Software Executive

Special Tech M&A Edition

Volume 1

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Founder & CEO
Corum Group

SOFTWARE EXECUTIVE
SPECIAL TECH M&A EDITION
VOLUME 1

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Contributors

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is a successful serial entrepreneur and investment banker with 35+ years of experience. He founded his first software company in the mid-1980s, and his sales, marketing, and capital raising skills have been honed over supporting 100+ company financial transactions during his career.

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joined Corum after 25 years of experience with both public and private venture-backed startups. He has experience opening international markets and growing sales from zero to tens of millions in revenue. He has sold several companies, including selling GetFon to Alestra (AT&T Mexico).

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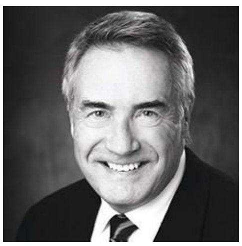


Bruce Milne CEO

has overseen more technology M&A transactions than anyone in the world as CEO of the Corum Group, netting sellers over $7 billion in personal wealth. Prior to Corum, he founded or owned four software/IT/internet related firms.

Ivan Ruzic SVP

has had a successful 30+ year career in the software business that has included virtually every senior executive role. His resume spans marquee companies and multiple startups. His international experience is extensive, including mergers and acquisitions in Europe, Africa and Asia.

Improving Your Odds For An Optimal Outcome

BRUCE MILNE CEO, Corum Group

I bought a big yacht!

What are you going to do with your wealth when you sell your company? (Hint: don't buy a yacht).

But before you start dreaming too much, understand some hard realities. This isn't easy. Far too much can go wrong; you can't get to the right level with the right buyers (you don't even know they are), your message is lacking, your valuation isn't credible, you don't have deep experience in negotiation against people who do this for a living, and you're poorly prepared to make it through due diligence (the tough part). You don't know how to create an auction process to drive value.

If you believe the old myth that companies are bought, not sold, you're in for a shock. The first buyer overture is usually some bottom feeder, or a broker fishing for a deal. Indeed, 89% of all buyer overtures don't result in a transaction. And if you decide to take charge of the selling process, you'll need a lot more than luck—80% of all self-managed M&A efforts end in failure.

So, how can you improve your odds? First, get educated, then get an advisor with serious deal experience and true global coverage, as the buyers are everywhere.

With our partner, Software Executive Magazine, we've provided some of the best educational pieces ever on selling software and IT related M&A from the leading experts in the world. Most of them are former CEOs like you who have built and sold their own company. Keep this reference of invaluable insight handy.

As to an M&A advisor, they must be technology specialists, dedicated to selling software and IT companies without other conflicts. It's no place for juniors, as the buyers in our industry are some of the most sophisticated organizations in the world, with huge staffs of experts. You need your own senior team of world-class researchers, leading industry experts, brilliant writers, financial analysts and the industry's top valuation experts to give you the high ground in negotiations. Your team leader should be a former CEO who has built and sold their own company(s), who has been in your shoes and understands the emotions you'll encounter. They must be thought leaders themselves, who can best tell your story and make things happen.

We hope you enjoy this special M&A publication. Connect with us at www.corumgroup.com for a free consultation on your value. To learn more, please attend our monthly Tech M&A webcast, or attend our live M&A educational events. •

What advice do you have for other software company CEOs **who are considering an M&A process?**

Corum Group has sold hundreds of companies over more than three decades, and after each deal we like to ask our clients to share what they learned along the way. Below, three Corum clients share their key takeaways from the process of selling their software companies. To find more such advice, visit www.corumgroup.com/sellers-panels

Just from our standpoint, we wanted to know what our goal was in advance of coming to market so that we could prepare the company for what we wanted to happen; that's the first thing. Number two is considering the type of company you want to associate with. We were very concerned about our staff and how the company we're associated with would gel with them, so that was an important consideration. And for a dose of reality, study all of the sample due diligence checklists that you can lay your hands on because it's extensive. What we did is we looked at the due diligence list and we divided and conquered. We siphoned it off months in advance so we knew how we were going to address it. So when the questions did come up, we could hit the ground running, although we still had a lot of work to do.

BETH EVANS

is the co-founder and CEO of Infian, the leading provider of Electronic Health Record solutions in the United States. Infian was acquired by Quantitative Medical Systems.

Back when we were approached, we did quite a bit of research before entering the process. The number one thing we found over and over again was to get an M&A advisor who knows what they are doing, rather than just a legal advisor. You as a company founder or CEO go through this process only once or twice in a lifetime, and you should work with someone who has more experience with it, just like your acquirer does. In our case, that was critical for us with Corum, as we still had to run our day-to-day business.

Getting feedback from our peers has also been very important for us during the process. It is easy to lose track of your goals when you're working on an acquisition for many months. Looking back I think every founder or CEO thinking of selling their company should try to find peers to bounce ideas off of.

DENNIS GUROCK

is the co-founder of Gurock Software, maker of software testing tools for QA and development teams including TestRail, which is the number one modern test management tool, used by thousands of companies around the world every day. Gurock Software was acquired by IDERA Software.

The lessons I learned in the process of selling my company were: 1) Run a good business; 2) Focus on your customers; 3) Focus on your top and bottom lines; 4) Run your business like you might sell it one day; and 5) Don't always follow the highest bid. You want to find the right partner.

Going into more detail on number four, you need to have everything in order in terms of how your company is set up, from a corporate structure perspective. Also from a financial perspective, make sure you're following GAAP. You have to have all the key metrics to show your company as successful and growing. I think the clearer you can paint the view of your business for your acquirer, the easier it will be in terms of the process.

MOE ARNAIZ

is the founder of eMOBUS, maker of a cloud platform for managing enterprise mobility by automating tedious support tasks and policy implementations. eMOBUS was acquired by Asentinel.

8 Ways To Increase The Value Of Your Software Company

IVAN RUZIC SVP, Corum Group

Whether you are considering selling in the short term or not, every software CEO wants to build a more valuable company. Here are some lessons I've learned from over three decades of helping software companies realize that value.

1 HIRE A QUALITY MANAGEMENT TEAM

When hiring management, consider what buyers and investors will want in terms of experience, credentials, ability to work well together, and how your team complements each other in skills and backgrounds. A great management team that is more than the sum of its parts gives buyers confidence in the future of your company and therefore increases its value.

2 PRIORITIZE CUSTOMER RETENTION

Minimizing churn is especially important for SaaS companies. As a subscription base becomes larger, any churn against that base becomes a large number. That loss of revenue requires more and more bookings from new customers to replace. As a result, growth slows. For many buyers, this will be the most important metric they look at.

3 BUILD A COMPELLING DEVELOPMENT ROAD MAP

Your road map should plan for products and features to delight current customers, capture new ones, and create opportunities for revenue. Look for disruptive trends you can leverage to benefit your market. Road maps that balance ambition and innovation with discipline and process are assets for you and potential acquirers.

4 DIVERSIFY YOUR CUSTOMER BASE

Having too many eggs in one basket is a risk that will make buyers hesitate. If 20 percent of your business comes from one loyal customer, it may well be a safe source of revenue. But what if they switch IT strategies, file for bankruptcy, or are acquired by someone using a competitor's products? You could be hit hard by the loss of that income, and it takes a lot of time to make it up. Keep your customers happy, but diversify your base.

5 SHIFT TO A SAAS MODEL

If you haven't made the leap, 2018 may be your year to move to SaaS. This means both a shift from a perpetual license to subscriptions, and from on-premises to hosted solutions. The subscription model eliminates "lumpy" perpetual revenue and increases predictability. Hosted solutions mean easier deployment using a common code base, eliminating version-control issues, and providing insight into customer usage, which creates opportunities to improve user satisfaction and retention rates.

6 BUILD ALLIANCES & PARTNERSHIPS

Many growing companies forget to play well with others because they are focused on building products and winning sales. Don't overlook the benefits of an ecosystem of business alliances and companies invested in your success. Alliances take time to build and maintain, but that's exactly why they create validation. A partner ecosystem will expand your value proposition, generate leads, extend your sales team, strengthen competitiveness, and make you an easier, safer decision for customers and acquirers.

7 EMPHASIZE YEAR-OVER-YEAR GROWTH

Profits versus growth is a classic value question, but growth is the safer bet. It provides a clear metric of your company's operations and market reception. If you're investing your earnings into expanding geographically, increasing market share, and beating out the competition, a buyer will see this growth as reflective of future performance — and after all, the future is what they're buying.

8 TIME YOUR SALE

You want to realize the value of your company when things are going well, inside the company and out. Obviously, it's better to sell when public markets are strong, demand is high, and valuations are attractive. But there are internal issues to consider — you shouldn't wait until health, relationships, or changes within your market degrade your value. Every company's timing is unique, but it is always better to sell too early than late.

Software M&A **Optimal Outcomes**

SOURCE: Corum Group

If done right, the sale of a software company can turn years of hard work and innovation into wealth. If done wrong, it can be a disaster for your company, in part because of the significant amount of effort it takes. Over three decades of doing more than 300 tech M&A transactions, Corum Group has compiled extensive metrics on the optimal M&A process, the value of doing it right, and the consequences of taking a shortcut.

700 to 1000

The **NUMBER OF VARIOUS COMMUNICATIONS** companies can expect during the M&A process.

5 to 15

Number of **NDAs** in an average M&A process

11%

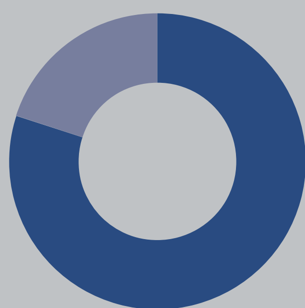
BUYER SOLICITATIONS that result in transactions

48%

AVERAGE IMPROVEMENT from first offer with an auction process

75%

How often another firm is willing to pay more than the initial bidder



80%

FAILURE RATE of self-managed M&A

An M&A Q&A With A Founder Who **Sold Two Software Companies**

A conversation with **STEVE JONES** SVP, Corum Group

Steve Jones has been on the forefront of selling multiple high-tech companies and spinning off software divisions. His 25 plus years of executive experience spans both public and private venture-backed startups. In addition to being a board member of several software companies, Jones is also an SVP with Corum Group, an M&A advisory firm that works exclusively with software and tech companies. Jones is speaking about M&A trends at the World Financial Symposium San Francisco event: Growth & Exit Strategies For Software & IT Companies. Jones caught up with ISVinsights and Software Executive *Magazine before his presentation to share his expertise with other software companies who are thinking about selling.*

YOU'LL BE PRESENTING ON THE TOP M&A TRENDS AT THE WFS IN SAN FRANCISCO ON FEBRUARY 22. CAN YOU GIVE OUR READERS A GLIMPSE OF ONE OR TWO OF THE TRENDS THEY SHOULD BE PAYING THE MOST ATTENTION TO?

There are several key trends emerging as both disrupting and mission critical to investment priorities for 2018. In past years, a strong emphasis on Big Data and systems integration has unleashed an unprecedented level of information, which now enables the next level of technology. Two key trends now are Artificial Intelligence and Data Science Monetization, which leverage that underlying data to create entirely new markets.

WHAT ARE SOME OF THE MOST COMMON MISCONCEPTIONS SOFTWARE COMPANIES HAVE ABOUT M&A?

A misconception comes from the tired saying: "Good companies are bought, not sold" – which essentially says you wait for it just to happen. Every successful entrepreneur that I know would never just wait for something to happen. You don't have a "buy force" to move your product or solution. You have a sales force. They proactively initiate a compelling discussion with your customers. Whether that outreach is a formal sales team or a digital campaign, it is proactive in nature. The same applies in an M&A situation. When the market conditions are right for an M&A transaction, a software company should be proactive in pursuing an outcome. The choice is to act — or be acted upon. Don't let the market pass you by.

WHAT DO YOU WISH EVERY EXECUTIVE AT EVERY SOFTWARE COMPANY WOULD KNOW BEFORE STARTING THE M&A PROCESS?

First, know what you're good at. Most likely the answer is creating successful companies. You do that by surrounding yourself with the best people you can find, by getting the right people on the bus. Selling a company is an expertise. Don't start a process without finding a partner who knows how to execute a successful M&A process.

Second, understand your boundaries. Go through a personal exercise to identify what is important to you. Price and valuation are just one of the issues to consider. Other areas of concern would include your personal tax liability, the warranties and guarantees required, the post-deal commitments and potential earnouts, and future integration plans for your employees and customers. What is the tolerance level for each?

Third, you still have a business to run. When the decision is made to initiate an M&A process (usually prompted by a soft overture from an interested party) the most important thing you can do to preserve wealth and improve valuation is to keep your eye on the ball. Execution to plan during a process is hard, but critical. You don't want to show a downfall in the same conversation you're trying to showcase the potential of your company.

Fourth, and probably the most important – start with the end in mind. From the beginning days of a company's history, you should plan for an eventual exit. That means you organize all of your files and documents, track client and partner agreements, protect your IP with employee agreements and NDAs, avoid debilitating clauses and terms in third party agreements (most favored nation, right of first refusal, source code agreements, etc.). And finally, track your performance and hold yourself accountable. One of the key assets in your company is you and your management team. The best way to show that you understand your business and market is to create a track record of performance. Come up with a budget and a plan. Then record your performance against plan, celebrate your success, plan to counter the shortcomings, and recalibrate with a new plan for the next term. Many times, a prospective buyer will ask for a forecast of future activity. Your credibility in standing behind a forecast is easily sustained by looking at your history of performance. If you successfully hit your forecasts in years past, then your current forecast becomes much more meaningful.

