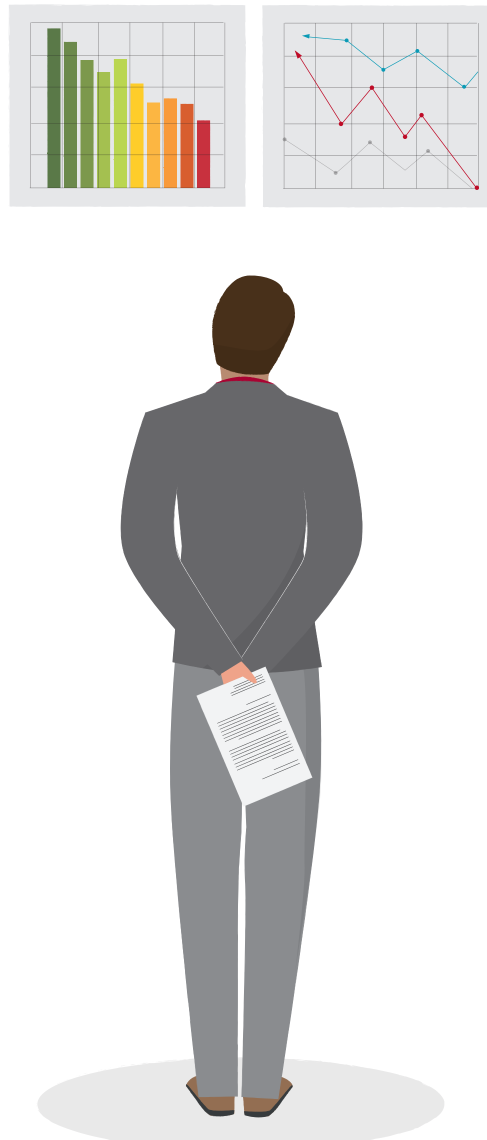
Buying a Business

Sourcing, Evaluating and Closing an Acquisition



After laying the initial foundations through the creation of an acquisition strategy, in the second part of this series we discuss successfully sourcing, evaluating and closing an acquisition.

In our experience the key to successful acquisitions is coupling great business strategies with flawless execution. If a transaction is not properly managed, it can fail to create — and may even destroy — value.

Preparing for an Acquisition

Preparation is key in successfully executing an acquisition. Some examples of pitfalls resulting from poor preparation include:

- Inaccurate valuation – misunderstanding of value drivers or M&A metrics due to inadequate upfront market research
- Failure to capture synergies – unanticipated culture and system clashes due to inadequate consideration of integration
- Roll-up of incompatible smaller business – acquisitions not executed as part of a holistic business plan can result in a mismatch
- Failure to close – inability to articulate clear parameters and achieve stakeholder consensus upfront can result in 'last minute' deal failures. These can be especially distracting to management

Financing Acquisitions

Going in to any acquisition process it is important to have a good understanding of the financial impact and the amount of new capital (debt and equity) that can be raised. Business owners should consider the following:

- How much surplus cash and untapped credit facilities are available for acquisitions?
- How much new equity or debt can you raise? How can the capital structure be optimized?
- Can post integration cash flows support the proposed capital structure?

As the level of debt required increases and the debt to EBITDA ratio grows, so too does the cost. An over-levered business's growth may be constrained from servicing debt and interest repayments.

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Getting the Deal Done

We break down the various stages of researching, targeting, negotiating and completing an acquisition as follows:

- Review the Industry Landscape
  - Outline transaction parameters and internal process
  - Define acquisition criteria
    - Products
    - Geography
    - Size, etc.
  - Prepare an industry sector landscape
- Detailed Target Profile
  - Examine how each can fill strategic gaps
  - Assess the targets' potential interest
  - Assess cultural fit
- Moving Forward with the Target
  - Initiate contact with potential targets
  - Sign non-disclosure agreements
  - Exchange financial, commercial and other information
  - Conduct management meetings
  - Develop a financial model – determine purchase price and structure
  - Define terms in the Letter of Intent
- Identify and Assess Synergies
  - Validate synergy assumptions
  - Conduct high level assessment of risks, issues and next steps integration
  - Understand the differences between organizations
  - Understand the impact of integrating organizations
- Finalize Deal Terms and Source Capital
  - Negotiate and finalize the Letter of Intent
  - Coordinate due diligence team
  - Finalize the capital structure
  - Commence the capital raise process, if required
  - Develop structure for post-closing reporting and integration
    - Consider 100 day plan
  - Negotiate Purchase Agreement including Reps and Warranties
- Close the Transaction
  - Finalize legal documentation

Some final considerations on getting the deal done:

- Communication is key – internally in the initial stages and broadening this to a wider group as you move towards closing
- Companies should be looking at value add and how a deal will contribute to their overall strategy rather than focusing solely on headline price
- In addition to speaking to the shareholders that are selling the business – ensure you also focus on the management that will remain post close

At closing the real work begins and the initial post integration work can be the difference between a successful and unsuccessful deal [See Part 3 – Post-Merger Integration].

For more information, **talk** to a CIBC business advisor, **visit** your nearest CIBC Banking Centre, **call** 1 800 465-2422 or **visit** www.cibc.com.