



Do Corporate Acquisitions Create Shareholder Value?

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Experts In Value™

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Veracap Corporate Finance Limited helps business owners and executives to maximize shareholder value through acquisitions, divestitures, financing and related services.

Veracap is a division of **Campbell Valuation Partners Limited ('CVPL')**, Canada's longest established independent business valuation firm. CVPL has completed over 2000 business valuation and damages quantification assignments since 1976.

Veracap is a member of **M&A International**, the world's largest affiliation of M&A advisors, with over 600 professionals at 44 firms in 39 countries.

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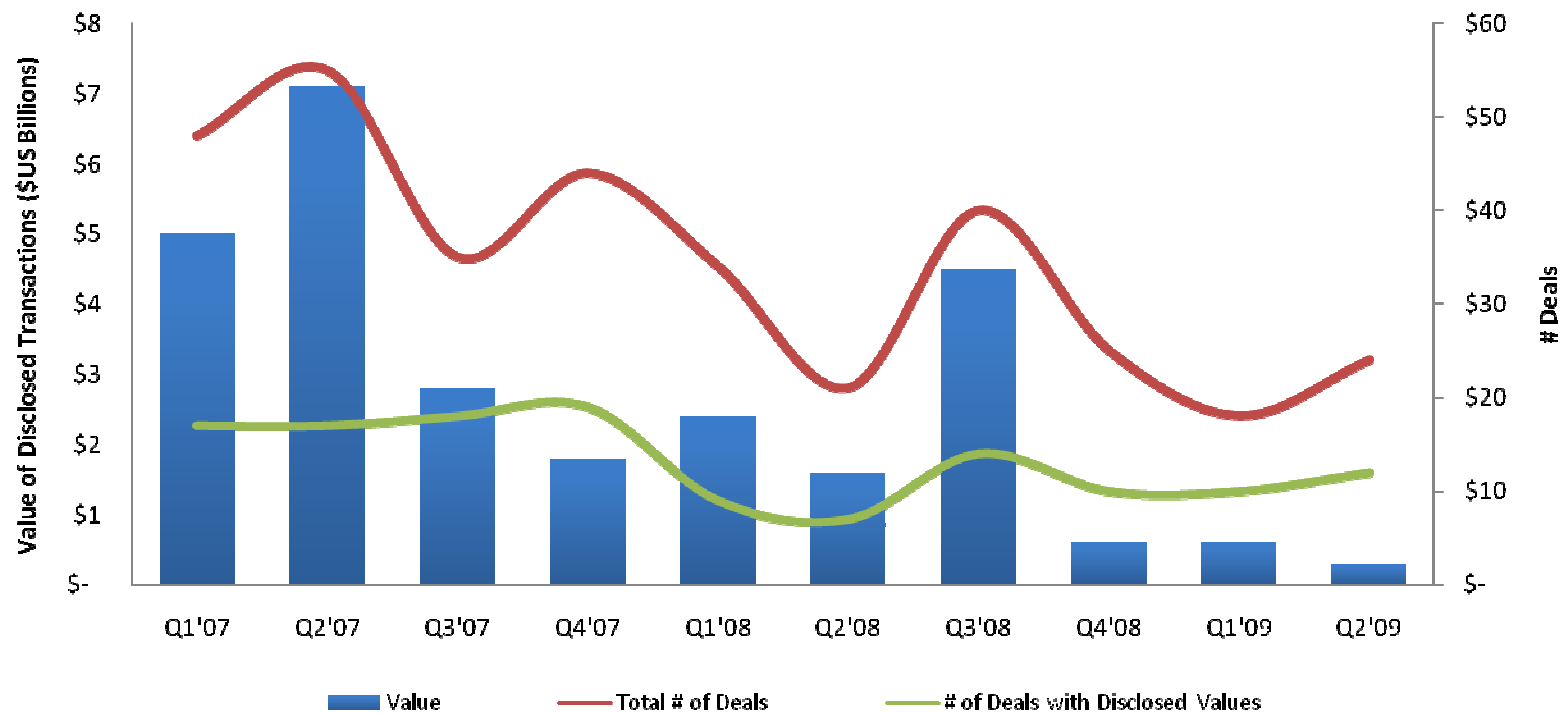
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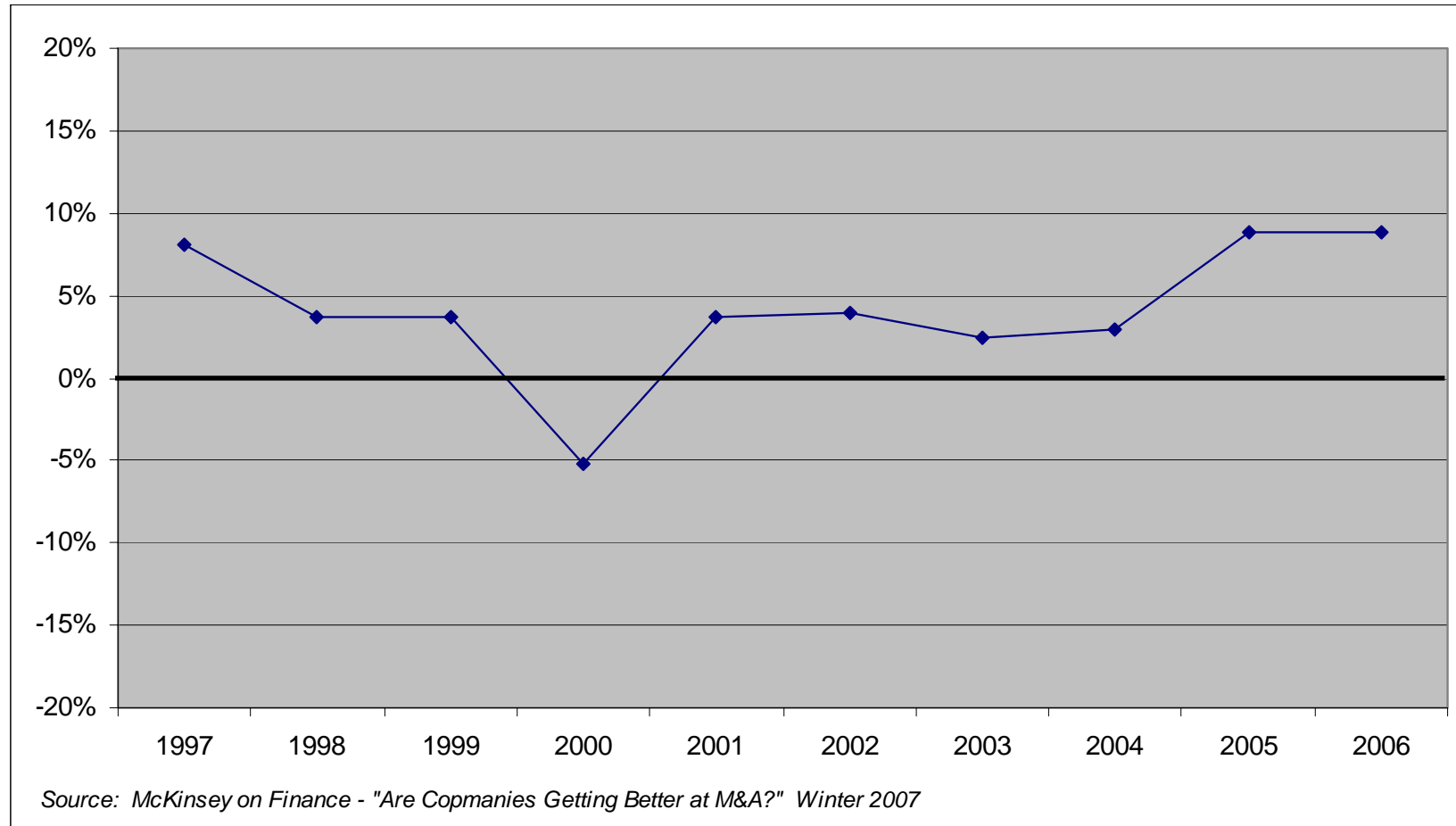
Canadian Targets: Value and Number of Announced Transactions



