HOW TO GUIDE

banyan SOFTWARE

Finding the right fit

A 3-stage guide to selling your business

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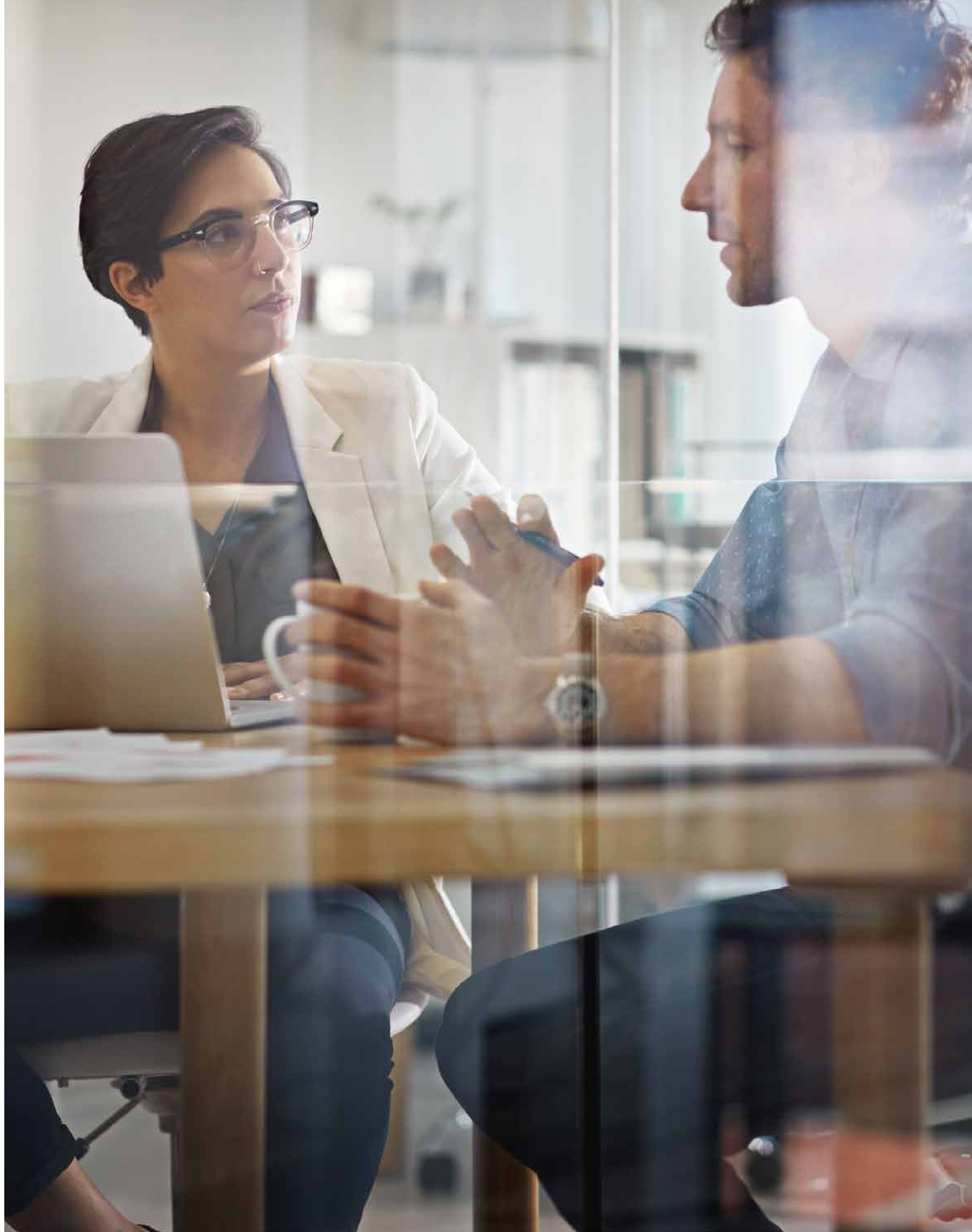
Selling your business is one of the most important decisions you will ever make. It requires careful planning and execution. We want to help make the process as smooth as it can be for you, your team, and your customers.

