Taking a bold, new path – acquiring a business

The prevailing economic environment has seen more businesses relooking at their corporate portfolios with some deciding to acquire new businesses as they pursue their growth agenda.

The journey of acquiring a new business is often marked by many crossroads where one is faced with a host of questions and considerations to be made.

In this article we provide insights into the acquisition lifecycle to help fuel smarter and faster decisions earlier in the buy side process. We also highlight the seven critical stages in planning and executing an acquisition.

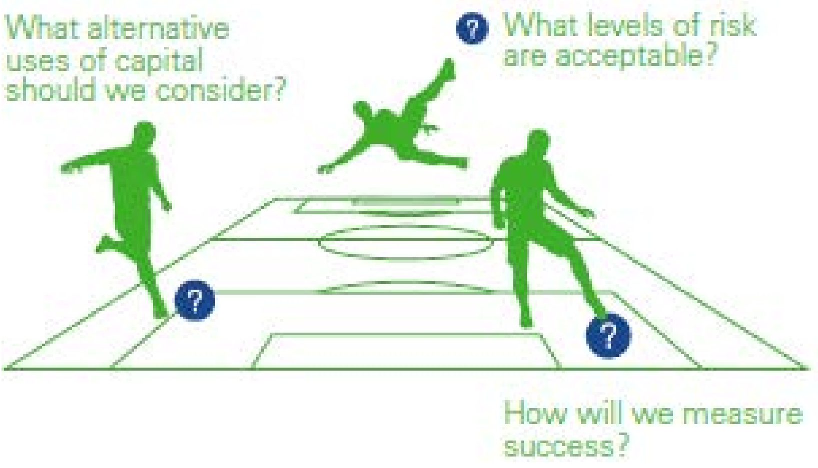
1. Deal Strategy – How can I maximise shareholder value and returns?

Every acquisition is an opportunity to maximise shareholder value and returns. In order to achieve the deal you want and the results you expect, you need to develop a deal strategy that fits your overall business strategy, delivers on key value drivers and improves or maintain your competitive position. At the same time, you need a pragmatic ground-level approach that begins with the following specific questions?

— *What is the role of mergers and acquisition in our strategy?*

— *How do I balance my risk appetite with potential upside opportunities?*

— *How do I allocate my capital efficiently?*



Addressing these questions and other issues can help you translate the strategic intent of an acquisition into actionable priorities and guiding principles for evaluation, planning and successful execution.

The clearer you are on how an acquisition can best align with your organisation strategy, the more rapidly and effectively you can assess potential targets.

When deciding how to allocate capital for an acquisition, you need both an accurate assessment of current markets and how the competitive landscape will change over the next three years.

2. Option identification – What businesses can I acquire in my target markets?

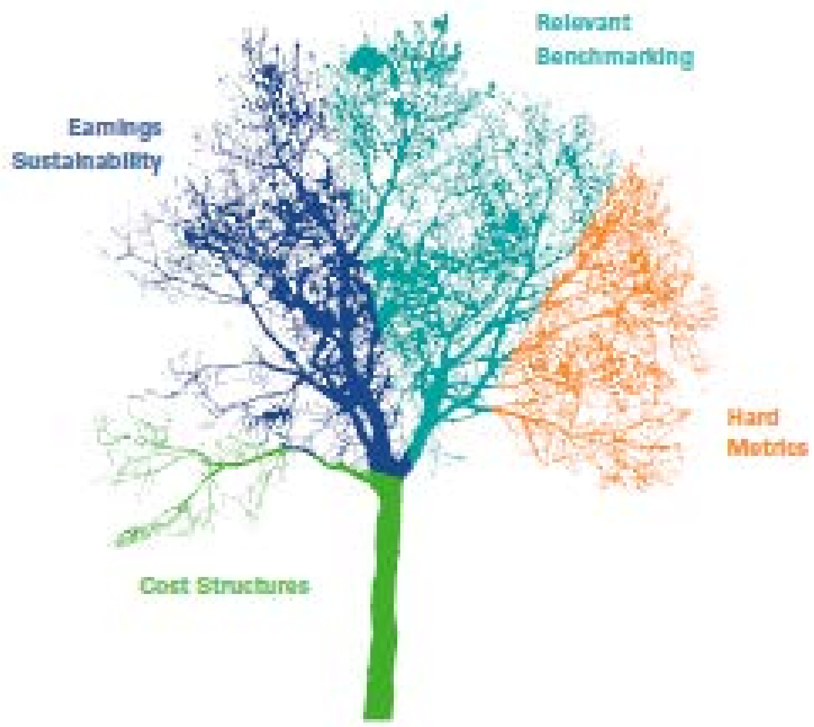
Based on your portfolio strategy and other relevant factors, you will want to develop a comprehensive list of potential targets in terms of products, markets or specific geographies.

