

Is now the time to grow your business through acquisition?

hit the target type unknown

Key trends in M&A

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An important step for business owners as they think through their eventual exit is answering the big three questions: 1) to whom I will transition my business, 2) how much I need to net out from the transition, and 3) when I will exit. If there is a gap between the amount that an owner needs to net out from a transition and the current value of the business, the owner must increase the valuation in order to meet their personal financial goals. While valuation can be increased by addressing value drivers in the business over time, another strategy which often shortens the time frame is an accretive acquisition. Today's environment, with the economic fallout from the COVID-19 pandemic and low interest rates, has made this M&A strategy even more attractive for some companies. However, it is important to understand how trends have changed to design a successful strategy.

As we look back to the beginning of 2020, consulting firm Deloitte's State of the Deal: M&A Trends Report 2020¹ outlined what the expectations were for the M&A environment by gathering insights from 1,000 executives at corporations and private equity firms. Overall, expectations were for deal volume to increase, but at a slower pace than the previous 7 years of record-setting activity. Leading strategy drivers for M&A prior to the COVID-19 pandemic included the ability to diversify products or services, allowing companies to enhance their capabilities and offerings and increase opportunities to sell to their existing client base. Also at the top of the list was the acquisition of new technology, which if used effectively can automate and scale operations to result in significant increases to the bottom line. These were followed by expanding the customer base in existing geographical markets and digital strategy alignment.

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State of the Deal: M&A Trends Report 2020

Approximately 46% of the respondents reported that less than half of their transactions over the previous two years had met return on investment expectations, and this was driven by both external factors such as economic forces and a changing regulatory environment as well as internal factors such as the inability to effectively integrate, a lack of cultural alignment, and not achieving revenue synergies.

As we move into a post-COVID-19 world, Deloitte's recently released M&A Trends Survey: The Future of M&A², outlines how many expect the environment for deal making to change in a way that creates more "optionality for the organizations' internal and external ecosystems." As part of this, in addition to traditional mergers and acquisitions, companies are beginning to explore a wider range of growth strategies which would include alliances, partnerships, joint ventures and special purpose acquisition companies (SPACs). These different types of strategies may help to reduce the level of risk for an organization moving forward in a new world for which there may not be a reliable track record.

Deloitte also explored (in their whitepaper Charting New Horizons³) what they describe as the future of M&A framework which includes both defensive strategies for companies that have been more severely impacted by the economic and societal changes as well as offensive strategies for those that have emerged with strong positioning.

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M&A and COVID-19: Charting New Horizons

The paper shows that approximately 57% of companies polled are planning to take an offensive route to either take advantage of structural sector disruption and accelerate their long-term strategic growth plan or to obtain market leadership that they have not been able to develop organically. Offensive strategies were reported at the highest levels in technology, telecom, manufacturing, and financial services industries. The remaining 43% of the companies - primarily in the energy, life sciences and healthcare, and consumer industries - plan to deploy defensive strategies to either stay in line with the competition or prevent further weakening of their market position.

The Business Exit and Transitions Services team has assisted a number of companies in today's environment which have been involved in both offensive and defensive M&A strategies. For example, we recently worked with an e-commerce company that was acquired as part of an offensive M&A initiative from a publicly traded company. The e-commerce company had grown significantly during the COVID-19 pandemic, and the purchase served to help the publicly traded company close gaps in their portfolio through the strategic acquisition, acquire capabilities to accelerate digital transformation, and acquire a high-growth business from the innovation ecosystem. A significant part of the buyer's due diligence was understanding the culture of the organization to ensure a successful integration. As mentioned previously, one of the biggest factors in unsuccessful M&A initiatives is the failure to integrate operationally and culturally.

Another example is an aerospace manufacturing company that was on the defensive going through the pandemic as the airline industry suffered and was able to pursue strategic alliances with suppliers during the downturn for this industry. The company also considered merging with a competitor to achieve better economies of scale and leverage resources.

The key to driving your strategy as a business owner will be having a clear assessment of your current opportunities and challenges in today's environment and aligning your strategy for moving forward with your corporate long-term growth plan. The Brightworth Business Exit and Transition Services team is here to help you assess your situation and design a successful growth strategy for the future.

The Business Owner Transition Academy is accepting students for classes beginning this September. To learn more, visit <https://brightworth.com/cohort4> [2]. Enroll today to save your seat!

1. Deloitte, "State of the Deal: M&A Trends Report 2020." October 24, 2019, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acq...> [3].
2. Deloitte, "M&A Trends Survey: The future of M&A." September 1, 2020, <https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/...> [4].
3. Deloitte, "M&A and COVID-19: Charting New Horizons." 2020, <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/covid-...> [5].

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