



MidMarketCapital, Inc.

I Want to Sell my Healthcare Information Technology Company, Just After This Next Big Sale

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You have made the decision to sell your healthcare information technology company. Maybe it was because your prospects are selecting the inferior product but superior safety of your brand name competitor. It could be that one of the industry giants recently acquired one of your small but worthy competitors and has removed the risk component of a buyer's decision. You may think that you have a limited window of opportunity for your technology and you should sell it while it still enjoys a competitive advantage.

These are all good reasons to set your business sale process in motion. A critical element here is time. Good technology not achieving meaningful market penetration is vulnerable to competition. Given this scenario, the more rapidly you can get your acquisition opportunity in front of the viable buyers, the better your chance for more favorable sale terms and conditions.

All systems go, right? But wait. We have a major proposal out to that 30 hospital chain and when we get that deal our sale price will sky rocket. So we are just going to wait for that deal to close and then put our company up for sale.

Let me give you a gem here. We will call it the Moving Sales Pipeline Theorem. It states the sales pipeline always moves to the right. This is based on over 20 years in technology sales and sales management experience and many years of selling companies with sales pipelines. The sales either take much longer than projected or do not materialize at all.

Given this, the time critical nature of your pending business sale, and your desire to ring the bell from your 30 hospital chain deal, what do you do? You engage a great M&A firm that specializes in Healthcare Information Technology companies (I know of one if you are interested) to sell your business. Let them focus on selling your business and you focus on running your business and closing that big sale. Get several buyers interested and negotiate for your best deal. There will be a lot of give and take here. At the right moment, as a counter to one of the buyer's points, you ask for a 6-month window post acquisition to close that deal. You then ask, for example, for an earn out incentive of 50% of the contracted first year revenues of the hospital deal as "additional transaction value" payable 30 days after the one year purchase anniversary date.

There are lots of moving parts here so let me elaborate. The first element is you do not delay your business sale process. We already established that it was time critical. Secondly, I very carefully chose the language "additional transaction value". We want to make sure that this payment is not confused with ordinary income at double the long term

