

Exclusive Middle Market Report

3 Ways Top Executives Make the Most of M&A



NATIONAL CENTER FOR
THE MIDDLE MARKET



SUNTRUST



RHYTHM[®]
SYSTEMS

A SMARTER DEAL PANEL



THE RIGHT INSIGHTS



THE RIGHT ADVISORS

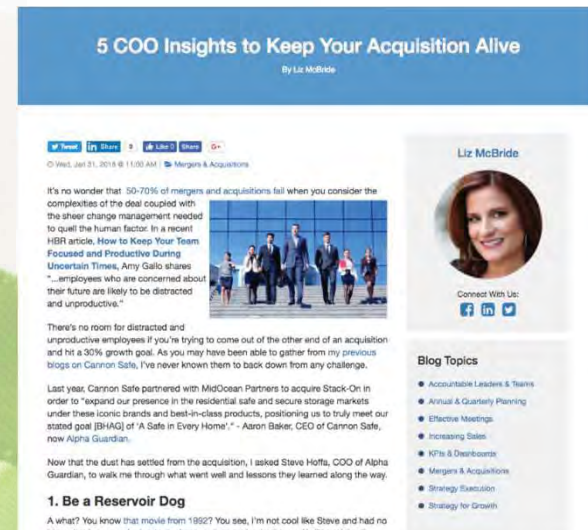


THE RIGHT SYSTEMS

POLLING QUESTIONS

OUR GIFT FOR YOU

Fill out the survey to get Key Findings from the M&A report and blog article, 5 COO Insights to Keep Your Acquisitions Alive.





MIDDLE MARKET M&A INSIGHTS

NEW RESEARCH ON MERGERS & ACQUISITIONS

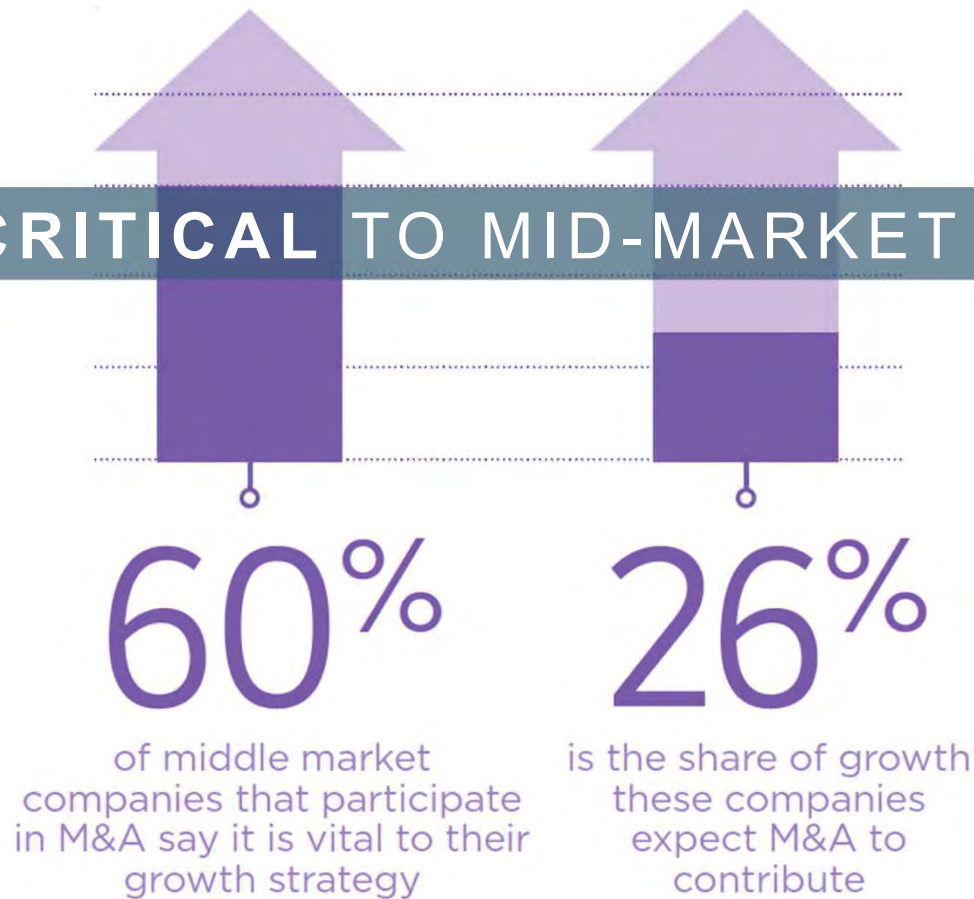
Middle Market M&A: What Executives and Advisors Need to Know to Make the Most of Mergers & Acquisitions



