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Liquidity event essentials

By Joel Cox

We work with tech founders and venture capital general partners as they prepare for an exit deal through a trade sale or IPO. It is often the first time our clients have been involved in M&A or an IPO.

Working with someone who is doing an exit deal for the first time is always very rewarding and it is usually where we can offer the most value as an adviser.

I was sitting in a management presentation for a deal a few months ago and it made me reflect on a few key messages that I think all founders and general partners should consider as they take a company to exit. My thoughts were:

- Never think a question is stupid when approaching M&A or an IPO. The founders who don't ask questions because they are afraid to look naive have the most stressful experience. Advisers are working for you and are there to answer any question. Most importantly, it is difficult to think strategically without a detailed understanding of the process and best practice and without detailed information as to your alternative options.
- Face-to-face meetings are becoming more rare, but they are useful and should be prioritized wherever possible. Particularly where you are selling to an offshore buyer which is increasingly common for venture backed companies. Most offshore buyers will plan a due diligence trip to visit you once a process kicks off, however, it might make sense for founders to visit them earlier or at a later stage during a process. Video conferences should be prioritized as well rather than conference calls.
- The management presentation at the outset of a M&A process, or an investor roadshow for an IPO, should be a key focus for all sellers and for the board of a target. It is important to prepare, but that does not mean it should be scripted. It is also different to a VC pitch and founders should appreciate the difference. In particular, understanding the strategic objectives of a buyer (or institutional investors) is crucial and this is more complex than assessing what a VC general partner needs in a pitch. A pitch is more formulaic than a M&A management presentation or IPO roadshow.
- The timetable is imperative in any M&A or IPO process to ensure a seller maintains momentum. Setting a realistic timetable upfront is important. Sellers should ensure advisers and bidders keep to the timetable unless there is good reason otherwise.
- The term sheet is a stake in the ground which you should assume will not be revisited. It is blasphemy in M&A land to revisit terms settled in a term sheet or Letter of Intent, which first timers often do not appreciate. For that reason, sellers should take time to get a term sheet right and must seek counsel on it.
- Take trusted advice get a reference for a banker, lawyer and accountant from someone who is "deal smart" and who has done M&A or an IPO with them before. There is considerable variation in the quality of advisers available in Australia. There is also a range of deals, whether because of the sector, size or type of process, where you will need a specific type of adviser. Doing your homework on this is important. Ideally, VC general partners and founders will build their relationships with advisers well in advance. For example, while we are naturally biased, we think startups should always assess the M&A and IPO credentials of their lawyers when appointing them at seed or series A stage.
- Never count your chickens before they hatch we always recommend that venture-backed clients ensure they are sufficiently funded or run a venture financing process in conjunction with a sale or IPO process. We also counsel against buying flash cars or beach houses in advance of doing a deal maintaining options is usually imperative to success of an exit deal. Finally, we recommend a subcommittee of our client's board (including one founder) be

responsible for a sale process or IPO so as to limit distraction for founders from the process. Distraction from a sale process can kill startups.
