



Buyers need a completely different viewpoint from sellers. As a company looking for an acquisition target, you have many specific questions that should be answered before the search phase even begins. Most of these questions revolve around strategic issues such as what type of company you're looking for, what strategic (or, in some cases, tactical) benefit the acquisition should bring to you, and how you expect to reap value from the acquired company. It is often reported that most M&A deals fail to deliver value for the acquirer. Our experience tells us that this outcome is driven by two main factors: first, giving all the benefits away up front in terms of excessive target premium and second, failure to plan for post-merger integration during the diligence phase.

Here are the typical steps a firm would go through in the buy-side deal process:

1. **Confirm M&A strategy** — We begin every M&A engagement should begin with a strategic analysis of the alternatives available to the company. Even if you have already decided to pursue an acquisition, we would be remiss in not reviewing your rationale for the proposed transaction.
2. **Develop industry and market analysis** — You should only begin the search phase with a clear grasp of your beliefs and our insight about the structure of the industry and the role of major and minor participants in the market. This preparation is a key method of avoiding wasted time pursuing unsuitable targets or, worse, unraveling a mistaken acquisition.
3. **Determine key screening criteria, target list, and communication plan** — Once the market is mapped, we develop initial screening criteria to segment the universe of possible candidates down to a manageable number of potential candidates. After targets are prioritized based on these initial criteria, we develop a specific communication plan for each target, whether by formal letter, informal personal contact, or even a pre-emptive offer. We will not undertake a “dial for dollars” approach to your acquisition; cold-calling targets means you're likely to get a company that's available rather than one that's right for you. Very few, if any, corporate strategies would survive such a haphazard approach to acquisitions.
4. **Profile key targets** — Before initial reactions are gauged, the next step is to further profile the most promising candidates. During this public diligence phase, we can create a detailed analysis of how the prospective target is delivering or destroying value for its shareholders. This analysis then feeds back into our evaluation of each target as a part of your strategic plan. Our next step is to identify high payoff diligence questions, essential elements of information for each key target based on how it helps you execute your strategic plan. Due diligence on target companies can be a complicated matter for a potential buyer. Depending on your strategy and the parties involved, you may not wish to reveal your identity to the target or let your competitors know you are searching for an acquisition. As a third-party participant, we can provide you with a measure of anonymity.

5. **Solicitation** — This step involves contacting the prospective targets, assessing their appetite for a strategic transaction of whatever form, sharing high-level information regarding the financial and operating performance of both companies, understanding the potential deal structure ("merger" versus "acquisition"), and preparing information materials about the buyer for the targets to assimilate. Beyond the initial contact, the rest of the communication typically takes place under the auspices of a nondisclosure agreement (NDA), which we will coordinate with your legal advisors if you desire or with our team's experienced personnel. Throughout this step, we hope to secure confidential access to financial and other information necessary to review the target's suitability beyond that information that is publicly available, we update our financial models and related evaluations of the targets to verify their fit with your company and their contribution to your strategic plan, we arrange your in-person visits, meetings, and conference calls with the target's internal management and external advisors, and we culminate our efforts with the preparation and hopeful execution of a letter of intent. We prefer to use a term sheet to precede the letter of intent with a term sheet, which is typically stated in more concrete terms and avoids legalese. The letter of intent is most often drafted with the input (if not by) your legal counsel. The execution of a letter of intent is the milestone that marks the end of the pre-deal phase and the beginning of the deal execution phase, which itself begins with due diligence.

6. **Due diligence** — During the diligence phase, we look at a broad range of information about the target company to confirm assumptions and preliminary information previously received. In the course of these tasks, we are focused on these specific questions: first, is there a material issue that would cause you to walk away from the deal at any price (environmental issues are the most common example of such issues); second, are there issues or concerns that are material enough to cause a change to the structure, price, or terms of the transaction. At this point, most advisors stop their diligence inquiry. However, given our focus on long-term value for you the buyer and the entire deal cycle, we also look for the following issue throughout the diligence process: *what are the potential issues (and opportunities) that you must focus on to prepare the target for successful integration?*

In conjunction with the other members of your advisory team (accounting & legal) as well as with your internal diligence team, we lead the investigation into the following major areas:

A. Accounting due diligence

- a. Do the financial statements fully and fairly represent the financial condition of the company?
- b. Are there unanticipated effects of combining the two entities?

B. Legal due diligence

- a. Are there regulatory, governance, or liability risks that are not otherwise reflected on the financial statements?
- b. Are there organizational issues that have to be addressed in the deal negotiation steps?

C. Commercial due diligence

- a. What is the concentration of customers, the target's ability to increase or preserve margins, and the competitive positioning of the target?
- b. Is the target capable of achieving the projections from an external point of view?

D. Organizational due diligence

- a. What is the quality of target management team?
- b. What is the plan for retaining key employees?
- c. Is the target capable of achieving the projections from an internal point of view?

7. **Deal execution, negotiation, structuring, and financing** — This series of steps is simply the not-so-simple process of bringing a deal together to achieve a successful closing. It requires coordination among internal and external participants on both sides of the deal as well as government, customer, supplier, and even industry participants who do not have any particular interest in seeing the deal to a timely completion. While it's true that deals take on a life of their own, it takes a focus on execution to push a deal to close when it should rather than when it can. Time is money, and too many deals move slowly simply because of the weight of the persons involved. We push — we're pushy people because sometimes you can accomplish more with push than with pull. We push everyone involved in your deal to the extent you let us so that it closes when you want and need it to. That focus makes us different than other advisors.

8. **Post-merger integration** — Signing an agreement and even closing the merger are not the end of the deal. Many deals destroy shareholder value, even when the price paid is not too high, because of a failure to successfully integrate the target. In many cases, we can extend our involvement to include post-merger integration services. We can help you plan for and execute the integration of systems such as IT and human resources. Our post-merger integration services are designed to lead to actually securing the gains — in revenue, cost savings, or synergy, that were built into the acquisition plan and financial models at the outset.