



THE M&A PROCESS: ACHIEVING A STRATEGIC EXIT

DAVID J. RAFFA
CORPORATE FINANCE

OVERVIEW OF THE M&A PROCESS

Having a well-defined process helps you

- Understand the exit process – to provide full visibility
- Know what to expect – to plan accordingly
- Know what to look out for – to minimize risks
- Define the goal – to maximize the outcome

*“We brought in David to act as our investment banker and advisor. He helped us position the company and make it attractive for sale ... **the results far exceeded our expectations.** Any company looking to achieve a strategic exit would be well served to engage David in pursuing that path. You don’t know what you don’t know but he does.”*

~Sharon Barnes, ex-CEO of RFind Systems

M&A PROCESS - FIVE STAGES

1 Analyze

- Is the company ready to exit?
- Are there things that should be done first before taking the company to market?

2 Educate

- Educate the principals on what is involved and what to look out for
- Take them through all aspects of the deal cycle in advance

3 Prepare

- Assemble the marketing materials, due diligence room and develop the go to market plan

4 Market

- Identify, profile and approach potential buyers

5 Close

- Manage the deal from LOI through to close

STAGE 1: ANALYZE

- Many companies considering an exit are not optimized to achieve the best result
- Companies need to know if there are things that should be done – capital reorganizations, financings, business plan changes, revenue model tweaks, etc. – before going to market
- Identify these business issues and then decide which, if any, should be addressed

*“Very few investment bankers have the skills – or even the desire – to do this kind of analysis and heavy lifting. Having an experienced **company builder** on your side, who has spent his career inside companies like yours, has real value.”*

STAGE 2: EDUCATE

- Who buys the company
- What motivates them to buy
- Who is involved in the sale
- What things need to be dealt with first
- What might go wrong and why
- What exactly are the steps
- How will valuation be negotiated
- How is a premium valuation secured
- Securing advisors – who is needed
- Financial statements– what needs to be prepared
- Tax review and optimization – structuring steps
- Corporate structure review – cleanup required
- Licenses and permits – what might need to be managed
- Bank and credit arrangements – impact on transaction
- Approvals – what approvals might be required
- Intellectual property – issues to consider

A series of proprietary, detailed, tools & guides prepared from thirty years doing deals will be used to guide you through these issues and optimize the process

STAGE 2: EDUCATE

THE DEVIL IS IN THE DETAILS

- Types of transactions and documentation
 - Asset sales, share sales, share exchanges and mergers - what each means
- Representations and Warranties
 - What and why – review a detailed example
- Purchase price terms
 - Work through an example which includes closing payment provisions, holdback terms, vendor take-back provisions, earn-out terms and price adjustment clauses
- Valuation Methodologies - **How to quantify and achieve strategic value in the sale**

“I didn’t full understand the process, the types of deal terms nor what I was being asked to represent and backstop to the buyers. I want to understand what we are doing and why (a common complaint of sellers)”

There is no reason for this.

It is the job of the Advisor to provide full visibility into the process.

STAGE 3: PREPARE

KEY MARKETING DOCUMENTS

- **Executive Summary** – preparing the right teaser for the initial outreach to pull prospects into the funnel
- **Slide Deck** – introduce the company and the opportunity, capturing the “why buy”
- **Confidential Information Memorandum** – detailed discussion and analysis of the company with a focus on its value
- **Due Diligence room** - provide all the backup materials a buyer will need and expect

“At its core, selling a company is sales and the process needs to run like sales: build a funnel, qualify the leads, build the business case for the sale, and most importantly, close the buyer.”

*Process aside, it is all about the **closing the deal**. Deals are fluid and knowing how to keep them on the rails is critical*

STAGE 4: MARKET THE COMPANY

- Determine the types of potential buyers and their value drivers
- Identify and build the prospect list
- Prioritize the prospects and profile the leading contenders
- Build valuation models specific to particular prospects
- Develop and implement a plan to approach the prospects

*“I have twice asked David to sell a company that I was Chairman of and twice he has **achieved excellent results.**”*

*Barry Carlson, Chairman & CEO,
Plurilock Security Solutions*

STAGE 5: CLOSE THE DEAL

The final, most important stage is closing the deal:

- Negotiate the Term Sheet or Letter of Intent
- Understand, negotiate and manage the formal papering process
- Actively manage the transaction to minimize the risks of deal failure
- Stay on top of it until the deal is fully closed

David negotiated and led our transaction from start to finish. We didn't know what we didn't know when we started down this path but he sure did. Not sure how we would have closed without him."

