Pentagon Finance

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ACQUIRING A BUSINESS - By Arthur Ngoka.

Many businesses choose to grow quickly through an acquisition. Achieving a successful acquisition is not a simple process and requires rigorous planning and thorough implementation. It can be fraught with technicalities, problems and legalities. Acquisitions can be very demanding and time consuming. Time must still be allocated to running the core business through the process.

Acquisition Stages

The main stages of an acquisition are:

- The strategy
- The search
- Preparation
- Negotiation
- Agreement
- Post acquisition integration

The Strategy

Your business strategy may highlight the need to look for an acquisition. Acquisition may be one of many strategic options and you must be clear it is the right option to take.
Pentagon Finance can help you devise the strategy that is right for you. The reasons for pursuing an acquisition strategy can include a desire to increase market share, strengthen supply chains, reduce reliance on dominant customers or to diversify.

The Search

Identifying the right target is important. Clear criteria must be established, such as size, location, price and industry sector. The search can then produce a short list of potential targets that meet these criteria.
It is possible that a target has approached you. This can negate the need for a complete search but attention should still be paid to strategy. The target should still meet clear criteria. Evaluating alternative targets is also worthwhile. Do not make an acquisition for the wrong reason or simply as there is a target available.

The search stage can be very time consuming and must be methodical. Pentagon Finance can help with the research and free up time for you to concentrate on your existing business.
Failure to identify the right target can be disastrous and costly. Without the right preparation, many acquisitions either fail to complete or fail to achieve pre-acquisition objectives.
Research should be organised so as to anticipate all implications of the acquisition. Synergies and value added aspects of the target must be assessed. Failure to understand the key success factors of the target and its potential growth could be very costly.

Preparation

The approach must be carefully planned. Initial contact should be made and agreement reached in principle. It is at this stage Confidentiality Agreements, Heads of Agreement and letters of intent will be signed.
Tax planning should also take place. A good understanding of the tax intricacies of the vendor can be an invaluable asset in the negotiation process.

Due diligence will begin and information requests should be made from the target. You will also need to prepare a preliminary post acquisition integration plan. How the companies will operate after the acquisition and any problems identified with this will impact on acquisition decisions. Again, these are areas where Pentagon Finance can help you.

A preliminary valuation will also be required before negotiation. Further advice on valuing a company can be found in our Help Sheet “Valuing your Company’s Shares”.

The Negotiation

Due diligence should be performed to identify negotiation points on the target. This usually culminates in an accountants report. Please refer to the our Help Sheet “Due Diligence” for further details on the role and nature of due diligence work.
Your solicitor will prepare draft agreements based on the original Heads of Agreement and due diligence findings.

Drafts are sent to the vendor and correspondence entered into regarding any changes and queries. All parties to the deal will need to meet to resolve any final matters. This will include agreement on the Warranties to be obtained from the vendor. Warranties are certain assurances as to the state of affairs of the business being sold. If these are shown to be incorrect the purchaser can seek financial remedies for any loss incurred. Obtaining the right relevant Warranties is important and will often arise from Due Diligence procedures.

Our approach is to resolve potential disputes before contract in order to avoid costly litigation or abortive legal costs.

The Agreement

Once negotiations are concluded and any necessary approvals and consent confirmed, the purchase agreement can be entered into. This is finalised on completion when the acquisition actually takes place.
Usually a completion balance sheet will be drawn up as at this date. This will be agreed by both parties as reflecting the true position on acquisition.

Post Acquisition Integration

The management of the integration of the acquired business is very important. It begins at the due diligence stage and continues well after the deal completes.
Personnel should be appointed to manage the integration. Employees should have someone to direct questions to.

It is vital to move quickly but carefully. Clear and plentiful communication is important. New structures, roles, reporting lines and redundancies will need to be known as quickly as possible.

At this stage hostility, resentment and criticism can arise from acquired employees. Address cultural issues head on and ensure respect and dignity to all staff affected. It is at this stage you should avoid making many promises and ensure that those made are kept.
Loss of key staff can damage customer and supplier relationships much more than originally anticipated. Ensuring a motivated workforce will help ensure pre-acquisition goals are met.

Further Information

Pentagon Finance can assist you in all aspects of an acquisition. For further advice and assistance our specialist [**Arthur Ngoka**] will be pleased to help. Please contact Arthur on 07804 283 867 or 0208 544 0500 or by e-mail on arthur.ngoka@pfinternational.co.uk
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