

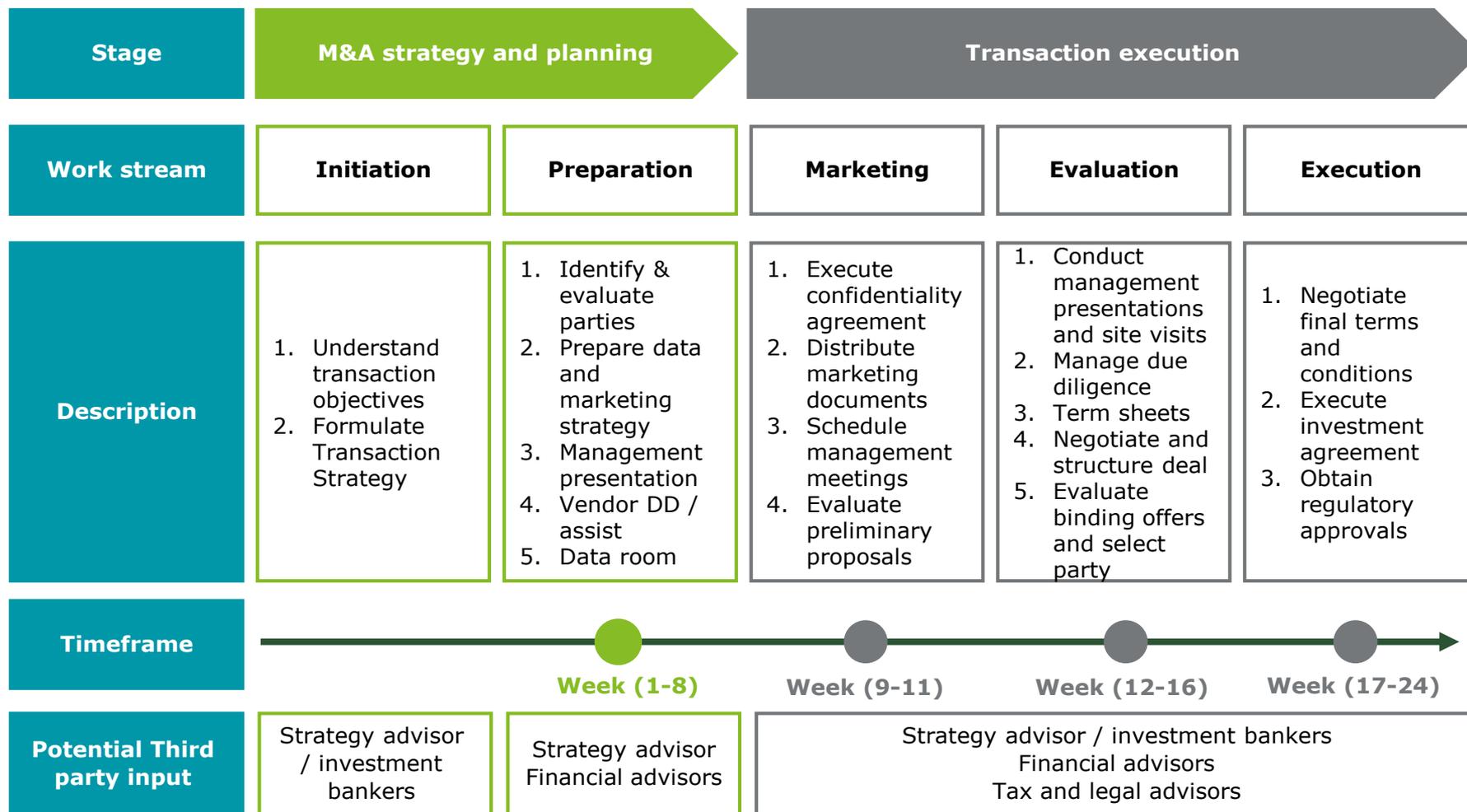
**Deloitte.**



**How to prepare your company  
for the M&A process**

## Overview of the M&A process

A typical deal takes at least half a year from deal inception to final execution. Whilst no two businesses or processes are the same, implementing a comprehensive sale process usually results in value maximisation



## M&A transaction strategy

Asking the right questions will help to determine the correct transaction strategy and identify how best to prepare for the sales process

### Why

- Why am I selling the business?
- What are my non-negotiable deal issues?
- Am I looking for an investor or full buyout?
- Will I sell to a strategic or financial investor?

