

CREATING VALUE THROUGH DEALS AND DISPOSITIONS

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Acquisitions and dispositions are integral business activities within the adhesives industry. Despite the recent drop in both the multiples paid and the number of deals, industry consolidation continues. In this difficult economic environment buyers may look to acquisitions for top line growth, while sellers look to dispose of non-core or underperforming businesses or product lines. Moreover, a company may engage in both of these activities at the same time to meet its overall strategic objectives. In either case, maximizing the value for buyers or sellers involves successfully accomplishing a number of tasks.

Acquisitions

In simplified terms these tasks can be grouped into the following activities for an acquirer:

- Develop an overall corporate strategy identifying attractive markets and target firms.
- Open negotiations.
- Develop a post acquisition plan.
- Conduct due diligence.
- Close the deal.
- Implement the post acquisition plan.

Academic research shows that the majority of acquisitions do not meet their financial or strategic objectives. Reasons for the failures range from paying too much to underestimating the difficulty of integrating the businesses. The decision to buy a business should be made with the objective of creating sustainable long-term economic value for the acquirer. Therefore, it is imperative that firms have in place a sound strategic planning process. Any acquisition made because of poor strategic planning is doomed to failure from the start.

A part of the overall strategy should be to proactively identify worthwhile market opportunities and target firms operating within those markets. Finding attractive candidates that are willing to sell 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 before other suitors find them.

Firms must have a plan of how to approach and engage target firms in negotiations. A one size fits all strategy doesn't work well here. Each acquisition is unique. Understanding and addressing the underlying needs of the relevant key decision-makers is the key to a successful negotiation. Realize that sometimes those needs cannot be met and that you must be prepared to walk away from the deal.

Develop a plan on how to integrate the acquired firm. This means not only the physical integration of the new firm, but also integrating intangible assets. For example, in the adhesives industry, some of the most valuable intangible assets are customer and supplier relationships. Therefore, it is imperative the plan includes a procedure to continue the goodwill of these relationships after the acquisition.

Firms must have a plan for undertaking due diligence. Although this is generally a straightforward activity, it is essential that a buyer know exactly what it is getting, both good and bad. Aspects that need to be examined beyond historical financial performance are the market value of assets, environment and product liabilities, intangible assets, and future business prospects after the acquisition.

Finally, firms must implement the post acquisition plan. At this stage executives must make a commitment of resources to the post acquisition plan to make sure that it meets the targets they have set. Next to improper strategic planning this is the activity that causes the most difficulty. Look for a forthcoming column on how best to integrate an acquisition.



Dispositions

The decision to dispose of a business should be undertaken with equal forethought as the decision to acquire one. The tasks for selling a business mirror those of buying a business.

- Develop an overall corporate strategy identifying of non-core or underperforming businesses and identify candidates interested in purchasing it.
- Open negotiations.
- Prepare data for due diligence.
- Close the deal.

An abbreviated list of questions a seller should consider during these tasks include:

- *What is the business worth to a prospective acquirer?* Having an understanding of what the business is worth gives leverage to the seller during the negotiation process.

- *Is the accounting data for the business unit or product line accurate?* This can be more difficult than it is first appears. If cost allocation for the product line or business unit is not activity based, an apparently profitable business can look like it is losing money to a prospective buyer.

- *Should the business be up for an auction or sold quietly?* Although auctions generally generate a higher price, sometimes it may be more valuable to keep sensitive data away from competitors.

Finally, *are we equipped to run the process?* Perhaps there is a need to bring in someone to help organize the data for due diligence or help establish what the business should be worth.



CONCLUSION

This article has established a baseline of understanding into the elements that are important for successfully acquiring or disposing of a business. There are many additional resources that can guide a buyer or seller through this process from beginning to end. Many may reside within the company and must start with a sound strategic plan.



About The Author



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The ChemQuest Group, Inc.,
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