



M&A Advisory Series: Equity

The webinar will begin in a few moments

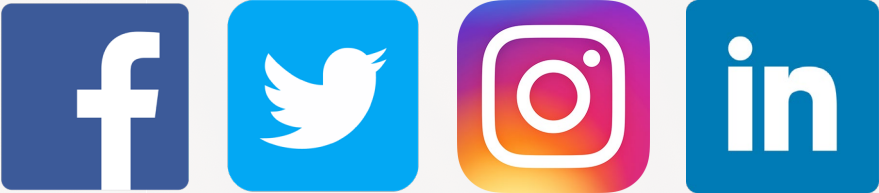
NOTE: Participants will receive an email within 48 hours with a link to the slide deck and recording.

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Presenters



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Equity

November 27, 2018

9:00am – 9:30am

Valuation

December 4, 2018

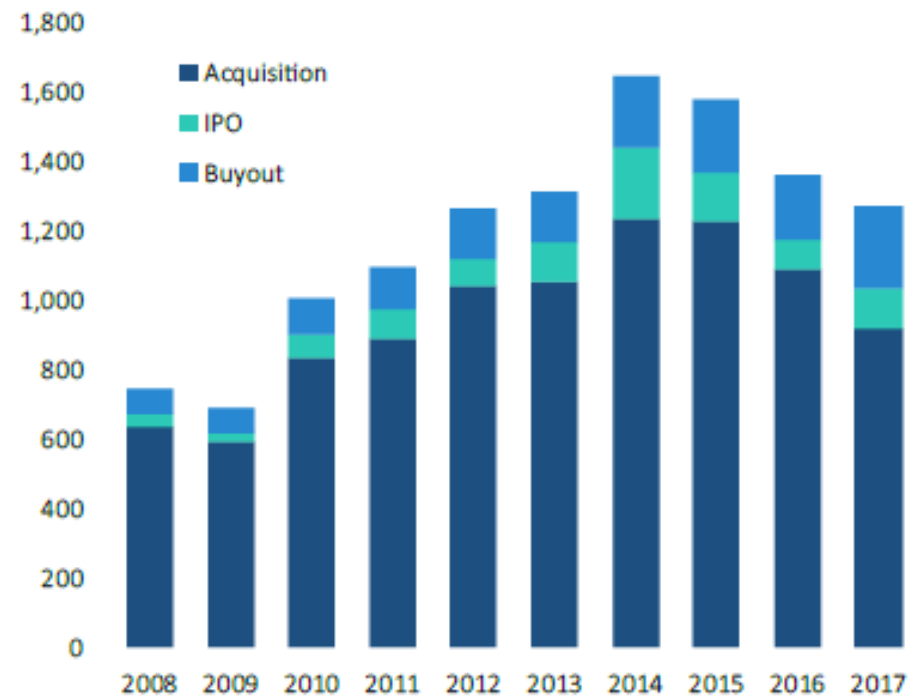
9:00am – 9:30am

The State of Market



Buyouts have continued to show strength as an exit opportunity

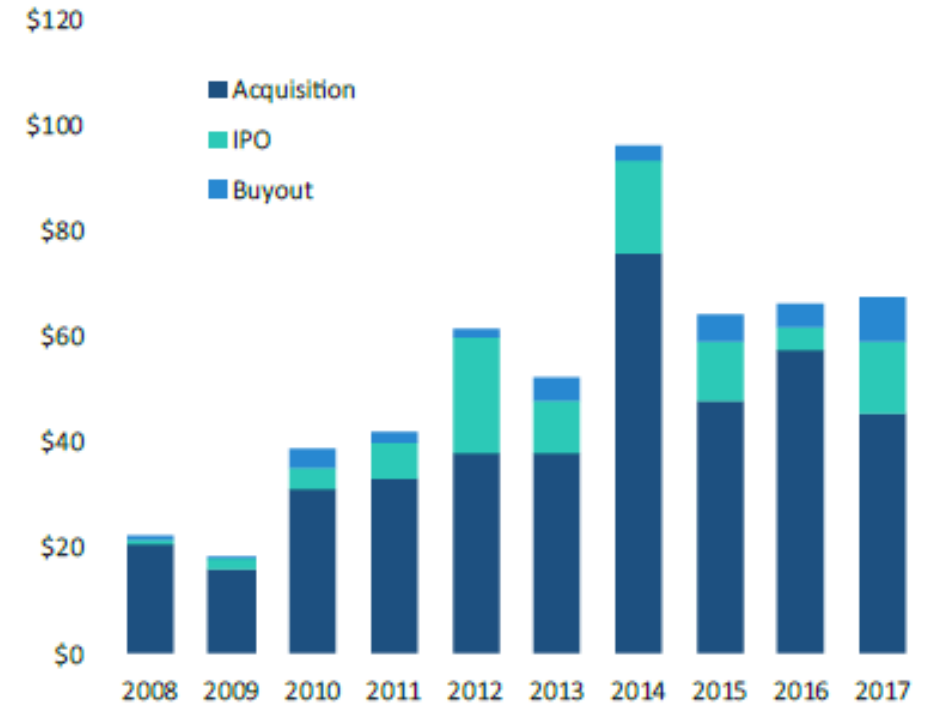
North American & European VC-backed exit activity (#) by type



