



Software Company

M&A Readiness Assessment

October 1, 2020 / Fred Hencke

Table of Contents

Background

Assessment

Considerations

Next Steps

Appendix

| Background

Background

Industry Environment:

Serve the defense, law enforcement and security markets primarily

Software as a service (SaaS) platform with built-in artificial Intelligence (AI)

Utilize visuals and unstructured data to aid investigations and predictive analytics



Current Position:

- 8-year-old company; significant outside investment in 2016
- Boost in press from recent awards
- Potential uptick in sales due to technology application to COVID-19 pandemic



No M&A deals during the past 3 years

#1 Lesson Learned from previous M&A experience:

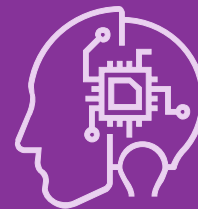
Determine up front where the “value” is in a deal, and do not lose sight of it while working through the mechanics of a deal and the subsequent blocking and tackling integration



Value Proposition:

Cutting edge technology streamlines investigations and reduces manual labor by a factor of 50

Speeds risk analysis and improves chance of earlier intervention



M&A Preparation

Primary motivators for considering an M&A strategy (in the future):



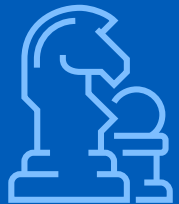
- Market segment access – a vertical industry (Increase Market Share)
- Access to new regions/geographic location(s)

Objectives:



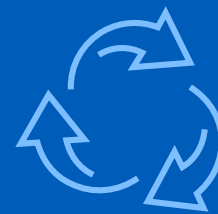
- Improve Sales and Operations
- Leverage targeted industry press to build further awareness
- Consider having recognized champion (customer) to confirm use and benefits

Strategy:



- Prepare for an M&A in the future, when ready

Product (time to market) focus requires:



- High energy and collaboration
- Customer success orientation
- Continuously evolving product and services Roadmap

