GROWTH HORMONES FOR THE TECHNOLOGY SECTOR

THE TECHNOLOGY REVOLUTION – THE OPPORTUNITY

As companies strive to survive in the highly competitive global market place, the focus is on technology where advances in the past few years are greater than those of the prior 100 years. And the technology sector is hot as an investment opportunity because of the *expectation of above-average growth*.

Mechanisms for rapid business growth and expansion function like growth hormones. *Growth hormones are generated by strategies for*: the enhancement and retention of profits, acquisitions, mergers and divestitures, and financing. Let's examine these growth and expansion strategies as a road map to help you improve your corporate performance using detailed planning and expertise.

ENHANCEMENT AND RETENTION OF PROFITS

Before you consider an acquisition strategy, make certain your house is in order and your basic foundation strong. A stream of *internal profits finances the expansion* and rollout of new technology. Your *company strengths* should include the following to maximize cash flow and growth:

- Strong management, visionary leadership, and a continuing development of "intellectual capital".
- Market dominance, an established distribution network and the exploration of international markets to become a stronger leading contender.
- Patents trademarks and propriety products for the protection of intellectual property rights with continuing research to increase knowledge of the industry, the competition and the business climate.
- Timely and quality financial reporting and forecasting including planned strategies for expansion by mechanisms such as acquisitions – in the pursuit of vertical integration.
- A corporate culture that maintains good relationships with all stakeholders including customers and suppliers and financial community – to facilitate the process of rapid growth

Early stage companies, in time, become seasoned veterans and many develop the profile of a successful business entity. To achieve this, they have a vision and a *business plan* in writing and an organization to carry it forward. *Exportation* for international expansion is critical. Seek government and export assistance.

FINANCING THE TECHNOLOGY OPPORTUNITY

Sources of financing – whether for working capital, expansion, acquisitions or mergers – include:

- Bank financing
- Small Business Loans (SBL)
- Term Lending
- Mezzanine financing
- Venture capital
- Business Development Bank of Canada (BDC)
- Asset based lenders
- Private placements/joint ventures
- Public underwritings
- Syndications and limited partnerships
- Leasing

An outside *financial advisor can assist you* with the preparation of a business plan/financial proposal and the selection of an investor/lender.

ACQUISITIONS, MERGERS AND DIVESTITURES

To *maximize share value* and *facilitate financin***g,** companies are seeking solutions on all fronts. The huge corporate overhaul is ongoing – with mergers and acquisitions, downsizing via job reductions and selling off non-compatible (non-core) or low performance divisions.

Business Combinations may be formed in a variety of structures:

- Acquisition/takeover
- Merger/amalgamation
- Reverse takeover
- Asset purchase or share purchase

Acquisition strategies include:

- The right fit and synergy with a target company
- Planning the acquisition financing
- The assembly of the negotiating team and the major points for negotiation

such as price and consideration, management contracts and non-competition clauses. Management continuity is essential.

You may need to *enlist the help of an auditor, lawyer and financial and tax adviser*. In particular, a number of legal agreements are required to be prepared to close the transaction, management contract, shareholder's agreement, etc.

VALUATION OF TECHNOLOGY COMPANIES

The determination of the price of the transaction starts with the consideration of the *definition of fair market value*. Not only are valuations not an exact science. They are even more complex when you consider:

- A private company (non-public) or an early stage company
- The acquisition of a controlling interest possibly at a premium price, or a minority interest (closely held company) at a discounted price.
- The determination of a value for a specific proprietary technology (i.e. a patented product or process) when other technologies compete in the market place.

Basic Principles of Business Valuation

- Fair market value must be transferable.
- The most traditional approach: is the normalized after-tax earnings technique; determination of the appropriate capitalization rate (or multiplier) to arrive at the fair market value for the business - seek to find the rates of comparable published transactions.
- Other approaches may be more applicable: i.e. discounted cash flow technique or revenue multiple approach. An expert valuator's assistance is essential. The valuator's due diligence process is critical.

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Growth is essential. Successful companies focus on top line growth and intellectual capital, acquisitions and strategic alliances, good relationships with stakeholders and the financial community.