Read this guide if you're a business owner considering a sale, now or in the future. We'll take you through these three stages and provide helpful tips along the way:

1	2	3
Getting your business ready	Finding the right partner	Closing the deal

Let's get started.



1 Getting your business ready

Selling is the end-goal for many business owners. It should feel like a celebration for many years of hard work and risks taken that went into bringing an idea to a solution that positively impacts lives and the success of other businesses. When the time is right, whether you plan on staying active in the business or not, the best way to ensure a smooth transition is knowing what to expect and planning accordingly.

Know your timeline and goals

A sale can move quickly once the process gets underway, which is all the more reason to start planning now. Even though it's possible for a sale to close in as little as a month, owners often spend several years gathering information and building relationships with prospective buyers leading up to it.

Write down your priorities

We encourage you to articulate what's important to you. As you look towards your end goal, keep in mind the impact it will have across your business, your customers, your vendors and your team. Knowing your priorities will ultimately help guide you in choosing the right partner to carry your business forward.

> "After long discussions about the future of our business, we concluded that the best long-term decision would be to seek a strategic buyer. Our desire was to find a partner who would ensure continuity for our customers and staff."

Marvin Sauer, former owner,
Lightspeed Data Solutions

What potential buyers will want to know about your business

Buyers will want to understand the story of your business – where things started, where is the business today, and what the future holds for the business. If you can, start tracking the information buyers will inevitable ask for, so the story can tell itself.

Here are the key areas to focus on:

When should you bring in a partner?

Here are some reasons to consider:

- You want to accelerate growth
- You want to reduce personal financial risk
- You want added guidance and expertise
- You want to move on to your next adventure, either now or in the future, but ensure your business is setup for success

Financials

Financial statements provide a starting point to understand the historical performance of your business. Buyers will use financials to understand your revenue model, historical growth and profitability so that they are able to ask thoughtful questions about the future.

People

The most important asset of any software business is its people. Success is often built on healthy employee relationships with customers, vendors, and industry partners. Buyers are excited by businesses with experienced industry leaders, and a positive company culture with engaged employees.

Customers

Companies are only as strong as their loyal customers. Buyers will be looking at customer tenure, the number of new and lost customers per year, any reliance on key customers, and your ability to grow your solution within customers over time.

Industry

You know the nuances of your industry, customers, competition, and products better than any prospective buyer. Share your thoughts on the market opportunity, the competitive landscape, and insights on any key trends.

2 Finding the right partner

During this stage, selling your business becomes less of an abstract concept and more of a strategic step forward. The key is balancing the demands of the sale process while continuing to manage the day-to-day of running a business.

Evaluate potential buyers

There are distinct differences between the types of buyers that could one day take over the reigns. Some are looking for a short-term financial outcome, while others want to continue to operate and grow the business indefinitely.

Consider these key comparisons when starting your research:

Strategic buyers

Strategic buyers aim to add a missing component to their existing company. They may be your competitor, customer, supplier, or in an adjacent market. Their goals vary but most will seek synergies in combining with your business either by cutting costs or assuming increasing revenue (by expanding into a new geography or cross-selling solutions, for instance). It's key to understand a strategic buyers plan and how that impacts your team, solutions, company identity and culture; it's common for strategics to be interested in your solutions or team, but not often both.

Private equity

Private equity (PE) firms will often put a considerable amount of debt on the business after the sale, which is why they look for businesses with predictable future cash flow that they can rely on to pay off the debt. PE buyers may want to grow the business or fold it into another company. Generally though, they will seek to resell the business within 4-5 years so that they can return capital to their investors.

"Ask questions. Speak with other owners who have sold to that buyer. Before making any big decisions, you'll want to have confidence in who you're working with and how they'll carry on your legacy."

Vaughan Mulcrone, former owner of Next Chapter Technology (NCT)

Independent sponsors

There are many opportunistic buyers who desire to own an established, profitable business, but don't possess the funds to acquire it. Generally, they'll first find an owner seeking an exit, agree to terms on valuation and deal structure, then work in the background to raise funds all while conducting due diligence. In this model, there is inherent risk in the inability to raise the necessary capital or garner investor interest to deliver on agreed upon terms late in the process.

