Ready, Aim, Acquire: Identifying Your M&A Target

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Editor's note: this post is part of a series on the six steps towards successful mergers and acquisitions.

Identifying a target for an M&A transaction is a mostly straightforward exercise. Buyers pick companies to acquire by first defining what they want the acquisition to accomplish. For sellers, finding appropriate buyers can be a bit more open-ended—but still achievable with the help of sound professional advice.

Most acquisitions are carried out with one of main three goals in mind:

• Growth for growth's sake (i.e., where most likely to fill excess capacity)

• Geographical expansion

• Strategic entry into new capabilities and/or market segments

Growth for growth's sake means expanding the customer base the non-organic way: by absorbing the productive accounts of the company to be acquired. The acquisition target probably is a firm that the buyer knows and has had a competitive or a non-competitive relationship with.

If this is the case, the buyer already has a good handle on how worthwhile a catch the company and its accounts would be. The buyer may also have an advantageous insight into why the owner would consider selling: for example, a downturn in the business; a wish to retire; or a reluctance to make further capital expenditures on plant and equipment.

The desire to expand by geographic acquisition can strike anywhere. At New Direction Partners, we have clients in major cities and small towns who see new opportunities in locations where they currently aren't doing business, but would like to have a presence in.

Some of these potential buyers are operating in home markets where conditions are flat and further local growth probably will be hard to come by. They pin the acquisition map in places like the Carolinas, Florida, and California—print markets where demand is stronger and growth prospects are better.

Others target their territories on the basis of niche or specialty. A company that prints labels for wine bottles, for example, naturally would want to look at acquiring companies doing similar work in the wine-producing regions of the West Coast.

But in all likelihood, a buyer's knowledge of companies and market conditions outside of his or her immediate area will be limited. This can make narrowing the search a challenge. The good news is that a professional M&A consultancy serving a national clientele knows how to find the best prospects in whatever region the buyer has in mind.

In a strategic acquisition, the purchaser takes the shortest route to something new: a print manufacturing capability that the business didn't have; or products its customers wanted to buy, but the business didn't offer. Acquiring a company that already does these things establishes the buyer in the new activity without the growing pains and learning curves of internal expansion.

While it's fairly easy to identify strategic growth markets and emerging technologies, recognizing the key players within them requires information that buyers—especially those new to the fields they are exploring—may not have access to. Again, professional M&A advisement is the surest way to pick the winners and make the most satisfactory deals.

Having identified a target in any of these scenarios, the buyer can begin to apply some general criteria that help to reveal how suitable a candidate for acquisition the target is going to be.

Company culture. If the buyer knows the seller well, there should be few surprises about values, reputation, and integrity. A buyer getting to know a seller for the first time can learn a great deal just by observing the interactions between the seller and his or her employees: easy and friendly (a good sign) vs. restrained and terse (a cause for concern).

Financial stability. Assessing it in detail takes place mainly in the due diligence phase, but one thing to remember at the outset is that past financial performance isn't as important as the underlying value of the work that the seller does. Wise buyers always look at inherent profitability first and quality of financial management second.

Continuity of management. The success of an acquisition may depend on the willingness of the former owner and other key executives to stay on in management roles during a transition period. If this is what the buyer intends, then this is one of the very first questions to get an answer to.

Sellers searching for buyers use many of the same yardsticks that buyers apply to them. They want to be acquired by companies with cultures similar to theirs. They expect buyers to be on solid ground financially and to treat their employees with consideration and respect.

The difference is that while buyers often have a sense of who their prospects are, sellers typically don't know who their "ideal" acquirers might be. In fact, in seven out of 10 transactions in which New Direction Partners represents the seller, the eventual buyer is someone the seller either didn't know or never thought of selling to.

But at the end of the day, given the current robust health of the M&A marketplace there's a good fit out there somewhere for every seller and buyer. Clear vision, patient pursuit, and reliable advisement are the keys to finding it.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.