Source: PitchBook

Backed by a strong public market, IPOs showed resilience in 2017

North American & European VC-backed exit activity (\$B) by type



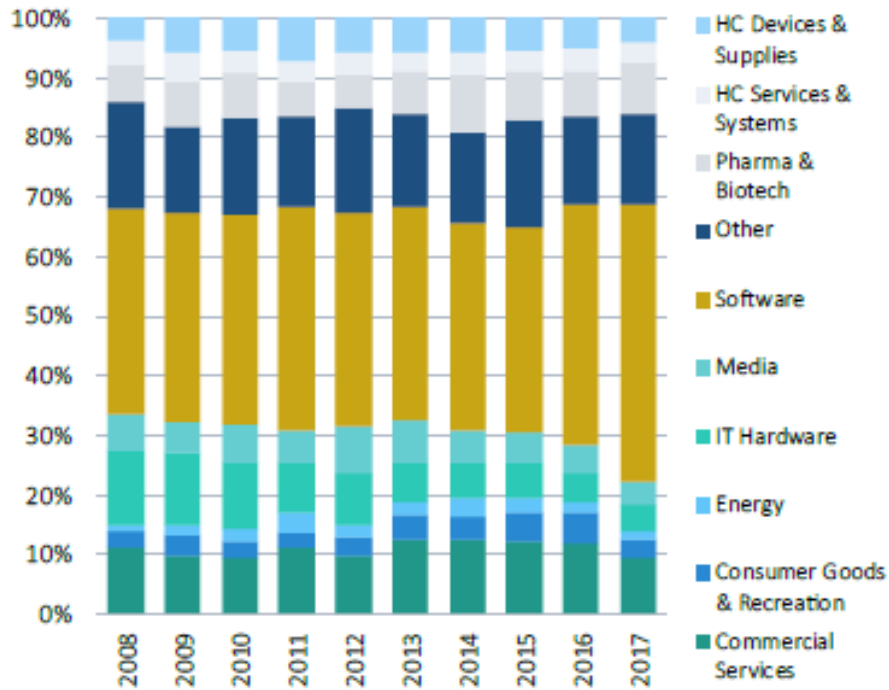
Source: PitchBook

The State of Market



Software has continued to dominate VC-backed exits

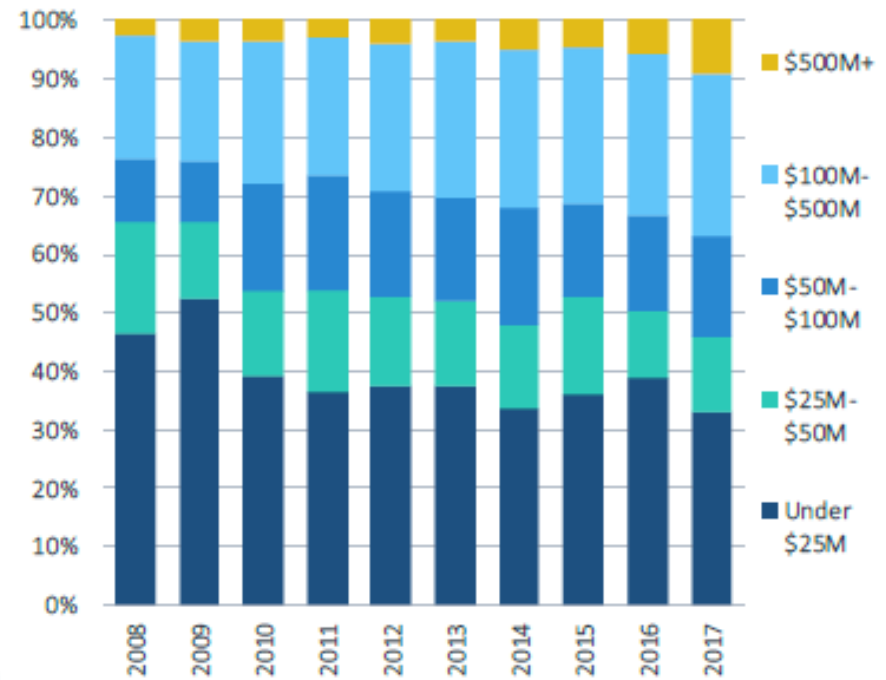
North American & European VC-backed exit activity (#) by sector



