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

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Select Transaction Experience

- Not Disclosed
  - ALKU has received a majority investment from New Mountain Capital
  - May 2023

- Not Disclosed
  - MILESTONE has been recapitalized by Impact
  - December 2022

- Not Disclosed
  - Talent Systems has received a majority investment from REDBIRD Capital Partners
  - August 2022

- Not Disclosed
  - AGRI has been acquired by PROUnlimited
  - May 2022

- Not Disclosed
  - ELEVATE has been acquired by LRQA
  - May 2022

- Not Disclosed
  - VISTA has been acquired by INGENIVIS
  - April 2022

- $1,100,000,000
  - EMPLOYBRIDGE
  - July 2021

- $760,000,000
  - The Planet Group has merged with PROPHARMA Group
  - May 2021

William Blair Overview

Premier, Global Investment Bank

Leading independent private partnership with globally-integrated advisory capabilities

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

Establish an M&A Strategy

There are two primary acquisition categories transactions fall into

Transformative
A deal that acts as a catalyst for transformational change, potentially creating a very different business post transaction

Add-on
Typically smaller in scale, add-ons are a method of augmenting an existing company’s products or services, geography, or competitive advantages

Develop Evaluation Criteria

Clear, consistent evaluation criteria aligned to your strategy is imperative to identify the best-fit opportunities

- Strategic rationale
- Cultural fit
- Synergy potential
- Value-creation opportunity
- Geographies
- Size
- End markets
- Customers
- Financial profile

Build an Opportunity Pipeline and Evaluate Targets

With evaluation criteria set, you can effectively screen and prioritize targets

Screen targets based on evaluation criteria

Prioritize targets based on the results of your screening process

Conduct further diligence with the help of experts and advisors on targets that meet your criteria

Build and maintain a pool of targets with ongoing, regular dialogue. Be ready and top-of-mind when sellers decide the time is right
Negotiating and Transaction Execution

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

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

### Cash on Hand
- Use cash on the balance sheet generated by the operations of the business

### Bank Debt / ABL
- Typically secured by the value of the company and/or its assets
- **Cash Flow Lending**
  - Provided by banks and non-bank lenders, typically based on a multiple of EBITDA
- **Seller Note**
  - Seller agrees to receive a portion of the proceeds in a series of debt payments

### Seller Rollover Equity
- Seller may invest a portion of the proceeds as equity into the new deal

### New Equity
- Fresh equity capital from new investor(s)

### Debt Financing

### Equity Financing

### Earnouts
- **Benefits**
  - Encourages performance
  - Manages price risk
  - Manages cash flow
- **Considerations**
  - Selecting measurement criteria
  - Tradeoff between measurement and speed / effectiveness of integration

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*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

- **Advisor Selection**
  - Pre-Marketing
    - Commence Formal Outreach
  - Formal Marketing
    - IOIs
  - Buyer Due Diligence
    - Final Bids
  - Final Negotiations
- **Preparation and Drafting**
  - Bake Off
    - Org Meeting
  - Preparation and Drafting
  - Pre-Marketing
  - Formal Marketing
  - Buyer Due Diligence
  - Final Negotiations
- **Month 8**
  - Month 6 - 7
  - Month 4 - 5
  - Months 1 - 3

### Activity Details:
- **Bake Off**
  - Foundation of differentiating themes
  - Valuation, process, and buyer insights
- **Org Meeting**
  - Process and workstreams overview
  - Areas of responsibility
- **Commence Formal Outreach**
- **IOIs**
  - Receive and analyze bids
- **Final Bids**
  - Assess bids on multiple dimensions
  - Determine go forward strategy
- **Signing**
- **Closing**
Selecting the Right Advisors is the Foundation for a Successful M&A Process

Key Consideration when Selecting an M&A Advisor

<table>
<thead>
<tr>
<th>Experience in the Relevant Sector</th>
<th>Strong Grasp on How to Position Your Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrated track record of recent and relevant successful transactions in the sector</td>
<td>Clear understanding and appreciation for the differentiating elements of your Company’s story</td>
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<table>
<thead>
<tr>
<th>Buyer / Investor Familiarity</th>
<th>Alignment on Valuation Expectations</th>
</tr>
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<tbody>
<tr>
<td>In depth knowledge of and connectivity with the relevant buyer universe</td>
<td>Sophisticated, multi-faceted approach to supporting a valuation for your company</td>
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</table>

<table>
<thead>
<tr>
<th>Demonstrated M&amp;A Expertise and Insights</th>
<th>Process Timeline and Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise, experience, and insights in M&amp;A processes and market conditions</td>
<td>Thoughtfully curated process strategy on a timeline that aligns with your transaction goals</td>
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</tbody>
</table>

Ultimately, selecting an advisor you trust and have aligned incentives with is perhaps the most critical consideration.
Preparation and Drafting are Critical for a Smooth Process

**Information Gathering**
- Org Meeting
- Banker Business Diligence
- Data Room Preparation

**Internal Prep Work**
- Financial Model
- Marketing Materials
- Discrete Analyses Package

**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

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

**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

- 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

- 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

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

<table>
<thead>
<tr>
<th>Stage</th>
<th>Count</th>
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<tbody>
<tr>
<td>Teasers</td>
<td>200</td>
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<tr>
<td>NDAs and CIPs</td>
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<tr>
<td>Initial Indications</td>
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<tr>
<td>Mgmt Pres.</td>
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<tr>
<td>Final Bids</td>
<td>4</td>
</tr>
<tr>
<td>Closed</td>
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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

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

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitate</td>
<td><em>final due diligence</em></td>
</tr>
<tr>
<td>Negotiate</td>
<td><em>management incentive plan</em> and <em>employment agreements</em></td>
</tr>
<tr>
<td>Negotiate</td>
<td><em>purchase agreement</em> and key <em>governance terms</em></td>
</tr>
<tr>
<td>Sign and Close</td>
<td></td>
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</tbody>
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### 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

**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

**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

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_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._