Savvy acquirors balance conflicts to enhance integration

BY T. PATRICK HURLEY, JR. AND FRANCIS E. BAIRD

The glamour in M&A is naturally associated with the hunt and closing the deal. True glory on the buy-side comes much later upon elevation of the target to star-performer status within a portfolio of operating companies or successfully exiting the investment. Veteran acquirors know well that closing is Day One and that their ultimate success hinges on careful planning and execution, leveraging mutual interests and even a little luck along the way.

Differences apply for strategic, financial and hybrid buyers as they do for various types of sellers. Similarities also apply since so much is at stake with financial models tweaked to rationalise increasingly rich bids that leave little room for mistakes that can be avoided. A look at the playbooks of frequent and successful acquirors underscores both obvious and more subtle ways to improve the odds for maximising the potential of any deal.

Acquisition models and operating realities are often further apart than many of us want to admit. Whether a buyer has long coveted a particular target company or is newly introduced to a desirous match, reaction speed and deal structuring requirements continue to become more compressed and critical for seizing opportunities and remaining competitive. Auctions and negotiated transactions alike inherently involve conflicting interests between buyer and seller. Integration planning rarely includes open dialogue with the seller's continuing management in advance of definitive agreement execution.

Strategic acquirors traditionally involve their operating managers in target evaluation and risk assessment, but also grapple with the cost of distracting talent from existing responsibilities. The challenge for corporate development officers is to have operating managers weigh-in early enough to identify critical issues, such as potential problems in distribution channels and go-to-market strategies, without getting caught up in the deal romance. Aside from issues which undermine the basic merit of the investment, other considerations can wait. Optimising whether manufacturing is done around the corner or on the other side of the globe is less important than focusing on issues critical to customers and keeping the cash flowing.

John Velker, head of Corporate Development at NYSE-listed C&D Technologies, says, "Our division executives always want to be involved earlier and more, but they still have complex operating businesses to run." Soon after the deal is signed and even while Hart Scott Rodino antitrust clearance is pending, C&D designates teams of functional leaders from legacy and target company management to focus on detailed plans to be implemented immediately upon closing of the transaction.

Financial buyers usually have fewer worries about how the acquisition impacts existing businesses from an operating point of view, but even that is becoming more interesting as private equity firms blur lines by forming platforms through multiple strategically-timed acquisitions. While not as daunting as the ill-fated roll-ups with simultaneous acquisitions of several companies, the competitive environment is driving financial sponsors to devise value-adding strategies to drive returns.

Operating managers of sellers often find themselves in the awkward position of still reporting to selling owners while participating in the acquisition financing process with their soon-to-be new owners. Robert Hall, Vice Chairman of Wise Foods, Inc., which was purchased from Borden by Palladium Equity Partners, says, "The conflict of interest for management is very real. They have a fiduciary responsibility to the seller and it would be inappropriate to focus too much on what is best for the buyer." In the typically eight week period of exclusive due diligence and debt financing after winning an auction, interaction becomes very close.

Hall recalls a recent deal in which the buyer held an integration planning session within days of closing on the transaction. All of the buyer's due diligence was shared with the target company management and the combined team began to openly address issues, including some that the buyer didn't want to share with the seller before closing. The buyer acknowledged that there were legitimate conflicts until the transaction was completed and then successfully established a basis for addressing solutions as a unified team.

The personal experience of FleetBoston acquiring our predecessor firm of 20 years underscored how cultural differences often make it tough for buyers to win-over the hearts and minds of target company managers. It is the buyer's responsibility to grasp the dynamics of the target's organisation if the objective is to retain people. Financial incentives surely help. Continuing ownership interests through roll-over or stub equity for the seller is often a powerful motivator in the case of recapitalisations, but in many instances that is just not an option. Alignment of interests going forward is essential. Even if the buyer is not ▸▸

concerned with retention, extending professional courtesy and a thoughtful communications effort reflect well in the eyes of customers and suppliers.

Almost without exception, financial reporting is integrated right out of the starting gate. Discipline and consistency on the scorekeeping front is perhaps the most widely adopted and expected first wave of conforming to the systems of the buyer. Private companies newly faced with Sarbanes-Oxley requirements due to public parent companies, or high yield debt financing, or even a private equity owner with notions of an initial public offering down the line need the most help.

Comprehensive due diligence combined with detailed integration planning by line management is the best way to avoid misunderstandings and clarify expectations. Completing the transaction is the culmination of an intensive multi-faceted effort. Lessons learned during ten years in corporate development at Kraft and Northwest Industries highlight the critical importance of bridging the staff conclusions of a good set of numbers and a good deal to the operating strategy of line management responsible for execution.

While some view closing a having reached the finish line, savvy buyers "get ready" by becoming deeply versed in the business they are acquiring, "get set" by balancing the conflicts to lay a solid foundation for mutual interests, and "go" with an integration plan that facilitates at least the next stage of the continuing race. A little luck is welcome anytime. ■

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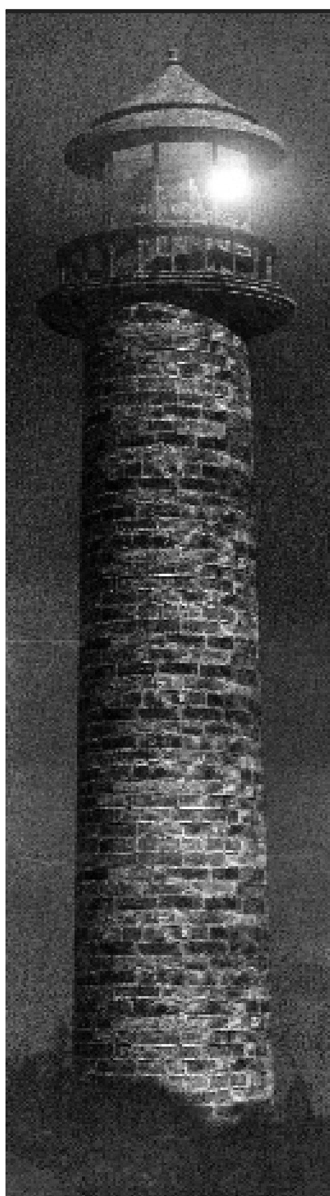

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