Thereafter you will need to prepare a short list of targets based on a screening criteria that is based on your overall strategic objective and how well the target matches those and their availability and their ownership structures. You should consider areas such as financial and tax risks, cultural fit, ability to execute the deal and market dynamics. Other important considerations at this stage should include your stakeholder buy-in and the willingness of vendors to sell. You need to understand the seller's motivations to sell and appetite for a transaction.

In choosing your targets, you may need to base your decisions on analyst reports that not only describe current conditions, but also future industry trends and growth rates.

3. Evaluation – What is the asset worth to me?

Companies must understand the value drivers of the target and the opportunities related to those value drivers. It's easy to "fall in love" with a possible target and misjudge its present worth, potential value and long term suitability as a strategic acquisition.



On the one hand, you want to be as realistic as possible and conduct a rigorous due diligence that includes earnings sustainability, relevant benchmarking, cost structures and other hard metrics. At the same time, you do not want to overlook any potential synergies or hidden value that might not be recognised even by the asset's current owners.

At this phase you may want to ask the right questions such as:

— *What are the key value drivers of the standalone business?*

  Understanding the potential "true" value of an asset can give you more confidence going forward.

— *What are the benefits of the acquisition to the enlarged group?*

  You may need to identify synergistic benefits, such as geographic and operational overlap, potential revenue enhancement opportunities and the tax consequences of changes to business models.

— *How can I price this business?*

  When one possesses an accurate assessment of the target as a standalone entity, you can be more confident in your decision market. Some of the cconsiderations may include comparable companies or transactions, asset valuation or discounted cash flow. It's important to assess and value both risk and uncertainties, and to determine how to fund the acquisition, as well as cost of capital.

— *Am I ready to engage the target or seller?*

  Knowing what is involved in the buying process and how to manage it effectively will put you in a position of strength. Provide a clear proposal and present it to the sellers, identify key players on the seller/target team and determine how to help win them over at the earliest stage.

— *How can I continue to manage my stakeholders?*

  As the deal progresses, you tend to have more stakeholders requiring more interaction and management.

4. Deal Execution – How can I get the deal done at the right price

Proper due diligence becomes critical at this stage, helping to drive the development of a customized governance program for deal execution. Due diligence can also help you ensure that a transaction not only supports your investment thesis and is valued correctly but also does not introduce deal-breaking execution or integration risks.

You need to validate the basis for valuation, review the target's underlying earnings and current trading performance, and estimate potential increases in value and/ or revenue after the deal. Other issues requiring consideration might include risks related to revenue, technology integration and operational requirements, financing needs, taxes, and anything else that might affect deal negotiations.

5. Pre-Close – How can I plan for a successful 'Day One'

You need to take firm control of the new business on 'Day One' but without disrupting the acquired entity. Establish critical functions and processes to be controlled from 'Day One' such as the ability to meet external reporting and regulatory requirements. You need to ask to ask the risk questions such as:

— *What do I need to be 'Day One' ready?*
  You need to take firm control of the new business on 'Day One' by preparing plans on critical areas, in addition to supporting the control of operations and helping to minimize business disruption.