### What

- Will I sell a company or just specific assets?
- Will I carve out certain operations?
- What price do I put on my business?



### Where

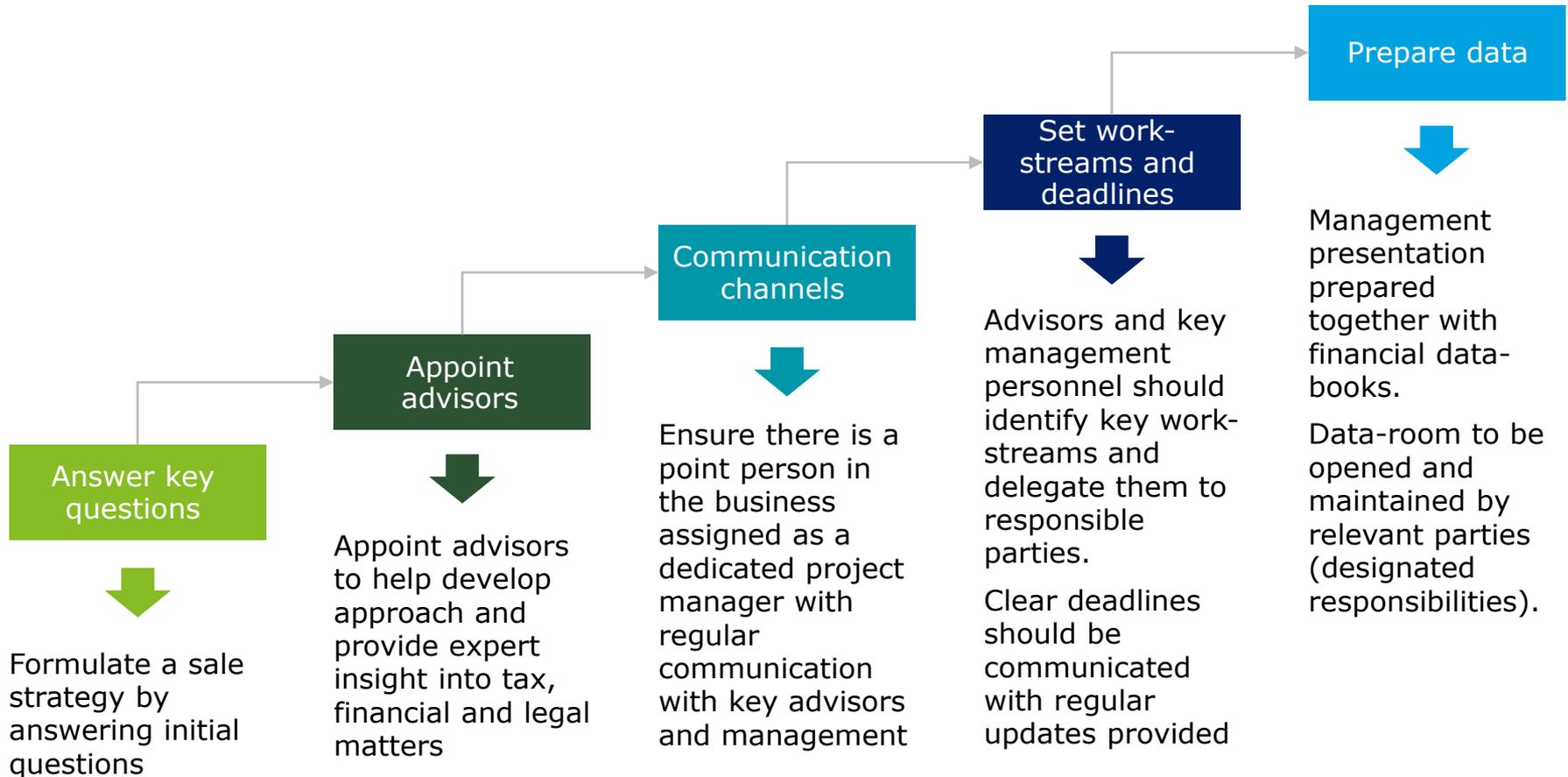
- Where are my business operations?
- Will geographies limit my buyer pool?
- Am I running a global sale process or local sale process?

