AN INTRODUCTORY GUIDE TO

TALENT FOCUSED ACQUISITIONS

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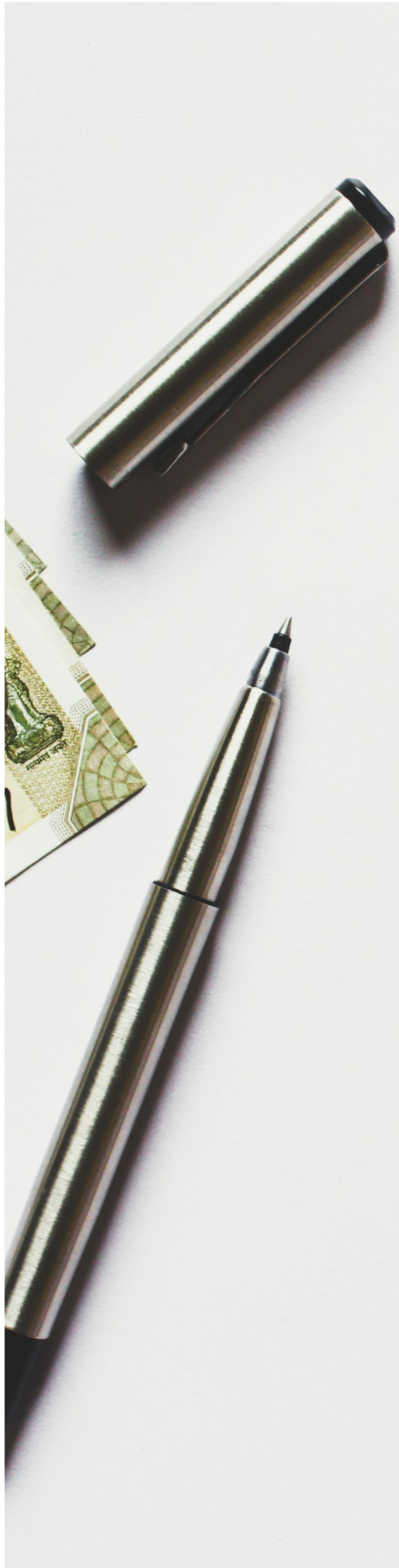
What is a Talent Focused Acquisition?

— A talent focused acquisition is a services-based acquisition that focuses on acquiring people for their skills and domain experience, such as experience with consulting, advising, client relationships, or technology. A talent focused acquisition can enhance an organization's talent.

Assessing an Investment and a Talent Focused Acquisition:

— This type of deal will utilize similar components of other acquisitions, such as understanding the business model, historic and projected finances, revenue, and profits; however, a talent-based acquisition is unique because it is centered around understanding the employees and the culture. A strong alignment with the culture also helps to create incentives going forward. Additionally, you want to analyze how committed the employees are to the sale and continuing on, because an essential element in talent focused acquisitions is assessing commitment.

A career path for leadership and employees can help to ensure commitment. This can be implemented by utilizing good training and development models to verify that there is a process in place for training and sharing knowledge, recognizing that not everyone is going to stay forever.



Talent Focused Structures, Planning, and Valuation:

— A talent focused acquisition is applicable to any professional service and business service, which will be built on a talent focused structure that employs similar structures and models. A key component of a talent focused structure is retention. By utilizing earn-outs, you can help with retention and measure revenue through a strategic lens. During this type of deal, you also have time to reflect on and learn from your own methods, businesses models, best practices, and keep evolving, as well as preserving elements that work well.

A talent focused acquisition in technology firms are distinct because the talent you acquire might be able to be redeployed to other projects. Additionally, talent focused acquisition in technology might also lead to gains in intellectual property that can be monetized into something or utilized internally.

The value of these deals is in the employees, so the biggest risk is closing and losing the employees. You may pay purchase price over time, rather than all at once, and you can utilize earn-outs to retain employees. Earn-outs can be an effective tool in talent-based acquisition to create that incentive for both owners and employees, while also helping to drive growth forward. You can also use retention mechanisms, such as time-based and performance-based retention compensation models.

A strategic review process allows you to plan for the months out. You can offer different services and capabilities to plan for competencies or bring executives together to review. Eventually, the review process can become less formal as you understand the strengths, weaknesses, and strategic priorities. A strategic process allows you to plan ahead from a broad plan to execution.

Key Steps in a Talent Focused-Acquisition:

— The steps are similar to other acquisitions with a source and evaluation period. You will then move through negotiations, due diligence, letter of intent, and contract negotiations. The time signing and closing is where more time is spent in a talent-based deal, but the beginning of sourcing and evaluation is a great opportunity because you can utilize extensive dialogue to determine a mutual fit. Throughout this process you can recruit some executive leadership by articulating the vision to determine if it is a shared vision. A mutual fit is imperative if it is going to work for their employees going forward. This process can take months, and in some cases, years.

