



Selling vs. Being Bought

So Google hasn't shown up with a \$500m check

Act 1 - The Decision

Sept 13'

Nov14'

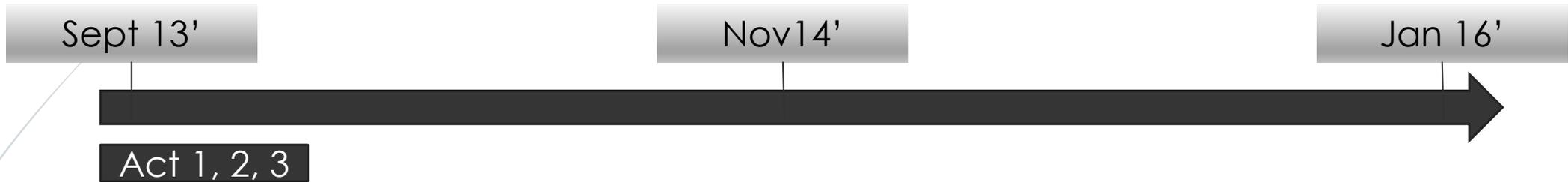
Jan 16'

Act 1, 2, 3

- Investors had been in the company for 7-10 years
- Only angel money had been invested to date (no formal rounds)
- Had spent almost 6 years grinding from the bottom of the recession
- Fast 50/500 winner, profitable, growing cash reserves
- Had some small (and at times laughable signals of interest)
- Interest from VC's (term sheets on the table >\$8m series A)
- But was everyone in for another 3-5 years?
- Market was heating up (IBM, Google and many small AI companies 65+)
- Could we compete without a series A round
- Was there a window developing (or closing) for the company

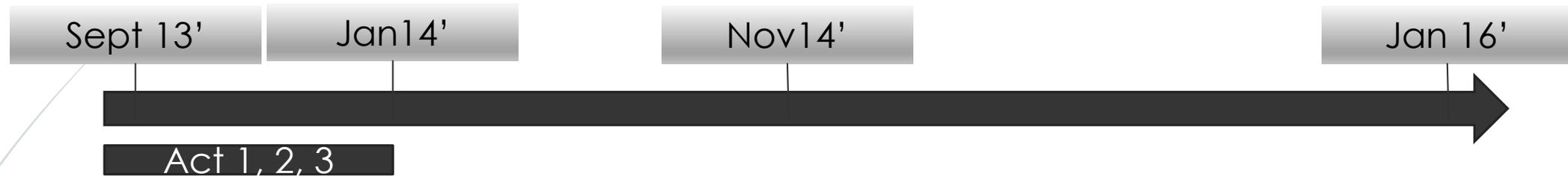


Act 2 - The Plan



- Had been talking to VCs for a couple of years
- Decided to speak with a banker to get a sense for market/value
- Provided good context and presented to the board
- They made a pitch to represent us (we ended up declining)
- Reinforced that the buyer may not be the usual suspects (timing, cost...)
- Brought board together (sell/invest/continue organic growth)
- Provided anchor point for valuation (forced some tough discussions/decisions)
- Led to RFP style process of finding a banker

