8 STEPS

ULTIMATE GUIDE TO MERGERS & ACQUISITIONS

FOR BUYERS & SELLERS

IBA INDIANA BUSINESS ADVISORS
A SUNBELT NETWORK AFFILIATE

Indiana Business Advisors

Telephone: 317-573-2100

9333 N Meridian St. Suite 200
Indianapolis, IN 46260

www.indianabusinessadvisors.com
contact@ indianabusinessadvisors.com

Overview of the M&A Process

The phrase mergers and acquisitions (M&A) refers to the consolidation of multiple business entities and assets through a series of financial transactions. The merger and acquisition process includes all the steps involved in merging or acquiring a company, from start to finish. This includes all planning, research, due diligence, closing, and implementation activities.

The Mergers and Acquisitions (M&A) process has many steps and can often take anywhere from 6 months to several years to complete. In this guide, we'll outline the process, describe the various types of acquisitions (strategic vs. financial buys), discuss the importance of synergies (hard and soft synergies), and identify transaction costs.

Selling your business or buying one is not a process that you want to go at alone. You may be a talented business owner with a team of excellent operating advisors. However, retaining a professional that knows the ins and outs of conducting a transaction is well worth the investment. Selecting the right advisor will take time and is not a process that you should rush. Once you begin to think that a sale or purchase is the correct course of action you should begin your research with **Indiana Business Advisors**. The process from selecting a sell-side advisor and buy-side advisor through to closing will be an important part of the process. Always ask questions of your advisor and be sure you are in agreement on the best strategy for your company. Once the sale is complete you will look back and be glad that you worked with a professional.

Whether you have a family-owned business, private equity-backed or a public enterprise, **Indiana Business Advisors** have the expertise and relationships to help you maximize your long-term value. Our professionals have advised clients on almost every conceivable transaction structure, deal term and document provision. Just as important, we have relationships with the right people to help you achieve your goals, whether it's a liquidity event or completing your next acquisition.

Steps in Buy-Side Mergers & Acquisitions

1 – Developing Strategy

The M&A process starts with developing a strategy that involves various aspects. First, the buyer identifies the motivation behind the mergers and acquisitions transaction process, the type of transaction they want to conduct, and the amount of capital they are willing to spend for this transaction. These are some factors that the buyer considers while developing the strategy.

2 – Identifying and Contacting Targets

After the buyer has developed the M&A strategy, they start identifying potential targets in the market that fit their criteria. Finally, a list of all potential targets is made, and the buyer starts contacting the targets to express interest in them. The main purpose of this step is to obtain more information about the targets and measure their level of interest in such a transaction.

3 – Information Exchange

After the initial conversation goes well and both the parties have shown interest in going ahead with the transaction, they begin the initial documentation, which generally includes submission of a Letter of Intent to officially express interest in the transaction and signing a confidentiality document assuring that the proceedings and discussions of the deal will not go out. After that, the entities exchange information such as financials, company history, etc., so that both parties can better assess the deal's benefits to their respective shareholders.

4 – Valuation and Synergies

After both sides have more information about the counterparty, they begin an assessment of the target and the deal as a whole. The seller is trying to determine a good price that would result in the shareholders gaining from the deal. The seller is trying to assess a reasonable offer for the target. The buyer is also trying to assess the extent of synergies in M&A that they can gain from this transaction in forms of cost reduction, increased market power, etc.

5 – Offer and Negotiation

After the buyer has completed their valuation and assessment, they submit an offer to the shareholders of the target. This offer could be a cash offer or a stock offer. The seller analyzes the offer and negotiates for a better price if they feel that the offer is not reasonable. This step can take time to be completed because neither party wants to give the upper hand to the other by showing their hurry to close the deal. Another common hindrance at this step is that sometimes, there could be more than one potential buyer when the target is a very attractive entity. So often, there is competition among the buyers to offer a better price and terms to the target.

6 – Due Diligence

After the target has accepted the offer from the buyer, the buyer begins due diligence of the target entity. Due diligence consists of a thorough review of every aspect of the target entity, including products, customer base, financial books, human resources, etc. The objective is to ensure that there are no discrepancies in the information provided earlier to the buyer and based on which the offer was made. If some discrepancies come up, it could lead to a bid revision.

7 – Purchase Agreement

Assuming that everything has gone well, including the government approvals and no antitrust laws kicking in, both parties begin drafting the final agreement, which outlines the cash/stock that would be given to the target shareholders. It also includes when such a payment would be made to the target shareholders.

8 – Deal Closure and Integration

After the purchase agreement has been finalized, both parties close the deal by signing the documents, and the buyer gains control of the target. After the deal’s closure, the management teams of both entities work together to integrate them into the merged entity.

