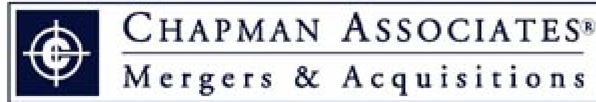

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Selling Your Software Company

Contents

Chapter 1: Considering a Merger or Acquisition 3

M vs. A: Is a Merger or Acquisition Right for You? 5

What to Look for In an Acquirer 7

How to Improve Your Software Company's Valuation 9

The Importance of Effective Exit Planning and the Role of M&A 11

Chapter 2: The M&A Process Explained 13

Step-by-Step Acquisition Process 15

Why Your Business Needs an Information Memorandum 18

The Importance of a Well-Organized Information Memorandum 19

What to Include in an Information Memorandum 20

Information Memorandum Checklist 21

How to Negotiate the Letter of Intent 22

What Due Diligence to Expect When Selling Your Software Company 24

Chapter 3: The Impact of Selling Your Company on Customers and Employees 28

How Selling Your Business Impacts Your Customers 30

Employee Talent Development Post-Acquisition 32

Chapter 4: Finalizing the Sale and Future Growth 34

Necessary Steps for Evaluating a Sale 36

Mistakes to Avoid When Selling Your Software Company 37

Preparing for Your Close Date 38

Conclusion 39

CHAPTER 1

Considering a Merger or Acquisition

If you have thought about selling your business, you know the process requires careful consideration and planning.

Selling your company can be a lengthy process with many steps to go through. To help owners and operators like yourself, we have created *The Ultimate Guide to Selling Your Software Company.*

We will take you through everything you need to consider when selling your business, including the details of mergers and acquisitions, the impact on your customers and employees, and how to prepare to finalize the sale.

M vs. A: Is a Merger or Acquisition Right for You?

M&A is often used to describe the consolidation of companies. But in reality, this abbreviation refers to two distinct concepts: mergers and acquisitions.

If a company is merged, it is integrated into another larger business. By contrast, when a business is acquired, it may continue to operate as a standalone business under new ownership.

Identifying whether a merger or acquisition would be best for you depends on your company's goals and circumstances. It takes a lot of consideration to determine which option is right for your business but looking at common scenarios can help you reach the most logical decision.

A merger provides benefits in sales and marketing, R&D, and customer support.

When to Consider a Merger

I need access to an existing customer base to grow.

Are you a relatively small company or a start-up that is struggling to grow? Merging with another company, that operates in the same market, offers an exciting opportunity to boost sales by gaining access to their customer base. After all, you have built a product that many of those customers want, so it makes strategic sense to merge your product into their core system.

I am too small for an acquirer to consider me as a standalone business.

One of the biggest M&A myths is that acquirers will only look at companies with a minimum threshold for gross revenues or EBITDA. Today, many smaller acquisitions are being completed and a number of those deals are mergers. If your business is too small to be considered for a standalone acquisition, many acquirers will consider integrating small businesses into existing complementary businesses.

My market is shrinking, and I need to defend myself against customer attrition.

Times change and sometimes industries go through rough patches. If you are experiencing attrition due to customers going out of business, joining forces with similar companies can help protect you from the effects of a shrinking market. A merger provides benefits in sales and marketing, R&D, and customer support, assisting you to continue providing the market with exceptional products and services.

When to Consider an Acquisition

My business is a market leader or has the potential to become a market leader.

Generally, if a business can grow and gain sustainable position in a market, acquirers often keep companies as standalone entities. This option allows companies to continue building brand recognition while working closely within their customer niche.

I can see myself doing my own M&A in the future.

Acquiring companies with complementary technologies may allow you to gain access to their customer base and expand your offering to your existing customer base. If you have a strong drive to become a market leader, growth through acquisition is one of the quickest ways to achieve that goal.

M vs. A: Which is Right for You?

It is important to assess your software company's unique circumstances by speaking to others within your organization. You can also check with your potential acquirer's references. By contacting them, you can gain useful insights on mergers vs. acquisitions and find out how the deal affected their business. Once you have a clear understanding of where your business is and where it has the potential to go, you can begin considering whether a merger or acquisition is better for your company.

QUALITIES OF A DESIRABLE ACQUISITION

Three qualities that make businesses more desirable for acquisition:

1. An Outstanding Owner or Manager

2. Market Leader Position

3. Willing to Embrace New

What to Look for In an Acquirer

If you have decided to sell your software company, it is vital that you find the right buyer for your business. You want to join a company that will preserve your legacy and build upon your past successes. When researching acquirers, look for these important qualities:

Values of the Acquirer

In an acquisition, the two parties involved should have a solid relationship and share similar values when it comes to running a business. Having that alignment secures the success of the partnership, as it demonstrates that the buyer will help your company, rather than hinder it in the future. Take the time to find out the philosophy, values, and practices of any potential buyers to verify that their values are congruent with yours.

