

End Games – Cashing In

Presentation To:
Boston Entrepreneurs Network

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About Progress Partners



Progress Partners provides investment banking* and advisory services to early and mid-stage *next media* companies – the emerging generation of telecom, media and technology organizations that are defining the future of the digital

experience. Market Focus

- New Media, Advertising, and Web Technologies

Services

- **Investment Banking**¹: private placements, M&A, MBOs, and divestitures
- **Strategic Consulting**: market research, financial assessment and modeling, operations consulting and outsourcing, investor relations management, pricing and economic modeling, and capital structure analysis
- **Value Creation**: strategic business development, organizational growth, operational structure and processes, technology and product management
- Founded 2002 - Boston and New York offices

Business Status

- One of the most active investment banking firms in Boston/New York corridor
- Steady deal-flow predominantly served through referrals by current and former clients and strategic partners
- Constant interface with VCs, hedge funds, private equity firms, strategic investors, strategic/financial buyers, and key industry players
- Extensive transaction experience, especially for firms with under \$40MM in revenues.

Progress Partners Portfolio



Preparing for an M&A



The initial process for any engagement is to know your customer. Progress Partners begins each engagement with the goal of a thorough understanding of its clients; including strengths and weaknesses and goals and objectives.

Why do companies acquire?

- Common customers
- Added value to existing products
- Removing a competitor
- Removing an advantage/channel for another competitor

Sell now or later?

- Sell now @ \$30MM, still own 1/3 of company
 - \$10MM in bank, \$6MM after taxes, live on 8%
- Sell later (3-5 years...)
 - Odds stacked against you
 - Potential market changes
 - @\$100MM, probably only own 5-10% after additional VC rounds
 - Same or less exit as above

What is the process for selling?

- Due Diligence, Negotiations and Closing
- An Acceptable Deal to the Seller Incorporates Price + Terms + Culture

What do acquirers seek? What do they value?

- Superior management team
- Sales Pipeline
- New Geographies/New Markets
- Revenues
- Customer acquisition opportunities
- Build or buy- time to market considerations
- Products, Technologies, IP
- Market environment – what is hot now?
- Exit plan – part of ongoing strategy

What do sellers seek?

- Strategic vs. Investor
- High valuation
- Liquidity
- On going management opportunity
- Several negotiations
- Qualified buyer

Overview of the M&A Process



- Key Issues:
 - Valuation
 - Operational Results
 - Management/Bench Strength
 - Retention
 - Acquisition Rationales
 - Form of Consideration
 - Pipeline
 - State of Financials
 - Intellectual Property
 - Exit Strategy

Overview of the M&A Process



■ Process:

→ Determine Objectives for M&A Transaction

- Why is client selling/buying?
- What do sellers/buyers want end game to look like:
 - Management stay, all cash, all-stock of acquiring equity, etc.

→ Preparation of Marketing Materials for Sell-Side

- Due diligence on client
- Executive summary (2-3 pages)
- Offering memo (10-30 pages)
- Management presentation (10-15 slides)
- Highlight company's value proposition:
 - Technology, team, market, future, etc.
- Work with client on delivery
 - Buyers want to hear from management, not bankers

Overview of the M&A Process



■ Process *continued*:

→ Buy/Sell Targeting

- Identify acquisition targets
- Identify potential acquirers on sell-side mandate and identify strategic acquisition rationales for potential buyers

→ Marketing a Sell-Side

- Articulate client's unique value proposition
- Set up meetings with targets (acquirers/sellers)

→ Assist in Due Diligence

→ Respond promptly to every question

→ Negotiate Optimal Terms

→ Work with Client's Counsel to Close Deal

Tackling the M&A Process

Description of each stage



- **Transaction Strategy: Develop a strategy that will maximize value to shareholders while minimizing disruption to ongoing business.**
 - Hybrid of broad + targeted approach ensures “right” buyers are contacted, while controlling confidentiality process
- **Contact Buyers: Advisors initiate contact with potential buyers.**
 - Garner interest of potential buyers while retaining confidentiality of client identity.
 - Execute confidentiality agreements with interested parties.
- **Management Presentation: Assist in development and “coach” client on presentation practices.**
 - Client management “presents” the company to potential buyers: Facility tour/product demonstration as appropriate
 - First opportunity for client to “sell” and demonstrate enthusiasm for business
 - Dynamic presenter is key