Source: NCMM, Middle Market M&A, 2018



M&A IS CRITICAL TO MID-MARKET GROWTH



Source: NCMM, Middle Market M&A, 2018



STEADY RHYTHM – LIMITED EXPERIENCE



of middle market companies complete an acquisition annually



of companies that made an acquisition in the past 3 years had little or no previous experience



of middle market companies sell to or merge into another business each year



of companies that sold or merged in the past 3 years had little or no previous experience



MIDDLE MARKET M&A ACTIVITY IN THE PAST 3 YEARS

	Total MM	\$10M-<\$50M	\$50M-<\$100M	\$100M-<\$1B
Completed the acquisition of another business	32%	22%	36%	41%
Acquired a division or line of business from another company	24%	16%	26%	33%
Divested or sold a division or line of business to another company	18%	13%	19%	22%
Completed a merger with another firm	17%	12%	21%	20%
None of these	49%	62%	45%	36%

Source: NCMM, Middle Market M&A, 2018





TOP CHALLENGES

Financial valuations and post-merger integration **complicate** deals



find it **very difficult** to assess the value of the business they are buying or selling



say that integration (both technical and cultural) is a **major challenge**

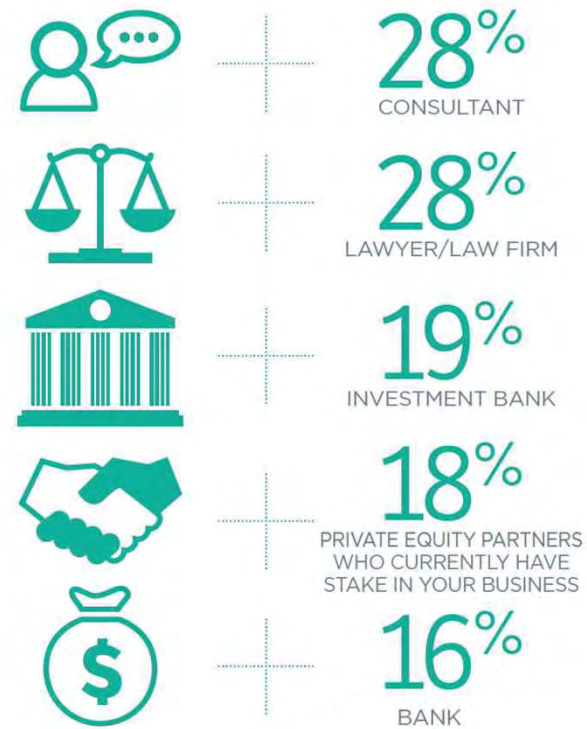


MOST COMPANIES RELY ON THEMSELVES

Resources used by buyers to find a target:

