

POSSIBLE (RE)DEFINED

Tech M&A Deals: Achieving Buy-Side Success

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A Fast-Moving Climate Requires
A New Way of Thinking



Possible (Re)Defined Go further, faster

Gain confidence and clarity to tackle challenges
or plan for tomorrow's aspirations

KNOWLEDGE

Learning Objectives

CPE Information

Recommended CPE: 1

Delivery Method: Group Internet Based

Field of Study: Finance

Program Level: Basic

Advanced Preparation: None

Prerequisite: None



EXPLORE:
What's causing
the M&A market
to surge again



REVIEW:
M&A roadmap &
key milestones



IDENTIFY:
Key factors &
potential
obstacles in buy-
side due diligence

WELCOME

Today's Presenters



Chris Perkins

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Technology Industry
Armanino



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Partner, Tax
Mergers & Acquisitions
Armanino



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Chad Zoretic

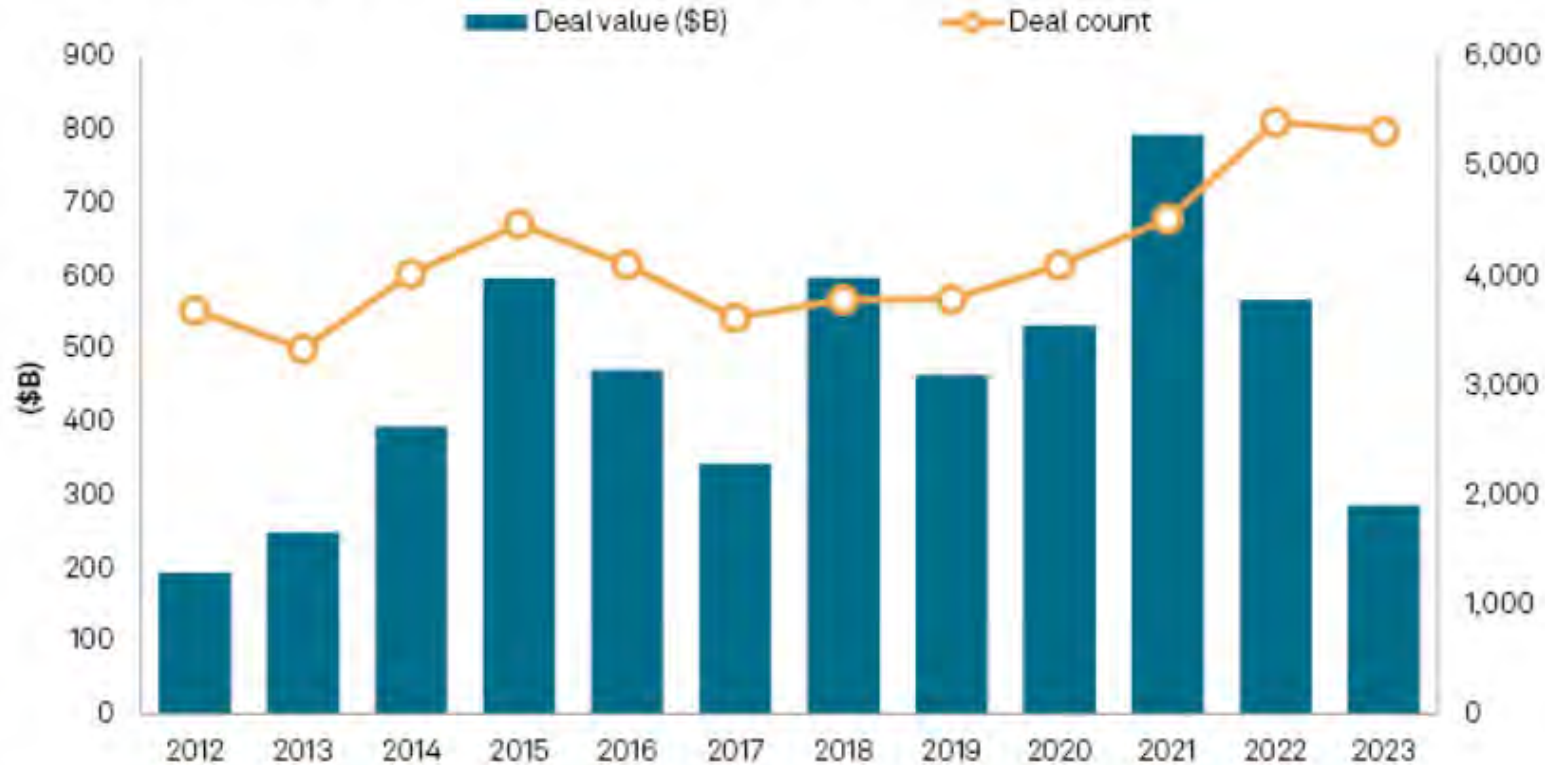
Partner, Consulting
CFO Advisory - Transactions
Armanino

EXPLORING NEW AREAS

Agenda

- State of the Market
- Key Topics of Focus in Buy-Side Due Diligence
- Common Roadblocks
- War Stories
- Q & A

Total tech M&A spend in 2023 hit multiyear low



Data as of Jan. 2, 2024.

Source: S&P Global Market Intelligence 451 Research M&A KnowledgeBase.