YOU'VE FOUNDED AND SOLD TWO TECH COMPANIES (AUCTION TRUST NETWORK AND SPEECHFX). WHEN IT CAME TIME TO SELL, WHAT DID YOU WISH YOU HAD KNOWN WHEN YOU FOUNDED THESE COMPANIES?

From an operations perspective, I wish I had known not all revenue is created equal. I wish I had a better grasp of revenue models to understand the difference between license/maintenance, managed services, and recurring revenue. Also, know the importance of customer retention.

From a strategic perspective, I would strongly encourage CEOs and executives to build and maintain personal relationships with their partners and customers. This goes beyond signing a partnership deal. Take the time to connect with the executives of these companies, at least on a quarterly basis. Follow up on partner issues, but also share market trends and insights. Create an opportunity with your customers to know your partners. You never know when you need to pick up the phone to have a more serious M&A related conversation with a company. If seeds are planted, that conversation turns from a cold-call into a meaningful, relevant dialog that could lead to a very serious M&A contender (even when they weren't planning to be involved in the first place)

WHAT WOULD YOU ADVISE SOFTWARE COMPANIES TODAY TO DO DIFFERENTLY?

1. Plan for the end in mind. I'd create a vigilant oversight of corporate governance, reporting, and tracking.
2. Find a trusted source to calibrate the strategic winds of the market. Make time every month to lift your head out of the operational workload to take a breath and look at the trends and market movements that affect your ecosystem. Who is partnering with who? Who is acquiring who? Why? What are your customers telling you? I know it sounds like a commercial, but Corum Group's free monthly tech webinar is jam packed with objective market info. There are other sources as well. Whatever the source, keep tabs with the market.

FOR SOFTWARE COMPANIES WHO ARE NOT THINKING ABOUT SELLING IN THE SHORT-TERM, WHAT ADVICE DO YOU HAVE? WHAT STEPS CAN THEY STILL TAKE TODAY THAT WILL MAKE THEIR BUSINESS MORE SUCCESSFUL/PROFITABLE EVEN IF THEY ARE NOT LOOKING TO EXIT ANY TIME SOON?

See my point above about starting with the end in mind. The other exercise that is helpful is to calibrate your business model with your industry. If you run a SaaS business in a market that values content subscription versus technology subscription, then find a way to monetize your content. Don't let your business model become outdated. Yet always ensure you are customer-driven in doing so.

Don't get ahead of your own funding and growth. There is always a big temptation to take down another round of financing to get to the "next level." However, a new round of investment comes with more restrictions on a potential exit. The floor – or minimum amount—is raised. The pool of prospective buyers is decreased. Exponential growth becomes the minimum expectation. It is not uncommon for companies to become stagnant after taking too much investment before they're truly able to scale. •

STEVE JONES joined Corum after 25 years of experience with both public and private venture-backed startups. He has experience opening international markets and growing sales from zero to tens of millions in revenue. He has sold several companies, including selling GetFon to Alestra (AT&T Mexico).

How To Scale For Growth

Tips from a CEO whose company debuted on the Inc. 500 list at #139

STU SJOUWERMAN CEO, KnowBe4 Inc.

As a software "serial entrepreneur," I'm aware that there are a multitude of factors to consider in determining how to grow your software company into a successful, thriving enterprise.

I have three rules I use to build my business, and I drill these into my staff on a regular basis. 1. Do it right the first time. 2. Do it fast. 3. Have fun while you do it. These three rules are woven throughout the more detailed growth enablers I'll discuss here.

IS IT THE IDEA, OR THE EXECUTION?

Conventional wisdom implies that it is the idea that counts the most and it is just a matter of detail to get the product to market to make your fortune. This is the common approach most people think of when building software products – build it and the masses will consume it.

A more practical approach is: It's not the idea, it's the execution. Bob Metcalfe, the co-inventor of Ethernet and founder of 3Com, was most proud of his business aptitude rather than his skill as an inventor, as it was his hard work as head of sales and marketing that earned him his fortune.

Engineers invited to Metcalfe's home would tell him what a great house it was and how they wanted to invent something like Ethernet. He'd tell them all about how he owed his house not to inventing Ethernet but to selling it for a decade. It had nothing to do with his initial brainstorming.

One of the reasons execution remains superior to an idea is the simple fact people will copy your idea once the market is established. Being first does not mean owning the market. Take the case of Facebook over MySpace or Google beating out Alta Vista.

If you develop a product that solves a market problem and works well, it is a good place to begin as you can build your company to scale.

HOW DO YOU GROW YOUR BUSINESS?

If you want your business to grow fast, you need to learn how to scale. You should question every action before implementing it and determine, "Does it scale?" Everything from the cloud stack to personnel and development processes must scale. Even when writing code one needs to consider how to write it so it works but will scale, rather than try to develop for a million users off the bat.

For example, your customer service rep receives a support request. This gets taken up and sent directly to a support rep with a ticket. Five more support reps get the same issue with five different tickets. There is no centralized process in place to track common issues. These six reps are now busy handling the same issue. Does it scale? No. You need to develop a simple process for managing your workflow. You put in a ticket system that identifies or allows for common issues and may generate an automatic FAQ. Does that scale? Yes.

HOW DO YOU DETERMINE SCALABILITY?

As you develop your business processes, you need to consider how each will affect the workforce who must deal with the data flow.

Take the case of a newly hired sales trainer. The sales trainer has all his new sales reps send an email direct to the marketing department requesting emails and promotion to support a sales objective. Magnify that by 100. Does it scale? No.

A better approach would be to send a direct request to the marketing department to create a centralized repository of promotion and email templates to support a sales objective. The sales staff would be able to get to it at any time and pull what they need for their prospect conversation. Does it scale? Yes. It allows you to do it right the first time and do it fast.

Let's take another scenario. Your development team has received a feature request from the sales department – which means if they have this feature, the sales rep will be able to close the deal.

There are many questions to ask to determine whether the feature will scale. How much is the sale? What are the costs involved for supporting this feature into the future? Will any other customer benefit from this feature? Will you lose customers or recurring revenue if you do not have this feature? Does it solve a market problem? Will it take you away from other, more pressing or profitable development? Asking the hard questions can help you determine the practicality and decide the best route to take.

HOW DO YOU SCALE YOUR STAFF?

The subject of personnel comes up sooner or later. The issue of how to hire can be a challenge. It should be like constantly doing yourself out of a job. At first, you are handling everything yourself, and eventually the sheer volume forces you to shed some of these duties, bit by bit.

> *"You don't experiment on a proven production line or take apart something that is already working to test your theories or ideas."*

A workable way to hire is to find the staff that can grow into the role as the business expands. And you hire people who you think can do the job better than you can. It helps remove the temptation to intervene.

Hiring a great salesperson who lacks leadership quality as your first hire will not allow you to scale. You want someone who can sell and help train others to sell while you grow. They will be a better manager in the long run. They will know what it takes to get that sale. They've done it themselves. Does this scale? Yes.

Now let's look at doing it another way. You hire a sales rep. He's good and he brings in several deals. Then you want to expand. You hire another sales rep. Now you have two to manage directly. And you keep hiring good reps. Who is going to manage them? You are. Does it scale? No. You'll be drowning in no time and unable to get to your other duties.

If you hire with the view of scaling the business and doing it right the first time, you'll be able to grow that much faster. When you get to hiring an HR department, get staff who can not only manage but can also hire. This allows your business to accommodate fast growth.

HOW DO YOU HANDLE HYPERGROWTH?

If you've managed to get your business into growth mode, you will be forced to revamp your business processes, especially when you need to support a period of hypergrowth. There is a smart way to do it. This is when you pilot a new activity and create it as a parallel to what you already have working. You don't experiment on a proven production line or take apart something that is already working to test your theories or ideas.

Keeping it lean, you create the activity and test it out first, like a working prototype. Does it work? Can it be duplicated? Does it scale? If so, you slowly integrate into operations while continuing your other actions. And you monitor it to make sure it doesn't kill off your bread and butter.

An example would be creating a new product. If you didn't pilot it, you might have all your sales reps jump on the new product, which is unproven in sales, and drop promotion of existing products. Don't be surprised if you experience a subsequent drop in revenue.

HOW DO YOU FIX WHAT'S BROKEN?

There comes a time when production in any given area levels out. Whether it is development, sales, or lead generation, production goes flat. This is the time when you need to inspect and revamp. You can't throw more resources at a broken process and expect it to change. It doesn't scale. You should isolate the problem first, and then add resources when they are needed.

Take the case of rising support costs. Inspection finds the development and QA process have been shortcut. Needed testing or an extended beta wasn't done, which in turn resulted in a premature product release. Left unchecked, this will negatively affect sales and profits. Fix the product. Adjust resources. Perhaps automate support tools to improve and speed up reporting. This rapid inspection and fixing the problem (do it fast) will result in an improvement. If not, you have the wrong problem.

Whatever you do, look and be objective. Fixing a broken process or team is in everyone's best interest. And keep it fun. ●

STU SJOUWERMAN (pronounced "show-er-man") is the founder and CEO of the integrated security awareness training and simulated phishing platform KnowBe4, Inc. Sjouwerman's fifth startup, KnowBe4, debuted on the 2016 Inc. 500 list at #139, the Deloitte Technology Fast 500 at #50 and #1 on the Tampa Bay Best Places to Work for 2017.

10 Keys to a Valuable Valuation

YASMIN KHODAMORADI Director of Valuation Services, Corum Group

Putting together a good valuation report is an important challenge when it comes to selling a software company—and being able to use it correctly is another. There are ten key factors to consider in order to present a high-quality valuation most effectively.

USE PROPER VALUATION METHODS

There are many different valuation methods available to software companies, but not all are appropriate. Some of these methods are market-based, relying on comparisons to similar companies. Others look at your future cash flows or previous investments in research and development. Other methods, such as internal transaction price, book value, liquidation value and internal rate of return, aren't as useful to software companies since they don't take into account the cost of creating the technology or future growth prospects.

$$\textbf{Sales Multiple (EV/S)} = \frac{\text{Enterprise Value}}{\text{Trailing 12 Month Revenue}}$$

PUBLIC COMPANY MULTIPLES

Value multiples from comparable public companies are one of the most common valuation tools for software companies because the information is readily available from a variety of firms. These numbers can also represent the public measure of value for different sectors. The two best metrics for comparison are enterprise value to sales and enterprise value to EBITDA.

When building peer groups, organize companies by sector, revenue mix or growth profile. Some companies exist in multiple markets or have a variety of different aspects that come into play, and are thus not ideal for comparison purposes.

$$\textbf{Earnings Multiple (EV/EBITDA)} = \frac{\text{Enterprise Value}}{\text{Trailing 12 Month EBITDA}}$$

COMPARABLE TRANSACTIONS

Another common method for valuing a technology company is using multiples from recent comparable transactions. Transactions for similar types of software solutions are ideal, but given that a relative handful of transactions have disclosed terms, companies with similar business models, size, growth or profitability can be suitable substitutions. Enterprise value to sales and to EBITDA are the main metrics incorporated into the analysis, while enterprise value to the number of employees can serve as a sanity check, particularly for services-oriented firms.

$$\textbf{Comparable Transactions} = \frac{\text{Sale Price}}{\text{Trailing 12 Month Revenue}}$$

DISCOUNTED CASH FLOW

Discounted cash flow (DCF) is one of the most well-known methods for determining valuation across all industries, not just technology. DCF approximates the present value of a company's future cash flows and for this reason, is popular among young, growing tech companies that don't have enough of a track record for the other valuation methods.

Given the number of variables involved in this type of analysis, including the credibility of your projections, discount rate and terminal multiple, this approach can be vulnerable to buyer scrutiny and will need to be balanced out by other methods.

Discounted Cash Flow =

$$\frac{\text{Y1 Earnings}}{(1 + R)^1} + \frac{\text{Y2 Earnings}}{(1 + R)^2} + \frac{\text{Y3 Earnings}}{(1 + R)^3} + \frac{\text{Y3 Revenue} \times \text{Terminal Multiple}}{(1 + R)^3}$$

REPLACEMENT VALUE

Replacement value is a less commonly used technique, however, it is an important method for determining the value of certain companies. This method shows a potential buyer whether or not it would cost more for them to build the same team and the same software on their own. Obviously, this is only an approximation since there will be prior legacy work accounted in this method and a rough estimate concerning the time to market factor.

This method is most commonly used for companies with significant investments in IP and low or inconsistent revenue and earnings.

Replacement Cost Analysis = (Internal Development Cost) + Contracted Development Cost × Time to Market Factor

WEIGHTED AVERAGES

Each of these methods carries valuable information, so the final step in calculating a valuation range is to use a weighted average. You can assign the same weighting to each method or adjust the weighting depending on the type of company.

For example, a SaaS startup with low historical revenue but significant projected growth will likely want to put more weight on DCF and less weight on comparable transactions and public peer multiples. A company in an established sector with clear public counterparts would lean more on the public multiples.

THE VALUATION PRESENTATION

When sharing the financial story of your business with buyers, it is important to emphasize the non-quantifiable, intangible assets of the firm in addition to the valuation analysis.

Highlighting assets such as intellectual property, staff domain expertise, and barriers to entry in your presentation helps tilt the "build versus buy" argument toward the M&A option. Because intangible assets are typically not factored into the valuation analysis, they provide valuable counterpoints that help defend and justify your desired valuation.

