Harris Williams

PRIVATE COMPANY INSIGHTS

Growth via M&A: A Three-Part Guide for Company Owners

1 Five Keys to Successful Acquisitions — Foundational Basics

2 The Acquisition Process

3 Maximizing Post-Acquisition Value

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Part One: Five Keys to Successful Acquisitions — Foundational Basics

No matter current business conditions, M&A can accelerate your growth into new market segments and geographies, allow you to sell new products and services, and give you quick access to new talent, technology, and customers. In short, acquisitions can help you take your business to the next level.

In this series, Harris Williams shares some of its key insights on managing the complexities of M&A. This first installment discusses five foundational themes to consider before getting started. Parts two and three will provide concrete guidance on the acquisition process itself and on maximizing value after the acquisition is complete.

In times of both economic challenge and prosperity, leading companies keep growth top of mind. How will they increase scale, expand offerings and capabilities, or reach a broader customer base? And, how much growth can be achieved organically versus through acquisitions?

“In any economic climate, acquisitions can enable companies to enhance market share, capitalize on market opportunities, and increase scale,” says John Neuner, a managing director at Harris Williams and the firm’s co-head of M&A. “In times of economic uncertainty, acquisitions can also reduce risk by providing customer, geography, or product diversification. Given the current environment, now could be an opportune time to accelerate or initiate an acquisition strategy, particularly where sellers may not have been willing to entertain conversations previously.”

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> —JOHN NEUNER, MANAGING DIRECTOR AND CO-HEAD OF M&A

But, for first-time acquirers, an acquisition can seem daunting and risky. With no experience to lean on, most private companies don’t have a good understanding of all that’s involved and, more important, what’s absolutely necessary for a deal to be successful.

Because of this, we've put together this primer on the five foundational keys to deal success. These are critical concepts every first-time buyer should carefully consider before starting down the acquisition path. Doing so can mean the difference between a transaction that achieves its intended objectives and one that fails to live up to expectations, or worse.

I. Clear Vision and Strategy

"In our experience, the biggest key to success is the most fundamental: having a clear vision and knowing the role the broader enterprise strategy plays in defining the organization's acquisition strategy," says Bill Watkins, a managing director at Harris Williams. "It's critical for owners who want to pursue acquisitions to fully understand what they want to buy and why. What's the purpose of the acquisition? Is it to build scale? Is it to add new product lines or service capabilities? What do they want their company to look like after the acquisition or multiple acquisitions? The reason for an acquisition should be clear, otherwise there could be internal conflict as employees struggle with supporting and implementing the strategy."

Bill Watkins, Managing Director

Importantly, clear communications and messaging must accompany the vision and strategy. This includes what they're telling those outside the company—investment bankers, the media, brokers, private equity firms, lending institutions, and targets in general. These entities need to know why the company is looking to buy and what makes it a good buyer. It also includes internal stakeholders—division heads, the executive management team, all the way down to sales leaders, group heads, and operational leaders. All of these people not only need to hear a consistent message so they're on the same page as the acquisition kicks into gear, but also understand and contribute to the development of said message.

"The fact is, all acquisitions aren't the same," notes Larissa Rozycki, a director at Harris Williams. "They can vary in the incremental value they add, the time they take to plan and execute, and the work required. The more time shareholders and company leadership can spend up front developing a sound M&A playbook, the more successful the acquisition will be."

2. Basic Acquisition Competencies

Serial acquirers are well-oiled machines within the world of M&A. They have a formal, largely automated acquisition procedure built on years of experience. They have the right knowledge and behaviors in place, not only at the top level but also down to the group, business unit, and functional heads. Acquisitions are simply ingrained in their DNA and their culture, often because of the collaborative nature of acquisitions: Key personnel are expected to have a voice in the process, and that voice has influence.