Act 3 - Bring A Banker To The Party

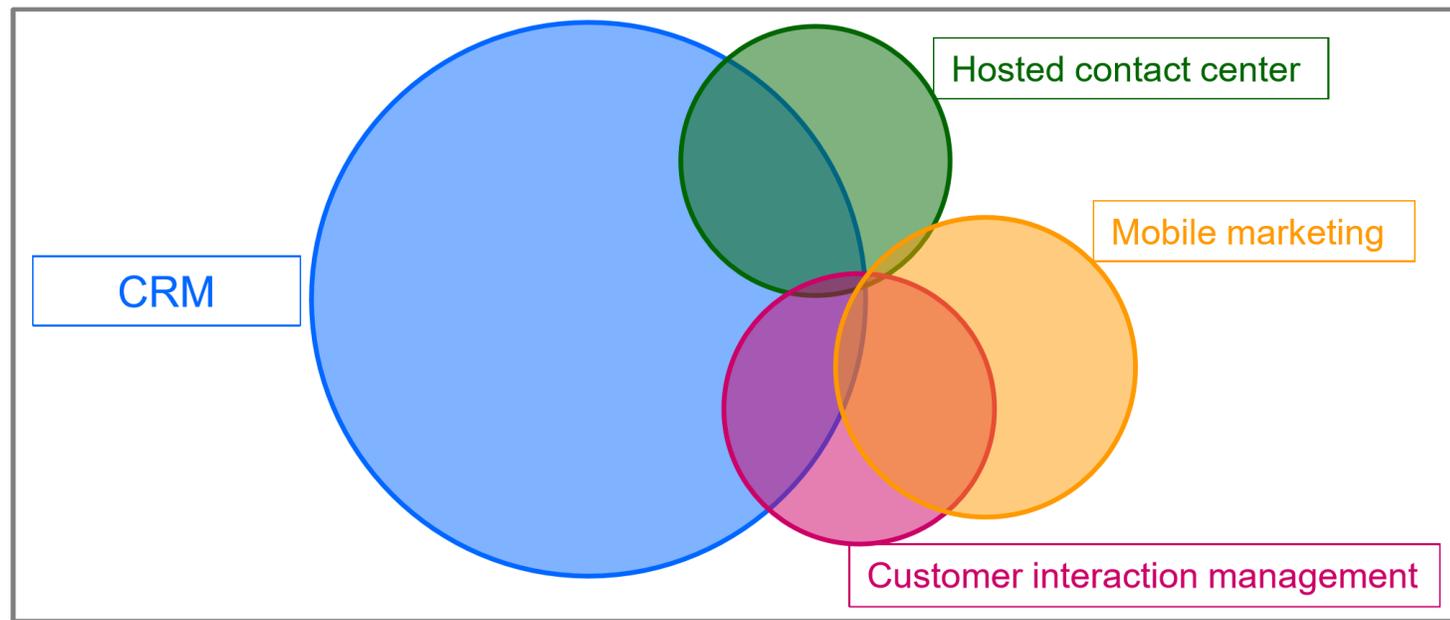


- Built a short list of 4 (board contacts, personal referrals, law firm)
- Looked for a size match (was the deal material to banker, they only do 8-10)
- Did the banker understand where we played (ecosystem)
- Had the banker done deals within the space (SaaS, Machine Learning)
- Would they be true contributors working side by side
- Was there a strong personality/respect match (lots of tough days ahead)
- Did their team (although small) have depth
- Visited all 4 (3 in California and 1 in NY)
- Brought 2 to Toronto for formal presentation (*litmus test of their interest)
- Made final selection in January with expected work to start in mid-February)

Businesses are looking to unify customer management tools

- Customers are no longer viewed or treated separately by each department
- By unifying the knowledge streams and prior interactions, a vendor can meaningfully improve and personalize its communication strategy to:
 - Increase revenue per customer
 - Increase satisfaction
 - Keep the customer longer
 - Reach customers more effectively

Customer Experience Management



Enterprise

ORACLE®

SAP®

infor

EPICOR.
Business Inspired™

NETSUITE

IBM

hp

Pega
Pegasystems Inc.

Contact Center Tech

AVAYA / SILVERLAKE

Genesys / Permira

NICE

Aspect /

GOLDEN GATE CAPITAL

amdocs

TeleTech.

VERINT™

[24]7

Customer Engagement

salesforce
SOFTWARE

LIVEPERSON

KANA / ACCEL
KIKR

NUANCE

CONVERGYS
Outthinking Outdoing

INTERACTIVE
INTELLIGENCE

Enghouse Systems
Software engineered for results

inContact.

eGain
Trusted by Leaders™

Marketing

ExactTarget.

