

*William Blair*

January 2024

# End-to-End M&A: From Inception through Integration

# Introduction

## Russ Dunlap



Russ Dunlap is a Managing Director in William Blair's Tech-Enabled Services Investment Banking team and is based in Chicago. Russ focuses his time on the services and technology businesses that serve the Human Capital Management sector.

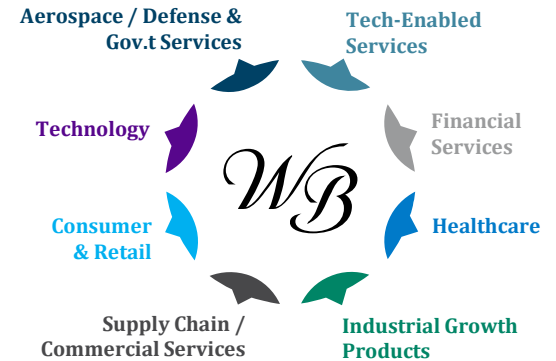
He joined William Blair in 2012 and has advised numerous clients, public and private, on merger & acquisition and capital raising transactions.

Email: [RDunlap@williamblair.com](mailto:RDunlap@williamblair.com)

## William Blair Overview

### Premier, Global Investment Bank

Leading independent private partnership with globally-integrated advisory capabilities



## Select Transaction Experience

<p>Not Disclosed</p> <p><b>ALKU</b></p> <p>has received a majority investment from</p> <p><b>NMC</b> NEW MOUNTAIN CAPITAL</p> <p>May 2023</p>	<p>Not Disclosed</p> <p><b>MILESTONE</b></p> <p>a portfolio company of H. I. G. Capital</p> <p>has been recapitalized by</p> <p><b>THE HALIFAX GROUP</b>   <b>20</b> Impact</p> <p>December 2022</p>	<p>Not Disclosed</p> <p><b>talent systems</b></p> <p>a portfolio company of Callitus Equity Partners</p> <p>has received a majority investment from</p> <p><b>REDBIRD CAPITAL PARTNERS</b></p> <p>August 2022</p>	<p>Not Disclosed</p> <p><b>GRI</b></p> <p>a portfolio company of Bain Capital</p> <p>has been acquired by</p> <p><b>PROUnlimited</b></p> <p>a portfolio company of EQT and Harvest Partners</p> <p>May 2022</p>
<p>Not Disclosed</p> <p><b>ELEVATE</b></p> <p>a portfolio company of EQT</p> <p>has been acquired by</p> <p><b>LRQA</b></p> <p>a portfolio company of Goldman Sachs Asset Management</p> <p>May 2022</p>	<p>Not Disclosed</p> <p><b>VISTA</b></p> <p>a subsidiary of Evidon Healthcare</p> <p>has been acquired by</p> <p><b>INGENOVIS HEALTH</b></p> <p>a portfolio company of Fraxion Capital Partners and Corwell Capital</p> <p>April 2022</p>	<p>\$1,100,000,000</p> <p><b>EMPLOYBRIDGE*</b></p> <p>has been acquired by</p> <p><b>APOLLO</b></p> <p>July 2021</p>	<p>\$760,000,000</p> <p><b>ThePlanet Group</b></p> <p>has merged with</p> <p><b>PROPHARMA GROUP*</b></p> <p>May 2021</p>

## A Snapshot of William Blair

- 24** Offices worldwide
- 675+** M&A advisory transactions since 2020
- ~2,000** Employees
- ~700** Investment banking employees
- 75%** Sell-side / buy-side engagement mix
- ~70%** Repeat clients

## **M&A is a Powerful Strategic Tool for Businesses**

*M&A provides multiple benefits when done correctly*

*M&A to Enhance  
Business Growth*



*M&A as an  
Attractive Path  
to Liquidity*

# M&A as a Growth Lever

# M&A as a Growth Lever

## M&A to Enhance Business Growth



### M&A Strategy

A well-defined M&A strategy that ties into the business' broader growth strategy is critical