Source: PitchBook

Growing number of larger exits completed in 2017

North American & European VC-backed exit activity (#) by size



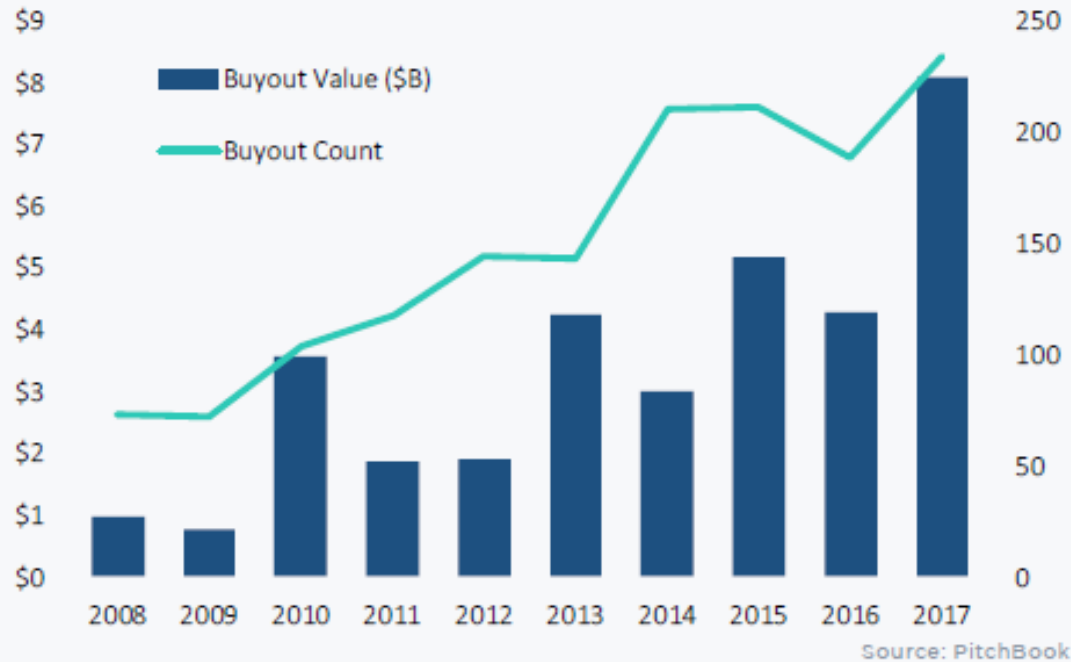
Source: PitchBook

The State of Market



Buyouts becoming a more popular route to exit for VC-backed companies

North American & European buyout activity



Backed by a strong public market, IPOs showed resilience in 2017