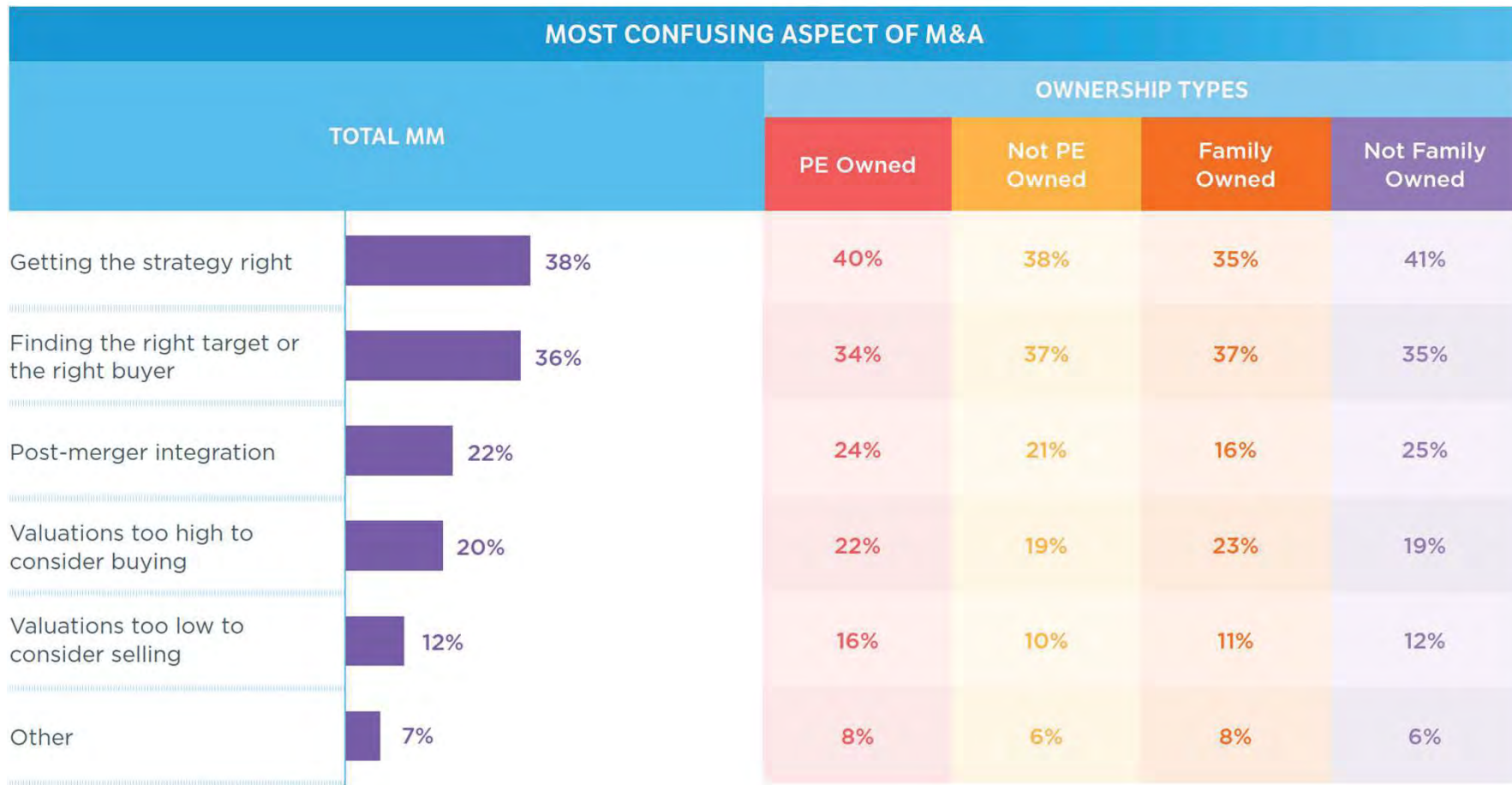


Resources used by sellers to find a buyer:



Source: NCMM, Middle Market M&A, 2018







WINNING FORMULA

BECOMING "DEAL-READY" IS KEY TO SUCCESS

**3-12
MONTHS**

*the timeframe for
executing deals*



**3-5x
THE EXECUTION
TIMEFRAME**

*the ideal planning
horizon to develop
capabilities in planning,
financial reporting,
valuation, and execution*

What "deal-ready" looks like:



GOVERNANCE
Clarify decision rights and
operating authority



WORKING CAPITAL
Improve management
of A/P, inventory,
and A/R



TALENT
Have retention plans
for key players



TECHNOLOGY
Upgrade systems and
maintain an up-to-date
cybersecurity plan



ACCOUNTING
Keep your books in shape



ADVISORS
Build relationships with
lawyers, bankers, tax
advisors, consultants,
and others with M&A
experience