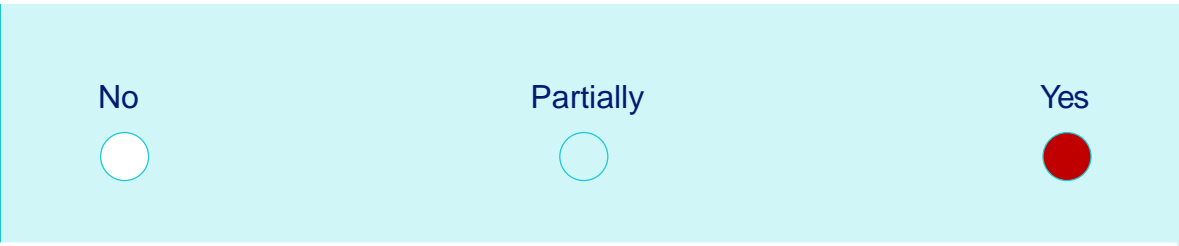
| Assessment


Current State Assessment

Part 1 of 2*

Leadership

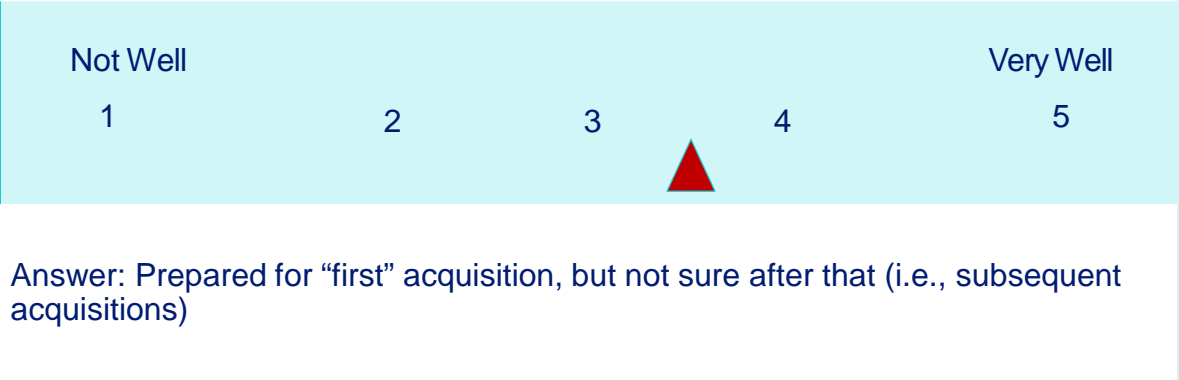

Have we considered the leadership styles and competencies needed to maximize this growth strategy?




Culture


Will our current culture effectively support rapid growth?

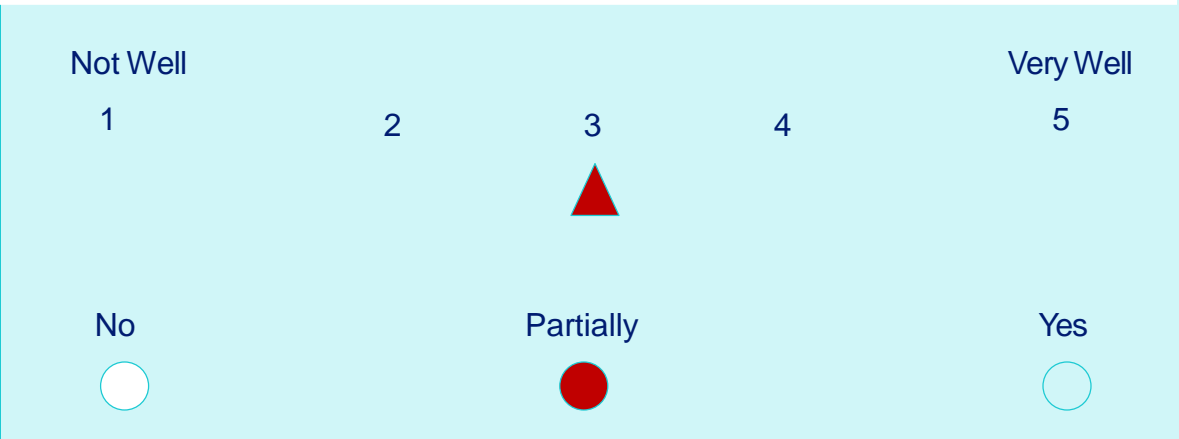
What will be the primary barrier to overcome?



Products and/or Services


Do our Product and Services teams currently operate collaboratively?

Do our Product/Service and Innovation Lifecycle processes encourage and reward collaboration?



*Based on our conversations, we scored “Software Company” based on the information you shared.

