

How Suitors Select Targets for Investment or M&A

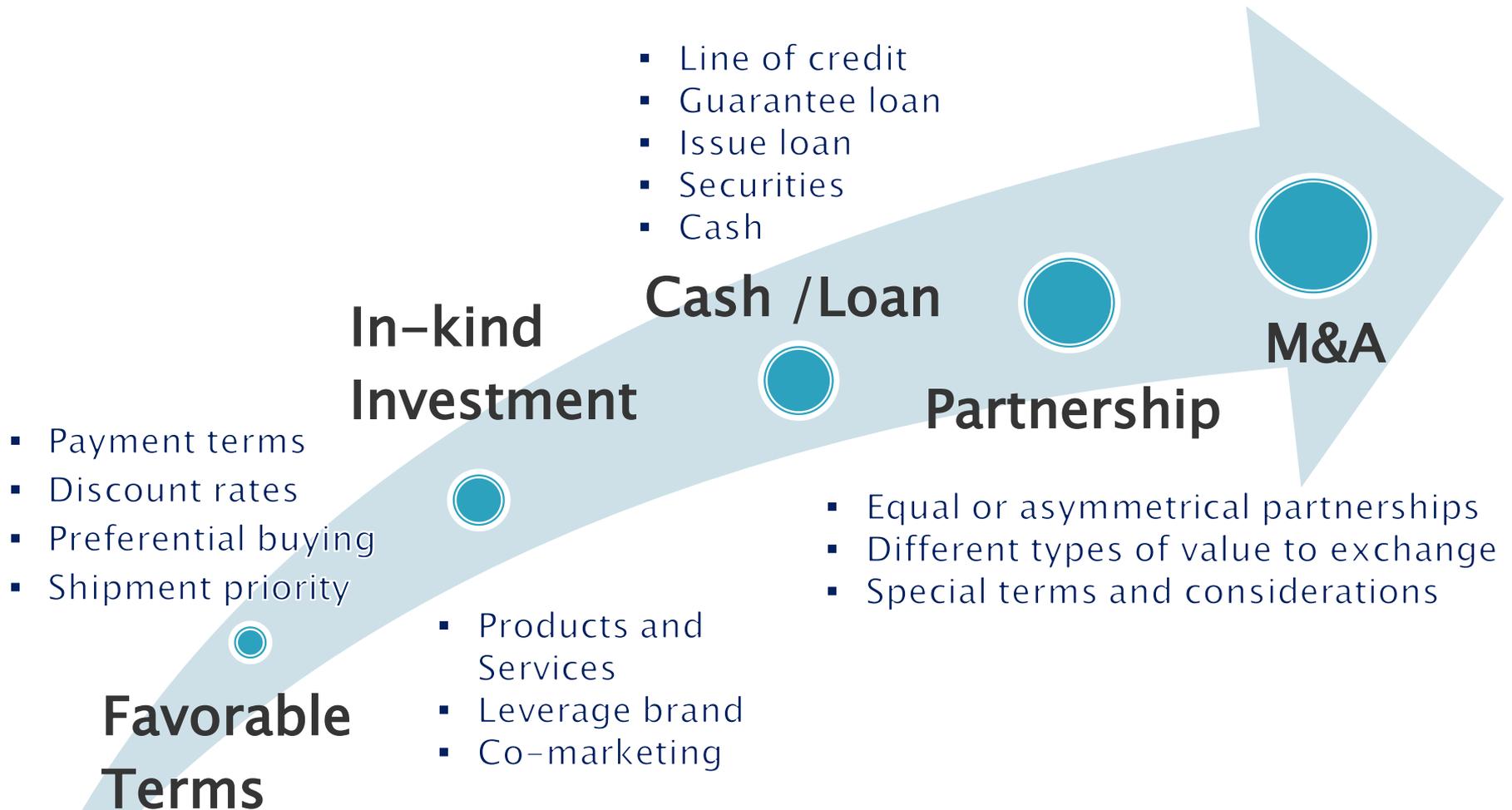
By

RevGen Group

In this presentation:

- ▶ Levels of investment
- ▶ Suitors and their goals
- ▶ Suitors' desired targets
- ▶ Main factors for due diligence
- ▶ Possible deal breakers
- ▶ Actual cases
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Levels of Investment



Suitors

- ▶ Corporate funds for venture and M&A
- ▶ Customers and partners
- ▶ Competitors with shared interests
(investments usually pooled in not-for-profit consortia)

Institutional investors not discussed in this presentation:

- ▶ Venture Capital (VC) funds
- ▶ Angel funds and/or individual Angels
- ▶ Other funds

Suitors' Goals

| | Make or Save Money | Execute Strategy | Manage Risks | Exceptional Opportunity |
|-----------------------------------|--------------------|--|--|--|
| Corporate venture, M&A | ✓ | <ul style="list-style-type: none"> • Enter new market • Grow market share • Market position • New product line • New channels • New technology | <ul style="list-style-type: none"> • Beat competition • Respond to inflexion in <ul style="list-style-type: none"> – Economy – Regulatory environment – Market – Technology | <ul style="list-style-type: none"> • New revenue stream • Enter new market or channel • Monetize by-products • Increase customer intimacy • Implement 'better' business model |
| Customers or Partners | ✓ | All bullets above, plus: <ul style="list-style-type: none"> • Protect investment | | |
| Competitors with shared interests | ✓ | <ul style="list-style-type: none"> • Create new market • Validate new business model • Build technology and tools • Develop products | Avoid <ul style="list-style-type: none"> • Fractured, small market segments • Divergent standards and technologies • Dumping • Infringement of intellectual property rights | |

