Bridgewood Advisors

Specialists in Mergers & Acquisitions

Buying Businesses That Are "Not for Sale"

The Case for Proactive Acquisitions

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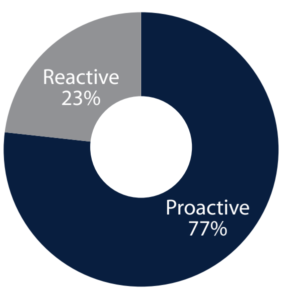
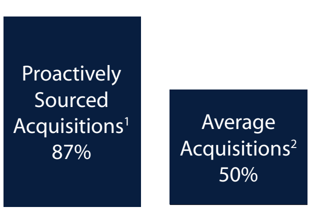
Bridgewood Advisors estimates less than 5% of companies are actively for sale at any given time. This begs the question – what is the likelihood that a reactive acquisition (buying a company that's currently on the market) is the best way to meet an acquirer's strategic objectives? As one would expect based on the small population of potential targets, the likelihood is quite low and empirical evidence supports the case for a more proactive approach to acquisitions.

Deal Survey Results
Proactive vs. Reactive Deals



Source: Bridgewood Advisors Survey of Serial Acquirers

Acquisition Success Rates



[1]Source: Bridgewood Advisors Survey of Serial Acquirers
[2]Source: Various M&A research studies

Bridgewood conducted a survey of successful serial acquirers in the upper Midwest. The survey included more than 125 M&A transactions and the results overwhelmingly supported proactive acquisitions – approaching companies that are not for sale. In fact, over three-quarters of the reported transactions were sourced proactively by the acquirer and nearly all of the surveyed companies completed more proactive than reactive acquisitions. Most important, and perhaps most intriguing, proactive deals generated a superior post-close success rate of 87%. By way of comparison, various other deal studies have indicated overall M&A success rates averaging 50% or less.

Why are so many successful acquirers heavily focused on proactive acquisitions? The answer is simple: By removing the requirement that a potential acquisition be for sale, an acquirer expands the population of potential targets from 5% to 100%. Experienced acquirers ranging from Fortune 500 companies to private equity firms know this strategy and devote significant resources to generate "proprietary" deal flow by approaching companies that have not yet come to market.

Proactive acquirers not only avoid the competitiveness of an investment banker's auction process, they typically generate several acquisition options to select from, ultimately increasing the likelihood of finding the best strategic match.

So how do successful acquirers proactively identify and approach companies that are not for sale, and perhaps more important, how do they convert them into sellers? Based on our decades of experience helping companies identify and make targeted acquisitions, coupled with current insights from successful acquirers, we present the following roadmap of best practices:

1. Start with Strategy

Acquisitions are simply one of many tactics used to accomplish a specific underlying strategy. Acquisitions can be employed to capture market share, expand geographically, broaden a product line, add new technology, fill existing capacity, or vertically integrate, to name just a few. Successful acquirers spend considerable time developing a thoughtful business strategy and determining how acquisitions can accomplish or accelerate their objectives. Mike Wirth, former corporate development director at Rockwell Automation, cites how important strategy is in building an acquisition candidate pipeline. "As strategies and acquisition criteria evolved, we strived to maintain a disciplined process that allowed us to keep our finger on the pulse of each business unit. Our corporate development team met regularly with each business to identify opportunities that were aligned with our growth strategies. In doing so, we were able to maximize the value of acquisitions while being viewed as a true business partner."

2. Build Your Deal Team

Acquisitions require teamwork, skill and commitment. Successful acquirers build a strong team of internal and external resources. Deal teams should include several business disciplines within the organization, such as operations, sales, marketing, and finance. Also keep in mind two fundamental requirements of a proactive process: (1) the

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research tools and skillset to identify the population of target companies and efficiently screen those companies to specific strategic matches, and (2) the infrastructure and resources to manage a large pipeline of targets that are at various stages of development.

The Dohmen Co., a Milwaukee-based health care services business, built a corporate development team that made 5 successful acquisitions over a period of 18 months. Cynthia LaConte, CEO, explains "We made the decision several years ago to invest in an independent corporate development function to accelerate the pace of our strategic growth initiatives. Keeping development centrally not only added momentum to our acquisition process, but it also gave us neutrality for decision making around capital investment."