Discussions that last for years might come together at some point, but that long process might also be where issues emerge. The lengthy process requires you to negotiate the finer details or earn-outs, retention, employment, and non-competes, because a talent-based acquisition feels very personal. A talent-based acquisition affects someone's livelihood, so it is not only about the seller, but about people's jobs, which are very detailed, personal, and essential since you are creating a value for a person's talents and commitment. You have to get a commitment in return and ensure there are low flight risks, so you have to heavily negotiate.

Negotiations and incentives will help ensure people stay, which is good for performance post-closing. You need to keep people motivated and happy.

Earn-outs help to create some long-term incentives, as well as other financial incentives based on financial performance metrics. You can create contracts to help keep key people you want.

Finally, an important element is shaping a role that individuals are excited about and providing them with the opportunity to lead, which will give them accountability and ownership. Even if a team is working together with another team, you can provide them with ownership to help create leadership in a market. It also serves as a recruitment for not just an acquisition, but leadership in the company.

Things to Consider:

- **Title Changes:**

  Titles can be very important to people and changes can cause resentment. Title structures are never going to correlate to current title structures, so that is always a part of the negotiation, but try to work that out early on.

- **Determining Compensation:**

  Begin by assessing their own talent. You can look at performance reviews over the last couple years to assess talent.

- **Bringing a New Team In:**

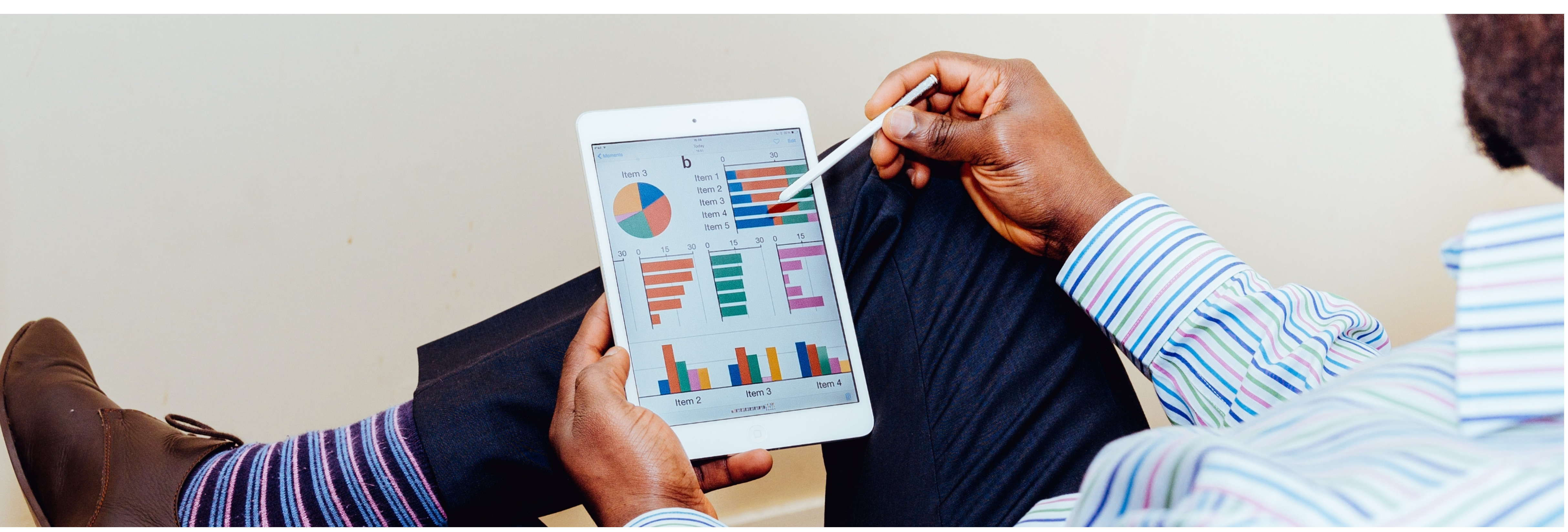
  When you are bringing a team in and there is already another team present, their ideas may not mesh completely. It may be a bit difficult to get them to work together, or the situation may not work for every single person, but try to bring teams together that are a good fit from the beginning.

- **Accountability:**

  Acquired teams will maintain a level of autonomy in daily operations but are also a part of a larger organization that has their own leaders and forms of accountability as well, so you need to create a sense of shared accountability and alignment. Alignment also helps to ensure that everyone is on the same page, committed, and that it is realistic for everyone.

