DESIRED STATE ROADMAP™: MIDDLE MARKET M&A

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BUILDING ENTERPRISE VALUE

Are you poised to realize the full potential of your strategic transaction?

Acquisitions, joint ventures, and other strategic transactions can contribute greatly to the growth, value, and transformation of your business. Executing these transactions well requires perspective, experience, and the bandwidth to dedicate sufficient focus to what is a mission-critical initiative.

In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team on developing a Desired State Roadmap™ for corporate development transactions for your middle market company.

NextLevel Case Study

Acquisition of Manufacturer Helps Consumer Products Company Achieve Major Revenue Growth and Cost Savings

A middle market consumer products company had the opportunity to purchase a U.S. manufacturer within a new segment of the same industry. The acquisition had the potential to meet strategic growth objectives by leveraging existing customers of both companies by adding closely allied products and reducing unit costs. If executed correctly, the combined companies would have an increased market share and lower costs than the original companies separately.

The company brought in a senior-level executive, now a NextLevel team member, with extensive financial and operations experience in the consumer products industry to assist with the acquisition. The executive developed a high-level roadmap of the acquisition process, including a due diligence checklist and a plan for the first 100 days after the acquisition to achieve the strategic objectives. As part of this, the executive helped arrange a 100-percent-seller-financed deal that would

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NextLevel Insights

Make sure the transaction aligns with corporate strategy goals

What does a corporate development transaction need to accomplish in order to align with your strategic goals? Make sure you are clear on the ideal transaction and integration outcomes you are hoping to achieve and that they align with your strategy. Next, ask what your company needs in terms of resources, expertise, key employee retention, etc., in order to make those outcomes happen.

Take stock of risk areas

Understand the risk factors inherent in the transaction you are pursuing. For example, acquiring a company that closely mirrors your own will probably have less overall risk than one with different products and/or is in a new market. As for more specific risks, consider the following, for example: Does your IT infrastructure have the capacity to integrate a new company? Do you understand the fixed and variable costs of both companies? How will they be affected by the transaction? Asking these types of questions will help you prepare.

Make sure key outside transaction expertise is in place early

In any strategic transaction, many details relating to taxes, auditing, and legal issues come up. You will want to know exactly what your tax position is, you may need to do an audit on short notice, or you may need to clear up last-minute esoteric legal issues. Having your tax advisor, auditor, and legal counsel aligned and available from the beginning of the process will head off problems, particularly those from unexpected issues.

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preserve capital for growing the combined company. He also worked with the sales team to develop new goals and objectives so they would be ready to execute the 100-day plan as soon as the transaction was completed.

The primary strategic objectives of the acquisition were met in the first year after the deal was struck: the combined company grew sales by 57 percent, achieving a 38 percent market share according to a major market research firm. The acquiring company was able to market new products to its existing customers, and the acquired company's customers generated higher sales as well. At the same time, the combined company was able to realize substantial savings from a 44 percent reduction of its workforce.

"AFTER YOU CLOSE THE DEAL, CAN YOU SUCCESSFULLY MEET THE TARGETS YOU HOPED TO ACHIEVE?"

Successful planning and integration can bridge the gap between simply closing the deal and meeting your strategic goals.

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Plan ahead for integration

Integration planning should be in full swing once the deal moves to latter stages so you can begin to effectively execute as soon as the ink is dry. Part of this planning will be thinking about the impact the transaction will have on key functional areas and processes. Will you need different skills and capabilities to service a new market segment? Are processes automated and scalable? Advance planning for integration could help avoid pitfalls right after closing that could prove fatal to realizing your strategic goals.

Have a plan for retention of key employees

Consistency and continuity in key functions will be critical as you execute any strategic development transaction. Take steps to mitigate turnover, particularly among key employees that you need to pull off the strategic goals of an acquisition or other transaction. Incentive plans and good communication throughout the transaction process will assist in retaining your key people.

Formulate the roadmap, gain buy-in and resources, and execute

Pull together all your assessments of the potential challenges to realizing successful strategic results from the transaction and identify the shortfalls in preparation. Consider the business impact and level of effort needed to close these gaps, and develop a roadmap that is prioritized, sequential, and coordinated. Present the plan to senior management for buy-in and commitment of resources. Then execute the plan to maximize the strategic value of the transaction.

KEYS TO DEVELOPING A ROADMAP FOR MIDDLE MARKET M&A

- **Your desired transaction outcomes:** Are they aligned with your corporate strategy?
- **Your transaction risk assessment:** Is it thorough enough to give you a clear picture of the risks inherent in the potential transaction?
- **Your outside transaction expertise:** Do you have tax, accounting, and legal advisors lined up early on?
- **Your integration plan:** Have you started working on it in tandem with the transaction process?
- **Your key employees:** Are you taking steps to mitigate turnover through communication and incentives?
- **Your execution plan:** Is it based on a prioritized, sequential, and coordinated roadmap?

More Information

To learn more about how NextLevel can help you develop a Desired State Roadmap™ for corporate development transactions for your middle market company, call us at (800) 833-NEXT or email info@nlbev.com.

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