— *How do I mobilise for implementation?*
  You need to maintain integration momentum and address 'business as usual'. You need to devise high-level operational program that addresses both by identifying critical path items and long lead-time items, determining high-impact quick wins, and helping you create the post-deal organizational management structure.

— *How do I complete the deal?*
  A number of final requirements occur between signing and closing the deal. To address them, you may need to work with an advisor to help meet the key milestones.

6. 100 Days – what is my plan for delivering the deal value?

You need to ensure that business and integration teams maintain a focus on synergy realization, problem resolution and value creation at the same time minimizing disruption to your business. Key considerations should include:

— Have you met your transaction value targets?

— Can you identify additional opportunities to create value that were not apparent prior to the deal close?

— Have your acquisition costs been in line with expectations

— Are financial systems integrated and consistent in terms of revenue recognition policies, charge structures, data sources, reporting formats and other critical areas?

— Have you realized the operating and financial synergies you expected for the first 100 days?

— Are you properly implementing integration structures, governance policies and effective processes that will minimize disruption to your business during the integration phase?

7. Value Realisation – How can I maximise value?

Carefully monitor operations and integration to improve speed to value. Key considerations on this phase are:

— *How can we keep the momentum?*

  The key to maintaining momentum and improving speed to value is having a 'best practices' approach that is repeatable, scalable, sustainable and flexible.

— *How can I ensure that the benefits get delivered?*

To help ensure that you realize all the benefits you identified in the evaluation phase of the deal, you need to identify and track those benefits, and increase them wherever possible.

— *What have I learned from this acquisition?*

What you learn along the way can help improve day-to-day business activity and be applied to the next transaction.

— *What is my plan for the non-core areas of the enlarged business?*

Non-core areas of the enlarged business can affect value realization for the deal. With the assistance of an advisor you can conduct a business review to assess the long-term value of the acquired assets, determine how to release the value for non-core assets, and prepare the carve-out of non-core assets for divestment.

Concluding remarks

In conclusion, the key to any acquisition is to realize its full expected value and that means being able to answer critical questions at every stage of the acquisition lifecycle. We hope this article has given you insights that will guide you when considering an acquisition transaction.

This article was adapted from the KPMG Buy side Publications by Tendai Nhamo, CFA, a Manager with KPMG Zimbabwe's Deal Advisory department.

KPMG Deal Advisory

KPMG Deal Advisory helps our clients execute their strategy, as a trusted advisor, by providing insight and foresight, every step of the way, when they:

— *Buy*
We support clients across the critical stages of an acquisition – from **Deal Strategy** through to **Value Realization**

— *Sell*
We help clients maximize shareholder value through active portfolio management and successful divestments of non core activities or of entire businesses or shareholding in businesses

— *Fix*

We enable turnaround by helping clients identify strategic, operational and financial opportunities to stabilize under-performance and position for sustainable stakeholder value

We assist with Financial Restructuring by focusing on successfully addressing the intense challenges of a financial restructuring and debt refinancing to support an improvement in company performance and sustainable growth

We manage solvency by supporting the design and execution of an insolvency process, helping ensure that complex financial, legal and regulatory obligations are expertly addressed

— *Fund*
We take a strategic approach to capital structuring transactions, backed by effective communications with shareholders, lenders and other relevant parties and designed to enhance value

— *Partner*
We advise clients in creating and setting up successful new joint ventures or alliances and support clients as a true partner through the life cycle of a joint venture or alliance, giving them confidence from creation to exit.

Today's deals do not happen in a vacuum. So from business strategy to acquisition strategy, plans for divestments or for raising funds, or even the need to restructure, every decision must be made in light of the entire business, the sector, and the global economy. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and superior analytic tools to help our clients navigate a complex, fragmented process.