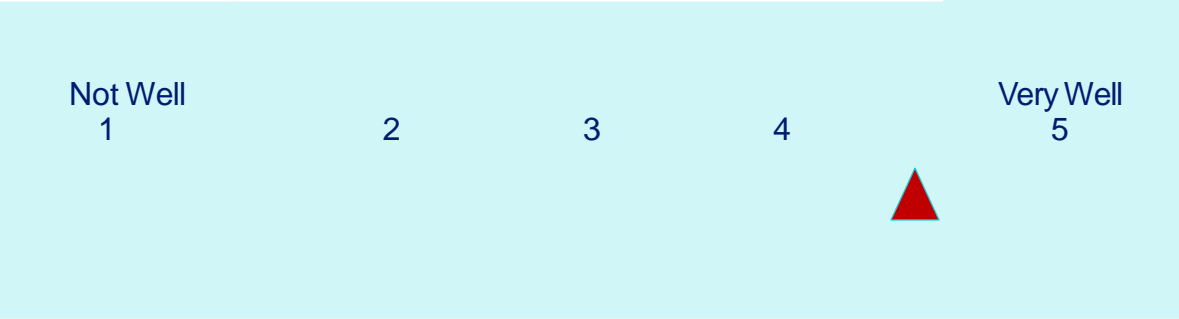
Current State Assessment

Part 2 of 2


Customers



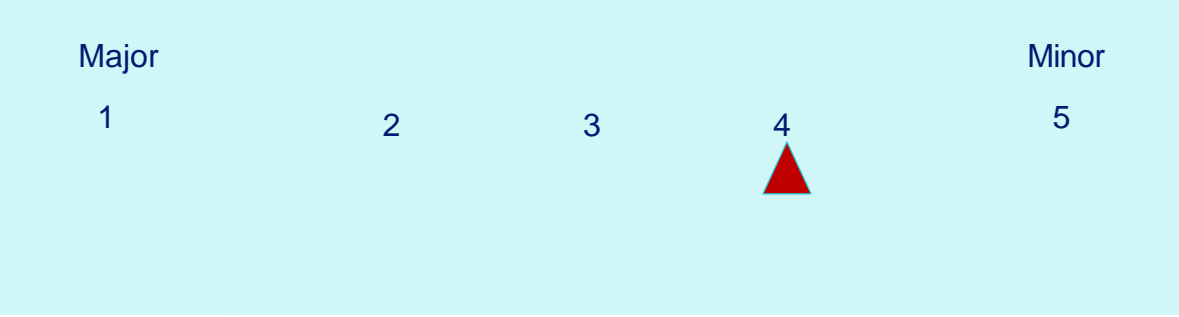
How prepared are our account management and customer service teams to take on new customers?




Governance



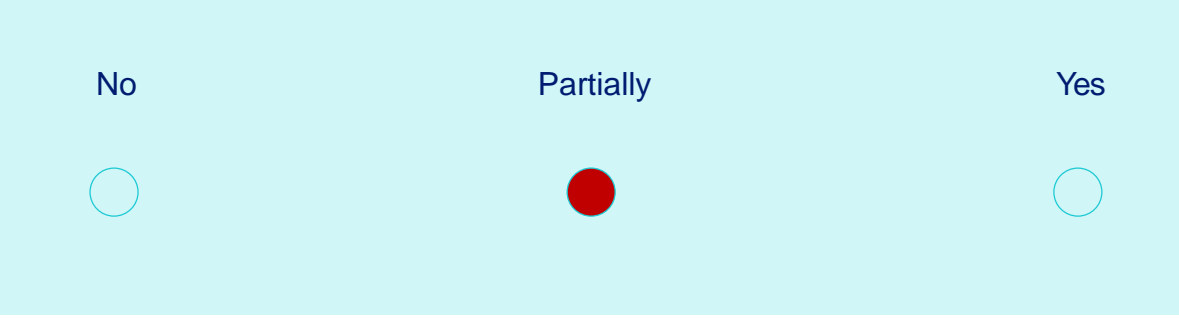
What level of modifications will be required to our Workforce Planning, Forecasting and Management processes, policies, and tools to accommodate rapid growth and change?



Organization



Will we need to re-align the organization to streamline decision making, provide better visibility and empowerment for managers, and improve business operations?



| Considerations

Considerations *Part 1 of 2*



Leadership

Have we considered the leadership styles and competencies needed to maximize future growth strategies?

“Yes” was selected given the current plans to hire an EVP of Sales and Operations.

Consider the leadership styles and competencies (of a potential/future acquisition) that best align with your leadership team and can accelerate your platform development and growth. A very divergent style may affect your team and impede growth.



Culture

Will our current culture effectively support rapid growth?

You scored a “3.5” relative to the potential challenges an acquisition may create.

Scoring a “3” or above suggests your organization may be prepared to embrace change, develop and execute a culture integration strategy, manage increased workloads during due diligence and integration stages, and proactively seek ways to create additional value. Think about unforeseen roadblocks based on key differences between the two companies.

