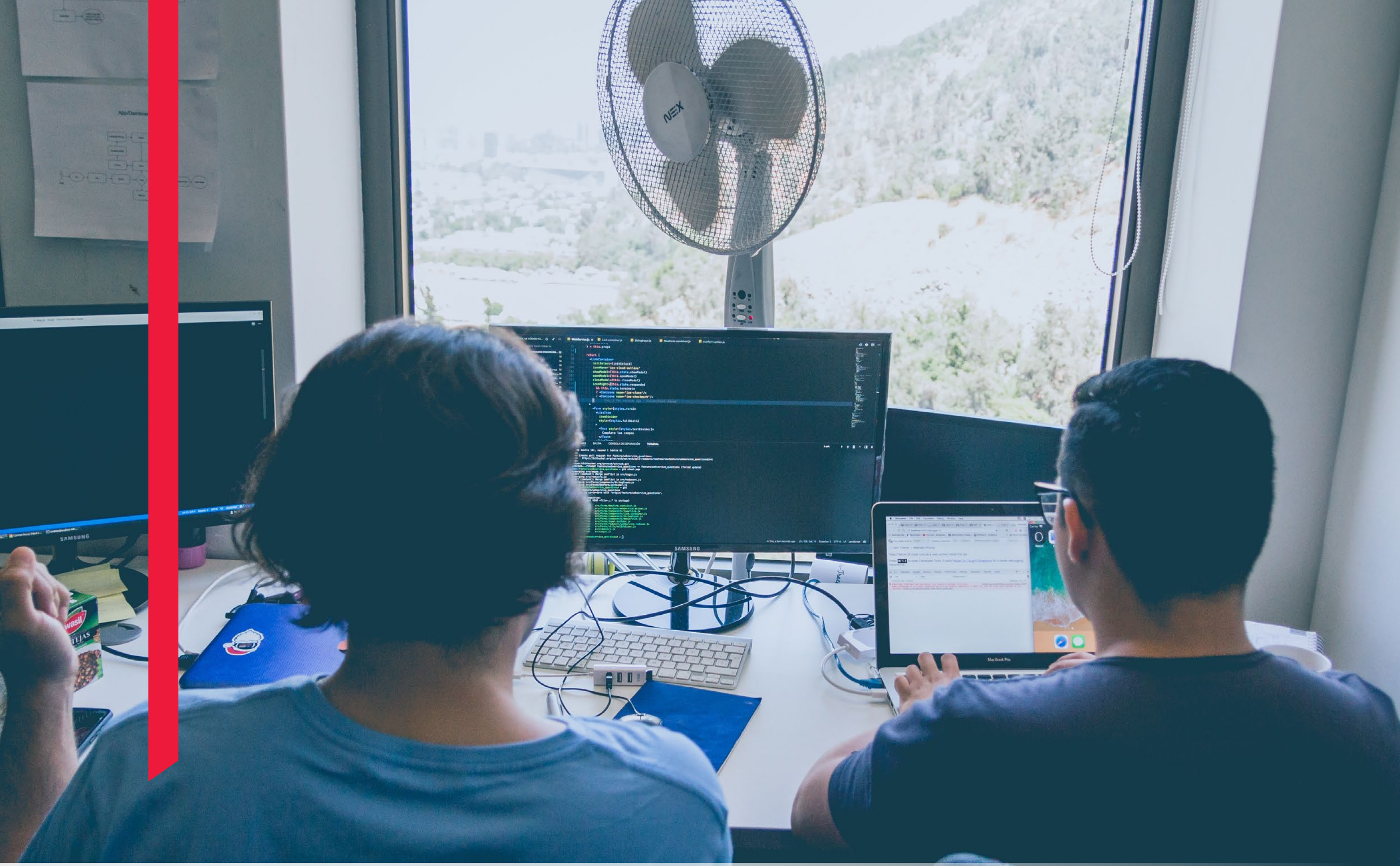
