

EXTERNAL SUPPORT: KEY FACTOR FOR A SUCCESSFUL M&A TRANSACTION

Management Summary

To sell or buy a company or a part of it does definitely not belong to the core competencies of most enterprises. To be sure that such a process is done professionally and in the best possible way, experienced specialists should be involved. Their support is particularly crucial in the definition of the steps to be taken, to guarantee a systematic and structured procedure.

The sale of a company also means to give out information which are sensitive. To decide in what stage of a process which depth of information interested parties can expect needs experience in comparable situations.

Specific experience and know-how also is the basis for defining a realistic sales price, searching and contacting potential buyers, and leading negotiations with bidders.

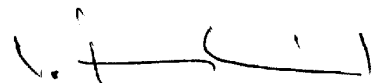
Furthermore external expertise is needed for the evaluation and negotiation of offers as well as the preparation and accomplishment of due diligences.

Finally contract negotiations, the coordination of the parties involved and an effective time management can only be done successfully if there is a professional project management with the adequate background in managing such processes.

Dear reader

Considering an acquisition or the sale of a company or of a part of a company is a most complex thing. A lot of questions have to be answered and to be certain to do the right decisions in the different phases of such an M&A process. experience and specific know how is needed. Apart from the big multinationals who have their internal specialists for such activities, usually management or owners do not have this expertise. Therefore for them it is absolutely vital to work with an external consultant who knows what steps have to be taken in what form, to make sure, that the commercial, the legal and the market issues are treated in a professional way. The following article shows in an example the procedure of a company sale and the contributions of an external consultant. For further information please do not hesitate to contact me.

With my best regards.



Werner Fassbind, Managing Partner

Developing and evaluating of strategic options

There is no doubt that the management of a company is best apt to develop and assess a strategy, as long as it is based on a stand alone situation. When it comes to questions of sale or acquisition additional expertise is needed. Questions arise like: Is there a realistic chance to find a buyer or a merger partner? What price could we get? Are there potential buyers on the market which fit our requirements? Etc.

M&A specialists can judge the attractiveness of a company for a potential buyer, they can deliver information about recent transactions, they can deliver the necessary information whether the strategy discussed with regard to selling is realistic in general. They can advise you with respect to the time frame of such a sale. It might be better to do it right now or maybe in a later state, depending on the activities in the M&A market or on the economic development of the company.

Identifying potential buyers

After the decision is taken to sell a company or a part of it, potential buyers have to be identified.

Again, the management of a company knows quite well what other companies, e.g. competitors could be interested in the buying. However this is just a part of all potential buyers namely the ones which act in the same segments and regions.. When it comes to potential buyers in markets and regions outside the own activities, more information is needed.

It is the task of the consultant to collect additional information about potential buyers outside the range known by the companies management. The data M&A consultants have access to, helps to enlarge the circle of potential buyers and hence increase the chances for an attractive deal at the end.

Finding the enterprise value

To define the price of a company or of a company part is one of the most difficult jobs. Although there are several models and procedures to calculate this value, at the end, it is the market which decides.

Regarding the price-finding, external consultants can help in different ways. On one hand they have the knowledge of the up to date models which can calculate the enterprise value on a almost purely financial base. On the other hand M&A consultants can analyse recent transactions in

a comparable environment with comparable actors and find out, what prices have been paid in these transactions. This gives an insight and a first idea what the market value could be.

Contacting potential buyers

Usually a company is not keen on informing the world that it is on sale or intends to sell a part of its business. Confidentiality is therefore an important ingredient of such a process.

It is obvious that an independent consultant can approach potential buyers confidentially. In a first contact which is usually done by a phone call, the contacted person will only receive a blind profile with some corner stone information. This to give him the opportunity to decide whether he is principally interested in a possible buy. In case there is an interest, a confidentiality agreement has to be signed in which the partner commits himself to keep absolutely secret all given information concerning the company. This commitment includes also all people who will be involved on his side in the further process.

Providing the Information Memorandum

The Information Memorandum (IM) gives a more detailed company overview. Apart from name, location(s), it gives information about products and services, markets, turnover, contribution margins, EBITDA, EBIT and specific excerpts of the balance sheet. The final content of the Information Memorandum is defined individually for the specific company or company part. The objective of the Information Memorandum however must be to give a potential buyer enough data to enable him to submit a non binding offer.

The composition of the Information Memorandum is a highly sensitive matter. On one hand as said above it has to give enough information to enable the potential buyer to derive a realistic non binding offer. On the other hand it still should not contain too sensitive data. Here the experience and expertise of a specialised consultant becomes vital. The consultant can, based on his experience and specific know how of such transactions, advise the customer how deep the IM should be in the first instance. Since the consultant is also the link between buyer and seller, he can in accordance with the seller give additional information verbally if asked for. This kind of procedure not only prevents that information is wide spread to all

bidder, it also gives a first indication of the depth of interest a specific bidder has.