REQUIRED FINANCIALS

When preparing to sell your company, it is vital that you put together a proper financial package in order for prospective buyers. At minimum, you will need to provide income statements, balance sheets and statement of cash flows for the past three years. You may also want to consider recasting the statements per GAAP (generally accepted accounting principles) standards, which could mean changing to accrual-based accounting or expensing any capitalized software development.

However, you will also want to ensure that you're bringing pro-forma earnings statements from the last three years as well as forward three-year projections. This should be presented in a standard accepted financial model with documented assumptions about strategy, growth and profits.

TIMING A VALUATION PRESENTATION

One thing many software executives are surprised to learn is that the timing of the valuation presentation is critical to the success of a company's sale. Initial interactions with buyers should revolve around understanding your company's value proposition and intangible assets — often, only a few financial indicators are shared at this stage, with full financials provided later in the process. Putting your stake in the ground too early may mean leaving money on the table.

UNDERSTAND QUALITY OF REVENUE

A valuation report is the beginning of a deeper conversation—and negotiation—about value, and increasingly sophisticated buyers frequently will do much deeper financial analyses seeking to understand a company's "quality of revenue." The predictability and scalability of recurring SaaS revenue, for example, will be much more highly valued than revenue derived from support contracts, projects or resale of software. Understanding your company's quality of revenue will help ensure your valuation is defensible when in front of a buyer. ●

YASMIN KHODAMORADI joined Corum Group in 2015, providing research on valuations and assisting with sell-side M&A transactions. She has helped dozens of companies determine their value in the market, with a focus on enterprise software and SaaS, IT services, and vertical sector solutions.

What Do They Want?
Engaging Capital Providers

Software Executive magazine teamed up with Ken Hubbard, founder of Cap-Stack West, to get an inside look at the fundraising process.

A conversation with **CAPITAL PROVIDERS**

The business-capital market is more complex today than it has ever been. I know those of you who are raising or about to raise funds know exactly what I'm talking about. Whether you're a startup, a mid-market, or a Fortune CEO, the right capital providers are a challenge to identify, engage, and close. It also takes more time to identify the right match in a financial partner. And that means your burn increases and your C-suite executives will divert more focus from operations and growth to fundraising documents, meetings, and due diligence.

The engagement process starts with identifying a short list of potential capital providers, which can take weeks with all the debt and equity players available to you both on- and offline. And when you find the right providers, do they have dry powder (available capital)? Is your vertical in their sweet spot or have they moved to another industry? Are they closing other opportunities, putting timing in question? Are they investing as a lead, will they follow an angel round, or do they invest in your specific round? What is their exit philosophy? What excites them about the software industry and why do they invest in software? The list of questions goes on and on.

We recommend building a list of key questions to ask capital providers when you start the engagement process. To shine some light on these challenges we went straight to the capital providers (both debt and equity) throughout the ecosystem of business capital. We asked them what they're keen on in the software industry, how to engage them, and how they invest. We hope these answers will help accelerate your fundraising.

IN THIS ARTICLE

SCOTT LOPEZ

Managing Director – Investment Banking at Primary Capital

DENNIS MURCHISON

Manager of MT Holdings, a Murchison SFO

BILL CARPOU

CEO of OCTANe

BRIAN ANDERSON

Managing Partner at Harper Partners

BETH CORSON

Managing Partner of Boardwalk Advisors

SOFTWARE EXECUTIVE: What segments within the software industry are intriguing to capital providers?

LOPEZ: AI warrants significant attention and respect. Entire industries are at risk. For example, a local marketing firm just licensed an AI platform that will track consumer buying preferences and learn in "nearly real time" which messaging will get the most sales conversions for a new product. Marketing agencies may no longer have to do split testing, focus groups, or pilot programs to gauge interest. I only see the effects of AI accelerating.

CARPOU: We see a lot of potential deals in AR/VR, AI, and cybersecurity. The most interesting companies have shown a path to monetize this technology and have a targeted base of B2B and B2C customers.

ANDERSON: As an alternative lender, we're fascinated by blockchain as it is the most intriguing frontier software. It has the potential to reinvent all financial markets in a more efficient, cost-effective, and secure manner unlike anything we've ever seen before.

HUBBARD: If you are raising funds and your software does not fall in these categories, you need to provide investors with a compelling reason for engagement. Whether you drive home the revenue model, a clever market penetration process, a sizable opportunity, a unique innovation, or long-term staying power, every investor has different expectations for each segment of their portfolio. Find these key drivers and position them for the capital provider.

The next step in the process of identifying the right capital partners pertains to the introduction. How do you connect? A warm introduction is always preferable.

SOFTEX: What do investors want to see?

HUBBARD: Many capital providers like an executive summary. Don't sell; inform the reader. If you are sending a deck, be sure it is self-giving and includes full notes sections on every page so the capital provider can easily determine if there is a match. You don't want them to make a snap judgment based on limited information. Most decks are built to be given verbally, which can cause a disconnect when sent without narration. Don't risk it.

CARPOU: We require the company to have already raised some capital from friends, family, or angels. The company must also have a solid business plan, identified team, and proof of concept on the product/service.

CORSON: We like to see a slide deck, minimum revenue of $2 million annually, breakeven within three years, and strong executive team bios.

HUBBARD: Most capital providers prefer a third-party valuation, and you should as well. Seasoned investors find most CEOs ill-prepared to discuss valuation. And that frustrates them right from the outset.

SOFTEX: What are your thoughts on valuations today?

MURCHISON: I think current company valuations are inflated and based on unsubstantiated projections. I prefer to use real numbers or substantiated projections.

CORSON: I feel that all new tech companies seem to provide the same valuation multiples based on acquisitions by Google and Apple. These are just not realistic.

HUBBARD: Many capital providers in the CapStack community spoke to the lack of flexibility by the C-suite to take advice from veterans within their industry. Others commented on due diligence not matching the initial presentation data, slow response times from executives when answering questions, and lack of depth as to the real capital needs of the company by using a range of investment instead of putting a stake in the ground and sticking to it. More money does not mean you can grow faster, it just means you will spend more money.

SOFTEX: What causes you to shy away from an opportunity?

CORSON: Executives can be so focused on increasing the features and benefits of their software that they forget to work on obtaining sufficient revenue streams to sustain their operations. They worry too much about R&D and not enough about having a good business sense.

MURCHISON: Unrealistic expectations and no revenue model will deter us from moving to next steps.

ANDERSON: If a CEO can't articulate with conviction how the company is going to win, that's an automatic no.

HUBBARD: Setting expectations requires research into the market, a real understanding of business growth, the actual value of momentum (and the underlying data to substantiate the monetary impact), and training of channel partners (if applicable). If you feel investors are fighting your projections, engage them. Don't defend your numbers. Learn from them, prepare for the next meeting, and fine-tune your Q&A. It may even help you get a second meeting with the naysayers. When I started my first company in 1988, the overall market for my product was finite. Attaining a $100M run rate wasn't going to happen without serious market penetration. Today, the global market's sheer size means there can be 10 or 20 $100M companies in the same niche. So don't get defensive about your unique value proposition. Instead, revel in the fact that competitors have jumped into the niche and are educating the market for you. ●

erwin
the data governance company
has acquired
AnalytiX DS

Corum acted as advisor to AnalytiX DS

CORUM
MERGERS & ACQUISITIONS

SELLER: AnalytiX DS

SELLER LOCATION: Chantilly, VA

BUYER: erwin, Inc.

BUYER LOCATION: Melville, NY

SELLER DETAILS:
AnalytiX DS is a leader in metadata management and data governance solutions, and the developer of the EPICENTER platform, which provides sustainable data governance, automated data mapping, universal code generation, and automated testing.

BUYER DETAILS:
Erwin Inc. is a longtime provider of data modeling software, providing solutions for enterprise architecture, business processing modeling, and data governance. The company is a portfolio company of Parallax Capital Partners, which acquired erwin from CA in 2016. This is the fourth bolt-on acquisition made since Parallax acquired erwin.

DEAL DESCRIPTION:
Described as the "the last big piece we're missing" by erwin's CEO as they move towards a potential IPO, AnalytiX DS adds a number of automation capabilities to erwin's EDGE data governance platform, including technology that can systematize data from a wide variety of databases and software programs with varying labeling systems.

RUBICON
technology partners
has acquired
QSR
International

Corum acted as exclusive M&A advisor to QSR International

CORUM
MERGERS & ACQUISITIONS

SELLER: QSR International

SELLER LOCATION: Melbourne, Australia

BUYER: Rubicon Technology Partners

BUYER LOCATION: Menlo Park, CA

SELLER DETAILS:
QSR International is the world's leading qualitative data analytics (QDA) software company, and is serving academic, governmental and corporate researchers worldwide. Its products include Nvivo, the leading platform for analyzing unstructured data, and Interpris, a targeted solution for public policy experts analyzing community opinion services. Through both products, QSR enables both structured numerical data and unstructured "human" data to be analyzed together, uncovering powerful insights unattainable only through quantitative data analysis.

BUYER DETAILS:
Rubicon Technology Partners was established in 2012 as a lower-middle market private equity firm focused on partnering with founders and management teams of enterprise software companies to help grow and scale their businesses. Rubicon seeks to enable companies to adapt to the changing requirements of their businesses as they grow and scale using a proven set of proprietary processes, best practices and a portfolio-wide engagement model called RTP Change Management™.

DEAL DESCRIPTION:
The partnership provides strategic investment for QSR International to extend its market leading position in the academic and social research disciplines and accelerate its fast-growing business in the commercial and public sectors, accelerating the range of solutions available to QDA researchers globally.

Trimble.
has acquired
Stabiplan

Corum acted as exclusive M&A advisor to Stabiplan

CORUM
MERGERS & ACQUISITIONS

SELLER: Stabiplan BV

SELLER LOCATION:
Bodegraven, Netherlands

BUYER: Trimble

BUYER LOCATION: Sunnyvale, CA

SELLER DETAILS:
Stabiplan develops software for the Mechanical, Electrical and Plumbing (MEP) industries in Europe. Its products include the Stabicad 3D CAD/CAE software solution for Revit and AutoCAD, which integrates design, drawing and engineering calculation/analysis, supporting workflows from engineering to construction, as well as the MEPcontent Building Information Management content library. With MEPcontent, MEP engineers and contractors can deliver technically accurate models and drawings while including manufacturer-specific content, to ensure that a model contains uniform and accurate information for fabrication and documentation.

BUYER DETAILS:
Trimble provides technology solutions that enable professionals and field mobile workers to enhance or transform their work processes worldwide. The company operates in four segments: Buildings and Infrastructure, Geospatial, Resources and Utilities, and Transportation. The company was founded in 1978 and is listed on the NASDAQ exchange.

DEAL DESCRIPTION:
Stabiplan will be added to Trimble's Buildings and Infrastructure segment, broadening Trimble's existing construction solutions for MEP contractors and engineers that enable automated estimating, project management, modeling, detailing, layout and construction. Its portfolio complements Trimble's existing products for the European MEP market, including Trimble Plancal nova and Trimble Amtech ProDesign.

PROVIDENCE STRATEGIC GROWTH

has acquired

ExakTime

Corum acted as exclusive M&A advisor to ExakTime

CORUM MERGERS & ACQUISITIONS

SELLER: Exaktime

SELLER LOCATION: Calabasas, CA

BUYER: Providence Strategic Growth

BUYER LOCATION: Providence, RI

SELLER DETAILS:
ExakTime provides innovative workforce management solutions for construction and field services companies and serves over 7,000 customers and 250,000 users daily. The company equips businesses with a GPS-enabled app for field-based time and activity tracking and compliance verification, plus cloud-based software and direct syncing with accounting and payroll programs.

BUYER DETAILS:
Providence Strategic Growth (PSG) is the growth equity affiliate of Providence Equity Partners, a leading global equity firm with $50 billion in assets under management. Established in 2014, PSG focuses on growth equity investments in lower middle market software and technology-enabled service companies, primarily in North America. Providence, founded in 1989, has invested in more than 150 companies and is a leading equity investment firm focused on the media, communications, education and information industries.

DEAL DESCRIPTION:
With the acquisition, Exaktime is joining a new platform company created by Providence Strategic Growth, Arcoro, Inc., which also includes BirdDogHR, an integrated talent management solution for small and mid-size companies in construction and beyond. Both companies will maintain their company names and brands but will now be known as part of the Arcoro family of human capital management solutions.

BOSCH
Invented for life

has acquired

inubit
integrating your business and IT

Corum acted as exclusive M&A advisor to inubit AG

CORUM MERGERS & ACQUISITIONS

SELLER: inubit AG

SELLER LOCATION: Berlin, Germany

BUYER: Robert Bosch GmbH

BUYER LOCATION: Stuttgart, Germany

SELLER DETAILS:
inubit AG is the leading supplier of comprehensive, enterprise-level Business Process Management (BPM) solutions in Europe and particularly the German language countries (DACH). inubit follows a vertical market strategy employing a direct sales approach in selected vertical markets to establish a bridgehead, and enable system integrators and OEMs with vertical expertise to realize larger projects.

BUYER DETAILS:
Bosch is a leading multinational engineering and electronics company, founded in 1886 building engine parts. Still primarily focused on automotive parts, Bosch also designs and manufactures industrial machinery and hand tools.

DEAL DESCRIPTION:
inubit became a part of Bosch Software Innovations, a core component of the Bosch initiative to remake the company around the Internet of Things. As a part of Bosch, inubit offers software solutions for companies in the utilities, insurance, automotive and logistics, telecommunications, and healthcare industries. With Bosch, inubit continues to develop its own products and solutions for business customers, but also provide vital components for creating systems and service platforms.

