



Tech Company

M&A Readiness Assessment

September 10, 2020 / Fred Hencke

Powered by  Segal

Table of Contents

Background

Assessment

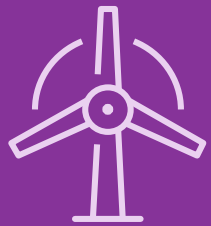
Considerations

Next Steps

Appendix

| Background

Background



Produces/sells a cloud-based, turn-key solution for agricultural lighting and climate-sensing automation for a few years.

<10 Employees
(all with some equity)



Revenue < \$1M;
Recent order < \$150K

Joint sales with large distributor

Major market in Europe then Asia; U.S. growing



During the pandemic, leveraged PPP grants (Paycheck Protection Program) and EIDL loans (economic injury disaster loan)

Have raised some Series-A funding



Advisory Board has some M&A experience



Have not yet performed a valuation of their company

Do not currently have a marketing package for potential investors/buyers

Background



Primary motivators for selling the business:

- Increase Market Share
- Whole Product Solution



Want to be part of a broader “cloud-based” solution and need capital to build out their solution (next-wave value proposition)



Considering other options (to selling)

- Private Investors (raise capital)
- Joint Venture

| Assessment

Increase Market Share Motivation








Part 1 of 2*

<div>Leadership</div> <div></div>	Have we considered the leadership styles and competencies needed to maximize this growth strategy?	<div>No</div> <div><input type="radio"/></div> <div>Partially</div> <div><input checked="" type="radio"/></div> <div>Yes</div> <div><input type="radio"/></div>
<div>Culture</div> <div></div>	<div>Will our current culture effectively support rapid growth?</div> <div>What will be the primary barrier to overcome?</div>	<div><div>Not Well</div><div>1</div><div>2</div><div>3</div><div>4</div><div>5</div><div></div></div> <div>Answer: A potential buyer that has a highly bureaucratic and risk adverse culture and business governance process.</div>
<div>Products and/or Services</div> <div></div>	<div>Do our Product and Services teams currently operate collaboratively?</div> <div>Do our Product/Service and Innovation Lifecycle processes encourage and reward collaboration?</div>	<div><div>Not Well</div><div>1</div><div>2</div><div>3</div><div>4</div><div>5</div><div></div></div> <div><div>No</div><div><input type="radio"/></div><div>Partially</div><div><input type="radio"/></div><div>Yes</div><div><input checked="" type="radio"/></div></div>

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

Increase Market Share Motivation

Part 2 of 2

<div>Customers</div> <div></div> <div>How prepared are our account management and customer service teams to take on new customers?</div>	<div>Not Well1234Very Well5</div> <div></div>
<div>Governance</div> <div></div> <div>What level of modifications will be required to our Workforce Planning, Forecasting and Management processes, policies, and tools to accommodate rapid growth and change?</div>	<div>Major1234Minor5</div> <div></div>
<div>Organization</div> <div></div> <div>Will we need to re-align the organization to streamline decision making, provide better visibility and empowerment for managers, and improve business operations?</div>	<div>NoPartiallyYes</div> <div></div>

| Considerations

Increase Market Share Considerations

Part 1 of 2



Leadership

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

As a Seller who has “Partially” taken leadership styles into consideration, consider the leadership styles and competencies (of a potential buyer) 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 “5.”

Scoring a “3” or above suggests your organization is prepared to embrace change, manage increased workloads during due diligence and integration stages, and proactively seek ways to create additional value.

What will be the primary barrier to overcome?

See comments above relative to leadership styles.



Products and/or Services

Do our Product and Services teams currently operate collaboratively?

You scored a “5.”

Those who score “3” or above need to look for creative ways to quickly align your development team with those of the Buyer and have a solid game plan within the first 90 days.




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

Our understanding is “Yes.”

Carefully review how this will be maintained as you integrate with a potential Buyer’s development team.

