

12 points to consider when making an acquisition

Author: Nigel Kimber

Date: 1 July 2010

There are many matters to consider when planning for an acquisition. Below, we have outlined twelve key areas and the issues involved to ensure that a comprehensive review of the target is undertaken.

1. aspirations of the vendors

Get “under the skin” of the vendors by asking the following questions:

- what do they want to achieve from the transaction
- how important are they to the goodwill of the business
- how long do they wish to stay in the business
- how important are they to the hand over; and
- what is the transitional timing for them leaving the business?

2. downside

What are the potential downsides for the target in the current environment? Is the target susceptible to recession/changes in regulation/Government?

3. movers and shakers

Who are they in the target, what is its management structure, the strength of the team and their aspirations post transaction? Are there holes in the team and how do you see them being filled?

4. skeletons in the cupboard

Are there any claims, actions, contingent liabilities, or any problems that the vendor is aware of? Better to know now than discover at due diligence stage.

5. benefits/costs

Quantify the synergistic benefits and cost savings for the combined entity going forward. How have these been modeled in the financial projections and understand the sensitivities relating to them.

6. trading performance

How has the target performed historically for the last three years? Are there up to date management accounts and projections going forward with appropriate assumptions?

7. revenues

Are they contracted or one off? How certain is the income going forward and how will the change of ownership affect the business? Do any contracts/supply agreements have change of control clauses?

8. concentration

Understand the level of reliance on specific customers/suppliers and consider if there any alternative sources of supply? Any exclusive supply agreements in place?

9. working capital

Understanding the working capital dynamics of the business. Debtor/creditor collection and payment periods, seasonality in trade and funding future growth.

10. accounting policies

Understand how the target accounts for its revenues and costs.

11. security for funding the transaction

What security is available for the bank if funding is required? Can an invoice discounting line be taken and are there other fixed assets available for security? It is important to understand the current security position and charges in place.

12. integration

Enter discussions early on as to how the businesses will work together going forward with a transitional plan and outline possible communications to staff, customers, suppliers and all stakeholders.

If you would like to discuss any points raised in this article, or a specific scenario, please contact either Nigel Kimber or Mark Grady of McBrides Corporate Finance.