LE YOU | PERFECT WORLD

have acquired

DIGITAL EXTREMES

Corum initiated this transaction and acted as exclusive M&A advisor to Digital Extremes

CORUM MERGERS & ACQUISITIONS

SELLER: Digital Extremes Ltd.

SELLER LOCATION: Waterloo, Ontario

BUYER: Leyou Technology Holdings & Perfect World Co., Ltd.

BUYER LOCATION: Hong Kong & Beijing, China

SELLER DETAILS:
One of the world's most successful independent game studios, Ontario-based Digital Extremes was founded in 1993 and is well known for such titles as Epic Pinball, the Unreal franchise, and, most recently, its highly popular free-to-play action game, Warframe, available for Microsoft Windows, PlayStation 4, and Xbox One.

BUYER DETAILS:
Leyou is a global video game holding company focused on free-to-play online multiplayer games, which originally operated as a chicken-parts supplier, using the acquisition of Digital Extremes to pivot into the video games space. Perfect World is a leading online game developer and operator, primarily developing online games based on proprietary game engines and game development platforms.

DEAL DESCRIPTION:
The acquisition occurred in two phases, with Leyou first acquiring 58% and Perfect World 3% of the company for $73M. This deal also granted Perfect World the exclusive publishing rights of Warframe on all the consoles in Mainland China. In the second phase, Leyou paid $65M for an additional 39% of the company. Leyou has left creative control with the Digital Extremes founders, who have stayed on to lead the company.

KUKA

has acquired

VISUAL COMPONENTS

Corum acted as exclusive M&A advisor to Visual Components

CORUM MERGERS & ACQUISITIONS

SELLER: Visual Components Oy

SELLER LOCATION: Helsinki, Finland

BUYER: KUKA AG

BUYER LOCATION: Augsburg, Germany

SELLER DETAILS:
Visual Components is a leading developer of 3D manufacturing simulation software and solutions, recognized as a global leader in the manufacturing simulation industry and trusted technology partner to many leading brands. The Visual Components software enables manufacturers to visualize and simulate manufacturing floor operations.

BUYER DETAILS:
KUKA is a manufacturer of industrial robots and solutions for factory automation, owned by China-based electrical appliance manufacturer Midea Group. KUKA originated in 1898 as a manufacturer of house and streetlights, before moving into welding equipment, public vehicles and other products. The company entered the industrial robot sector in 1973, and its robotics and other automation solutions are now used in factories worldwide.

DEAL DESCRIPTION:
KUKA sees the Visual Components simulation capability as an important component of the "factory of the future" enabling other technological innovations such as artificial intelligence, virtual and augmented reality, cloud technology and the Internet of Things. Visual Components will remain a hardware-neutral simulation platform, and will continue to support and expand its list of robot models, currently 1,200+ models from 30+ robot brands.

Optima HEALTHCARE SOLUTIONS

has acquired

Hospicesoft HOSPICE MANAGEMENT SUITE

Corum acted as exclusive M&A advisor to Hospicesoft

CORUM MERGERS & ACQUISITIONS

SELLER: Hospicesoft

SELLER LOCATION: Salem, UT

BUYER: Optima Healthcare Solutions

BUYER LOCATION: Palm City, Florida

SELLER DETAILS:
Hospicesoft is a leading supplier of cloud-based software for hospices. Designed exclusively for hospice organizations from the ground up, Hospicesoft offers a complete EMR and billing solution that enhances and improves compliance and reimbursement with guided workflows that ensure accurate and complete documentation.

BUYER DETAILS:
Optima Healthcare Solutions is a leading provider of cloud-based software for post-acute care providers, including contract therapy companies, skilled nursing facilities, outpatient clinics, home health agencies and hospice organizations. Optima is a portfolio company of Alpine Investors V, LP and affiliated funds managed by Alpine Investors, a private equity firm specializing in investments in founder-owned, middle market companies, recapitalization, and acquisition of small to mid-sized companies.

DEAL DESCRIPTION:
Optima plans to maintain and expand the hospice-specific capabilities of the Hospicesoft application, while also integrating it with the Optima home health product, making a complete solution available to agencies that operate in both the hospice and home health arenas. Optima also plans to maintain Hospicesoft's headquarters and all of its staff.

Agilent Technologies

has acquired

Genohm

Corum acted as exclusive M&A advisor to Genohm

CORUM MERGERS & ACQUISITIONS

SELLER: Genohm SA

SELLER LOCATION: Lausanne, Switzerland

BUYER: Agilent

BUYER LOCATION: Santa Clara, CA

SELLER DETAILS:
Genohm is a developer of highly differentiated, on-premise and cloud-based software solutions for laboratory management based in Switzerland. Genohm's main laboratory software automation suite, SLIMS, is a digital platform that provides laboratories with a rapidly deployable and seamless laboratory information management system (LIMS) and electronic lab notebook (ELN) environment that is used in biobanks, research labs and next gen sequencing facilities. Genohm also has an application marketplace with preconfigured workflows to enable rapid system implementation across a broad range of industries and scientific workflows.

BUYER DETAILS:
Agilent Technologies is a global leader in life sciences, diagnostics, and applied chemical markets, publicly traded on the New York Stock Exchange. The company provides analytical instruments, software, services and other supplies for the entire laboratory workflow. Created as a spin-off of Hewlett-Packard's Medical Products and Instrument Group in 1999, Agilent has over 50 years of experience serving the laboratory market.

DEAL DESCRIPTION:
This acquisition enhances Agilent's current software portfolio, adding LIMS and workflow management, while expanding ELN capability. Agilent hopes the acquisition will enable them to provide scientists with greater context for analytical data, and to accelerate development of the "digital lab."

vendavo

has acquired

endeavor

Corum acted as exclusive M&A advisor to Endeavor Commerce

CORUM MERGERS & ACQUISITIONS

SELLER: Endeavor Commerce

SELLER LOCATION: Dallas, TX

BUYER: Vendavo, Inc.

BUYER LOCATION: Denver, CO

SELLER DETAILS:
Endeavor is a leader in cloud-based Configure-Price-Quote (CPQ) software solutions, providing interactive selling tools designed to quote and order process implementations for mid-size companies. Its product, EndeavorCPQ, pulls data from leading CRM and ERP systems, eliminating errors and ensuring accurate back-end updates.

BUYER DETAILS:
Vendavo provides pricing and margin optimization solutions that leverage data science and advanced analytics to improve the effectiveness of B2B sales conversion rates and profitability, and allow effective and efficient collaboration of pricing, finance and sales, with the goal of enabling corporations to ensure that the right price is reaching the right customer at the right time.

DEAL DESCRIPTION:
The deal unified Endeavor Commerce's CPQ technology with Vendavo's intelligent pricing capability. CPQ software generally aims for faster time-to-quote and configuration strategies, or the bundling of products, components and services into packages with predefined rules. Through the integration of Vendavo's strategic pricing and customer segmentation capabilities into EndeavorCPQ, Vendavo seeks to create a new breed of "Intelligent CPQ" solutions.

MAGNITUDE™

has acquired

Every Angle

Corum acted as exclusive M&A advisor to Every Angle

CORUM MERGERS & ACQUISITIONS

SELLER: Every Angle Software Solutions

SELLER LOCATION: Gouda, Netherlands

BUYER: Magnitude Software

BUYER LOCATION: Austin, TX

SELLER DETAILS:
Every Angle's software enables users of SAP-run organizations to optimize their operational performance by empowering insightful and flexible business analytics. Every Angle's self-service solution works on both the ECC and HANA SAP systems, and hides the complexity of SAP's data structure, allowing end users to quickly identify and resolve key business issues. The self-service analytics model allows users to identify and resolve key business issues before they impact customers, and frees IT resources and funds to focus on more strategic initiatives.

BUYER DETAILS:
Magnitude is a developer of corporate performance management (CPM), master data management (MDM) and data connectivity technology products. Its portfolio of products includes: simplified application data access to any data source; data management solutions for the SAP and commerce verticals; simplified master data harmonization and governance; and packaged application analytics and reporting solutions for SAP and Oracle.

DEAL DESCRIPTION:
Magnitude's third acquisition in an eight month timespan, Every Angle expands its capabilities for delivering unified application data management across a fragmented application environment and strengthened its presence in the largest global ERP ecosystem, SAP having 25% market share. Every Angle will continue operating as a division of Magnitude.

brother® at your side

has acquired

nefsis® Video Conferencing Software

Corum acted as sole M&A advisor to Nefsis

CORUM MERGERS & ACQUISITIONS

SELLER: Nefsis Corporation

SELLER LOCATION: San Diego, CA

BUYER: Brother Industries

BUYER LOCATION: Nagoya, Japan

SELLER DETAILS:
Nefsis is a technology specialist in video conferencing software and cloud computing online services. The Company's global cloud provides multipoint HD video and advanced collaboration tools to business, government and educational customers in more than 45 countries worldwide. As compared to previous generations of infrastructure hardware solutions such as video routers, MCUs and gateways, the Nefsis cloud-based offering is less expensive, automatically maintained, and easier to expand.

BUYER DETAILS:
Brother Industries is a multinational dollar maker of electronics, most well-known for printers and sewing machines, though it also makes machine tools, desktop computers and other computer-related electronics. It was founded in 1908 as the Yasui Sewing Machine Company.

DEAL DESCRIPTION:
Like many hardware-focused companies, Brother sought to add software and deep technology to its portfolio. After the acquisition, Nefsis rebranded as OmniJoin, a pillar of Brother's new cloud services division. Their web-based remote collaboration and conferencing software solutions have been joined by receipt management, email encryption and other software solutions and managed cloud services targeted at small- and medium-sized businesses.

6 Focus Areas For Shaping A SaaS Financial Model

Why KPIs, sales, marketing, revenue churn and build, cash, and headcount need to factor in to your financial model.

WILL CORDES Director of Corporate Development & M&A, Infogix; Founder, Cordes Consulting

For most executives and business owners, financial models are thought of as robust Microsoft Excel files that typically use historical data and operational variables to provide key information about future business performance. This holds particularly true for Software-as-a-Service (SaaS) and traditional software businesses, where revenue recognition policies add an additional layer of complexity to building out these projections.

While CFOs and financially focused employees are generally driving the creation and maintenance of most financial models within an organization, it is important that functional leaders from across the business are comfortable and familiar with the methodologies and assumptions used to drive these models, given their impact on making critical business decisions. Financial models are necessary for a wide variety of cases, including (but not limited to) budget and forecasting materials, evaluating potential acquisition candidates, monitoring cash flow or debt, and equity capital raising.

To get the most out of your financial models, paying attention to the following six focus areas will go a long way toward maximizing value.

1. REVENUE CHURN

While this is a given for SaaS businesses, churn also plays a significant role for legacy software business models that continue to sell perpetual licenses as they look to build their maintenance revenue base. There are many publicized methodologies for improving revenue churn, including setting organization-wide goals for churn and investing in additional hiring to create or enhance customer success management functions. Incorporating price increases and upselling existing customers are also ways to help mitigate the loss of revenue from churned customers.

2. CASH

Another important area to home in on is your cash balance throughout a model's projection period. Billings can play a critical role in how your company can reinvest in growth. For example, companies that receive annual and multiyear up-front payments at the onset of a new deal are typically able to drive higher retention rates, as these larger payments reduce renewal risk versus a company that bills on a monthly, quarterly, and/or annual basis. Multiyear billings also allow companies to recover their customer acquisition costs (CACs) faster and provide the flexibility to reinvest those recouped costs in other areas of the business. To accurately project cash, you will usually need to incorporate and project all three financial statements into your model.

3. SALES & MARKETING

Sales teams play an important role in driving accurate numbers in the forecast period. Without their feedback, many models resort to relying on historical growth rates to drive revenue and expense growth in future years, which can become a perilous habit to rely on. For SaaS companies, focusing on sales drivers and deals sold on a per rep (or per channel) basis can be critical for any set of projections. In addition to sales, marketing also has a strong impact on model inputs. Depending on how your business acquires customers, understanding unit economics on lead generation and lead conversion is vital to projecting potential marketing program spend in future periods.

4. HEADCOUNT

Another common pitfall of most financial models is to use percentage of revenue calculations to drive future hiring plans. While this technique works in certain cases, I recommend incorporating a full headcount build and using this document as a blueprint to add addi-

> “While CFOs and financially focused employees are generally driving the creation and maintenance of most financial models within an organization, it is important that functional leaders from across the business are comfortable and familiar with the methodologies and assumptions used to drive these models, given their impact on making critical business decisions.”

tional roles in outer years. This can be a highly useful document for opening dialogue and gathering feedback around potential hires across each functional area within the business. It is also important to factor in commissions, bonuses, health/medical, and any other benefits categories to fully burden compensation figures in the model. Additionally, merit salary increases and promotions are also worth consideration in later years, given their potential expense impact.

5. REVENUE BUILD

As previously mentioned, revenue recognition is a crucial concept for any SaaS business. In particular, a significant amount of attention needs to be paid to how recurring revenue is treated in future periods and how other, nonrecurring line items are treated. For example, implementation services for lighter onboarding processes can typically be recognized in the month in which the business is booked, compared to ongoing professional and support services which are recognized in the period in which those services are performed. Utilizing a “revenue waterfall” of annual contract value (ACV) bookings is typically the best way to model forward period recurring revenue. This can be a bit intimidating for individuals without significant financial experience but is a necessity in order to avoid under- or overstating revenue in a given period. In addition, analyzing renewal performance through churn and upsell metrics is important for determining net revenue retention within the business, which is a significant driver for accurately projecting recurring revenue contributions in a given period from existing customers.