### Evaluation

Establishing targeting and evaluation processes in-house and with outside advisors can ensure efficiency and prudent investment assessment



### Negotiations and Transaction Execution

Reaching a mutually acceptable deal for all parties and stakeholders, while executing thoroughly and efficiently

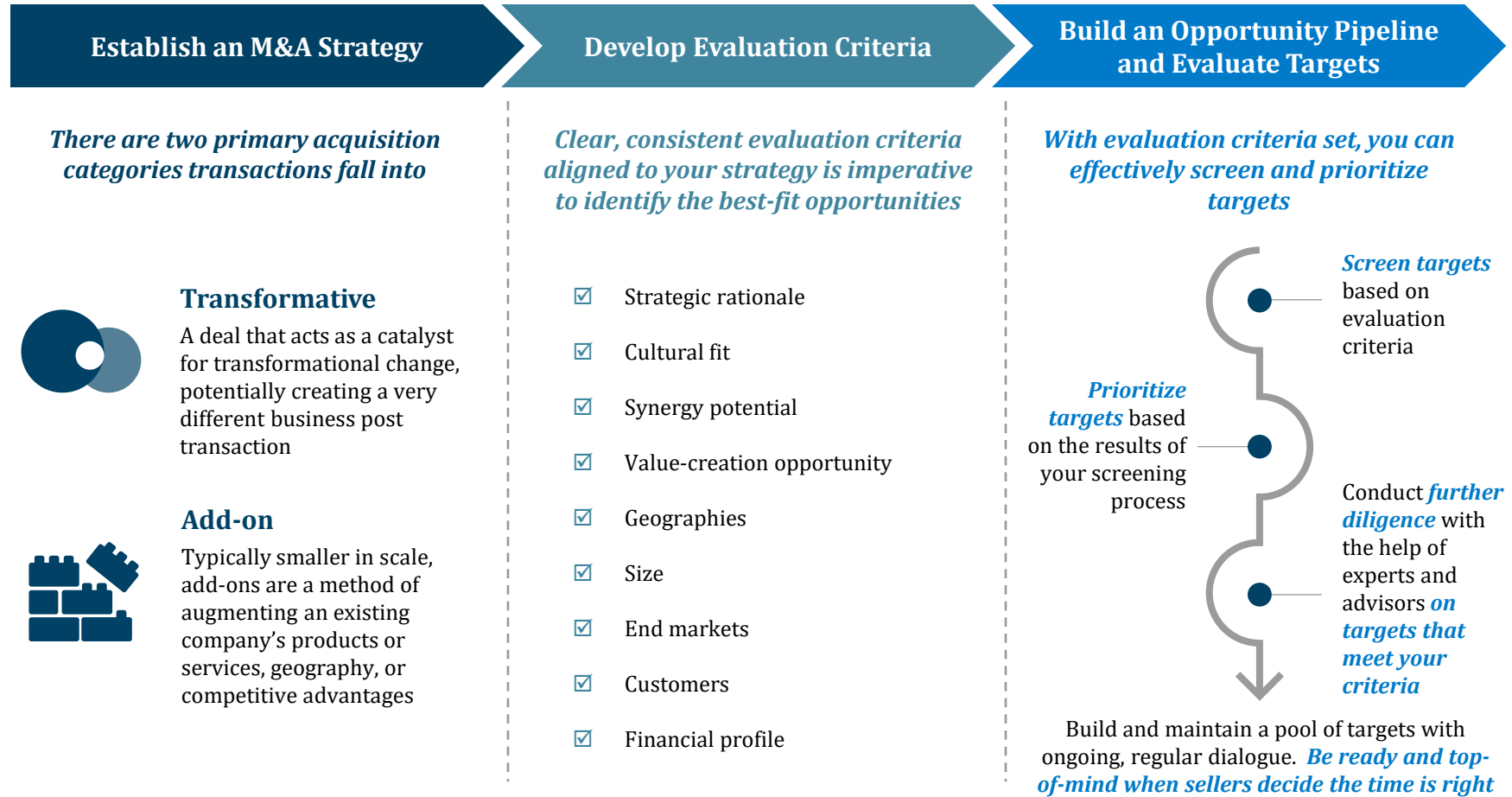


### Integration

Creating a detailed integration plan helps to avoid missteps and ensure full value capture