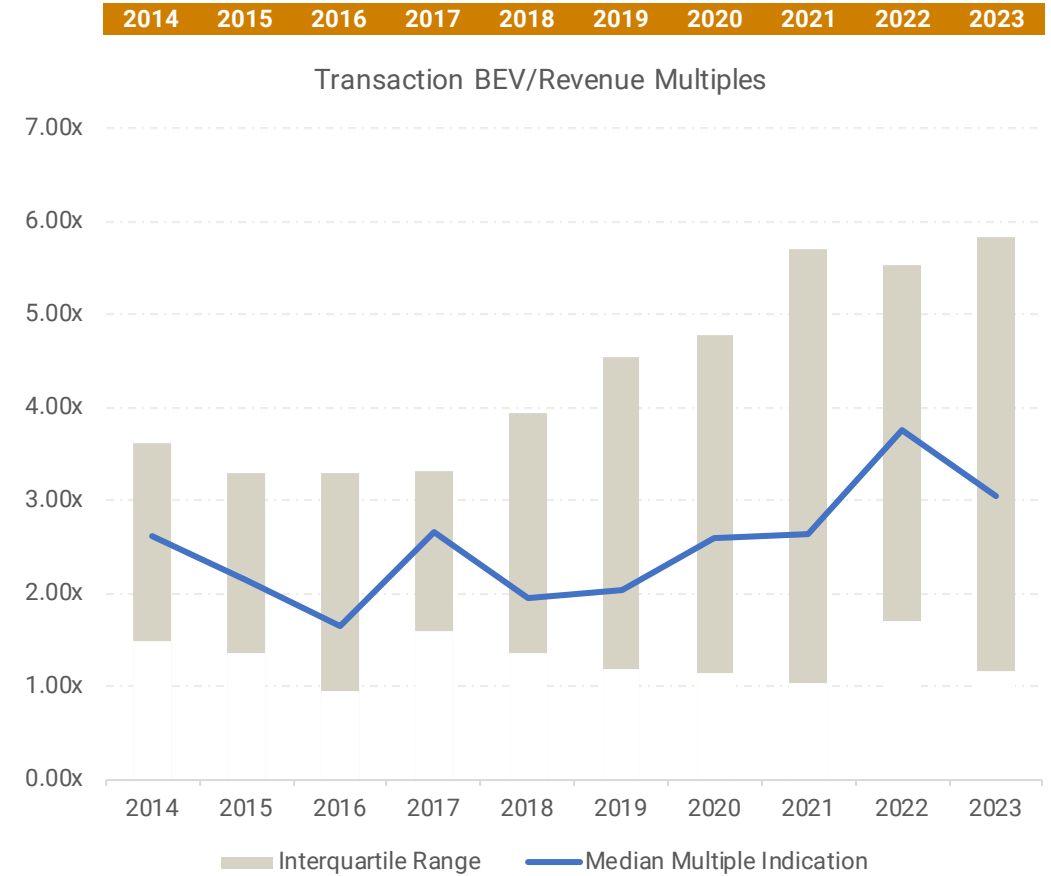
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MARKET TRENDS

Tech M&A Outlook in 2024

Market Trends

M&A Revenue Multiples (Broader IT Industry)

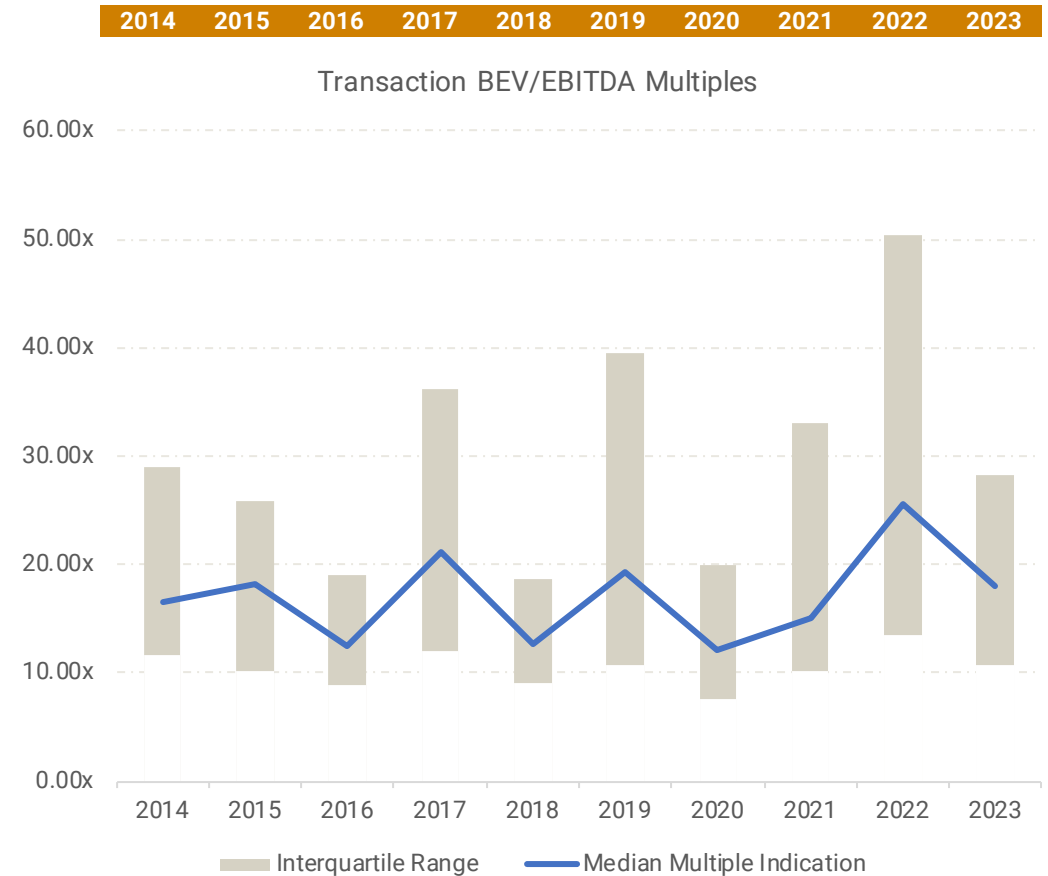


# of Transactions Revenue	61	58	58	43	48	38	26	57	33	16
Median	2.6x	2.1x	1.7x	2.7x	1.9x	2.0x	2.6x	2.6x	3.8x	3.1x

Source: S&P Capital IQ

Market Trends

M&A EBITDA Multiples (Broader IT Industry)