6. KEY PERFORMANCE INDICATORS (KPIs)

KPI dashboards are widely used across the SaaS spectrum but are frequently broken out separately from a company’s financial model, making them more a historical scorecard than one that can be projected moving forward. By incorporating your KPI dashboard into your integrated financial model, you utilize historical data that is easier to audit and provide benchmark numbers for, which can then be used to tweak and update drivers for projection periods. Regardless of whether you are using a KPI dashboard to drive discussions within board or management meetings or using it as a general performance monitoring tool, aligning your KPI file in conjunction with your financial model provides a more streamlined forecasting solution.

To summarize, most companies utilize financial models and forecasting tools in some way, shape, or form. Focusing on the competencies listed above will ensure that you are getting the most out of your model. Despite being a finance-driven tool, a well-deployed financial model will incorporate feedback from across your organization. In addition, using scenario analysis and alternative operating cases can be an excellent way to test certain variables within the model and allow a business to monitor potential shifts in business performance based on the results of a certain product line or sub-segment. A strong financial model will help a business project future performance accurately and aid key stakeholders with data-driven analysis to help support critical business decisions. ●

Top 10 M&A Technology Trends

Synthesizing information from dozens of deals, hundreds of events and thousands of conversations with buyers, Corum Group annually updates its list of Disruptive Trends that are driving deals. Keep an eye on these trends to ensure you get buyer attention and can secure an optimal exit.

SOURCE: Corum Group

AI ENABLEMENT

Efficient independent learning systems, machine or human, employ feedback loops to generate solutions, which the system then evaluates, leading to better solutions the next time around. The feedback loop itself is a valuable resource for AI Enablement because it allows the improvement of the system and the improvement of the AI algorithm. These are the two sides of the AI Enablement trend.

The disruptive potential of AI is enormous. It has been estimated that AI will impact almost every aspect of the $100B cybersecurity market. It will be the major driver of autonomous vehicle development as well as image recognition, language processing, and predictive analytics. Combined, this is in excess of a $230B disruptive opportunity—all within the next decade.

Since 2012, over 250 AI-related companies have been acquired—over half of these deals happening in just the last two years. The top buyers include many tech giants jockeying for position in nearly all application areas. Microsoft paid $100M for AI cybersecurity specialist Hexadite. Salesforce acquired predictive analytics company Beyond Core for $110M and, notably, 22x revenue, while IBM acquired AlchemyAPI for its natural language processing and visual intelligence systems capabilities. Intel, Samsung, Cognex, Spotify, eBay, Progress, and many others have been active acquirers in their own domains. Even more traditional corporate giants like Ford and GE have made AI acquisitions. Many of these headline deals were in support of major AI platforms that have prioritized "foundational loops" such as search, language, image recognition, speech, etc. Significant value still lies in unexploited feedback loops and unique datasets. Those are driving M&A even among companies who do not have their own AI or machine learning technology. Use cases exist across all sectors, with deeper, defensible niches more available.

As the market evolves we expect AI adoption to expand to a wider range of companies, creating a window of opportunity for both innovators who have developed enabling technologies for AI and early adopters who have applied AI to their particular fields of business.

COMPOSITE COMMERCE

Composite Commerce crosses from online into brick-and-mortar retail, media, and entertainment (and back again). As online and offline consumer behavior coalesces, enabling technology is becoming more targeted and personalized, with frictionless purchasing and online integration. Just as Uber transactions are more straightforward than paying a taxi driver, mobile payment solutions are giving consumers the ability to "check out" from anywhere.

This is a new stage in the co-evolution of physical and virtual commerce that has been happening in a disruptive and tumultuous dance since the beginning of the Internet. Traditional retailers, hospitality businesses, and consumer service providers have been forced to examine every aspect of how they reach, serve, and deliver goods and services to their customers, or perish at the hand of online competitors.

Meanwhile, those online competitors have been slowly but surely pushing their way into control and even ownership of brick-and-mortar locations and capabilities. Amazon's $13.7B Whole Foods crystallized the trend, but other online brands like Bonobos, Warby Parker, and Indochino are also embracing the offline half of Composite Commerce.

Traditional players are responding and doing so largely through M&A. In hard goods retail, Ace Hardware acquired ecommerce startup The Grommet, an innovative product launch platform for inventors and entrepreneurs. In hospitality, industry powerhouse AccorHotels has acquired Travel Keys and VeryChic. PetSmart acquired Chewy.com for $3.4B, while Walmart spent nearly $20B between Jet.com and India's Flipkart—the largest ever ecommerce acquisition. Target, IKEA, Kroger, Carrefour, L'Oreal, Nordstrom, and many others have made tech moves as well.

Businesses are adopting, integrating, and acquiring technology throughout their operations. Along with the core disruption that comes with Composite Commerce, it brings with itself enabling technologies—martech and adtech technology—to target new customers. Businesses use AI and industry data to streamline manufacturing and distribution, visual intelligence systems, biometrics and logistics, and much more. Layers of analytics and security are being built out on top of all of it, as all of the consumer data must be analyzed and secured.

All of this is creating tremendous opportunity for innovation—and M&A—across multiple verticals, but also making the process more complex as Composite Commerce drives the universe of buyers for technology companies to rapidly expand. If you think you know who your buyers are today, it's likely to be different tomorrow.

IoT SOFTWARE

The Internet of Things has been hot for years, and enormous value remains to be unlocked. As a result, there has been a proliferation of hardware platforms, endpoint solutions, and service-oriented IoT firms—but as it was in the early days of the Internet, the value of useful code and standards far outstrips the value of hardware. As with tech M&A in general, defensible solutions to critical problems provide a path to significant M&A value.

Each 'thing' adds its own needs for integrated platforms, communication, analytics, AI, security, and much more. Competing platforms and associated ecosystems are beginning to coalesce across the different sectors of the IoT, including the Industrial Internet of Things, the connected car, home automation, agtech, and more.

In the realm of self-driving cars, nuTonomy selling to Delphi Automotive for $400M shines a light on the Carnegie Mellon spinoff's software chops in driverless car software. For home automation, Amazon's acquisition of Ring, the security camera and SaaS provider, and subsequent hardware price-cut, drove home the value of software—and predicatable SaaS revenue—even in the consumer sector. In the agricultural sector, Blue River Technology selling to John Deere for $305M shows that even the most traditional equipment manufacturers are feeling the pressure to innovate in IoT.

The maturing sector is also seeing significant Private Equity interest, with IoT security firm Wind River acquired by TPG Capital, M2M managed services provider Wireless Logic acquired by Montagu Private Equity for $500M, and Hellman and Friedman spending $1B for Ring competitor SimpliSafe, just four months after the Amazon deal.

In a world of IoT generalists, a concentration within a particular vertical, with a protected IP-centric view, is an effective way to differentiate a player in this space. Most importantly, it is the software that connects the 'things' that is of compelling interest to acquirers. As hardware costs race to the bottom and platforms more often than not operate in open source environments, a cloud-based, analytics-rich SaaS capability is valued highest.

DIGITAL CURRENCY FLOW

Blockchain is grabbing the headlines, but the key to capturing the value promised by the Digital Currency Flow trend is decreasing transaction friction. This includes a whole range of alternative currencies: not just crypto-currency, but in-game tokens, Starbucks cards, airline miles, other loyalty programs, etc. It also includes narrowly tailored payment platforms—in 2017, the Starbucks app processed more payments than Apple Pay.

Digital transformation across the payments ecosystem is driving major consolidation from megadeals on down—buyers see major value in shaping and controlling the digital flow of currency, resulting in over $50B total in payment-related megadeals since 2015.

Overall, about 20% of recent payment deals have been platform acquisitions by private equity, suggesting an appetite for bolt-ons going forward.

Across tech sectors, companies with a digital currency flow component to their technology stack—transaction processing, billing, etc.—tend to see much higher multiples.

Mobile payments in the US grew by 25% to over $134B in 2017, while China processed over $9T. Credit card companies have been displaced in China, with mobile payments there far outpacing the rest of the world. Chinese mobile payment processors are leveraging aggregated user, merchant, and transaction data to create additional value. The contest is still ongoing in the rest of the world.

Meanwhile, the allure of blockchain technology drives volatility in cryptocurrency valuations. Geopolitical acceptance by central banks is changing the landscape almost daily. The US Federal Reserve Board estimates that blockchain will reduce the costs of the trillions of dollars of daily transactions by 20-25%, and the startup map for Bitcoin and blockchain variants is exploding with new investments, new technologies, new markets, new solutions, and new companies are being integrated every day. Many vertical industries are poised for significant disruption by blockchain technology.

Why are companies aligned with this trend so valuable? As the infamous Willie Sutton explained when asked why he robbed banks—"That's where the money is!"

DATA SCIENCE MONETIZATION

For many years, the primary purpose of data science for many companies has been efficiency: reducing costs, dropping unproductive business segments, and promoting top performers. However, those companies that have taken data science to the next level have reaped the rewards of aggressively implementing data science to create new and more advanced avenues for monetization. Proactive monetization is a more valuable application of data science than the simple cost-cutting and efficiency gains that have been its primary purpose to this point.

Robust analytic tools are no longer optional, especially for consumer-facing companies. Asian gaming firms were the pioneers in this field, working and innovating diligently in order to optimize their free-to-play models, monitoring everything consumers did, liked, played, and paid for. Developers globally are extending this to services and applications of all kinds, analyzing customer behavior to ensure a more compelling—and more lucrative—customer experience.

From gaming, the next industry being disrupted here is advertising with Oracle spending $600M on Moat for cross-platform ad analytics that don't just cover impressions and views, but cover seconds of sight, sound, and motion. Nielsen spent 2017 on a much-needed data overhaul, making multiple acquisitions in this space. We're also seeing this in the B2B world, with the rise of value-based pricing in particular. Corum client Endeavor Commerce sold to Vendavo to drive intelligent pricing capabilities directly into the sales process.

In a world of 'freemium' and free-to-play models plus generally declining ad effectiveness, proven ability to turn users into dollars is a valued asset. Companies that provide the tools for data science monetization, or that do a particularly good job of it with their own clients, continue to be highly sought after acquisition targets.

FOCUSED IT SERVICES

A disciplined focus has re-invigorated the IT services sector as a whole, and services and consulting firms offering specialized knowledge and experience are driving higher levels of demand and therefore higher valuations. Focus on complex problems and intricate platforms require expertise in applications, maintenance, and redevelopment of the tech stack. As technology becomes increasingly complex, the value of expertise increases too, with value placed on deep domain knowledge and resulting long-term customer relationships.

Firms at the leading edge of disruptive trends, which underpin high-value verticals are attracting particular interest and attention around the globe. In fact, this trend has helped drive public IT services multiples in developed markets to 1.5x sales through 2016, nearly tripling from just a few years before.

While tightened labor markets have eaten into those numbers somewhat, the numbers remain above 1x sales. That tight market can also make teams that have successfully stayed together and created value even more attractive to acquirers, many of whom have come to value deep domain knowledge as a driver of defensible long-term customer relationships.

A notable example of this trend include The Advisory Board Company diversifying by selling its healthcare section to United Health's Optum for $1.3B and its education-focused business to Vista Equity for $1.6B, seeking what the company's CEO called 'purity of industry.'

Other key focus areas include those services firms working among these disruptive trends, including data security, one of the first such IT service sectors to see high, software-style multiples, as well as artificial intelligence, IoT, smart logistics, and others. Focuses as varied as biomedicine or localization can create demand and value, as can demonstrated expertise in particular ecosystems. With SAP, Oracle Microsoft Dynamics, Salesforce, and other system integrators are seeing waves of M&A rippling through their ranks on a regular basis.

SMART LOGISTICS

Logistics is a massive component of the world economy with spending reaching more than $8T globally, expected to increase to at least $15T by 2023. This industry is responsible for moving goods and services from those that produce them (suppliers and manufacturers) to those that sell them (retailers and businesses) to those that consume them (consumers and businesses). All that comes to more than 60 billion tons of cargo moved annually—and that amount is still rising.

At the same time, customers are becoming more demanding. Businesses no longer want to hold large inventories and consumers want their ecommerce shipments yesterday if possible. All of this means that logistics providers everywhere are being asked to do their jobs better, faster, and cheaper than ever.

The only way this can happen is through the massive application of new technology—enter the trend of Smart Logistics. This new technology includes data-driven software platforms that automate the management of shipping and storage, fleet management, supply chain management, and more. Key inputs to these systems come increasingly from connected sensors and vehicles that use IoT or GPS-enabled telematics platforms to track the exact whereabouts of goods, assets, vehicle drivers, and field service workers of all kinds. Of course, given the massive volume of data that logistics represents, there's plenty of need for big data analytics, which these days increasingly means machine learning and artificial intelligence.

The complexity and scale of the ecosystem has resulted in an extremely diverse set of buyers all vying for their share of the Smart Logistics pie. Mobile operators like Verizon, retail giants like Walmart, Internet giants like Alibaba, and GPS companies like Trimble have all made notable acquisitions in this space, along with traditional SCM acquirers like Pitney Bowes and Descartes—and, of course, the private equity funds are deploying funds here as well.

With an expanding array of IoT subsystems at the edge and impressive advances in analytics at the core, Smart Logistics promises sustainable value for optimized global cargo movement in sectors like automotive and transport, smart cities, industry and manufacturing, warehouse management and automation—and promises significant M&A interest in those technology companies making Smart Logistics smarter.

