M&A Connect Action Plan, 2013. Version 2.0

October 2013

Background

Indian product companies punch below their weight. Despite huge innovation and rising entrepreneurship, most Indian product companies are invisible on the global map. The reasons are many, but a big one is the lack of meaningful exits for companies that actually create value in their product markets. This paper focuses on a plan to address that gap. This second version of the plan is a revision to the one published in May 2013.

iSPIRT M&A Connect Program -2013

The iSPIRT position paper of March 2013 identified several issues that need to be addressed to improve M&A activity in the US-India corridor. While discussions with the Product Nation community members strengthened the propositions made, we needed to get buyers' perspectives before formulating an action plan. This led to several Brainstorming Sessions with Executives at prolific technology leaders and acquirers from Silicon Valley, as well as with several investment bankers.

The M&A Connect team conducted the following activities in 2013:

a) An Executive Brainstorming session in Palo Alto, CA on May 21, 2013. This event was attended by M&A professionals and senior executives from Autodesk, Cadence, IBM, Intel, NTT Docomo, Facebook, Paypal/Ebay, VMware, and Walmart Labs. The session started off with the case study of Autodesk's recent acquisition of Qontext (October 2012) that set the tone for the reminder of the meeting. Attending executives were open and frank with their perspectives. The iSPIRT team also had a private meeting with the head of M&A at Oracle.

b) Meeting on May 22, 2013 with the CEOs of 20 Indian startups in the Silicon Valley, who have established presence there to gain better access to their markets and customers.

c) First M&A Connect RoundTable (RT), a face-to-face interaction with about 15 entrepreneurs representing a broad cross section of startups (stages of evolution, market segments, funding status, maturity levels) was held on August 1, 2013 in Bengaluru.

d) A series of introductory meetings in Sept 2013 in the Silicon Valley with corporate M&A executives of top companies.

e) A series of one-on-one interactions with 8 company executives who called on M&A Connect team with interest in a potential deal.

f) Interactions with about half dozen Investment bankers, in the process of partnering with iSPIRT.

g) Conversations with those who fund startup companies, who were open with suggestions on making the M&A Connect program work for their investee companies.

Overall Inputs from the above meetings have been included below:

The notion that more Indian tech startups should be visible and available for acquisition by US based corporations is very well received by senior executives at the major acquirers. There is general agreement that the current deal volume does not reflect the underlying potential for Indian-grown tech companies and that this could be improved. A telling example was IBM's acquisitions in the last year that added up to more than $5 billion, but did not include a single Indian company!

The meeting with the group of CEOs further stressed the need for improving M&A exits for startups, particularly for those that lack strong US VC backing. There was unanimous agreement within this CEO group that improving company readiness, visibility and access to potential acquirers would go a long way in planning successful exits.

Here's a brief summary of key points:

 (1) Companies look at doing acquisitions for strategic reasons such as filling a key product gap, acquiring new capabilities, or gaining access to new customers. Most companies are location agnostic when it comes to acquisition. Not many deals happen with Indian companies primarily because they do not show up in any acquisition radar, rather than for any other particular geographic reason.

 (2) The top priorities in acquisitions include clear and relevant IP and a strong team that can re-purposed and integrated. Talent flight in the US is a concern; one of the acquiring companies mentioned that they would love to have quality talent resident in India that can do good product work.

(3) Most often, acquirers have an existing business engagement with a company and decide to acquire them for strategic purposes. Most buyers would like to sniff-test or partner with a potential target, before they commit. The problem here is lack of visibility ("issue of discovery") that could be addressed with a common vehicle, like a clearinghouse.

(4) Acquirers don't actively scout for candidates. Candidate companies usually approach them directly, or are discovered through media coverage or customer engagements. Indian companies typically don't appear on any radar. Increasing networking and media coverage would help.

(5) Some areas fare better. Semiconductor deals are more common. Indian semiconductor companies routinely troll Silicon Valley for business and get noticed.

(6) Acqui-hires (Acquisitions with the sole intent of acquiring engineering talent) are becoming very common in the Silicon Valley. Certain acquirers constantly look for smaller talent shops and move quickly with $5M to $20M acquisitions.

(7) Innovations that address non-US market issues (e.g. looking to improve Facebook experience in low-bandwidth areas) are particularly interesting for acquisition.

(8) Target companies must have a clear articulation of the value they drive; this often comes down to a case for better and tight communication.

(9) Companies must build credibility by clearly understanding the needs of their business users. They must also understand how they support the business objectives of potential acquirers.

(10) Larger acquirers rely on investment bankers to uncover companies that fill a technology gap, or address a specific vertical.

(11) Some kind of vetting process would be helpful, especially in the early stages of low deal flow. Having a representative firm or a country forum would help.

(12) It is sometimes shocking to find Indian firms without any legal representation. This shows a need to improve understanding of engagement processes and build an ecosystem that can benefit many.