Tackling the M&A Process

Description of each stage



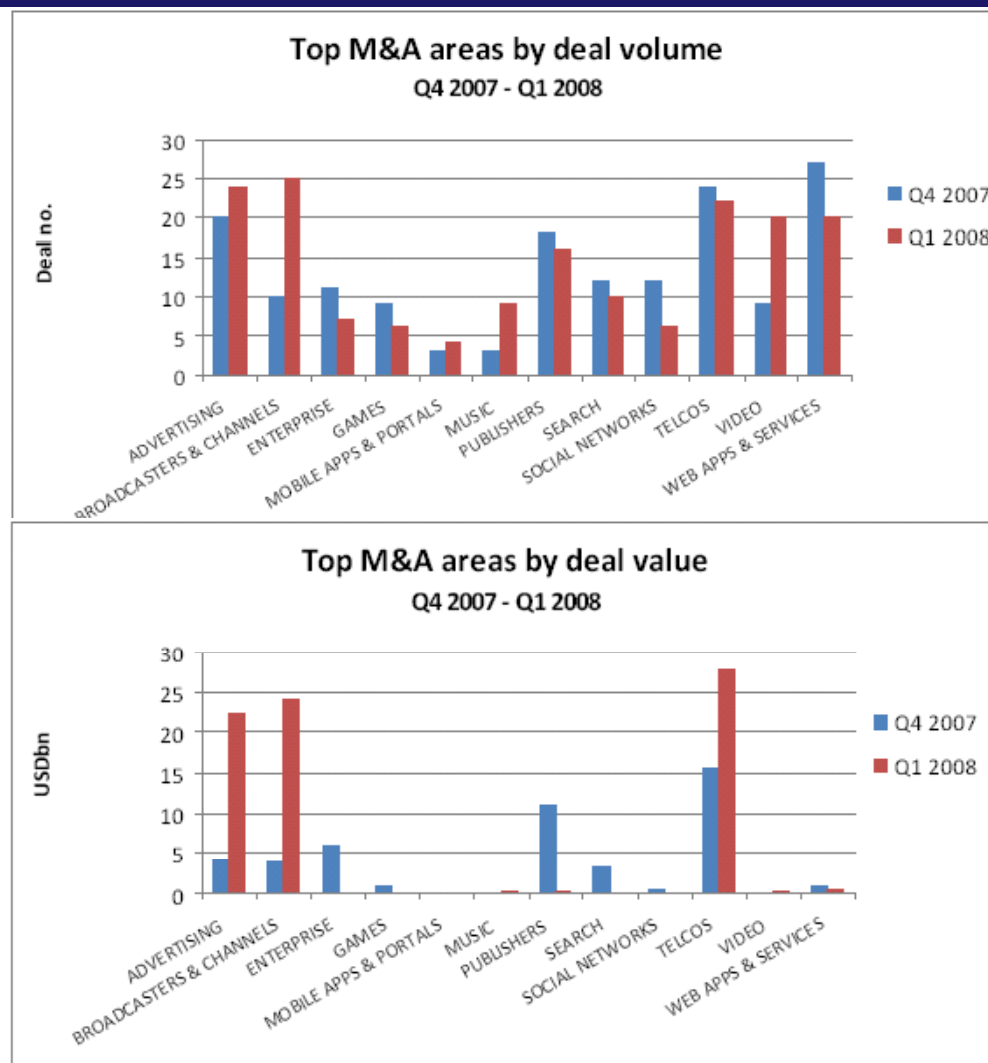
- **Evaluate Offers:** Review and analyze proposed offers to ensure favorable terms. Ensure that strategic objectives of the client are met.
 - Initial offers will typically come in form of a non-binding *Letter of Interest* or *Letter of Intent (LOI)*
- **Negotiation Assistance:** Assist with development of a negotiation strategy focused on maximizing value while minimizing risk.
 - Leverage knowledge of market valuations, potential “newco” synergies, and competition for deal
 - Leverage in-house tax & accounting expertise to craft most favorable deal
- **Due Diligence & Closing:** Coordinate due diligence and assist with the resolution of remaining issues and documentation to ensure a timely closing.
 - Execution of a binding definitive agreement precedes closing
- **Post Closing Assistance:** Assist with post-closing integration issues including tax, accounting, personnel and operations consulting.

- **The M&A process is time consuming for business owners.**
 - Selling a business concept to a financial or strategic acquirer is different from selling a product or service to customers
 - Variables that can effect the deal: geography, fund size / cycles, competing deals
- **Entrepreneurs often miss key components in their business that would greatly help their M&A efforts.**
- **Finding the right personal match between buyer and seller is challenging.**
- **There is an information gap between buyers and sellers.**
- **The valuations of buyers and sellers are rarely aligned.**

Real-World Examples: M&A



- What are the “hot” verticals?
- What is the current trend in value?
- Example – Bebo, \$850MM Acquisition by AOL
 - Founded 2005
 - 34MM Reg. Users
 - 7B Page views/mo.
 - Avg. need \$2.5B page views for \$1MM ad revenue
 - Revenue = ~\$30MM
 - VC Investment \$20MM+
- The difficulty in this type of scale
- What did AOL see in Bebo?



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