PLANNING
Create plans, budgets,
and KPIs



OPERATIONS
Document processes and
set improvement plans

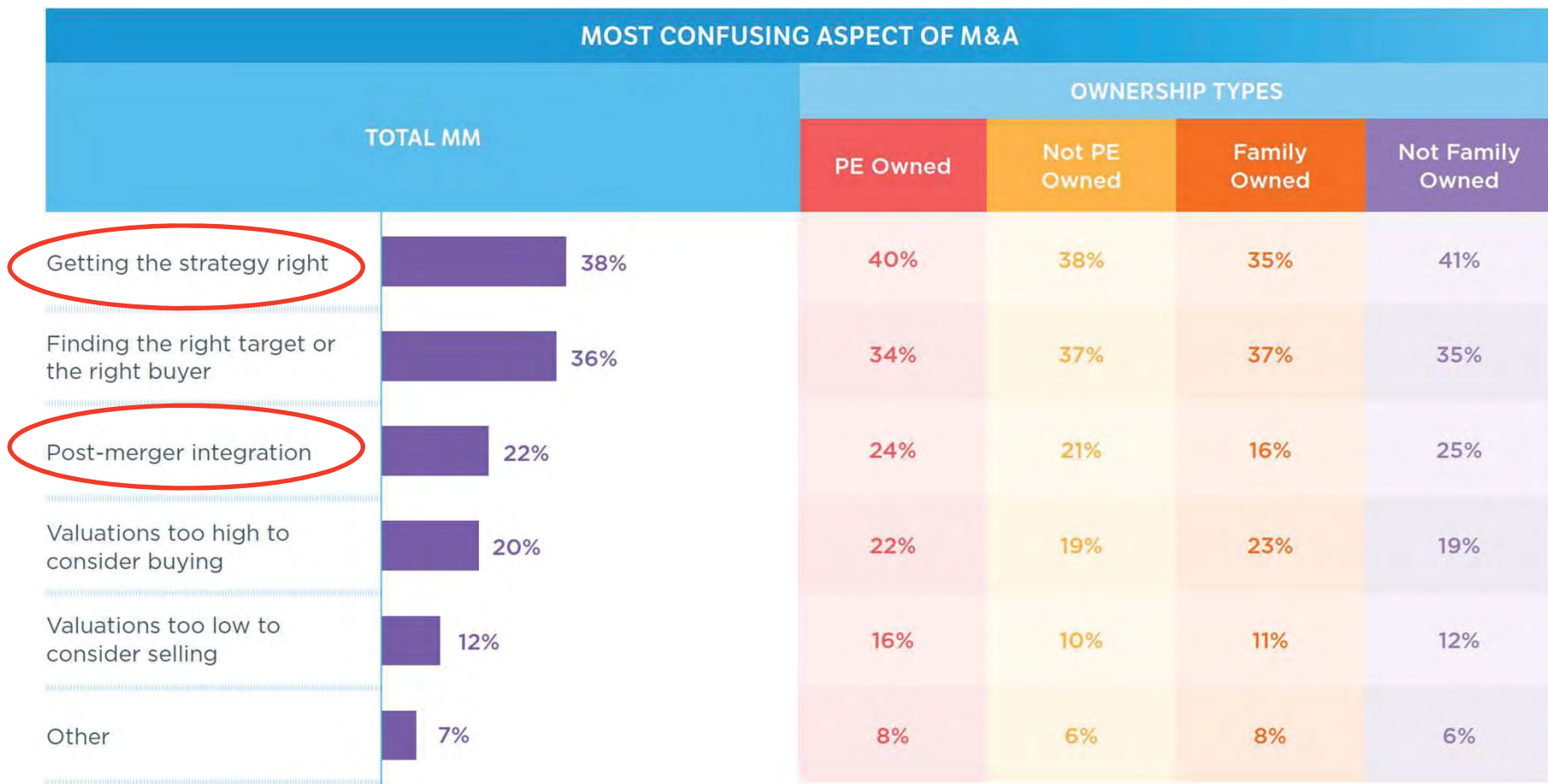
PEERS
Deepen and broaden
connections in
your industry