Buy and hold investors

Buy and hold investors take a long-term approach to investing and growing businesses because they are not looking to repackage the business for an eventual sale. Their beliefs are rooted in making decisions today that will benefit the business in the long-run. Often operating under a decentralized model, they provide necessary capital, access to best practices, benchmarking, and resources for employees and customers to invest and grow the business well into the future.

Banyan is a permanent buy and hold investor exclusively focused on enterprise software.

Lean on experts and peers for advice

Consult with your business network and seek advice from peers or experts who have experience selling a business. If they've been through a similar process, they'll be able to offer valuable insights and perspectives in a fraction of the amount of time you'd take to figure it out on your own, whether by lengthy research or costly trial and error.

Do you need an M&A advisor?

The short answer: it depends. If you have information easily-accessible, have an appreciation for the value proposition of your business, and have worked with experienced advisors or lawyers in the past, it may not be necessary. M&A advisors may help put together a list of suitable buyers, craft the company story, and coordinate a transaction, but it may end up being more costly and taking more time to educate M&A advisors on your business versus working directly with potential partners.

Look beyond the numbers

The buyer offering the highest valuation can seem like your best option, but there are many other factors to consider when choosing the next home for your business. Look further into:

- How will they carry on your legacy and continue to grow the business?
- How will they treat your customers and employees?
- How will they ensure a smooth transition post-sale?
- How long is a typical sale process?
- What is their track record for successful transactions?

When choosing a partner to enter into a process with, time and certainty to close are critical factors to consider.

It's important to find a partner who will work with you to make sure the deal structure and expected payout is crystal clear, especially to ensure alignment in the attainability of earn-outs and contingent payments. It's not uncommon to see a lack of transparency across various acquirers. Trust built over early stage conversations is key; when the finer details inevitably become clear in later stages, the distraction and lost time associated with a failed process can be extremely costly.

Max Risen, Head of M&A at Banyan

Understand valuation models and key metrics

Arriving at a business' valuation is a complex process – and rightfully so, with all the factors that feed into it. There are a few key metrics, however, that will cut out some of the complexity by having them at the ready for you to have handy and for future buyers to see.

Know the numbers that matter most

Try to be in a position to confidently share financial statements for the previous 3 years, including annual revenue, the percentage of recurring revenue, profitability, customer retention, as well as a basic forecast. All of these details factor into your business valuation so be sure to keep them updated as you move through the pre-sale process.

