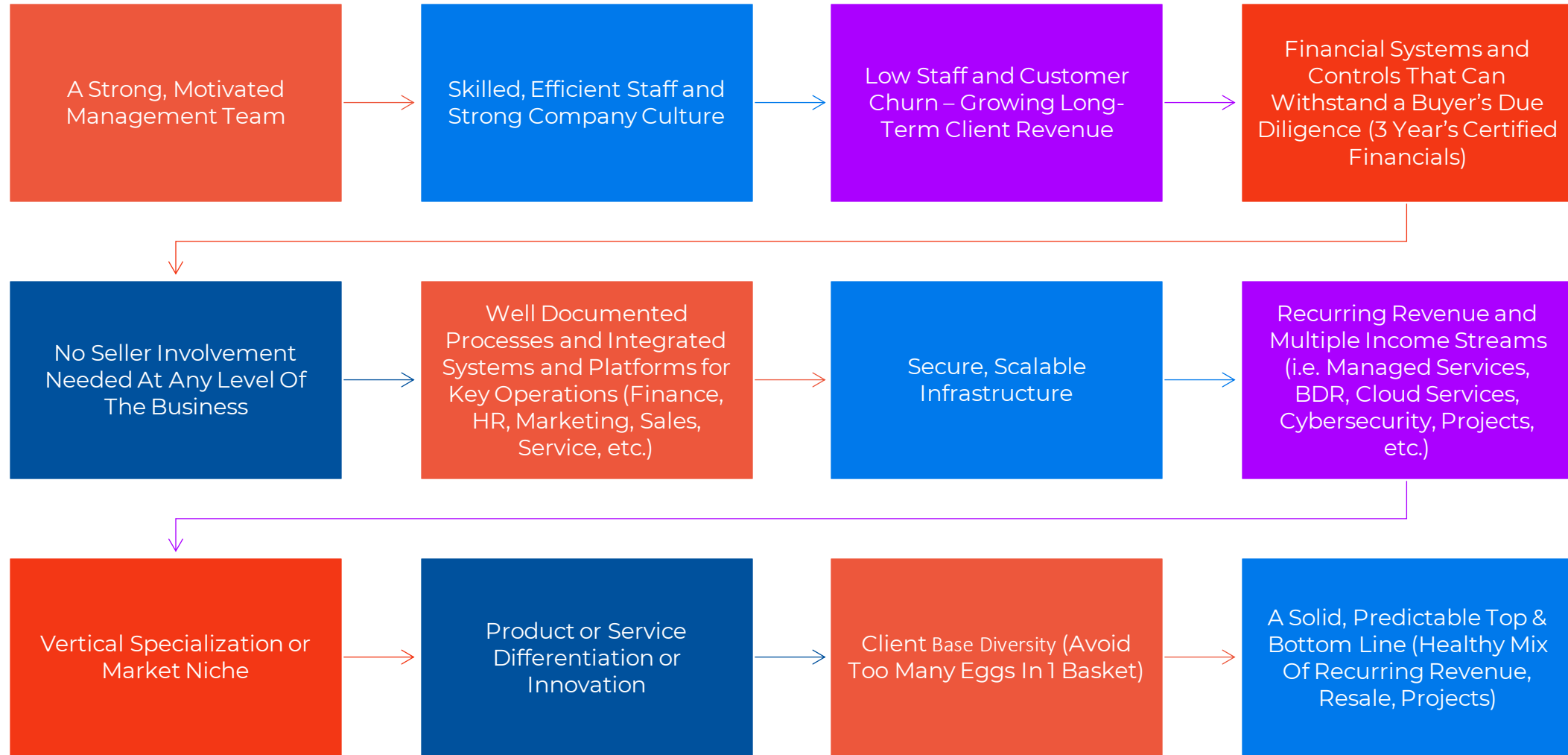


So...what is a business worth?

- You will have your own criteria of what is most important to you including metrics and your alignment with them
- You should pay for recent history & present value coupled with your thoughts on what the future value is under your leadership. Not what the seller thinks the “potential” is.
- At the end of the day, the true value is whatever you (or another buyer) are willing to pay for it.



How Can Business Value Be Maximized?





What Else Influences a Higher Valuation?

Profit is maximized

Time is used productively and is well managed

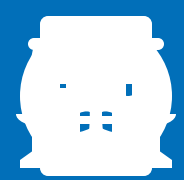
Business does not rely on the owner to function on a day-to-day basis

Operational functions of the business are predictable, systematized, and/or automated

Clients are more ideal & well managed minimizing the need for constant new clients

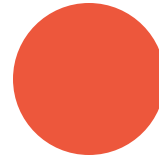
What Does the Buying/Selling Process Look Like?