Source: NCMM, Middle Market M&A, 2018





REAL WORLD EXAMPLE – BUYER







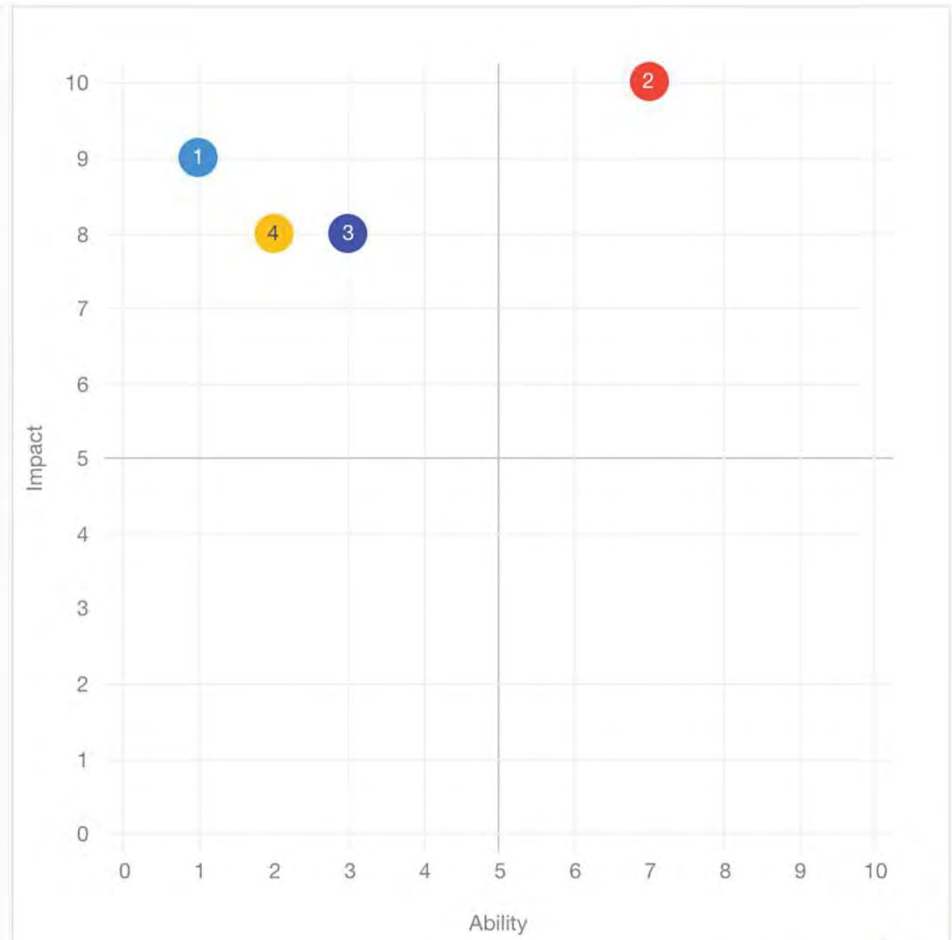
RIGHT STRATEGY + RIGHT RESOURCES

Organic

M&A

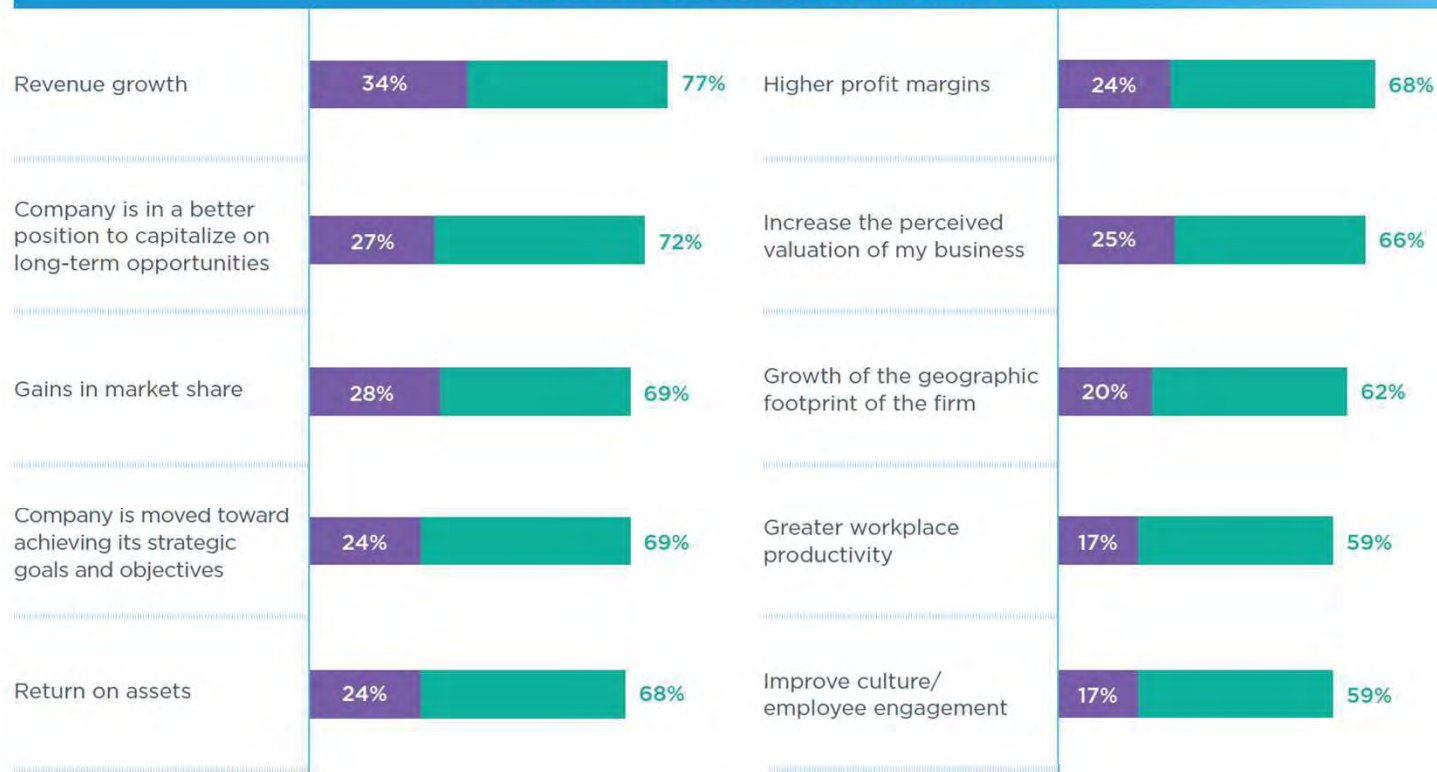


#	Winning Move	Impact	Ability
1	Transition from Client/Server Technology Platform and Business Model to Cloud and SaaS  Jack CEO Jan 1, 2014 - Dec 31, 2018	9	1
2	Create scalable partnerships with with 1 or 2 giant partners (Like Oracle, PWC)  Jack CEO Jan 1, 2014 - Dec 31, 2017	10	7
3	Implement CRM to Get to Single Customer Database  Joe Services Jan 1, 2014 - Dec 31, 2017	8	3
4	Implement ERP System  Jeff COO Jan 1, 2014 - Dec 31, 2017	8	2



BE CLEAR ON WHAT SUCCESS MEANS

HOW SUCCESS OF ACQUISITION MEASURED





SUCCESSFUL INTEGRATION

A hand reaches up from the ocean towards an orange life preserver. The background is a clear blue sky and a calm sea.

PREPARE FOR SUCCESSFUL INTEGRATION

50-90% of Acquisitions Fail in the First Year!



ONE TEAM - ONE SYSTEM



AVOID UNWELCOME SURPRISES

**One system for consistent reporting across your portfolio
Real time information alerts you when a key priority is off track**

THE RHYTHM SYSTEM PLAYBOOK



