

GUIDE

KNOWING YOUR BUYER





Thinking of selling your business? Here's what you need to know about potential buyers

Buyers of vertical software businesses come in a range of shapes and sizes. How they operate and are financed will be central to your business's future, so it is vital to understand the organisations you may be joining, and ultimately to choose the one that is the best fit for you.

Types of Buyers

1. EQUITY ORGANISATIONS (PRIVATE EQUITY AND VENTURE CAPITAL)

PRIVATE EQUITY (PE)

PEs often take a majority stake in mature businesses with the intention of rectifying common ailments to increase the value before either divesting or disposing of the asset at a higher value.

VENTURE CAPITAL (VC)

VCs typically invest a minority stake in new businesses that are growing rapidly, with a long term view of when the business is either acquired or goes public. Their investors make a profit from the ultimate disposal of an asset.

PEs and VCs raise pools of capital from accredited investors known as limited partners (LPs) in order to invest in privately-owned companies. Their goals are the same: to increase the value of the businesses in which they invest in order to sell them (or their equity stake or ownership in them) for a profit within a relatively short time.

Equity firms tend to operate with short-term cycles of three to five years. They often load portfolio businesses with debt before 'flipping' them to other buyers. In some circumstances, they place requirements on founders or owners to stay with the business for the duration of the investment.

2. 'STRATEGIC' ACQUIRERS

Strategic acquirers typically fall into two categories:

NEW MARKETS

Organisations wishing to diversify their product portfolio will often look for new markets to enter. Over the years, we have seen manufacturing or service-based businesses



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acquire software vendors that sell into the acquirers’ industry. These acquirers typically offer a premium on businesses they wish to buy, but often lack the expertise to carry the business forward. As such, acquired businesses often experience significant value destruction before the business is re-sold to another competent and financially committed buyer.

ADJACENT INDUSTRIES

Companies in adjacent industries may attempt to expand their product suite through acquisition, rather than building a product themselves. Considering how the products will integrate with each other to achieve greater market share, and the ability to leverage the customer list of both organisations, is paramount to success.

3. DIRECT COMPETITORS

Selling to direct competitors presents a number of pros and cons.

PROS:

- Greater industry consolidation
- Greater economies of scale
- Market dominance

CONS:

- Lack of job security for employees
- Cost of rebranding
- Difficulty merging competitive product suites
- Risk that if the acquiring organisation is significantly larger, they may obtain the customer list and then dismantle the acquired company

A Different Type of Acquirer

Volaris actually doesn't fit into any of the traditional acquirer groups as outlined above. Like private equity firms, we are extremely experienced at handling due diligence and all aspects of the acquisition process. However, we have a very different post-acquisition approach.

Volaris keep businesses permanently, investing in its leadership and technology, thereby helping the

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Tim Porter, *Portfolio Manager*

team to achieve sustainable long-term growth.

Like strategic acquirers, we are constantly looking to enter new vertical markets. However, unlike other strategic acquirers, we usually retain the existing management and employees, as they are the experts in their field and the best way to ensure long-term success for the business.

Choosing a Buyer

Ultimately, choosing the right buyer is all about finding the right fit for the business being sold.

At Volaris we pride ourselves on our ability to offer stability and a permanent home for any acquired business. Many founders and business owners say that our ‘buy-and-hold’ mentality was the main reason they choose us over other types of acquirers.

Is our acquisition philosophy aligned with your business goals and vision? If so, Volaris may be the right acquirer for you.



Let's have a chat about how we can develop your business together.

