

ANALYZING THE VALUE, DATA OF M&As

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QUESTION:

Our firm is currently looking at an acquisition candidate. In our internal discussions I've been told acquisitions are rarely profitable for the acquiring firm. Do you believe this to be the case?

ANSWER:

What you've been told is too often true. However, there are numerous successes that keep interest in making acquisitions alive. The risks are clearly in properly valuing the business and in the integration step. While not minimizing the problems of merging two businesses and two cultures, it is believed that most acquisitions that fail do so because the purchase price was too high. This presents the acquired business with a hurdle that is too high from day one. How does this happen?

Too often companies evaluate acquisitions and capital expenditures using different criteria. While capital expenditures invariably must generate a positive net present value (NPV), "strategic acquisitions" are made that aren't held to the same strict standards. Justifications for a higher offer are made. "If we don't jump on this opportunity we won't get another chance", or "we need to keep our competitors from making the acquisition". Chances are that if the price is too high for you to make money it is probably too high for your competitors to make money as well.

Does this mean you should not look for strategic acquisitions that fit well with your firm? No, of course not. There are numerous acquisition opportunities available that can create real value for your firm and there are ways to increase the likelihood success.

One approach is to concentrate on private firms and non-strategic units of public firms with capital constraints that are limiting their growth. Finding these candidates is one of the most difficult aspects of the acquisition process. A well-executed competitive intelligence program can be helpful in identifying these potential targets. Such a program can easily pay for itself if it results in a successful acquisition. By focusing on these targets, and finding candidates that are



likely to sell before your competitors find them, you may be able to preempt an auction and the bidding wars that can accompany them.

Use realistic assumptions in cash flows analyses. Value the firm on a stand-alone basis and then with the synergies you bring to the acquisition. These will give you the two extremes of valuation. Do not assume that you will capture all of the synergies identified and do not bargain away the extra value your firm brings to the table. As a strategic buyer you should capture the majority of the value that you bring as a buyer.

QUESTION:

I'm looking for government data on the coatings industry, but am having trouble locating any. Could you point me to the right place on the web?

ANSWER:

Government data is now much more accessible than it used to be thanks to the Internet, but knowing where to look is still the key to a successful search. There has been some improvement over the years in centralizing searches across all government agencies with sites such as fedstats.gov and firstgov.gov, but I still find it easier to search an agency's web site directly.

For coatings data the Census Bureau is the place to look. The Census Bureau keeps three types of reports containing coatings data. Generally the most useful is a report in the "Current Industrial Reports" section of the site (<http://www.census.gov/cir/www/>).

Reports are listed according to the North American Industry Classification System (NAICS) which has supplanted the older U.S. Standard Industrial Classification (SIC) system you may be more familiar with. Data is released on a quarterly basis about two months after the close of the quarter. So, look for first quarter data at the end of May.

The reports are available in both PDF and spreadsheet formats. Each report contains two separate tables. One



entitled; Shipments, Exports, Imports, and Apparent Consumption of Paint, Varnish, and Lacquer, the other; Quantity and Value of Shipments of Architectural Coatings, Product Coatings OEM, and Special-Purpose Coatings.

The second report available from the Census Bureau is from the “1997 Economic Census - Manufacturing Sector” (<http://www.census.gov/prod/www/abs/97ecmani.html>). The Economic Census is taken every five years, so the data not that fresh. This report has much more in depth information than is available in the “Current Industrial Reports” and is available in PDF only.



About The Author



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The ChemQuest Group, Inc.,
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Todd joined The ChemQuest Group, Inc. in 1998 after receiving his MBA from Miami University in Oxford, Ohio. As Manager of Strategic Planning, he maintains up-to-date profiles on major industry participants as well as targeted value chains in the Coatings, Adhesives, and Sealants industries. He also holds a B.B.A. degree in Finance and Management from the University of Cincinnati.

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