"First-time or even opportunistic acquirers understandably may not have the resources and capabilities in place to make acquisitions a core competency," observes Virgil Jules, a director at Harris Williams. "That's why it's important for business owners to align themselves with experienced external advisors—such as accounting firms and outside legal counsel—who can provide valuable guidance and advice." Jules adds that it's also important to have appropriate lending relationships in place so that financing can be responsive and streamlined when needed.

Arguably the most critical competency is the internal deal team who will drive and manage the end-to-end acquisition. Not only is this team tasked with a significant portion of due diligence, it will also be responsible for post-deal integration. "It's vital that employees with integration duties also have important roles during the acquisition," says Watkins. "That can help ensure the entire deal team is in lockstep to mitigate potential integration pitfalls. Prospective sellers want to understand early on who in the organization will be part of the core acquisition team, what they bring to the table, and where there are experience and expertise gaps."

Some companies may not have a formal business development staff or think they can't afford to dedicate executives to a pursuit. But to have an effective M&A strategy, a company will need its key personnel to understand they'll have to stretch outside of their normal day-to-day responsibilities and provide some additional capacity for M&A efforts. That said, many owners in this position often consider turning to a third party to handle most or all of the acquisition activities to reduce the burden on their employees. Importantly, any external buy-side M&A advisors should have deep experience and extensive contacts in the space the acquirer is targeting.

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Other companies may have a formal group of dedicated business development resources who, because they're out in the market every day, have a good handle on which companies (including competitors) are attractive and good acquisition candidates. They're also adept at interacting with the people at prospective targets and getting to know their culture and business. For these companies, a hybrid model that includes a mix of internal and external resources generally makes sense.

3. Targeted List of Prospective Acquisitions

"It's a big world out there, and there are plenty of potential targets for a company looking to acquire," says Rozycki. "It's critical to have a targeted list of prospective acquisitions that make sense given the company's organic growth strategy. When developing this list, owners should make sure to avoid making it too narrow, which can result in missing out on promising opportunities, or too broad, which leads to scarce resources chasing too many targets."

How to create this pool of targets? Leveraging key personnel within the organization is critical. Pushing the management team on the "who" is one thing, but having them contribute to the "why" can be just as important. Doing so also helps the team to develop an acquisitive mindset and critical buy-in early on.

Engaging outside advisors also can be helpful. So can attending trade shows and communicating with sales reps or field teams to understand the competitive landscape or other companies that could provide complementary growth. The more owners keep their eyes and ears open, the more they might realize that they've been building an acquisition pipeline all along.

4. Preemptive, Proactive Negotiation

Just as it's often better to purchase a home directly from a seller before he or she has listed it with a realtor, it's generally in business owners' best interests to pursue "preemptive negotiations" with potential targets. The rationale is simple, says Jules: "The odds of being successful are infinitely higher if an acquirer isn't competing against 20 or 30 others looking to buy the same asset."

Furthermore, he says, privately held businesses typically aren't as well-known as public companies or private equity firms active in the sector. They lack the name recognition and the reputation as a buyer of choice in the marketplace. If private companies simply sat back and waited for those looking to sell to contact them, or banks to call with interesting opportunities, it's highly likely they would find their deal cupboard bare.

As such, buyers benefit from a strong, aggressive outbound effort to fill their target pipeline. They should establish a direct line of communication with promising targets, building rapport early and fostering it over months or years so that when a target is ready to sell, acquirers are in a prime position to buy. And, they're more likely to preempt a broad

transaction that will require a lot of time, money, and resource investment to participate in, and that carries the risk they still may ultimately fall short of closing the deal. That same type of outreach should be directed beyond targets to investment bankers, brokers, various networking organizations, and other entities that could serve as valuable marketing tools to help spread the word about a company's intentions and aspirations.