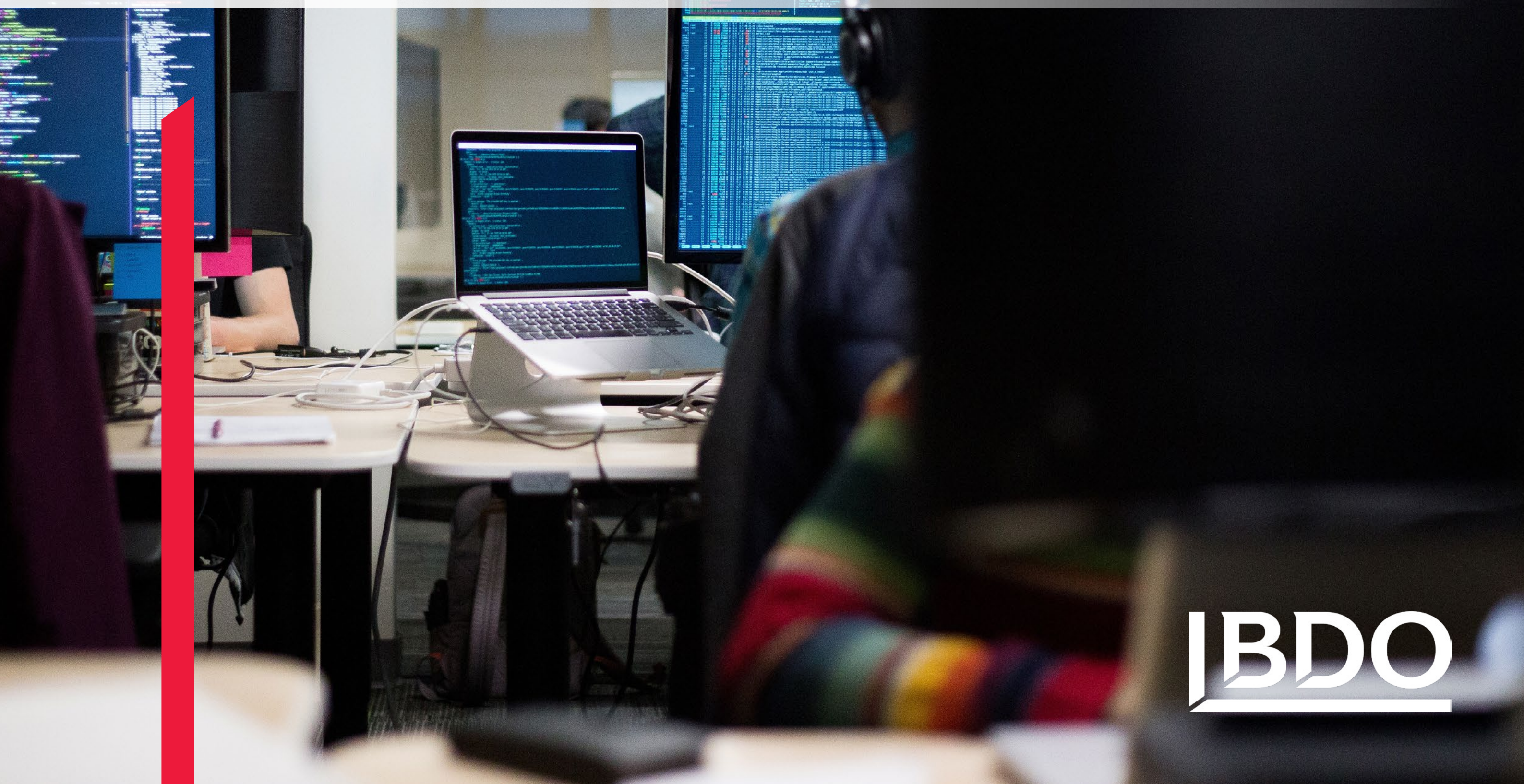