# M&A Can Be a Powerful Growth Lever

Management teams can augment their company's growth via M&A



# Negotiating and Transaction Execution

*Effective negotiations to drive attractive deal terms are key to realizing the expected benefits of an acquisition*



## Considerations

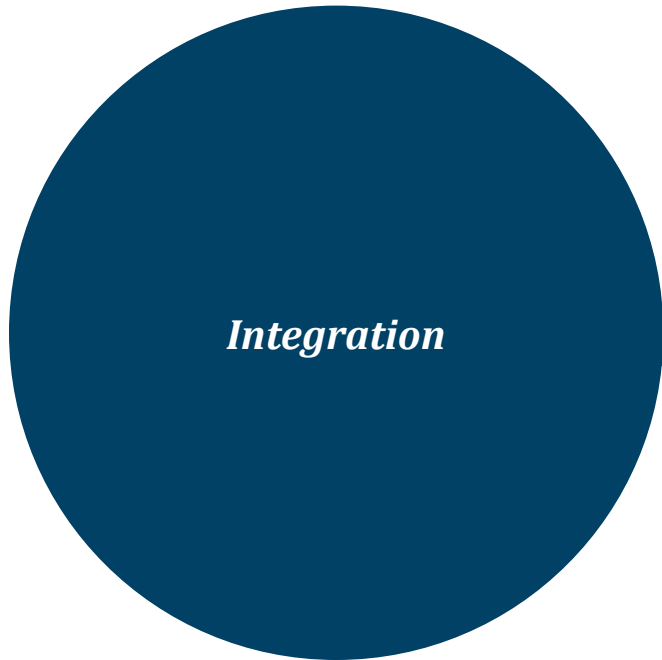
Negotiations can be a complex and dynamic process given there can be **many parties, interests, and issues involved**

## Keys to Success

- ✓ Set key objectives
- ✓ Understand your counterparties, all stakeholders, and your alternatives
- ✓ Engage high quality advisors
  - Legal, accounting, M&A in some cases
- ✓ Perform thorough diligence
- ✓ Maintain discipline
- ✓ Appropriately manage communications
- ✓ For a deal you want to do, agree on price and terms that treat all parties fairly and set you up for success

# Integration

*Thoughtful integration efforts are the catalyst for the intended value creation plan*



## Considerations





Integration requires a **high degree of coordination across the two transacting organizations** to help enable smooth, efficient value creation

## Keys to Success

- ✓ Clear communication of goals of integration
  - Revenue synergy, cost consolidation, etc.
- ✓ Ensure alignment among stakeholders
- ✓ Establish clear operational and governance structures
- ✓ Assign roles and responsibilities
- ✓ Monitor and measure progress and performance
- ✓ Maintain focus and ensure consistent execution



# Financing and Structuring M&A

 <b>Cash</b>	 <b>Debt Financing</b>	 <b>Equity Financing</b>	 <b>Earnouts</b>
<p><b>Cash on Hand</b></p> <p>Use cash on the balance sheet generated by the operations of the business</p>	<p><b>Bank Debt / ABL</b></p> <p>Typically secured by the value of the company and/or its assets</p> <p><b>Cash Flow Lending</b></p> <p>Provided by banks and non-bank lenders, typically based on a multiple of EBITDA</p> <p><b>Seller Note</b></p> <p>Seller agrees to receive a portion of the proceeds in a series of debt payments</p>	<p><b>Seller Rollover Equity</b></p> <p>Seller may invest a portion of the proceeds as equity into the new deal</p> <p><b>New Equity</b></p> <p>Fresh equity capital from new investor(s)</p>	<p><b>Benefits</b></p> <ul style="list-style-type: none"><li>✓ Encourages performance</li><li>✓ Manages price risk</li><li>✓ Manages cash flow</li></ul> <p><b>Considerations</b></p> <ul style="list-style-type: none"><li>✓ Selecting measurement criteria</li><li>✓ Tradeoff between measurement and speed / effectiveness of integration</li></ul>