"If you do find yourself in a competitive situation, be as responsive and communicative as you can," advises Watkins. "Be direct with the company and its investment banker if the company is a 'must-have' asset, and show conviction by your behavior throughout the stages of the sale." For example, he says, be as specific as possible about the amount of remaining diligence, and provide a clear path forward in getting to close. Personal touches when pursuing an asset, such as a handwritten note along with a bid letter, spending more personal time with management, or even one-off communications to express the desire to work as a team, can go a long way toward differentiating buyers. "Even the little things, like promptly returning a confidentiality agreement, can make a big difference," notes Rozycki.

5. Purchase Price Considerations

Finally, it's understandable for buyers to be financially prudent. However, says Jules, acquirers shouldn't be afraid to perhaps go beyond what they ordinarily would be comfortable paying to capture the perfect acquisition target. "What if it's an asset that would be a critical addition to the business? Especially in competitive situations, buyers should weigh the possibility that a target could be acquired by another competitor—which carries a significant opportunity cost for the losing bidders."

Thus, buyers shouldn't shy away from getting aggressive when the situation is right. By the same token, buyers also need to be disciplined, and shouldn't spend their hard-earned money on assets simply for the sake of making an acquisition.

"For companies considering their first acquisition, it's an exciting time, but it also can be nerve-wracking because they're wading into uncharted territory," notes Bob Baltimore, a managing director and the firm's co-head of M&A. "That's why first-time acquirers need to understand up front what's required for success, and how to augment their own capabilities with valuable external guidance and expertise."

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More than likely, the initial deal won't go perfectly. But if there are more acquisitions in its future, a company needs to make sure it learns from the bumps and incorporates those lessons into its playbook for the next pursuit. Having such a playbook to draw on enables companies to take full advantage of acquisition opportunities in times of uncertainty and times of prosperity.

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Part Two: The Acquisition Process

In any economic climate, an acquisition can improve performance and increase scale. In times of economic uncertainty, an acquisition also can reduce risk by providing customer, geography, or product range diversification. But, for first-time acquirers, an acquisition can seem daunting. With no experience to lean on, most private companies may not have an appreciation of all that's involved and, more important, what's absolutely necessary for a deal to be successful.

In this three-part series, Harris Williams shares some of its key insights on managing the complexities of M&A. Part one shared five fundamentals for successful acquisitions. This second installment steps through the acquisition process, and part three will provide concrete guidance on maximizing value after the acquisition is complete.

Introduction

As noted in part one of this series, the most fundamental key to M&A success is having a clear understanding of how an acquisition program contributes to the organization's strategic goals. Only when the company can translate business objectives into a well-founded, actionable M&A strategy should the process begin.

Acquisition Process Overview

Phase	Steps
1 Analysis and Preparation	› Formulate acquisition criteria › Perform preliminary analysis of the targets using publicly available information and proprietary firm knowledge to establish acquisition case › Finalize strategy and target list
2 The Search	› Initiate discreet discussions with approved targets, and determine appropriate course of action based on responses › Gather and analyze additional information to narrow and prioritize the field › Conduct company visits/meetings with potential target management › Submit Indications of Interests ("IOIs") for most promising targets
3 Target Selection	› Conduct due diligence of target › Update valuation analysis and validate preliminary investment thesis › Select target(s), negotiate price and structure › Execute Letter of Intent ("LOI")
4 Transaction Closing	› Finalize diligence and arrange any required financing › Negotiate definitive agreements › Close transaction

Serial acquirers will have a pipeline of potential deals at various stages. However, whether a company is pursuing an acquisition for the first time, making opportunistic deals as they arise, or managing a full acquisition pipeline, the four phases of the acquisition process are the same.

Analysis and Preparation

Virgil Jules, Director

Acquisition begins with the formulation of criteria. “When going through comprehensive screening, buyers should be able to assess opportunities based on a set of criteria that they use to support their investment thesis,” says Virgil Jules, a director. “These typically include desired size profile, market segments, geographical regions, products, service offerings, capabilities, technologies, and customers served.”

Once acquisition criteria are established, buyers can begin to identify and screen the universe of companies that could potentially bring value to their organization. Larissa Rozycki, a director, notes that buyers often overlook resources that are already available to them when creating a potential target list.