Growth Strategy

There are many ways to grow a business, but not all strategies can achieve long-term growth. For example, some buyers believe in mandating cost-saving measures to grow a business. This strategy is unlikely to promote long-term sustainability. Instead, look for an acquirer who utilizes R&D to achieve organic growth, as this will allow your company to have sustainable profitability.

Long-Term Outlook

When a buyer has a long-term outlook, it affects the strategy of the business. They are willing to put resources into the company, post-acquisition, to help ensure its profitability for the long-term. Investors with a short-term outlook, such as private equity firms or venture capitalists, only think about the immediate gains they can achieve, which can end up stunting the business in the long-term.

Another benefit of buyers with a long-term outlook is that they care about the people within the business. To develop employees and their career paths, those buyers will likely utilize talent management and invest in their employees' advancements, from the acquisition onwards.

Culture of Collaboration

The right acquirer recognizes that they can learn just as much from you as you learn from them. They foster a culture of collaboration and look toward you for your industry expertise. Additionally, great buyers will encourage best practice sharing between their senior leaders and across the organization.

Financial Viability

It is important to note the financial strength of a potential buyer. Ask yourself the following questions: "Is the buyer privately or publicly funded? What are their cash flows like? Do they have the resources to help your company grow?" These are all important queries to answer and consider when evaluating acquirers.

Established Success

Look for a buyer who has made successful acquisitions in the past and has been able to grow and nurture the companies under their umbrella. Past success can be a strong indicator of future success.

The right acquirer recognizes that they can learn just as much from you as you learn from them. They foster a culture of collaboration and look toward you for your industry expertise.

How to Improve Your Software Company's Valuation

Improve Cash Flow and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)

Analyze your internal structure and look for areas where operations could be centralized or more productive. Then, once any problem areas have been identified, consider introducing new long-term and cost-saving technologies for inventory, production, and sales.

Develop a Growth Story

A growth story is a common vision that guides the trajectory of your software company. This terminology refers to the visionary narrative that serves to drive employees, customers, partners, and potential buyers. You can develop an effective growth story by using consistent language across your organization, conducting a detailed assessment of your progress, and identifying projects that demonstrate the vision.

Invest in a Management Team of A-Level Players

The importance of investing in top-level talent cannot be overstated. Take the time and effort to build an A-level management team that offers your organization a unique combination of big-picture thinking, passion, and dedication.

Develop Recurring Revenue

A software company's valuation rises when the revenue streams are stable, predictable, and likely to continue. You can safeguard your revenues by seeking opportunities for long-term sales contracts, subscription-based offers, and product training fees.

HOW TO PRESERVE YOUR LEGACY

1. Build an Impactful Product
2. Invest in Your Team
3. Create a Meaningful Brand
4. Protect Your Investment
5. Cultivate a Leadership Strategy
6. Choose the Right Type of Acquirer

Increase Interest in Your Software Company

Your valuation can rise as interest in your company and products rises. Real, legitimate interest is the starting point and driving factor behind a successful acquisition. So, it is vital to focus on creating that positive momentum to increase your credibility within the industry.

Do Your Due Diligence Preemptively

Potential buyers conduct their due diligence on the financial, legal, and operational aspects of a company. Any unexpected surprises they unearth may impact the final agreement. Do your own due diligence before an acquirer does and address any gaping holes early on.

We will discuss due diligence in more detail in Chapter 2.

Simplify Your Ownership Structure

Complicated ownership structures increase costs and place an extra set of hurdles in the way of an otherwise smooth acquisition. Simplifying that structure reduces costs for administration, statutory audits, and regulatory compliance.

Be Prepared

Selling your firm is the biggest financial agreement you can undertake. During these negotiations, the endgame should always be part of your strategic vision to reach the proper valuation that reflects the dedication and skill that grew your company. As a company, you should always grow with purpose and be prepared for your end goal.

The Importance of Effective Exit Planning and the Role of M&A

The end goal will look different for every business, but an exit strategy should be considered. M&A plays a large role in effective exit planning and opens the doors to many other future opportunities for your software company. The first step in a successful exit plan is to be proactive.

Proactive Succession Planning

The central mandate of succession planning is to identify and condition future leaders to maintain sustainable operations inside your business. At first glance, succession planning may seem like an immaterial formality, but the reality is that succession planning is extremely important for the future of your business.

Unfortunately, all too often, business owners take a reactive approach towards succession planning. In such situations, the business owner waits until an unforeseeable circumstance presents itself to begin thinking about the necessity of succession planning and its role in their business.

Without time on their side, they are forced to look externally for senior executives, who are often unfamiliar with the company's operations. Although there may appear to be a healthy batch of candidates with proven track records, there is no guarantee they will perform with the same level of success once brought into your company.