~Chris Taylor, CPA, CA, ex-CFO of Thunderbird Biomedical



BACKGROUND

DAVID J. RAFFA
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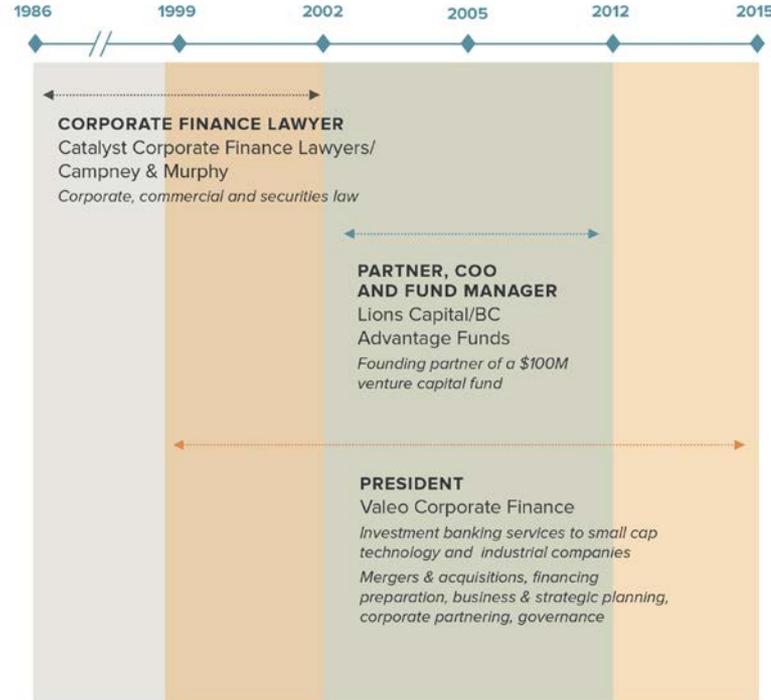
PROFESSIONAL BACKGROUND

M&A for Small Cap Technology and Industrial Companies

Advising companies through the high growth stage

Leading their liquidity event when they are ready to sell or IPO

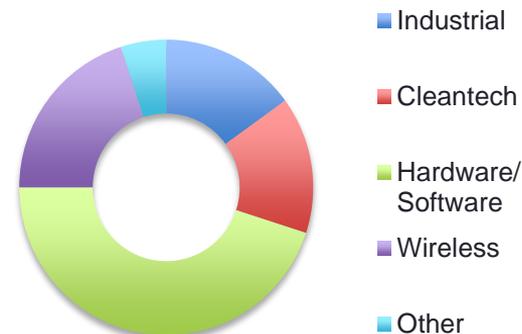
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BUSINESS BACKGROUND

- Co-Founder, Partner and COO, Lions Capital/BC Advantage Funds (investment bank and \$100M early stage venture capital fund)
- Past Executive Chair, ActiveState Corp - acquired by Sophos PLC (UK)
- Co-Founder and Past Executive Chair, Emerald Health (TSXV:EMH)
- Co-Founder and Past VP Corp Fin, Amorfix Life Sciences (TSX:AMF)
- Co-Founder, Past President and CEO, Brightwave Technologies - now Sophiris Bio (NASDAQ:SPHS)
- Past Board/Advisory Board member of more than 30 companies:
 - Parasun Technologies – acquired by Uniserve
 - Layer 7 Technologies – acquired by CA Technologies
 - Wolf Medical Systems - acquired by Telus
 - In Motion Technologies – acquired by Sierra Wireless
 - Scorpion Software – acquired by Kaseya
 - 3 Tier Logic – acquired by KCO Capital
 - Contigo, Redlen, Mobidia, Rewardstream, Mazza Innovation, AlgaeCan, Plurilock, Zorroa, Prollster
 - Past (legal) Advisor to Avigilon (TSX:AVO), Flickr (acquired by Yahoo), Verrus Pay-By-Phone (acquired by Paypoint)