Increase Market Share Considerations

Part 2 of 2

 Customers <p>How prepared are our account management and customer service teams to take on new customers?</p>	<p>You scored a “3.”</p> <p>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.</p>
 Governance <p>What level of modifications will be required to our Workforce Planning, Forecasting and Management processes, policies, and tools to accommodate rapid growth and change?</p>	<p>You scored a “5” indicating only minor modifications are necessary.</p> <p>Carefully evaluate a Buyer’s approach to workforce planning and forecasting, driven by the forecasted business demand. Make sure your understanding matches the Buying company’s true practices.</p>
 Organization <p>Will we need to re-align the organization to streamline decision making, provide better visibility and empowerment for managers, and improve business operations?</p>	<p>We understood from your descriptions that the answer would be “No.”</p> <p>Carefully evaluate the Buyer’s organizational structure and how it will support your growth or add increased complexity. Be prepared for training related to their business practices, especially approval processes (HR, Procurement, IT, Travel and Expense, etc.), workforce management policies and procedures (especially “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 time dedication you may not be doing now and can pose some initial frustrations.</p>

| Next Steps

Next Steps

Develop Marketing Package

- Company history and background of founders
- Product descriptions in business terms (not technical language) and demonstrated results (What does the use of the products do in measureable numbers?)
- Product roadmap and investment considerations (with market data to support the investments)
- Comparison to competing products and why “Tech Company” products are unique/better/effective
- Comparison to competitors in terms of market share
- Business model – the website talks about hardware plus monthly monitoring. How does each factor into company revenue? What are the projections for the company in the current configuration?
- Company growth strategy, especially pertaining to sales to date and market expansion
- Customer profile data – details on buyer type, ideal prospects, and upsell characteristics
- Sales growth since inception
- Customer service approach – including response times and customer reaction/appreciation



Next Steps

Develop Financial Summary

- Revenue (2019 and Last 12 months)
- Expenses (2019 and Last 12 months)
- Next twelve months revenue and expense forecast
- Liabilities (loans, equity, etc.)
- Any liabilities that are being disputed
- Outstanding accounts receivable and plans to collect
- Inventory and other tangible assets
- Personal or family expenses impacting the income statement that would not likely be continued under a new owner



Conversation Preparation

Also, be prepared to discuss the following...

- Website stats – visits, stickiness, downloads, growth over time. This acknowledges that the website is not designed to attract a buyer of the company but was built for a different purposes – to attract customers, especially those comfortable with tech. The clue to listen for is when a prospective buyer mentions the website and/or comments that it does not match the marketing package.
- Social media presence and stats for Twitter, Facebook and LinkedIn
- Challenges or issues that a buyer's careful due diligence may uncover. Be ready to explain if necessary.
- Owners' bottom line – what you would need to embark on a deal. A sharp buyer may ask "Tech Company" what you are looking for (and that is obviously not the bottom line, but they can start there and add in room to negotiate). Note that the bottom line may be more than money.
- Supplier dependencies as well as current short- and long-term contracts and their expirations plus supplier stability proof points.



| Appendix

What M&A Motivations best align with your Strategies?



Aggressive (Proactive)

Increase Market Share

- Accelerate growth
- Reduce earnings variability
- Increase buying power and leverage