The key to getting organic and M&A growth initiatives done is to do strategic, planning and weekly meetings right so you can **keep your plan on track**.

SUCCESS TIP 1: STRONG SYSTEM IN PLACE

HEART OF OUR AVIDXCHANGE RHYTHM IS OUR
Quarterly Planning Process & Town Hall Meeting

67

DON'T KEEP YOUR PLAN A SECRET

Shh...

ADJUST WEEKLY

Solve problems fast and keep your plan on track.

WEEKLY ADJUSTMENT MEETING

- 80% of time working on solutions
- Focus is on the future
- Make adjustments for success
- Team focused on achieving company plan

WEEKLY STATUS MEETING

- 80% of time working on status
- Focus is on the past
- Review what happened
- Individual focus on status

SPREADSHEETS DON'T WORK

4) Hire a VP of Marketing ■ ■ ■ ■ ■

Jack CEO T Company
Apr 1, 2017 - Jun 30, 2017

5) Integrate Acquisition ■ ■ ■ ■

Jeff COO T Company
Apr 1, 2017 - Jun 30, 2017

Hold Weekly Town Halls with XYZ Staff to Answer Questions ⋮

Jeff COO Apr 1, 2017 - Jun 30, 2017

Identify 4 Cost Saving Activities ⋮

Jim CFO Apr 1, 2017 - Jun 30, 2017

Migrate and Train XYZ Company to ABC Company Email and Systems ⋮

Joe Services Apr 1, 2017 - Jun 30, 2017

Train Acquired Company Sales Team in Solution Selling ⋮

John Sales Apr 1, 2017 - Jun 30, 2017



CONNECTED COMMENTS


Know the story behind the numbers.