Succession Should Be Stitched into Your Corporate Culture

Fostering a forward-facing company culture, where the future is actively considered and discussed, is the most effective way to continuously plan for succession. Having succession planning as a regular part of your corporate culture displays commitment to the long-term success of your company.

Succession Planning for Software Companies

When it comes to software companies, owners have the added pressure of ensuring that future leaders understand the specific needs of their business. In optimal circumstances, business owners may already have a strong succession candidate, who is well-suited to the task.

Succession planning may seem like an immaterial formality, but the reality is that succession planning is extremely important for the future of your business.

In other scenarios, an acquisition may be the preferable choice, as the company can continue operations under the right buyer. When an acquirer is interested in keeping the business and continuing its scaling, this usually means that employees are well cared for post-acquisition, and that customers also continue to receive the same attention and service.

Succession Planning: Your First Step Towards Retirement

Planning for retirement can be a complex matter, especially since one quarter of business owners have most of their net worth invested in their business. For this reason and many others, decisions pertaining to a company's future should be made cautiously, keeping in mind the interest of the company's clients and employees.

Having a succession plan in place allows owners to exit their business knowing their legacy, staff, and customers will be protected. If the owner's retirement plans involve an acquisition, succession planning can be executed collaboratively with the chosen acquirer. Oftentimes, acquirers can offer the mentorship and best practices necessary to condition the successor for long-term, sustainable success.

How to Plan for the Unknown

No matter how much time or how many resources you invest in preparing for the unknown, there is always the possibility of things not going according to plan. Succession planning mitigates some of the risk associated with unexpected events.

In the case of an unforeseen illness, having a workable succession plan in place will help to relieve stress and allow the business owner to focus on their health, rather than the day-to-day operations of their company. In such cases, if a family member has been involved in the business, the execution of your succession plan may be less stressful.

However, when generational handover is not a viable option, business owners may find value in pursuing an acquisition. The right acquirer will work with you to strategize long-term and short-term goals, allowing you to achieve your desired exit in a timely matter.

PLANNING FOR RETIREMENT

Passing on the family business is more the exception then the rule according to a PwC Survey

CHAPTER 2

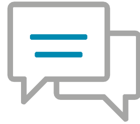
The M&A Process Explained

To participate in a merger or an acquisition, you must first understand what each step of the journey entails, from initial contact to closing the deal.

Now that you have decided to sell your software company, it is time to begin preparing the company for sale.

This chapter will take you through the M&A process and provide details on the most important steps.

Step-by-Step Acquisition Process



❶ Initial Contact

With your potential acquirer, you will discuss your company's goals and your vision for its future to ensure that your interests are aligned. You will also review the buyer's acquisition philosophy and explore your post-acquisition options for staying in the business or following a succession plan after the sale.

❷ NDA, Preliminary Information Request, and Information Memorandum

If there is a mutual interest after the initial conversation, a non-disclosure agreement (NDA) will be provided to keep shared information private, protected, and confidential.

To begin compiling the preliminary information requested by your potential acquirers, you will complete a questionnaire that provides a broad overview of your software company. The next step is to compile this data into a presentation or an information memorandum, which will be discussed in the following sections.

❸ Indicative Offer

After you complete the information request, the buyer will be able to provide an indicative offer. This is a non-binding offer to establish the parameters of the deal between both parties.

❹ Letter of Intent (LOI)

If you accept the terms that have been discussed so far, a letter of intent, sometimes called an Indication of Interest (IOI) will be drafted. This is the formal agreement of the structure of the deal.

❺ Due Diligence

Once the LOI is signed, you will move into due diligence. This is a comprehensive business appraisal where you will work closely with your buyer to validate key assumptions of the deal, its structure, and the relationship moving forward. This process typically lasts 45 to 90 days.

❻ Sales Purchase Agreement

After due diligence is complete, you will sign the sales purchase agreement. This agreement serves as the execution of the final contract and brings you to the final steps of the process.

❼ Receive Proceeds

After the deal closes, you and your shareholders will receive the proceeds from the sale.

