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How M&A Firms Support a Growth by Acquisition Strategy

There are a number of reasons why a company may find it profitable to make acquisitions:

1. Diversify risk by acquiring a different line of business;
2. Increase opportunity by acquiring a business with more attractive growth prospects;
3. Increase profitability by acquiring a related business, leading to reduced production or marketing costs and reduced competition for customers.

In addition to closely-held or public companies following one or more of these strategies, private equity funds are also looking for acquisitions to strengthen the businesses in their existing portfolios. Private equity funds also may decide to enter new attractive business areas that are growing rapidly or enjoying above-average margins. In this case, they need to invest in companies large enough to serve as stand-alone platforms. Subsequent add-on acquisitions of smaller companies in the same field will enable the private equity fund to build a larger enterprise which can then be sold to a strategic buyer.

Acquisition Process:

The acquisition process begins with a search for prospects and screening these prospects according to a set of criteria decided by the acquirer. The prospects are then contacted and interviewed to determine whether they might have an interest in being merged or acquired or having a new majority investor. The surviving candidates are then ranked and a dialog initiated between senior representatives of the acquirer and the most promising candidates. At these meetings, data about the candidate are shared, synergies discussed and the existing management assessed. These meetings take place over a few weeks or can stretch out over several months. If the original acquisition criteria are met and both parties are reasonably close on the expected acquisition price (usually confirmed by a letter of intent), detailed investigation (due diligence) by the prospective acquirer can begin. The process continues with final negotiations on price and conditions of sale spelled out in a purchase contract. It often takes six to twelve months from the first meeting with the target company to the close of the transaction.

Use of an Intermediary:

Why should a company hire an intermediary to help with an acquisition search? The simple answer is that an intermediary often increases the probability of a successful acquisition. This process is strategic to a company's overall success - it can make or break an organization. It requires executive level expertise to ensure a successful outcome. An intermediary is an outside third-party with fresh perspective and the executive level experience to conduct successful acquisition searches. They also have the time and resources to focus on the task and push the process.

How Does the Intermediary Operate:

The intermediary must first become thoroughly familiar with its client's acquisition goals by meeting with the client and learning as much as possible about the existing business and business culture. It must conduct plant visits, review product literature and company history, and interview senior client executives. The intermediary firm with its varied M&A and industrial experience will then access its appropriate data bases to quickly and efficiently develop a target list of prospects. The client will often supplement this list with additional prospects from its unique knowledge of the market.

With database access to financial and product data about potential prospects, the intermediary can eliminate those companies too small or too large or with the wrong product mix so that the target list is made up of qualified companies. Once this final list is reviewed and approved by the client, the intermediary then begins the task of reaching the president, CEO or owner of each of the qualified companies, speaking on behalf of the acquirer, in order to learn whether the company has any interest in discussions with a potential acquirer or investor. This task is carried out by letter, e-mail and telephone. Good intermediaries have a unique ability to get by the “gatekeepers” and engage in a strategic dialog with the owners of companies. Owners are typically more open to discussing alternatives with a third party than a direct competitor. This engagement often results in a willingness to participate in further discussions. If the target company has no interest in an acquisition approach, that company may be dropped from the list without needing to identify the client. If the target company’s response is conditional on knowing the identity of the client, it is often disclosed (cleared in advance with the client) and basic information about the client’s business and the reason for the acquisition search is described.

The goal is to assemble a prospect list of companies that fit the acquisition criteria and show some interest in being acquired. The intermediary can usually perform this work promptly, efficiently and with greater discretion than the client. Knowledge of the acquirer’s strategy in the target industry also becomes less widely known to potential competitive acquirers.

Having established that the target is interested, the intermediary is well-positioned to provide the client with introductions and to facilitate exploratory meetings either at the target’s home base or at a neutral site. The intermediary plays a unique role in keeping the parties at ease and on task during this courtship.

During the negotiation stage, the intermediary can play a role as a buffer between the acquirer and the target, delivering messages which may be unpleasant for the acquirer to deliver themselves or exploring the reasons for respective negotiation positions which may be blocking progress toward an agreement.

The intermediary can also act as additional staff for the client, helping assess the market position of the target or to analyze the target’s financial position and growth forecast.

Summary

Similar to choosing whether or not to avail yourself of a real estate agent when buying or selling a house, it is possible to find and acquire a company by yourself. However, acquiring a company is much more complex and information is not readily available. The advantages of selecting an M&A intermediary to initiate and assist the acquisition process are considerable:

1. Thorough and professional search for candidates without committing staff or management resources;
2. Skilled screening of candidates according to your own criteria with minimal market disruption;
3. Enhanced ability to get owners of companies engaged in a dialog about strategic relationships;
4. Smooth introductions of your management team to interested candidates and assistance in overcoming misunderstandings during negotiations;
5. Assistance to your management team with market research and financial analysis.