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Maximise your value

A white paper on optimising your M&A exit

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Abstract

In this paper we answer five key questions we are commonly asked by our clients who are seeking M&A success. We share a number of tips and recommended steps that will help you on your journey to a successful deal.

Problem

Owners and managers of businesses rarely have spare time to devote to refining their business ahead of an M&A transaction. This paper seeks to answer some specific questions to help mitigate those time pressures, and that we get asked by our clients a lot:

- What specific value-enhancing (or value-preserving) steps that can and should be taken can I take?
- What obvious traps and/or pitfalls to do I need to avoid in M&A transactions?
- What will really drive value in my business and maximise the likelihood of a successful M&A exit in the future?
- Who will be the most likely acquirer for a privately- held, UK business?
- How should our management team and/or shareholders best plan for, and then undertake, a sale process?

Background

M&A as an exit route: there are countless tales of outrageous successes and countless tales of critical failures. What is it that makes one company's journey ultimately successful, while another ends in acrimony and destroyed value?

The biggest hurdle for many sellers is escaping a thinking trap: that of seeing M&A as a 'zero-sum game' in which every win or loss for one side results in an equal and opposite loss or win for the other side.

But M&A, when done well, is anything but a zero-sum game.

Much of the art of navigating the otherwise perilous journey to exit is in identifying win-wins, as well as beneficial differences in value attribution between buyer and seller.

Here's a specific example. In a recent deal, we identified early in a process that our client was paying below market rate for its highly competent, technical staff. Whilst this 'flight risk' presented a potential deal issue, it was positioned early to the buyer that an upwards reset of salaries, together with an attractive long-term incentive plan, would lock in this critical team. This positioned the buyer as the 'good guy' to staff and helped overcome potential concerns about becoming part of a global organisation. Suitable buyer protections were put in place and in the end, everybody secured what they felt was a great outcome.

Ultimately, the biggest win-win is identifying how the acquisition of your business will build value for the acquirer. Increased value for the acquirer means an ability to pay more for your business, so it is essential to identify that as early as possible in the sale process. This can be simply done by s asking questions: "Why should we become part of your organisation? What's in it for us and you?"

(As with any good interrogation by stealth, you may need to repeat the questioning process multiple times to get to the underlying, true answer.)

Whilst we have presented the process of M&A negotiation as an endeavour to avoid conflict, the elephant in the room is of course the self-evident fact that a buyer never wants to pay more than it needs to. Fortunately, there are some essential tools that can be used to enhance and preserve value and reinforce the perception of the buyer that they cannot afford to price-chip.

For me, these are 'must haves' in every deal:

- Don't take it personally: whilst there will be a direct, individual impact of any M&A process (especially one that progresses to completion), it is critical that everyone treats it like a business transaction, rather than a personal one. As far as possible, leave emotions at the door.
- Maintain optionality as far as possible: you don't have to sell (unless you must sell!)
- Build competitive tension and have an underbidder, especially if you have to offer exclusivity (and you probably will).
- Negotiate the heads Heads of Terms as fully as possible: this might seem like you're repeating work that will have to be done by the lawyers later, but it is probably the single most valuable part of all negotiations.
- Don't hide bad news under the carpet. You want the initial offer to be reflective of the full facts, so burying something problematic that will arise in due diligence just means you'll get a price-chip later on.
- Build rapport, principal to principal. A corollary benefit of this is also where advisers can be truly useful: by allowing the advisers to negotiate the detail, it allows you to escalate just those most critical issues to a direct discussion with the senior buyer representative.

By now, you're starting to see the positive features of a good deal: plenty of win-wins, a recognition of value creation for the buyer; and you are aware of what we need to avoid: zero-sum conflict. The next question is who is likely to be the eventual acquirer?

The good news is that most sellers already know the eventual acquirer. It might be a global supply chain partner, or an obvious competitor in whose market you have carved out an attractive niche, where your agility or focus lends you competitive advantage.

What foundations build the basis of M&A success?

Poor planning is well known to be a cause of poor performance. The same is true for M&A. The process, even if you are just dealing with one acquirer who has approached you directly, is onerous, complex and needs to be managed alongside the day job of running your business. Why would you not do everything you can to try to make that easier?

As an adviser, it will not surprise you to read that I recommend getting really good quality advice upfront!

However, this is meant in the broader sense of having experienced heads around the table, including perhaps non-executives who have been through multiple exits themselves, as well as a competent external advisory team. There is no substitute for experience and having done one or a few deals will be a significant improvement over never having been through an M&A process before. If you can bring in advisers with the scars of hundreds of deals, then so much the better.

Use that experience to foresee the steps and future requirements of getting an acceptable deal done. Prepare for due diligence early by collecting the likely information together, review it as a deal team and take steps to address gaps or potential risks as quickly and comprehensively as you can. Every potential issue you can identify and resolve – even partially – will either make the deal process more straightforward or help drive value.

Conclusion

A great M&A deal is one where both sides are content to sign up and feel like they have a fair and well-negotiated deal. It is unrealistic to expect either buyer or seller to be jumping for joy at the final moment of completion: a sense of satisfaction and a job done well should be the goal.

If a buyer sees clearly how the acquisition will add strategic value to their business, there is a far greater chance of a satisfactory deal for both parties. Building a deal that creates a strong platform for the buyer to achieve success post-acquisition will allow them to accept terms and compromises that might otherwise be rejected, especially near completion.

Holding up the mirror to this ideal scenario means sellers and their advisers need to understand what that future success platform needs to look like for the buyer, and how the acquisition of this business builds on it. There are three critical success factors that contribute to post-acquisition success for buyers that sellers should be mindful of:

1. Competitive advantage: even more relevant in times of economic or market-led shock. How does this acquisition either enhance or help bridge a competitive (dis)advantage?
2. Conviction: building internal consensus and buy-in to the deal from across the business. Whose empire will this benefit and how?
3. Consistency: a buyer having a consistent, repeatable framework for M&A execution and integration. Acquirers who are targeting growth by acquisition in specific, identified areas or ’themes’ have been shown to be more successful.

The rules of the game can be slightly different for large, transformational M&A deals. However, for most SMEs and smaller corporates seeking an exit, they are far more likely to be part of a programmatic M&A strategy than be a transformational target. Indeed, data suggests that programmatic M&A is more successful for the buyer than transformational deals. So, by being a modestly sized private company you are already in the best starting place to be a successful M&A target.

To end, let's go back to the start. The best M&A deals start with thoughtful and early preparation. You should plan for success, engage and take early advice. And you should develop clarity as to the route to your exit and be consistent along that journey.

References
1 Daume, Lundberg, McCurdy, Rudnicki and Wol: "How one approach to M&A is more likely to create value than all others", McKinsey Quarterly 13-Oct-21

Need more help?

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