CONNECTED HEALTH

The emphasis on connected Healthcare IT is migrating from core systems interoperability to creating a more seamless, interconnected patient experience. Technical, regulatory, and demographic changes are all driving the shift from system-centric to patient-centric health IT.

Beyond these three broad change categories, there are three specific trends that are driving this shift. First, patients are more educated and expect transparency in treatment, as connected devices capture personal data to contribute to a holistic view of their care. Second, an aging population is shifting the burden and cost of care to a more decentralized and distributed approach. Third, healthcare providers are fighting to retain patient relationships across this entire continuum of care, which transcends a single provider or facility.

These trends have eroded much of the resistance to the cloud-based services that connect patients, their data, and their treatment plans to disparate systems and providers. It is also driving vertical consolidation with many providers looking to expand their solutions to cover additional stages of a patient's experience. For example, post-acute care providers are looking to track and support a patient as they migrate from an inpatient rehab clinic to a long-term skilled nursing facility or to a home-health provider. As these market segments continue to migrate towards interoperability and longitudinal transparency, connected health solutions become the centerpiece for tying together the continuum of care.

M&A activity is seeing a direct response to these trends. Patient engagement systems that go beyond surveys and enable patient interaction through digital media continue to be attractive deals as evidenced by the acquisition of Eliza by HMS Holdings for $170M, and by the Clockwise.MD acquisition by DocuTAP. In a deal led by Corum Group, the acquisition of HospiceSoft by Optima Healthcare Solutions, backed by Alpine Investors Group, also reflects this trend. Optima is a leader in solutions for therapy and home care facilities and saw opportunities in expansion and growth in the next stage of care, hospice. This expansion along the continuum of care solidified its market presence and diversified its portfolio.

REGTECH SYSTEMS

The complexity of dealing with regulations and regulatory change continues to increase, meaning that regtech is now mission-critical for banks, financial institutions and all across the enterprise as compliance with these shifting regulations must be tackled with technology. Governments, enterprise, and consumers must all grapple with significant regulatory volatility on both sides of the Atlantic.

GDPR has brought compliance top of mind for many, but changes like Brexit and the recent US tax law are also making the importance of reliable—but flexible—compliance solutions keenly felt. That, in turn, is driving M&A, across sectors.

On the data side, IBM acquired Agile 3 Solutions for $14M and the active PE Firm K1 acquired Actiance, a messaging data company. In Fintech, NASDAQ acquired Sybenetix for behavioral analytics and cognitive computing expertise. On the PE front, CIP Capital acquired three Fintech compliance firms to create a global regtech platform. The growth of NAVEX Global from a rollup of middle-market compliance firms in 2012 to a $1.2B acquisition by BC Partners in 2018 gives another indication of the value that can be harvested here.

There are other noteworthy small markets. In trucking, BigRoad was acquired by Fleet Complete to compete in the electronic logging and hours of services market. Insurance tech has seen a flurry of activity in the last twelve months and a notable transaction was Riskonnect acquiring Aruvio to expand its GRC solutions.

Compliance isn't always with government regulations, either—Black Duck Software was acquired by Synopsys for $565M for their automated solutions for open source license compliance.

For the companies that are building solutions in this sector and have demonstrated scale, it is a good time to be thinking about M&A. The diversity of regulatory impact across jurisdictions and industries makes the acquisition of companies with point solutions and specific domain expertise a particularly important part of this ecosystem, with larger players actively looking to add the pieces needed to stay relevant. Additionally, acquirers have a specific interest in finding products that are backed by legal requirements, all in the pursuit of predictable SaaS revenue.

DATA SECURITY

The vast majority of these trends are centered on new connections and new technological capabilities. However, each one of those creates new risks for breaches of sensitive data. As the complexity of technology increases, so does the opportunity for attack and the required complexity of data security solutions.

Major data breaches continue to grow in sophistication, scale, and impact with headline-grabbing data breaches nearly scuttling Yahoo's sale to Verizon, costing Equifax billions of dollars and upending the US presidential elections. Less-covered but still costly are the thousands of smaller incidents every year or ransomware, phishing, pretexting, DDoS, identity theft, and more. The evolution of IoT opened a new front in this war, with everything from hacked Jeeps, to IoT botnets piggybacking on security cameras, to hijacked smart speakers.

Add to all that the constant drumbeat of hardware-based security vulnerabilities, starting with but not limited to Intel's admission of the "Meltdown" and "Spectre" vulnerabilities, and you have an environment where the value of technical capability to secure vital information is at a premium, helping make Data Security one of the hottest trends in tech M&A.

Today's big security players can't keep up with the pace of innovation without filling product gaps quickly by acquiring innovative technology and small teams. Buyers' strategies vary. Symantec has been balancing its security portfolio by both buying and divesting of products. In recent years it has sold both its Veritas division (to Carlyle Group for over $7B) and its website and PKI business (to DigiCert for nearly $1B), and then spent nearly that much on enterprise security firm Blue Coat ($4.7B), consumer security firm Lifelock ($2.3B) and a pair of Israeli firms — Skycure, a mobile threat defense firm, and Fireglass, an enterprise security solutions provider, for over half a billion combined.

The importance of this trend is underscored by the number of non-security companies making acquisitions in the space. Top security tech acquirers include companies like Accenture and Akamai, as well as less surprising names like j2 Global, Malwarebytes and F-Secure.

Anti-malware capability has been in high demand by buyers, with high deal flow and valuation, and identify and access management deals also highly desirable. Going forward, we see companies leveraging AI for automated threat response and predictive threat intelligence as particularly attractive targets. ●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The Due Diligence Process: What To Expect And When

ROB GRIGGS SVP, Corum Group

A detailed and comprehensive due diligence process is a key stage when selling a technology company, as you painstakingly walk the buyer through every aspect of your company, documenting that the claims made about your company that led them to make an offer are, in fact, accurate. This process is driven by a checklist that will be overwhelming at first and exhausting by the close of the transaction. However, it is critical—a job well done saves time and money, all while giving you the opportunity to increase your value to the acquirer by being professional, detailed and thorough. On the other hand, a job poorly done can actually kill the transaction.

It is never too early to begin preparing for due diligence, regardless of if and when you choose to sell. Preparation is instrumental to not only surviving a due diligence process, but the right degree of advanced preparation can even allow you to thrive!

SOFTWARE M&A DUE DILIGENCE CHECKLIST

No matter who your buyer is, they will use a due diligence 'checklist' that outlines the details of your company. These checklists are long and often overly comprehensive, often containing irrelevant requests. While lists will differ depending on the nature of the buyer and the transaction, there are some consistent pieces of information that every company will want to have ready.

I have an 11 page, single-spaced list I've been using and evolving for over 30 years. It has 187 categories with significant detail and multiple items within each one. Not all data requests will be relevant to every company, but the more awareness of key elements and the more time invested in collecting and keeping it current, the smoother the due diligence process will ultimately be.

CONCLUSION

It is always easier to *stay* ready for due diligence than it is to *get* ready. Keeping your information in order will help you to make sure that you're ready for any of the questions that come up during the due diligence process.

DUE DILIGENCE CHECKLIST

Decoding what a buyer wants to see when they're going through the due diligence process.

CORPORATE & LEGAL STRUCTURE

This section includes any articles of incorporation, bylaws for the company, minutes for board, committee, and shareholder meetings, any relevant information about subsidiaries, and affiliates if they are necessary, and a cap table/shareholder list.

These pieces of information may be housed in a variety of places, but they are incredibly important to keep together and updated.

FINANCIAL

This means your most recent three-year projections as well as at least three years of past financial results, monthly sales projections, any consultant or accountant reports, and more with notes about what the practices have been like at the company and how they have changed.

This may also include the details of how reports are created, to show to management and the sources of revenue.

CUSTOMERS & CONTRACTS

This includes a list of your top customers, a breakdown of revenue by customer, as well as churn where applicable. It may include guarantees and warranties provided for customers, and contracts that you have with suppliers and other parties to distribute the products. This also includes partnership documentation, joint venture, research, and development agreements, and agreements about the company's ability to pay or declare dividends.

Later in the process, but no less critical are your customer lists, and the contracts related to them. Keep these current, as consistent as possible, and try to avoid having any giving "assignability" rights to approve any "change of control," which can stop a sale.

EMPLOYEES

This section includes management organization charts and key staff bios. It also includes compensation plans: pension, options, profit sharing, deferred compensation, and retirement. You will also need documents about any labor stoppages and disputes. If you have confidentiality agreements with employees, they will also need to be included in this section

Employees are key assets of every technology company, so be sure to keep all employee records current, present and accounted for. The buyer will have a key voice in these elements and will drive the integration plans so be fair and balanced in your handling of sensitive employee records.

INTELLECTUAL PROPERTY

Any copyright, trademark, patents, etc. that the company has in process or done. You will also need to include a list of your product line offerings and the market share. You will also want to keep an analysis of your inventory including the turnover and obsolescence. Any backlog analysis that you have going on will also be incredibly important to include here.

Up-to-date records for any and all IP will be another key factor in a successful due diligence process; keep patents, trademarks, and business and marketing plans as current as possible. Having your code well architected and reviewable fits into this category, too. Be ready to respond to the deep dive into all things IP, and the better-prepared one is, the easier this challenging process will be.

MISCELLANEOUS

Includes other documents and information which, in the Company's judgment, are significant with respect to its business or which should be considered and reviewed in analyzing the business, prospects and financial condition of the Company.

The proverbial "catch-all" category. Due diligence requires an understanding of what is requested, and step one in the process is to identify those items that are not applicable and can be stricken from the list. This requires mutual acceptance. Don't just skip something because you feel it's irrelevant–you must get the buyer to agree.

Time is valuable; wasting any of it during the due diligence process can ensure failure. Avoid being a statistic of doom and gloom: get ready, be ready, and stay ready! It shows the highest level of professionalism and competence. Attacking the process with confidence and clarity will pay huge dividends as you complete the deal.

ROB GRIGGS is a successful serial entrepreneur and investment banker with 35+ years of experience. He founded his first software company in the mid-1980s, and his sales, marketing, and capital raising skills have been honed over supporting 100+ company financial transactions during his career.

Churn Benchmarks
For B2B SaaS Companies

SOURCE: SaaS Capital

SaaS Capital's Committed Credit Facilities are specifically designed to fund the growth of a SaaS business in lieu of a round of equity, providing $2 million to $15 million to SaaS companies with $200K and up in monthly recurring revenue (MRR). SaaS Capital recently published a report on churn benchmarks for B2B SaaS companies. Consistently retaining customers is an important characteristic of any successful SaaS business — here's a look at how your company compares to the industry. To download the complimentary full report, visit www.saas-capital.com/resources.

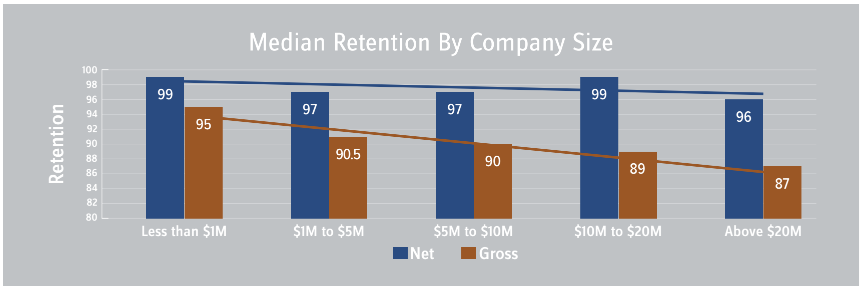
"The sustained improvement in retention associated with a Customer Success leader (6 percentage points) will improve total revenue, growth, and profitability leading to an expected 74% increase in enterprise value in 5 years."

12% Increased value over 5 years with each percentage point increase in net retention

"Annual contract value has a fundamental and independent impact on revenue retention."

89% Median gross retention rate for ACV **BELOW** $1,000

95% Median gross retention rate for ACV **ABOVE** $150,000



"Customer success gets harder as businesses get larger (and older)."

95% Median gross retention rate for SaaS Companies **BELOW** $1M

87% Median gross retention rate for SaaS Companies **ABOVE** $20M

Tech M&A
Myths & Misconceptions

Far too many CEOs and owners of software/IT companies are not getting what they are really worth or are not even calibrating their value in the current M&A market — the hottest in history. One of the main reasons is that they believe in "Merger Myths and Misconceptions" that are often completely false. Here are six of the major ones.

MISCONCEPTION: Companies are bought, not sold
TRUTH: You must control the process

Do you just wait for the phone to ring? Really?! Unfortunately, that first call is usually from a "bottom feeder" trying to lock you into exclusive negotiations to keep you from calibrating your actual value by speaking with other buyers. They want to control what will be the most important transaction of your life. Don't wait for buyers to call.

MISCONCEPTION: Just hang out with the companies that might buy you
TRUTH: You have to look for your buyers everywhere

Sometimes this happens with key customers or partners—the problem is that it makes unfounded assumptions about who might buy you. Buyers are constantly changing. Many buyers are companies you've never heard of. Further, things like partnerships, reseller agreements and licensing tend to happen at the division level, with the technical or marketing teams, while the strategic acquisition decisions and contact are at the top, corporate and finance level.

MISCONCEPTION: Our balance sheet is too weak
TRUTH: Balance sheets alone don't determine value

Merger transactions among technology companies seldom have to do with your balance sheets and income statements. These are even less important for smaller firms. You represent future opportunity to the buyer with your technology edge, first-mover advantage, user base, and the domain expertise you've developed, often in one of the Disruptive Tech Trends that shape our lives.

