

How Acquisitions Succeed

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A company that plans its acquisitions strategy in advance of a transaction will greatly improve its likelihood of executing a successful acquisition. A well thought out acquisition process helps a company to focus on establishing a plan and achieving the goal of acquiring the right company or product line at the right time and at the right price. This article provides a basic outline of how a company can create and execute a successful acquisition plan and process.

Acquiring a Company Costs More than Just the Purchase Price

Every company understands that an acquisition is a use of financial resources to acquire another company's stock or assets. Companies should also understand that an acquisition of any size, whether be it large or small, takes a large amount of their employees' time and outside resources to ensure the acquisition process is executed correctly. Costs above the purchase price for legal services, advisory services, accounting services, travel, and the untold number of employee hours need to be considered as part of the acquisition process and cost. Even if a majority of these services can be handled by the acquirer's internal resources, there are still the tangible costs associated with the labor related to the time spent on the acquisition and the intangible costs associated with employees being focused on additional activities that take them away from their daily job functions.

Establish a Strategic Plan for the Acquisition Process

An acquisition is both a use of a company's capital and human resources. Therefore, a company needs to make sure that its acquisition plan answers a couple of basic questions:

- Why is an acquisition the best option for the company?
- What is the company looking to acquire: A competitor, a broader product offering, or new channels of distribution?

We recommend an acquiring company develop an acquisition "white paper." The process of putting the company's strategic acquisition objectives in writing, such as a "white paper," will greatly help all of those involved to focus on the correct outcome. Often companies hire outside advisors to develop and write the "white paper" and to guide the acquisition process to ensure the efforts of everyone are focused in the same direction and on the correct outcome from the acquisition.

Have an Acquisition Budget

A critical part of the acquisition planning process is setting the budget for the acquisition. It is imperative to know the acquisition budget, because this sets the financial range of target companies or product lines to consider approaching during the acquisition search. We recommend that acquirers consider companies or product lines at the lower range of their budget limit, which will allow for greater price flexibility versus immediately going for companies at the top end of their budget range, which may leave the acquirer with limited flexibility during negotiations with the target company.

After the acquisition budget has been set, it is of paramount importance to get the acquisition funding arranged in advance. If the company will be self-funding the acquisition, it is important that the cash will be available when needed. In today's tighter credit environment, if the company is getting financing for the acquisition, it is very important to have pre-approval of the required funding.

The combination of having both an acquisition budget in place and the funding available at the onset of the acquisition process will greatly improve the focus of the acquisition search and help expedite the closing process.

Active Acquisition Search Process

Having an active acquisition search process means going out and approaching target companies versus waiting for opportunities to present themselves. The key is to be proactively talking with people in the industry to find out what opportunities may potentially come on the market and calling other prospects that the company is interested in acquiring. Often companies that have limited internal acquisition resources outsource the acquisition function to advisory services firms like The Siburg Company. There are several benefits to outsourcing this form of acquisition search service:

- The expense stops upon completion of the acquisition
- There is a full-time focus on the acquisition by a firm that specializes in providing this service
- The company's executives, managers, and employees can continue with their daily job functions during most of the acquisition process
- There is a third party that will handle the difficult and emotional aspects of the acquisition process, especially the negotiations related to the purchase price

At this point in the acquisition process an acquisition team needs to be in place. An acquisition team generally includes resources such as a business transaction attorney, tax accountant, investment advisor, Chief Financial Officer, Chief Operating Officer, Human Resources Executive, and operational personnel as required. Having the right team in place in advance will help the actual acquisition process move quickly towards close at the appropriate time. A post-acquisition integration team is also very important to ensure that the combination of the two companies is handled correctly and in a timely manner.

Have a Standardized Method for Determining the Value of Target Companies

Develop a standardized method for determining the value of a target company because using various valuation approaches will provide very different valuation ranges. Liquidation approaches will provide the lowest value, market approaches will generally yield the highest values, and discounted cash flow approaches will yield a value somewhere in the middle of the other two approaches. The key is to value all of the target companies using the same valuation approaches and methods, as this will allow for equitable and comparable valuations of the target companies. Creating and using a standardized valuation method will allow for evaluating risk levels associated with each target company, highlight positive and negative financial attributes between companies in the same manner, and ensure that the acquisition is kept within budget.

