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How To Acquire A Private Company – A Few Tips

Do you plan to acquire a privately held company? Here are some of the considerations and important issues in approaching an acquisition:

- Decide how serious are you about making an acquisition. Is an acquisition a strategic component of your company? Are you a private equity firm that has raised money to make acquisitions to generate a financial return? If so, how much would you concentrate in any one deal? How much leverage are you interested in placing in any one transaction? Or are you a casual acquirer whereby if the perfect deal fell in you lap, you would pursue it?

- Know your resources. Do you have management to drop in to a target acquisition or will you rely on existing management? How much capital do you have available for an acquisition? Are you capable and comfortable with acquisition debt?

- Know what you are doing. Start off with an overall strategy that reflects what type of company would best compliment your firm's strengths and why. From that should evolve the criteria that define somewhat broadly the characteristics of your ideal acquisition. Then define your plan to find those acquisition candidates that fit your criteria and strategy.

- Know exactly what you will do with the acquisition after you close. Who is going to manage the company? How do you maintain operational continuity? How will you preserve institutional memory? Will you integrate it into your operations and how?

- Understand both the operating risk as well as the financial risk in making an acquisition. Operating risk can come from all sorts of issues – loss of customers, loss of technology, loss of margins, loss of product knowledge, loss of market/customer knowledge or a myriad of other dilemmas. Can you maintain the earnings?

- Know how to both prepare for and behave in your first meeting with the seller. Have a structure. Find out the negatives (all companies have them) without giving offense. It is rare that a seller would sell his company to someone he dislikes, even if the price is higher than his expectation or competing offers.

- Create high deal flow so you can provide choices for yourself. As an acquirer, your job is to look at many deals, intelligently evaluate them, cast aside the overpriced, uninteresting and non-fits to quickly hone in on those few that match your criteria and are closable.

- Perform meaningful due diligence. Determine if there are legal issues; assure yourself of financial presentations and representations and that future earnings will occur as planned.

- Use high quality advisors in the process. A great deals attorney is a valuable asset. You must have a strong method for accomplishing your due diligence. Often a CPA who specializes can be a big help. Use a savvy intermediary who can generate high deal flow of companies that fit your criteria, that are not overpriced, that are not in some sell side auction, and that you can negotiate with on a one-on-one basis.

Call EquiCap Partners. They could be a great resource with whom to have a conversation.