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Where Acquirers Focus To Assess Value

Acquirers consistently examine certain components of a prospective acquisition target to assess its value to them. Acquirers tend to buy the future or how will it look in their hands going forward. On the other hand, Acquirers pay for the company as it sits today so its history up to now is the determinant of its value today. In both assessments, the issue of perception is critical. If there were five offers for a company from five different acquirers, they would all be different. Interesting! It's not a perfect market. Different eyeglasses – different perception! So each acquirer will apply and assess judgment on the following value components:

The Future

1. **Projected Financial Performance.** The Acquirer will assess how the company will perform under his stewardship. The Acquirer will make some assumptions and project the P & L, Balance Sheet and Cash Flow Statements into the future, (typically five years). Ability to pay acquisition debt often will get factored into the analysis. Most Acquirers will determine expected returns.

2. **Perception of Fit.** What does the acquisition bring to the Acquirer? Additional product lines? Additional markets? Technology? Share? Better buy vs. build option? Culture.

3. **Management.** Who will run the company in the future and how will it perform? Most Acquirers do not have management to place in an acquisition so continuity of existing management often is an issue.

4. **Competitive Offers.** If there are other offers, will they be at a higher price? If so, how much does it take to win the deal?

5. **Terms of the Deal.** Can it be made to be flexible enough to satisfy the Acquirer and Seller? How to deal with existing debt?

The Past and Today

6. **Historical Financial Statements.** Financials speak the language of business and tell the company's story. Ratios and market comparables may be important to an Acquirer. Acquirers want to see the real financial statements from the accounting records, then additional qualifying information if there are adjustments or add-backs.

7. **Competitive Market Position.** Differentiation, share of its market, breadth and depth of its customer base, technology, proprietary products or services, substance and strength of marketing programs, barriers to competitive entry, and existing competitor's market power all combine to relate to the company's market strength.

8. **Operations.** Systems, procedures, methods and methodologies, paper flow, work flow, strength of computerization, productivity, supply sources, capacity issues/utilization, and efficiency.

9. **Risks.** Liabilities, lawsuits, contingent liabilities, customer concentration, contract terms, technological obsolescence, management.

10. **Reputation.** Company with integrity, reputation in the perception of customers, suppliers, peers and community.

Clearly, it is important for selling shareholders to tell the story of their company in a positive light that impacts the judgment and assessment of the prospective acquirer. It is important for a seller to fully disclose all aspects of the company, even if there are a few warts. (All companies have some).

What is important to the seller is prospective acquirer's perception of the above value components. A savvy seller will preemptively address all of the above and more in written form. The seller must assist the prospective acquirer to the extent possible in the analysis of the above value components. The prospective acquirer's positive assessment will translate into a higher price.

When EquiCap Partners prepares a professionally developed briefing book on each client, the book is crafted to assist in selling the company. It is critically important documentation. It describes the opportunity and includes all the key information acquirers look for when determining whether to move forward. The briefing book also frames and supports their assessment of value for the company. In a way, the briefing book is like a product brochure that helps the buyer to buy.