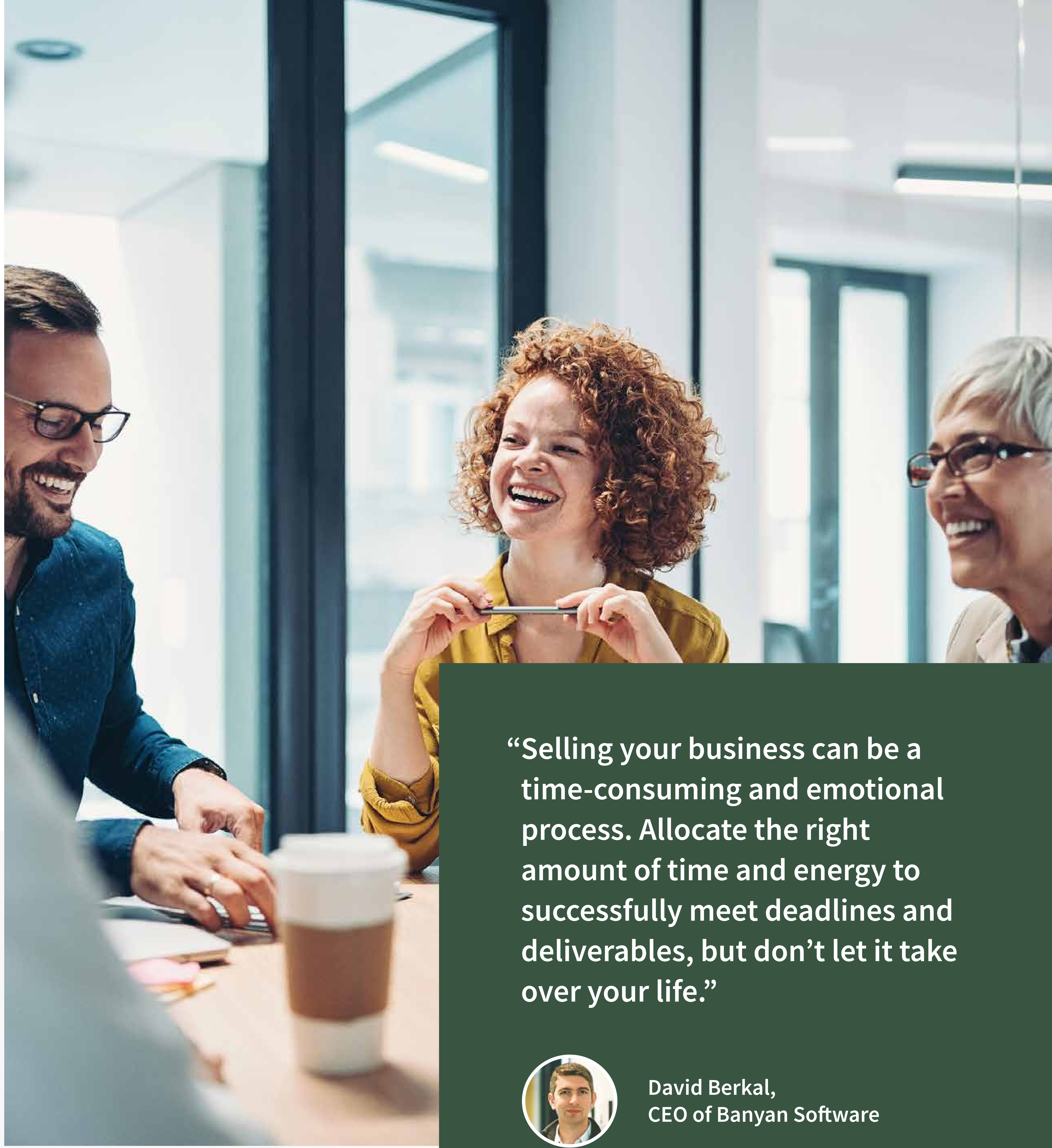
Create a compelling story

Like selling a house, increasing your business' curb appeal can attract more buyers and translate to a higher sale amount. A business worth buying often involves keeping employees and customers happy and hopeful for what's to come. It can also include:

- Healthy and growing customer base
- Training and retaining high performing staff
- Modern tools, processes and technologies
- Strong partnership
- Clean and transparent financials

When to tell your team

Whenever it feels right. Often, owners tell their leadership team that they are considering selling so they can assist with diligence. Other times, owners inform their leaders once a sale is nearing completion. Confidentiality and trust is paramount, especially when focusing on maintaining healthy long-term relationships with team members and customers.



"Selling your business can be a time-consuming and emotional process. Allocate the right amount of time and energy to successfully meet deadlines and deliverables, but don't let it take over your life."

David Berkal,
CEO of Banyan Software

3 Closing the Deal

Once you've found a buyer that you can confidently trust and easily collaborate with, it's time to put pen to paper. Once all high-level points are agreed to, it usually takes 12 weeks to complete the sale. This stage might be time-consuming but it's a necessary means to an end, which is creating a solid foundation for building future growth.

Get to know each other

Before diving into the details, it's important to spend time getting to know your buyer, and vice-versa, so you can start to build a solid foundation for your relationship going forward. This might involve meeting in person, sharing basic company information, and signing a confidentiality agreement.

It's important to establish a relationship long before the deal closes. Having a partner from day one who understands your business and has a shared view of what's next will help avoid any disruptions to your team and customers.

Arun Srinivasan, Operating Partner at Banyan

Work toward a mutual goal

This is a period of mutual discovery – not an investigation – with the goal of finding a mutual fit between the buyer and seller. Being open and responsive during these first few steps can not only set the tone for the entire relationship, but it can also get you to the valuation stage faster.

"Disclose the good and the not-so-good. Being open and honest throughout the process will help to prevent any surprises or misunderstandings in the later stages of the sale."

Nina Rosete, former owner of Data & Design

Firm up an offer

Your buyer may want to do some deeper discovery before they finalize the offer terms. Making yourself and your team available to answer any outstanding questions will help find alignment and gather all the information they need to issue a letter of intent (LOI).