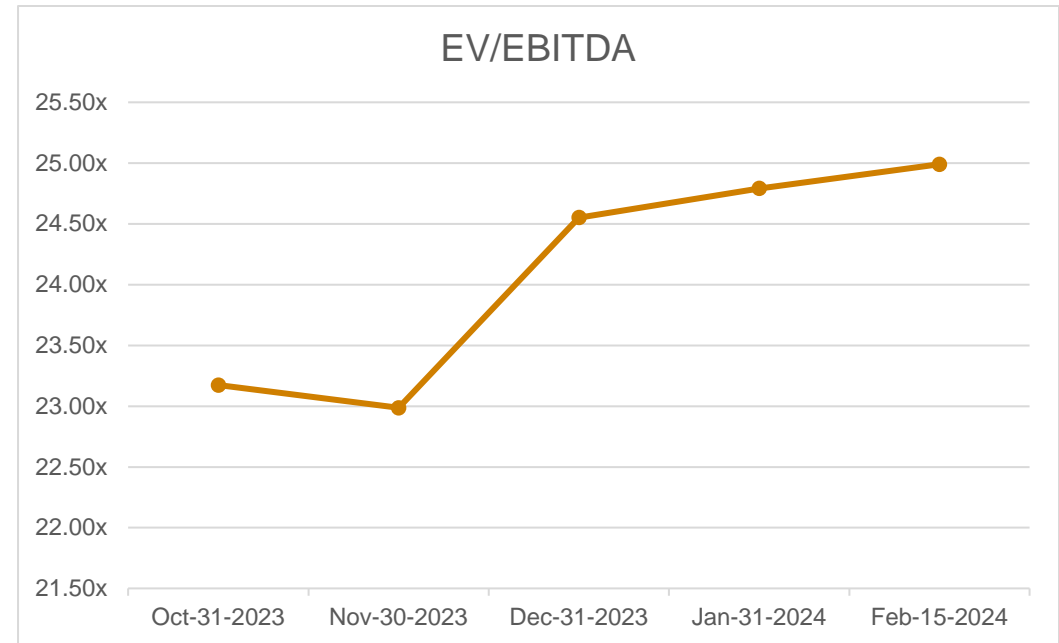
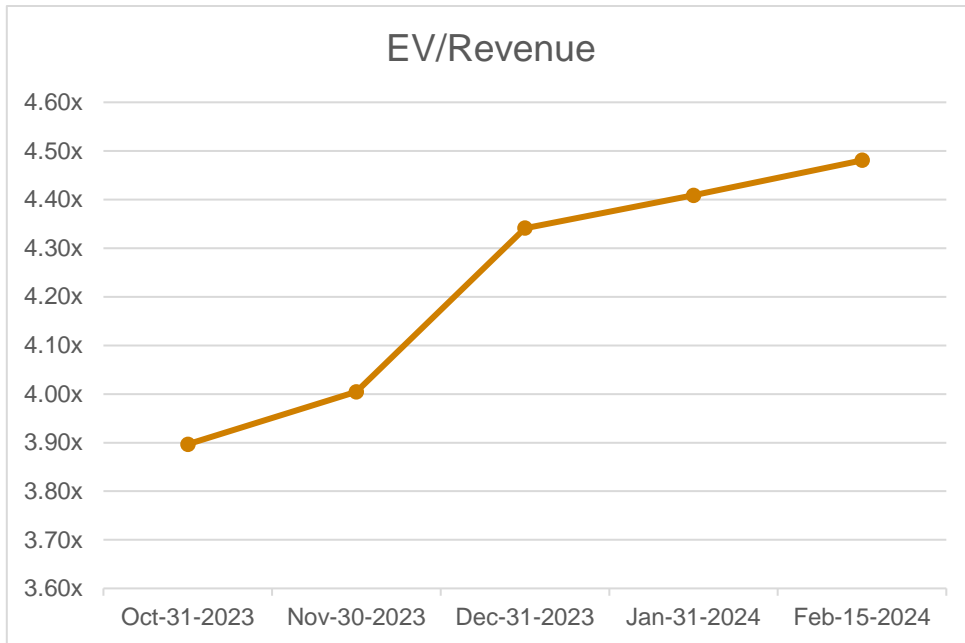


# of Transactions	61	58	58	43	48	38	26	57	33	16
Revenue										
Median	16.5x	18.1x	12.5x	21.1x	12.7x	19.3x	12.2x	15.1x	25.6x	18.0x