“For example,” she explains, “scanning trade association membership lists and attending trade shows to hear how companies pitch their business are good ways to learn more about targets that may not have previously been identified. Also, employees in customer-facing roles within your organization, such as sales representatives, often know competitors or unique companies serving your same clients. Customers also can provide insight on suppliers that perform well and those that don’t. These efforts, along with publicly available information, will help you begin to build a universe to explore further.”

Preliminary Analysis of Potential Acquisition Candidates

- Company profile
- Financial performance
- Competitive positioning
- Product portfolio
- Customer base
- Distribution channels
- Geographic presence
- Potential operating synergies

It’s beneficial to prioritize the target list by actionability, adds Jules. “Prioritization directs resource allocation. Ownership dynamics, such as whether a company has a clear succession plan or not, can be an indicator of how actionable a particular target is, for example.”

“Building these relationships is a marathon and an exercise in patience,” highlights Rozycki. “Some acquisitions, especially the most desired targets, may not be real opportunities for the next 10 years, but companies need to build rapport and get to

know management so they are the first phone call when the time is right. Lay the groundwork early, whether that is establishing some kind of a business relationship, or partnership, or connecting on a personal level. Perfect targets are worth the time and effort."

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—LARISSA ROZYCKI, DIRECTOR

The Search

The intention of phase two, the search, is to get to know targets better through preliminary diligence and company visits, and to ultimately submit Indication of Interest (IOI) letters to promising targets. A company may have multiple targets in the search phase concurrently, or just a few if they are first-time or opportunistic acquirers.

Before reaching out to target companies, gather and analyze additional information to narrow and prioritize the field. Start by culling internal team knowledge of the target company in terms of capabilities, products, services, management team, and customer relationships as well as customers' thoughts about the target. Then fill any gaps with external information, such as news searches, trade publications, trade shows, speeches, and the target's website.

It's extremely important to think through in advance how to initiate discreet discussions with approved targets. Quality companies have many entities reaching out to them, from private equity firms to investment banks and even competitors, and it's critical to stand out from the pack versus being part of the noise.

"In every individual conversation, prospective targets want to feel as if they are a high priority for your company," emphasizes Rozycki. "Acquirers should be mindful of how each conversation is progressing and what is needed to keep the ball rolling so that they can be completely responsive and timely—especially if they are having multiple conversations in parallel and have limited internal resources."

Keys To Success: Win Over Management

- ☐ **Be Responsive** — even the little things, like promptly returning an email, make a difference
- ☐ **Be Understanding** — reduce the competitive threat by making the environment positive and collaborative
- ☐ **Go the Extra Mile** — personal touches, such as a handwritten letter or one-off communications to express the desire to work as a team, can be a differentiator
- ☐ **Highlight Your Unique Value-Add** — what resources can you bring in terms of board members, company resources, customer introductions, etc.
- ☐ **Do Your Homework** — provide a list of questions in advance that show you've read and digested the materials; if acquisitions are a key part of the growth thesis, have some names to discuss
- ☐ **Humility and Thoughtful Curiosity** — ask questions designed to advance the discussion, not to show your chops

Through preliminary diligence, the acquirer should be able to determine whether the target is a company it wants and whether the seller would entertain selling. "Information flow happens in stages," says William Watkins, a managing director. "A buyer won't get all the data needed up front to run full diligence unless the target is prepared for a sale, such as when an investment banker is retained. There will be a number of different stages of discussions, each getting a little deeper. Targets may be sensitive to sharing information initially, preferring to trickle out more as the relationship progresses and comfort increases."

Company visits and meetings with target management are natural progressions in relationship-building, says Jules. "If the target is serious about having an acquisition conversation, management should expect the acquirer to want to meet them in person to take a tour of their facilities and see the operations. It's critical to actually meet folks, see how they go about their business, walk the floor, and see how the facility is kept up. But, in the current environment, companies are finding creative ways to conduct virtual diligence and build relationships with sellers that take them a long way toward their goals prior to in-person meetings."