What will be the primary barrier to overcome?

See comments above relative to leadership styles. This likely extends to work teams and all staff if the culture of the other company is strong and different from yours.



Products and/or Services

Do our Product and Services teams currently operate collaboratively?

You scored a “3.”

Those who score “3” or above need to look for creative ways to quickly align your development and services teams with those of the acquired organization, and have a solid game plan within the first 90 days. However, depending on other priorities, cross selling may be delayed, and cross-product integration may have to come later.


Do our Product/Service and Innovation Lifecycle processes encourage and reward collaboration?

Our understanding is “Partially.”

Since you indicated a desire to improve collaboration across the various functional areas of your organization (sales, operations, customer success, etc.), now is the time to start developing those strategies and tactics, before you make your next acquisition. These strategies and tactics might include communications, rewards and recognition, team building, etc.

Considerations *Part 2 of 2*

Customers




How prepared are our account management and customer service teams to take on new customers?

You scored a “4.5.”

Scoring a “3” (or above) may indicate you have capacity to absorb an influx of new customers. However, be deliberate in the allocation and alignment process by paying close attention to customer satisfaction, relationships, and complexity.

Governance




What level of modifications will be required to our Workforce Planning, Forecasting and Management processes, policies, and tools to accommodate rapid growth and change?

You scored a “4” indicating some modifications will be necessary with the Board, Senior Leadership, Finance, Operations, Customer Service, etc., depending on the size and complexity of your next acquisition.

Relative to the workforce, carefully evaluate the Seller’s approach to workforce planning and forecasting, driven by the forecasted business demand. Make sure your understanding matches the Selling company’s true practices and look for opportunities to leverage best practices from both organizations (a key focus area for due diligence and integration planning).

Organization



Will we need to re-align the organization to streamline decision making, provide better visibility and empowerment for managers, and improve business operations?

We understood from your descriptions that the answer would be “Partially,” and that it again depends on the size and complexity of your next acquisition.

Carefully evaluate the Seller’s organizational structure and how it will support your growth or add increased complexity. Be prepared for cross-training on business practices, especially approval processes (HR, Procurement, IT, Travel and Expense, etc.), workforce management policies and procedures (especially regarding leave of absence and time off), and business operational metrics (what is measured and why, available reports and how to access and use them effectively, etc.). These may only seem procedural and even not core to the business, but they can require significant time dedication and can pose some initial challenges.

| Next Steps

Next Steps

Prepare for next acquisition...

- Develop “Ideal Acquisition” target profile based on motivators highlighted earlier
- Perform an initial search using the ideal target profile (there may be a “great buy” given the financial stress created by the current pandemic, and/or new security opportunities created by it)
- If you identify targets where you have common customers, get feedback if possible from those customers on the target company
- Develop organizational strategies and tactics related to cross-functional collaboration (suggest you start by defining what “success looks like,” i.e., define how you will know the strategies and tactics are working)



| Appendix

What M&A Motivations best align with your Strategies?



**Aggressive
(Proactive)**

Increase Market Share	<ul style="list-style-type: none"> • Accelerate growth • Reduce earnings variability • Increase buying power and leverage
Access to New Regions	<ul style="list-style-type: none"> • Accelerate access to customers in other areas of the country or world • Diversification of customer base • Reduction of risks associated with the economic and political aspects (risks of being in only one, or a few, regions) • Access to global competitive strength
Access to New Capabilities	<ul style="list-style-type: none"> • Synergies through combining capabilities and offering greater value for customers • Access to financing for a smaller organization being acquired (with innovative solutions) • Also, access to additional leadership, management skills, and talent
Ability to Offer Whole Product Solution	<ul style="list-style-type: none"> • Positioning to be the “single provider” in markets where customers do not prefer “best of breed”, or do not wish to manage multiple providers • Increase vertical integration (secure suppliers, materials and third party providers)