Ensure a no-surprise experience

Buyers naturally want to hear about future upside and exciting new opportunities. So, while it may be counter-intuitive, it's best to share any material risks or concerns regarding the business. These will often come up during the diligence process anyway so it's best to lay it all out on the table early on.

All eyes on the LOI

The LOI outlines the terms that will end up in the final Purchase Agreement, including your payout and key standard legal terms. Review it carefully with your team to ensure there are no misunderstandings heading into the due diligence process.

Share the great news

As the transaction is nearing certain completion, you can start to let your employees know about what's coming – to build excitement and quell any concerns. Hosting a company town hall followed by an all-staff communication is a great way to ensure everyone has all the details.

Overview of the sale process with Banyan

0-30 days

- Focused on understanding the business in-depth: financials, technology, people, and strategy
- Often includes spending time together in-person
- Surfacing any challenges early on to ensure a no-surprise experience later

30-60 days

- Completing confirmatory and follow-up items
- Starting the legal process, including a first draft of the Purchase Agreement

60-90 days

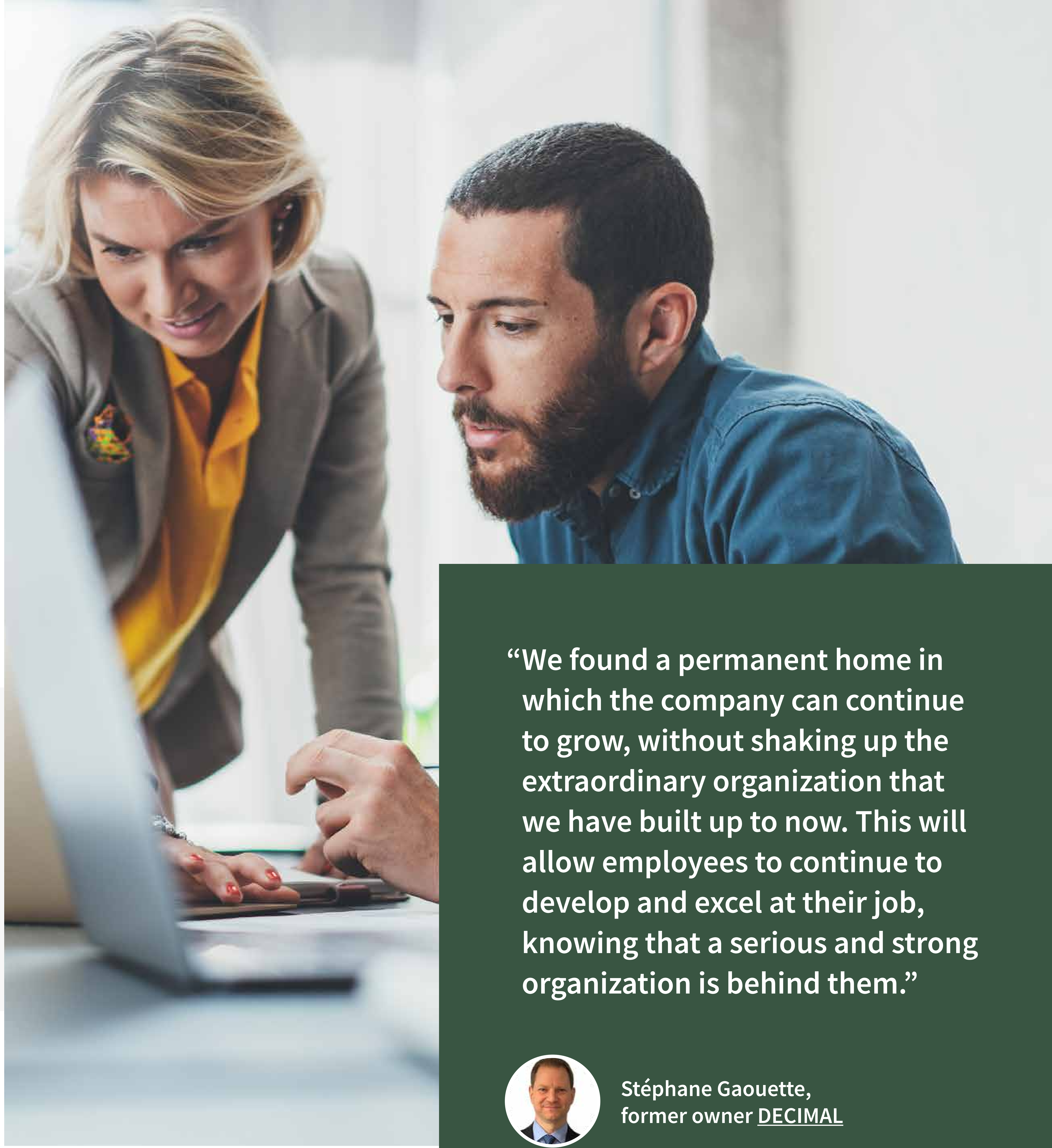
- Finalizing the Purchase Agreement and Disclosure Schedules
- Aligning on employee communications and often hosting a company town hall