GUIDE FOR SOFTWARE COMPANIES BEING ACQUIRED BY PRIVATE EQUITY

FEBRUARY 2019



BDO

INTRODUCTION

Software company founders and CEOs often get inquiries from private equity (PE) firms interested in striking a deal to acquire or investing in their company. Amongst the many offers may be the perfect opportunity to take your company to the next level or achieve an optimal exit – but how can you know which message it is? The answer to that question is, in part, what this guide aims to provide.

PREPARING FOR A DEAL

1. What are you looking for?

The starting point for deciding whether to pursue a PE deal is looking inward. Your current situation, your strengths, weaknesses and opportunities - and near, medium and long-term goals - can help you identify if, when and how much external capital you may need. Remember that PE is far from the only way to raise capital. Other options, such as loans and VCs, each have advantages and drawbacks. When considering potential PE deals, it is advisable to consult with your business advisor and discuss the potential opportunities and challenges each investment avenue presents.

2. Know what a PE can offer

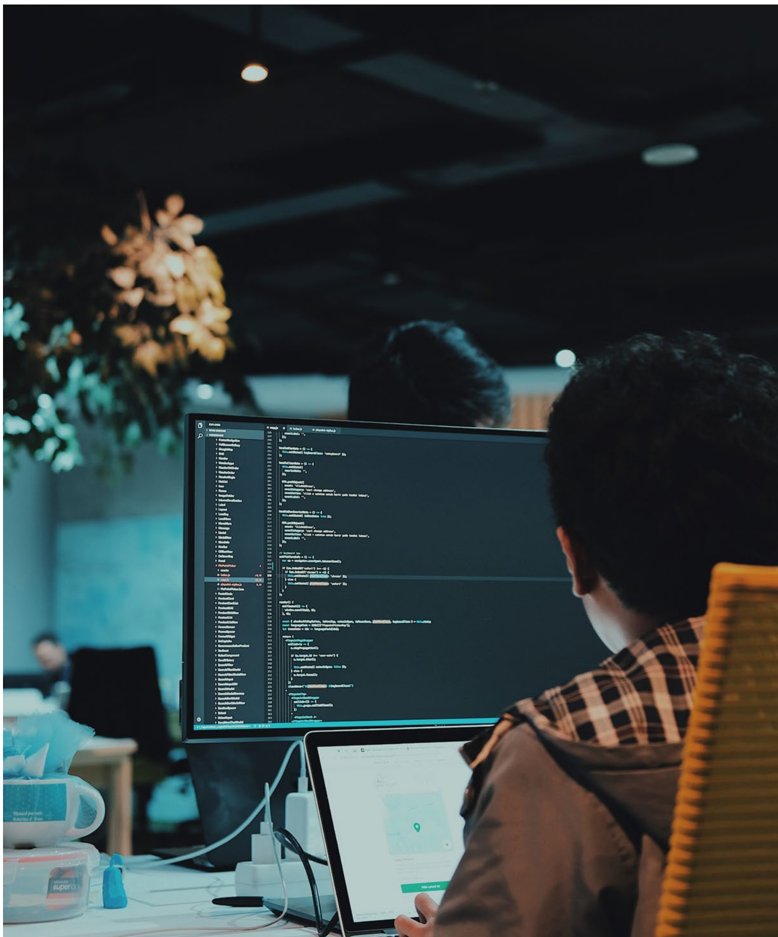
There are many good reasons why almost half of all investments in technology companies come from PE firms - and why those technology companies, including many in the software space, say yes to the investments. The list of potential benefits from collaborating with a PE firm includes help accessing new markets, assistance with the organisational and financial sides of your business, objective data-driven insight, creating efficiencies and increased profitability. However, getting the best out of your collaboration with a PE is built on aligning interests ahead of signing a deal.

3. Know the PE Ecosystem

The PE landscape has changed a lot over the last ten to 15 years. Today, most software companies that are post Series A will be able to find interested PE firms. Some PE firms are generalists, whereas others have a specific focus. Each has different focus points and strengths. Insight and understanding of the focus and nature of specific PE firms help you identify which PE firms will be the best to work with. Consultants can help you speed up this process thanks to their vast business networks and contacts with PE firms.

4. Know your worth

Before starting negotiations, you need to evaluate your company's worth. Such a valuation forms part of the foundation for establishing realistic negotiation targets. Many factors can affect your valuation, both positively and negatively. They include technology, IP, solutions, the management team, industry trends, growth potential, ability to turn revenue into cash flow, sales and potential future exit opportunities. The valuation is not based solely on a picture of current and past performance but also analysis of what your material and immaterial assets (especially IP) will be worth over time.



NEGOTIATING WITH A PE FIRM

5. Know what PE Firms are looking for – and at

Traditionally, PE firms have a set goal for an investment: it should deliver a substantial return in three to five years. During negotiations, PE firms will, amongst other areas, be focused on your products, services, technology, intellectual property and R&D, IP rights, your management team and future potential. Prior to negotiations, you should carry out an analysis and prepare arguments – based on detailed data and documents to support them – to help speed up the process and get the optimal deal.

