

Guide to Working with an
Investment Bank



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This guide will help senior executives, entrepreneurs and directors understand their options for raising venture capital. Some of the questions that are answered inside include:

How does a long term relationship with an investment bank benefit a company? (see page 3)

What areas should be evaluated before working with an investment bank? (see page 4)

How does a firm build a relationship with an investment bank? (see page 5)

What services does an investment bank provide? (see page 6)

ROLE OF AN INVESTMENT BANK

Most technology and business services companies can benefit from a close relationship with a high quality investment bank. For companies actively raising capital or pursuing strategic transactions, the immediate advantages of such a relationship are clear: transaction execution is usually top-of-mind when considering the role of an investment bank. However, companies that do not have pressing external capital requirements or strategic transactions to address also can benefit greatly from a close relationship with an investment bank.

Investment bankers are strategic advisors that help founders, senior executives, directors, and shareholders realize their objectives. Used to their fullest potential, investment bankers identify the business opportunities that can generate the most attractive equity valuations and implement strategic plans to capitalize on those prospects. While the long term strategic plans of most companies involve a mix of internal and external growth opportunities as well as opportunistic liquidity events, the timing and sequencing of such activities can be crucial to fully capturing an organization's potential. To receive the most effective strategic advice from an investment banker, entrepreneurs and senior executives are best served by working with an investment banker at an early stage and utilizing their expertise in a variety of capacities.

Investment banks offer a highly interrelated suite of services that take close client involvement to execute with maximum impact. The four primary roles in which an investment bank serves are:

Strategic Activity	Function of Investment Banker	Function Description
 Transactional Activity	Market Proxy	Provide insight into the industry landscape and investor sentiment
	Strategic Advisor	Advise shareholders and management on resource allocation and strategic options
	Marketing Advocate	Position the client to achieve maximum valuation and best transaction terms
	Process Manager	Conduct an efficient transaction process with minimal operational distraction

MARKET PROXY

Based on intelligence garnered from constant contact with private equity investors and senior technology, media, and business services executives, an investment bank has first hand knowledge of the thought processes of key industry constituents. This intelligence is fundamental to formulating value maximizing business strategies on a going-forward basis. Building a relationship with an investment bank that is active in the appropriate industry and investor sector will provide access to relevant strategic intelligence and prevent strategic gaps and suboptimal business strategies from undermining a firm's long term prospects.

STRATEGIC ADVISOR

A well-informed investment bank is also well-positioned to serve as a strategic advisor. In this capacity, an investment bank can assist a firm in matching its internal strategic goals with the financial resources required to execute its business plan. Further, an investment bank can help a company assess whether any gaps in its product portfolio are best addressed through internal development, external acquisitions, or other means such as partnerships or licensing. By involving an investment bank in an organization's strategic planning process and incorporating the market intelligence it can provide, a firm will be prepared to capitalize on opportunities created by changing market conditions and realize value for shareholders when external interest in the company and its industry is peaking.

MARKETING ADVOCATE

When the time is right to execute on a strategic or financial transaction, an investment bank serves as a strong advocate for the client during the transaction marketing process. As the client's conduit to prospective buyers and/or investors, an investment bank is instrumental in crafting the right message to the target audience, creating a competitive bidding environment, and aggressively pursuing attractive terms. The client's strategic positioning is best developed in conjunction with input from an investment bank during the firm's strategic planning process. Careful planning during this stage will enable the company's marketing message to resonate most strongly with potential strategic and financial partners. By crafting a message and strategic positioning that appeals to a wide range of partners, an investment bank can generate the competitive bidding process that yields attractive valuations and favorable terms.

EFFICIENT PROCESS MANAGER

A well-executed transaction requires significant preparation and meticulous process management. Early involvement by an investment bank in the company's strategic planning process and deep familiarity with the firm's market positioning can significantly cut transaction time-to-market. Further, this pre-planning can dramatically reduce management time commitments during the transaction process, resulting in reduced risk of management distraction.

Backchannel Intelligence

Working through an investment bank, a company can get feedback from its most relevant suitors prior to initiating a formal transaction process. A bank can canvass potential partners on a "no names" basis, allowing a company to assess its market value and options; this survey may even entice a preemptive offer. At the least, this intelligence helps assess potential outcomes should a formal process ensue in the near term. Longer term, this feedback allows a firm to adjust its strategic plans to enhance its appeal to potential buyers or investors.

High Quality Relationships

Much of an investment bank's value resides in its relationships with strategic buyers and financial investors. It takes a significant time commitment, a history of dealing ethically and responsibly, and strong deal flow for a bank to develop a quality network. A company should evaluate the relevance of a bank's relationships to the firm's strategic goals before engaging an investment bank. Banks that target specific industry and investor categories typically have deeper relationships and can provide more reliable market insight than generalist banks.

BENEFITS OF AN INVESTMENT BANKING RELATIONSHIP

Involving an investment bank in a company's strategic plans yields significant benefits such as enhanced market positioning, optimal transaction timing, and strategic flexibility and readiness.

ENHANCED MARKET POSITIONING

An investment bank can help shape a company's strategic plan, allowing it to fully realize the most compelling elements of its business strategy. Using feedback from strategic and financial investors, a firm can direct its efforts to exploring business opportunities that are viewed favorably by the investment community and strategic investors. This approach to long range strategic planning can yield significant valuation gains over time.

OPTIMAL TRANSACTION TIMING

Using the intelligence gathered by an investment bank, a company is able to better synchronize its resource needs and strategic initiatives with market interest. Over the long term, this approach should allow a firm to sell opportunistically when the market is robust and, conversely, buy when the market experiences softness. Without an investment bank's input into a firm's strategic plans, the likelihood of mis-timing the market and underperforming increases greatly.

