Investment Banking Services Since 1987

MIRUS CAPITAL ADVISORS

VIEWPOINT

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SO, HOW HAVE YOU MATURED YOUR BUSINESS LATELY?

By Peter Alternative and Bruce Boes,

One of your trusted advisors has suggested that you meet with an investment banker. You respond, "I'm not ready to sell my business, so why would I meet with an investment banker now? Those guys are deal makers interested in closing fees and not much more.

I'm focused on growing my business and the investment bankers I've met are transactional, corporate finance professionals that rarely bring any operational experience, no less any growth-oriented insights. The last time I took your advice and met with an investment banker, they told me that my business was worth 3-5X EBITDA based on a high level review of my financial statements. They asked so few questions about my operations and the intangibles that uniquely drive my company's value that I wondered if they understood my business at all. When I told him that this type of valuation was not of interest to me, he said that he'd like to stay in touch, but I never heard from him again. Anyway, I believe that if I grow my business to be successful my exit strategy will take care of itself."

So what is wrong with this scenario? While it could be true that "if you build it they will come," in most cases this mentality equates to results that fall short of the desired outcome. The truth is that planning and designing your company with an exit strategy in mind from the earliest possible moment is as important to the long term success of the company as product or channels planning and can make the difference in getting your business valued based on revenue multiples instead of simple asset value. Only too often Mirus has experienced how organizations focus exclusively on running their business day to day and spend insufficient time considering the impact of their strategic business decisions on their exit value.

What if there was a way to bring a broader perspective on what drives value to your unique mix of operational, financial and transactional experience? What if there was a way to benchmark your operating experience against that of other business owners who have already been there; to focus on those value drivers most impactful to not only your exit value, but also improved current overall performance? And finally, what if you could identify the key players within your ecosystem and then build the initial bridges to the business most likely to pay you the highest strategic premiums?

Well, there is. To assist with liquidity planning and help you cope with economic volatility, Mirus has developed its own proprietary framework and empirical benchmarking model to help business owners look around the corner and be prepared for the unexpected. Using this model along with its deep expertise in the software industry, Mirus builds its relationship with shareholders long before a transaction is imminent. As a trusted advisor, Mirus provides an honest and objective "sounding board" to owners regarding liquidity planning matters related to creating and unlocking value, from initial planning through final transaction. To quote VISTAGY Chief Executive Officer, Steve Luby, "I haven't always agreed with everything that Mirus said, but I've always benefited from the exchange."

Overall, Mirus looks at some 27 quantitative and qualitative key performance indicators (KPIs) contained in the model that in aggregate, and properly weighted, affect company value and can help with forming a comprehensive, *The value of the model is not only in predicting transactional value. The exercise of reviewing the company against the benchmark criteria and devising ways to improve against the criteria adds value to the company by positively impacting critical areas of the company.*

value maximizing liquidity plan to monetize success within a directionally correct range of certainty. These KPIs have been chosen through Mirus' 25 years of experience and validated with dozens of software transactions. While many of these may seem obvious, it is often not the observation that is important, it is the discipline to actually form and execute the strategy itself. One such group of KPI's relates to company maturity. When combined with traditional financial fundamentals and trajectory, the current outlook in the capital markets, potential buyer health and activity and the dynamics of your specific industry, these can form the foundation for sound strategic decision making, which can positively impact short term revenue/profitability, and long term business value.

COMPANY MATURITY

Beyond basic quantitative measures, Mirus has developed a way to evaluate many significant qualitative measures that are indicative of company maturity. As companies grow, they evolve and mature to go through various stages of growth, sometimes consistently across all areas of the company, sometimes not; sometimes consistent with revenue growth, sometimes not. Regardless, the following key performance indicators have shown to be clearly indicative of company maturity due specifically to their strong correlation to the ability to scale the company. Scalability is likewise directly indicative of company growth and potential for investor return when evaluated along a spectrum of "maturity indicators" for each element and then summarized collectively.