❽ Continue to Operate Your Business and Protect Your Legacy

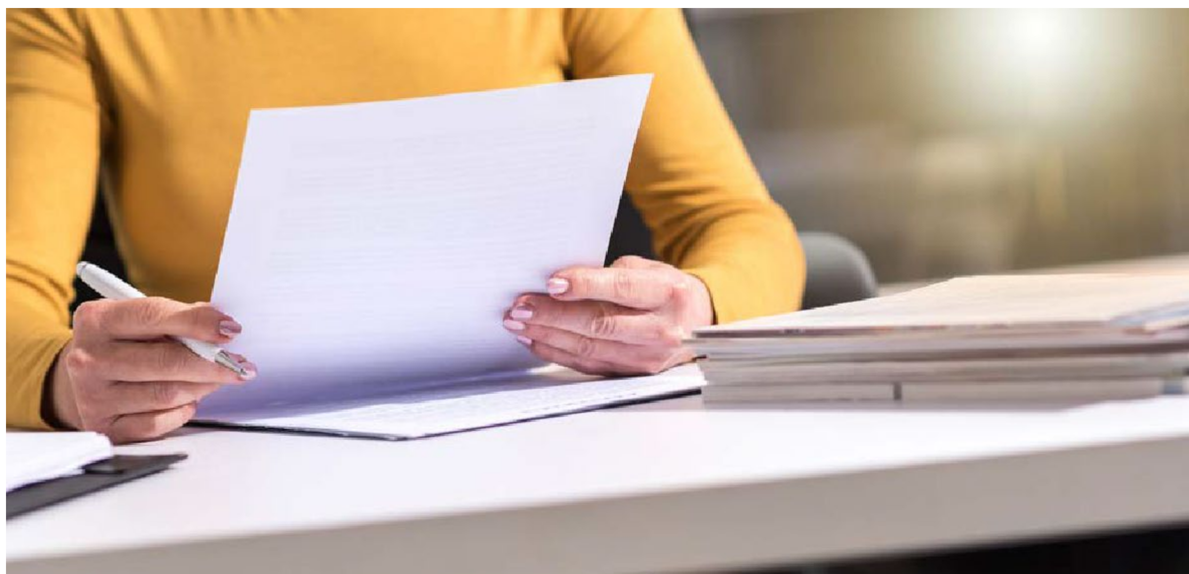
Through a decentralized business structure, you will have the freedom to continue running your company with autonomy. Or, if you have chosen to exit the business, you will work with your buyer on succession planning to ensure the right leadership is in place.

Now that we have covered the steps of the M&A process, we will dive a little deeper into some of the key stages. Let's first discuss how, after establishing initial contact and providing an NDA, potential buyers will request the confidential information memorandum (CIM).

Why Your Business Needs a Confidential Information Memorandum

A Confidential information memorandum (CIM) is a package of documents created by business owners for prospective buyers. The primary purpose of an information memorandum is to create potential investment in your software company.

Although this package is designed to draw the interest of prospective buyers, it also serves to provide transparency. Owners should avoid exaggeration and aspire to disclose any information that will materially affect the value of the company.



> The primary purpose of a confidential information memorandum is to create potential investment in your software company.

Confidential information memorandums tend to be very exhaustive in nature and include items relating to the company's financial standing, assets, and liabilities, business description, market position, clients, strategies and promotion methods, markets served, and more.

The Importance of a Well-Organized Information Memorandum

A CIM gives business owners the opportunity to clearly set out all relevant details pertaining to their company. It is imperative that the information is presented in an attractive, logical, and coherent way as it also reflects the companies' professionalism, quality of management, and dedication to the sale. A high-quality CIM is critical to ensure a smooth transaction as it promotes transparency and minimizes unnecessary correspondence.

It is imperative that the information is presented in an attractive, logical, and coherent way as it also reflects the companies' professionalism, quality of management, and dedication to the sale.

What to Include in a Confidential Information Memorandum

The most effective way of providing a large volume of company information to investors is through an information memorandum. To increase the effectiveness of the document, business owners should include as much information as possible to reduce future correspondence on the same topic. However, this task can prove to be daunting as the list of possible headings can be extensive.

When preparing the CIM, it is beneficial to assume the role of the buyer. This tactic will help you reflect on how to structure your CIM, what information to include, and how to best present it.
Instead of passively going through all the headings and filling out the sections with information about your company, it may be best to tailor your package in a unique way that will assist buyers in understanding the finer working details of your business. Playing the buyer’s role during the writing process allows for the package to maintain its objective integrity, while also fulfilling its function as a marketing document.

Information Memorandum Checklist

You may be wondering which sections in an information memorandum are most important for a software company to cover. Here is a breakdown of some suggested items for key sections in the IM, to ensure success during this process:

1 EXECUTIVE SUMMARY

- Company overview
- Key financials and company drivers
- Scope of transaction
- Key investment considerations

2 COMPANY

- History and milestones
- Legal structure
- Business model
- Corporate vision and strategy

3 BUSINESS

- Business units and markets
- Products and services
- Customers, references, and networks

4 RESOURCES

- Organization
- Employees
- Infrastructure

5 OPERATIONS

- Suppliers and procurement
- Production and distribution
- Quality management
- Research and development
- Logistics
- Systems and processes
- Marketing and sales
- Certifications

6 CUSTOMERS

- Overview of key customers
- Analysis of customer concentration
- Summary of attrition trends and projections
- Detailed account of current market share