MISCONCEPTION: I am too small to sell
TRUTH: Small companies are acquired, too

This used to be a valid excuse as the buyers didn't want to talk to anyone smaller than $5 million in revenue. That's really changed in recent years. Today, with so many global buyers and over $4 trillion in dry powder, buyers are open to smaller firms. Private Equity firms especially are interested—they have established many platform companies and are looking for "bolt-on" acquisitions that they want to see early.

MISCONCEPTION: If a seller has problems, they can't sell
TRUTH: Every company has problems, even those that sell

Buyers are very savvy and know that it is hard to build a technology company without problems in today's litigious society. Thus, they are prepared to work an acquisition that works for both parties simply by using creative structure that frames the business risks associated with proper cures including escrows, hold-backs, baskets, income targets, etc.

MISCONCEPTION: The buyer will relocate/cut management or staff
TRUTH: The buyer wants the management and staff

This last myth is much the opposite of today's reality. It's not to say that there isn't some relocation/redundancy reduction, but it's not the norm. Building successful teams is one of the most difficult things for companies to do, so one reason companies do M&A, particularly in growing markets, is to benefit from the work you have done in hiring, training and building expertise •

Preparing For Postacquisition Success

Your integration and employee retention plans are easy steps to neglect in the M&A process, but they are crucial to the overall success of selling your software company.

BRUCE MILNE CEO, Corum Group

In the midst of selling a software company, it is easy to neglect the final phase of the M&A process — namely, the integration of the two companies after the deal is closed. According to an Ernst & Young study, nearly 53 percent of mergers fail to meet the buyer's or seller's expectations, and integration is the leading factor.

As a founder or CEO, you don't want to be seen as someone who did a deal to benefit yourself, while leaving your customers or employees hanging out to dry. Beyond that, if the deal has earnout provisions, with some percentage of the total sale price contingent on the performance of the company going forward, all shareholders have a vested interest in ensuring a smooth and successful integration process.

The good news is that sellers have a significant opportunity to influence the ultimate outcome of integration during the M&A process itself. By anticipating problems, understanding the options, and preparing properly, you can help ensure the deal works for everyone involved.

To begin with, be sure you and the acquirer are on the same page when it comes to the expected level of integration, whether limited, partial, or full integration.

- **Full integrations**, where the entire company and all its business units are absorbed, are generally less common, particularly at the outset.
- In a **limited integration**, some aspects of the companies will be consolidated, generally key corporate functions like treasury management, legal, and other things that are not needed onsite, while leaving the acquired company more or less freestanding.
- In a **partial acquisition**, more departments will be merged together, possibly combining the sales organizations or some of the development or support activities.

During the integration period, many people will be performing two jobs, so everybody will be stressed. There will be lots of uncertainty about people's positions, who they report to, etc. Thus, it is critical that there be open communication and feedback. Set realistic expectations, as full integration often takes time.

> *"Throughout the process, identify and focus on the key employees. They are the glue that will ultimately bond the two companies together."*

ESTABLISH AN INTEGRATION PLAN WITH THE BUYER

To mitigate these issues, you will need to develop an integration plan with the buyer. Put together a multidisciplinary team with members from both companies and across all departments. You can't just have the guy who runs sales trying to run the entire initiative. Create a team balanced with HR, legal, development, ops, sales, marketing, and other key departments. If possible, put in place a full-time executive officer as integration manager to guide the process. Have the team and manager set key events, create milestones, and develop a 90-day plan that everyone can focus on.

Ninety days is short enough initially that everyone can know and understand what the plan is, what the objective is, and how close you are to achieving it. It's a short-enough time frame that it can motivate people to get on the bandwagon. Then monitor that progress and report back what is happening, making sure people know and understand what is happening and where they stand.

With an integration manager and an integration team in place, they should develop the plan and execute it, charting how the companies will come together across all departments. Who are all the players and what needs to be done? The goal of the plan is to mitigate risks, keep key employees, protect the intellectual property, and engineer the short-term wins. Make everybody feel part of the team and want to be part of the deal going forward.

There are many ways to do this:

- For some, you will want to have one-on-one conversations.
- You can also institute regular small team Q&A meetings to give people an update and make sure they know they're part of the team.
- For larger groups, you can do "town hall" meetings.
- Provide welcome packages to make sure people know and understand the new organization and what it offers.
- Another good option is a peer-level "buddy system," linking employees laterally to someone in the same position within the new organization. When an employee has a problem or a question, they don't have to go up some ladder to learn the context, but can speak with a peer within the acquiring organization and get immediate feedback.

> *"The most critical piece of the integration is the employee retention plan. Any transition as significant as an acquisition will naturally make employees consider their options, even in the best of circumstances."*

FOCUS ON KEY EMPLOYEES & TRANSPARENCY

You have a variety of audiences here. Not just shareholders, but also employees, customers, vendors, partners, and of course the investment banking community needs to know and understand what this deal is and why it's good for all of these participants. When things get bumpy, you need to go back and tell people, "There's a reason we did this; let's refocus on that plan and make this work."

You need to establish an operations model. First and foremost is the organizational chart: Who works for whom. In many situations, you will have duplicate roles and responsibilities. There's only one VP of engineering, so you need to figure out who will be that head and how to make sure the other person knows they have an important role moving forward. Fortunately, in most cases, much larger organizations take over much smaller organizations, providing significant opportunity for the acquired company's employees to advance within the buyer's ranks.

Throughout the process, identify and focus on the key employees. They are the glue that will ultimately bond the two companies together. There will be a half-dozen or a dozen, depending on the size of the organization, key people that the rest of the employees will look up to and respect. If these key people are on board, the rest of them will follow.

An unpleasant item that you may need to deal with is layoffs. These are generally uncommon in software acquisitions, but if you find yourself in that situation, it is best to do it immediately — ideally, the same day as the merger. This gives those who remain the confidence that they are not about to be laid off.

An announcement of, "We were forced to let go of these people for this reason, but we foresee no future layoffs and you can rest assured that we have employment packages for each and every one of you in the new organization moving forward" will turn an unfortunate situation into a positive statement for those staying with the company.

DEVELOP AN EMPLOYEE RETENTION PLAN

The most critical piece of the integration is the employee retention plan. Any transition as significant as an acquisition will naturally make employees consider their options, even in the best of circumstances. In the worst circumstances, you can find a significant amount of money held hostage by a single disgruntled key em-

SAMPLE EMPLOYEE RETENTION PLANS

COMPANY A	7 Employees	Quarterly retention bonuses for two years Completion bonus to R&D staff Profit sharing
COMPANY B	25 Employees	Welcome bonus (50% now; 50% in 12 months) New stock option – vested four years No cut; 12-month severance
COMPANY C	60 Employees	Put key employees into earnout – based on milestones Two-year stay bonus – lump sum in 24 months

SOURCE: Corum Group

ployee who didn't receive compensation or incentives commensurate with his/her value to the company.

Ensuring the success of your company going forward, as well as the goodwill of employees and their families, requires investment to confirm they are sharing in the gains of the company.

Retention plans will vary from company to company based on the specifics of the situation, but there is a common set of tools that companies can make use of in various combinations. This includes some combination of welcome bonuses, retention bonuses, completion bonuses, profit sharing, stock options, no-cut provisions, and even sharing a percentage of the earnout itself amongst the employees.

The value of retention bonuses is evident, as employees are directly incentivized to stay through the transition period. These can also be given as welcome bonuses, where half is provided up front and the other half after 12 months. Stock options that vest after a period of time can have the same impact.

When there are significant technical projects in process at the time of the acquisition, or where the technical integration itself is likely to be a significant task, a completion bonus offered to the team working on that project — R&D, development, etc. — can be a more directed incentive toward accomplishing the goals necessary for a successful integration. A profit-sharing plan can have a similar impact on the sales and marketing side.

The broadest way to engage your employees is through adding them to the earnout program. In general it is a good idea to do so if there is earnout as a part of the transaction. If you lose all of your people, your chances of achieving the earnout shrink dramatically. We have seen deals where as much as 30 percent of the earnout was shared with employees. That can seem like a significant amount, but if the alternative is a possibility of achieving no earnout whatsoever, it's a good deal.

Whatever the specifics of your integration plan, from organizational structure to retention, strive to have as many specifics as possible negotiated before closing. While there is significant, legitimate pressure during a deal to "just get it closed," it is worth spending time to be sure that your employees and other stakeholders will be taken care of after the deal is closed. Many of these items can be negotiated and outlined in the final purchase agreement.

As with all aspects of the M&A process, this negotiation will go much more smoothly if you run a careful, global process with multiple buyers brought to the table. Without the leverage of another party or two waiting in the wings, it can be difficult to persuade an acquirer to focus on integration at this phase. Instead, many would rather wait until the deal is closed and they can make decisions based on their own priorities, which may or may not line up with yours. In this case as in all others during the process, it's likely the most important transaction of your life — do it right. ●

BRUCE MILNE has overseen more technology M&A transactions than anyone in the world as CEO of the Corum Group, netting sellers over $7 billion in personal wealth. Prior to Corum, he founded or owned four software/IT/internet related firms.

After the Deal — Celebration

JOEL ESPELIEN President, Corum Group

Nathan Isterling (l) and Luc Pettett (c) of Punters.com.au, with Dan Bernstein from Corum Group, who led the sale of their company to News Corporation.

Every summer for over 25 years, Corum has invited clients who recently and successfully exited their businesses to join us at the world-renowned Langara Fishing Lodge on the Gulf of Alaska. Langara Island is the western-most point in Canada, on the northern tip of the Haida Gwaii archipelago off of the Pacific coast. It is beautiful, truly remote and a once-in-a-lifetime experience.

M&A is a demanding and life-changing experience for many founders, and the bonds we form with our clients during the course of a deal are both genuine and genuinely satisfying. The strange thing about modern M&A is that the closings are anti-climactic. They almost always now occur over the phone and via wire transfer of funds, and afterwards sellers often feel an odd mix of relieved and almost disappointed. What, no parade? Where are the balloons and champagne? As a result, we began our Langara trip as a way for clients to celebrate this momentous achievement, and to reflect on the new chapters of life that await them.

Our guests spend hours on the water with Langara's world class guides catching fish—salmon, halibut, rockfish and more—as well as watching whales, sea lions, eagles and some of the most beautiful scenery you can imagine. At night they enjoy wonderful food at the lodge and, of course, swap plenty of fish stories. Equally enjoyable, however, are the hours we spend talking about our companies, lives, families and dreams for the future. The bonds made on these trips last a lifetime

Selling your software company should be an unforgettable experience that stays with you the rest of your life. And for Corum clients who join us in Langara each summer, it truly is. •

***Left:** Stephen and David Guarnieri, of Infian, who sold their company to QMS, part of Constellation Software.*

***Right:** Frederik Decouttere of Genohm, sold to Agilent Technologies, posing with his award-winning 25-lb coho salmon.*

Mike Schmalz of Digital Extremes, sold to Leyou Technologies in China.

Understanding Your Quality Of Revenue

DANIEL BERNSTEIN SVP, Corum Group

Sellers of software and related technology companies frequently assume that potential acquirers will focus entirely on a combination of top-line revenue, EBITDA and growth curve when valuing a company. That is just the beginning of the deeper revenue analyses performed by increasingly sophisticated buyers. While those metrics are important, a company's quality of revenue has a critical impact on how buyers will view and value that company. Both strategic and financial buyers will look at specific metrics relating to how revenue is generated.

These baseline metrics need to meet a certain level for many buyers to pursue a transaction. These same metrics will define how they value a business. A better understanding of quality of revenue can help CEOs make strategic decisions that will improve how buyers will value their company in the future.

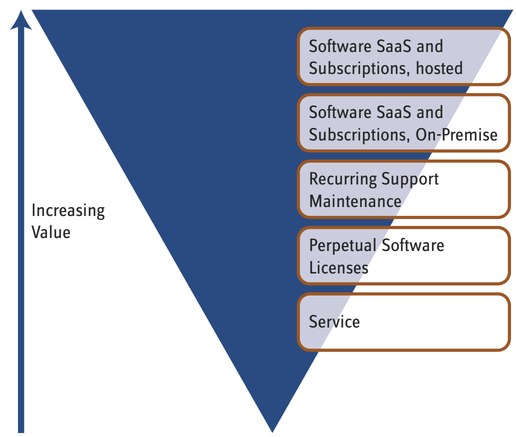
What follows is an abbreviated list of some of the critical financial metrics that buyers look for, particularly in B2B software companies. While these metrics mostly apply to companies with substantial sales and profits, small and pre-revenue companies can certainly be acquired for tremendous value based on non-financial strengths such as intellectual property, customers or an opportunity to enter new markets.

THE QUALITY OF REVENUE VALUE PYRAMID

Pure, recurring Software as a Service (SaaS) revenue has the highest value in a quality of revenue analysis. On-premise, recurring software (or maintenance) revenue is the next highest, while one-time software license revenue is not valued highly. One-time and non-recurring service revenue is valued the least of all the revenue types.