responsys®

TERADATA /
aprimo

Web / Mobile

Google

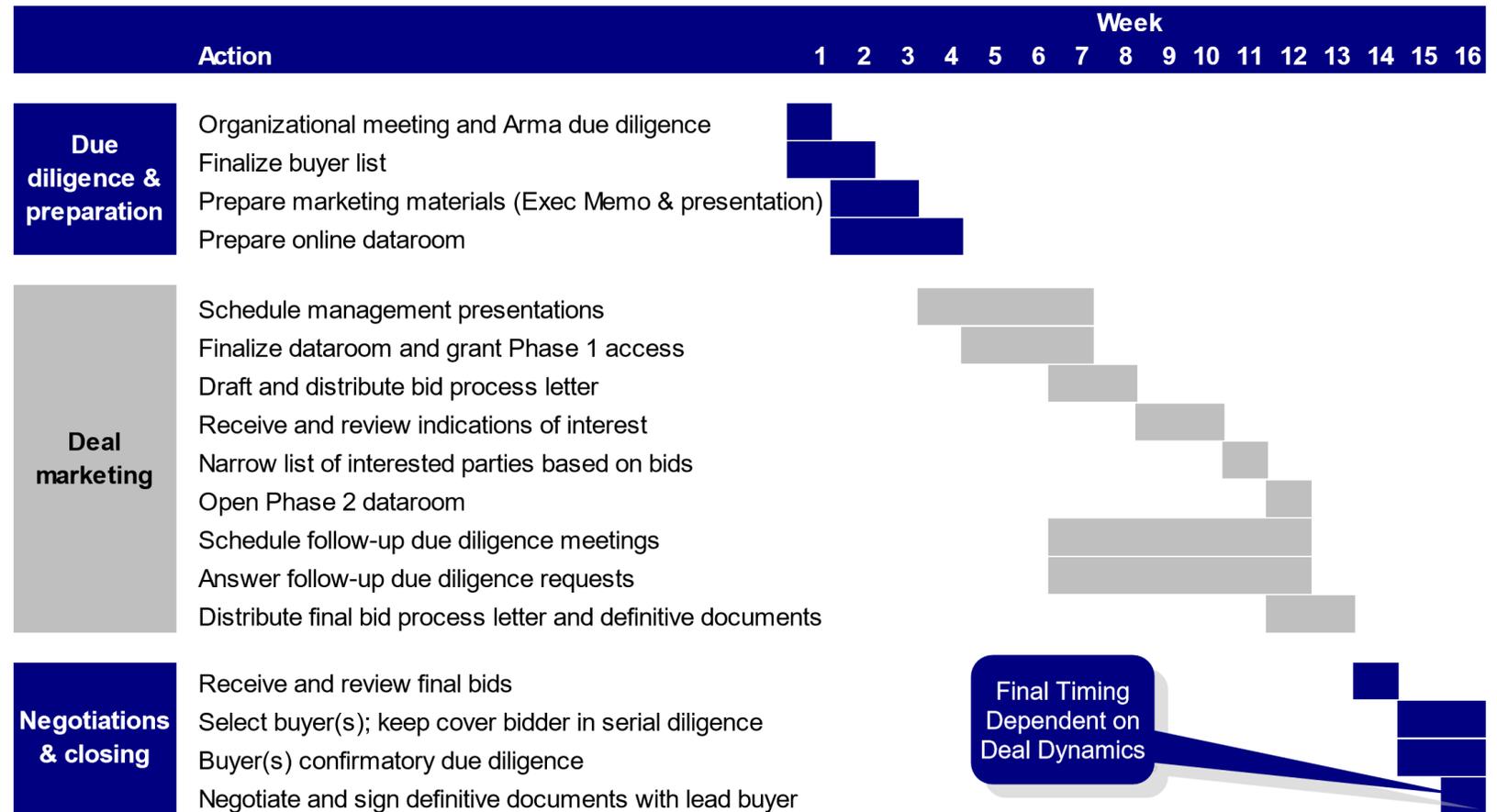
amazon.com™

SAMSUNG

Microsoft

Illustrative Process Timeline

Process timeline takes shape once initial offer materializes



Final Timing
Dependent on
Deal Dynamics

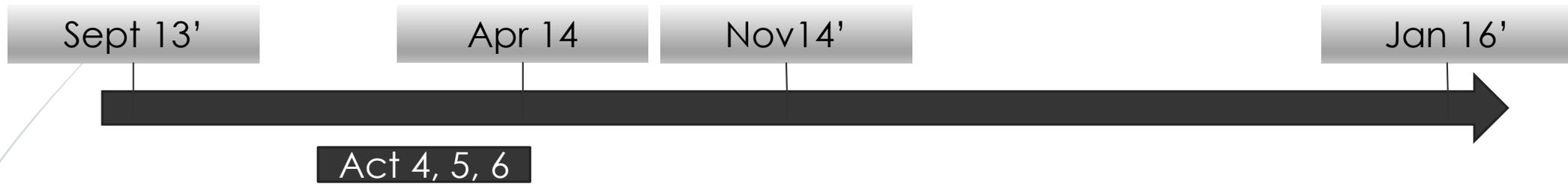


Lessons Learned

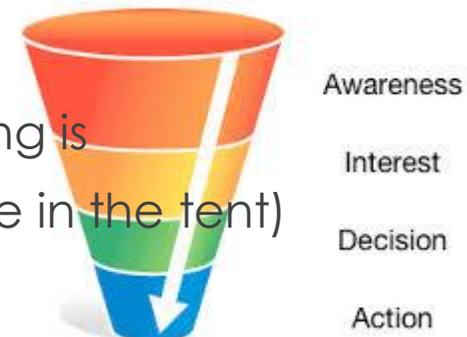
- ▶ In the end not a substantial difference in bankers pitches
- ▶ They all know the same people (we felt localization might matter a bit)
- ▶ The buyer ecosystem they recommended were very similar
- ▶ The selling price ranges were all in the same relative range
- ▶ I did however like how our firm looked at telling the “accretive” story
- ▶ Work with a firm that finds your opportunity material (we went boutique)
- ▶ Definitely get the recos of your boards friends, lawyers/accountants deal knowledge
- ▶ You as the CEO need to do the reference checks (see checklist later)
- ▶ You have a business to run that cannot falter (more later)

When it came down to the short-list of 2, the board provided me with great support in letting me drive the choice. I went with a firm that I felt I could take a pounding from. They are not there to tell you how wonderful your presentation and business are. They are there to prep you for a litany of questions and issues, You have to be able to absorb a lot of blunt comments. Every pitch is a performance review, every document you provide will be scrutinized, everything you say and every question you answer will be reviewed, potentially changed and refined.