7 INDUSTRY

- Industry structure
- Competitors
- Competitive position
- Strategic position

8 FINANCIALS

- Overview
- Profit/Loss statement
- Current trading
- Balance sheet
- Cash flow statement

9 OUTLOOK

- Summarize existing state of affairs
- Highlight long and short term goals
- Summarize main strategies utilized in market trends
- Summarize main growth strategies

How to Negotiate the Letter of Intent

If your potential buyer is satisfied with the information provided in the IM, they will likely provide an indicative offer. After this offer has been made, the next stage of the M&A process is negotiating the letter of intent (LOI). The LOI serves as an initial agreement between the buyer and seller that clearly defines all commercial terms and outlines key assumptions made by both the buyer and seller. Having a LOI in place allows both parties to calibrate their expectations during the M&A process and to save time, money and effort during the later stages.

It is essential to know what is being purchased due to the differences between the tax implications of an asset vs. a share deal, depending on the seller's jurisdiction and business structure.

When negotiating the letter of intent, it is important for business owners to consider the following:

What is Being Purchased?

It is essential to know what is being purchased due to the differences between the tax implications of an asset vs. a share deal, depending on the seller's jurisdiction and business structure.

How Will the Purchase Price Be Paid?

- Is the buyer purchasing the business in cash, shares, or a combination? Often, if the purchaser is paying all or a portion of the purchase price in shares, they will restrict you from selling those shares for several years post-acquisition. As a result, you will need to do some reverse valuation work on the purchaser to make sure the shares are valued fairly.
- Is there a contingent component to the purchase price (i.e. an earnout)? If so, what is it based on and what post-acquisition operational and tax implications does it have on your business? Ideally, contingent payments are simple to calculate and based on mutually beneficial outcomes.
- What portion of the purchase price is paid upfront vs. held in escrow? What are the triggers to release the funds held in escrow?

Where Are the Funds Coming From?

Some buyers will require financing to execute a transaction. If this is the case, you will need to assess the likelihood of the buyer obtaining financing, as it could potentially terminate the deal if the buyer does not obtain proper financing.

Be sure to also understand what operational implications this financing has for your business going forward. Such financial matters, including meeting interest payments and other covenants, can be debilitating to a company.

What Are the Key Legal Terms?

What are the key representations and warranties you are making? To what extent are you willing to indemnify these? At this stage, agreeing on the legal framework for a transaction helps put a box around the potential legal risks stemming from the transaction. Doing so will help to streamline the drafting of the final purchase agreement as well as the due diligence process.

What Are the Conditions of Closing?

Common conditions to closing include Purchaser Board of Director approval, successful financing and the seller's business achieving certain operational or financial milestones.

What Are the Principal Assumptions Both Parties Are Agreeing to?

Unlike legal terms, these assumptions are forward-looking and will not be captured by any representations and warranties. Rather, these are the key financial and business forecast assumptions the purchaser is making to support the offer.

Should the purchaser feel any principal assumptions are not attainable over the course of due diligence, they will request to restructure the transaction. Therefore, it is important for you to carefully review these assumptions and to be able to defend them during the due diligence process.

Deciding on Exclusivity

In many cases, buyers want to be exclusive with a seller before dedicating the necessary resources to due diligence and legal. Exclusivity is typically the only binding part of the letter of intent.

Once both parties are satisfied with the negotiation of the LOI, it is time to move into due diligence. The due diligence process is when the buyer confirms pertinent information about the seller by verifying and investigating all information about the company. This process may seem intimidating, but the next section outlines everything you should expect, along with how to successfully complete due diligence with your potential buyer.

In many cases, buyers want to be exclusive with a seller before dedicating the necessary resources to due diligence and legal. Exclusivity is typically the only binding part of the letter of intent.

What Due Diligence to Expect When Selling Your Software Company

Due diligence is about informing the decision for a potential acquisition. Your prospective buyers will conduct due diligence to gain a full, comprehensive understanding of your business. Many people are surprised by the depth of this investigation, since a meaningful due diligence process explores every aspect of your company's past, present, and future.

Areas of Due Diligence

Financial records will naturally be a key part of a due diligence process. You should expect that the financial and accounting review will encompass all financial statements, projections and forecasts, operating budgets and, audit papers.

A comprehensive process will also delve into other areas and ask key questions, such as:

Strategic Considerations

- Is there a strategic fit between the two organizations?
- Can their strategic and operational plans be integrated?
- Is there a planning process in place, with follow-up on implementation?
- What about tracking of performance against goals and objectives? Can you demonstrate your track record?

Human Resource Considerations

- What about the people? Will they fit in a merged or acquired company?
- Who are the key staff members? What are their tenures and backgrounds?
- What practices has the company used to retain talented employees?