6. Know PE's situation

Another important factor in negotiations is knowing what the situation is like on the other side of the table. It helps make it easier to discern your position and whether different tactics will be effective. BDO's annual PE Equity Survey provides good insight into the current situation for PE firms, which can stand you in good stead during negotiations. Amongst its findings are that PE firms are seeing healthy competition, currently have access to a lot of capital, are looking to make investments and tend towards keeping investments in companies on the books for longer.

7. Know PE firms' concerns

Software companies are attractive targets for PE firms. However, their interest can be tempered by some of the challenges that the technology industry in general – including in the software space – presents to PEs. Respondents in the BDO Private equity study point to identifying growth opportunities (42%) and finding and retaining management teams (33%) as some of the biggest challenges when acquiring target companies. Something that also applies to the software industry. PE firms may also be concerned about areas such as your IP and future potential of your solutions.

8: Have all your documentation in order

The level of granularity in questions from PE firms often comes as a surprise to software companies. These questions can cover areas such as financial, legal and tax issues, as well as existing business processes, future earning perspectives, risks and much more. You may also face very detailed inquiries regarding value created through non-financial activities such as sustainability programmes. Documenting your strengths in the areas that PE investors will likely focus on during a deal negotiation process should start very early in your company's lifetime.

COLLABORATING POST-DEAL

9: Plan for the post-acquisition

It is crucial to establish the fundamentals of how you envision the collaboration between yourself and the PE firm to work post-deal ahead of sitting down at the negotiation table. Creating effective collaboration starts with both you and the PE firm explicitly stating what you expect to get out of the partnership - and how it should work in practice. Such plans and statements of intent should include everything from day-to-day collaboration to how you can work together towards a potential exit.

10: Set clear targets

Communication and collaboration issues often arise from misalignment of expectations and goals. Unrealistic plans for sales growth, cost cuts, and lack of foresight regarding future challenges can be a red flag for PE firms during a negotiation process that creates doubts about your management team's business acumen. Shaping the conversation and collaboration starts during the negotiation process, but it should be a continuous effort. While the exact structure, form and regularity of communication between you and the PE firm will wary, communication should be proactive instead of reactive and follow established guidelines.

CONTACT:

NATALIE MILNE, Australia, natalie.milne@bdo.com.au

ARSHAD GADIT, Bahrain, arshad.gadit@bdo.bh

BERT KEGELS, Belgium, bert.kegels@bdo.be

DARIO LIMA, Brazil, dario.lima@bdobrazil.com.br

PETER MATUTAT, Canada, pmatutat@bdo.ca

JESSICA WU, China, jessica.wu@bdo.com.cn

JAKOB SAND, Denmark and Faroe Islands, jks@bdo.dk

MOHANAD KHALED, Egypt, m.khaled@bdo.com.eg

JAN KOVERO, Finland, jan.kovero@bdo.fi

ERIC PICARLE, France, eric.picarle@bdo.fr

JANE EVANS, Germany, jane.evans@bdo.de

AMY YAU, Hong Kong and Macao, amyyau@bdo.com.hk

YOGESH SHARMA, India, yogeshsharma@bdo.in

TERESA MORAHAN, Ireland, tmorahan@bdo.ie

YANIV COHEN, Israel, yanivc@bdo.co.il

ELEONORA BRIOLINI, Italy, eleonora.briolini@bdo.it

SOICHIRO KITANO, Japan-Sanyu, Kitano-ilp@bdo.or.jp

MAZEN JABER, Jordan, mjaber@bdo.com.jo

JONG MOON CHOI, Korea, jongmoon.choi@bdo.kr

FRANCIS CYRIL, Malaysia, franciscyril@bdo.my

EUGENIO LABARTHE, Mexico, eugenio.labarthe@bdomexico.com

RUUD VROLIJK, Netherlands, ruud.vrolijk@bdo.nl

ERIK LIE, Norway, erik.lie@bdo.no

RUI LOURENÇO HELENA, Portugal, rui.helena@bdo.pt

IRINA SMIRNOVA, Russia, I.SMIRNOVA@bdo.ru

WILLIAM NG, Singapore, williamng@bdo.com.sg

SANTIAGO SAÑÉ, Spain, santiago.sane@bdo.es

CLAES NORDEBACK, Sweden, claes.nordeback@bdo.se

ARSALAN QURESHI, United Arab Emirates, Arsalan.qureshi@bdo.ae

TONY SPILLETT, United Kingdom, tony.spillett@bdo.co.uk

AFTAB JAMIL, United States, ajamil@bdo.com