Source: S&P Capital IQ

Market Trends

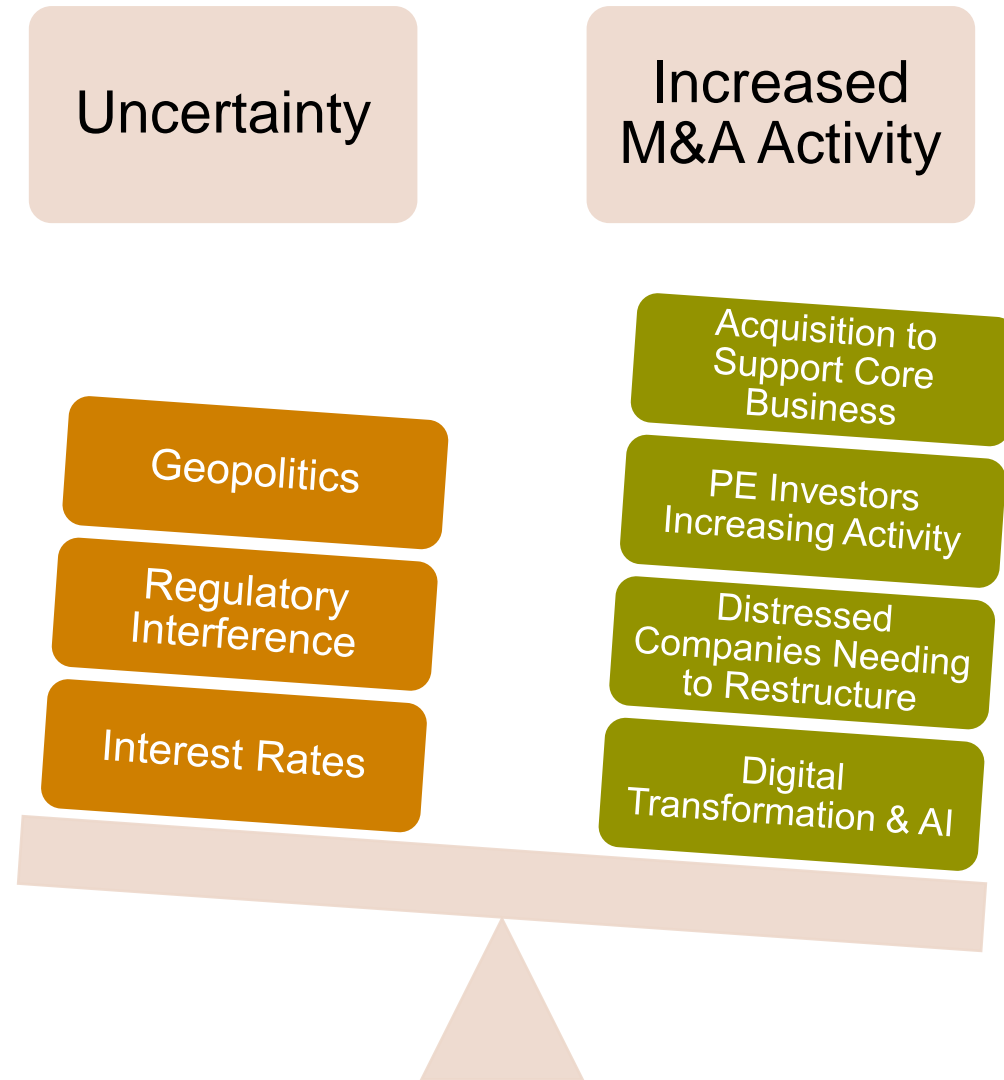
Public Company Software Multiples



Source: S&P Capital IQ

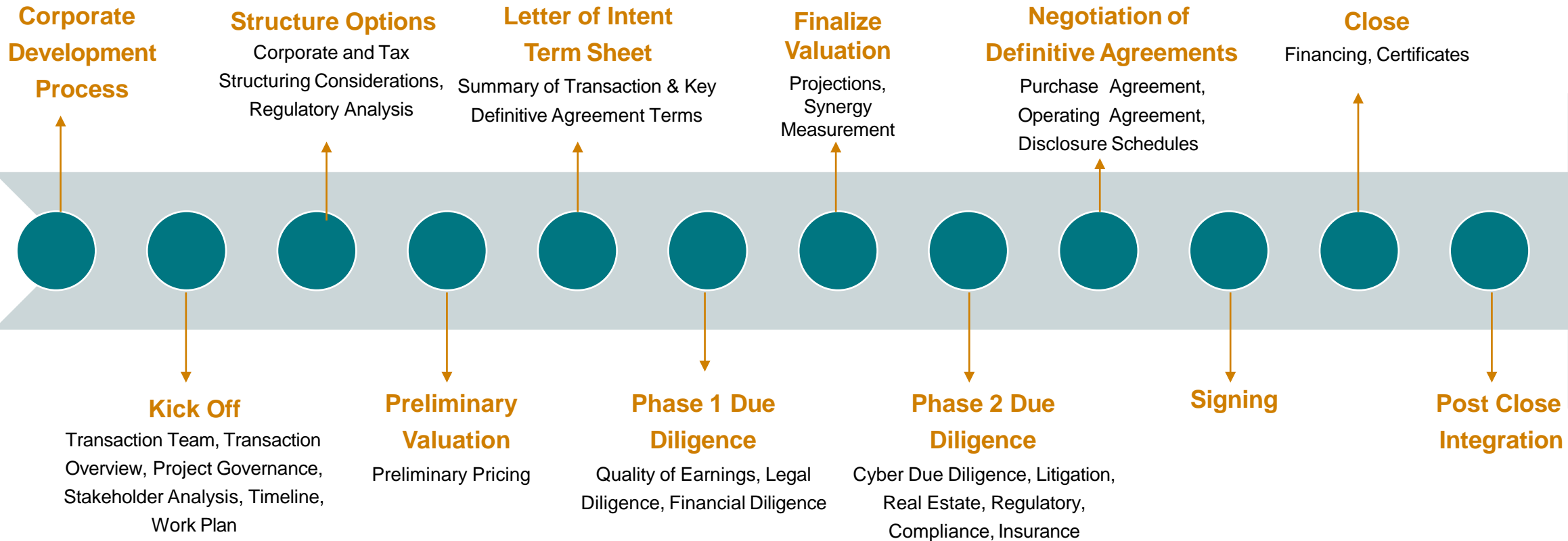
MARKET TRENDS

Do Experts Expect an Uptick in M&A Activity?