- Vision – Not just the existence of, but also validated proof points and extensibility.
- Product Strategy – From single concept to multiple, revenue generating product lines.
- Market Leadership – Market push for new products, to market pull and dominant positions.
- Distribution Strategy – Existence of a valid strategy and the tools to support it, through to global implementation.
- Partner Ecosystem – Establish market impact and ultimately indicative of pull.
- Management Team – Founder dependence is an inhibitor of scalability and clearly a concern for investors.
- Growth Potential – Highly indicative of scalability, incorporates many of the above, with a specific emphasis on future potential.

Individually and together, these KPIs provide a qualitative look into company maturity and are highly indicative of company success and therefore the multiple that investors will pay for the company. By building your liquidity plan to evolve the various elements of the maturity indicators through the years, company leaders can substantially improve the value of the company.

MATURITY ASSESSMENT MODEL

VISION	Technology Concept	Single Product Idea	Tech. Validated Prod. Delivered	Fundamental Market Shift	Multiple Proof-Points
PRODUCT STRATEGY	Technology Concept	Single Product Single Market	Single Product Multiple Markets	Multiple Product Single Market	Multiple Product Multiple Markets
MARKET LEADERSHIP	New to Market	Customer Use Web, PR	References/CS Gen Awareness	Positive Brand Recognition	Validated 1 or 2 Market Pull
DISTRIBUTION STRATEGY	Single Sales Representative	Regional Sales Single Continent	Viable Forecasting	Americas, Europe, Japan	Global RU & CH Contact Mgmt.
PARTNER ECOSYSTEM	Little or None	Signed Standard Programs	Cooperative Relationship	Partner Pull	Partner Dependence
MANAGEMENT TEAM	Founder Driven Decisions	Department Org Founder Leader	Basic Processes	Expert Team Mature Process	Distributed Decision Making
GROWTH POTENTIAL	Single Product In Maintenance	Single Product Sustainable Gro.	Multi-Prod >Mkt Needs Ext. Fund	Multi-Prod >Mkt Internally Fund	Substantial List Unfunded Proj.

CREATING VALUE USING THE MIRUS LIQUIDITY PLANNING MODEL

In developing the liquidity planning model, Mirus has compiled a wealth of data based on actual case studies for dozens of companies and transactions that both validate these indicators and are predictive of valuation within a directionally accurate range of certainty, thus establishing a method for independently benchmarking companies with an eye toward predicting future transactional value. But the value of the model is not only in predicting transactional value, it is the exercise in reviewing the subject company against the benchmark criteria and devising ways to improve against the criteria and thus add value to the company by impacting critical areas of the company. If you're interested in understanding more about both the key quantitative and qualitative drivers of exit value please give us a call.

We would be happy to explain more about the model and explore your business in the context of other companies that have had successful exits.

CASE STUDY: DESIGN SOFTWARE

One design software company that Mirus advised evolved over several years to mature their business. Initially, with a single product being sold in a single market, it was driven exclusively by a very bright owner operator and a strong industry partner relationship. The company was financially stable, and had achieved a substantial level of respect within its specific domain. In short, this was a successful company with potential to be purchased for its technical expertise and proprietary software at a respectable exit multiple. But both the management team and Mirus recognized the potential for more. Ensuing was several years of close collaboration and hard work on the part of company management to reshape and scale the company. What emerged was a plan to leverage core technology and deliver multiple products to multiple industries, expand beyond the single dedicated partner to extend market access and reduce dependence, and ultimately create an organization able to self-sustain and grow with less direct involvement of the owner/operator. This plan, when combined with aggressive sales and marketing, was able to ultimately double revenue and achieve a level of market success previously unobtainable. Broader industry recognition ensued and core partners began to compete for attention, providing additional market pull. In the end, not only did revenue and profitability increase, driving company valuation higher, but the strategic multiple was positively impacted through recognition of technological (not just product) potential, quality of the entire team, and finally the engagement of multiple bidders for this now "premium" property.

Peter Alternative *and* **Bruce Boes** *are partners at Mirus Capital Advisors, Inc. Founded in 1987, Mirus is a middle-market investment bank that specializes in advising companies on strategic mergers and acquisitions. By combining a proven process, industry and transactional expertise, creative thought, and personalized service, Mirus has completed hundreds of transactions for both public and private companies. Mirus is a registered broker-dealer and FINRA Member. Additional information about the firm is available on our website,* **www.merger.com***. We also invite you to visit our blog at* **findcapital.org***.*