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"At this stage, you're focused on identifying any glaring or deal-breaking issues, prior to committing additional time, resources, and expenses," adds Watkins. "Sometimes the buyer should walk away when issues arise, but often red flags can be worked out with upfront awareness, additional due diligence, and eventual documentation."

Examples of Possible Red Flags

- Excessive customer concentration
- Customer acquisition and retention issues
- Poor margins (although difficult to attain at early stage)
- Systems or human capital gaps
- Poorly run facilities or operations

Submitting a non-binding Indication of Interest is the next step in advancing the relationship with promising targets. It shows a willingness and ability to consummate and finance the transaction.

Different methodologies are commonly used for valuation, including market- and cashflow-based approaches. Rozycki recommends that companies take a look at multiple methodologies and develop a valuation range based on those that apply to the situation. "In a competitive situation, for example, it's beneficial to know how a financial sponsor would value the company. This is certainly a time when people tend to rely on having bankers or buy-side advisors involved to help them value the acquisition and walk through due diligence. Recognize that being reasonably aggressive about the valuation submitted will ensure the conversation doesn't stall at this early stage over a perceived low value."

Synergies are an important valuation contributor at this stage, says Watkins: "You should be quantifying the value of potential synergies ahead of arriving at your valuation, then use confirmatory due diligence to fine-tune those assumptions as more information becomes available. Estimate hourly wages, salaries, and benefits. Focus on operational redundancies, potential facility consolidation, supply chain savings, and tangible cost savings. There are also potential revenue synergies, whether it be new distribution channels, new geographies, new products, service capabilities—but be more conservative on these estimates, as you have less control over them."

Basic IOI Checklist

- Expression of enthusiasm for the transaction that conveys a compelling perspective on why the company is a good fit
- Details on the valuation range
- High-level deal structure and terms
- How you plan to finance the transaction
- Timelines: major milestones and how long it will take to get to each
- Conditions for moving from milestone to milestone, including outlining confirmatory due diligence, and steps needed to confirm the valuation range

Jules recommends thinking about this phase of the acquisition as building a quantifiable business case for the acquisition that the acquirer will need to defend 18 to 24 months down the road. "Model a base case, a moreaggressive case, and a downside case prior to submitting the IOI. This keeps you accountable and on pace to capture the value that you said you were going to create."

Target Selection

The submission of an IOI demonstrates that the buyer is prepared to buy if conditions and assumptions are met and confirmed by both buyer and seller. Assuming the target accepts the proposal in principal, more in-depth and comprehensive diligence begins.

The amount of diligence completed is a critical determinant of success for buyers. At this stage, acquirers may support their internal diligence team by hiring an external diligence team. Engaging third parties to close out diligence streams signals conviction to the seller. Perhaps more importantly, advisors in their respective areas of expertise can limit buyer risk by identifying possible deficiencies early in the diligence phase.

Third-Party Advisors Bring Extra Firepower

- Accounting and tax
- Industry and markets
- Legal
- IT / infrastructure
- Insurance / benefits
- Regulatory (if applicable)

Diligence is also the point at which companies start to prepare for the integration and assign people to this effort. The leadership team that is going to be accountable and responsible for capturing synergies post-close has to be thoroughly involved in the diligence, identifying value drivers and co-writing the value creation plan so that they are ready to execute when the deal closes.

As diligence is completed, the valuation analysis is updated as needed and the preliminary investment thesis is validated.

While a high-level deal structure has likely been communicated earlier in the process, this is also a time to refine and finalize the terms. Many different factors influence deal structure, including the seller's goals, company size and performance, and credit availability. The objective is to be as transparent as possible with all parties, including the boards of both organizations.