Desired from Targets

| | Intellectual Property | Competitive Advantage | Special Resources |
|-----------------------------------|--|---|--|
| Corporate venture funds, M&A | <ul style="list-style-type: none"> • Expanded fields of use • Exclusive rights • Other rights | <ul style="list-style-type: none"> • Market presence • Customer base • Manufacturability • Brand equity | Examples: <ul style="list-style-type: none"> • Specialized sales force • Special relationship • Regulatory advantage • Market aberration |
| Customers or Partners | | <ul style="list-style-type: none"> • Increase choice • Ensure availability • Influence pricing | |
| Competitors with shared interests | <ul style="list-style-type: none"> • Productize technology • Interoperability • Standards, tools • Market data and forecasts | Prohibited by anti-trust laws | |

Due diligence check list (prioritized)

Compatibility between suitor and target:

- ▶ Main goals for deal
- ▶ Valuation
- ▶ Business model
- ▶ Outlook for risks and opportunities
- ▶ Corporate culture
- ▶ Industry assumptions and practices
- ▶ Foundation technology
- ▶ Vested third parties (customers, partners, suppliers)

Possible deal breakers:

- ▶ Valuation
- ▶ Liabilities, encumbrances, commitments
- ▶ Legal or regulatory issues
- ▶ Culture clash
- ▶ Board of directors coalitions
- ▶ Third parties
 - New suitors
 - Customer objection
 - Special interest groups

Actual cases:

- ▶ Corporate venture fund and M&A group
 - Cisco made >50 investments in one year
 - Quantum Technology Ventures invested in storage SaaS
- ▶ Customers, partners and suppliers
 - Customer provides services to vendor at discount
 - Software distributor exchanges services for co-marketing
 - External corporate counsel invests legal services and cash
- ▶ Competitors with shared interests pool funds
 - Major chip vendors and system vendors form HyperTransport consortium
 - Chip vendors create industry data group, WSTS

How RevGen Can Help

- Find 'best fit' suitors
- Prepare for due diligence and negotiation
- Tactical assistance

Find best-fit suitors

- ▶ Identify candidates who “should” make investment or M&A
- ▶ Gather market intelligence from primary and secondary sources
- ▶ Rank candidates
- ▶ Identify possible leverage and friction points
- ▶ Recommend strategies and alternatives that improve chances for success

Contact selected candidates as your agent.

Prepare for due diligence and negotiation

- ▶ Assist in negotiating valuation model with suitor
- ▶ Build scenarios, perform risk analysis, develop recommendations and alternatives
- ▶ Conduct market research and analysis
- ▶ Assess technology and roadmap
- ▶ Audit operations
- ▶ Constructive critique
- ▶ Strengthen value proposition
 - Present value and robustness of business model, roadmap
 - Highlight customer, supplier, and channel relationships
 - Monetize IP portfolio
- ▶ **Build and update term sheet to track negotiation strategy and progress**

Tactical Assistance

- ▶ Conduct real-time research and validation of specific issues
- ▶ Liaise with suitor to off-load principals and project manage
- ▶ Manage multiple suitors
- ▶ Anticipate and coach to prepare for key inquiries
- ▶ Probe suitor to understand their
 - Agenda: open and hidden
 - Negotiable factors, non-negotiable factors
 - Strengths, Weaknesses, Opportunities and Threats
 - Products, business, organization, culture, pain points
- ▶ Constructively respond to suitor's objections
- ▶ Protect confidential information while being responsive and informative
- ▶ Manage interested third parties
- ▶ **After-action debrief**

About the RevGen Group



Hardware, communications, clean tech companies

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- Mort was a senior manager at a communication startup and photovoltaic startup and was instrumental in the acquisition of both companies
- Mort served as product line manager after the acquisition of both startups
- Mort helped to acquire two startups in the wireless and analytical instrumentation industries for two Fortune 1000 companies



Software, Web 2.0, networking sectors

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- Maria was a co-founder and was a key member of the negotiation team of a software startup that was acquired by a major US software vendor
- Maria performed due diligence for Quantum Technology Ventures
- Maria assisted Cisco's M&A group with deals ranging from simple licensing to full acquisition



Semiconductor equipment, solar, and technology

Kenneth.Bahng@RevGenGroup.com

- Kenneth has evaluated technologies for acquisitions
- Kenneth served in senior management positions at semiconductor equipment companies conducting due diligence for technology and business fit
- Kenneth managed integration efforts after acquisitions

More...

The RevGen Group assists high technology clients to

- ▶ Bring products to market and through transitions in the life-cycle
- ▶ Develop business based on objective, customized intelligence
- ▶ Perform technology assessment and validation
- ▶ Manage due diligence

Fields of expertise:

- ▶ Solar energy
- ▶ Wireless communications
- ▶ PC software, Web 2.0, enterprise networking
- ▶ Semiconductor equipment and technology

We deliver:

- ▶ Advice, strategies, models and tools, alternatives
- ▶ Research, analysis, evaluation, validation
- ▶ Operational assistance

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