Organizational and Development Considerations

- What is the organizational structure?
- What controls does the management team use to oversee productivity?
- What physical and intellectual properties are essential to the business?
- What products are in the development pipeline? What is the time remaining and expense required to launch each product?

Technology Considerations

- How adequate and credible are the platforms and applications supporting the data and communications needs?
- The review may examine the process by which information is captured, the flow of data and special issues.

Legal Considerations

- The legal review examines all the significant records, manuals, agreements, financial instruments utilized, insurance contracts in force, the status of litigation, regulatory relationship and exposure, and tax position.

Reputational Considerations

- Reputation risk focuses on the management of customer and public relationships and images, and the extent to which management has strategies and plans in place to respond to events that harm the company's reputation and, consequently, the buyer's reputation.

During due diligence, the buyer will typically present the seller with a checklist.
Here is a sample of what you might expect to find on it:

1 FINANCIAL STATEMENTS

- Audited historic financial statements
- Year to date financial statements
- Forecast financial statements (if applicable)
- Select schedules and working papers supporting the above statements

2 MARKET INFORMATION

- Market analysis / reports
- Competitor landscape & market share
- SWOT analysis
- Etc.

3 CORPORATE AND SHAREHOLDER

- Shareholders register, bylaws, and other relevant documents

4 COMMERCIAL DATA

- Pricing and revenue model
- Product analysis
- Sales strategy
- Customer level data and analysis
- Sales funnel and backlog

5 LEGAL MATTERS

- Identify any historic, current, or potential claims, disputes, litigation, or investigation
- Supplier agreements
- Customer agreements
- Rental agreements
- Etc.

6 INTELLECTUAL PROPERTY

- Patents, pending patents, including relevant legal correspondence and opinions
- Registered and pending trademarks, including relevant legal correspondence and opinions
- Non-disclosure agreements and non-competition agreements, and copies of internal policies and procedures regarding confidential information
- Research and development or cooperation agreements
- List of open source software embedded in each software module and agreements

Due Diligence Cannot Eliminate All Risk

The due diligence process is meant to reduce risk, not eliminate it. Experienced business leaders understand that the traditional due diligence factors account for a small contributor to the company's long-term performance. The success of an acquisition is dependent on factors that are outside of the due diligence process. Nevertheless, it is still important to conduct a robust due diligence process to make sure the fit is right.

Getting the Right Fit

Remember, most due diligence processes conclude in the decision not to proceed with an acquisition. This verdict does not mean your company is unprepared for growth. It just means that, currently, there is not a fit.

Keep in mind, this process is about finding a strategic fit that benefits your entire organization, not about securing financial solvency.

Remember, most due diligence processes conclude in the decision not to proceed with an acquisition. This verdict does not mean your company is unprepared for growth. It just means that, currently, there is not a fit.

CHAPTER 3

The Impact of Selling Your Company on Customers and Employees

As a dedicated business owner, you are likely wondering how the M&A process and its outcome might affect the people who helped you grow your company to where it is today.

You must consider the impact of an acquisition on not just the business and its stakeholders, but also on your customers and employees who depend on your business.

This chapter will take you through the impact an acquisition will have on both these parties and cover some important questions to take into consideration.

How Selling Your Business Impacts Your Customers

Selling your business will inevitably have an impact on your customers. Your customers have come to rely on you and your products to make their lives easier, and they trust you to look out for their best interests. By selecting a buyer that will improve the customer experience, you will be honoring the trust your customers have in you.

Here are five questions to ask that will help you evaluate the impact of an acquisition on your customers:

1 Will the acquirer continue to offer and invest in your product, or must your customers migrate to a different platform?

Some acquirers will want to phase out your software and incentivize customers to move over to their software, leading to the eventual disappearance of your product. When this happens, your business's legacy is impacted and customers are faced with significant switching costs, as well as the headache of learning a new system.

> By selecting a buyer that will improve the customer experience, you will be honoring the trust your customers have in you.

2 Will customers continue to receive the same attention and service they received in the past?

Customers may notice a degradation in service if they are being absorbed into a bigger organization. Find out if customers will retain their support staff or if they will need to develop new relationships because of organizational changes.

3 When considering the business's long-term stability, is there risk of your company being resold?

Review the track record of your potential buyers. What happens to their companies post-acquisition? Some acquirers buy and sell companies, while some hold on to their businesses for the long-term. When a company is resold, there is an increased risk of churn as customers worry about the future viability of the business.

4 Will the acquirer enable you to increase the value you are able to provide to your customers?

Will there be opportunities to learn and employ new processes that will allow your company to better serve your customers? Find out if the acquirer offers professional development opportunities or access to best practices to help you maintain and improve your level of customer service. Consider also whether the acquirer will support product initiatives or user groups intended to better address customer needs.