Negotiations with the Target Company

A company that has a defined acquisition strategy will know its purchase price range and deal points in advance of negotiating with a target company. This includes setting the structure of the transaction, such as whether the acquisition will be a stock purchase or an asset purchase, and what representations and warranties are required. An asset purchase transaction also requires detailing a list of assets being acquired including inventory levels, equipment, trademarks, Web site, phone numbers, accounts receivable if not retained by the seller, determining a process to ensure that accounts payable and other liabilities are paid, and many other items.

It is important for acquirers to have a defined idea on how the transaction will be framed before going into the negotiation process so that they will be in control of the process and avoid getting themselves in the position of negotiating against themselves. A prime example of a company negotiating against itself is to allow the target company to draft the asset purchase agreement. From that point forward the seller is in control of the negotiations because it controls the asset purchase agreement, with the seller's attorney drafting the asset purchase agreement in favor of the seller. The acquirers will be negotiating against themselves to get their points into the asset purchase agreement.

All buyers must be willing to walk away from the deal at any point in the transaction process. On occasion the buyer becomes mesmerized with doing a deal and loses sight of the business realities of a transaction. This often happens when the acquiring company has failed to plan strategically for an acquisition by setting acquisition guidelines. When a company "falls in love with a deal" it often overpays for the target company, while failing to protect its interest through proper due diligence or requiring appropriate representations and warranties. The key is to know the critical acquisition deal points in advance of negotiations, to stay within the strategic framework of the acquisition plan, and sometimes this means having to walk away from a transaction.

Due Diligence

Simply stated, due diligence is all about getting into the details, reading the fine print, and validating all of the facts being represented. At the point when due diligence starts, provide the target company with a list of items that will be required to be completed before the transaction will be able to close. Due diligence will help determine what areas need to be heavily negotiated on representation and warranties, possible adjustments to the purchase price, and the timing of the close. Due diligence is all encompassing and requires a team effort to be done efficiently and effectively. The target company needs to provide all

the items the buyer asks for in a timely manner. The longer it takes to get information from the seller the more the buyer will need to validate the information provided. Also, buyers often have a tendency to gloss over large and important items in due diligence assuming that the target company operates in the same manner as the buyer, or that the assets are fully transferable when, by contract or lack of contract, certain assets require third party approval for sale. That is why it is imperative to have a due diligence team of accountants, lawyers, human resources professionals, and advisors who understand the process. These professionals know what to ask for, know when to look harder at any item or functional areas, and know when to walk away from a transaction when due diligence uncovers items that make closing the deal impossible.

Post-Acquisition Integration

A successful acquisition will be prepared for post-acquisition integration the day the transaction closes so the integration of the newly acquired company is accomplished quickly. Plan on getting the post-acquisition integration started during the due diligence process, especially where employee-related items are concerned such as choosing the new executive management and organizational reporting structure. Often acquirers put off the integration process for several months, which makes the actual integration process even more difficult. The purpose of an acquisition is to own, control, and manage the assets of company that was purchased for the benefit of the acquiring company. If an entity is going to be left autonomous, then organizational reporting structures need to be determined and the integration will be focused on how information will be reported. When the entity is going to have its operations folded into the acquiring company, it is very important to have a defined integration plan ready at closing. We recommend in either integration situation that cash management and payroll be moved on the closing, which sends the signal that the company has been acquired and is under new management. Other items will take longer to integrate, such as employee benefits, production activities, sales, fulfillment, and other operational functions such as accounting.

In Conclusion

A successful acquisition policy requires that a company have a strategic acquisition plan in place as the starting point of the process. A company that knows in advance why and what the reasons are for the acquisition will avoid the pitfalls of letting the acquisition process get out of control. With an acquisition strategy the acquirer will find that hard decisions will be easier to make and will know when it is better to walk away from a transaction, because it is following its established acquisition process. Remember that timely post-acquisition integration is imperative to the success of an acquisition.

The Siburg Company, LLC is a boutique consulting firm specializing in the areas of financial and operational consulting, business development, and mergers and acquisitions.

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Dan is the Managing Director of The Siburg Company, LLC and has prior industry experience as both a President and Chief Financial Officer. He has helped companies to improve operational functions and organization to manage costs and increase revenue streams, while implementing strategic policies and procedures that focus companies on profitability.

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We invite you to call us to discuss your current business needs or to schedule a future appointment.

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