North American & European VC-backed exit activity (\$B) by type

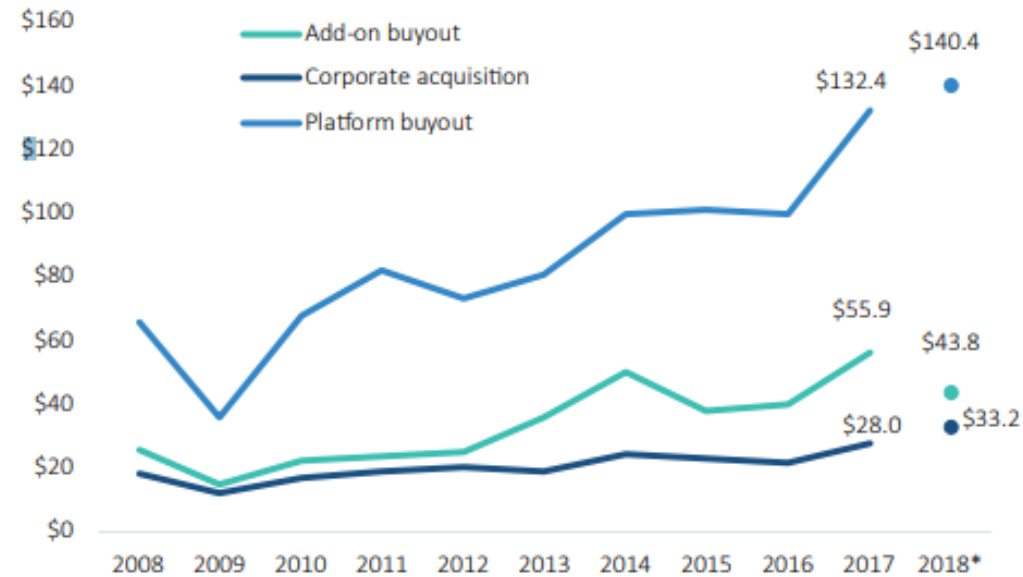


The State of Market



Deal sizes remain elevated

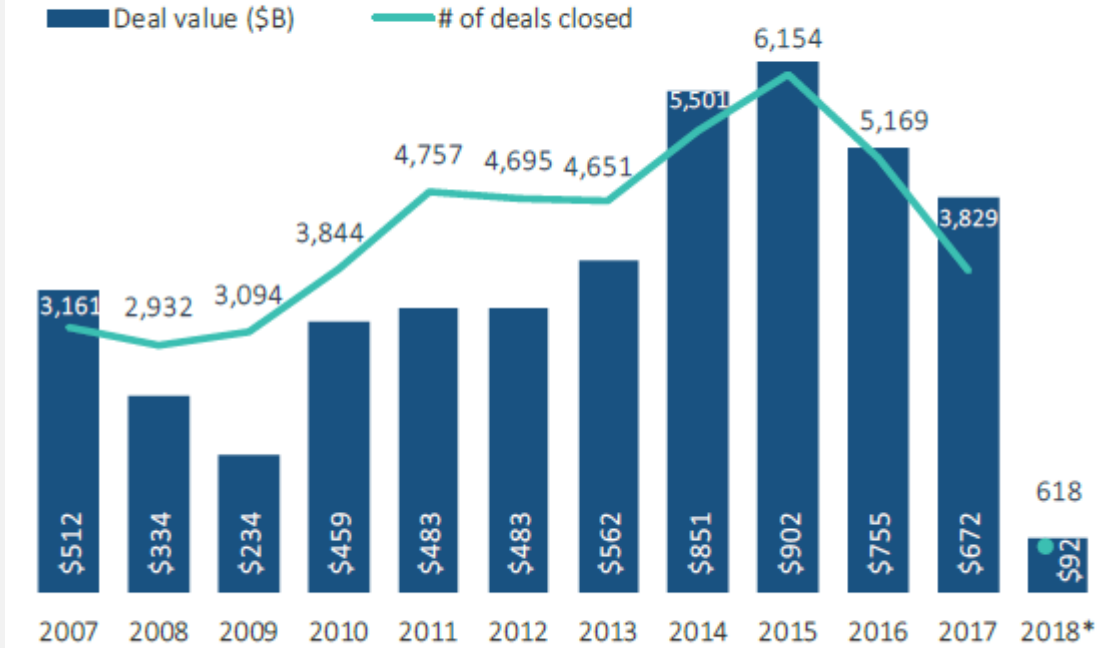
Median deal size (\$M) by type



Source: PitchBook
*As of June 30, 2018

Even after the recent decline, other factors indicate divestitures are primed to accelerate