### When

- Is it the right time to sell?
- Will there be an earn out mechanism as part of the deal?
- Which financial periods will be part of the due diligence process?

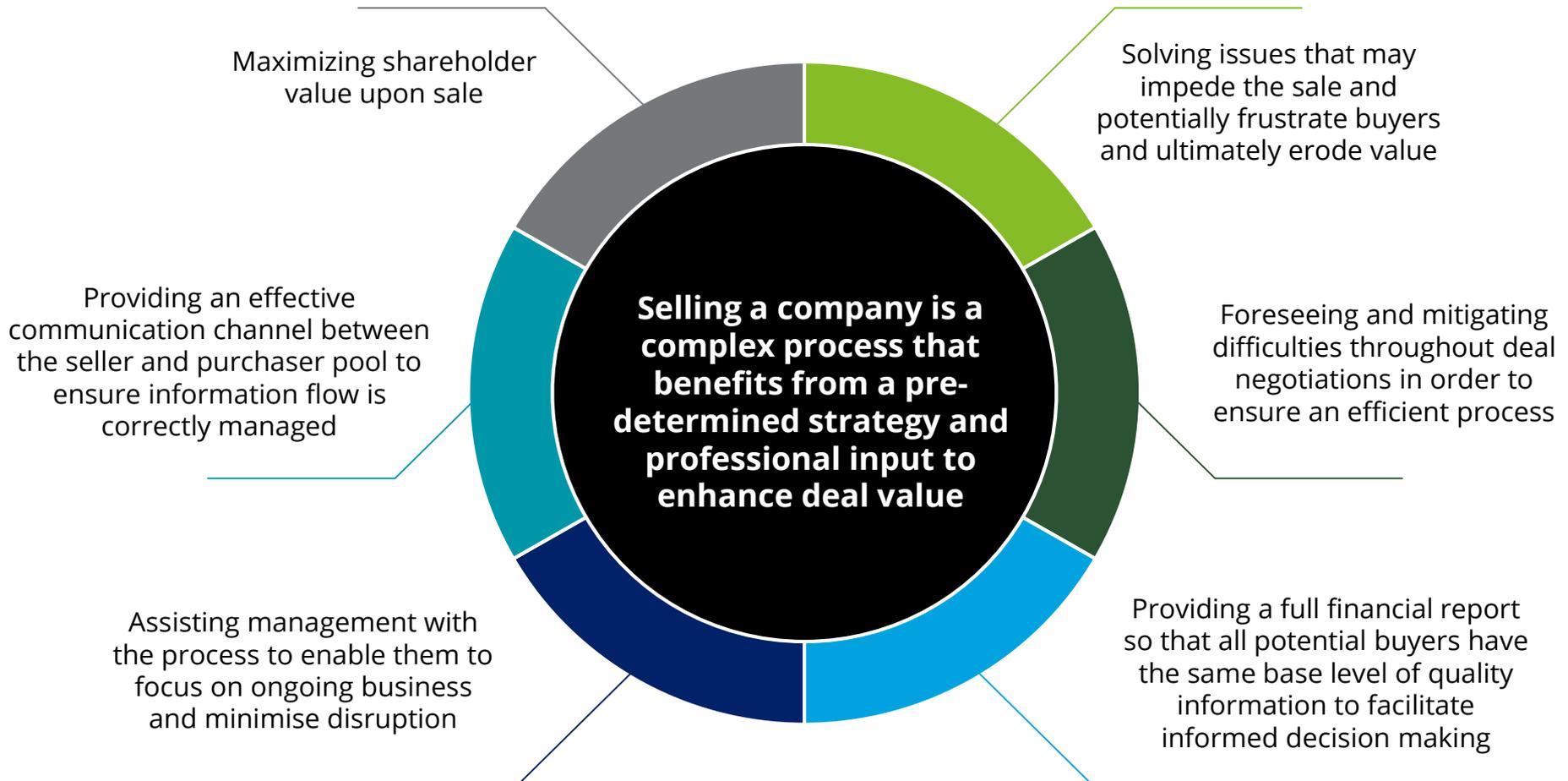
## Preparation steps

Clear communication and delegation of work is critical to ensuring that the transaction is a success and ensures that Management can continue to run the day-to-day business without becoming distracted



## Benefits of financial preparation

A thorough preparation will reduce disruption to a business, pre-empt issues that will erode value and identify workarounds, facilitate an efficient sale process and reduce the level of additional work performed by potential purchasers



## Financial preparation focus

The main focus of any financial preparation depends on whether a company is in its formative phase or mature stage with the preparation for the former concentrating on quality of information and the later emphasising quality of earnings review for deal valuation

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| Financial preparation      | Early stage                         | Mature stage                        |
|----------------------------|-------------------------------------|-------------------------------------|
| Quality of data            | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Quality of earnings        | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Quality of assets          | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Off balance sheet items    | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Cash flow                  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Related party transactions | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

## Financial preparation – early stage tech company

Even if the company is in its infancy stage and has not yet demonstrated any sales traction, there are clear benefits to ensuring that some form of financial preparation is undertaken

**1** **Finance capabilities**  
Organized data reflects a well run organization

### Benefits to seller

Provides comfort that there are strong protocols in place and potential scaling capabilities

**2** **Distraction**  
Organized data means that numbers do not distract the buyer