Hold Weekly Town Halls with XYZ Staff to Answer Questions Following

13 Week Race Show Graph

	1	2	3	4	5	6	7	8	9	10	11	12	13
Projected	■	■	■	■	■	■	■	■	■	■	■	■	■
Actual	-	-	-	-	-	-	-	-	-	-	-	-	-
Variance	-	-	-	-	-	-	-	-	-	-	-	-	-

Comments +

 **Joe Services** *Thu, Jan 25, 2018 5:11:38 PM* ! ↩ ⋮
Having trouble scheduling due to exec team travel schedules.

 **Jack CEO** *Thu, Jan 25, 2018 5:13:39 PM* ⋮
I can do a virtual meeting on 3/11

www.rhythmsystems.com



M&A – INTEGRATING PEOPLE

SUCCESS TIP 2: PEOPLE PLAN IN PLACE



ALPHA GUARDIAN
A Safe in Every Home®

CANNON **STACK-ON.** **GunVault.** **CANNON**
THE ORIGINAL. SINCE 1900. SECURITY PRODUCTS




WHAT ABOUT ME?

ROLE & GOAL CLARITY

Build job scorecards

1. CEO
2. Executive team
3. Repeat with management



Job Scorecard 

Job Summary KPIs Priorities

Job Position	Reports To
Chief Financial Officer	Jack CEO

Purpose

To control all cash in and out of company. Analysis, forecast and maintain all financial activity.

Desired Results & KPIs +

Desired Result	KPI
Healthy finances for the business	Cashflow Runway (Number of Months of cash)
Effective collection process	A/R Aging (30 days or less)

Key Responsibilities +

- Manage all financial processes for the company: billing, payroll, taxes, collection, budgeting, forecasting
- Analyze data and trends to help us make smart strategic decisions

JOB SCORECARD



1ST COMBINED EXEC TEAM MEETING

EXEC INSIGHT



“I was so proud of our people. Our tree bent but never broke because our culture was so strong. The tree bounced back.”

– Steve Hoffa, COO, Alpha Guardian

NEXT STEPS

Schedule a conversation



Schedule 30 minutes to see how our business execution system can help you get more ROI.
cindy@rhythmsystems.com





