
extreme365
Empowering Dynamics 365 Communities
GETTING IN POSITION TO BE IN POSITION
IS IT BUY OR SELL TIME?
LINDA ROSE
ROSEBIZ, INC.

Speaker Introduction

Linda Rose

CEO/President – RoseBiz, Inc.

linda@rosebizinc.com

- Successfully bought/sold 4 services companies
- 25+ years of Microsoft technology experience
- 16 years as a Cloud Provider
  - 100% Cash offer
  - 98% recurring revenue
  - 97.5% customer retention rate
- Writer, speaker, avid outdoors women

Key Take-aways from this session:

- ✓ Valuations in the Microsoft Dynamics Space
- ✓ Understanding "Adjusted" EBITDA
- ✓ EBITDA Exercise – getting to YOUR number

IT Survey says….

40% of the Channel will retire in the next 7yrs

(Source: Forrest Analyst – Jay McBain)

Current Landscape of M&A in the IT Industry

40% of all deals are for firms < $5M Revenue

47% of all buyers are PE Firms > $5M Revenue

95% of all deals consist of an earn-out

77% of companies hit their target earn-outs

(Source: Equiteq Trends Report)

When to Buy?

Revenue is greater than $5M

Revenue is growing at 25% YOY or better

Financially healthy, little or no long term debt

In a position to take risk

Desire to accelerate growth faster than organic

Opportunities as a buyer…..

Go BIG, Go VERTICAL, or Go HOME

1. Customer base expansion
2. Vertical experience
3. Human Capital
4. Geographic expansion

Its easier to BUY than BUILD

When to sell?

You "know" you have reached your own ceiling

Revenue XX YOY growth becomes more difficult

You want to monetize your investment

Little or no debt with no LT obligations

Solid management team with strong processes

Opportunities as a seller…..

1. Microsoft is “hot”
2. Customers move into “monthly spend mentality”
3. PE’s sitting on lots of cash
4. Interest rates remain low
5. Access to capital remains high

Who is getting the highest valuations

Partner Types:

Traditional VAR

- ✓ 90% project revenue – non-recurring
- ✓ Sells/implements vendor software
- ✓ GP Margins dependent on software/services

AVG: GP Margin = 25%

Partner Types:

VAR + Managed Services

- ✓ 50%+ Recurring revenue
- ✓ Sells/implements vendor software
- ✓ GP Margins dependent on software/services

AVG GP= 35- 40%

Partner Types:

Hosted Cloud Provider IaaS/PaaS

- ✓ 85%+ Recurring revenue
- ✓ Hosts/supports vendor software in public or private cloud
- ✓ No IP other than possible procurement
- ✓ AVG GP Margins = 50%

Partner Types:

SaaS - Own IP

- ✓ 95%+ Recurring revenue
- ✓ Application runs on own cloud or AWS/Azure cloud – not dependent on other vendor software
- ✓ Ideally cloud agnostic
- ✓ Own IP

AVG GP Margins = 60%+ ns

Valuations and Appeal by Type:

	Traditional VAR	VAR + Managed Services	Hosted Cloud Provider IaaS/PaaS	SaaS - Own IP
% of Recur/Rev:	10% - 20%	40% - 60%	85%+	95%+
GP Margins:	25% - 40%	35% - 45%	50%+	65%+
Valuation Appeal:	Depends on buyers needs	Moderate	High	Highest
Revenue Multiples:	.5 - .75x	.75 - 1.1x	1 - 1.5x	3 - 5x
Buyer Focus:	Geography and Human Capital	Gross Profit and Strong EBITDA	Growth and Gross Profit	YOY Revenue Growth

What is the right number?

Strive for the "Rule of 40"

Growth Rate + Profit = 40

Profit = Operating Margin = EBITDA

Strive for the "Rule of 40"

If you are growing 100% YOY, you can lose money at a rate of 60% of profits

If you are growing 40% YOY, you should be breaking even

If you are growing 20% YOY, you should have 20% operating margin

If you are not growing, you should have 40% operating margins

If your business is declining 10%, you should have 50% operating margin

How much should you pay?