Transaction Closing

Until the transaction is certain to close, the target may not be comfortable releasing all of its detailed information, such as sensitive human resource and customer data. Therefore, diligence is typically finalized very close to closing.

Financing is also completed in this closing phase, although Jules highlights that some advance planning is warranted. "If you're going to be taking on an acquisition that pushes your current bank beyond its comfort zone, you're going to need to expand your banking relationships to get the financing that you need. Start those conversations early, as the bank is going to need to do its diligence right alongside you to know whether or not it is able to provide the right financing."

"As you begin to negotiate definitive agreements with the seller, there are two important success factors," adds Rozycki. "The first is flexibility. Not every point is going to fall on your side in negotiations, whether it's price or purchase agreement terms. It's important to prioritize those negotiating points most important to you and focus there—then consider relinquishing some others that are of lesser consequence. The more you're willing to productively negotiate, the more likely you are to get to a successful outcome."

Rozycki says the second success factor is hiring an M&A attorney to assist with the transaction's legal documentation. "There are very specific nuances to M&A contracts that can leave buyers legally or financially exposed if not properly addressed. This is not the time to have your personal attorney or general counsel drafting your legal documents if they've never done M&A before."

What about "Banked" Transactions?

Pursuing a target that has retained an investment bank to advise in a sale is quite different than a non-competitive acquisition. While the steps outlined here are applicable to a bank-driven transaction, behavior may need to change.

"The amount of work that you have to do in a small amount of time is significantly increased in a bank process versus one where you can control the pace," notes Watkins. "Experienced buyers have the cadence and repeatable behavior down, and that's something that a first- or second-time acquirer may struggle with. You've got to have a lot of conviction when you're running hard as one of a number of potential buyers. That is why we encourage early communication, expressing your enthusiasm, doing the work that you need to do, building that relationship with the management team, and being creative."

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> —BILL WATKINS, MANAGING DIRECTOR

Jules agrees, the bank-driven experience is different, but it shouldn't deter the buyer from participating. "If this is an asset that is critical to you, a must-have asset, then by all means chase it as hard as you possibly can, regardless of your perceived likelihood of success," says Jules. "Otherwise it may go to your competitor and may never surface again. Use every angle that you have to differentiate yourself from the pack. That's true whether you're the only buyer or one of a number chasing an asset. Make yourself stand out."

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Part Three: Maximizing Post-Acquisition Value

In any economic climate, there are numerous reasons why acquisitions make sense—from improved performance and scale to risk reduction through diversification. But, for first-time acquirers, an acquisition can seem daunting. With no experience to lean on, most private companies may not have an appreciation of all that's involved and, more important, what's absolutely necessary for a deal to be successful.

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Integration Planning Begins During Diligence

Larissa Rozycki, Director

Conducting thorough confirmatory diligence will pave the way for a smoother integration. As noted in the second part of this series, the amount of diligence completed is a critical determinant of buyer success. It greatly mitigates the risk involved and the potential post-transaction pitfalls that the buyer otherwise may not have seen coming.

"The more you understand what the potential issues may be in advance, the more you can work to offset them," says Larissa Rozycki, director. "If you're not doing your homework, crossing every T and dotting every I during diligence, you are exposing your company to liability and to potential litigation, and risking a more challenging integration. The risks can be costly."

The diligence phase is also when companies should prepare for integration. “Upfront preparation and planning during diligence is ultimately responsible for the speed of implementation and successful execution of the integration plans,” says Virgil Jules, director. “Having a roadmap for integration prior to the deal closing creates a level of consistency and repeatability for the buyer. It also provides the seller with a level of comfort that the buyer has a vision and plan in place for day one after the transaction.”

The people who will be accountable for capturing synergies post-close should be brought in early to identify the acquisition’s value drivers and to co-write the value creation plan so that they are ready to execute the integration as soon as the deal closes. The integration strategy should include task-level prioritized actions that are linked to value drivers, including details of how resources will be allocated to actions and who has responsibility for each. For example, if facility consolidation is a value driver, the plan would identify the locations to be consolidated, the timeline and the way in which the consolidation will occur, the resources responsible, and the synergies anticipated.

