8 BEST PRACTICES FOR GROWING THROUGH ACQUISITION

A BUSINESS ACQUISITION & MERGER ASSOCIATES WHITE PAPER

Business Acquisition & Merger Associates

Here's a secret: Growing through acquisition often creates tremendous wealth for shareholders.

But (*and there's always a **but**…*) - know that doing acquisitions is often harder than you might think.

Business Acquisition & Merger Associates invests 50% of our firm's time helping companies, top executives or institutional investors grow through acquisition. We see that some clients do it really well while others have a harder time executing their plan. Over the years, we've identified 8 best practices for a successful acquisition strategy:

1 Begin with the end in mind – know what you REALLY want.

During new engagements we sit down with our client and ask a lot of questions about what they want to accomplish in their acquisition strategy. **Take time to consider your strategy and your ultimate goals**.

Do you want geographic expansion? Are you looking for a new technology? Are you looking to diversify your customer base or customer concentration? Do you want to expand your product line or capabilities? Fill capacity in your existing facilities?

Most clients don't really know exactly what they want until they are asked. Help yourself by digging into what you really want and then prioritize it so you know what you want most from your acquisition strategy.

2 Create a model - and stick to it.

For your type of business, what is a fair and realistic acquisition model? Are transactions happening at 3x EBITDA or 5x EBITDA? Is regular CAPEX needed for your type of business and do you allocate for it in your acquisition model? How much seller financing do you require? How much debt to equity do you use in your acquisitions? Will you require an escrow? Does the seller need to stay post-closing? If so, how long?

Good buyers are fair buyers.

Good buyers are fair buyers. Good buyers typically pay more than book value of assets for good companies, but they also require sellers to finance some portion of the purchase price.

3 Use some of the seller's money.

As noted in #2, be fair in your transaction, but make sure the seller has a vested stake in the hand-off. Unless the owner is absentee and the management team has been running solo for several years, there is good tribal knowledge between the ears of that owner. To ensure you get access to as much of it as possible, make sure they have a vested stake in the company going forward.

The seller financing doesn't have to be long-term. In fact, in most cases a 12-month note is very effective to ensure you're learning all that you need to from the seller and getting their full support on the transition.

4 Make sure the seller provides a good transition period.

The best buyers VALUE the seller. This is more than lip-service. Unless you're in the exact same niche and have a really strong bench of executives to step into your add-on acquisition, respect and VALUE the seller. Make sure they're committing to at least 6 months of transition support. One or two years is often needed if your acquisition target is materially different from your platform company.

Know what kind of transition commitment you need from the seller. Do you know the industry well and have executives who can step into their roles quickly. If so, it may be a shorter transition.

5 Focus on the big picture.

Do a deep dive into the merits of potential acquisitions and identify several strategies for growth and cost savings. With that said, don't lose sight of the big picture. Keep the big things big and the little things little.

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The best buyers know where the biggest risk factors are to the acquisition and they focus on those. They don't nickel and dime every detail, but they know the details. You can spend 5-6 months working through a process and drive the seller away by nickeling and diming each little detail of the transaction.

6 Stick to a timeline. Time kills deals.

Remember this….Time kills deals. Once you sign your Letter of Intent, be sure to advise your attorney and third-party consultants to move quickly and meet their time commitments. Anxiety levels really increase for sellers during due diligence and they fatigue easily. Remember this and work to get your docs turned as quickly as possible.

7 Hire excellent M&A attorneys, intermediaries and accountants.

Your lawyer, investment banker and accountant should focus solely on M&A transactions. We've seen horror stories around sellers or buyers who use their church friend, brother-in-law, or neighbor who practice divorce law, tax law or are a litigator – all practices that are very different from M&A law. Once they are in the thick of the transaction, these advisors rarely acknowledge that they are over their head.

Use advisors who are versed in M&A to get the best protection and terms on your transaction.

Really good M&A attorneys, investment bankers and accountants know the key items to focus on for these kinds of transactions and they're worth the fees they charge. You'll protect your investment and shareholders and usually pay a lot less in taxes from the acquisition if you have excellent advisors on your bench.

8 Stay steady.

All transactions have hurdles and speed bumps. The best buyers keep their heads down, work through problems when they arise and stay focused on getting the transaction done. Recognize that this is an emotional period for both the buyer and the seller. Steady heads win the day - and the add-ons.

As you look at your acquisition strategy, determine where you can implement these best practices in your transaction process. You'll find that developing your acquisition model and using it consistently will benefit you as you do more and more acquisitions.

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