M&A
It pays to get it right

In the aftermath of the global financial crisis corporate priorities are shifting away from strategies centered on the short-term goal of self-preservation – such as cash accumulation, debt paydown and cost reduction – and more towards "growth." What do we mean by growth, why is it so important and how do we achieve it?

Companies, be they private or public, all need to evidence growth as a key stakeholder objective. Growth (both financial and non-financial) drives confidence that in turn influences multiple facets, both tangible and intangible, within an organization. For example, a growing company is seen as a successful company, both from within the organization and by the outside market. The company benefits as its people are happier (employees generally want to work for successful organizations), its trading partners are happier (as their businesses grow as a result) and the shareholders are happy as returns increase. But most importantly, growth drives value and this is most clearly evidenced in the public markets where companies that outgrow their competitors see their share price rise.

Acquisition-driven growth can deliver accelerated growth and can supercharge your business if it is done properly. But there is a downside: if it is done poorly, it can severely damage your business.

So if a growth agenda is so important why aren't more companies following growth strategies? The simple answer is that most are. Growth can take a number of forms, which are most commonly grouped as "organic" or "acquisition-driven" growth. Organic growth is generally considered more conservative and while it does have many benefits, an organic growth strategy most probably won't set you apart from your peers, as all good companies are continually looking to innovate and grow organically. Acquisition-driven growth can deliver accelerated growth and can supercharge your business if it is done properly. But there is a downside: if it is done poorly, it can severely damage your business.

Is now the time to follow a mergers and acquisitions- (M&A) driven growth strategy? For every reader the answer will be different. However, M&A activity is picking up and will probably continue to gather pace in 2013. What is going to drive this M&A activity? Firstly, many global organizations have large cash reserves on their balance sheets and rather than earning low interest returns from the bank, they will be looking for good investment opportunities. If these can't be found, shareholders will want to see these excess funds returned. Secondly, the pricing gap between vendors and acquirers has narrowed considerably during 2012. Thirdly, with many domestic economies showing little or no growth, there is limited opportunity for organic growth. Fourthly, M&A activity, both locally and globally from financial investors such as private equity houses is increasing (as evidenced by our recent Private Equity confidence survey). Most investors remain optimistic about the short- to medium-term outlook with some going as far as to say that 2013 will be the year of renewed vigor.

So what does this all mean? That if now is not the right time to drive growth through acquisition, it soon will be. If you don't have an M&A strategy, how will you know when it's right for you? Develop your M&A strategy and ascertain what you want to achieve through an acquisition. Goals may include, but are not limited to:

- Growth in market share through elimination of a direct competitor;
- Acquisition of suppliers or intermediary customers (collapsing the value chain);
- Product or technology acquisition;
- Geographical expansion or acquisition of key customers;
- Diversification away from your core business; or
- Human capital acquisition.

Most businesses are not resourced to easily deal with M&A internally, so there comes a time when you may need to ask for some help. There are many M&A advisors in the market, these advisors cannot, and should not, make decisions for you, but they can help you navigate the often complex world of M&A. More importantly, they can help you identify suitable targets, understand what you are buying (identifying and qualifying risks), assist with business modeling and valuations and if you do choose to proceed with an acquisition, can assist in managing the integration. Make sure the advice you get is of the highest quality as an acquisition is often one of the most significant events in a company's history – it pays to get it right!

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You can always learn from the best, and Warren Buffett is arguably the most successful investor of his generation. Here is a collection of useful insights into Buffett's views on some of the more 'sticky' issues:

On investment timing:
"…We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

On what to buy – flight to quality:
"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

"The best thing that happens to us is when a great company gets into temporary trouble. We want to buy them when they're on the operating table."

"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."

On price or valuation:
"Price is what you pay; value is what you get. Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down. The price of an investment can mask its true value because of factors such as emotion, market booms or busts, and even tax considerations. Sadly, all most people see is the price, they are often unable to perceive value."

On risk appetite:
"I don't look to jump over 7-foot bars: I look around for 1-foot bars that I can step over."

"Risk comes from not knowing what you're doing."

"In the business world, the rearview mirror is always clearer than the windshield."

by **Richard Clarke**, managing director, Transaction and Restructuring Services, Deloitte Middle East and **Rajeev Mehta**, director, Transaction & Restructuring Services, Deloitte Middle East