EXAMPLE

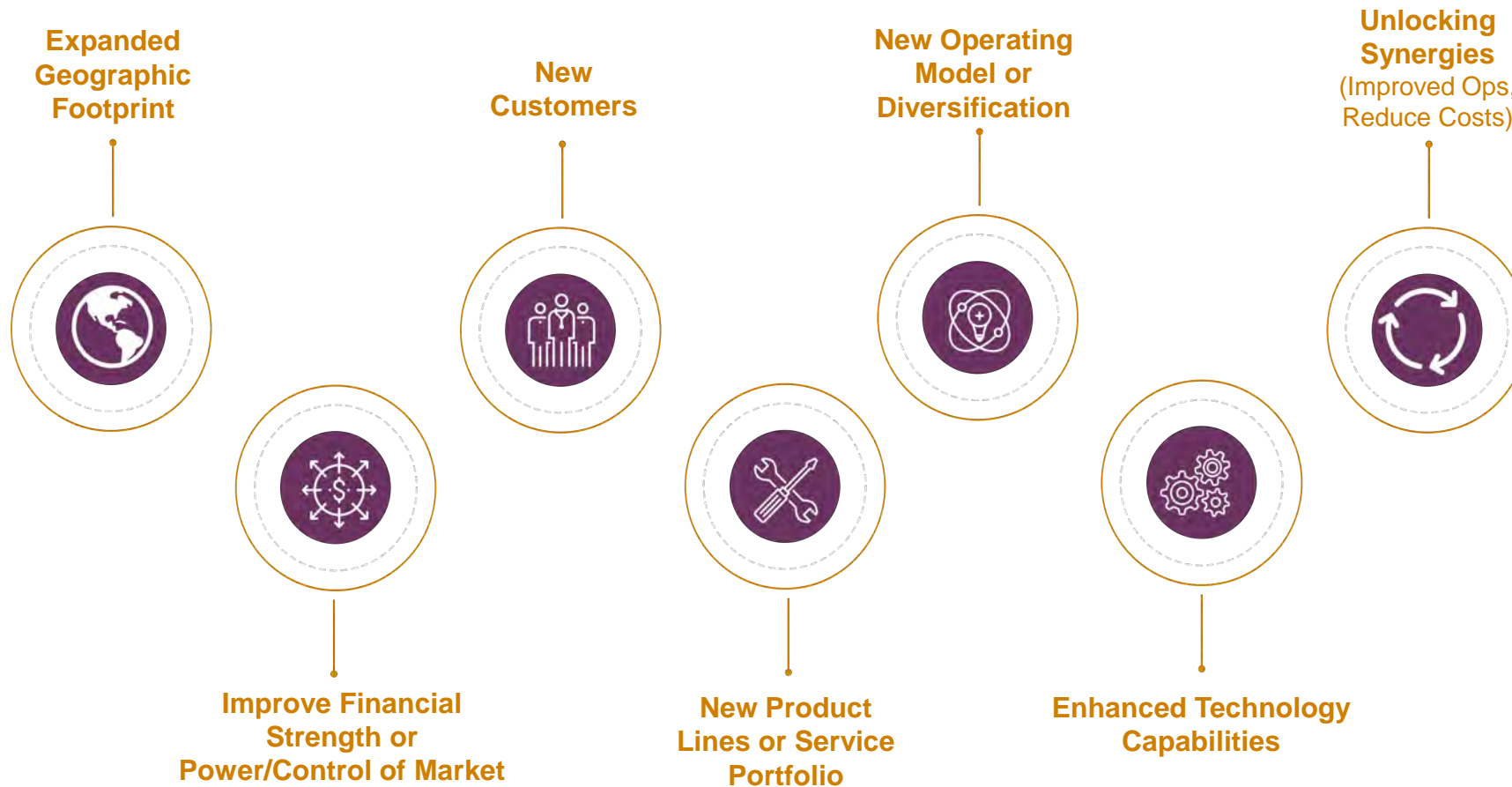
Pre-Deal Close Lifecycle



**Order of milestones may vary by transaction*

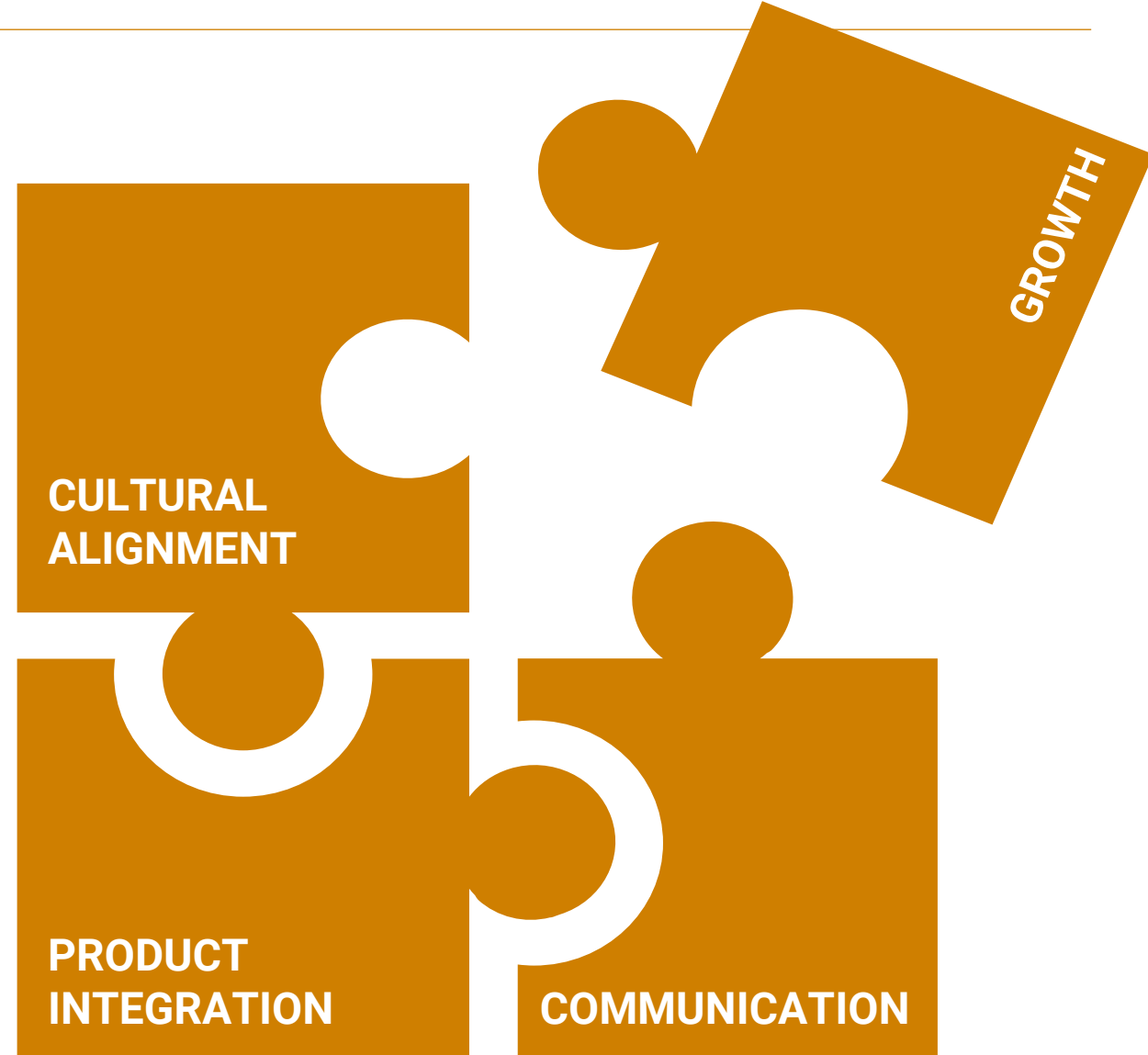
CONSIDERATIONS

Determination of M&A Benefits



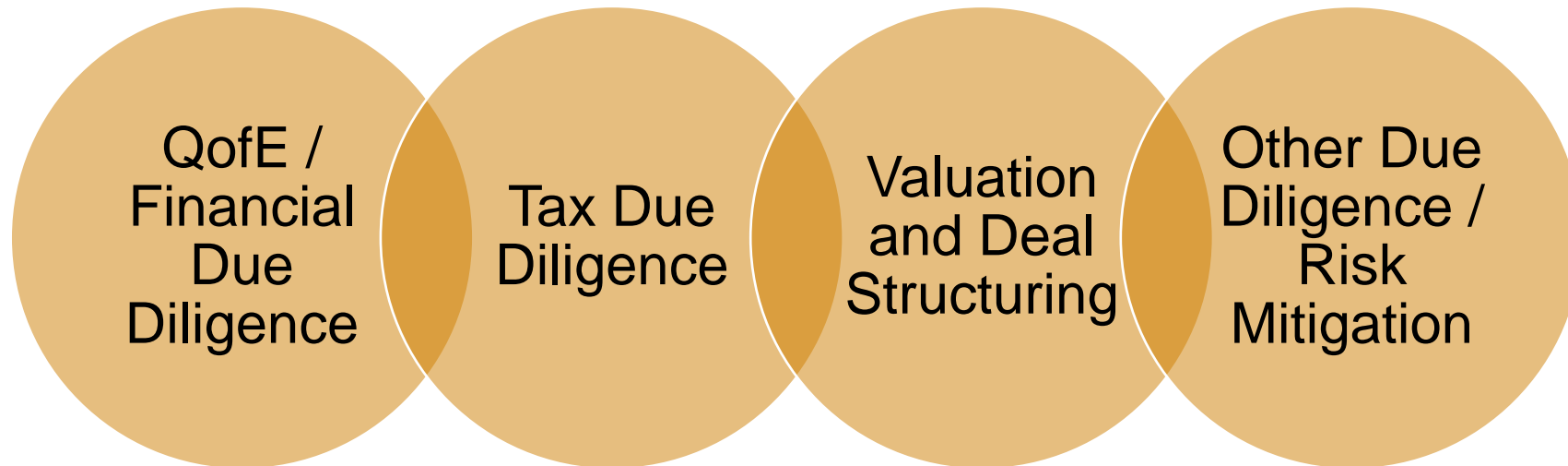
IDENTIFYING A TARGET

What to look for
in identifying an
acquisition target
(besides
valuation)?



M&A CONSIDERATIONS

Success is in the Details: Key Areas



M&A CONSIDERATIONS

Q of E & Financial Due Diligence Considerations

Revenue Recognition

- Gross vs. net and pass-through
- Growth rates/ARR/Projected Revenue
- Misalignment with CRM revenue info and general ledger

Recurring or Reoccurring Revenue

