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True or false? 8 M&A assumptions Irish SMEs should be testing

Deloitte Corporate Finance

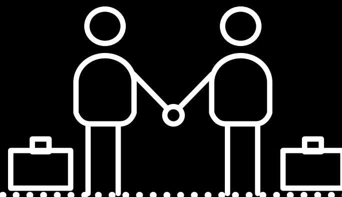
Some things you know for sure.

And some things maybe not.

But you also know what they say about what it means to assume…

So don't.

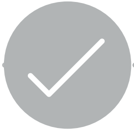
Test those assumptions before you embark on your next deal.



Which ones?

Read on…

1. **M&A isn't for SMEs**



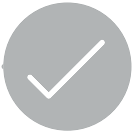
Not true!

Whatever the size or nature of your business, if you're looking to grow or planning succession, consider your M&A options.

To do either well, the focus simply has to be on long-term objectives, within the framework of a clearly defined strategy. All the usual benefits – and risks – of M&A apply.

Next up...

2. **The market is too volatile for M&A**



Not necessarily – uncertainty is the new norm.

It's true that uncertainty in market conditions has been persistent, and this is expected to continue through 2018.

The implications of Brexit, uncertain interest rates and EU monetary policy, the ripples of potential US protectionism, fluctuations in commodity prices and capital markets, and general geopolitical instability all contribute to the uncertainty.

Still…

3. **Volatility creates opportunities**

Absolutely true.

It creates opportunities for buyers to grow by acquiring companies that show strong earnings potential, even if the times have been hard on them to now.

It also creates opportunities for sellers to complete deals quickly in order to crystallise value at a time when it is needed most, or consider mergers to achieve critical mass.

Speaking of value, what about…

4. **We'll become more efficient**

M&A allows for economies of scale that individual companies usually can't enjoy as a result of overall cost reduction – through synergies in production, management, marketing, research, administration and finance.

Or how about...

5. **Rapid growth**

...and in more than one dimension.

Yes. M&A often allows the acquirer to grow market share. Organic or inorganic, growth is good. Inorganic growth also has a distinct advantage – it's fast. M&A can also enable rapid growth in capabilities, as the technology, skills, resources and customers of the acquired company are merged with the acquirer.

More than that...

6. **M&A often equals transformation**

This is undeniable, though it doesn't happen automatically. You have to make it happen. A merger or acquisition presents the opportunity to redefine one or all of both companies' mission, strategies, processes, portfolio and organisational structure.

Everyone loves a makeover.

But maybe, for your company, the primary objective is...

7. **Diversification**

Maybe there's a competitor or peer whose product or service would perfectly complement your own. In cases like this, M&A is often the ideal route for sharpening competitive edge.

Last, but only rarely least...

8. **M&A delivers assorted financial advantages**

Yes. Unequivocally.

An acquisition can add scale and create both purchasing power with vendors and pricing power with customers – all adding to bottom-line performance.

Greater scale and profitability will also increase access to capital and generally reduce its cost. Furthermore… On the sell side, a transaction will secure the net worth that, in the case of most private company owners, is primarily in the business. If managed professionally, it will also do so at maximum value.

Because the investment lies in different classes of

assets and the return from the total portfolio of assets becomes more stable, risk is diversified.

Debt capacity often increases because greater stability in earnings acts as assurance to lenders.

However...

All of this assumes something pretty specific…
That the deal was handled well

The fact is, many deals fail.

Whether it's too much shooting from the hip or relying on conventional wisdom instead of hard-nosed analysis and discipline, it's easy to get carried away. Before long, expectations are too high and suddenly you're caught up in something that is doomed to fail.

Thorough planning and quality advice is essential to successfully execute a transaction and integrate the new business. This includes the costs of achieving synergies which can often be a forgotten detail until the transaction has completed.

So, whatever you do…

Don’t do that. **Do these things instead.**

1. Write down the five most compelling reasons for doing the next deal. If the reasons change, pull the plug. Ultimately the deal has to make financial sense.

2. Double-check the critical assumptions in your deal model – assumptions that could blow things up if they’re wrong.

3. Don’t sign anything until you see a detailed integration plan and reconcile “cost to achieve” with ROI.

4. Focus on the deal-breakers. If you haven’t found at least one significant problem, you aren’t looking hard enough.

5. Listen as much as you talk.

And one final thing...

Call someone you trust

Like the professionals.

For advice. And
help if you need it.

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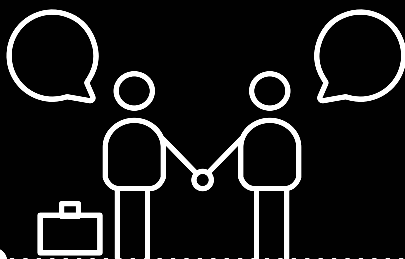

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