

# CapitalEyes

A Bank of America Business Capital monthly e-newsletter on middle-market leveraged finance.

## Positioning Your Company For A Merger Or Acquisition

While once widely available to emerging business owners as a source of capital and liquidity, initial public offerings (IPOs) may now be an option open to a limited group of business owners.

"Accounting scandals have shaken the confidence of the market and investors in general, and IPOs always suffer when the overall level of the market declines," observes Cal Hackeman, partner in charge of Grant Thornton's national technology industry practice and a partner with the global accounting, tax and business advisory firm's Vienna, Va. Office.

And while the market is showing more interest in IPOs in certain industries, acknowledges Hackeman, he cautions, "Company owners are advised against putting all their eggs in the "IPO basket" and may want to consider preparing their companies for a sale or merger opportunity."

Business owners—who often make significant personal investments to get their enterprises off the ground—may need to diversify their assets, and with IPOs not as prevalent as during the dot-com explosion and stock market boom of recent years, owners are advised to look beyond Wall Street for liquidity.

"Entrepreneurs potentially need to make their companies attractive to other corporations, rather than to individual investors," says Hackeman. "Liquidity and diversification are key, and positioning your company for a merger or acquisition is one way to accomplish that."

### Market Appeal

The elements that make a company appealing vary by market, the industry, and the buyer's needs and assets, but Hackeman says several factors are likely to appeal to most potential acquirers:

*Steady growth rate*—As long as expenses are in line with growth, a steady expansion signals buyers that they can expect a good return on their investment.

*Diversity in growth*—A company whose growth comes from one major customer will be less attractive than one with multiple customers. Similarly, an enterprise whose customers are concentrated in one market may appear to have less opportunity for significant growth than one with customers in a range of markets.

*Profitability*—The idea that increased market share automatically translates into increased profits has been buried alongside the high-flying dot-com business models that promoted it. To be an attractive candidate for a merger or acquisition, companies must use the tried-and-true formula of careful cost control and fiscal responsibility.

*History of innovation*—Potential buyers appreciate firms that can demonstrate they've changed as their markets have changed, either by introducing new products or services or by diversifying through an acquisition themselves.

*Niche specialty*—Companies that are market leaders in one area are likely to attract more interest than enterprises that are simply good at many things, as potential buyers seek platforms on which they can build significant business.

### **Assessing The Value Of Your Operations**

Positioning a company to attract top dollar through a merger or acquisition requires strategic planning and a healthy dose of discipline, Hackeman says.

"When working to get additional customers and break into different markets, companies should focus on providing new services or products for existing customers and marketing current capabilities to new customers," he advises.

"They also need to focus on best practices, which demonstrates that they're aware of what's going on with competitors and their industries, and committed to achieve superior results."

A strong management team is also a significant asset, Hackeman says. "The purpose of a merger or acquisition is often to allow the founder to exit," he notes. "One of the basic elements of good business is acquiring and continuing to train good leaders so there's a layer of management to keep the company going—and growing."

One element that may not always be perceived as a selling point is information technology (IT), he adds. "People are questioning the incremental benefit of continued investment in IT," Hackeman observes. "They're waiting to see if something works rather than trying to stay ahead of the curve by being first."

Nobody questions the value of efficient operations, however, and managers must view their facilities with an eye to improving plant usage as well as worker productivity.

"Self-assessment, strategic planning, a team approach to getting things done—it's important that everyone in the organization develop a mindset of how operations can be more efficient and more profitable," Hackeman says. "These aren't new approaches, they're just newly back in style."

In the end, Hackeman says, acquirers essentially want reassurance. "They don't want to buy a stodgy old company that's been flat for the last 100 years," he says.

"They want to know they're buying a firm that has the vision, drive, and processes in place to introduce the new products and services they'll need to grow."

By *Cal Hackeman*, partner at [Grant Thornton LLP](#)