*A combination of these financing source may be warranted depending on the size, type, and terms of a transaction*

# M&A as a Path to Liquidity

# M&A Provides Opportunities for Liquidity

## M&A as an Attractive Path to Liquidity



### Understand Transaction Options and Types of Buyers / Investors

Understanding the type of transaction that best fits your business situation and ownership desires helps to inform strategy



### Prepare for Success

The M&A process can be intensive, knowing what to expect and preparing for success are critical



### Select The Right Advisors

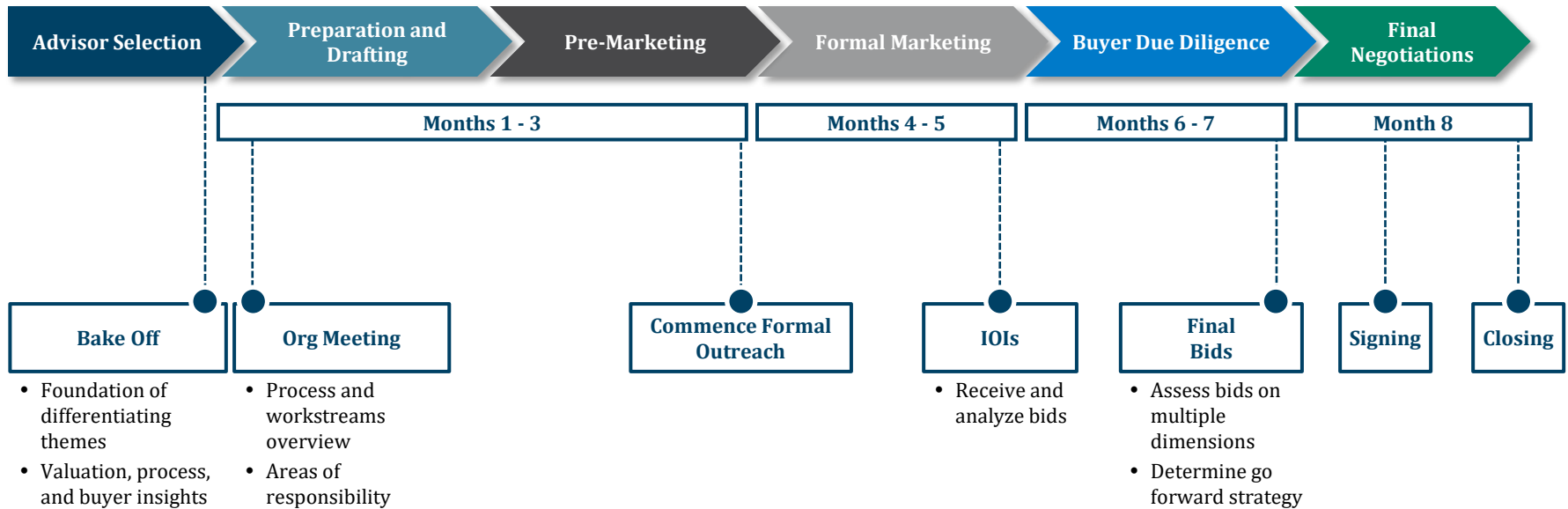
Identifying the right advisors to guide you through the complexities of an M&A process can help ensure a successful transaction