- Is it truly recurring (generated on a regular basis through subscriptions, contracts, or membership fees) or reoccurring (generated from repeat customers on an inconsistent schedule)?

Cost Structure

- Don't ignore operating cash flow
- With hyper-focus on revenue, oftentimes, operating cash flow is overlooked
- "We can just take over the revenue with our cost structure" mentality

Sales & Use Tax

- This is such a frequent item, it's on our radar for every deal

Net Working Capital

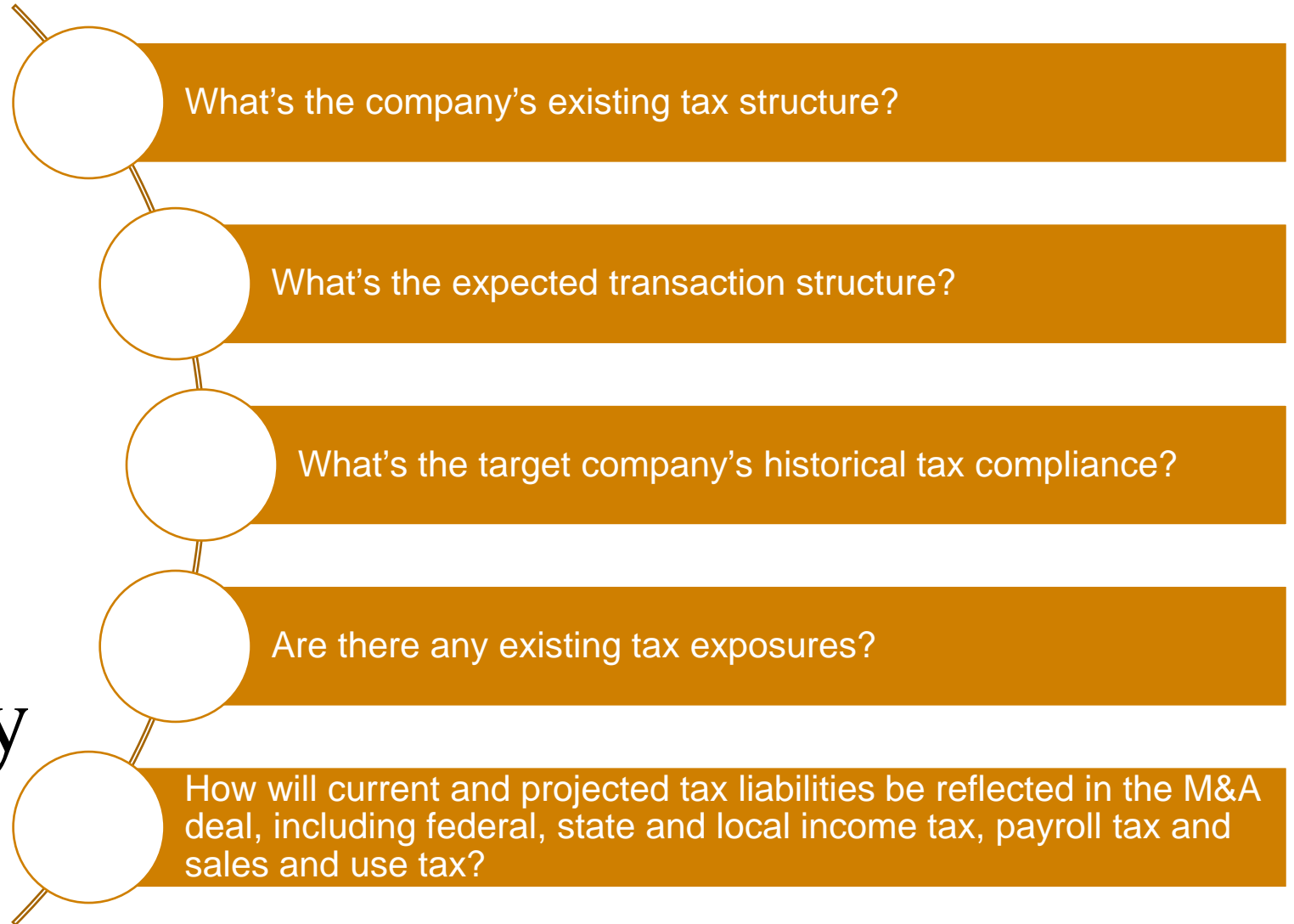
- **Deferred revenue** – is it in or out?
- What is the future cash cost to convert?
- Is cash being left in the deal?
- The TTM Average NWC may not be appropriate for target setting