- **Aligning the Team:**

  Focus on what you can and cannot change. You may not be able to change the system, but you can adapt. You can change how you interact with clients and ensure you keep open communication with the acquired team. Communication allows you to assess what is and is not working and provides the team with autonomy.



Synergies in Talent-Based Deals

In a talent-based deal, synergies are unique. All acquisitions involve revenues, synergies, and cost synergies. The cost side is a bit more traditional, and you incorporate back office efficiencies, such as an office footprint.

The revenue side is a bit more difficult, because traditionally you acquire a product and sell it through an existing distribution channel, but in services acquisition you need to scale services by adding more people, making it more productive, or both. You can then look for opportunities to engage people in cross-selling or educating them on other products and services, and then include those in sales to clients. You can leverage clients to try to expand and as business grows continuously support, evaluate, and factor in growth.

There are standard sets you look for and ones you avoid, as well as unique ones you have never seen before. A larger firm can bring a lot to the table with their platform and client base, but small firms have synergy too. An internal sponsor for each deal can also help create an estimate of what the synergies are going to be and where they are going to come from.

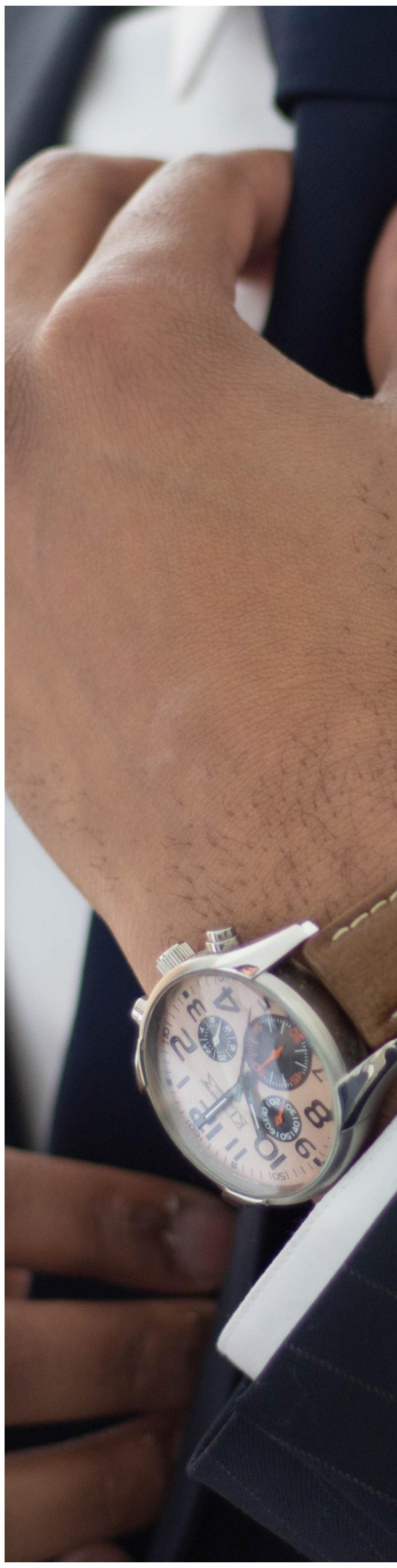
Culture Fit:

— A key component is determining if there is a cultural fit. You can examine mission statements, corporate values, and personalities that extend into the day-to-day operations, such as reviewing contracts with clients or looking at the way client relationships are maintained. You can also look at the way issues have been resolved internally or with clients. Assess who is making the decisions, and examine if there is a consensus-based control or more of a control-style. By doing cultural diligence, you can see how the company functions on a daily basis.

Culture is not just the CEO or the C-Suite, so you will need to examine multiple layers down, because each layer might provide a different perspective. You can begin by asking questions and then see what comes up in day-to-day operations for those run and who represent the firm in varying functions, such as finances, Human Resources, and marketing. You can examine how they operate finances, how they report and forecast, how they conduct marketing, or how their HR processes work and are conducted. These aspects are all part of functional diligence, as well as cultural due diligence because the culture impacts every element and emerges through each interaction.

You can speak with the CFO, the director, the VP in finance, as well as the person working the systems day-to-day. You also don't want to get bogged down in speaking to everyone, especially people who are not disclosed to an acquisition scenario, so focus on the leaders. With smaller companies there may not be as many layers, so you can speak with only a few people to understand the culture.

Also, if you are looking at a firm centered around sales or customer support, you will want to speak with them to understand how they approach situations around support. So, look at the ways they deal with issues and make decisions.



