



About Crowe Capital

Crowe Capital Markets LLC is an investment bank serving as financial advisors to businesses and corporate divisions with transactions in the \$10 to \$500 million range. With expertise in a broad range of industries and a group of talented, dedicated professionals, Crowe Capital Markets is highly qualified to initiate, market, negotiate and facilitate a successful transaction.

Contact one of our specialists at 312.899.7300.

Knowledge is Power: Maximizing the Value of an Acquisition

Knowledge is the key to maximizing the value of an acquisition. The first step is to have a clear understanding of your strategic business plan. Only then can you develop an acquisition strategy that is right for your company.

All businesses must grow to survive, but many companies' growth strategies fail. A common reason for this, especially when a company's plans include acquisitions, is the failure to analyze how the acquisition will fit with your strategic business plan.

To maximize the value of an acquisition, you must first have a clear understanding of your "internal" strategic plan, which provides a candid assessment of your strengths, weaknesses, opportunities and threats to your business. Such an analysis will help prepare you to determine the correct course for growing your business, either organically or through acquisitions.

Strategic Growth Plan

If you are planning a trip, you cannot plot your course unless you know where you are starting from. The same holds true of a growth strategy: You may have a clear vision of where you want your company to go, but to draw a roadmap for getting there, you need to understand where you are now.

The first step is to conduct a traditional SWOT analysis — that is, to examine your strengths, weaknesses, opportunities, and threats. An effective growth strategy will build on your strengths, eliminate or circumvent your weaknesses, take advantage of opportunities, and drive back threats.

Suppose that one of your weaknesses is an incomplete product line. There are two ways you can fill in the gaps: Design and engineer new products yourself or acquire a company with a product line that complements yours.

To make this "build vs. buy" decision, you need to compare the relative costs and risks of each strategy. You should also consider the time it would take to build a customer base for new products (as opposed to acquiring one), and whether your company has the know-

how to develop the products you need. If the competition has a distinct brand or position in the marketplace that would be difficult or time consuming to duplicate, a "buy" strategy may be your best option.

Bear in mind that acquisitions are not a panacea. They carry many risks and hidden costs, so it is usually advisable to pursue a buy strategy only after you have ruled out a build strategy as a viable alternative.

Another important aspect of performing a SWOT analysis is to recognize the strengths and weaknesses of your management team. Perhaps you have an opportunity to acquire a financially troubled business at a bargain price. If your management has the talent and experience to turn things around, this may be a good strategy. But if it does not, then the acquisition is probably doomed to fail.

Culture and Reputation

Culture clash is probably responsible for more failed business combinations than any other single factor. No matter how good an acquisition looks on paper, you will not succeed unless the two organizations share a common culture, philosophy, and vision. You cannot begin to identify acquisition candidates until you understand and embrace your own culture.

Perhaps you are more concerned about taking care of your employees and being a good corporate citizen than you are with the bottom line. Acquiring a company whose management strategy is primarily profit-driven would probably be a mistake. Similarly, if your goal is to provide a premium product and excellent customer service, an organization dedicated to offering the lowest cost in a no-frills surrounding will not be a good fit. Tiffany and Kmart may both sell jewelry, but a combination of the two would most likely be a disaster.



Reputation and brand name recognition are also important considerations. Customers often associate quality and performance with a company's brand and will therefore tend to value a brand more or less depending upon its perceived reputation. Understanding the impact of combining your brand with the target's brand is critical.

Strategic Fit

You are looking for companies that will complement your growth strategy, so it is critical to understand a target's key growth drivers.

- What has made it successful in the past, and what is its strategy for future growth?
- Does that strategy fit with yours?
- How has the target differentiated its products from the competition?
- Are these products easily duplicated, or does the target possess distinctive technology or proprietary rights that give it a competitive edge?
- Is the target developing new products to help capture additional market share?

It is important to evaluate how the target's products fit with your strategic plan. Do they fill a void in your current offerings? Would the ability to offer a more complete suite of products improve sales of both companies' products? In addition, how does the target's customer base complement your existing customer base?

A strong management team is critical to the success of any business. Be sure that the target has invested in the talent needed to execute its growth plan and that its management team shares your strategic vision for the combined organization.

Benefits and Costs

It is important to fully understand the costs and benefits of a proposed transaction, not only to confirm that the target is a good fit, but also to determine the right purchase price. What are the financial and integration costs of acquiring the business? Are there any major future capital expenditures required to support the target's future growth plan? If so, what are the costs, and who will bear these costs? What synergies do you expect the acquisition to generate that will reduce costs or enhance revenues?

Potential synergies include:

- Reducing costs through a thinner management structure;
- Eliminating redundancy in selling, general, and administrative expenses;

- Achieving purchasing savings through economies of scale;
- Gaining access to an established, modern manufacturing facility, or to cutting-edge technology;
- Expanding geographic coverage through new distribution channels;
- Gaining access to suppliers' specialty products that otherwise would not be available; and
- Filling voids in each companies' product offerings, allowing both companies to reach new customers.

An acquisition can also generate intangible benefits. Bringing together two management teams often stimulates innovation and new strategies.

Importance to the Seller

Understanding the seller's motivations is critical. A seller may have several goals that are just as important as, if not more significant than, the purchase price. The seller may want to make sure that the target's management team or other employees are well taken care of, that the company stays in the community, or that it keeps its name. Perhaps the seller wants to cash out but continue working for the company for several years or sit on the board of directors.

By learning what the seller values, apart from price, you can enhance the value of the acquisition to your company and give yourself an edge over competing buyers.

Acquisition Hurdle

One of the greatest hurdles to actually achieving your growth plan is being able to execute it. In the competitive merger and acquisition arena, it is not unusual to see announced acquisitions fail due to many factors including price, financing ability, regulatory restrictions, and competing bidders, among others. Once you have identified that target which fits well into your strategy and culture, be sure that you have designed an effective and successful execution strategy to complete the acquisition. Organize a dedicated team that will focus on your transaction, and provide advice on the various issues and situations which will no doubt arise during the process. Most deal teams include a company's internal corporate development group, inside and outside legal advisers, and financial consultants. Position yourself for success by selecting a group that will commit themselves to exploring and analyzing the most effective and efficient way to accomplish your plan. Through a combination of knowledge and professional advice, acquisitions can be a valuable component of your company's strategic growth plan.

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