



# Newsletter September 2015

**A Company may adopt certain strategies to enhance its long term valuation.**

## MobileSolve Group

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MobileSolve is a boutique investment bank providing M&A, capital raising and financial advisory services to companies in the Telecom, Wireless, Internet, Networking and Semiconductor industries.\*

Each month we present a short article on an industry or transaction topic of current interest, and notable transactions in our industries completed during the prior month.

This month's newsletter describes certain strategies to enhance a company's long term valuation. We welcome your questions or comments.

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## ENHANCING YOUR COMPANY'S VALUATION

As investment bankers, we are often asked by a company's management or Board what strategies might be employed to enhance the valuation of their company beyond the obvious tactical moves designed to increase revenues or cash flow. Unfortunately, we are often asked this question not long before the company will begin a process to raise capital or to get acquired, when the steps that can be taken and have a timely material impact are rather limited.

The following examines strategies that should be implemented relatively early in the life of a company, and at least one year before a major transaction. If executed effectively, they can have a large favorable impact on the valuation placed by investors and acquirers of a company. They are presented here as general principles that can be adopted; of course, which of them can actually be implemented depends on the particular circumstances surrounding that company.

### Strong Growth Prospects

Anyone familiar with discounted cash flow ("DCF") analysis knows the huge impact growth has on valuation. In a DCF, growth is especially reflected in a higher terminal value, which often constitutes much of the economic value of a company.

Terminal value is the present value of the cash flow in the years subsequent to the end of the DCF's planning period, or put another way, the projected value of the company's equity at that time. Persons who use multiples to determine value translate higher growth into a higher price/earnings multiple.

Beyond the economic value of anticipated growth, buyers of companies are often specifically motivated to acquire companies that can grow quickly with additional investment. Often they are looking to put excess cash to work, and seek to purchase young companies poised to enter a phase of fast growth.

Implementing growth as a corporate strategy involves much more than hiring more sales people. It involves the heart of business strategy, including development of competitive advantage and building barriers to entry. Companies successful at implementing these strategies receive the highest premia.

### **Good Quality Customers with No Concentration**

A customer list and sales funnel of respected companies has a number of beneficial effects. They demonstrate your ability to beat your competition, and lower the company's risk because such customers are usually good credits. In addition, buyers will be interested possibly in expanding sales or cross-selling its own products to high quality customers. A good transaction negotiator can capture in a higher valuation such synergy anticipated by a buyer.

It is also important that no single customer represent ten percent or more of the company's sales or profits. A customer concentration presents a high risk for a buyer, and mitigation of such risk will likely be reflected in both the price and structure of the transaction. Diversity of the customer base is prized.

### **Recurring Revenue Business Model**

The more revenues generated automatically from subscriptions or contracts such as maintenance agreements that renew yearly with little additional effort, the higher the premium the revenues will command in a transaction. Even in businesses that are not normally conducted on a subscription basis, a recurring revenue stream can sometimes be added. For example, perhaps insurance for some risks faced by your customers can be added as a related product.

### **Differentiation and IP Protection**

Buyers of smaller companies often analyze a potential acquisition as a "make vs. buy" decision. To the extent that they cannot replicate your technology, and believe others will be dissuaded from doing so because you have protected your intellectual property as trade secrets or through patents, the more value they will ascribe to your company.

If you decide to file for patents, do so early because the process can take a year or longer before they are granted. The first to file will also have an advantage over later filings of similar technology. In many cases, an accelerated evaluation process may be available, and should be seriously considered though more fees are involved.

## Location

It is not immediately obvious, but the location of your business can be an important factor. Many investors will not consider an investment they cannot "travel to and back in a day," as one prominent VC told me. Acquirers may consider integration with an existing company facility an important feature in managing your business and gaining value from it post-acquisition.

## Audited Financials

Investors and buyers can rely more comfortably on audited financial statements than statements that are reviewed or compiled, the other two standards by which accountants prepare statements, and certainly more than statements that have not been reviewed by a professional outside the company. As noted above, the perception of lower risk often translates into a higher valuation. Audits are more difficult and time consuming for the company, but are generally worth getting.

## Complete Team

Buyers want to see a company thrive under their ownership following a transaction, and know a complete team is needed, especially to support higher growth. A full team not only is a prerequisite for success, but reduces execution risk. A strong "number two" executive who can manage the company if a founder or CEO leaves is a valuable addition.

In conclusion, adopt value-building strategies early in your company's life. Continue to invest in them as you go from seed through Series A and beyond. Investments aligned with the principles described above will yield a high return.

Source: MobileSolve Research

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## More Articles

In case you missed any of our previous articles, below are the links to them.

[Berlin, Paris and London: VC Capitals of Europe](#)

[Positioning for Series A](#)

[Does A+ make the Grade?](#)

[Earnouts: Treacherous Territory for Sellers](#)

[Global M&A in 2015](#)

[Love and Venture Capital](#)

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## [Fees in the VC Industry](#)

## [Foreign Issuers in the US Capital Markets](#)

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## [Strategies to create value from IP](#)

Comments and Questions on the above articles are welcome.

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## Transactions

The following are notable M&A transactions and capital financings announced or completed in the last month.

### Notable M&A Transactions

| Target           | Target Industry            | Acquirer             | Transaction Value (in \$ millions) | Transaction Highlights   |
|------------------|----------------------------|----------------------|------------------------------------|--|
| Akros Silicon    | Semiconductors             | Kinetic Technologies | -                                  | Akros Silicon is a supplier of energy management ICs, and in particular power-over-Internet chips              |
| ARCHER DIGITAL   | Mobile engagement solution | IMIMOBILE            | \$5.6                              | Archer is a company specialising in mobile engagement solutions for banking and government across South Africa |
| Cover            | Mobile payments app        | Velocity             | -                                  | Cover is a mobile payments solution  |
| Good Technology  | Mobile Security            | BlackBerry           | \$425                              | Good Technology is a mobile security provider  |
| Millennial Media | Mobile advertising         | LOA                  | \$248                              | Millennial Media is a mobile Advertising, App Marketing, Brand marketing, Marketplaces                         |

### Notable Capital Financings

| Company Name         | Industry        | Amount Raised (in \$ millions) | Total Amount Raised (in \$ millions) | Business Description   |
|----------------------|-----------------|--------------------------------|--------------------------------------|--|
| Almalence            | Computational   | -                              | -                                    | Funds raised towards developing Mobile imaging technology enabling mobile cameras to achieve the image quality level of DSLR cameras |
| Credo Semiconductor  | Semiconductors  | \$8                            | -                                    | Credo Semiconductor is a developer of Serializer-Deserializer (SerDes) technology  |
| iZettle AB           | Mobile Payments | \$67                           | -                                    | iZettle, a leading mobile payments company, offers small businesses portable point of sale solutions and free sales overview tools   |
| Telink Semiconductor | Semiconductors  | -                              | -                                    | Telink develops integrated low power radio frequency and mixed signal system chips for Internet of Things (IoT) applications         |

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