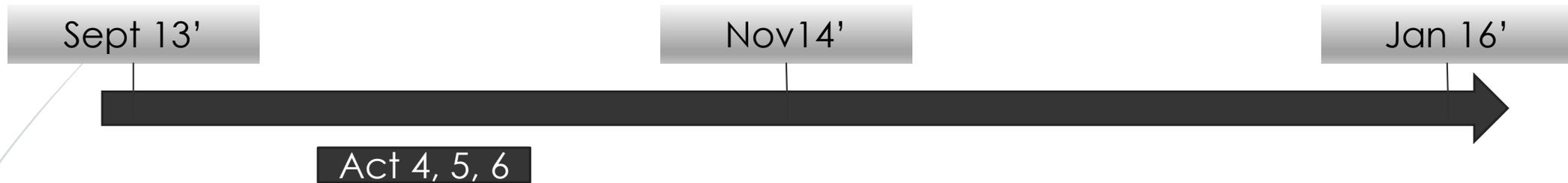
Act 5 – Creating the collateral



- Think of this entire process like your sales funnel
- The short form memorandum (anonymous teaser collateral to get a buyer engaged)
- The NDA to qualify out initial tire kickers and gain access to the long form
- The long form circular (much deeper dive and takes many edits)
- The more detailed financials (3-5 years out and remember you will eat these numbers)
- Initial semi-customised presentation for the interested buyers
- Heavily customized presentation for the on-site presentation
- The pain of collateral is how strong your documented future planning is
- You will not have time to do a great job (need at least 1 or 2 people in the tent)



Act 6 – Pitching the synergy



- Was the most exhilarating part to me (high risk, interactive, show time)
- Focus was on demonstrating the synergy to be achieved $1+1=3$
- We had 12 companies make it to this point (which was considered high)
- Presentations ended up being about $\frac{1}{2}$ to company's that made sense
- Building both the intro deck and detailed decks is very time consuming
- Practicing the deck and knowing the figures (and underlying ones is key)
- Until then you are working to excite the potential acquirers