BOARD POSITIONS BY SECTOR



DIFFERENTIATOR – FLUID ADVICE

ONE SIZE DOES NOT FIT ALL

- I have taken on engagements where the principals decided to pursue an exit immediately, and engagements where they received an unexpected in-bound approach – these situations need to be handled very differently and I have led both to successful outcomes
- Having worked with many small cap technology and industrial companies, I've also learned what needs to be done to optimize their businesses for sale to maximize value
- If there are steps which could be taken to improve the company's prospects for a successful exit, I will identify them for the principals
- The principals can then make the call to sell now or continue growing the business. I will work with them either way – sell the company immediately, or continue building and sell it down the road

DIFFERENTIATOR – COMPANY BUILDER

HANDS ON HELP WITH

- Optimizing structure
- Refining the business strategy
- Enabling human capital
- Securing financing
- Capturing Value
- Navigating people issues
- Getting value from your Board
- Avoiding death cookies

*“I approached David to help build my company and ultimately sell it. I chose David specifically as I had been told he would work with companies in the growth stage who might not go to market for a few years. David came as advertised, helped us develop our growth strategy and ready ourselves for sale, and then when the time came **he led our M&A process and achieved an excellent result.**”*

~Dana Epp, Founding CEO & CTO, Scorpion Software

DIFFERENTIATOR – SMALL CAPS

KNOW YOUR CLIENTS

- Don't allow the buyer to control the valuation discussion - you will be stuck with a valuation based solely on a financial multiple
- Small cap companies are constantly investing in their businesses – sacrificing profitability to drive top line growth. This investment is creating value not yet captured in the income statement
- If you don't understand how to quantify this value– which I call **the unrealized value in the business** – and clearly articulate it to the buyer, then you will not get the best price for your company

*“To get the buyer to see your strategic value as well as your inherent value and **pay you for both**, you must be able to articulate both separately, clearly and convincingly.”*

RESULTS



ACQUIRED BY
theScore
(TSX:SCR)
JUNE 2001



ACQUIRED BY
uniserve
MAY 2007



ACQUIRED BY
CONSTELLATION SOFTWARE INC.
JUNE 2012

Liquivision
ACQUIRED BY
HUSH OUTDOORS
APRIL 2014



ACQUIRED BY KASEYA
AUGUST 2014

TSC SOFTWARE
ACQUIRED BY
SRB
education solutions
JANUARY 2007



REVERSE TAKEOVER AND
PUBLIC LISTING (TSX:AMF)
JULY 2007



REVERSE TAKEOVER AND
PUBLIC LISTING (TSXV:TPI)
SEPTEMBER 2014



REVERSE TAKEOVER AND
PUBLIC LISTING (TSX:TTM)
NOVEMBER 2014

TESTIMONIAL

“We engaged David to lead the sale of our company. During this process David also served as our corporate advisor. I ended up reaching out to him on a lot of matters outside the M&A mandate. He helped me structure a seed round, introduced and helped negotiate a SRED loan, advised on contract negotiations, helped with founder issues, advised on shareholder matters and was involved in discussions with strategic partners.

On the M&A side he revised our Business Plan, drafted our CIM, directed the assembly of the DD room, prepared the Slide Deck and Exec Summary, built and managed our prospects list including making first approaches, lead our discussions with multiple buyers and negotiated our ultimate sale.

David advertises that because of his experience with venture companies he provides more than just M&A advice and that was clearly our experience. He ended up being a trusted advisor on a whole variety of operational matters. I would highly recommend his services.”

Margaret Malewski, ex-CEO, Liquivision Products

FEES

For near term M&A engagements (taking the company directly to market or responding to an in-bound approach to be acquired):

- Monthly work fee for a period capped at eight months
- Success fees, paid on conclusion of the sale (sliding scale depending on size of transaction)

For longer term advisory engagements (help grow the company for one to two years before going to market):

- Monthly retainer
- Equity vesting over the period of the advisory engagement
- M&A engagement (as above) to sell the company when it is ready

*“I work with clients to build a fee structure that motivates **performance** and **aligns interests**”*

FINAL NOTE

“Achieving the best price for your company comes from clearly understanding its value, making sure your M&A sale collaterals demonstrate that to the buyer, and then knowing how to articulate and negotiate value and terms.

You only sell your company once - you want to get it right.”

Helping companies with their growth, financing and governance strategies and then leading their exit - relevant experience, proven results.

CONTACT

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