- A Confidential Information Memorandum (CIM) is created to interest buyers
- A Potential Buyers/Sellers List is created and marketed to
- NDAs and Confidentiality Agreements are Signed, CIMs are Sent to Interested Buyers
- Interested Buyers Will Send an Indication of Interest (IOI) or Letter of Interest (LOI) Detailing Initial Valuation and Deal Structure Parameters Should Due Diligence Support CIM and Business Performance Representations (Price, Earn-Out, etc.)
- Due Diligence Phase - Valuation & Evaluation Occurs (operational, financial and legal history is scrutinized along with management and staff, customer information and agreements, marketing, sales and service processes, etc.)
- Negotiation – Where the Post-Sale Transition Details are Hammered Out Between You and the Buyer (Purchase and Sale Agreement, Transitional Service Agreement, Non-Compete Agreement, Transition Agreement are Finalized)
- Purchase is Completed and the Post-Sale Transition Process Begins



**The most
complex sales
transaction in
your life.**

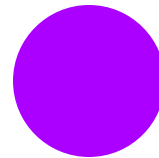
**Don't go it
alone!**



Financial
Accountant/
CPA



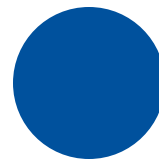
Tax CPA/
Lawyer



Experienced
M&A Attorney



M&A Advisor,
Broker, or
Banker



M&A Coach?

Best Practices For Post—Transaction Integration

Begins Prior to Acquisition Close

Preparation

- Define success
- Develop and adhere to an integration framework
- Don't make Day 1 bigger than it needs to be
- Develop a time-based, goal-centric integration plan
- If and when an organizational alignment occurs, communicate and stick to it
- Identify your key players
- Plan and provision for cultural resistance
- Develop realistic internal IT timeline and budget, but hold partners accountable for their timeline and budget
- Get everyone speaking the same language

30-90 Days

Execution

- Integration is a full-time job requiring a dedicated project manager
- In spite of preparation, things will go wrong...it's how you react that matters
- Over-communicate, and then communicate some more
- Measure success against project milestones and synergy goal

180+ Days

Improvement

- Transition full-time integration project management to various owners
- Don't lose sight of longer-term integration milestones
- Continue to measure success through management dashboards/reports

Develop Your 90 Day Plan

Align Strategy

- Understand Buyer and Acquisition and Deal Synergies
- Define Success
- Confirm Leadership Commitment

Identify Culture

- Assess Cultural Differences
- Identify “Keeps” and “Gives” for Both Organizations

Dedicate Resources

- Create A+ Teams to Lead Integration Initiatives
- Agree Roles & Responsibilities; Tie to Strategy
- Measure Team Performance and Task Completion

Develop Action Plans

- Define and Prioritize Initiatives
- Develop Detailed Action Plans for Achieving Synergies

Execute

- Define Desired End State
- Set Metrics and Monitor Team Progress
- Transition to Operations

Aligning Strategy

Define Short, Mid
and Long-Term
Success

- People - Integration, Training, Hiring, Exits, Comp, Performance Goals, Measurement and Review
- Process - Normalization/Standardization, Documentation, Training and Reporting (Admin, Operations, Marketing, Sales, Service Delivery)
- Product, Service and Solution – Sales Growth Targets
- Cost Saving Synergies – Hard and Soft Savings (Professional Fees, Insurance, Procurement, etc.)

Develop Integration
Framework

- People
- Processes
- Systems
- Portfolio
- Customers
- Suppliers

Don't Make Day 1 Bigger Than It Needs To Be

Focus Area	Acquisition	Buyer
Reporting Structure	No Change	No Change
Employees	No change; keep current benefit plan through (TBD)	No Change
Base Revenue	Credited to Acquisition	Credited to Buyer
Joint Synergy Buyer	Single revenue goal based on cross-selling; 50/50 split between Acquisition and Buyer	Single revenue goal based on cross-selling; 50/50 split between Acquisition and Buyer
Commission Structure	At Acquisition's Discretion	At Buyer's Discretion
Customers	Current; determine any overlap and strategy to address it	Current; determine any overlap and strategy to address it
Branding	Current Branding with Input from Acquisition and Buyer	No Change