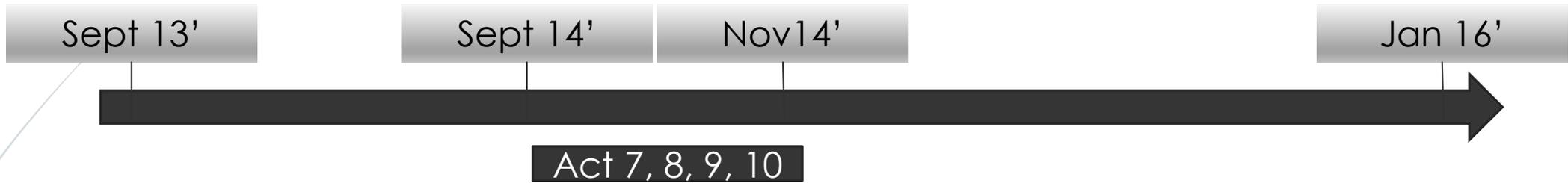


Lessons Learned

- ▶ There are four starting lines,
 - ▶ Presentations to build towards a shorter list of “strategics” (varies widely, you want >1)
 - ▶ non-binding term sheets/LOI's (rubber meets the road as they will invest a lot more time)
 - ▶ Short list of 2-3 real bidders (they are simultaneously doing deep due diligence)
 - ▶ Drop dead date on moving forward with one bidder
- ▶ There will be a jockeying for exclusivity
 - ▶ Hold off as long as possible to create deal tension giving the most manouvering room
 - ▶ Keep the exclusive period as short as possible so the momentum stays fresh
 - ▶ You will be opening the tent to most of your executives at least by this point

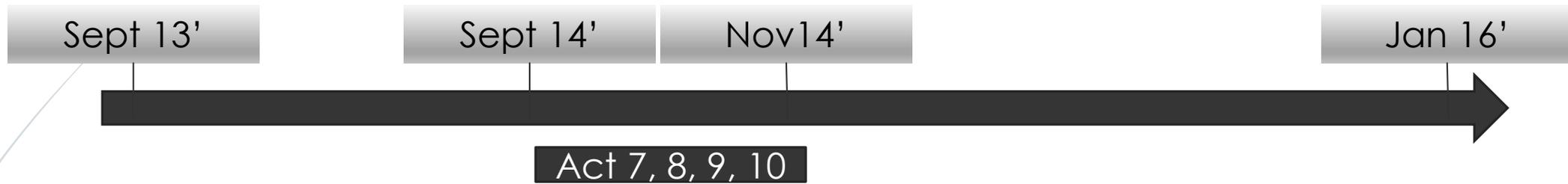
I believe one of the key benefits we had in the process was an encyclopedic knowledge of the business. Of course as CEO's we need to know the business intimately, but I found having the technical background I could speak to any aspect of the business with authority. Importantly this also allowed us to have only 2 key people actually in the tent from an employee perspective for the first $\frac{3}{4}$ of the process. Our legal assistance was done by an amazing contract lawyer. HR only came in in the last 10-20% but provided huge benefit.

Act 7 – The short-list



- ▶ With companies now deeply involved significant due diligence ensues
- ▶ Have audited financials, no one wants to sort through your shoebox
- ▶ A strong CFO is ultra critical (especially one who is business saavy)
- ▶ Many of the questions will be financial and deep
- ▶ You will be buried in information requests (worse when you go exclusive)
- ▶ Buyers may try to drag process out (want to see you hit your numbers)
- ▶ Remember the rosy financials you showed through the process? Hit them.
- ▶ Any major blip in sales success, product stability... will spook the acquirers
- ▶ Your short list creates the buyer tension
- ▶ Tension allows you to compress time and limit exclusivity timeframe

Act 8 – Driving to exclusivity



- ▶ Set a specific date (ours did move as short-list companies dragged)
- ▶ Goal is to get one of the prospects to the point of going exclusive
- ▶ As noted we wanted to keep the timerfame tight
- ▶ Allows for potential to engage others (although they will wonder why)
- ▶ Objective is to create/maintain tension
- ▶ Exclusivity document
 - ▶ Try to toss out items like break-up fees (could occur if someone steps in)
 - ▶ Some may also put certain costs on the seller (remove)
- ▶ Once executed the dash begins
- ▶ Coach and mentor you leaders on everything that has been presented

Act 9 – Is there a deal to be done

Sept 13'

Nov14'

Jan 16'

Act 7, 8, 9, 10

- ▶ Prepare for considerable on site activity
- ▶ Organization is key (expect multiple group and individual meetings)
- ▶ Team must be coordinated and singing from the same hymn book
- ▶ Realize that acquirer may want to extent deal close date
 - ▶ Will you hit your numbers
 - ▶ How does your forward pipeline look
 - ▶ Are you delivering on product plan
 - ▶ Are there any new attritions
- ▶ Every one of the previous issues will affect your potential value
- ▶ Oh, your deal will likley die several times during this stage
 - ▶ Each of you may walk away due to the negotiation process

Act 10 – Driving to a rapid close

Sept 13'

Nov14'

Jan 16'