Steps in Sell-Side Mergers & Acquisitions

It helps to organize sell-side processes into larger phases the Buy-Side.

Phase One: Prepare for the Sale

Define the strategy. As the seller, you must know your goals when entering a potential sale — even if you don't end up getting acquired. The executive team, along with any outside counsel you solicit, should define the objectives of pursuing a sale and identify your ideal buyers (or buyer qualities). Be realistic and allow your company's financial and market decisions to help drive your strategy.

Compile the materials. Once you've committed to pursuing a sale, you need to make a comprehensive kit that formally presents your company to potential buyers. If you are working with investment bankers on the sale, they will prepare a confidential information memorandum (CIM), a 50-plus-page document that includes information about your company's financials, market position, and products and services. (A CIM is also called an offering memorandum or information memorandum.) From there, you can extract information from the CIM to create shorter pieces of documentation, such as a teaser, marketing materials, or an executive marketing plan, which you can share with potential buyers.

Phase Two: Hold Bidding Rounds

Make contact with buyers. This can happen one of two ways: the buyer contacts you, or you contact them. Be strategic about who you select — of course, you want to make contact with more than one potential buyer, but don't overwhelm yourself with options or waste time on unlikely candidates.

Receive starting bids. Once you've made initial contact and the potential buyers have reviewed your materials, you'll start receiving bids. Don't settle for the first offer, and be shrewd about what deeper information you provide bidders at this point.

Meet with interested bidders. Conduct management meetings with interested bidders to learn more about these companies' intents, needs, and proposed offerings.

Receive the LOI: Those still interested will send you a letter of intent, in which they explicitly express interest in pursuing a merger or acquisition and provide a summary of the proposed deal. You may receive multiple LOIs from multiple bidders.

Phase Three: Negotiate

Negotiate with all buyers who submit bids. Once you've received bids from all interested companies, negotiate. Refer to the strategic intent you laid out at the beginning of the process, and invoke external expertise. Also, by this time, be sure you have all the financial information that's available, should you move forward with a deal.

Draft the definitive agreement. Buyers and sellers work together to draft a final deal.

Enter into an exclusivity agreement. You are now locked into an exclusive deal with the buyer — you can't pursue further negotiations or solicit interest from other potential buyers.

Help facilitate the buyer's due diligence. It can take more than two months for the buyer to complete their due diligence evaluations, but you, as the seller, can help expedite the process. Prepare all documentation ahead of time, and stay in close contact throughout the process, so you can swiftly handle issues as they arise.

Get final board approval. When the buyer has completed due diligence and plans to move forward, solicit final board approval.

Sign the definitive agreement. Once you sign the final agreement, the deal is closed — you have either merged with or been acquired by another company, and integration begins.

Mergers & Acquisitions Best Practices

M&A is a complicated process that relies on deep analysis, attention to detail, and compromise. Below is a list of additional best practices, in chronological order:

For the Buy Side:

• Approach the target company diplomatically. Understand the company’s position before initiating contact, and be sensitive to how it might receive your offer.
• Find and retain experienced leadership/advisors.
• Keep culture fit in mind — from first contact through integration.
• Develop trust between the intermediary and seller (if you’re using a third-party consultant or legal team). Keep communication open among all parties throughout the process.
• Create a transition plan, so you don’t head into integration blindly.
• Continually monitor the success of the merger or acquisition over time.

For the Sell Side:

• Don’t jump at the first offer. Know the strength of your position, and involve outside advisors if you need help with this analysis.
• Find and retain experienced leadership/advisors who will have your best interests.
• Engage in conversations with real-world buyers rather than relying on analysis. Doing so will strengthen your position and savvy; it will also present an opportunity to bolster business relationships.
• Bring multiple buyers to the table to increase value.

Throughout the process, issues are bound to arise on both the buy and sell sides. Both parties should resist the urge to get too emotional or latch onto highs and lows — instead, solicit help when you need it, and keep communication open and honest.

Once you progress to the integration phase, be sure to perform periodic reviews on personnel, products, and operations. Successful integration relies on continually paying attention to what is and isn’t working and finding ways to compromise rather than set hard and fast rules for how the business will continue as one entity.

Regulations of M&A Transactions

Mergers and acquisitions Process Regulations are as follows –

Antitrust

M&A processes are very closely regulated because they hold the potential to disrupt a fair and just market. M&A transactions need government approval to go through. If the government feels that the transaction is against the public interest, they will put Antitrust Regulations in place and disapprove of the transaction.

Laws

Various laws have been put in place to monitor the mergers and acquisitions transactions process and ensure that they are not against the public interest. For example, the Williams Act requires a public disclosure if a company acquires more than 5% of another company.