M&A divestitures



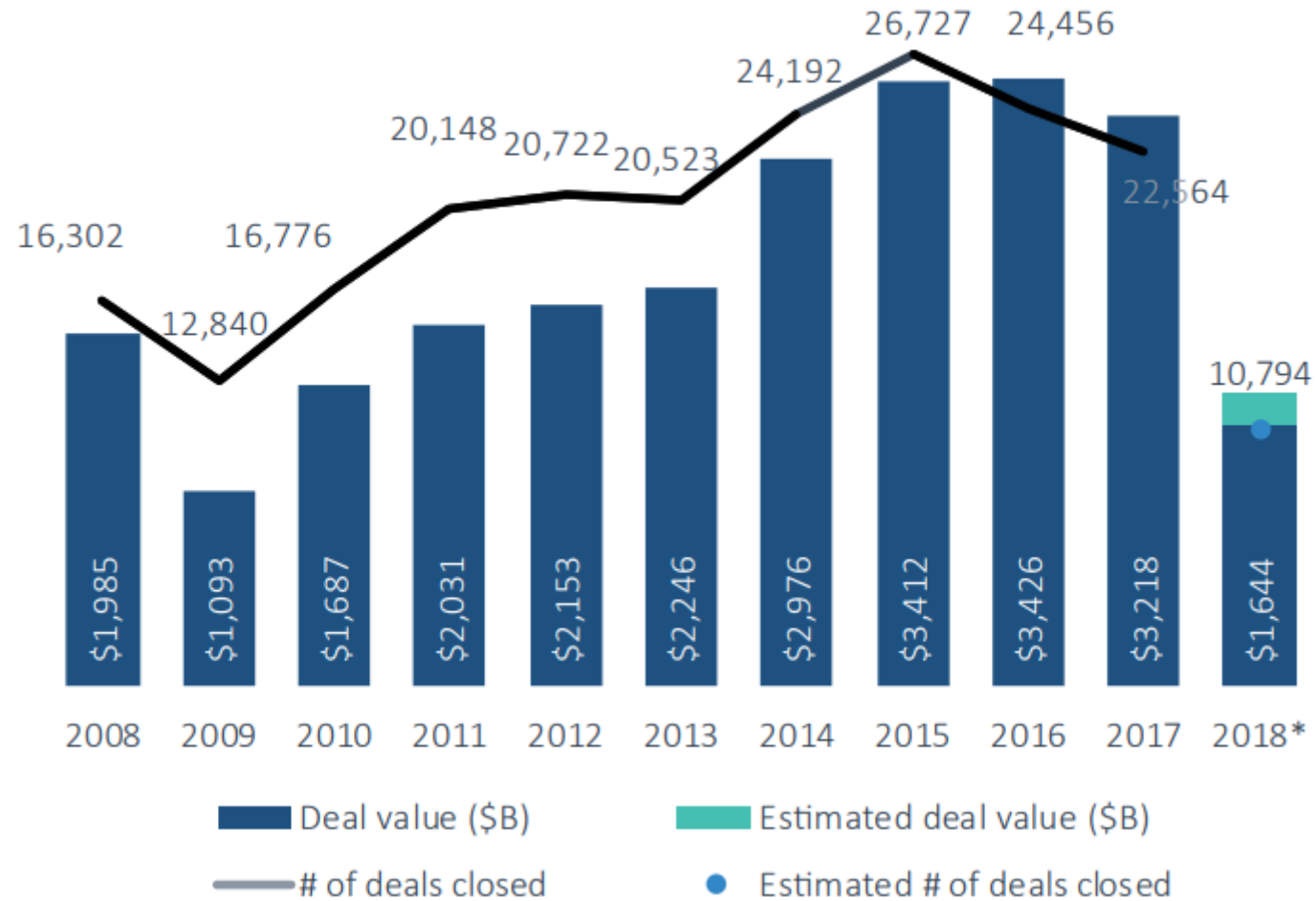
Source: PitchBook
*As of March 31, 2018

The State of Market



Transaction value on pace to match recent figures

North American and European M&A activity



Agenda

- Equity Plan Documents
- Cashing Out Equity Awards
- Fair Value Implications
- M&A Consideration: Replacement Awards
- Acceleration Provision

Equity Plan Documents



■ Seller

- + Acceleration provision
- + Change of control
- + Acquisition plan
- + Plan going forward – Employee owned Equity
 - Purchase accounting
 - Equity compensation

■ Buyer

- + Buy-out plan
- + Equity compensation
 - Assume the Plan
 - Cancel the Plan
 - Cash Out



Cashing Out Equity Awards



- Options Cash Out
- Payroll or Pre-acquisition
- Tax impact
- Employee Pay Out
 - + Diluted impact



Fair Value Implications



- Calculate Fair Values and Assumptions as of the Transaction date
- Equity awards
 - + Comparing fair value of original and new award
 - + New award may or may not be modified
- Cash-Settled
 - + Compare per share cash paid to fair value of equity award prior to transaction
 - Fair Value of award may be intrinsic value or Black-Scholes (or other valuation Method)

M&A Consideration: Replacement Awards



- When obligated to replace acquiree's awards
- Purchase consideration = Value of entire award immediately before x % of service period complete
- Post-Transaction Expense = Value of entire award immediately after minus Purchase Consideration
- Potential incremental expense = excess of (Post-Transaction Expense x % of service period complete) over Purchase Consideration

Accelerations



- Acceleration – With Change of Control Provision
 - + When Change of Control Provision exists, no modification expense, so no revaluation
 - + Accelerated expense to Acquiree pre-transaction
- Acceleration – Initiated by Buyer (i.e. w/o change of control provision)
 - + Revalued under modification accounting rules
 - + Recognized outside of the transaction as post-combination expense on acquirer's books
 - + Often see this with fully cash-settled awards



Next Steps



What should you do now to prepare?





What Questions Do You Have?

Submit Your Questions Now!



M & A Series – Coming up next



Valuation

December 4, 2018

9:00am – 9:30am



Contact Us!

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