(13) Process clarity is also important in the context of challenging regulatory issues. Playbooks, case studies, and similar materials would be helpful in building understanding and confidence. Some deals get done in days and not months; readiness and speed will be essential.

(14) Presenting a set of companies that could fit a specific business area for acquirers would be helpful. A Portfolio Day (e.g. 20 cloud technology companies visiting together and pitching) would work.

Action Plan 2013-14

Based on the inputs from both the potential acquirers and the Indian startup community, iSPIRT believes there are four key "Areas for Action":

1.   **Facilitate Discovery.** iSPIRT will examine some of these ideas to aid the discovery process:

    a. Through Customers. Acquirers often identify acquisition targets through regular customer & partner engagements. iSPIRT will encourage Indian startups to increase their customer acquisition and business development activity in US, through direct or indirect presence in Silicon Valley.

    b. Through Investment banks. iSPIRT will work with one or more investment bankers to represent a basket of acquisition targets. This gives companies access to a larger audience, while making it worthwhile for a bank to make a larger investment in the Indian market.

c. <u>Through Analysts</u>. Engage with leading analysts like Gartner or Forrester to research mid-market Indian companies. Facilitate the discovery and research process to make this easier for them. One idea is to develop an iSPIRT "India Cool Vendor List" for the mid-market segment as this is underserved by Gartner type analysts.

d. <u>Through Trade Shows and Conferences</u>. iSPIRT will participate in a few key shows and conferences (such as DisruptSF, Mobile World Congress, Consumer Electronics Show etc) to collectively represent the Indian startup community, like an "India Pavilion".

e. <u>Through Tech Media</u>. Engage newer media publications focused on the tech industry, like TechCrunch, GigaOm through content syndication and other ideas. This provides much-needed coverage for Indian startups, while extending the reach and readership for these publications.

2. **Reduce Friction.** Legal surprises, regulatory impediments, and other unanticipated issues add friction to any acquisition process. Here are some areas that iSPIRT will look at:

a. Publish a "Playbook" that outlines various processes, explains special requirements in India, potential resolutions and workarounds, with examples.

b. Gain acceptance for the Playbook with select Silicon Valley and NYC law firms.

c. Work with individual firms, like Fenwick and WSGR, to facilitate working relationships with Indian law firms.

3. **Promote Readiness.** iSPIRT plans to do the following to improve acquisition readiness of Indian startups:

a. Organize periodic and regional "roundtables" around key topics of M&A (and other Playbook topics).

b. Provide a "hotline" for Indian startups so that they get unbiased and free advice when they are in a negotiating crunch

c. Assist companies in connecting with cross-border advisors who could help establish relationships with potential acquirers.

4. **Construct an Ecosystem.** Improving the ecosystem will go a long way in increasing the deal flow and here are some items in the iSPIRT plan:

a. Conduct events with bankers, law firms, investors, M&A advisory firms and others forming part of the ecosystem to improve awareness about Indian startups.

b. Provide a mandate to select bankers and advisory firms, and pre-negotiate contract terms. These firms can then be engaged by Indian startups.

c. Provide an online contacts database of relevant parties.

d. Publicize success stories of transactions.

Specific Next Steps towards the Action Plan

(1) **Corporate Membership.** There is substantial interest among corporate buyers, about being involved in the M&A Connect program. Such partnership could be at two levels; starting with basic affiliation and eventually leading to full-fledged membership where they get to benefit from iSPIRT curation. The actual details of the program are being worked out.

(2) **Business assistance leading to M&A.** This view was substantiated from several angles – Buyers wanting to find opportunities where they get to see the product play out with customers and VC-led companies wanting any iSPIRT-led activity that leads to potential business relationships. M&A Connect will plan to target potentially useful business relationships as a first step, and will then move to starting acquisition-oriented conversations. Many startups and VC who may have had reservations about an M&A conversation during early stages of their business would then be open to an engagement.

(3) **Investment banker partnering.** We discover that Investment bankers have practice areas, stronger teams, and better connections in certain fields. No single one would suit an industry in general with varied set of offerings and deal sizes. While, certain firms have comparatively larger deal portfolio, others may have an India operation. iSPIRT M&A Connect will establish partnership with carefully chosen, small set of partnership with I-bankers that could together give a broad spectrum of coverage and bring value to iSPIRT companies.

Conclusion

Lack of clear and value-rewarding exits hampers growth and talent acquisition for Indian technology companies. An M&A market would greatly facilitate the virtuous cycle of innovation, value creation, and individual success. Rewarding exits pave the road for the next generation of Indian entrepreneurs. iSPIRT is committed to building up a stronger M&A deal flow in the coming years by implementing the multi-year Action Plan.

The M&A Connect team is thankful to all those who provided valuable inputs in structuring this action plan.