Act 7, 8, 9, 10

- ▶ Keep the pressure on (we were on a 45 day close)
- ▶ We were well prepared and met every ask (did not want to be the bottleneck)
- ▶ Huge effort will go into the SPA (share purchase agreement)
- ▶ Every customer, contract, IP, employee agreement... will be documented
 - ▶ I cant stress how time consuming this is (our CFO/Legal and HR person rocked this)
- ▶ Net Working Capital is a laborious process
- ▶ Development of a potential earn out (be very leery)
- ▶ Finalize financials with up-to-date sales (still on target?)
- ▶ Planning announcement to staff, customers and market
- ▶ We went basically 3 days straight to get SPA and all docs & payment finalized



Lessons Learned

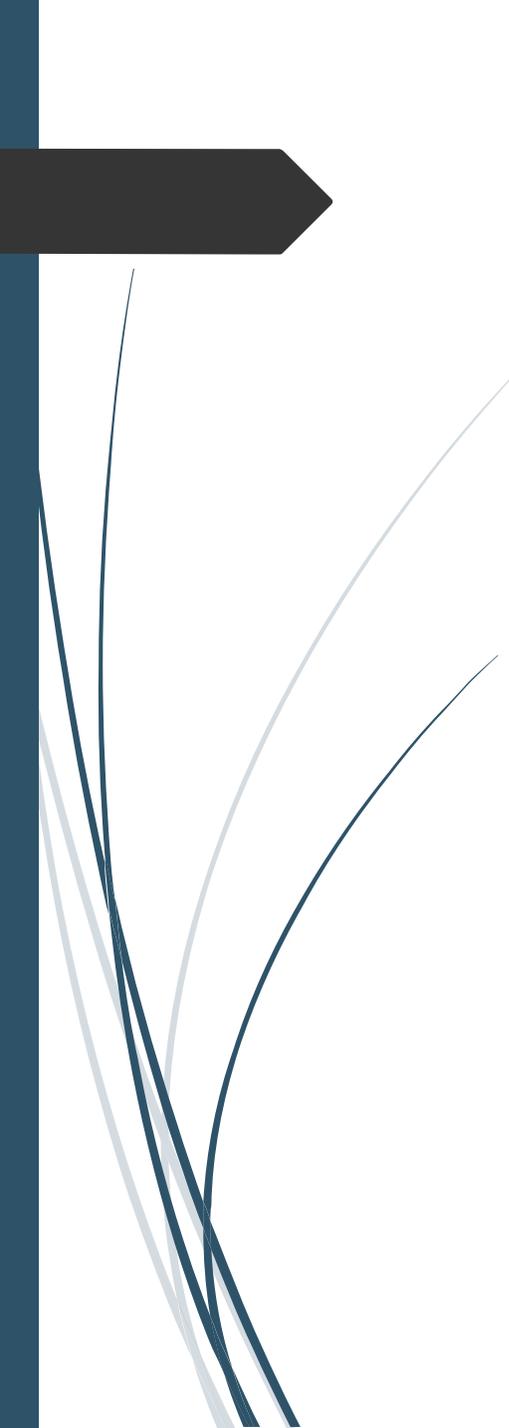
- ▶ The importance of your board members
 - ▶ Need a leader of the board to drive the process and bring the shareholders together
 - ▶ One board member was the proxy to work on contentious issues with buyer CEO/CFO
 - ▶ Need to bring outside shareholders into the process (we hired lawyer to represent them)
 - ▶ You can't over communicate (but use the board leader to disseminate)
- ▶ People
 - ▶ Money changes people, don't expect everyone to react the same
 - ▶ Communication plan to employees must be solid (there will be retention expectations)

We did everything to not be the bottleneck so there was no excuse for not getting the deal done. That being said we had papered the whole deal by the target date and had agreed that it was final and took a day off to catch our breath before the anti-climactic signature.