REAL WORLD EXAMPLE - SELLER

SOLD FOR 2X VALUATION

hostopid
A DELUXE COMPANY

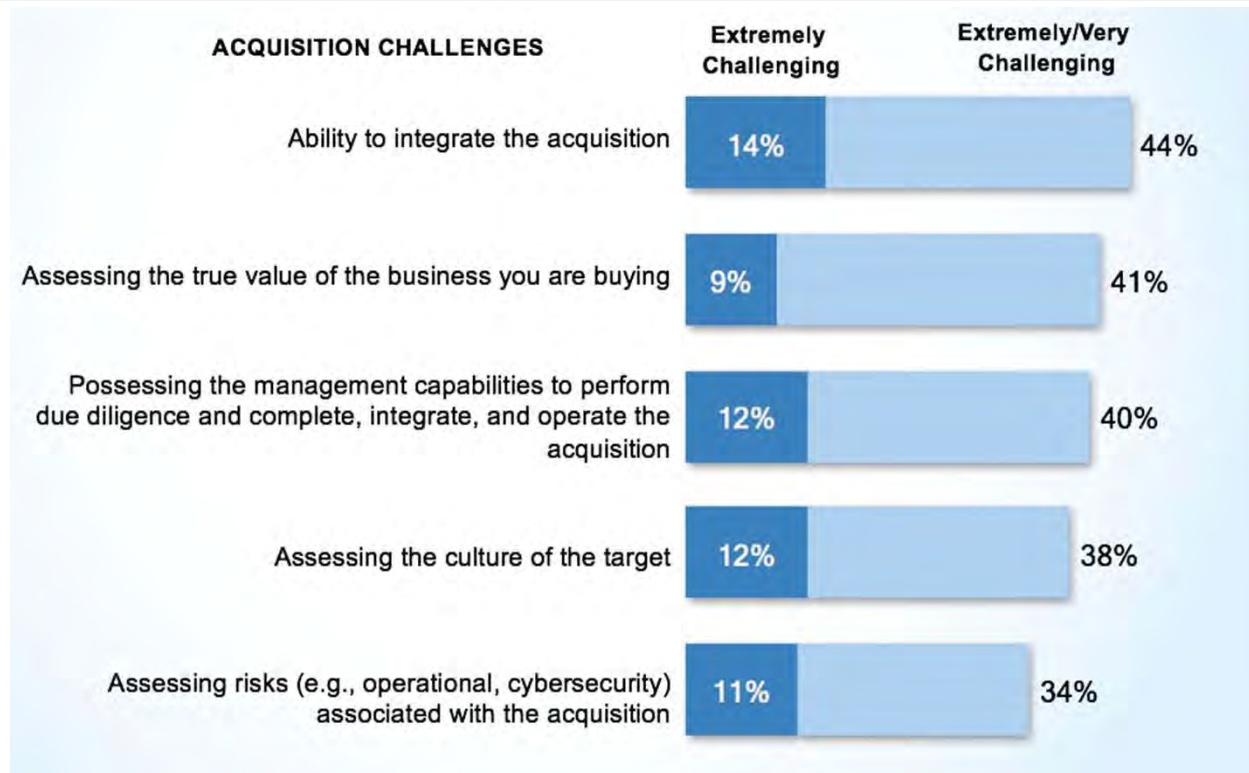


Q & A



THE DEAL TEAM

EXPERIENCE TO ADDRESS BUYER CHALLENGES



Source: NCMM, Middle Market M&A, 2018



THE RIGHT TEAM OF ADVISORS

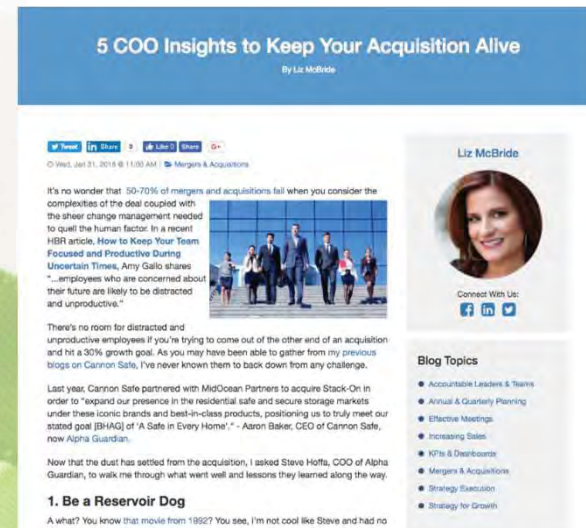
ADVISORS: ROLES, TIMING, AND CONSIDERATIONS			
Advisor	Preparing and planning stages	Deal making and execution stages, considerations	Considerations
Lawyer	Advice on ownership and governance Potential buyer/seller identification	Drafting and executing contracts	Ensure lawyer has M&A experience, especially at later stages
Commercial banker	Advice on capital choices Ongoing growth and operating financing Potential buyer/seller identification	Source of investment capital Traditional banking products such as escrow Due diligence assistance	Start financing conversations early to avoid surprises. Depending on deal size, you might need additional bank(s) or a larger bank.
Investment banker	Strategy advice Industry expertise Process design, potential buyer/seller identification Potential buyer/seller identification	Marketing Managing deal process and buyers Due diligence, valuation, deal terms and structure	Most valuable for larger, more complex deals
Tax advisor	Improving tax accounting and processes Potential buyer/seller identification	Business / personal / sales tax implications Understanding sales tax options	Be tax efficient, but don't let taxes override strategy
Auditor	Improving management, accounting and processes Preparing and maintaining financial statements for all requested periods	Due diligence for both buyer and seller Creating pro forma statements for all entities included in the transaction	Sloppily kept books delay deals and lower valuations
Consultant	Strategy and process advice Industry expertise Documenting processes Potential buyer/seller identification	Integration expertise Identifying and tracking deal synergies Operational assessment of the other party	Poor operational or cultural integration can turn good deals bad
HR consultant	Talent strategy and management	Retaining key talent, separation agreements, workforce integration	Talent planning should not be left to the last minute in a deal
IT consultant	Systems development Data security	Cybersecurity due diligence for yourself and the other party IT integration planning	IT and security issues are a growing source of post-merger problems

Source: NCMM, Middle Market M&A, 2018



OUR GIFT FOR YOU

Fill out the survey to get Key Findings from the M&A report and blog article, 5 COO Insights to Keep Your Acquisitions Alive.





Q & A

THANK YOU

Cindy Praeger

cindy@rhythmsystems.com

www.rhythmsystems.com

Thomas A. Stewart

stewart.1490@osu.edu

www.middlemarketcenter.org