WTA TECHNOLOGY MERGERS & ACQUISITIONS

MARKET VIEW

ENSURING A SUCCESSFUL EXIT FROM AN IT BUSINESS

Introduction

Whether you are a sole owner, or a part of a management-ownership team, you have one consideration that's always in your mind. When is the correct time to sell, and how can it best be achieved. **Here we examine that journey.**

Ensuring a successful exit from an IT business

Avoid the worst timing of all

This is when you are forced to exit and that's usually because of one of the 'four Ds'; death, divorce, debt or disability and the best way to avoid that is to plan.

Deciding to exit

Determine the timeframe and act decisively within the plan and process once the decision is made. Be clear whether you would prefer a trade sale or an exit to private equity. If you are open minded or unsure, do make the effort to understand the big differences between each. Ensure the business objectives are compatible with your sale objectives and align stakeholders and management objectives. Remember that the business will still need to continue to run normally.

Keep the exit team as small as possible to ensure consistency of message, minimise disruption on the day to day, and do retain trusted transaction advisors. The right advisor ensures you are more likely to achieve your goals and will optimally manage the process, present the company well and ensure you obtain the best value and quality of sale.

Objectives

Set your value and structure aspirations and ensure these are realistic which can probably best be achieved from talking to appropriate M&A firms familiar with advising owners in your sector and of your size as part of your process to select the advisor. You may also need to obtain taxation advice and, in some cases, advice on estate planning.

During this period seek to enhance value creation by EBITDA and margin improvements. It is not just about the financials though. Pay attention to Quality of Earnings. You might also need to address employee and other stakeholder concerns and management succession.

Identifying Buyers

There may be numerous potential acquirers, but the first requirement is to identify those who will recognise the value of your business and be prepared to meet the price expectations. First it is best to identify the buyer groups along with the pros and cons of each and then to select the smaller set from each of potential acquirers who are both credible and will recognise the strategic or added-value in your business.

Look for synergies, cost savings, opportunities or the ability to accelerate these. Many others may wish to acquire your business but will offer only a workmanlike price and you will be seeking better than that wherever possible. This has the significant benefit too, of cutting down the time the senior team needs to be away from operational management.

The Information Memorandum ("IM")

This, the sale document, should show a compelling case especially on future growth and profitability. It is best created by the transaction advisor working closely with the senior team. All its contents should be clear to the buyer and easily explained along with being defendable by the management team. A "Teaser", a short anonymous introduction to the opportunity, will also be produced and that too should summarise the compelling case.

The Virtual Data Room (“VDR”)

This must be correct, clear and support the story, drivers of value and trends that have been presented to acquirers. It is not just a depository of information, but it showcases that the company has the records, tools, abilities, systems to analyse and track the business.

Ensure too that it is up to date especially the details and contracts of all staff (and sub-contractors) including severance terms.

It is in the VDR that the acquirer and their external advisors will obtain access though the Due Diligence (“DD”) phase. You need also to be prepared for some deep dive questions.

Understand your Buyer

Make the effort to get to know the selected buyer and ensure you are fully comfortable. Ask as much as you like to understand the likely working environment post-Completion and how your business fits into their wider business. Do not be afraid to perform DD on the buyer especially where there are earnout provisions or where shares form part of the consideration.

Exclusivity

Before the final offer is made make certain financials and other key items have been updated and communicated. Make sure too, before granting exclusivity, that any uncomfortable information is disclosed. A buyer discovering negative undisclosed information breaks trust and that can kill the deal. Lastly, make sure that there is clear agreement and alignment with the acquirer on all key items.

The Sale and Purchase Agreement (“SPA”)

This usually begins after sufficient initial DD has been completed. Each side’s lawyers will actively engage throughout, and the process will need significant involvement from key members of the selling team. Good advisors can help to minimise, but it will still require serious management time and effort.

Completion

That’s it. The business is sold. Enjoy the moment and adjust to what it means. Have a great celebration with the advisory team, whether you are staying in the business or leaving.

WTA TECHNOLOGY MERGERS & ACQUISITIONS