### Benefits to seller

Allows the buyer to focus on what really matters – the technology and products being sold

**3** **Identification of issues**  
Identify any financial issues early on and consider associated workarounds

### Benefits to seller

Helps to ensure that there is limited price erosion and no surprises along the sales process journey

**4** **Cash burn**  
Demonstrates the monthly cash requirement on a run rate basis going forward

### Benefits to seller

Confirms to the buyer the actual current cash requirements of the business and helps to underpin investment rationale

**5** **Forecast**  
Financial review of the forecast

### Benefits to seller

Illustrates financial sensitivities and upsides to management forecasts to demonstrate robustness of figures

## Early stage – common issues from financial preparation

Start-up entities particularly in the technology sector often encounter issues due to their infancy and focus on product development

1

Financial management and control

Lean finance team and sparsity of information leads to potential inconsistencies that erode value

2

Non cash payments and contingencies

Due to cash constraints, payments are delayed or key suppliers incentivized through alternative means

3

Related party transactions

Often the business is supported by related party loans or equity investments that may not be properly documented

4

Key employee dependency

Young companies often rely on key subcontractors with limited retention incentives and potential social benefit exposures

5

Forecast preparation

Often the forecast is prepared at high level without consideration of different scenarios and risks

## Value drivers for a mature company

The key reason to undertake financial preparation for a more mature business is to protect (and sometimes enhance) sale value. Financial preparation and due diligence is a robust process that goes well beyond a review of audited financial statements



### 1 EBITDA

- One off revenues or costs
- Pro-forma adjustments to reflect the impact of known future event
- Change of accounting policies

### 2 Working capital

- Reclassification of working capital items to debt
- Insufficient provisions (e.g. bonus accruals only made at a specific point)
- Long term deferred revenue contracts