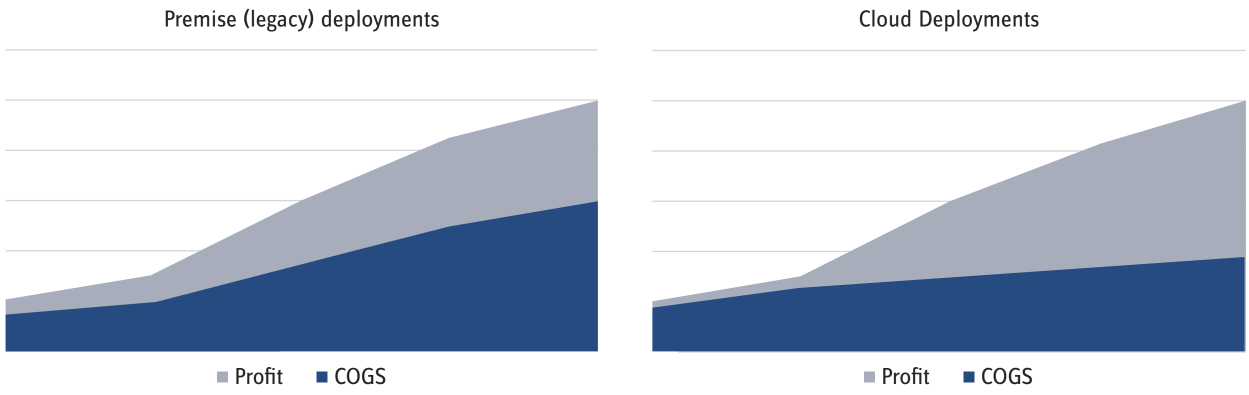
The valuation multiples assigned to each revenue type can vary from industry to industry. Disruptive technologies in Corum's Top 10 Disruptive Technology Trends tend to see higher multiples due to the strategic value they represent. These include:

FIGURE A: THE QUALITY OF REVENUE VALUE PYRAMID



- AI Enablement
- Composite Commerce
- IoT Software

FIGURE B: PREMISE VS. CLOUD



- Digital Currency Flow
- Data Science Monetization
- Focused IT Services
- Smart Logistics
- Connected Health
- Regtech Systems
- Data Security

CLOUD DEPLOYMENT IS THE FUTURE

Cloud-based companies are more valuable than companies that deploy on-premise, even if their present sales and earnings numbers look identical, and even if the initial costs of the cloud start out higher. Cloud deployments are more profitable at scale. Because buyers are buying the future, it is this future potential that makes revenue derived from cloud-based solutions more valuable than revenue derived from on-premise solutions. In this way, cloud deployments have the same valuation advantages over traditional software that software has traditionally had over other types of business.

> *"SaaS, when paired with cloud-based deployment, remains the crown jewel of value creation."*

There are costs associated with the deployment of software to individual customers. Whether it's assisting with server updates or flying across the globe to help them deploy on-site, the service burden increases along with the revenue. The more on-premise customers there are, the higher the costs incurred by engineers, customer support and travel.

To put it another way, in on-premise deployments, the cost of goods sold goes up with an increase in customers. On-premise deployments have a diminished capability to capitalize on economies of scale compared to cloud-based deployments. If you deploy your customers in the cloud, you can support them remotely and update them automatically. Everyone is on the same baseline hardware platform, and everyone has the same software version.

When transitioning to a cloud-based platform, there is an intermediate step: private clouds. A private cloud is an option to deploy to customers in their own sequestered hosting environment. This option still gives the support team the capability to update and service clients remotely which greatly reduces the cost of goods sold compared to traditional on-premise installation.

SOFTWARE AS A SERVICE (SAAS)

SaaS, when paired with cloud-based deployment, remains the crown jewel of value creation. Buyers value SaaS companies highly because they deliver contracted revenue over a much longer period of time than traditional perpetual license models. A recurring subscription with a customer creates an annuity stream that will benefit the acquirer. They will pay handsomely for that revenue.

Small, cash-strapped companies often have difficulty moving to this model, particularly if they rely on large deals for injections of cash to fund their operation. One-time, multimillion-dollar deals – while attractive tacti-

FIGURE C: EXAMPLE CHURN TEMPLATE

Customer ID	2014	2015	Δ 2014-2015	2016	Δ 2015-2016	2017	Δ 2016-2017	Δ 2014-2017
ID8032	$1,300,000	$1,200,000	-$100,000	$1,400,000	$200,000	$2,100,000	$700,000	$800,000
ID9039	$800,000	$835,000	$35,000	$700,000	-$135,000	$735,000	$35,000	-$65,000
...	...	...	...	...	...	...	...	...
Total	$35,000,000	$37,000,000	$2,000,000	$41,000,000	$4,000,000	$44,000,000	$3,000,000	$9,000,000

cally – present little future value to an acquiring company. The revenue from a one-time perpetual license deal is in the rearview mirror. The buyer cannot capitalize on that license to generate more cash. Acquirers prefer deals spread over 12-, 24- or even 36-month contracts with renewals.

"The addition of a service-heavy business to your software company diminishes the value of the software that you are creating."

RECURRING REVENUE MISCONCEPTIONS

There is a common misconception that follow-on revenue is the same as recurring revenue. If a customer is not contracted to purchase any products or recurring maintenance after buying the software license, but purchases these on a one-off basis, that's follow-on revenue. While you may be able to count on customers to come back and ask for more products and services, they are not contracted to do so.

Your customer's license to your software is not predicated on them buying add-ons. At any point, they may decide that they no longer need a service or enhancement and can still remain licensors of the software. This follow-on revenue is uncertain and will be heavily discounted by the buyer. Follow-on revenue is considered one-time revenue, not recurring. This revenue can disappear for any reason and is not under the company's control – thus, it is not valued as highly by an acquirer.

Recurring revenue is defined by a contract, which ensures that your customer's license agreement is predicated on recurring payments. If they stop paying for any reason, they will lose their license. While recurring deals may look like they are harder to negotiate, the lowered upfront cost should incentivize potential customers.

SOFTWARE VS. SERVICE

What happens when your biggest customer asks you to customize your software and deploy it to them as a managed service for a giant sum of money? Or asks for extensive additional implementation services at a generous rate? These scenarios may sound attractive, especially if they provide an opportunity to grow the business significantly. From a valuation perspective, though, this kind of service revenue can be a poison pill.

The addition of a service-heavy business to your software company diminishes the value of the software that you are creating. The purity of your recurring software business is contaminated by a larger support burden. Tech acquirers tend to avoid or penalize companies that have high variable costs associated with support. If it is possible for support to be outsourced, that is an opportunity to create a higher margin and show the merits of your software business on its own, without the support and associated services weighing it down.

When selling software that requires servicing, it can be made available to customers through a recurring service maintenance contract. While that revenue stream is not valued as highly as pure SaaS, maintenance contracts are still valued highly if they are high margin.

CHURN ANALYSIS

All buyers will take a close look at the churn, or customer attrition, of a software company, particularly a SaaS company. High churn is typically a symptom of a larger problem. Buyers perform churn analysis after accounting for your customers' recurring revenue as a step in the process of determining the full lifetime value of a customer. A high churn can quickly wipe out the advantages of the SaaS model.

Usually, churn is calculated as a change, or "delta," in the revenue received from a customer between similar time periods. Sometimes a customer may not churn out fully but decrease their revenue over time, perhaps by lowering their level of subscription or not buying up to a maintenance service contract.

Churn should not be calculated solely based on numbers of customers lost. Rather, compare revenue snapshots by customers in specific time periods. An even more granular look at churn will split up different recurring sources of revenue, with SaaS and recurring service maintenance contracts examined separately.

Analyzing churn allows you to determine not only the health of the company but the entire customer ecosystem. Even cutting-edge software companies can be penalized if they sell into a market with unusually high client turnover. Typically, a yearly churn rate (calculated by revenue) of over 10 percent is considered problematic for most buyers, regardless of the ultimate cause of that churn.

THE IMPACT OF LOCATION

Geographic concentration in revenue sources is often considered in a buyer's analysis of the quality of revenue. A successful deployment into larger markets will provide the buyer comfort that the business will continue to grow and build value. Smaller markets can become saturated quickly, so geographic diversity in customer revenue is your best strategic weapon.

Further, currency fluctuations can wreak havoc on revenue analysis. Measuring items like churn in your business's home currency allows you to maintain a more objective view of your business performance.

> *"Considering the quality of your revenue is not just a technique to understand your value as a business, it's a guide for how to build long-term value in your company."*

UNDERSTANDING YOUR BUSINESS

When it comes to analyzing your company's financial position, it's important to recognize how your company interacts with customers in terms of how it bills for its software and services. When examining comparable transactions, you need to look for companies that deploy to customers in a similar way and have a similar mix of revenue sources.

For example, a SaaS-based, cloud-hosted business may be worth quite a lot more than a traditional on-premise, perpetual license business even though they may be identical to one another in every other way.

Just because there is a precedent transaction in your space doesn't mean that it's entirely applicable to you. Look at the mix of software and services, the nature of the deployment and any additional information on their customer concentration or churn before you start comparing your company to theirs.

$$\text{LTV} = \frac{\text{Recurring Revenue}}{\text{Churn}}$$

LIFETIME VALUE

The lifetime value of each customer is calculated as a function of recurring revenue and churn. This metric helps acquirers calculate how much cash they can expect to receive from each customer over the lifetime of that customer.

Recurring revenue and low churn rate invariably yield a higher valuation. Considering the quality of your revenue is not just a technique to understand your value as a business, it's a guide for how to build long-term value in your company.

CONCLUSION

Understanding buyer perspectives on revenue quality is vital when embarking on an M&A process. More important, though, is a disciplined, global process that properly positions your company to the buyer as a key building block to their future, and a distinct threat in the hands of competitors. Even in an auction process, though, where strategic questions are paramount, a strong foundation of high-quality revenue will serve to strongly support an Optimal Outcome process. ●

DANIEL BERNSTEIN is a senior deal maker working within a variety of sectors in B2B and consumer software companies. He spent 25 years working in tech, most notably as the founder and CEO of Sandlot Games Corporation, a leading casual games publisher and developer that sold to Digital Chocolate in 2011.

Building An Optimistic Future **For Your Software Business**

ABBY SORENSEN is the chief editor of *Software Executive* magazine and SoftwareBusinessGrowth.com, which are dedicated to helping software businesses grow by showcasing the best practices of innovative, sustainable, profitable companies in the software world.

If you've ever picked up a copy of *Software Executive* magazine and flipped to my "Viewpoint" article in the front of each issue, you may have noticed that I usually find a way to bring up golf as I'm musing about the software world. I love the game so much that I coach it at the collegiate level — I'm a part-time assistant coach at a small liberal arts school in Pennsylvania.

Hands down one of my favorite days of the college golf season is move-in day. I always take a day off from working on *Software Executive* to be on campus, surrounded by the fresh energy, enthusiasm, and optimism from our student-athletes. I like to keep a close eye on the parents — especially the parents of our freshmen. These parents have emotions ranging from apprehension, pride, terror, excitement, and anxiousness. They've invested so much time in raising their kids, and now they're handing them off to our coaching staff for the next four years. Some parents hover and fire off endless questions throughout the day. Some silently and stoically move boxes in to small dorm rooms. All are hoping deep down that choosing our school is the best next step for their son or daughter.

Now, back to software. In some ways, the process of selling your company parallels the process of raising children and sending them off to college. You know the day is coming — after all, you can't be part of the business forever (and hopefully your kid won't live at home forever). The M&A process takes time, and you'll hopefully entertain multiple offers during that time (this past year one of our freshmen visited 21 colleges — 21!). It's one of the most important financial decisions you'll ever make (have you seen the cost of college tuition lately?!). So much is unknown about sending your company — your baby — off to the next stage of the journey. But hope is not a strategy when it comes to selling a company (although it sometimes is when it comes to my own golf game and coaching abilities).

Our editorial team at *Software Executive* wants to help make your hopes and dreams for a successful, profitable, sustainable company become a reality. Whether you still plan to lead your company for many more years, or whether you will be in the market to sell it soon, there are things you can do along the way to make sure you are getting the most out of your business. By the time you get to that metaphorical college move-in day, you want to be sure you have done everything possible to build a valuable business. To do that, you'll need to be well-versed on topics like raising capital, culture, financial models, sales, and customer success — all things we cover regularly in *Software Executive*. And of course, this special edition presented by the Corum Group is packed with valuable insights about exit strategies, due diligence, scaling, post-acquisition success, and much more.

I hope you'll take the time to read this issue, and then file it away to reread it in the future. And I hope the future of your software business is as exciting and optimistic as the start of every college golf season. ●

CORUM
MERGERS & ACQUISITIONS

The Global Leader
in Software M&A

"At Corum, we fully understand that an M&A transaction may be the most important financial event in your life.

Doing it right requires meticulous preparation, proper positioning, extensive research, aggressive followthrough, patient relationship building, in-depth valuation, professional negotiation, integrity, teamwork and tenacity. These qualities create a successful transaction, and these are the qualities we bring to a relationship with our clients."

Bruce Milne, CEO
The Corum Group

"We benefited from both Corum's depth and breadth during this process. Their experience and knowledge of the technology industry made it possible for us to conduct a broad, global search for the right partner, and we're thrilled to have found the ideal match in Materialise."

John Chambers
OrthoView

"It was great working with the Corum Group team. They helped walk us through the entire acquisition process and were extremely responsive to any questions we had. Corum Group was referred to us by a previous successful client and we would definitely recommend them to anyone else looking to take their company to market."

Wayne Steagall
Lending Manager

"Corum helped change my life. They diligently worked on our behalf throughout all phases of the sales process. They came up with creative and effective approaches during our final negotiations with the buyer which made the whole transaction possible. We could never have found (much less closed) the deal without their help and guidance."

John Ivory
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