Another critical component of a successful deal team is finding experienced, collaborative external advisors. Even serial acquirers often augment their internal team with outside experts. This may include an M&A firm, outside legal and accounting resources, and integration advisors. Good advisors help open doors, find creative solutions to complex deal issues, and can also serve as a necessary buffer when negotiating with a target company.

3. Leave No Stone Unturned

A common misconception is that successful acquirers already know the best companies to acquire, when in fact, a more comprehensive search often generates better opportunities than simply approaching the "logical" known targets. Moreover, in many cases the most obvious targets may not be available to acquire. Expanding the population of targets to all possible strategic fits is one of the underlying premises of a proactive acquisition search. In fact, nearly half of the buy-side clients Bridgewood has worked with over the years ultimately acquired a company they did not know existed prior to the search.

4. Differentiate Yourself – Buying is Selling

Business owners are increasingly being approached to sell their companies. When contacting a company that is not for sale, differentiating your interest from others is key to opening up discussions. Keep in mind that you're actually selling yourself as the best buyer for the business. Present the strengths of your company as an ideal acquirer and highlight the mutual benefits of a relationship. Jeff Russell from Waukesha-based manufacturer Fisher Barton Group agrees. "In our acquisition of Ireland-based Lund Precision Products Ltd., we clearly differentiated ourselves as a motivated acquirer with a strong underlying strategy. The acquisition strengthened our market position in Europe, added premier customers to our roster, and allows us to be more responsive to our existing European customers."

Upfront research is an important aspect of differentiation. Any approach to a target company and any discussions with the owner should be customized for that specific business and outline the strategic rationale for the approach. If possible, determine the ownership structure and likely motivations for a sale. Read recent news and press releases. Know the competitive landscape and market dynamics. This adds instant credibility and positions you as a serious and sincere acquirer.

5. Make the Connection

Opening up discussions with business owners requires skill and experience. Often, making initial approaches through a third party can open more doors. In any event, it takes asking thoughtful questions and understanding the owner's true objectives. Most business owners will naturally say their company is not for sale when approached. The goal of the approach is not simply to find companies that haven't engaged an investment banking firm yet. The goal is to talk to the owners of ideal strategic matches and establish a meaningful connection. Through sincere discussion, work to understand the owner's objectives, possible motivations, and timeline. Ultimately, a deal often requires thinking creatively to structure a transaction that meets those objectives. Successful acquirers remain flexible and see opportunities where others see problems. It's important to prioritize deal points and not reject a good business simply because of a few non-critical issues.

6. Take a Long-Term View

Reactive acquisition opportunities are strictly limited to those companies currently available for sale. The proactive acquisition strategy takes a longer-term view and helps ensure that when the right business becomes available, you will be at the table. At the heart of the proactive process, successful acquirers introduce themselves to ideal target companies. Sometimes discussions will progress and a deal may happen relatively quickly. Other times, a longer-term strategy is employed to cultivate the relationship over several years. Private equity group Mason Wells takes long-term view to a new level. Tom Smith, senior managing director, states "In the acquisition of Mullinix Packages, we first talked to the owner more than 12 years prior when he was about 70 years old. We had serious discussions, but he just wasn't ready yet. Twelve years later we did the deal. We've found some of our best acquisitions are generated from long-term cultivating and years of patience."

Concluding Comments

Building long-term value through acquisitions requires the focus and discipline to complete the right deals. The best way to ensure success is to truly know all of your options. Through a proactive approach, acquirers can significantly expand the number of companies available to them and create a more meaningful population of strategic targets. They do this by identifying and approaching targets in a thoughtful way, differentiating their interest, and generating options not otherwise available. As a result, proactive acquirers uncover unique opportunities, make long-term connections and gain valuable insights about the market, ultimately giving them the knowledge and ability to acquire with confidence.

Robert Jansen and Doug Marconnet are managing directors at Bridgewood Advisors, a Milwaukee-based investment banking firm that specializes in conducting strategic acquisition searches for clients ranging from private businesses to Fortune 500 and multi-national companies. With decades of corporate development experience, Bridgewood collaborates with company executive teams to help refine their strategy, identify and screen the population of possible acquisition candidates, and generate unique acquisition opportunities before those companies come to market. Our experience spans diverse industries within manufacturing, service and distribution, with a focus on transactions up to $200 million.