### 3 Net debt

- Off balance sheet items (e.g. legal claims)
- Transaction related costs or retention bonuses
- Historical capex underspend

## Mature phase – common issues from financial preparation

Mature technology companies often encounter similar challenges around value drivers, the lumpy nature of long term project revenues and accounting policy application

1

Key value drivers

Quality of earnings review, revenue metrics sometimes used for deal value

2

Accounting policies

In certain instances, revenue recognition and cost capitalisation policies are applied incorrectly – key if US purchaser

3

Employee costs

Employee liabilities may not be correctly recorded (e.g. bonuses, commissions, ESOP and severance)

4

Cash and working capital

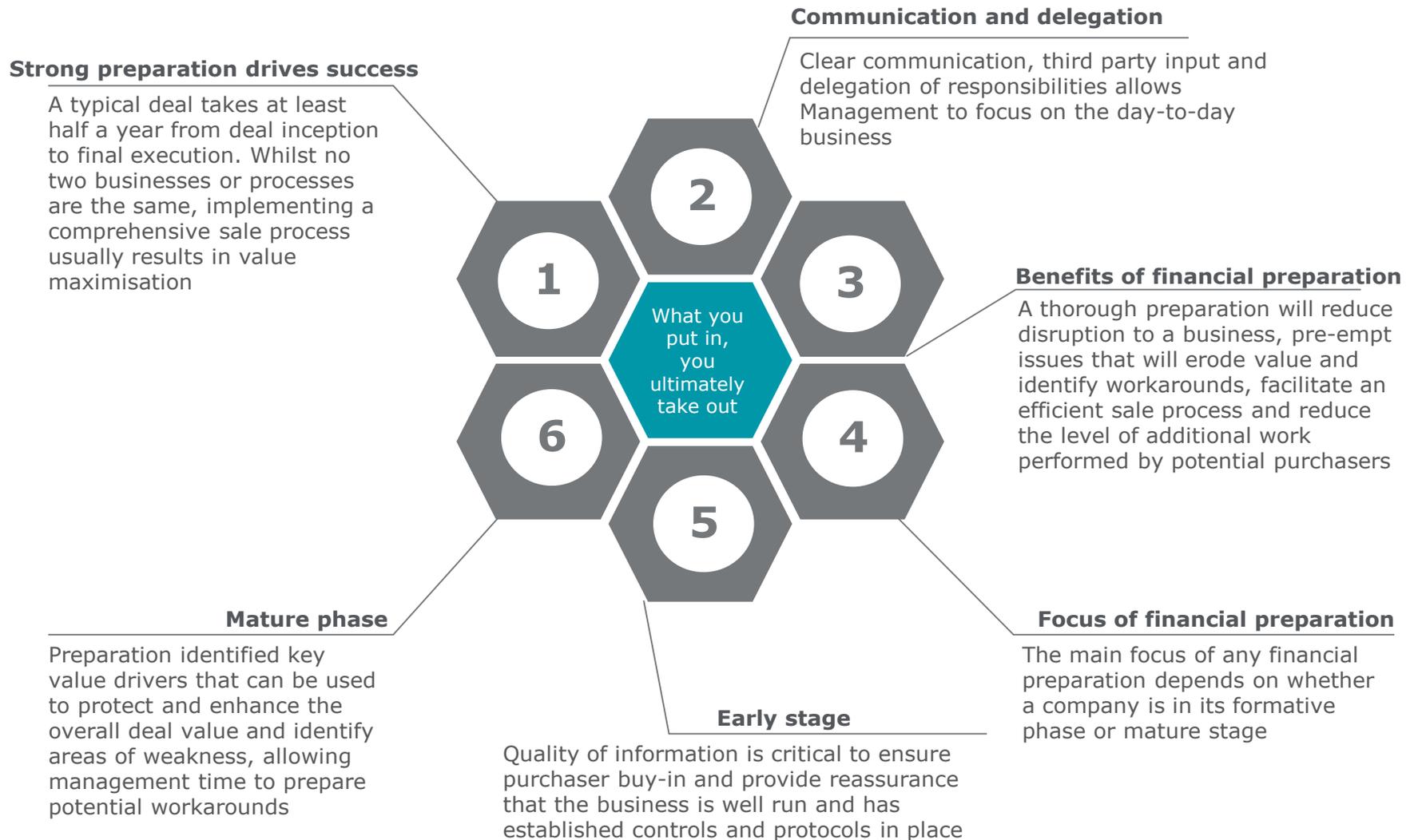
License sales are often paid upfront, leading to a mismatch between profits and cash that needs to be explained

