K2 business partners

Board Briefing Series

M&A Survival & Growth Strategy – Stronger Together

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This white paper is one of a series of Board Briefings that consider the various challenges and opportunities facing directors which result from the turbulence to their business caused by the Coronavirus Pandemic. It is written from our perspective as turnaround investors who have the benefit of objectivity and the desire to ensure that any businesses we partner with will both survive and grow.

Over 30 years' experience of backing directors by investing in their business

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Executive Summary

Boards need to not only ensure their companies survive short term, by managing tactically, but to prepare and position for the long term by thinking and resourcing strategically.

The disruption caused by Covid-19 will have had an impact on your business and will also have created opportunities in your market. One approach for dealing with both any threat to survival and exploiting opportunities is to consider competitors as possible targets for merger, sale or acquisition.

Your approach might be defensive in nature, designed to secure your business's position. But it can also be opportunistic by securing market share or gaining access to other products and markets that bring other advantages.

This Board Briefing outlines some options for survival and growth for you as a board of directors to consider in the present circumstances.

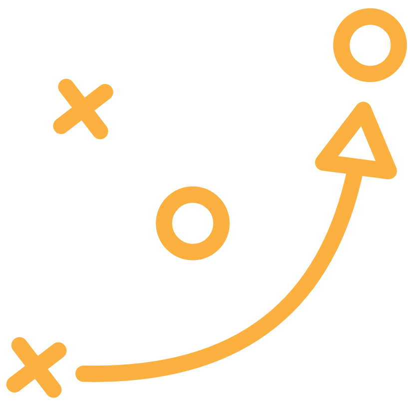
M&A as a Strategy for Survival & Growth

An option for the board in the current circumstances is to develop a mergers & acquisitions (M&A) strategy for the business that:

- Ensures survival, and
- Takes advantage of growth opportunities.

The initial questions that need to be considered are:

- What is our objective of any proposed business merger, sale or acquisition activity?
- How are we going to identify appropriate target companies that meet these objectives?
- What terms for any M&A outcome would we consider as beneficial for the company?
- How are we going to manage the process?



Considering the benefits of an M&A with rivals – Stronger Together?

Joining forces with a rival can bring a number of benefits including:

- Economies of scale through cost saving
- Manufacturing and product related synergies including R&D, product consolidation, production, better plant & machinery
- Quality & service-related benefits for looking after clients and consolidating support
- Sales & marketing enhancement and product/market reach
- Systems improvement or adopting whichever systems and processes are best
- Access to talent and skills sharing
- Managed well, the above can add up to significantly improved profits and prospects
- And the tricky question for some who may feel threatened – access to new management

Despite the benefits, implementing the bringing together of two businesses following M&A carries substantial risks, not least in the management time and commitment required to see through a successful consolidation process.

Finding the right target company that offers strategic benefits and is a cultural fit is vital but only the start as the real work begins post M&A to integrate the companies if the benefits are to be realised.

Management expectations

Before embarking on any M&A it is imperative that management is honest with itself about the possible outcomes.

Firstly, do you have sufficient financial and management capacity and experience to tackle such a project?

Can you devote the time, energy and cash to an M&A project?

What will be the impact on the business if your time is devoted to an M&S project?

What are the likely outcomes of an M&A project? It is often a surprise to founders who sell their business when they lose their job. In the case of a merger, what will happen to the management team?

Given the risks involved in any M&A activity, are you ready to undertake a transaction and deal with the impact on your business, whatever the outcome?

Negotiation considerations

You need to thoroughly assess what each party is bringing to the deal so you are aware of the relative negotiating power when negotiating with target companies.

The party that is best prepared normally gets the better of any negotiation, none the least because they know when to walk away.

Some key areas to consider about each party are:

1. Current financial and availability of resources
    - Finances (balance sheet, cash flow, order book, fixed costs, access to funding)
    - Resources (capacity, capabilities, systems, people, equipment, expertise)
2. SWOT and benefit analysis

Comparing a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis on each company allows you to check for complementary elements and pertinently to identify weaknesses and threats for both parties that may not be addressed by the deal.

- The Strengths of one party should compensate for Weaknesses of the other
- The Opportunities ought to be exploitable as a consequences of the deal
- The Threats should be neutralised as a consequences of the deal
- The synergies and overall benefits to a deal should be obvious
- The actions and costs necessary to achieve the benefits should be identified

3. Company culture

How does each business operate? How do they deal with people and problems? What are the core values of each company and its staff? Can you identify any areas for conflict when the two are put together?

Lines of communication, roles, organisation, management style, flexibility/agility and co-ordination will need to be discussed and agreed before merging operations.

In particular staffing issues will need to be considered and planned for. The impact of redundancies on an organisation can be huge.

4. Clarity of agreements and legals

For any merger to be successful these are crucial.

Expectations should be spelt out and any potential conflicts negotiated and resolved before laying out any formal documents. This is often best done with initial terms being fleshed out as long-form heads of terms to address issues early and well before drafting agreements.

5. A post-deal plan

Any deal is a means to an end, not the end in itself. So, having and implementing effectively a post-deal plan to implement actions and the capture of value from the deal is critical.

The success of any deal is down to managing expectations and confronting issues early with a clear and well-defined plan, ideally one delivered by managers with experience of having done similar deals before.

Questions for the Board

Are we thinking strategically enough about a future beyond the immediate crisis?

Are there any potential M&A opportunities which will help secure the business's survival in the short term?

Does the present crisis offer opportunities for growth through M&A?

Do we have a team and the financial resources to carry out a successful transaction?

About K2 business partners

Trading as **K2** business partners since 2001, we are turnaround investment partners, each of us with over 30 years' experience of backing directors by investing our time and expertise in the turnaround of their business and the realisation of business value.

We focus on companies with £5m-£20m turnover led by committed boards and with assets that other investors find difficult to value.

K2 invests in companies that manufacture and supply house building and construction products and services; IT & technology service providers; database, branded and intellectual property businesses; and industrial manufacturers.

For more information visit www.k2-partners.com

Are there any topics you would like us to cover in our Board Briefing series? Please let us know at info@k2-partners.com