

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

How to Sell Your Technology Company

10 Step Plan To Exit A Mid-Market Technology Business

“He who fails to plan, plans to fail” – An old proverb

A mid-market technology company is typically characterized by a strong management team, technical workforce, highly differentiated product or service, patented or specialized products and processes, deep customer relationships, excellent customer support, extensive/specialized technology equipment, and a sizable amount of work in process. This combination of assets creates a unique set of challenges when it is time to sell.

Technology companies typically do not fit traditional valuation methods and due to complex nature of these businesses, which is outside the scope of this document, there is a very high degree of variability in market valuations. Given the variability, it is imperative that you have a capable M&A advisor helping you through the sale process. With the above caveat, here is a 10-step plan to maximize your return on the sale of your mid-market technology business.

1. Be aware that for a technology company with a valuation in the \$3 million to \$100 million range, the most likely acquirer is another private company, a public company, or a PEG (see [“Is Private Equity The Right Option For Your Business”](#)). These are professional buyers who have experience from multiple deals. Hire a competent M&A advisor or an investment banker to bring deal making experience to the table. Acquirers think in terms of earnings leverage when it comes to valuation, which is very different from EBITDA multiples that are commonly used in other mid-market businesses. A good M&A specialist will expose the strategic value of the business, and ratchet up the value to get you more for your business. An M&A Advisor will also be keenly familiar with the tradeoffs necessary to maximize your after tax proceeds.
2. Check if your corporate structure is the appropriate one for a business sale. Are you a C-Corp? S-Corp? LLC? Do you have multiple entities with multiple purposes? Being a C-Corp can be a major tax disadvantage. In a [C-Corp asset sale](#) you get taxed twice – once at the company level and once at the individual level! Regardless of the type of entity you have, if your company has a large depreciated asset base, depreciation recapture may be a big issue for you. A stock sale is the preferred choice for most transactions.
3. Make sure your books are in order and your financial statements are compiled, reviewed or audited as may be appropriate for your business. Your current bookkeeping practices and tax structure may be designed to keep your taxes low on an operating basis but they may not be right for exiting your business (see [“What Every Business Owner Needs To Know About Taxes & Valuation”](#)). If your CPA firm does not have any deal making experience,

consider working with a firm that has the experience. In mid-market transactions, good tax advice may be worth hundreds of thousands, if not millions, of dollars.

4. Retain the right attorney for the deal. An attorney with transactional experience as opposed to litigation experience is more likely to help put together a successful deal. Many deals collapse due to attorneys who are not familiar with transaction negotiations.
5. Understand how your intellectual property and product/service features compare with the industry. Do you have any marquee customers that acquirers may desire? Much of the value in the deal comes from the acquirer's perception of how you rate in your peer group. The technology industry is IP intensive and acquirers will pay a premium for well protected IP and a good roadmap. Excellent companies get excellent valuations and mediocre companies get mediocre valuations. A competent M&A advisor can also help package your company to get the best deal out of it.
6. Understand and have a documented plan for your growth. A good growth plan makes sales projections more credible. Where is the leverage in your model? What is your roadmap? How do you plan to grow? Wider product lines? More service contracts? Increasing geographic coverage? What part of your business is online? Do you do business outside of the immediate geographic area? What differentiates you in non-local markets?
7. Reduce risk by diversifying the customer and supplier base. What percent of your business is tied to one customer? What percentage is tied to the top 5 customers? What percent of your revenue stream is under contract or recurring? Are they long term? Do you have any maintenance contracts? How dependent are you on one supplier? Do any of the supplier contracts provide meaningful exclusivity?
8. Take steps to ensure that your technology business transitions easily to the acquirer. Do you have a reliable sales team and customer support team or do the customer relationships begin and end with you? What can you do to ensure the customers and suppliers will continue to stay with the business after the business sale? Are your contracts being written so that they can stay with the business regardless of ownership changes?
9. Do you have any known latent liabilities? Key employees or customers threatening to leave? Legal actions? Workers comp issues? ESOP issues? Do you have reasonable insurance coverage or are you exposed to that one shipment or warehouse catching fire and taking you down with it? Can you convert some of the liabilities into assets? For example, can you convert your product supports liability into maintenance contracts with revenue streams?
10. Be cognizant of the fact that business valuations are not written in stone and there is a huge variability in what you can get for your business (see "[The Myth Of Fair Business Valuation](#)"). The more you would like to get for your business, the more planning and work your deal making team needs to do and the longer it is likely to take. Address potential negatives before putting the business up for sale. If not, discuss these with your M&A advisor to make sure that they do not become a drag on valuation or become deal killers. Addressing these issues is especially important if you are seeking a tax advantageous stock sale.

Plan early if you want to maximize your return. Good luck with your business sale and let us know if we can help you.