### Follow a Rigorous Process

Execute a deliberate and disciplined process to achieve a premium outcome

# Illustrative M&A Process Timeline



## Selecting the Right Advisors is the Foundation for a Successful M&A Process

### Key Consideration when Selecting an M&A Advisor



#### Experience in the Relevant Sector

Demonstrated track record of recent and relevant successful transactions in the sector



#### Strong Grasp on How to Position Your Company

Clear understanding and appreciation for the differentiating elements of your Company's story

*Ultimately, selecting an advisor you trust and have aligned incentives with is perhaps the most critical consideration*



#### Buyer / Investor Familiarity

In depth knowledge of and connectivity with the relevant buyer universe



#### Alignment on Valuation Expectations

Sophisticated, multi-faceted approach to supporting a valuation for your company



#### Demonstrated M&A Expertise and Insights

Expertise, experience, and insights in M&A processes and market conditions



#### Process Timeline and Design

Thoughtfully curated process strategy on a timeline that aligns with your transaction goals

## Preparation and Drafting are Critical for a Smooth Process

### Information Gathering



Org Meeting



Banker Business Diligence



Data Room Preparation

*Critical and ongoing phase of the process*

### Internal Prep Work



Financial Model



Marketing Materials



Discrete Analyses Package

*Create marketing materials and discrete analyses to present a compelling, cohesive investment opportunity*

### Third Party Prep Work



Quality of Earnings (*almost always*)



Market Study (*occasionally*)



Tech Study (*rarely*)

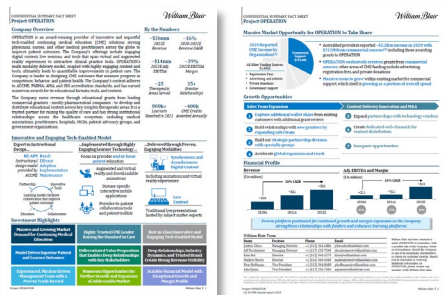
*Third-party validation to reinforce investment themes and facilitate deep, effective, multi-party diligence*

***Thorough preparation well in advance of formal marketing is crucial to maximize optionality and process speed while in market***

# Overview of Marketing Materials and Key Analyses

## Banker-Led Workstreams to Ensure an Effective and Successful Process

### Company Overview (Teaser)



- Brief introductory presentation – can be named or blinded – distributed pre-NDA to potential investors to gauge initial interest

### Creative, Customized Marketing Materials



- Guide in-depth buyer discussions and provide Confidential Information Presentation required for initial indications