Having an integration team composed of diverse backgrounds and different expertise can be extremely helpful—whether that’s an internal team or one that includes third parties. Rozycki notes that “a diverse integration team that is involved early can more easily identify potential challenges, which helps the buyer to better anticipate the costs to overcome identified hurdles. The more planning done with the right team up front, the more likely the integration costs and timing can be optimized.”

Some important areas to address pre-integration to preempt downstream problems include:

- **Information technology:** How will disparate systems, particularly financial systems, work together to provide consolidated statements? Should they be combined onto a common platform? What is the cost involved, and the timing?
- **Employee compensation and benefits:** How will compensation programs be changed or consolidated? Are there insurance policies or other benefits that the selling company provides employees that the buyer may not offer or vice versa? Should you consolidate service providers, and if so, how will you roll employees onto new platforms?
- **Employee communication and retention:** Needless to say, keeping employees onboard once the deal closes is paramount to a successful acquisition. How and when will the acquisition rationale, strategy, and benefits be communicated to employees in both the buying and selling entities? How will you ensure alignment in terms of incentives and organizational structure?
- **Customer acquisition and retention:** How will customers react to news of the acquisition? What might the actions of direct competitors be, and how will you respond? What will the customer communications plan be to maintain their confidence in the merged organization? How will you leverage the brand equity and name recognition of the company you’ve acquired?
- **Purchasing:** What steps can be taken to consolidate purchasing, how quickly, and to what extent? What supply chain risks are present should the combined entity significantly increase scale? How will you prevent supply interruptions?

The First 100 Days Define Success

Integration management during the first 100 days following an acquisition will often define the success of the combined entity going forward. As Jules emphasizes, M&A opportunities sometimes fail to meet expectations because of what happens early in the process. “Time can kill a successful integration. If it takes too long, it wastes valuable time and resources and causes organizations to lose sight of key objectives. Time is also important as it relates to culture. The longer two businesses operate independently following a deal, the harder it will be to bring them together later on.”

Rozycki agrees. “Early successes are important, so from day one through the first three months, actions need to be mapped out and executed on a timely basis. There should be accountability and over-communication across the integration team so that actions don’t happen in silos,” she adds. “That ensures everybody knows what needs to be done, who’s doing it, and the status of each area.”

Advanced data analytics can be extremely helpful in tracking value realization. New tools and technologies have made it easier to capture actionable insights from data. When combined with strong business acumen and seasoned sector expertise, the opportunity is greater than ever to leverage data to validate trends and growth drivers, and underwrite value. (Click here to read *Data Science, M&A and COVID-19* for more on analytics use in M&A.)

The recipe for the first 100 days can be segmented into four areas, each of which should have been addressed to some degree during diligence.

Markets

Once the deal closes, remember the end goal the transaction is expected to accomplish and do not lose sight of the investment thesis. Plans are easier to organize, implement, and manage when the desired goal is clearly defined.

Opportunities should have been identified in the diligence phase. Now it's time to execute on them. Define the playing field and understand how the target fits within that ecosystem. It may make sense to prioritize different channels and not pursue all simultaneously. For example, if the plan is to eventually expand geographically, it may be best to ensure the product/service offering is mastered in the current market before expanding elsewhere.

Business Continuity

Before and immediately after the transaction, spend time with existing customers and deliver a message of continuity. Delaying that message could lead the customer base—and potential new customers—to believe there are disruptions related to integration. Along those lines, operating with duplicative coverage territories to ensure continuity could make sense for a short time post-close, until the integration plan is completely buttoned up. Take a similar approach with vendors: Reinforce your intention to remain a good customer and do the diligence required to identify and mitigate any supply chain risks.

