BOIS CAPITAL

Tech Focused, Client Driven
Technology Investment Bank

Smart M&A Series from Bois Capital Issue 2

How to Respond to an Unsolicited M&A Offer

On average two out of three technology businesses receive at least one unsolicited acquisition offer during their growth phase. This is as true for small tech companies as it is for big giants like Google and Groupon. For example Groupon turned down $6 billion offer from Google and instead went IPO. And even though it lost half of its valuation post IPO, it was still valued at more than $6 billion that Google had offered it. In its early days Google itself turned down a $3 billion acquisition offer from Yahoo! and asked for $5 billion instead, which Yahoo! refused to pay. Needless to say Yahoo! later realized that even $5 billion was a very sweet deal when Google's market cap hit $500 billion whereas Yahoo! got sold to Verizon for little less than $5 billion.

Bois Capital has seen that unsolicited offers are hardly ever the best offers. In fact in the process of writing his book **Venture Capitalists At Work** Tarang Shah, a Bois Capital Managing Partner, heard from a number of VCs behind billion dollar startup successes a very interesting rule of thumb for an exit: "if someone offers you the value that you can get two years from now, it's worth considering that offer." This is one perspective.

The other perspective is that unsolicited offers are usually the lowest value you can get in a non-competitive (non-auction) scenario. And one bitter truth we have learned is that when you are working with only one offer, you are negotiating from a distinct position of weakness. The acquirer knows it and will take full advantage of it in - both in valuation and deal terms.

This is not to say that an unsolicited offer should be turned away as it is often a strategic acquisition by a firm that sees real value in the underlying asset and ultimately might represent an ideal home for the business. However in the absence of a formal M&A process, multiple bidders, and the "voice of the market", the acquired company is almost always leaving substantial money on the table as the acquirer holds all the power in terms, structure, negations, and ultimate valuation.

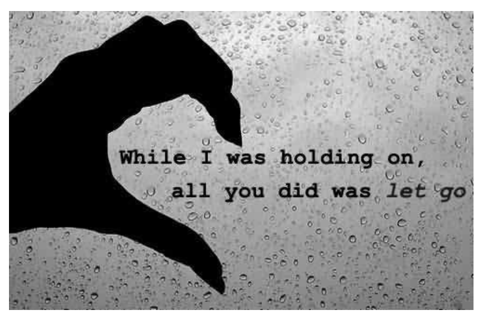
This is why at Bois Capital we are often pulled in to unsolicited offer situations where we are asked to run a discrete well-orchestrated, extensive and competitive auction process to maximize the valuation and overall outcome for the management and investors. Here is how to interpret and respond to unsolicited offer:

1. Know Your True Value

As your company hits the growth spurt, you are guaranteed to get some attention from venture investors, private equity firms and strategic partners/acquirers. Some of them will venture to float verbal indication of acquisition interest whereas others may try to pre-emptively drive you down their acquisition process. Whether you choose to entertain an investment or acquisition, don't get caught in a situation where you are unprepared to objectively determine your company's true worth and potential. You can stay current and prepared by routinely seeking valuation guidance from the trusted investment banker. At Bois Capital, we have a battle-tested valuation model that takes into account your financial and growth profile, revenue and EBITDA multiples and key strategic metrics.

We map them against similar metrics of the publicly traded companies, recent acquisitions in your space, and our own experiences in the trenches and the similar deals we supported. This can provide you with a very good valuation estimate and range that form the core of well-informed discussions and negotiations with potential investors and acquirers. This can also serve as a primary filter to weed out curious cats, fire-sale fishers and non-serious investors/buyers.

2. Don't Enter the Process without Backup Options



Every year we get approached by handful of companies that were burned by going into an M&A process with an unsolicited offer but without any backup options. In one recent case, the potential acquirer took the company through entire process including draft purchase agreement but abandoned the process right before signing the final agreement for reasons known at the beginning of the process (i.e. customer concentration or strategic fit concerns).

That left management and investors feeling taken advantage of and they were bitter and exhausted. Though you may consider "keep growing the company" as a good backup option, your very reason to enter into the process was to see the deal through. For that you need to have solid backup options. The best way to create compelling offers and solid backup options is to run a full competitive process. That's what we did for one of our clients in the telematics space where it had gone through a long and unsuccessful M&A process before partnering with us.

3. Run a Competitive Process with Full Commitment

We have experimented with what we call 'limited' or 'one-off' outreach approaches. It is a short process where, following an unsolicited offer, the Company engages an investment banker to quickly approach a few of its most likely buyers to create competing offers. While it will certainly expand the pool of engaged potential acquirers, frankly speaking we have not seen this approach deliver very good results primarily because the best offers do take sharp positioning and good negotiations. And that is a function of numbers, time, and a formal process and committed messaging (blind profile, Confidential Information Memorandum, virtual data room, etc.). Our most successful clients ran a focused, competitive outreach process with the management and its board's full commitment. The results were obvious and outcomes successful.

The chart above shows an actual process we ran for a client where we approached 118 targets across five different sub-sectors in three major geographies: USA, Europe and APAC. We ended up with seven targets that went into pre-LOI dataroom and ended up with three offers. We were able to pick the best terms from each offer and negotiate with the preferred target to sweeten the final offer. The client wouldn't have been able to get this valuation without embarking on such systematic and comprehensive sell process with us. They were also able to enter in to negotiations from a position of strength, driving to very favorable terms with the confidence that they had backup options so could optimize the offers without fearing the risk of not able to complete the deal. Finally we avoided the buyer potentially playing any 'games' in the final closing as the buyer knew that we had couple solid alternatives in case they try to change key deal terms at the end. This last point cannot be overemphasized. It is one thing to get a strong LOI/offer but another to work through diligence and final negotiations and retain the initial proposed value. When the acquirer knows they are the company's only option, they have a strong position and we often see deals being reduced for one reason or another through diligence.

In summary, any good business showing rapid growth is bound to be rewarded with unsolicited acquisition offers along the way. However, these unsolicited offers are always made with the best interest of the acquirer in mind. You need to evaluate them carefully to make sure that they are in your best interest as well.

If you are serious about exploring the M&A, then you should receive well-informed valuation guidance from the trusted investment banker and create solid backup options by running a comprehensive competitive auction process with a banker that is expert in your sector. You can't go wrong with that.

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About Bois Capital

Bois Capital is an independent investment bank focused exclusively on the technology sector. The Managing Partners have extensive corporate finance experience combined with a deep understanding of technology.

The Managing Partners have worked on major corporate finance transactions and developed technology products, invested in technology companies and led divisions of billion dollar public technology companies.

The team has extensive corporate finance experience at:

WHITE & CASE   ERSTE BANK   BARCLAYS
AGILE EQUITY   Bank of America

The team has 50 years of combined experience in developing products, marketing technology products and investing in technology companies at:

Alcatel·Lucent Bell Labs   QUALCOMM   ERICSSON
SoftBank   RADVISION Delivering the Visual Experience

This extensive technology experience enables Bois Capital to understand a client's technology at a deep level, articulate the strategic technological fit with strategic acquirers and find strategic acquirers that might not be obvious.

Bois Capital works internationally, sourcing acquirers from Asia, Europe and North America and leveraging its extensive global network of senior executives.

Bois Capital provides technology sector specialization, international senior level connections and a Managing Partner leading each transaction on a day-to-day basis. Bois Capital acts for its clients located throughout the world from its offices in New York City and Newport Beach.

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