



#20 Acquisitions – Target Contact & Assessment of Value

This is the second paper in a series offering some advice on a better acquisition process. The Acquisition Approvals Process is a six phase process covering: strategy, identifying targets, target contact & assessment of value, negotiation, legal completion and post completion. This paper deals with stage 3 – Target Contact and Assessment of Value.

Review of the Priority Target

1. Coming out of the previous target identification stage you will have done some basic commercial due diligence on a short list of targets. It's now time to review one of those targets in depth.
2. Gather all the key facts together including strategy, management structure, financials, competitive position, news updates etc. Remember this is all done prior to a formal approach to the target.
3. Assess how you will integrate this target, why it fits, what you bring to the party and why you would be seen as an attractive acquirer to the staff and shareholders of the seller. By doing this homework you will be prepared for the initial contact with the target. (The same way world class salesmen have an engagement strategy prepared prior to engaging with prospects.) It is vital to make a good first impression showing insight and professionalism.

Contacting Targets

1. Consider cold calling the owners, principal to principal.
2. A well written letter to the owner's home address can be effective.
3. Using an intermediary can also be effective but I would recommend the buyer's name is revealed.

Assuming this contact is successful then acquirers need to prepare for this first meeting. If unsuccessful, please write to the owners expressing keen interest to follow up if circumstances change at a later date.

Strategic Fit – detailed role playing

1. Pull together all the key facts and rehearse obvious questions that you will be asked in this first meeting including; your ability to finance a deal, the strategic fit, the post acquisition plan, the role of the seller's management. Rehearse your answers as a conversational style rather than as answers to a questionnaire!
2. You will be asked how much you are prepared to pay. Resist this temptation by explaining that you do not possess enough facts to assess value and that a full disclosure of the facts allows acquirers to place a full value on attractive companies.
3. Acquirers need to send the signal that they are professional, reliable people who treat people fairly.

Target Meetings

1. By doing your homework you are entering these meetings in a relaxed state of mind but make no mistake, negotiation has begun.
2. Impress the seller with your knowledge of the market and the sellers competitive positioning in the marketplace.
3. Frame the landscape of why you believe there is a fit and your outline thought for growth.
4. Explain the types of facts you need to gather to assess the potential post acquisition plan and therefore the value to the acquirer of completing a deal.
5. The psychology on price is worth remembering: sellers aspire to price, buyers perceive value. Only buyers can price deals. Each acquirer looks at a deal from their unique perspectives, their unique footprint. Specific valuation processes are outlined in Essential Business Briefings #4.

Seeking Mandates

1. The culmination of this work will be a Board Paper seeking a mandate to negotiate a deal.
2. This paper allows the Board to review the facts and assess the strategic and financial benefits of a deal. (far better to abort now than at the last minute prior to legal completion)
3. The mandate should articulate the pricing range and key commercial conditions required.