Close the transaction

This is the final step of the sale process. It's when you can start to integrate key administration and financial processes with your buyer, finalize contracts, and sign the Sales and Purchase Agreement (SPA). The deal officially closes when everything is signed and you receive the funds. Then, it's time to celebrate and look forward to the future.

Celebrate and reflect

Selling a business isn't always easy or straightforward. It can be a long and winding road, but once you get to the end, you can look back at all you've accomplished and find comfort in knowing your legacy will live on.



"We found a permanent home in which the company can continue to grow, without shaking up the extraordinary organization that we have built up to now. This will allow employees to continue to develop and excel at their job, knowing that a serious and strong organization is behind them."

Stéphane Gaouette,
former owner DECIMAL

Defining key documents

Throughout the sale process, you'll be asked to prepare or execute a number of documents to make the final deal official.

Here's a list of documents you'll likely come across:

Confidentiality Agreement

A document that outlines the parameters of protecting sensitive and confidential information shared between the buyer and the seller, to prevent the risk of it being exposed to outsiders.

Preliminary Information Request:

A document that requests key information to be used in the early stages of the valuation process.

Sales and Purchase Agreement (SPA):

A legally-binding contract that marks the official closing of the transaction. This agreement finalizes all the terms and conditions related to the purchase and sale of a company's assets or shares, including payment terms, representations and warranties, key assumptions and documents shared throughout diligence, any provisions, and much more.

Confidential Information Memorandum (CIM):

A marketing document that provides detailed information about the business to the buyer. While an M&A broker would prepare this for a client, it typically isn't necessary if a seller is working directly with a potential buyer.

Indication of Interest (IOI) or Letter of Intent (LOI)

A document that outlines the payment terms, conditions, and assumptions in purchasing the business, including other legal terms such as a timeline of exclusivity in completing the deal.

This process can differ between buyers, some will offer a higher-level IOI before conducting further diligence and presenting a more detailed LOI.

Keys to a smooth sale

You've spent a significant amount of time and resources building your business into what it is today, no doubt with highs and lows along the way. Here are some key takeaways to consider as you embark on the next stage of your journey.

Plan ahead

When it comes to selling your business, it's never too early to start. Take small, strategic steps like organizing your financial information, tracking metrics, creating curb appeal, and keeping your customers and employees excited about what the future holds.

Choose carefully

Accepting the fastest or highest offer can result in a culture mismatch, unmet expectations, or worse, a broken deal. One of the most critical decisions you can make is choosing the right buyer, so be extra thorough and patient until you find one that you're confident will carry on your legacy, take care of your employees and customers, and provide the business with resources for long-term growth.

Look forward

Throughout the process, stay grounded in your end-goal: finding the next home for the business you've invested your time, money, and energy in. Keep coming back to this as you encounter new tasks or challenges throughout the three stages we've outlined in this guide. The right buyer will build on what you've started and work with you to ensure the process is a smooth one.

Ready to grow into your best future?

Banyan Software is proud to provide a permanent home for enterprise software companies with tenured teams, happy customers, strong market positions, and track records of profitability. While the decision to sell your business is never easy, the process can be. Let's connect for a quick, confidential chat about how we can help, no matter what stage you're at: **info@banyansoftware.com.**

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