Team Assessment

- Gauging the competency of the Target's financial team

TAX DUE DILIGENCE

Top Tax Questions Buyers Should Ask About a Target Company



COMMON ROADBLOCKS

Beware of These Tax Areas that Often Impact M&A Transactions

Beyond Direct Taxes

- Sales Tax
- Payroll Tax Exposure
- Golden Parachute, Sec. 280G
- Compensation, 162(m)

R&D Tax Credits

International Tax

- Transfer Pricing
- IRC 6662

Quality of NOLs

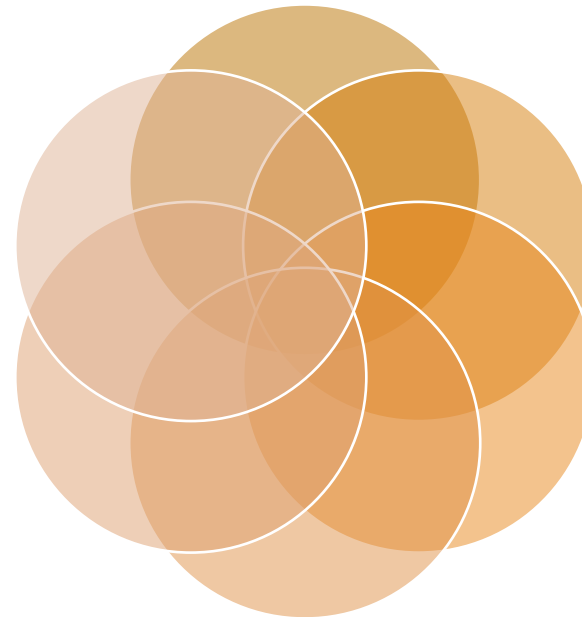
- Capitalized & amortized R&D expenses
- Section 382 analysis

State Taxes

- Nexus
- Apportionment
- State-specific adjustments since TCJA

Stock vs. Asset Sales

- Step-up Elections
 - Unilateral, Sec. 338(g)
 - Joint, Sec. 338(h)(10)
 - Seller-initiated, Sec. 336(e)



M&A CONSIDERATIONS

Valuations and Deal Structuring

- The price you pay is important, but also *how you pay*
 - Financial modeling and synergy measurement (truly achievable?)
 - Reasonableness of deal multiples
 - Cash, debt, or equity?
 - Rollover equity
 - Earnouts
 - Holdbacks
- Purchase accounting and purchase price allocation
 - Tax (§1060) and financial reporting considerations (ASC 805)
 - Day 2 impacts, including impairment and mark-to-market
- Deal success – measuring synergies, NPV, and IRR

M&A CONSIDERATIONS

Other Due Diligence Considerations

- Reps and warranties and insurance
- Other due diligence areas:
 - Legal/IP/Regulatory
 - Commercial/Market
 - Cyber/IT
 - Operational
 - HR
 - ESG



M&A CONSIDERATIONS

Top 10 Most Common M&A Risks

Overpaying

Overestimating Synergies

Weak Due Diligence Practices

Integration Shortfalls

Poor Change Management

Lack of Communication & Transparency

Failure to Capture Synergies

Security Threats

Unexpected Costs

Unforeseen Market Disruptions or “Acts of God”

SHARING WAR STORIES

Experience in the Nuances of M&A

M&A CONSIDERATIONS

Real Deal # 1

Challenge

- Revenue was overstated due to an improper gross-up of pass-through revenue

Solution

- With appropriate revenue recognition, the enterprise value was re-traded

Result

- Buyer was able to negotiate a \$3M discount or 30% reduction in enterprise value

M&A CONSIDERATIONS

Real Deal #2

Challenge

- “Napkin” deal – price agreed on by buyer and seller leaders (both corporates) in an early meeting.
- No valuation model or synergies measurement upfront – the buyer’s team had to create deal value.
- 85%+ goodwill in the transaction.

Solution

- No earnout and minimal holdbacks.
- Upfront deal modeling and stakeholder buy-in, along with proper due diligence.

Result

- “Overpayment” identified in the purchase accounting and purchase price allocation.
- Two years later, over 50% of the purchase price was impaired; subsequent years there was more impairment.

M&A CONSIDERATIONS

Real Deal # 3

Challenge

- Section 338(g) with respect to a foreign entity acquisition resulting in some additional tax cost ("Gross-Up") for the seller and for which seller wanted purchase price to be adjusted. Seller's Gross-Up calculation was about \$2M.