Great rules of thumb:

1. Recoup your investment over the next 5 years or 20% Internal Rate of Return (IRR)
2. 60/40 = Cash/Earn-out
3. Earn-out 24 to 36 months

What Are You Worth Today - A quick exercise

EBITDA

Earnings before:

- Interest
- Taxes
- Depreciation
- Amortization

Top performers are greater than 12.5%

(Source: Equiteq Buyers Research Report)

Adjustments to EBITDA: ADDS – Increases your value

- Excessive owner salary
- Owner bonuses
- Profit-sharing
- Automobiles/housing allowances
- Insurance
- Owner travel
- Extra ordinary legal expenses
- Intercompany expenses
- Extraordinary losses

Adjustments to EBITDA: SUBTRACTS – Decreases your value

- Below market owner salary
- Below market benefits
- Essential key player salary additions
- Extra ordinary gain/sale of asset or IP
- Lease termination costs

Determining Your "Adjusted" EBITDA Worksheet

	Amounts in $$$,$$$	
Current Earnings Before Interest Taxes Deprec/Amort	$	A
Add Backs to EBITDA: (Expenses NOT incurred by Buyer)		
1 Excessive owner/exec salaries - salaries in excess of "market" for all executives		
2 Owner/ Exec bonuses - Bonus beyond the normal % given to other employees in similar roles		
3 Profit-sharing - either excessive or all depending on buyers		
4 Automobiles/housing allowances - items that would be eliminated in the normal course of business		
5 Insurance - Keyman, Owner/exec LTDI, spousal life, excessive medical contributions for employees, health encentives		
6 Owner/Exec excessive travel: Trips between personal residendences or offices		
7 Extra ordinary legal expenses		
8 Special employee perks: reward trips, excess rewards		
Other Items:		
9 Intercompany expenses		
10 Extraordinary losses - Customer Bankruptcy, Loss on sale of assets, write-offs beyond normal course of business, settlement of tax liens (penalties)		
Total in Thousands	$ 0	B

Subtractions to EBITDA: (Additional Expenses to be incurred by Buyer)

1 Below market owner/exec salary:
2 Below market benefits: not providing the same level of benefits buyer currently provides
3 Essential key player salary additions:(i.e. salesperson if owner does significant amount of sales for company)
4 Key employee retention bonuses: If not part of earn-out
5 Sales Tax: (often overlooked in the past) - Nexus created by sale - usually only an issue with fixed fee multi-year contracts

Other Items:
6 Extra ordinary gain/sale of asset or IP
7 Lease termination costs - If office space not needed or redundant - costs associated with terminating lease or subleasing existing location

Total in Thousands $ 0 C

Adjusted EBITDA

$ 0 A+B-C=D

SAMPLE VALUATION RESULTS — RANGE ("D" x EBITDA Multiple)

Multiple by Partner Type:	EBITDA Multple	LOW	HIGH
Traditional VAR	3x - 5x	0	0
VAR + Managed Services	4x - 6x		
Hosted Cloud/IaaS/PaaS	5x - 7x		
SaaS - Own IP	10x +		

Assuming 15% - 20% Adjusted EBITDA and a 25% - 30% growth rate

EXAMPLE CALCULATION - Multiples will vary by numerous factors!

Summary

86% of the market is planning to grow via acquisition

Next 24 months look strong for buy/sell activity

Get your financials in order

Know what you are worth!

Microsoft Partner Benchmark Survey – take it today!

Microsoft Partner Survey 2017

All partners will receive survey results with narrative

Participants and responses are confidential

Aggregate WW and US results to be reported separately

Open until 12/31

Go to www.rosebizinc.com (bottom of page) for survey

THANK YOU!

Linda Rose linda@rosebizinc.com

1

Fill out the survey!

Using your

Mobile App

2

Win Prizes!

Thank you to our sponsors!

PREMIER

GOLD

SILVER

EXHIBITOR

Thank You

Contact: linda.rose@rosebizinc.com

www.linkedin.com/in/klindarose

Call : 858 794-9401