

DEAR FRIENDS AND COLLEAGUES,

2023 has unfolded in a variety of surprising ways. In the US, the “impending recession” that experts had predicted every month for the past year never quite seemed to happen. This contrasts with a markedly tougher economic picture in the UK with both wage inflation and interest rates remaining stubbornly high. That being said, our clients on both sides of the Atlantic are raising both Debt and Equity, are acquiring companies and are achieving exciting exits. Our conclusion is clear, ‘conditions are difficult, but well managed companies are trading well and continue to exit successfully’.



TURNING TO THE AGE OLD QUESTION OF ‘IS NOW THE TIME TO TAKE CHIPS OFF THE TABLE’:

If your business is operating with ‘A’ grade metrics, you can still sell and exit successfully in 2023;

- If you are a pure SAAS company, you can still sell typically at a 4x to 8x revenue multiple, if your business is:
 - Growing at >50% CAGR,
 - Delivers >80% gross margins
 - Has >\$5M ARR in TTM and
 - Exceeds the ‘Rule of 40’ test
 - Is no worse than break even and ideally cash generative
- If you are a Consulting and Services company, you can still sell at a 6x to 10x EBITDA multiple, if your business is:
 - Growing at >20% CAGR,
 - Has gross margins >50%
 - Has Ebitda > 15%
 - and is cash generative

If however your business is still developing with significant improvement ahead of you, then we recommend deferring a transaction until 2024 or later. What is universally true on both sides of the Atlantic, is that strategic buyers and investors are subjecting potential transactions to far great scrutiny and transactions are only completing where buyers and investors have deep conviction for both the market and the deal in question. Conclusion.... launch a proactive, persistent campaign to develop relationships with strategic buyers, alliance partners and investors who may be interested in a transaction with you in the future.

...AND THINKING ABOUT 'WHY SHOULD I SELL':

Acresis is often asked by Founders, why should I sell? Over the years, Acresis has gathered a number of reasons that can instigate an Exit process:

- The equity value that a founder holds in their company represents a significant proportion of that founder's wealth and net worth. Some founders can live with this 'risk' over multiple decades, but most founders reach the point where de-risking and 'taking chips off the table' becomes a key next step
- Exposure to persistent, long term risk gets old: tough economic conditions, the dot.com crash, the Great Recession post Lehman's collapse, high inflation, war, global pandemic, regulation, compliance, Brexit, impact of GenAI etc. Indeed . . . what's next!?!?
- Tougher credit/debt conditions, DSOs lengthening, and fast growing companies that consume greater working capital, all result in the founder often being the day to day lender supporting their business coupled with tougher Personal Guarantees required by lenders. Again, over time, these stresses get very tiresome and can dull the entrepreneurial spirit
- If a Founder wants to step back from day to day leadership of the company, treating their equity as a 'long term hold' and acting more as a Shareholding Board member, then the Founder needs to attract, develop and retain very strong leadership for the company. This can be even more challenging than launching the company in the first place, for example:
- Retaining existing talent can be challenging, especially great talent in hot sectors
- Upgrading new, more professional talent, vs. "loyal amateurs"
- Over time, relationships and ambitions between Co-founders can diverge and the safest route forward may be to Exit
- Finally, a Founders ambitions outside the current business can drive timing on exit:
- Realising 'first generation' wealth
- Realising 'second generation' wealth, ie wealth transfer to the next generation
- Having capacity and time to prioritise dealing with a health issue
- Moving on to founding 'venture #2'
- Moving on to a philanthropic and purpose-led career stage



ANOTHER QUESTION THAT IS FREQUENTLY POSED TO ACRESIS BY FOUNDERS IS, "HOW SHOULD I THINK ABOUT PROCEEDS FROM THE EXIT."

The good news is, there are many different deal constructs open to founders, from a 'one and done' model right the way through to multiple drinks from the liquidity well. If you plan properly well in advance of the Exit, with the help of experts such as Acresis, bankers, wealth management, legal, tax... 'forms of consideration' can include:

- Cash upfront - Day 1
- Earn-outs: time-based and/or performance-based payments which can be in the form of cash or equity
- Interest bearing Loan Notes, which settle either on a fixed timeline or on the next liquidity event
- Roll-forward equity into a PE backed 'NewCo' - this can range from 20% to 60% with the goal being that roll forward equity cashed out in the future at a much higher valuation on the sale of the NewCo
- Sweet Equity or Option Grants
- Salary plus variable cash compensation.
- Potential participation in a "Management Incentive Plan (MIP)" - equity equivalent, usually not taxable until there is a future liquidity event.
- It is worth remembering that buyers will require Escrows, approx 10% of Enterprise Value, to cover potential liabilities such as unpaid employers' tax, sales tax, legal, regulatory, client litigation et al, which be released post the deal close (usually 1-2 years). Well run companies should not be fearful of these escrows.