Develop a Time-Based, Goal-Centric Integration Plan

Day 1

Day 30

Day 90

Day 180

Operations	<ul style="list-style-type: none"> • Customer and Supplier Overlap Analysis • Technical, Operational and Administrative Resource Overlap Analysis • Synergy Identification 	<ul style="list-style-type: none"> • Overlapping Customer Coverage • Sales Force Training • Contract Prioritization • Contract Roadmap • Sales Plan Development 		<ul style="list-style-type: none"> • Single Commission Structure
Accounting	<ul style="list-style-type: none"> • Acquisition Hard Close • Create 'NewCo' • Check Signing Authority/Printing • Vendor Comparison & Upload • Acquisition Budget 	<ul style="list-style-type: none"> • Purchase Price Allocation • Equity Calculations & Entry • Interim Month-end Close • Review of Supplier Spend Reports 	<ul style="list-style-type: none"> • Accounting System Migration 	<ul style="list-style-type: none"> • Bank Account Consolidation • Corp CC / Travel & Expense Migration
IT	<ul style="list-style-type: none"> • Membership Scrub • Member List Distribution 	<ul style="list-style-type: none"> • IT & Security Assessment 	<ul style="list-style-type: none"> • LOB and Sales CRM Migration • PSA and RMM Tool Migration 	<ul style="list-style-type: none"> • Laptops, Desktops, Infrastructure
HR	<ul style="list-style-type: none"> • I-9 Verification 			<ul style="list-style-type: none"> • Employee Badge-over, Onboarding • Acquisition Compensation Adj. • 401K Ownership Transfer • Acquisition Benefits Enrollment • Payroll Migration
Communications	<ul style="list-style-type: none"> • Press Release • Internal Buyer Comms • Acquisition Supplier Comms • Buyer Customer Comms 	<ul style="list-style-type: none"> • Acquisition Welcome Meeting 	<ul style="list-style-type: none"> • Quarterly/Annual Kickoff 	<ul style="list-style-type: none"> • Branding

**Between 30-90
Days**

Focus Area	Acquisition	Buyer
Organization Structure	Consolidated	
Employees	Consolidated back-office; single benefits plan; Potentially Separate Sales teams based on specialization	
Revenue	Sales Plan as Determined	Sales Plan as Determined
Commission Structure	At Acquisition's Discretion	At Buyer's Discretion
Customers	As determined by growth strategy and Sales Plan	As determined by growth strategy and Sales Plan
Branding	TBD	TBD