**Defensive
(Reactive)**

Lower Operating Costs	<ul style="list-style-type: none"> • Synergies through consolidation (economies of scale) • Purchase assets at a bargain price (especially where the acquired company is underperforming and would see an immediate benefit for operating under improved governance and/or business systems) • Potential reduction in tax liabilities (carry forward, set off, capital gains, etc.)
Eliminate a Competitor	<ul style="list-style-type: none"> • Increase won-loss ratio • Maintain, or increase, margins by eliminating competition which may have been eroding margins through aggressive pricing or contracting tactics
Improve Customer Service/Quality	<ul style="list-style-type: none"> • Increase customer renewal rate • Additional references and case studies • New or improved metrics and measures

What CEO's are saying...

Ranking of Current M&A Motivations

1st Access to new capabilities and talent

2nd Increase market share

3rd Access to new regions

4th Lower operating costs

5th Secure supply chain

6th Offer whole-product solution

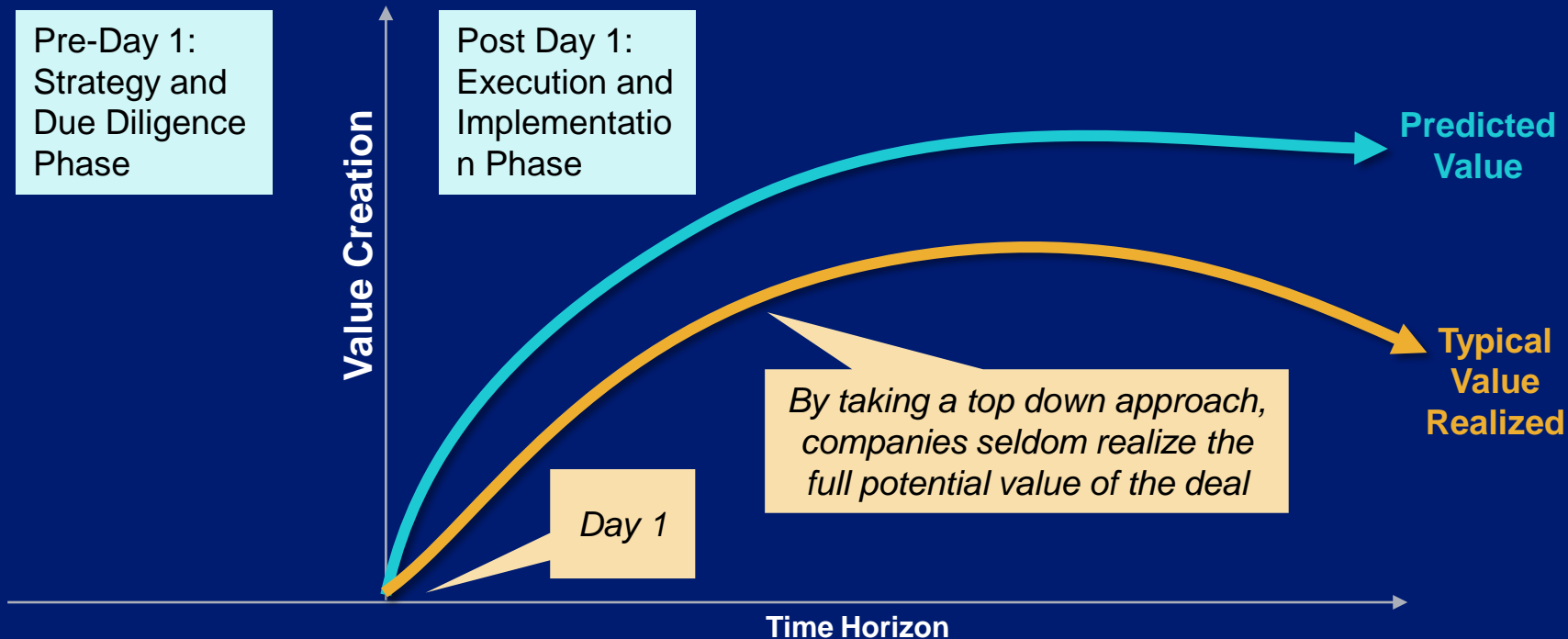
7th Improve customer service/quality

8th Addresses significant financial challenges

9th Other

Typical M&A value realized

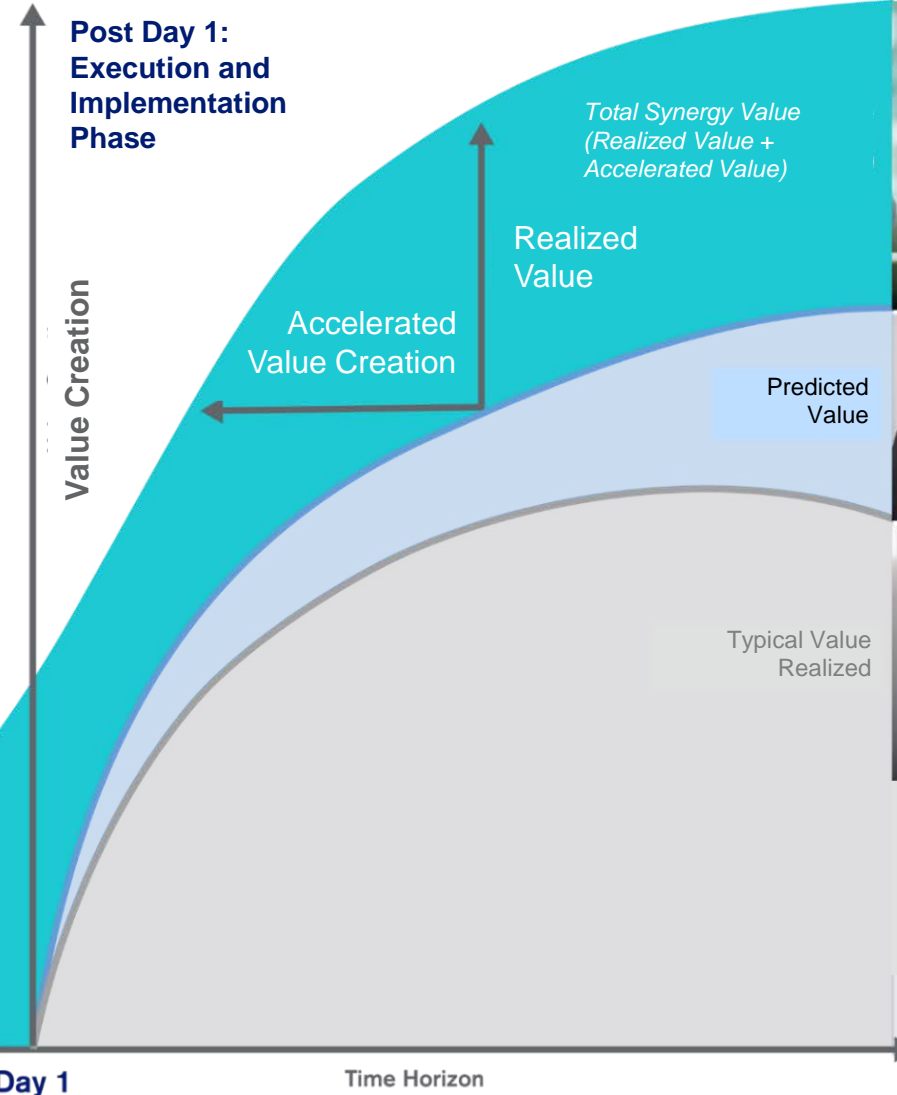
Typically, M&A planning and due diligence are done in a compartmentalized approach with little-to-no coordination with the functional teams. Then, the actual integration activities are managed by the functional teams leaving them to chase synergy targets that were developed by the transaction team.