One observation we have seen in 2023 is that transactions see a markedly greater proportion of consideration subject to performance of the business post acquisition... aka 'earnouts'.

2023 Mid Year Review

AMONG OUR FOUNDER CLIENTS

Here are some of the highlights from the year:

SCLOGIC COMPLETES GROWTH CAPITAL RAISE

Congratulations to the SCLogic team - Mike Saldi, Mike Todd, Hollis, Paul and Trent for recently completing their growth capital raise!

SCLogic is headquartered in Annapolis, Maryland and provides digital transformation solutions for facilities, IT, and operations directors. Their software is a logistics platform that helps organizations expedite their Facilities' digital transformation process through the tracking, chain of custody, and fulfillment of items and tasks across your entire facility. SCLogic's customers are grouped primarily in 5 sectors: Banking & Insurance, Higher Education, Pharmaceutical Manufacturing, Hospital Systems and Government.

AWARD WINNING EMPLOYER OF CHOICE - MAKOSI - HIRES ADDITIONAL EXECUTIVE TALENT

Congratulations to Darren Isaacs and Paul Emery, co-Founders of Makosi, for their continued investment in world-class executive talent. Makosi provides the world's leading CPA firms with high-quality variable workforce solutions, including audit, assurance and advisory services.

Makosi welcomes Alla Schay as President & COO. Previous to Makosi, Alla was at Sterling, a \$700M+ global company where she served in various senior roles such as Chief Client Officer and Chief Human Resources Officer.

Makosi also welcomes Lindsay Gaal who has joined Makosi as its Chief People Officer. Previous to Makosi, Lindsay was at Friedman LLP, a leading CPA firm, where she served in various senior roles such as Chief People Officer and COO.

To further prove Makosi's ability to attract top talent, Makosi was recently recognized and awarded as a "Top Employer" in South Africa.

MARON SYSTEMS SELLS TO VELA SOFTWARE

Congratulations to David, Mark, Chris, Jon and Steve, the Founders and owners of the UK- based software company, Maron Systems, on their sale to Vela Software.

Maron's Oil Logistics, Accounting and Shipping software serves the world's largest energy, refining and shipping companies and occupies the space between ERPs and production systems. The software supports the function of "hydrocarbon logistics and inventory accounting", a highly complex and critical capability.

We wish the Maron team every success with their next chapter.

Read more [here](#).

PEACOCK ENGINEERING SELLS TO BPD ZENITH

Congratulations to Alan, Roger and Mike, the Founders of UK based Peacock Engineering, on their sale to BPD Zenith.

Peacock are a leading provider of Enterprise Asset Management solutions and are a Gold Partner of both IBM and IFS. Peacock also provides its own proprietary mobile solution, Fingertip, which extends IBM's Maximo solution with real time data links directly into the field.

We wish the Peacock team every success with this next chapter!

Read more [here](#).

The Latest at Acresis

We serve clients in North America and Europe that are:

- Founder-owned, Founder-led companies
- Privately-held (no external institutional investors)
- Need help with Growth, Liquidity and Wealth Creation
- Want to Exit in the next 1-3 years

- Have \$5M to \$50M in annual revenues
- In their Scale-Up phase of growth (not start-up)
- EBITDA that is at least breakeven (or better)
- Are based in North America and/or Europe
- Sectors: Technology, Software, Consulting, Data and Business Services

Acresis has a team of 18 operating partners based across North America and Europe supported by an extensive stable of world class expert associates, all specialists in their fields.

In order to amplify our support to our Founders, we have developed a highly curated ecosystem of partners all of whom are highly relevant to our founders at various stages of their growth who wish to Exit prudently and successfully, including:

- Private Equity firms
- Lenders
- Corp Dev / M&A functions within large Enterprises
- Investment Bankers
- Lawyers
- Accountants
- Wealth Managers

We are delighted to say that 2023 is far from over and we see multiple further success stories to come by year end. We look forward to 2023 with great optimism!

Regards,