Treatment of non binding offers

In practice the submitting and evaluation of non binding offers is a difficult part in the process. There are bidders who submit an offer with a high price to make sure they will be accepted for the next round. When it then comes to further negotiations, the price comes under pressure with lots of arguments. On the other side are those bidders who are over cautious assuming that it is better to increase the price later than to bargain.

In both cases it is the task of the consultant to talk to the parties who submitted the offers. In a direct communication and based on experience in other cases, the consultant can question the considerations which underlay the submitted offers. In many cases an additional information or questions can result in a modification of the offer. This also has the effect to make clear if it makes sense to go further with a specific bidder. This procedure creates already in the phase of the non binding offers a more realistic basis for necessary decisions.

Management presentation

The management presentation is the next step after the decision with whom one wants to continue. The occasion of this presentation not only is an opportunity to gain a deeper understanding of the commercial side of the sales object but also and as important it is the first occasion to meet the involved people personally. And here the slogan "you never get a second chance to make a first impression" has a fundamental truth. Apart from the additional information a potential buyer gets, it is the important opportunity to judge the quality of the management of the company for sale. A serious and professional preparation of this presentation therefore is absolutely crucial. In many cases the result of the management presentation is a modified non binding offer, which now is based not only on figures and facts, but also on mutual impressions and knowledge of culture and people.

The consultant's task in this phase is simply to coach the crew in the preparation. Based on his experience in comparable situations and on his information he received in previous discussions with the bidders, he can advise the management team what is important in terms of content

and behaviour. In addition to that, he can also help to prepare those questions the management wants to ask the potential new owner about intentions and ideas he has regarding the integration of the two companies.

Due Diligence

The management presentation is the last evaluation step before it becomes really concrete. As a rule one can say that the number of candidates who are invited to the due diligence should not be more than max. 3. In the due diligence the depth of information given to the potential buyers is high. With the exception of essentially vital data like customer names, turnover and margins per customer, individual purchase prices, everything is disclosed.

Also the preparation and accomplishment of a due diligence is a specific procedure that needs professional know how. The set up of a data room, the supervision of the due diligence process itself is the job of the consultant together with specialised people. The consultant also advises the management which information in which form has to be available in the data room. He will furthermore be present in the data room and collect questions asked by the representatives of the potential buyer. He will recommend whether these questions should be answered already or only after a contract has been signed. And last not least he is responsible that the due diligence process is conducted in a correct way and in accordance with legal requirements.

Binding offer and contract negotiations

After the due diligence has been evaluated by the potential buyer he will submit a binding offer and preferably already a first mark up of a sales and purchase agreement. In this document the bidder offers a definite price and describes the conditions this offer is subject to.

This step is a crucial one in the process. The judgment of binding offers and contractual issues should only be done by experienced experts. The value of an offer not only depends on the price but on the whole package, incl. size and regulation of warranties asked, mode of payment, conditions to close, etc. In addition to that this is the time when price negotiations become vital. Negotiation skills can increase the price considerably and can ensure that the sales and purchase contract is fair.

From signing to closing

After price and contractual conditions are agreed on both parties sign the sales and purchase agreement. Depending on the complexity of the deal the signing and closing can be done at the same time. In most cases however there are issues to be clarified after signing which are conditions precedent for the final closing.

In this phase of the process the support of external consultants is to make sure that the open tasks are fulfilled in due time. The coordination between all parties involved is a time consuming one and would absorb too much energy and time if done by internal people. To keep the time between signing and closing as short as possible is also important with regard to the staff of the two involved companies. As long as a deal is not closed there still remains a certain insecurity and the actual process of integration is postponed.



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 Several years of experience in senior management positions, as member of supervisory boards and as consultant in different industries.

Editor and author of a number of management related publications .

Would you like to know more?? Do not hesitate to call us. In a noncommittal talk we will show you possibilities, chances and risks of a sale or purchase transaction. Even if you do not intend to buy or sell a company it is often worth to reflect different options: Who knows, maybe new opportunities may occur.

Satisfaction of our customer and business partners is our key objective

One of the most important ingredients in a Merger&Acquisition process is building mutual trust between seller and potential buyer. This was – in addition to the professionally structured and efficient project management - what we appreciated in the work with CMS AG. This way of leading the project accelerated the process and led to a fast and successful agreement.

Olivier Meurzec, CEO KLK Manufacturing Division, Kuala Lumpur, Malaysia

For us reliability, commitment, professional project management and distinctive negotiation skills were the crucial requirements in choosing an M&A consultant . CMS AG fulfilled all this criterias absolutely. Not only were we fully satisfied with the way the process was managed, even in difficult phases, but also with the most important evidence of success; the result

Esther Dale-Kolb, CEO Dr. W. Kolb Holding AG, Zürich, Switzerland



More than 30 years of experience in consulting of SMEs and international corporations

Strategy development

Monitor and assess strategies, use growth opportunities, increase sustainable profitability.

Process Management

Eliminate duplications, reduce interfaces, clarify structures, increase efficiency of procedures and information flow.

Merger&Acquisition

Manage M&A processes from the search of objects or buyers to a successful closing.

Implementation

Implement strategies and processes with tried and tested learning and communication tools.