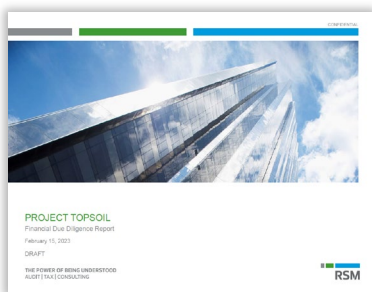
### Financial Modeling and Analyses

	Actual	Actual	Actual	Budget	Projected	Projected	Projected	Projected	LYM	CAGR	
(\$ in 000)	2018A	2019A	2020A	2021E	2021F	2022F	2023F	2024F	2025F	2027F	2028F
Gross Revenue	\$ 87,964	\$ 10,823	\$ 100,871	\$ 108,135	\$ 118,245	\$ 126,205	\$ 135,518	\$ 145,000		8.0%	8.3%
School Instructional Costs and Services % of Gross Revenue	61.907	64.993	70.781	75.914	83.678	88.661	93.286	98.056		8.0%	8.3%
Net Revenue % of Revenue	\$ 24,054	\$ 28,914	\$ 30,090	\$ 32,222	\$ 35,568	\$ 37,544	\$ 40,544	\$ 44,141	\$ 50,150	8.0%	8.1%
Cost of Goods Sold	4,056	4,240	4,348	4,556	4,796	5,069	5,413	5,847	4,803	5.4%	5.5%
Gross Profit Gross Profit Margin (2020)	\$ 21,968	\$ 24,674	\$ 25,742	\$ 27,666	\$ 30,772	\$ 32,475	\$ 35,131	\$ 38,494	\$ 45,347	8.4%	8.4%
Gross Profit Margin (2020)	24.9%	24.2%	25.8%	25.8%	26.8%	26.8%	26.8%	26.2%	n/a		
Operating Expenses % of Revenue	7.8	10.0	10.7	10.6	10.2	9.9	9.6	9.3	8.9	11.6%	10.5%
Adjusted EBITDA EBITDA Margin (2020)	\$ 21,322	\$ 23,671	\$ 24,933	\$ 26,650	\$ 29,447	\$ 31,379	\$ 33,623	\$ 36,394	\$ 42,959	8.3%	8.3%
EBITDA Margin (2020)	24.2%	22.0%	24.6%	24.6%	24.7%	24.7%	24.7%	24.9%	n/a		
EBITDA Margin (2020)	21.9%	21.9%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%		
% of Revenue	n/a	12.0%	4.8%	7.6%	12.0%	8.9%	7.9%	6.7%			

- Thorough upfront financial diligence to reduce burden on Management and get ahead of any potential issues

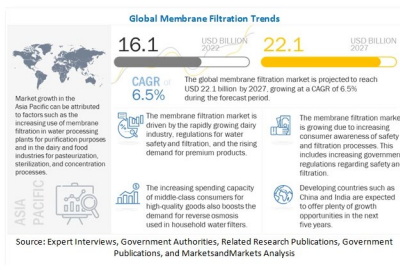
## Independent Third-Party Workstreams

### Quality of Earnings



- Reduce uncertainty and streamline diligence process; validate quality of financials and support EBITDA adjustments

### Market Study



- Prepare independent market study

### Legal

**STOCK (SHARES) PURCHASE AGREEMENT**

I. THE PARTIES. This Stock (Shares) Purchase Agreement ("Agreement") is dated as of \_\_\_\_\_, 20\_\_\_\_ and is made and entered into by and between:

Buyer: \_\_\_\_\_, with a mailing address of \_\_\_\_\_ ("Buyer"), and

Seller: \_\_\_\_\_, with a mailing address of \_\_\_\_\_ ("Seller").

Buyer and Seller are each referred to herein as a "Party" and, collectively, as the "Parties."

II. ENTITY.

Entity Name: \_\_\_\_\_

Entity Mailing Address: \_\_\_\_\_

State of Incorporation / Organization: \_\_\_\_\_

Entity Type (check one)

- Corporation
- LLC (Company)
- Partnership

- SPA posted to data room ahead of revised proposals measures buyers' engagement and willingness to quickly close transaction

## Pre-Marketing Builds Awareness and Seeds the Market

### Individualized, Early Dialogue to Build Awareness and Conviction

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#### Priority Buyers: Tailored Pre-Marketing Meetings

- Management-led meetings with a targeted number of priority parties



#### Orient Buyers to Unique “Must Own” Nature

- Outreach must focus on leadership position and runway for growth



#### Other Interested Buyers: Banker-Led Previews

- Banker-led meetings seeding the market and gathering valuable feedback



#### Lender Outreach

- Initiate targeted, early lender to mitigate questions over availability of financing