STRATEGIC FLEXIBILITY AND READINESS

Developing a close relationship with an investment bank is a proactive strategic move for a company. This relationship will allow a company to react quickly to changing market dynamics, such as industry consolidation, emerging or evolving business models, and competitors attracting significant external capital. By having a deep relationship with an investment bank, a company also gains a strategic insurance policy in the event that a competitor or outside investor makes an unsolicited inquiry.

MINIMAL UP FRONT COST

Working with an investment bank on an on-going basis can be quite affordable, even for firms that have minimal resources. Investment banks earn over 90%-95% of their compensation from success fees upon the closing of a transaction. Thus, up front costs are kept low and back-end fees are only payable in the event of a successful transaction.

Success-Based Remuneration

Investment banks earn the vast majority of their revenues from representing clients in successful financial transactions. Over 90%-95% of their fees are payable only upon the successful completion of a transaction. The balance of a bank's revenues comes from retainers for providing on-going strategic advice and transaction support. These incentives align a bank's interests directly with those of its clients' shareholders. Thus, investment banks get paid proportionately to the shareholder value that they create.

EVALUATING AN INVESTMENT BANK

While the benefits of an investment banking relationship may be readily apparent to many entrepreneurs and senior executives, they may have difficulty evaluating one investment bank versus another. The salient aspects to assess are market and client knowledge, senior banker involvement, and relevant transaction track record.

MARKET AND CLIENT KNOWLEDGE

As with any professional service, an investment bank thrives on its intellectual capital. An investment bank should be able to demonstrate a command of its client's industry and market dynamics as well as a thorough understanding of relevant transaction structures and process timelines. Further, an investment banker should be expected to work closely with a company to discern the key differentiators and synergies of the client vis-à-vis its competitors and adjacent market sectors. Finally, an investment bank needs to demonstrate that it has frequent contact with a network of investors and strategic partners relevant to its client's industry.

SENIOR BANKER INVOLVEMENT

When selecting an investment bank, a client is selecting a specific senior banker with whom to work as much as it is selecting a firm. To this end, a client needs to be comfortable with not only a senior banker's knowledge and technical expertise but also the banker's willingness to invest time and attention to the client. A client should expect a senior banker to be proactive in assisting the firm with strategic matters as well as transaction execution. Once in the transaction execution process, senior banker engagement should remain high throughout the life span of the transaction with minimal or no delegation of essential duties to junior bankers.

RELEVANT TRANSACTION TRACK RECORD

An investment bank's track record of executing transactions is a key indicator of its capabilities. However, simply reviewing a list of prior transactions may not be enough to evaluate a firm or a senior banker. A prospective client should discern what transactions a particular senior banker has completed and how relevant those transactions are to the firm's target audience. It is critical to understand the personal transaction experience of any senior bankers involved in a transaction as key relationships with investors and strategic buyers often are stronger with individual bankers rather than with the investment banking firm.

Bulge Bracket Client Service

The top global investment banks are commonly known as "bulge bracket" banks. Comprising all of the world's largest companies and private equity firms, clients of bulge bracket banks expect customized advice, personal attention, and flawless execution. To meet client demands, these banks attract the best talent available from industry and academia and provide them with extensive training and transaction experience. Emerging and mid-market firms can expect similar service from a boutique bank that has professionals with experience at bulge bracket firms.

CULTIVATING AN INVESTMENT BANKING RELATIONSHIP

To deepen a relationship with an investment bank, companies should consider taking the steps described below to ensure an interactive, high quality dialog.

STRATEGIC WISH LIST

In conjunction with an investment banker, a company can create a strategic wish list of potential partners and investors. Using this list as a guide, an investment banker will be able to uncover intelligence on these targets that may be useful to the company in the future. Updating the progress of companies on this list will help develop an on-going dialog.

QUARTERLY OPERATIONAL UPDATES

Senior executives should make contact with their chosen senior investment banker at least once a quarter. Discussion topics during this update session may include operational developments and strategic initiatives, financial results, and market intelligence on the strategic wish list as well as broader investment objectives. Ideally, conducting this discussion in advance of any board meetings will ensure that a company is fully apprised of any new developments in the marketplace and can develop strategies that incorporate them.

ANNUAL STRATEGIC ALTERNATIVES REVIEW

Conducting an annual review of the firm's strategic alternatives with an investment bank can yield new insights. By reviewing a firm's strategic alternatives with respect to capital raising, partnership opportunities, and shareholder liquidity options, the company can chart a course for the long term. With the feedback from this review as a backdrop, a firm can kick-off its internal strategic planning process and create a framework for optimizing the company's resources and opportunities for the coming year.

Range of Services

Investment banking firms provide two key services that are essential to emerging technology and business services companies: venture capital fundraising and mergers and acquisitions advice. To understand the venture capital fundraising process as well as the full range of M&A alternatives available to a firm, see Madison Park Group's publications entitled "Guide to Venture Capital" and "Guide to Mergers and Acquisitions", respectively, or visit www.madisonparkgrp.com for additional information.

Madison Park Group is an investment banking firm focused on providing financial advisory services to technology and business services companies.



Innovation & Growth

Madison Park Group is comprised of an experienced team of investment bankers. Our banking team has closed over 150 corporate finance transactions with a total transaction value in excess of \$30 billion. The Madison Park Group team has been involved in M&A, strategic advisory, private placement, IPO, secondary public offering and debt financing transactions for companies in a range of industries including:

- Enterprise Software
- eCommerce
- Transaction processing
- Business Process Outsourcing
- IT Services
- Online Services
- Healthcare Technology and Services
- Financial Technology and Services

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