Shortly after close, prepare a budget for the remainder of the fiscal year and/or the following year. This helps keep the business moving forward and provides the team with the appropriate expectation of performance.

Efficiency

Process optimization throughout the organization will play a key role in the success of an integration plan. From streamlining cost rationalization initiatives to adopting new production capabilities to entering new distribution channels, the acquirer should strive to achieve the most efficient implementation of these strategies. KPIs should be established by the integration team, with individual ownership to ensure accountability, and benchmarked against competitive (and internal) data.

As integration initiatives are executed, progress against synergy capture should be tracked. Doing so allows workstreams to monitor progress against stated goals, identify and resolve issues in a timely manner, and ensure that value is being captured.

People

During diligence, an acquirer may only have access to a target's executive team. However, acquirers still need to have a plan before day one to retain personnel from senior level management to sales teams, division management, and key operating individuals throughout the organization.

Use the first 100 days to evaluate staff to assess if they are right for their roles. Having the right personnel in functions like sales and operations can ensure a smoother transition. Cultural fit is another potential challenge: It's unlikely your two organizations will naturally have the same exact values and belief systems. Commit to the culture you want to see emerge and put it in place early.

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It is also important to get to know the leaders and employees of the company to understand their economic motivations post-acquisition. Work with them to structure incentives that will help you achieve integration, revenue goals, and synergies. Everyone at all levels in the organization should have an understanding of the rationale and benefits of the acquisition, as well as the new organizational structure and benefits plans. This helps employee retention, and also ensures the messaging going into the market is consistent and does not jeopardize the success of the transaction.

Communication plans should be prepared pre-close and be ready to execute on day one. A best practice is to have management and HR on site on the day of close to share information and provide immediate feedback for those employees with questions or concerns.

Through robust diligence and integration planning up front, followed by swift and well-executed communication and implementation, acquirers can make great strides toward maximizing the value they anticipated and achieving their acquisition goals.

Lessons Learned

- Maintain adherence to "acquisition – integration – feedback" process
- Stress and facilitate exhaustive due diligence to uncover potential issues
- Review compensation program discrepancies with company's management and discuss risks of altering/maintaining such programs
- Ascertain capacity of acquired business entity prior to any rationalization
- Discuss incentives to secure long-term commitment of key employees

Conclusion

Across this three-part series, we've shared important M&A fundamentals, highlighted a formal M&A process, and provided a number of concrete checklists in hopes of helping less-experienced acquirers gain confidence in pursuing an inorganic growth strategy. In the end, dedicating proper resources, whether internal or external, and following a robust procedure to proactively evaluate targets and manage an efficient transaction, take companies a long way toward successful inorganic growth.

Key Success Factors of Growth via M&A

Conduct exhaustive research: Assessing a large number of opportunities gives management an overall sense of what kinds of strategic acquisition opportunities exist and at what prices, making the company better able to assess the value of each prospect relative to the others.

Go direct: With focused acquisition criteria, the company will be more successful directly approaching targets with a consistent message than with an indirect approach—communicating acquisition criteria to the business brokerage community, which generally manages broad sale processes.

Buy wholesale, not retail: Do not wait for an investment banker to call about an opportunity they are engaged to execute. Proactively approach sellers before they decide to hire a representative.

Do not focus on price too early: It is more advantageous to sell the non-financial benefits first and address the price once there is momentum to the dialogue. However, it is important to avoid those sellers with unrealistic price expectations.

Cultivate alternatives: Always carry on dialogue with multiple potential targets. Knowing the alternatives makes it easier to judge the relative value of a deal at hand, and can shift the balance of power between the acquirer and the target.

Manage the deal cycle: The best acquisition campaigns ensure that the deal pipeline is always full to maintain momentum, as deals inevitably go away during the evaluation stage.

Evaluate and refine strategy and criteria: While maintaining discipline, the process should remain flexible as acquisition goals and objectives are further refined.

Please get in touch with us to discuss these insights and opportunities in today's M&A market.

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