

Growth through acquisition

Should you take advantage of current acquisition opportunities? **Interviewed by Meredyth McKenzie**

The current economic situation has provided many companies with an excellent opportunity to grow via acquisition. Although strategic merger and acquisition activity fell off in the second half of 2008, the desire to grow via acquisition is coming back strongly in 2010. Before companies pursue acquisitions as a means for growth, they must have a detailed understanding of the motivations, reasons and risks, as well as a team of capable, trusted advisers.

"Merger and acquisition activity has recently increased as strategic buyers reenter the marketplace," says Josh Curtis, the director of Merger and Acquisition Services at GBQ Capital LLC. "There are several prevailing reasons that now is an appropriate time for strategic buyers to pursue acquisitions."

Smart Business spoke with Curtis about the drivers, benefits and risks of acquisitions, as well as the importance of preparing for and properly navigating the acquisition process.

As it relates to strategic mergers and acquisitions, why has the interest and activity increased in early 2010?

First, this economic downturn has created a meaningful separation between the strong, well performing companies and the companies who have experienced some turbulence or a nose dive. Companies who are well performing and financially healthy have the opportunity to acquire competitors at lower prices, specifically those whose financial performance has struggled. The economic climate and the expected length of this downturn has helped bring buyers and sellers closer together, because many sellers find themselves in difficult positions. Secondly, a vast number of management teams are anticipating minimal or no organic growth in 2010, carrying into 2011 and possibly 2012. As such, they view acquisitions as a way to increase revenue and profitability.

What motivations do business owners have to pursue acquisitions?

Acquisitions often provide business owners opportunities to complete their objectives faster than doing it organically. These objectives can include an owner's desire to acquire talent, expand geographic reach, increase product or service offerings, increase top line revenue, and put more money to the bottom line. Other interests could include strengthening a weak aspect of the business or gaining a successor to run the company.



Josh Curtis
Director, Merger and Acquisition Services
GBQ Capital LLC

These objectives may be done through acquiring a direct competitor, industry participant or complementary business.

What are some of the considerations and risks associated with acquisitions?

For buyers who want to pursue acquisitions, it is critical to ensure that they have enough time. Not only does the pursuit of acquisitions take considerable time and energy, but the time spent on integration after the closing can also be significant. If the capacity of a buyer's team is overestimated, it can cause a loss of focus on their current business and responsibilities. A second leading consideration should be the chemistry between the buyers and the sellers. Some of the risks include taking on additional debt, deploying capital that could have been used within the existing business, a clash of cultures, and anticipated synergies that do not come to fruition. All these things could make the acquisition ineffective or unsuccessful.

How do you focus on the chemistry factor and prepare the employees for the transaction?

Focusing on the chemistry aspect should be the first test. As a buyer, if you do not enjoy talking to the business owner and trust what that individual is saying, we advise our clients not to move forward, no matter how

good the number looks. First instincts are usually correct when it comes to the character and integrity of people.

Preparing the employees depends on the culture. Some owners are very upfront with employees and provide full disclosure the minute the acquisition is first discussed. Others wait to inform their employees until the acquisition is formally announced. Each situation is different, which makes it a case-by-case decision once all the facts are known.

Why is it important to do the preparation work before undertaking an acquisition?

Preparation will help an owner decide if he or she should even pursue an acquisition. A lot of time and money can be saved by going through some preliminary planning, reasoning and substantiation. This can be accomplished by talking within the management team, with other business owners, with industry professionals, and with trusted advisers. Conversations with those people can help narrow the focus.

The pursuit of acquisitions involves a specific process. To limit and hopefully avoid any potential risks, it is critical to be thorough at every stage, from preplanning to final due diligence. Not all deals are good deals, so do not be afraid to walk away. It would not be uncommon to look at a dozen deals before finding the right opportunity; however some find a match on the first try. All situations are different, but the common dominator in a successful transaction is preparation and diligence through every stage of the process.

What happens if the acquisition did not go as expected post transaction?

If thorough preparation, planning and due diligence was completed, hopefully the issues are minor enough that they can be worked through. In the rarer instance that the issues cannot be overcome, owners have a few options post transaction. First, they could exercise their rights within the purchase documents to go back to the seller, they could spin the recently acquired business back out, or they could make significant changes to the business in order to make it work. There can be surprises post acquisition, but if the owners were trustworthy, comprehensive due diligence was completed, and the transaction was structured appropriately, risks can largely be mitigated. <<

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