HERITAGE CAPITAL GROUP
Investment Bankers for the Middle Market

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A Structured Approach to Growing Your Business through Mergers & Acquisitions

One of the fastest ways to grow your business is by purchasing another company. Growth through acquisition can transform your business, and assist you in achieving goals such as expanding geographically, diversifying your customer base, and adding depth to your management team.

While there can be big rewards in purchasing a business, there also are significant risks. Acquiring a private business can be complicated and time consuming. There also is the uncertainty that the deal will not close for a variety of reasons that are outside of your control.

Considering these factors, we almost universally advise our clients to use a structured process. This article provides a brief overview of the process many of our clients have used to grow their companies using mergers and acquisitions ("M&A"). In subsequent articles we will address specific issues that we have encountered in each step of the process.

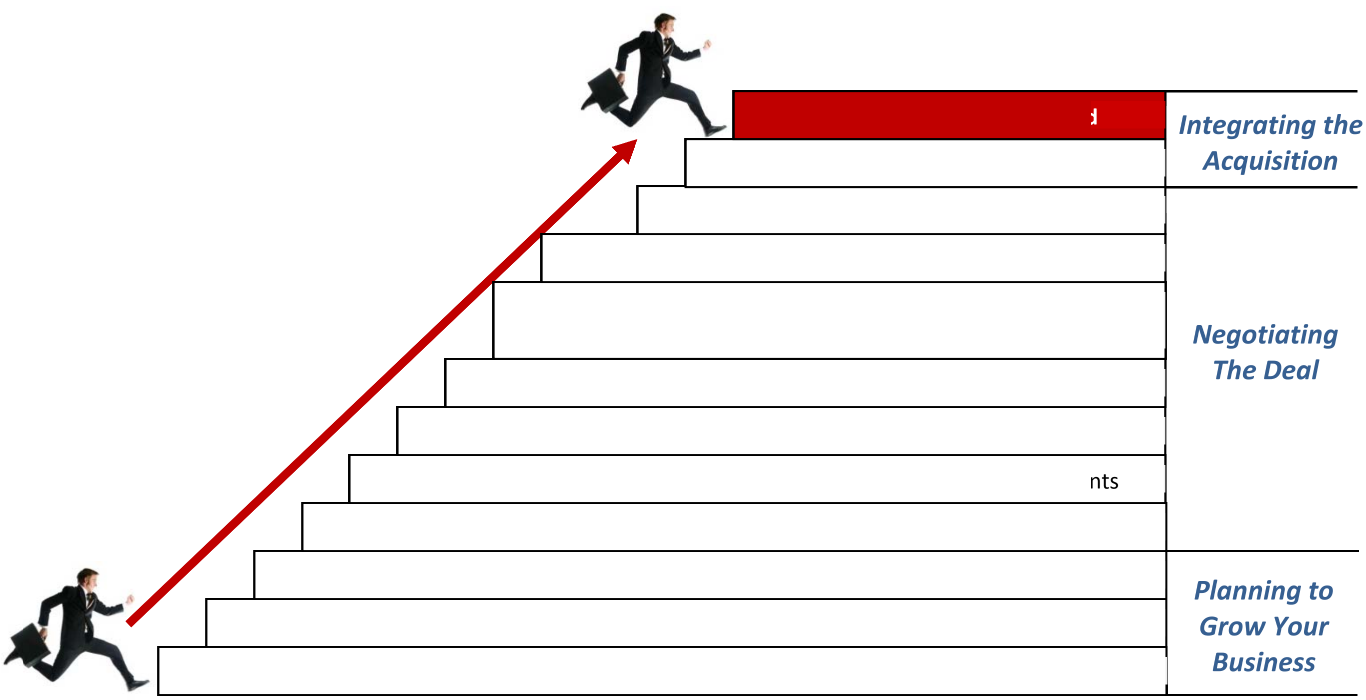
Planning to Grow Your Business

There is a common misconception that the M&A process begins when you first discuss the transaction with the potential seller. Prior to this, most successful firms use the planning steps presented in the diagram below.