5 How have customers of previously acquired companies fared?

Before you select an acquirer, get the perspective of like-minded leaders by asking to speak with sellers that have sold to them. Aim to ask direct, open-ended questions targeted at gaining a full understanding of the buyer's commitment to their customers. Whenever possible, it is also worthwhile to connect directly with the customers of acquired businesses and inquire about the impact of the acquisition from their perspective.

Do Your Due Diligence

Doing due diligence when selling your software company is a two-way street. You want to be sure that a potential buyer will treat your customers with the same professionalism and standards of care. Past behavior is a strong indicator of future behavior, so look for an acquirer with a proven track record of valuing their customers. By selecting the right buyer for your company, you will be honoring the trust of the customers that have helped you build your present-day business.

Some acquirers buy and sell companies, while some hold on to their businesses for the long-term. When a company is resold, there is an increased risk of churn as customers worry about the future viability of the business.

Employee Talent Development Post-Acquisition

Becoming an industry-leading company relies on the people who work there. That is why it is extremely important for businesses to invest in talent development. When considering a merger or acquisition, it is equally important that your potential acquirer feels the same way.

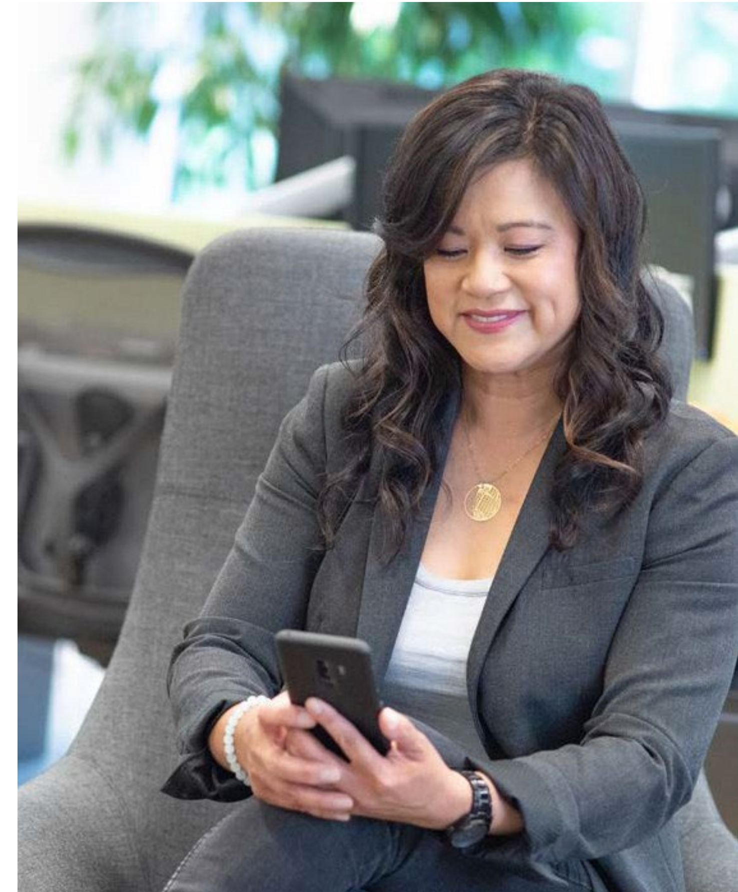
To help determine whether a buyer will develop company talent post-acquisition, here are some questions to ask:

What is the company culture?

It is crucial to get an understanding of your potential buyer's company culture. Do they reinforce the belief that what their employees do is important? Do they emphasize the value of learning and training? Will they provide you with opportunities to connect and collaborate with their leaders? All these factors help to create a culture that is focused on talent development. You should also consider other relevant factors that are specific to your software company.

Will the acquirer help you define a clear talent management vision?

A clear talent management vision includes assessing the values and goals that will support your strategic and operational business objectives. Having a strong team of employees will improve all areas of business, including the company culture, which will help drive the mission and vision of the company. To assess your potential buyer's talent management strategy, you should inquire about the programs in place for attracting, evaluating, developing, and managing talent.



How will the acquirer invest in your employees?

One of the key ways that businesses can position themselves for long-term success is by investing in their people. Your people are your greatest asset, and it is vital to help them flourish. Your acquirer should work with you to build multi-layer succession and talent plans, ensuring that your chosen team can fulfil your future objectives. Find out what tools and assessments will be made available to you, by your acquirer, to help develop employees and provide them with necessary training.

> If you choose to leave the business after its sale, it is equally important to have discussions about your professional goals and timeline.

Will the acquirer help you achieve your own professional goals?

If your desire is to remain with the business, your acquirer should work with you to realize your personal and professional goals. Be sure to inquire about the new roles and responsibilities that may be available post-acquisition. If you choose to leave the business after its sale, it is equally important to have discussions about your professional goals and timeline. After ensuring that you are in alignment with your potential buyer on the company's future, you will be able to move to the next phase of the M&A process: finalizing the sale.