Maximizing Synergy Value

Pre-Day 1:
Strategy and Due
Diligence Phase

Post Day 1:
Execution and
Implementation
Phase



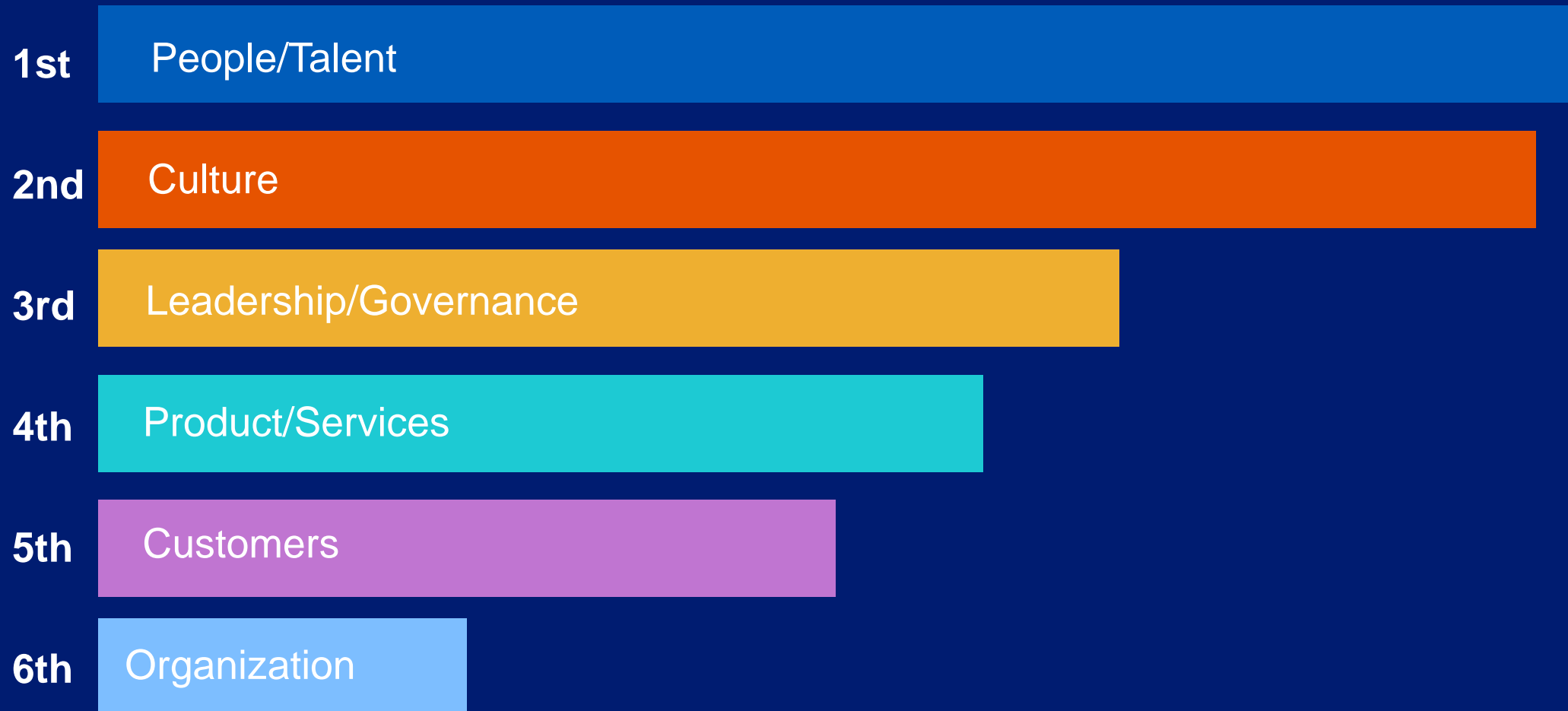
By taking a top-down approach, companies seldom realize the full potential values of a deal

Successful companies focus on business optimization during M&A, not just elimination of people, process and technology redundancies. Segal helps you unlock this source of tremendous value.