The first step in the process is committing to growth and developing your corporate growth strategy. This step may seem obvious, but it is often overlooked. Having a well-defined corporate growth strategy allows you to focus your time and efforts pursuing acquisition targets that best support your expansion plans.

During the planning phase most firms also will determine (1) specific criteria for acquisition targets, and (2) their options regarding funding the acquisition. These steps, which will be discussed in more detail in our next article, allow you to only focus on deals that are feasible.

THE STRUCTURED APPROACH TO GROWING THROUGH MERGERS & ACQUISITIONS



Negotiating the Deal

Once you begin discussions with the potential seller, be ready to negotiate the deal. Again, this may seem obvious, but we have worked with many firms that were not able to respond quickly to a potential seller because they were not completely prepared.

Two critical questions to ask as early in the process as possible are presented below.

- Is there a compelling reason to purchase the business?
- What issues will you have in integrating the business into your operations?

If there is not a compelling reason to buy the company, such as those presented below, you will most likely want to pass on the acquisition. Acquisitions can take 12 months or longer to complete and integrate. As a result, most firms seek acquisitions that will address a specific need identified by the senior management team, board of directors, or shareholders.

The goal of assessing integration issues early in the process is to save time, effort, and frustration. One of the worst-case scenarios would be that you spend the time to negotiate an acceptable deal then find out that you will have major problems integrating it with your current operations after the transaction.

In the negotiation phase of the process your team will:

- approach potential buyers and determine if the deal is viable;
- discuss key deal points with the seller and complete your initial due diligence;
- present a term sheet or indication of interest;
- complete additional due diligence and negotiate a letter of intent;
- perform full due diligence, negotiate transaction agreements, and finalize financing for the transaction;
- close the transaction; and
- perform any post-closing responsibilities associated with the deal.

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For middle market M&A transactions, the buyer's transaction team typically consists of the firm's attorney, accountant, investment banker, and senior management team. All members of the team should know their roles and responsibilities in the deal, and there should be one member of the team that acts as the primary contact with the seller.

You will gain credibility during the process if your team speaks with one voice, asks for only the information that is needed to evaluate the transaction, and quickly responds to issues raised by the seller.

Integrating the Acquisition into Your Existing Operations

One of our clients summarized his philosophy to using M&A to grow his business as "pick good targets, pay a fair price, close quickly, and *focus on integration*."

After the acquisition is made, you will want to move as quickly as possible to integrate the acquisition target into your operations. Integration will include actions such as:

- planning to consolidate operations at certain facilities and offices;
- changing operating and financial reporting systems;
- transferring assets to the location where they will be most useful; and
- integrating advertising and marketing messages.

Another major issue that is addressed during the integration phase is the overall corporate culture of the firm and the employees. While there are certain cases that you will purchase a business for its inventory or fixed assets, in most cases it is the people who work at the organization that are most important.

This is the reason why we recommend that you identify differences in corporate culture early on in the process, and be clear about your intentions with the seller. If you get to the end of the process and are not able to integrate the acquisition because of these issues, there will be no reward for all of your team's hard work.

Benefits of using the Structured Approach to Growing through M&A

The structured approach that we discussed in this article has many advantages, including those presented below.

- It focuses your team's attention only on acquisition targets that support your primary growth strategy.
- You will find better acquisition targets.
- When negotiating the transaction, your credibility will increase because you can describe exactly how you will get from the initial discussions with the seller through the end of the transaction.
- You will be able to move quickly to address issues as they arise, which will lead to a better chance of closing the transaction.
- You will close deals faster because your entire team, including senior management, attorneys, accountants, and investment bankers, are up to speed and working together.
- Deals will be easier to integrate into your current operations, because you are solving issues related to integration early in the process.

Heritage Capital's Experience

There are many important decisions to make in purchasing a business, and having an objective point of view helps during the process. At Heritage Capital we have a highly experienced team of dealmakers that focus on assisting middle market companies. We look forward to assisting you the next time that you are considering growing your business by making an acquisition.

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