



topical tips

Acquisitions

Making successful acquisitions

Making an acquisition can speed up the growth and expansion of a business by enabling it to enter into new markets and broaden its customer base and product range, whilst reducing risks of dependancy and gaining critical mass. If the acquisition is integrated correctly it can not only enhance earnings but also make the business more valuable, provided there is a well planned strategy and funding package in place.

We all know that everything is for sale at the right price. However, there are additional factors that contribute to a successful acquisition.

You need to ensure that the target company will be a good strategic fit with your existing business. Post completion the new acquisition should contribute to the value of the business as a whole with minimal duplication of existing trade or administration. There needs to be a detailed plan and experienced team in place to ensure that integration is as smooth

as possible and is not detrimental to your existing business. Taking these factors into account you need to ensure that the price represents value for money.

Your advisors' role is to find out that price and negotiate the best deal on your behalf, in a confidential and professional manner. If done properly, an acquisition should represent a sensible method of expansion and diversification for your business.

However, research shows that many acquisitions fail to meet expectations as they

are regarded as a quick and easy route to add value to the acquirer. The fact is a successful acquisition requires a great deal of skill and experience.

This publication aims to provide an insight into how the buying process works. It also gives a few pointers as to the key factors which can influence the success of an acquisition.

A successful acquisition requires a great deal of planning, time and effort. An acquisition can provide many advantages, however it can be a minefield, the stages listed below give a guide on how to make a successful acquisition.

1. Strategy and planning

- Defining the acquirer's strategy and objectives
- Advising on market, sector and external factors
- Planning the acquisition process

Good strategic planning is absolutely vital when an acquisition is made. The prime objectives of any acquisition is that it must fit with the long-term strategy of your business.

A clear idea of the desired attributes of your target should be formulated. These will include the type, size, location and price of the business. Then potential targets fitting these criteria are identified.

2. Identification of potential targets

- Identifying potential targets through network contacts and databases
- Researching target businesses as well as their competitors in the sector
- Collating a list of potential targets for further evaluation and approach

It is important to be proactive as it is unlikely that a golden opportunity will appear out of the blue. To find the right business, you will have to look for it. Professional advisors can help to look for the businesses that fit the criteria.

When assessing a target business, a number of factors should be considered, five important ones are:

- How sustainable are its core markets?
- Is there good unrealised future potential?
- Is there a competent second tier of management?
- How much future capital expenditure will be required?
- Are there any adverse external factors outside the owner's control?

3. Professional advisors

You should appoint advisors who have appropriate skills, acquired through experience of the acquisition process.

The acquisition process and, in particular, identifying suitable targets includes very time consuming research. The job of Devonshire Corporate Finance is to take on the bulk of this work and free up management time to concentrate on running the existing business.

4. The initial approach

- Evaluation of selected businesses to compile a short list of preferred targets
- Initiation of a confidential approach on target businesses

From the outset the aim is to make the vendor want to sell the business to you. This means that your credibility must be established. Your interest in buying the business should be formally registered. If the target has professional advisors instructed to sell the company, these should be approached rather than the management of the business. To maintain anonymity it is recommended that you make the approach through your own professional advisors.

It is also important to identify the vendor's objectives:



- Does the vendor have to sell?
- Is he under some time pressure to do so?
- Do the existing management of the vendor aim to remain involved in the business after the transaction?

Identifying the objectives of the vendor will help you build a relationship of trust with them and this in turn should improve communication and help the process run more smoothly.

5. Securing financial support

It is important to arrange financial support at an early stage, this will give additional credibility to any offer.

The structure of the finance needs to be tailored to the acquisition. You will also need to consider the funders' objectives and with this in mind keep your demands realistic.

Consideration needs to be given to the term of the finance and the appropriate source, which will need to take into account your current levels of gearing and interest cover.

6. Preliminary due diligence

In order to ensure there are no major problems with the business, preliminary due diligence must be conducted before any firm offer is made.

Due diligence is an exercise performed to collate further information about the target business.

At this stage it is a good idea to research the market and its primary competitors, to get a feel for the business. Industry experts should be able to provide insights into the prospective demand for the business's products or services, as well as the level of competition in the market. A visit to the

business and meeting the vendor will also help to give you a feel for the organisation.