Other Learnings

- Organization of all contracts and their consistency is critical to sanity
- Rights of assignments (do you have that in your NDAs/Contracts)
- Have audited financials (it adds credibility and ensures consistency)
- A CFO/COO is critical as there is an overwhelming amount of work
- Hire a part-time lawyer/law clerk to organize your documents (SPA)
- Limited the number of people we let in the tent till necessary (i.e. employees)
- Don't quibble about a fee (banker) if you get the price you want



More Learnings

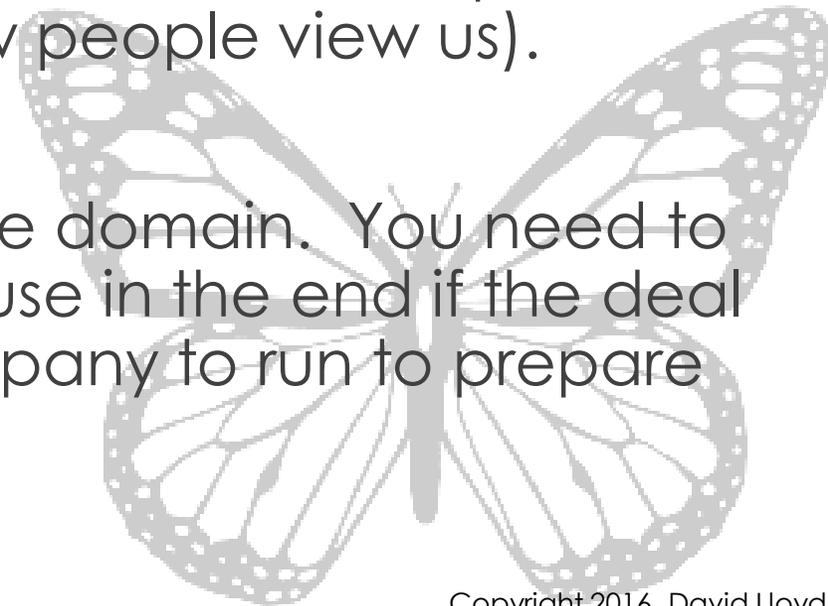
- Partner agreements (whats your rights of termination if you do a deal)
- We wanted to keep this a quiet as possible (totally distracting to business)
- Have a strong support network (for you)
- Don't get bullied into telling a sales/revenue story you cannot hit.
- Stay away from earn outs, they don't align the company with the acquirer
- Why a banker? First you want to create an auction environment where multiple parties want your company and they can create that ongoing tension.
- Contract terms are important. There are trailers in the contracts that given bankers the fees if you do a deal outside the contracted time
- Also need to consider how you might want to handle interest before the bankers arrive as they will still want the fee even if the lead came through an existing partner/contract
- Build an escalating fee into the contract that gives them a bigger share as the deal size increases.
- Expect a minimum fee in the \$900-1,m range (or higher now 1 ½ later)
- Educate all your leaders on ALL material being provided to the prospective acquirer. You need to be consistent on all metrics, sales and strategy



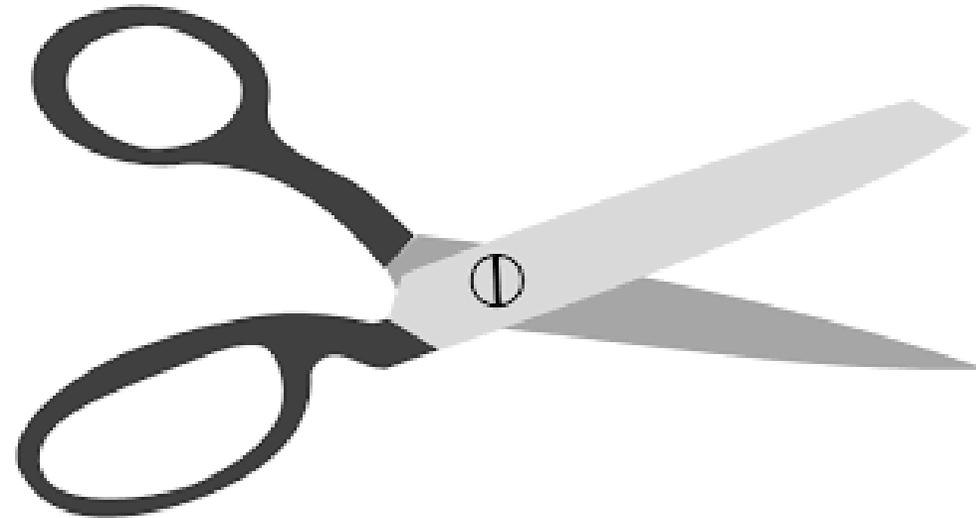
A Butterfly Flaps Its Wings

Despite how well prepared you are, how exceptionally you present and how impressive your business potential is, you can't control things that could completely de-rail the transaction. The Ukraine wasn't stable, the stock market was jittery, how might this affect a public company's desire to buy us? New competitors were emerging daily and one of our competitors was bought (how does that affect how people view us).