5

Key third party dependency

Employee liabilities may not be correctly recorded (e.g. bonuses, commissions and severance)

## Summary



## Know your Team

### Sigal Adania Kapun

**Partner – Leader of Transaction Services and M&A, Financial Advisory Services, Financial Advisory, Tel-Aviv**



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#### Profile

Sigal Adania Kapun, CPA, is the leading partner of Deloitte Israel's M&A practice. She facilitates the collaboration of M&A professionals providing strategic and private equity investors with comprehensive service offerings across the deal lifecycle.

For over 18 years, Sigal has worked closely with both strategic and private equity clients. She has extensive experience in a number of areas within M&A including large-scale due diligence, merger planning, vendor support and sell side advisory, SPA advisory, carve-out analysis and more. Transactions managed by Sigal range from Start-ups to multi-billion dollar companies.



#### Key experience

- Sigal has a wealth of transaction experience across a range of sectors and internationally, including for (amongst others) Apax partners, Leumi Partners, Francisco Partners, TPG, Orbimed, Riverwood Capital, Shamrock growth fund, Sony, CISCO, IBM, Azrieli Group and Elco Group.
- Sigal is a former member of the GAC (Governmental Advisory Committee) and currently is an instructor at the GNPS. Sigal holds a BA in Economics and Business Administration from The College of Management and a LLM from Bar Ilan University.

### Tal Chen

**Partner – Corporate Finance Advisory, Tel-Aviv**



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#### Profile

Tal is an Israeli tech dots connector. Focusing on established business relationships between Israeli Tech companies, Foreign Investors, Strategic Partners and Potential Buyers.

Tal is specialized in: Cross boarder Merger & Acquisition process of Tech companies, Creating global strategic alliances for Israeli Tech Companies, Tech scouting services to MNC and Cross boarder Private Placement.

Between 2009-2016 Tal was head of the TMT (Technology, Media & Telecommunications) and Life Sciences sectors for the Israeli firm.



#### Key experience

- USD 212m acquisition of Altair Semiconductors by Sony Corp.
- Fundraising for an Israeli medical devices manufacturer
- Go-to-Market strategy for an Israeli medical devices manufacturer
- More than 30 Tech scouting projects for MNCs (Credit Suisse, Sompco Holdings, SAIC, Volkswagen, Exxaro, Verizon, Komatsu, Panasonic, US Cellular, Mitsubishi Electric, La Poste, Sunny Optical Technology, TD Bank and others)

## Know your Team

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#### Profile

Allon joined the Israel transaction services team in September 2015 from the Deloitte UK practice, where he was an Assistant Director in the financial advisory services team.

In the UK, Allon primarily focused on complex financial restructurings across a number of different sectors including work on NCP car parks, Clinton Cards and Premier Foods in addition to providing financial and transactional support on large scale insolvencies such as Comet, Woolworths and Paul Simon. His work also included due diligence for prospective bond offerings and due diligence work connected to the sale of Harrods.



#### Key experience

- Since joining the Israeli firm, Allon has led a number of financial due diligence engagements (for both vendors and acquirers) across different sectors.
- Allon has extensive experience of working with high tech, retail and pharma targets and has led due diligence processes in respect of some of Israel's largest deals in recent years.
- Allon is a chartered accountant with the Institute of Chartered Accountants of England and Wales, and holds a first in Mathematics with Economics from University College London.

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