7. The initial offer

You will need professional advice in order to value your target business. You should prepare your own profit projections by questioning the principles behind those prepared by the vendor. There may be areas where you believe cost savings will be possible, so incorporate these as well.

The level of risk in acquiring the business will also affect the amount that you will be willing to offer. Risk is increased in situations where the business has a history of trading losses or relies on a small number of key customers, suppliers, contracts or employees. Your risk will also be higher should you need to borrow heavily to finance the purchase.

In making the initial offer take into account any competition that you are up against. You should work out what is the maximum you would be willing to pay. Any more than this would represent a transaction that does not add value to your own business. Initial offers are usually made low with the expectation that the vendor will ask for more. Room should be left to improve your offer if necessary.

Once satisfied with the proposed valuation, your initial offer should be submitted subject to detailed due diligence.

8. Heads of Agreement

The 'Heads of Agreement' summarises the principle terms of the offer between you as the acquirer, and the vendor. It is important that this is tightly drafted with the help of financial and legal advisors in order to avoid any misunderstandings on key points. The Heads of Agreement should specify exactly

what you are agreeing to buy, as well as the payment structure that you are proposing.

It should also provide you with a period of exclusivity to carry out detailed due diligence and complete the deal. During this time the vendor may be prevented from speaking to other potential buyers.

It may be appropriate to insist on some preconditions, such as a minimum level of profits. It is also likely that you would wish to agree warranties and indemnities to be provided by the vendor. A warranty is a written statement that confirms certain key information about the business. An indemnity is a commitment by the vendor to reimburse the purchaser in specified situations.

9. Detailed due diligence

Once the Heads of Agreement have been signed, your accountants and lawyers will make a detailed investigation of the business. This is to ensure the accuracy of the information and assumptions on which the bid has been made.

Essentially the due diligence will provide you with an independent assessment of the business and quantify areas of commercial and financial risk. Legal due diligence will also provide you with assurances that ownership of the key assets rests with the vendor. It will also provide information on any contractual obligations or lawsuits past, present or pending.

10. Negotiation of the final terms

A thorough due diligence investigation should put you in a stronger negotiating position. Problems and weaknesses identified are likely

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to lead you to wish to lower your offer or insist on tougher conditions, although any requests made should be reasonable.

It is especially important that the communication channel is kept open through to closing the deal.

You should always bear in mind that there are two sides involved in completing the deal, try and see things from the vendor's perspective too.

11. Post completion

Integration rarely goes as smoothly as anticipated, so it is important that you have a plan and timetable of how this should progress.

It must be agreed how the change of ownership should be announced. The announcement should be made as soon as possible to both employees and customers emphasising the positive implications for them.

Once this has been done you should start to implement the steps that are necessary to achieve your key objectives. These objectives will probably include:

- Securing and improving customer relationships
- Establishing the trust and motivation of employees
- Improving the financial performance of the business

Periodic review of integration may be required over several years to ensure it is going ahead as planned.

Practical tips for successful acquisition

- Summarise the main objectives of the acquisition in a profile
- Ensure that sufficient resources are in place to complete the transaction
- Ensure that the target is capable of improving your existing business
- The target is worth no more than the value that it can add to your business
- Be patient. A methodical, complete search exercise will provide more appropriate targets than a rushed one
- Be discerning in assessing potential targets
- Always undertake due diligence
- In negotiation, be aware of the vendor's objectives. Be reasonable and realistic in your demands.
- Have a plan in place to ease integration post acquisition
- Do not spend too much time on the deal at the expense of looking after your existing business

Devonshire Corporate Finance Limited offers a range of acquisition services designed to ensure management time is more effective and focuses on the significant issues of a transaction and the successful operation of your existing business.

For further information about Devonshire Corporate Finance Limited and how we can help you achieve your acquisition ambitions, please contact: **Marc Fecher, Devonshire Corporate Finance Limited, Devonshire House, 60 Goswell Road, London EC1M 7AD. Telephone 02075663583 email mf@dcfl.co.uk**



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