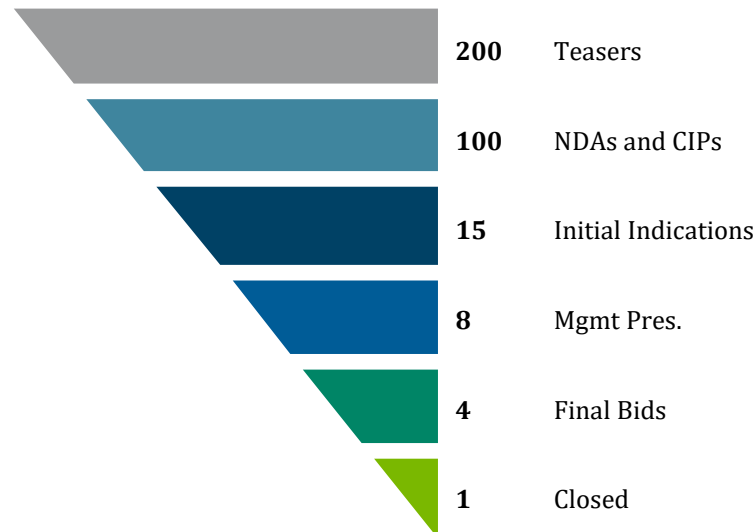


## Formal Marketing Marks the Official Launch of Outreach

### Formal Marketing Activities

- ✓ Launch teasers to all parties
- ✓ Negotiate and execute NDAs
- ✓ Distribute marketing materials
- ✓ Set a common bid date for all parties
- ✓ Facilitate “fireside chat” meetings
- ✓ Hold pre-IOI diligence calls
- ✓ Provide financing indications
- ✓ Receive and evaluate bids

### Illustrative Marketing Funnel



**While often valuable, broad outreach is hands-on and work intensive, which an advisor helps alleviate**

### Keys to Success

- ✓ Utilize pre-marketing and prep to limit time formally in-market
- ✓ Maximize competitive tension
- ✓ Set clear deadlines with counterparties
- ✓ Drive to highly qualified first round proposals
- ✓ Encourage interested parties to separate themselves through pre-emption, valuation, deal terms, certainty, etc.
- ✓ As needed, broaden buyer universe to increase competitive tension and drive maximum probability of a successful outcome

## Buyer Due Diligence

### Efficient Diligence is Critical to Achieving an Optimal Outcome

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#### Validate Investment Thesis and Data

- Test investment theses and gain comfort with underlying data quality and robustness



#### Additional Time with Management

- Conduct half-day sessions to perform a deeper dive on key diligence areas and develop relationship



#### Confirmatory Diligence

- Complete confirmatory diligence with third-party advisors (legal, industry, accounting, etc.)



#### Buyer Request and Activity Management

- Diligence can be cumbersome and time consuming; tracking of buyer countless requests, controlling the flow of info, and monitoring activity levels are necessary

*Leverage strong interest to drive tight timetable and competitive process while still providing buyers a perceived “path to win” by building momentum with diligence and management access*

## Final Negotiations

### Key Activities



Facilitate *final due diligence*



Negotiate *purchase agreement* and key *governance terms*



Negotiate *management incentive plan* and *employment agreements*



*Sign and Close*

### Keys to Success



#### Create and Harness Competitive Tension when Possible

- ✓ Multiple bidders provides optionality and competitive tension, maximizing negotiating leverage



#### Remain Highly Coordinated with M&A Legal Counsel

- ✓ Legal counsel will hold pen on turns of legal documents – it is crucial to be coordinated on communications, status of workstreams, and gating items



#### Ensure Clear Communication and Organization with Counter Parties

- ✓ A well-developed, mutually agreed to timeline to signing helps keep parties organized, on track, and focused

# Key Takeaways

## M&A as a Growth Strategy

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### Powerful Tool for Businesses

- M&A is a powerful lever to augment business growth

### M&A Strategy

- A well-defined M&A strategy combined with an efficient sourcing and evaluation process will help to maximize the value of M&A

## M&A as a Path to Liquidity

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### The Right Advisors

- Selecting the right advisors for you and your business is a crucial foundation for a smooth and successful M&A outcome

### Preparation is Key

- The M&A process is complex, a firm understanding of what to expect and proactive preparation are critical

*M&A is a valuable tool available to decision makers to augment growth and offer attractive incentives to involved parties*

*Developing a level of understanding around the M&A process can better equip businesses to recognize, and take advantage of, worthwhile expansion opportunities*