Synergy value is fully explored before Day 1 of M&A

What CEO's are saying...

Ranking of Focus Areas to Ensure Long-term Success of an M&A



Segal Solution Snapshot: Mergers & Acquisitions



Overview

Despite the slowing of M&A deal flow, there will continue to be a number of people, HR and workforce management consulting opportunities, with an increasing number of organizations seeking assistance to get better prepared for acquiring or being acquired. M&A deals over the next 1-2 years are likely to focus on lowering operating costs through economy of scale, protecting supply chains, and acquiring new and/or **more resilient** revenue sources.

Top three **EXECUTION** challenges to achieving the expected business outcomes of an M&A (TATA Consulting CEO survey, 2019):

Investment

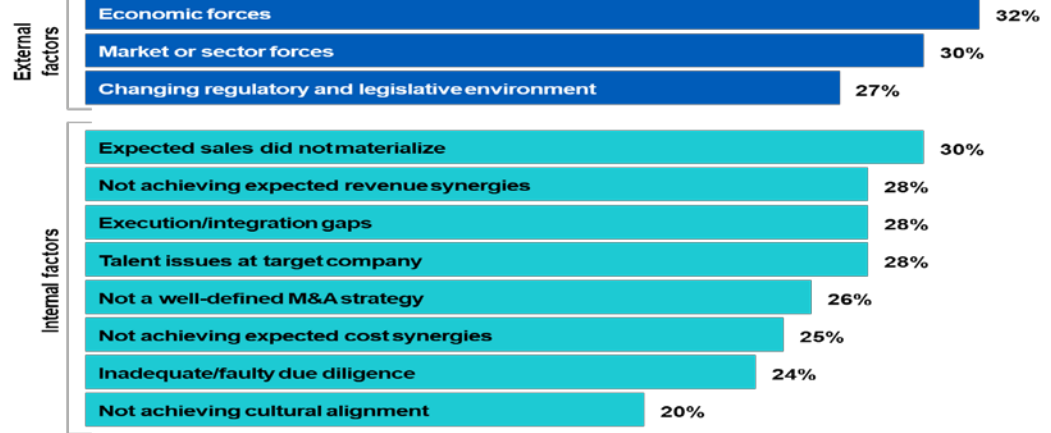
Transitioning from a Seller's to a Buyer's market. Buyers are now solidifying their cash position while investors are watching for signs of economic recovery.

A number of financially distressed companies will be available in the market with valuations potentially distorted by COVID-19 impacts.

Market size



Top Reasons M&A does not meet expectations



- 56%** Culture
- 49%** People / Talent
- 42%** Leadership / Governance

Post COVID-19

Longer Term: **Technology will lead M&A Post-outbreak**, technology is going to continue to be one of the most active sectors from an M&A perspective.

How Segal can help

Segal has a broad set of capabilities to assist a Buyer or a Seller at any stage of the M&A process. Pre-deal Readiness Assessments and preparedness consulting, people, HR and workforce management due diligence, Day-one change management and communications planning, HR integration, and post-close synergy realization.



Legislative & political issues

Increased scrutiny from the Department of Justice (DOJ) and the Federal Trade Commission (FTC) because of the slowdown in administrative reviews caused by the pandemic, plus Democratic proposals in Congress for a moratorium on M&A activity until the country recovers, will affect deal-making. Regulatory approvals such as antitrust, FERC, FCC, CFIUS or other state agencies are typical gating items for a transaction's timeline, and under current circumstances, extra time pre-closing may be required.



Thank You

Fred L. Hencke

Senior Vice President

Global Management and HR Consultant

M&A Solutions Leader

917-946-3588

fhенcke@segalco.com