



The Advantage

Get the Edge with Intelligent M&A Strategy

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Mapping the M&A Journey...

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Before leaving on a journey it's always useful to have a map to navigate your way from where you are to where you want to go. As part of our series of white papers, Marx Group Advisors has identified the four basic types of transfer of ownership transactions. This version is the synopsis of the article that is available **FREE** to our readers. Email Tom Marx (tmarx@marxgroupadvisors.com) for access to a PDF of the entire article. We trust this helps you embark on this journey with greater confidence.

1. Mergers and acquisitions
2. Divestitures and asset sales
3. Joint ventures and alliances
4. Going public or private

Mergers and Acquisitions

Mergers and acquisitions are the most common forms of these transactions.

Typically a merger is a combination of two companies in a stock exchange transaction, i.e. Company A sells all of its corporate stock to Company B in exchange for cash, stock or some combination of both.

An acquisition is the purchase of the stock or assets of the business. A merger and acquisition are not mutually exclusive. However a merger is typically thought of in the context of two companies that are of relatively equal size and an acquisition is thought of when a smaller target is purchased by a larger acquirer.

Quite a bit of research has taken place regarding the reasons why mergers and acquisitions succeed or fail. Profitability is obviously a factor in every analysis. Some studies have argued that more profitable firms are more subject to takeover than less profitable companies while others have argued that profitability has less to do with the likelihood of becoming an acquisition target. Corporations that are relatively inefficient will be targets of acquisition for more experienced and intelligent acquirers, as well as acquirers that are looking to purchase companies at a highly discounted rate.

There are a number of factors why certain companies are acquired and others are not.

- Some companies acquire companies that are more profitable than they are, some equally as profitable and some less profitable.
- Some acquiring companies look for target companies that are inefficient and therefore offer the opportunity for significant improvements in efficiency and profitability.
- Shifts in the capital markets are a significant factor to consider in this process, i.e., in periods of high interest rates or when capital accumulation is difficult.
- Changes in tax laws like the Tax Reform Act of 1986 can facilitate or inhibit restructuring activity.

It should be noted that in today's marketplace, cross-border mergers and acquisitions are occurring with more frequency because they often provide an opportunity to capitalize on internal advantages in foreign markets including financial, organizational and technological strengths.

Divestitures and Asset Sales

Typically divestitures and asset sales are seen as an approach to corporate restructuring that eliminates underperforming assets while capitalizing on the value of a stronger performing asset or simply exiting from a business to repay debt and, in either case, create value.

The divestiture process generally includes three approaches to selling the company: the negotiated sale, the controlled competitive sale and the auction. Each of these approaches has different competitive landscapes. Valuations of companies or assets in a divestiture need to undergo the same analysis as a valuation of the company in a merger or acquisition.

The most common transaction is the asset sale of a business. This has benefits over other forms of divestitures, most significantly the ability to negotiate with multiple parties in order to obtain maximum value.

As in all steps of the M&A process, tailoring the process to the unique needs of the client and an intelligent understanding of the marketplace insures a more intelligent chance of success.

Joint Ventures and Alliances

A joint venture is a relationship between two or more parties where an independent entity is created by the parties for a specific activity or undertaking. The independent entity is usually jointly owned by the parties and the parties each take an active role in contributing either intellectual property, capital, assets, marketing and sales or any combination of the above.

An alliance may not involve the creation of a new independent entity and may not involve any equity contributions by either party.

In a time when success in business requires forming relationships between competitors in ways that were unheard of years ago, alliances and joint ventures have become quite commonplace and it's clear that profitability is often created in the formation and operation of joint ventures and alliances which can, in fact, surpass those found in mergers and acquisitions.

Going Public or Private Transactions

Occasionally we are asked about a going private or going public transaction. A going private transaction is the acquisition of the equity of a publicly traded corporation by an independent privately held entity.

In the context of the aftermarket it is usually in the form of a leveraged buyout in which a group of managers (usually with equity partners) acquires an existing business that is publicly owned or a division of the same.

We are also occasionally asked to consider the benefits of going public. Either the potential size of the existing company or a rollup of a number of companies with potential to show market rate returns provides an opportunity to consider the benefits of public ownership.

Conclusion

The underlying assumption in any of the categories or merger and acquisition is that there will be benefits that occur as a result of the transaction. Consolidations continue to recontextualize many industries and have significant impact on the entire supplier and customer chain in a vertical industry.

We believe that profitability has far less impact on the ultimate value of the transaction. Instead, strategic advantage becomes more key, whether it allows the elimination of a competitor, gains a valued customer or adds an important product line.