Access to New Regions

- 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

- 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

- 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

- 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

- 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

- 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

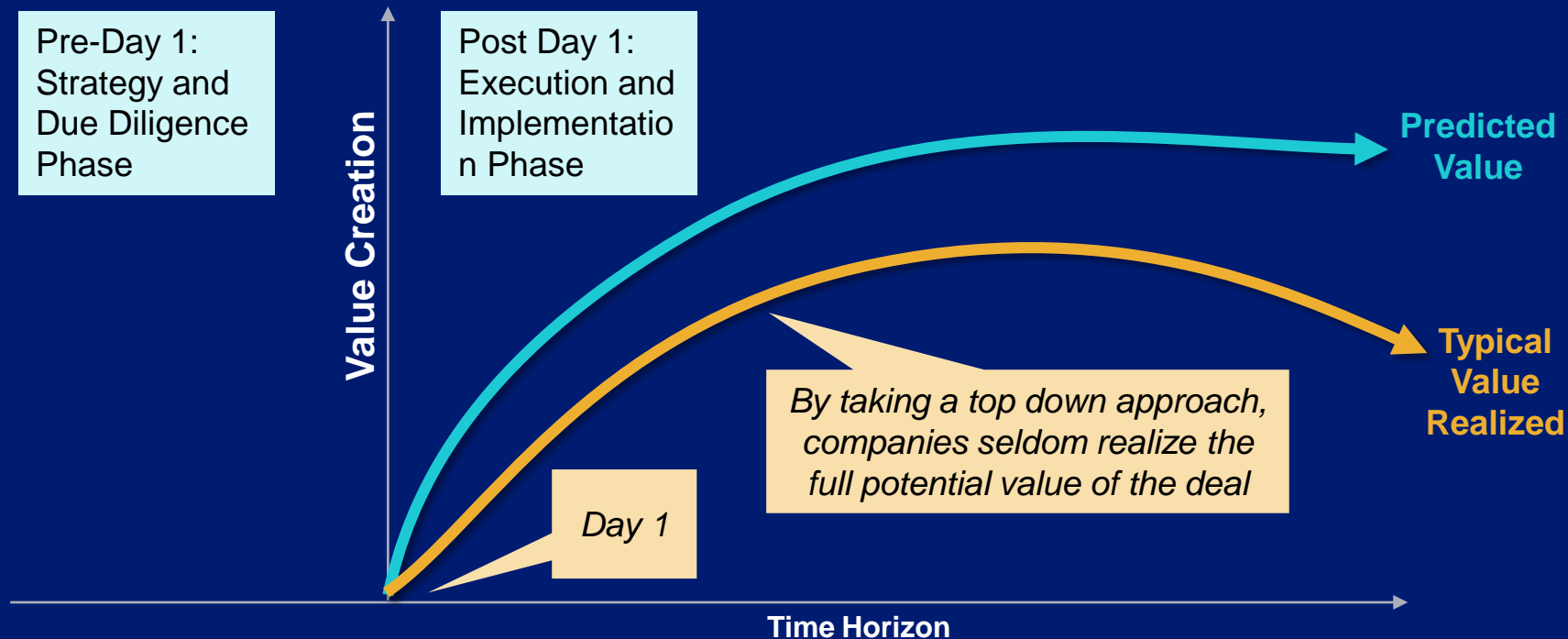
7th Improve customer service/quality

8th Addresses significant financial challenges

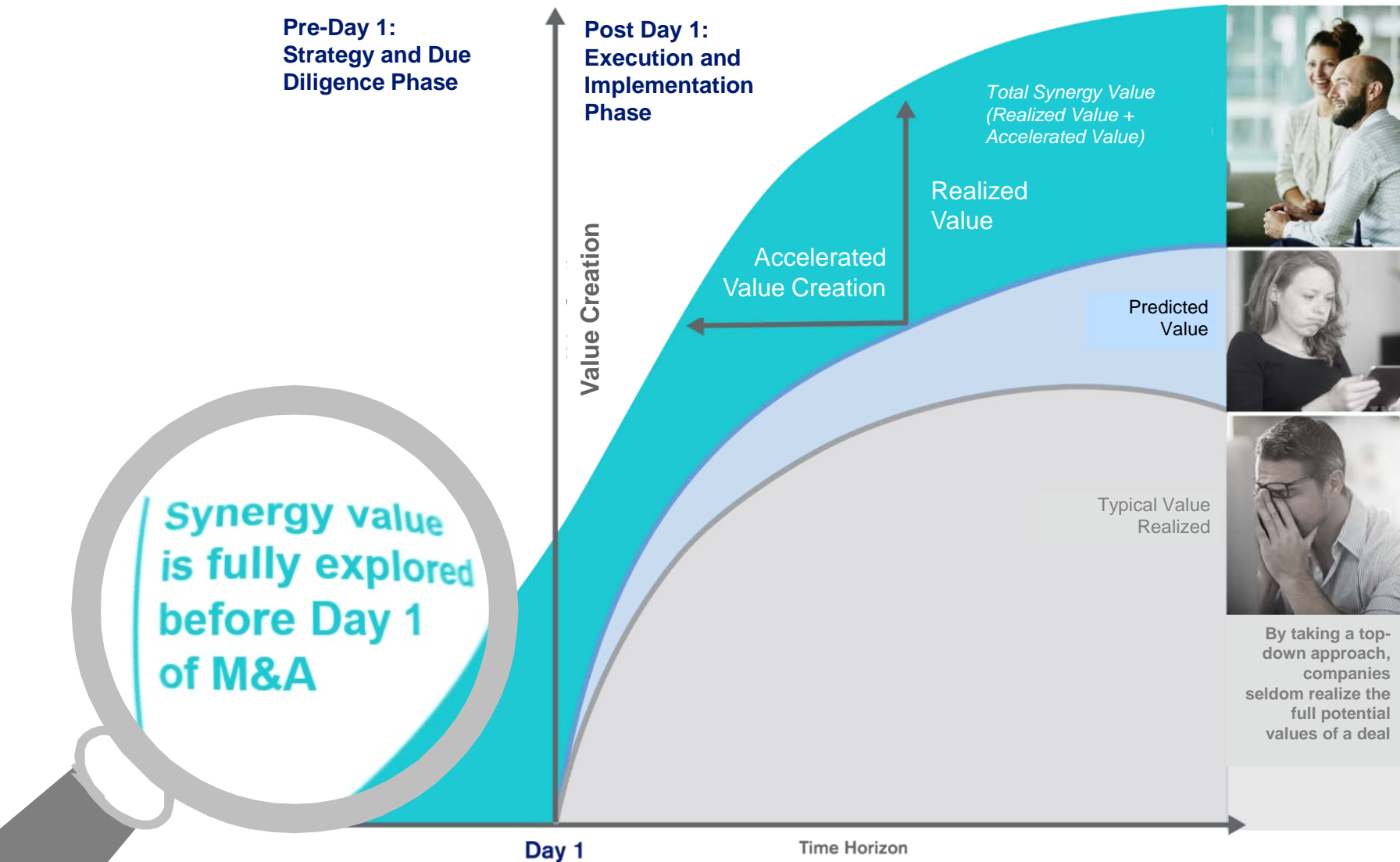
9th Other

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



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.

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