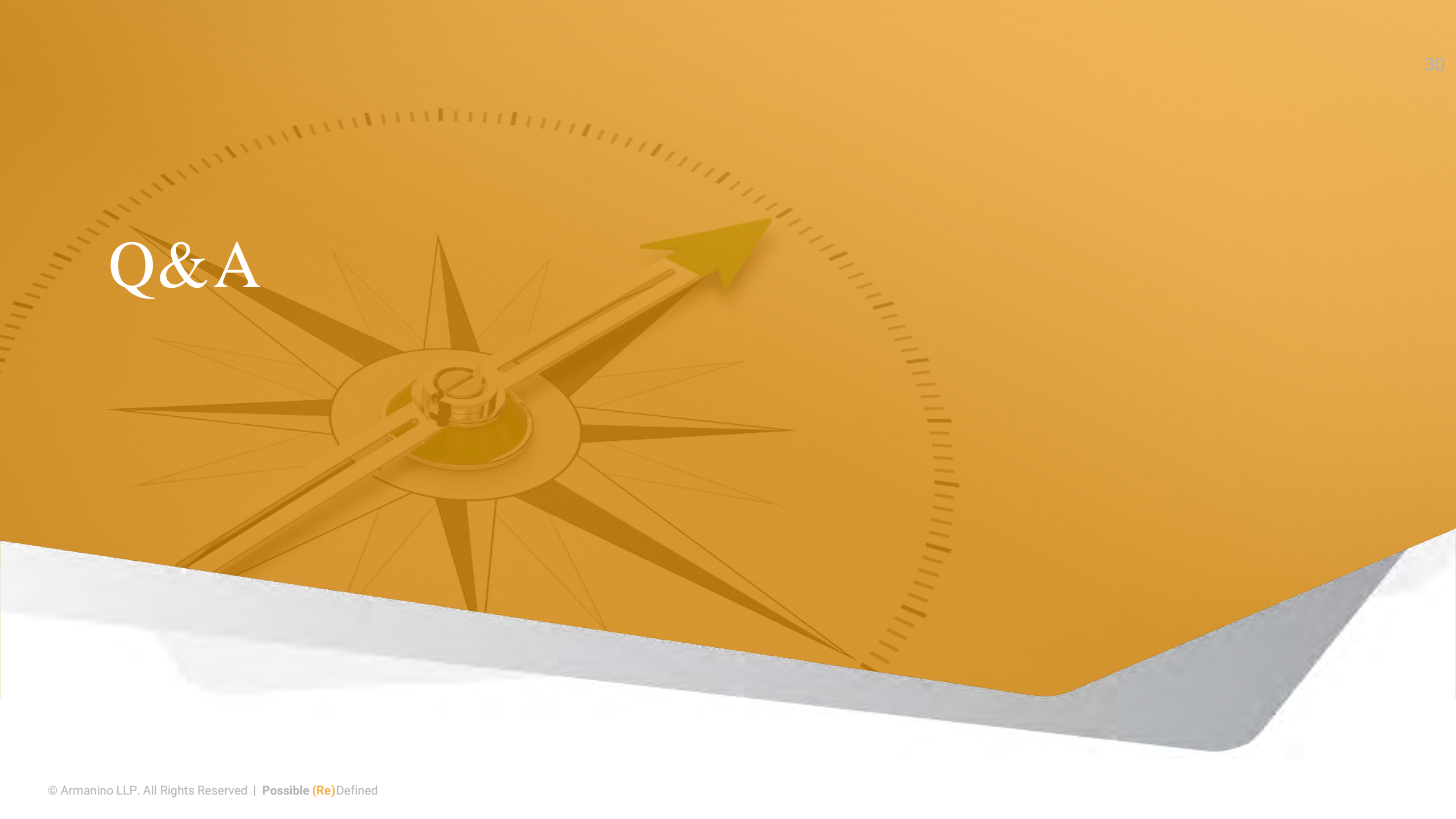
Solution

- Buyer hired us to do the gross up calculation and our analysis resulted in additional tax cost of \$300K for the Sellers as a result of section 338(g) election.

Result

- Sellers agreed to our analysis. Net saving of approx. \$1.7M.

Q&A



Thank you for
attending

Additional Questions?

Reach out to us at

Experts@armaninioLLP.com

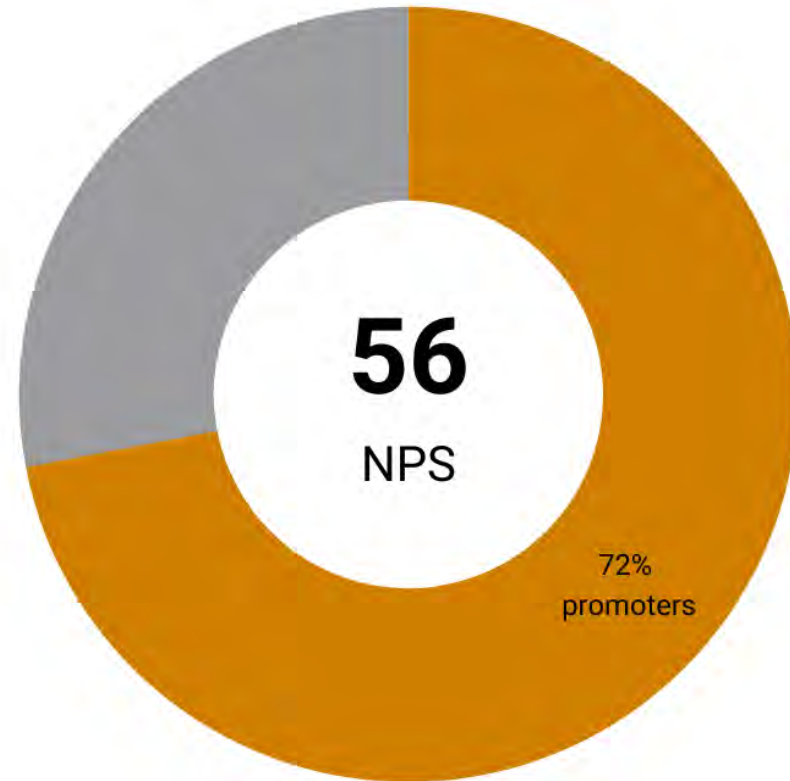


OUR CLIENTS' VIEW

We're Just What You Need

Armanino has a Net Promoter Score® (NPS) score of 56, an indication of **superior customer satisfaction**, with scores above 50 considered excellent.

NPS® is widely recognized as the gold standard metric for assessing customer experience. Our high NPS underscores our commitment to providing exceptional client experiences and reflects the satisfaction and loyalty of our valued clients. Notably, **72% of our clients are promoters**, rating Armanino 9 or higher on a scale out of 10.



Nearly three-quarters of clients rated Armanino 9 or higher on a scale out of 10.

OUR PROMISE TO YOU

Reimagine Your Potential



Unconventional
Approach

We're a vested, entrepreneurial partner who sees your organization through a 360 lens and finds opportunity at every stage



Comfort in
Change

Our experts provide guidance and support while quickly facilitating transformation that gives you a competitive advantage.



Focused on
You

Our integrated teams and solutions deliver tailored insights to bring you more value and clarity throughout your journey.

A new and better way for today and tomorrow

Equipping you with the insights and tools needed to redefine what's possible



COMPLIANCE & REGULATORY

- Tax Planning
- Trust & Estate
- SOX
- Contract



ASSURANCE & ADVISORY

- Cybersecurity
- SOC
- Restructuring
- Revenue Recognition



STRATEGY & PLANNING

- Corporate Strategy
- Strategic Advisory
- Benchmarking
- Business Transformation



STAFFING & DEVELOPMENT

- Payroll
- Health Benefits
- Executive Search
- Interim Placement



TECHNOLOGY SYSTEMS

- ERP
- CRM
- Business Intelligence
- Managed Services



ACCOUNTING & BACKOFFICE

- Bookkeeping
- Budgeting/Forecasting
- Account Receivable
- Accounts Payable

Possible *(Re)*Defined™

Delivering impactful, bold solutions that increase clarity
and spark success for today and tomorrow.