CHAPTER 4

Finalizing the Sale and Future Growth

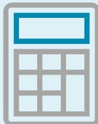
Congratulations, you've made it to the final leg of the M&A journey. Learn what you need to do next, when, you decide to cross that finish line with your company.

Now that you have a comprehensive understanding of the M&A process and its impact on your customers and employees, we will relay some tips on how to evaluate a sale, mistakes to avoid when selling your software company, and how to prepare for your close date. These tips will help you confidently finalize the sale with your acquirer and prepare for future growth.

Necessary Steps for Evaluating a Sale

Many of the topics covered in this guide so far will be key when evaluating the sale of your software company. The table below shows a high-level overview of factors you should consider when making your decision.

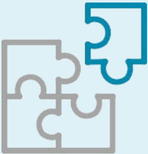
5 STEPS TO EVALUATE A SALE



1 Valuation
Be conscious of your client's asking price

2 Buyer
Vet your prospective buyer carefully

3 Offer
Assess the specs: consult legal council



4 Alignment
Is the offer in line with your client's values and business philosophy?

5 Long Term Lens
Will this deal give you what you want?

Mistakes to Avoid When Selling Your Software Company

Reaching the end of the M&A process is exciting. You have generated strong momentum for the future growth of your software company and are ready to finalize the sale.

Before you sign, however, it is best to consider some of the more common mistakes that software companies make when selling their business.

Waiting Too Long to Sell

Your company's value is determined by more than just its financials. It is determined by many factors that impact the market, including:

- The economy
- The industry's momentum
- Your nation's trading practices
- The evolution of your products

Your company's value is determined by more than just its financials. It is determined by many factors that impact the market.

For this reason, it is important to think strategically about timing. Your own corporate circumstances may change with time, but so will the environment around you. Understand all the variables and survey the market, then choose your moment and seize your opportunity.

Lacking Transparency

When you get close to a sale, prospective buyers will want to learn every aspect of your business, including your company history and future goals. As discussed in Chapter 2, due diligence should be expected.

Potential buyers will want to uncover everything, and you must be transparent about what they are likely to find. Remember that nobody will be surprised if your company has endured challenges or faced obstacles – most businesses do. But if these issues are exposed late in the process, there will likely be an impact on your financial agreement.

Selling to the Wrong Buyer

Acquisitions run the risk of failing if there is not a strategic fit. A software company sale is about more than just the sale price. Make sure that the buying company offers an environment in which your software company can thrive.

Preparing for Your Close Date

The big day is quickly approaching. You have connected with the perfect acquirer, negotiated the best deal for your software company, and locked down the purchase agreement. However, you are not done yet, because selling a software company is a unique process.

To ensure that the transaction goes as smoothly as possible, here are some key considerations to help you prepare for your close date:

Keep Communication Open with Your Employees

To maintain your employees' trust and loyalty, be open with them about the acquisition process and the reasons why you have made the decision to sell, when appropriate. In your announcement to your team, communicate the time you have invested into finding the right acquirer for your company.

To maintain your employees' trust and loyalty, be open with them about the acquisition process and the reasons why you have made the decision to sell.

Inform Your Customers About the Acquisition

Customers should be told about the acquisition in a thoughtful way. Your customers depend on your product to run their business every day, and they may understandably be quite nervous about a change in ownership.

Since software companies have specific needs, selling to an acquirer who is knowledgeable about your operations can make a world of difference to your customers. Not only will their industry awareness assist in mitigating feelings of uncertainty, it will likely also help with attrition.

Preparing for Change

When you make the decision to sell, you and your organization will need to be prepared for some change. Some acquirers may impose significant changes on the business and the organization, while others may not. As the business owner, you must understand this point clearly prior to the closing date, so you are not caught by surprise and can work closely with your employees and customers to communicate and manage these changes.

Selling your software company is a multi-step route that takes a significant amount of time and consideration from start to finish. Before you begin, it is important to learn about the differences between mergers and acquisitions, to determine which option is best for your software company. This includes learning how to improve your company's valuation and planning an exit strategy effectively.

From initial contact with a potential acquirer to finalizing the sale, there are many key steps in between.
It is imperative to spend time compiling details about your business for the information memorandum, learning how to negotiate the letter of intent, knowing what to expect during due diligence, and applying best practices throughout each of these stages.

Once you have decided to move forward with the sale of your business, you must consider the impact it will have on your customers and employees. Understanding how to communicate with these parties can help ensure a smooth transition during and after the sale. The right acquirer will also respect your business and its history and support your goals for future growth.

Chapman Associates is an Illinois licensed business broker registered with the Securities Department of the Secretary of State. We provide a range of intermediary services for sellers and buyers, including valuations, prospect searches, due diligence, and market packaging.

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