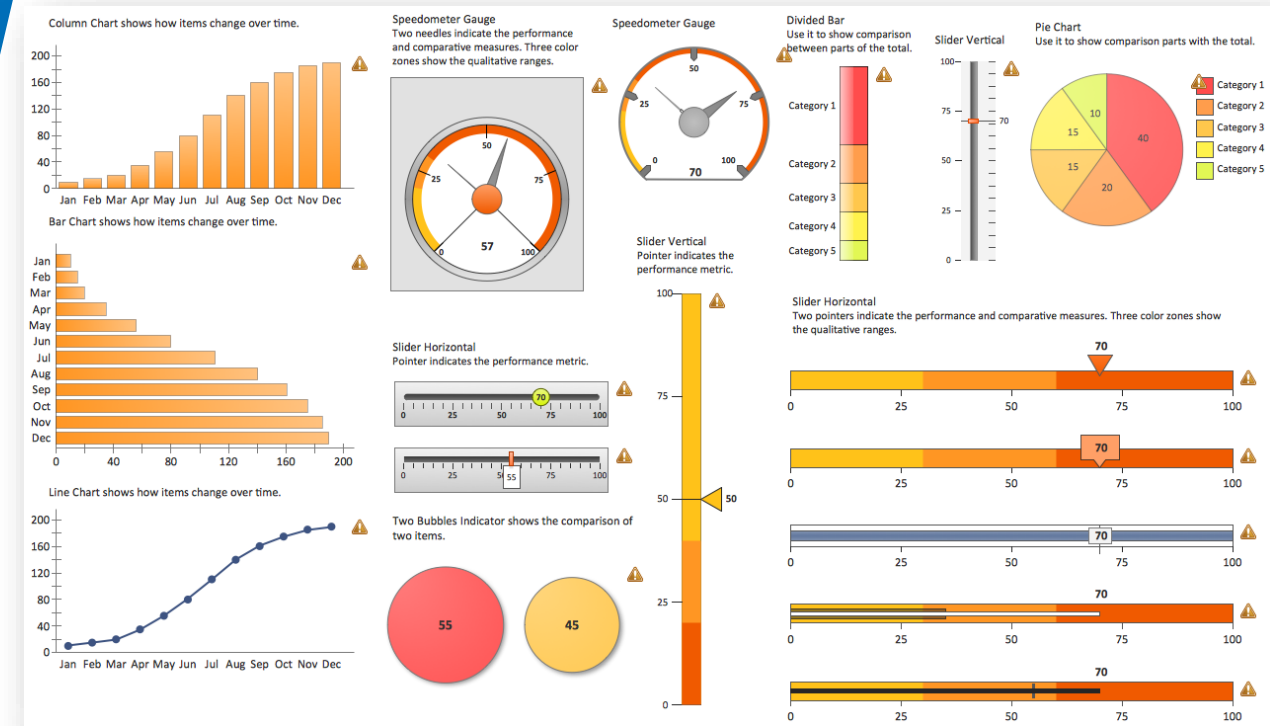
The People Part is the Most Challenging

- When organizational alignment occurs, communicate and stick to it
- May or may not be on Day 1
- Avoid undefined future state org charts or transitional org charts
- Use DISC Behavioral Profiling, Role Surveys and Leadership Self-Assessments
- Understand how best to communicate and connect with Acquisition resources
- Understand where they see themselves in the organization – leader, follower or neither
- Identify dissatisfaction early and develop and implement strategies to deal with it
- Identify your key players
- Employees tend to ask question of “what does this mean for me?”
- Clearly define “this is where we are and this is where we are going.”
- Helps to avoid unnecessary attrition
- Plan and provision for cultural resistance – the longest element of overall change
- Pick your battles

Account	Description	Type	Normal Bala...	Functional Balance	Quantity	Status
00	Petty cash	Balance Sheet	Debit	0.00	No	Active
20	Bank account, operating	Balance Sheet	Debit	418,186.86	No	Active
21	Bank account, American Expr...	Balance Sheet	Debit	92,289.09	No	Active
22	Bank account, VISA	Balance Sheet	Debit	1,819,935.93	No	Active
23	Bank account, Mastercard	Balance Sheet	Debit	142,773.14	No	Active
25	CCB Visa	Balance Sheet	Debit	0.00	No	Active
27	Bank account, corporate	Balance Sheet	Debit	0.00	No	Active
30	Bank account, payroll	Balance Sheet	Debit	0.00	No	Active
45	SEATAC Visa	Balance Sheet	Debit	0.00	No	Active
00	Accts receivable, intercompany	Balance Sheet	Debit	255,549.07	No	Active
15	Accounts receivable, trade	Balance Sheet	Debit	11,405.04	No	Active
20	Accounts receivable, employ...	Balance Sheet	Debit	0.00	No	Active
40	Accounts receivable, other	Balance Sheet	Debit	0.00	No	Active
45	Accounts receivable, retainage	Balance Sheet	Debit	0.00	No	Active
90	Allowance for doubtful accts.	Balance Sheet	Credit	-30,000.00	No	Active
00	Investments, short term	Balance Sheet	Debit	0.00	No	Active
50	Investment, long-term	Balance Sheet	Debit	0.00	No	Active
00	Inventory	Balance Sheet	Debit	2,321,280.73	No	Active
10	Shipment Clearing	Balance Sheet	Debit	0.00	No	Active
20	Inventory, assembled	Balance Sheet	Debit	0.00	No	Active
30	Work in progress	Balance Sheet	Debit	0.00	No	Active
40	Credit Note Clearing	Balance Sheet	Debit	0.00	No	Active
60	Mfg WIP Asset	Balance Sheet	Debit	0.00	No	Active
00	Prepaid insurance	Balance Sheet	Debit	0.00	No	Active
20	Prepaid taxes	Balance Sheet	Debit	0.00	No	Active
30	Prepaid rent	Balance Sheet	Debit	0.00	No	Active
40	Prepayment, AP purchases	Balance Sheet	Debit	0.00	No	Active
00	Furniture and fixtures	Balance Sheet	Debit	0.00	No	Active
20	Equipment	Balance Sheet	Debit	0.00	No	Active

Accelerate Speaking the Same Language – Chart of Accounts Mapping/ Normalization

Accelerate Speaking the Same Language - Reporting



Measure Success





Continue the Momentum – 90 Days

- Transition Project Management To Various Owners
- Arm new owners with all of the necessary tools
- Project plans
- Communications plans
- Training materials
- List of internal and external resources
- Keep project status updates with executive management in place until entire project is complete

Don't Lose Sight of Longer-Term Milestones

Day 1

Day 30

Day 90

Day 180

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