Challenges in Talent Focused Acquisitions:

— The biggest challenges in talent focused acquisitions are centered around earn-outs, which are more long-term than different types of transactions. If you place a value on a firm, you want to get a payback on the investment, or at least a type of return on the investment in certain period, so you may need to map the non-compete within a similar timeframe. These aspects can be announced long-term, which bridges the gap on valuation expectations but can be a challenge to negotiate. You have to anticipate how the business will look in several years from now and consider potential. Then, you need to build flexibility into the agreement around unanticipated things that can be hard to measure. Additionally, recognize that there may be variance in how revenue was even measured. Another challenge can be non-competes or integrating a business. The key is finding a balance.

You need to remember that it is an employee and employer relationship, and you do not want to create problems. Focus on a mutual agreement, and look for a win.

Tips on Earn-Outs:

— Try to envision every scenario and plan for it in the purchase agreement, but also recognize that something new can emerge. A key to earn-outs is how you structure them over time, making sure the acquired business is accountable for things that are in their control. It is important not to measure based on what is outside of someone's control, like corporate allocations and expenses that have no visibility.

You also need to make sure that the earn-out is aligned with what you actually want, the employees focus on it, align or not around the variables, and that the team can actually control a good tip.

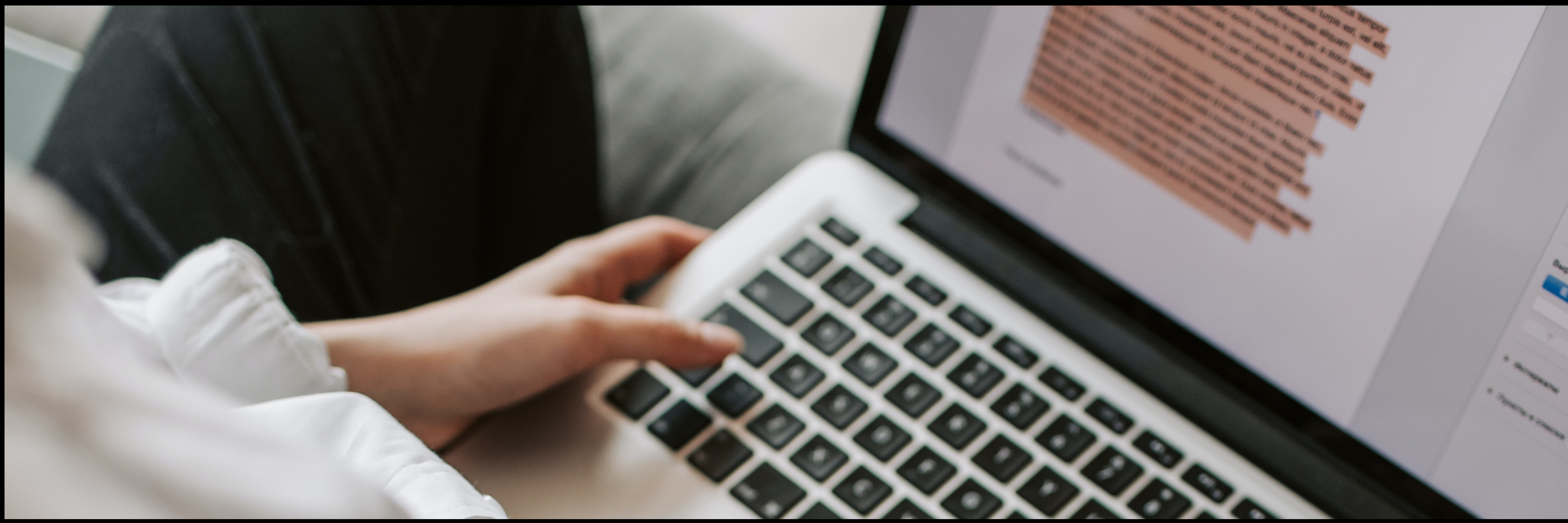
You can share or assist deals in earnouts. There are no limitations, and you can use an earnout structure with both. The key is to remember that earnouts have to get paid in the same way the purchase price is paid out.

Know When to Walk Away:

— There are a variety of situations that might make you walk away, such as the firm not having a collaborative culture or even from the beginning, there are things early on that make you pause. Additionally, assess interactions with the owner or the CEO of the firm, because they might demonstrate that it is just not a good fit.

Talent Focused Acquisitions and Now?

— The pandemic has forced mergers and acquisitions to slow down, but there are attractive opportunities. After six months, we have more knowledge and visibility, but also recognize we cannot wait for this to all be over. There has been more coming into the market, some signs of life and revival, and things have not fallen apart. The market has been resilient, and there have even been some benefits of the pandemic for some companies.



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