What CEO's are saying...

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

1st People/Talent

2nd Culture

3rd Leadership/Governance

4th Product/Services

5th Customers

6th Organization

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.

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.

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.



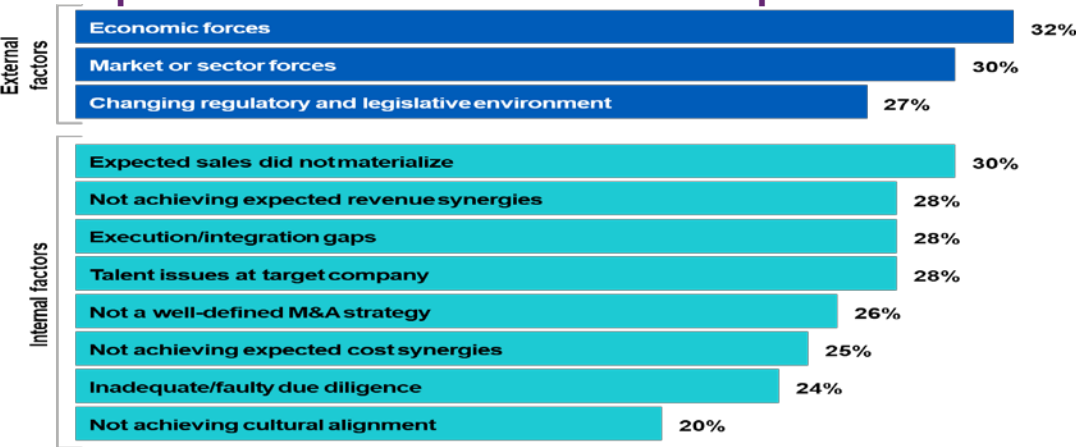
Legislative & political issues

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.

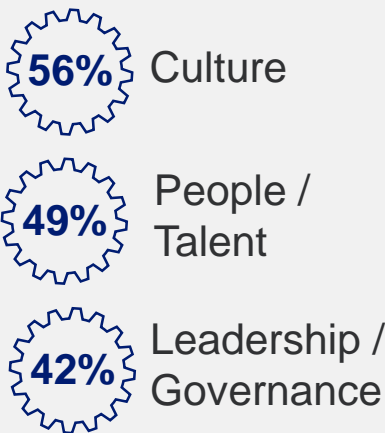
Market size



Top Reasons M&A does not meet expectations



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



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.

Q ?