FOOD FOR THOUGHT: ISSUE 12/2017.

THE SEVEN RECIPES FOR BECOMING SERIAL M&A BUYERS

This edition of Food for Thought is meant to be a conceptual map to show how Professionals working in finance can accompany their clients towards the fulfilment of their dreams.

It is now well established that companies become bigger, global enterprises through external, as opposed to internal, business combinations. It's not always true that small is beautiful.

So here's a collection of recipes for entrepreneurs that want to look ahead beyond the nearest horizon.

What is an M&A Strategy?

- Roadmap for your firm's corporate development efforts
- Translates strategic business plan into a list of target acquisition candidates
- Provides a framework for evaluating acquisition candidates
- Enables management team, board of directors, and investors to get on the same page

Clarkson Hyde Global members own all of these skills

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THE SEVEN RECIPES

1- **To own (or develop) a «Dna for M&A».**
Real entrepreneurs don't accept the status quo.
They are quite literally obsessed by the idea of growing their companies and acquisitions are seen as an essential tool for achieving this. They set themselves the target of doubling turnover in 5 years and becoming global leaders in their respective sectors. They are open to different cultures: they will have international management experience and if they don't they'll create a team that has. They are determined and will learn from failure.

2- **Having and communicating a clear M&A strategy to support growth.**
To reduce the strategic vulnerability of a business (e.g. over-dependence on a customer or a technology that is under attack). To accelerate global growth (when it is difficult to start from scratch in one country or find the right partners). To move into new segment and diversify. To consolidate the operating sector, especially in Italy.

3- **Not just a single acquisition, but a whole series of acquisitions.**
Campari completed 27 in 15 years. Brembo had more than 20 in 20 years, Epta had 12 in 20 years, Guala had 14 in 15 years, Coesia had 11 in 5 years. And many companies, like GI Group, Adler Pelzer and De Nora, started with a giant leap by buying over companies that were twice as big.

4- **Financial resources cannot become an excuse.**
45% of "generic" entrepreneurs who responded to a recent survey stated that a lack of financial resources was the biggest barrier to making acquisitions. But real M&A entrepreneurs stated this has never been a problem for them and that they never had trouble getting financing for a deal that made strategic sense. They use debt, bonds, some private equity and the Stock Exchange. The core business needs to be sound and generate cash flow - this is how entrepreneurs keep control of their companies despite growing via external financing. But «control» means so much more than a 51% stake: It means authoritativeness and leadership in strategic choices, as well as key figures. Indeed, people who have a knack for business are willing (at least in principle) to reduce their stake below 51 % if an opportunity for a mega deal presents itself and they can make that important step towards creating a multi-billion euro corporation.

5- **Human resources cannot be an excuse.**
«We don't have the human resources for acquisitions» was another one of the major barriers that emerged from the survey. In reality, real entrepreneurs working in M&A never have human resources issues. They lead « M&A teams» (with a management, CFO, business development) and quite often they will have a Board of Directors that can operate as a sounding board. But above all, for these entrepreneurs, M&A transactions are a means of accessing talent and know-how. In many cases, their senior management will comprise the managers of the companies they have bought.

6- **Free from the tyranny of multipliers.**
Price represents a problem for many entrepreneurs and it is often measured using market multipliers (because that is what their advisors tend to do). For M&A

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entrepreneurs price is only a problem when they're not sure about the value of an acquisition. They try to assess how to become the «best owners» of the company they are looking to buy, and the emphasis is placed on preparing the business plan again from scratch and understanding where they can achieve potential increases in turnover, and not just cost synergies. For them, multipliers are just another instrument to help them understand whether a deal is interesting.

7- **Being excellent in the post acquisition phase.**

People that understand the importance of growing a business through acquisitions have developed genuine skill and competence in the post-acquisition phase. At the start they sort out the management of human resources and management control. Then they start a process of integration that can take as long as a couple of years, if necessary. And the company's top management is almost always involved in this.

The teams at CH International are used to managing M&A transactions from pre due diligence, to the valuation of the investment (including in financial terms), through to the post acquisition process.

Why not contact your CH International partner and start to examine the huge opportunities the market can offer?

Here is an example of how Clarkson Hyde appraises investments and their current value.

Investment calculation

Description: **New Filling machine**

long-term finance plan **Investment:** equipment useful economic life **7** years

Tax Rate in % 30,0%

internal interest rate 6,00%

Issuer: Alberto

Date: 19/11/2017

in EUR	year 0	year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10
Investment											
(additional) sales											
additional cost:											
- CoS Material											
- personnel cost											
- rent											
- energy											
- interest		0	0	0	0	0	0	0	0	0	0
- maintenance				0	0	0	0	0			
- supplies											
- other cost											
= **Sum cost**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
cost saving:											
+ CoS Material											
+ personnel cost											
+ rent											
+ energy											
+ depreciation											
+ interest											
+ maintenance											
+ supplies											
+ other cost											
= **Sum savings**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
= **EBT**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
+ Taxes on profit		0	0	0	0	0	0	0	0	0	0
= **Effect per year**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
= **cumulated pay-back**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Net Present Value **0**