You can only control what is in your little domain. You need to focus on running your company because in the end if the deal falls through you still have a great company to run to prepare you for next time.



Business Execution



Buyers will watch every aspect of your business through a process that is likely to go between 6-9 months. Every slip in expenses, sales, retention and other business metrics can result in a big haircut and nervous buyers.

Deal Ups and Downs

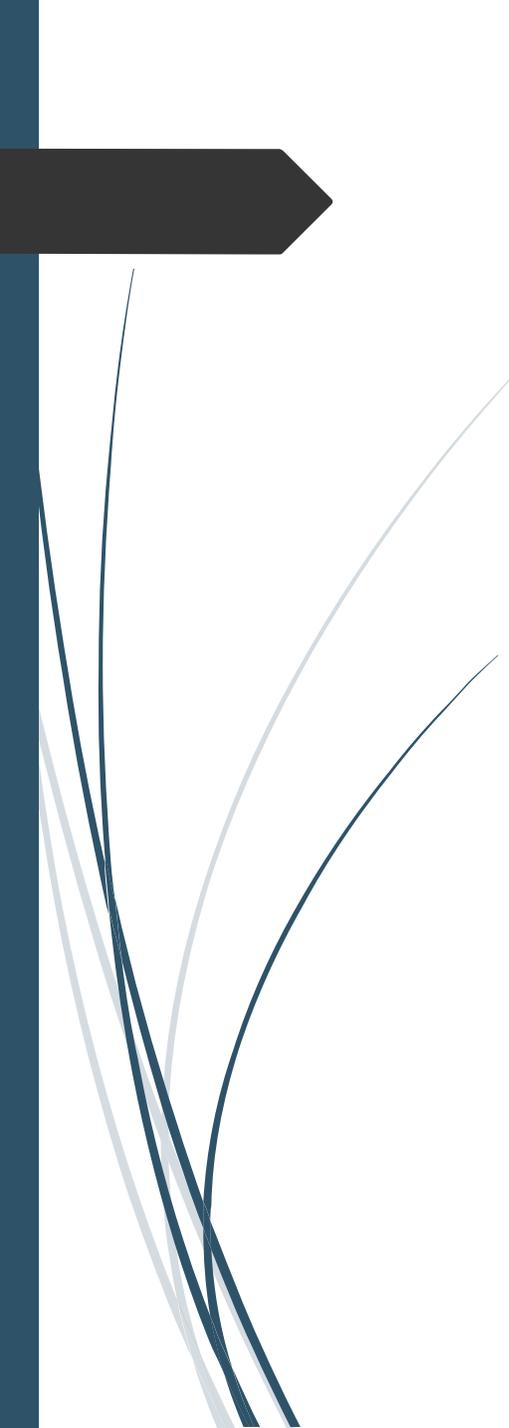


Find something to relieve the stress. There were several times when our deal “died”, some initiated by the buyer and others from the seller. Have a way to clear your head and focus your mind on other items. None of these “dead” zones lasted more than 1 hour into the bike ride before I would get a call on my mobile.

What Your Worth



Members of the company or board will have various opinions on your worth based on many different anchor points. Your frankly worth what someone is willing to pay for you and not a penny more. Don't like it, then vote with your feet.

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One Of The Best Quotes

Whether we do this deal or not it doesn't change what I'm going to eat for dinner.

It might be obvious to everyone, but in the end this type of thinking that allows you to walk away is critical.



But Why A Banker?

- ▶ They understand the buyer behavior
- ▶ They are very aware of where the interest lies across acquirers
- ▶ They know the key corporate development people you don't
- ▶ Because your selling not being sold and need to create an auction mindset
- ▶ They buffer you from the potential buyers
- ▶ BTW the buyers will likely hate you have a banker
- ▶ They can be key in creating an auction mentality

One of the things that's most important in driving price and options is to have more than one buyer at the table (or at least the aura of this). Even if you have been approached by a partner or other party how do you know your maximizing shareholder value unless there is other interest (just think about the Toronto real estate market).

Finally, in the end, if your successful you need to be able to productively work with the acquirer and may in fact want to work with them in the long term. The process can be very contentious and you need to be able to keep a positive working relationship