Stu's View

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Acquiring a Company from the Owner's Perspective

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Acquisition is an increasingly popular way to grow your business in today's economy. The acquisition can follow the traditional "cash at closing" formula, in which most of the seller's assets are part of the purchase; or it may be a tuck in situation, in which the book of business, the sales, may be all that is acquired. In either situation, we have found the success of the acquisition process follows the same 6-step circular process:

1) Develop an Acquisition Strategy.
2) Identify and contact the target companies.
3) Review the information.
4) Negotiate the Deal.
5) Perform Due Diligence.
6) Circle Back before you close.

Think of the process as a circular flow chart. When one step is completed, you move on to the next – but be patient. Because there are so many factors in an acquisition, it is possible to just keep "circling back" through the process until you finally close a transaction.

1) The Acquisition Strategy: What Do You Want to Accomplish?

Before you buy, your first step should be to identify why you are looking for an acquisition or tuck in. Do you want to grow revenue through acquisition rather than organically? If you have under-utilized equipment, acquisition is a good way to achieve that growth. Perhaps you want to move into digital printing, warehousing and fulfillment, or cross media services. Acquisition may be a strategy to leapfrog some of your competitors and accelerate your entry into new areas.

2) Identify and Contact the Target Companies

When your Acquisition Strategy is in place, it's time to initiate your target company search -- but where do you begin? We've found local PIA chapters to be one excellent resource for acquisition searches. You simply tell them what you are looking for, and ask if they can suggest someone to call. Another option is to use an independent third party like us -- someone experienced in the M&A market and the printing industry. A knowledgeable third party can potentially reach a broader market, then assist in a focused search effort that reflects your acquisition strategy. This can save you valuable time and frustration, as well as help you zero in on those potential companies or industry segments that best meet your specifications.

After your target companies are identified, determine how to contact them. It may be a natural thing to simply call them. If that seems awkward, it may be beneficial to have a third party make that contact on your behalf, keeping the initial playing field emotionally neutral.

As terms develop, emotions and demands can flair. A good negotiator or intermediary keeps the process moving.

3) Review the Information

Once conversation has been opened with a target seller, it is imperative to find out if a good "fit" exists. Some key ingredients to assess here are the personalities of the owners and the company cultures. Cultural compatibility can only be ascertained over time by talking to the owner(s) and the management team. It is important to put aside whatever image and reputation the seller has in the marketplace, and look at them and their company with fresh eyes to see what matters to them, as well as how and why they do things. If the situation is already looking like a "square peg, round hole" scenario, walk away and find another deal. Nothing can kill a deal more quickly than opposing cultures, or be more disappointing than completing a transaction and then realizing the merger cannot be successful because of cultural issues.

In addition to verifying cultural compatibilities, it is equally important to be sure you clearly understand what the other owner is looking for from the deal. Does the seller want to continue in a management role, or does he/she want to forego the leadership burden and simply focus on sales? Are there "sacred cows" to be considered – those family members or key employees the seller feels need to be a part of the new organization? As a buyer, you need to know what you can live with for the short term, while the seller may need to accept that a son or a sister may no longer be part of the new organization.

Although you may be tempted to talk selling price right away, be patient. Focus on looking at the seller's customer base, financials, and pricing strategies. Will the customer bases of both organizations mesh well? If there is overlap, what potential conflicts may develop within the sales staff? What does the balance sheet show about assets that may need to be liquidated? Is the seller's pricing methodology complimentary to and acceptable within your company's structure?

Verifying compatibility in these areas is key to the deal's successful outcome.

4) Negotiate the Deal

If the information collected so far yielded positive results, it should be time to tackle deal negotiations. Of course, there are additional questions you need to consider in this phase. Can the seller get a better financial deal elsewhere? Is the seller financially troubled and therefore anxious to get a deal done? If a bankruptcy situation is looming, how great is your risk of losing the seller's book of business? Does the seller have significant debt or personal guarantees that must be satisfied as part of the deal?

Considerations like these make structuring a tuck-in difficult. As the buyer, you have to enable the seller to liquidate his or her balance sheet, perhaps assisting them with a game plan to dispose of equipment or building commitments in order to pay off his/her creditors. We've seen buyers agree to pay the mortgage or lease payments on the seller's building for 12 months, enabling the building to be quickly put on the market while providing the seller with a 12-month window to get something done. In another situation, one of our buyers realized that a tuck-in would improve his bottom line by $500,000 a year. He was thus willing to buy the seller's press, knowing he might take a hit of $100,000 when he resold it, but projecting he would make that money up in the first year. The point here is that if the deal is really strong from the buyer's perspective, he or she needs to be creative to help the seller over the hurdles and keep the transaction moving forward.

5) Due Diligence

Prior to signing the final contract, prudence demands that due diligence be completed for the protection of all parties. Depending on the structure of the deal and the entities involved, due diligence may include labor contracts, sales or income tax issues, environmental considerations, insurance and liability coverage, debt resolution, employee benefits, and even marketing brand considerations. Third party legal and CPA counsel may be beneficial here, and contract language may be altered several times by one or both sides before the deal can be finalized.

6) Circle Back

Mergers and acquisitions can be complex and frustrating, but they can also yield excellent business growth opportunities. Remember the circle graph image we mentioned in the beginning of this article? The fluidity of this circular approach lends itself to a logical progression of steps, ensuring that concerns and details are addressed at appropriate times. Then, should something goes awry in this process, the "circle back" technique allows you to step back and regroup on any sticking points.

Yes, successful acquisitions take time, patience, careful planning – and above all, finding the right "fit" between buyers and sellers. A good deal occurs when both the buyer and seller feel as if they gained something. Sellers might see a more promising employment option than before and/or receive royalties or cash out on the sale; whereas, buyers can benefit from business growth and new market penetration. When done correctly, thoroughly and fairly, all parties benefit from a win-win acquisition situation.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.

About New Direction Partners

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.