Source: Thomson Reuters

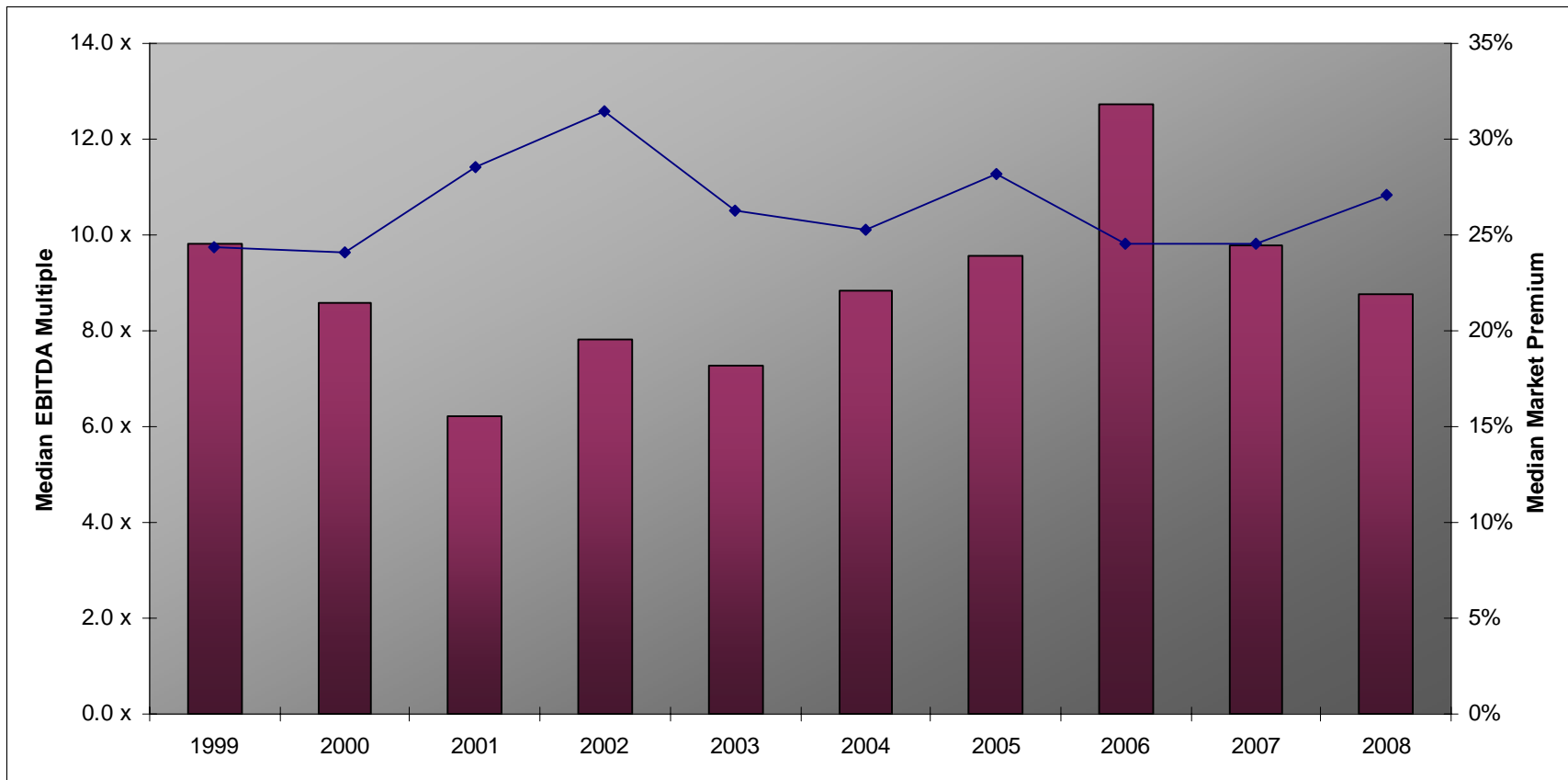


Total "Deal Value Added"





EBITDA Multiples and Market Premiums





Objectives Driving Deals for Buyers

- Access to new markets ...76%
- Growth in market share ...74%
- Access to new products ...54%
- Access to talent ...47%
- Enhanced reputation ...46%
- Reduction in operating expenses ...46%
- Access to distribution channels ...38%
- Access to new technologies ...26%
- Reduction in # of competitors ...26%
- Access to new brands ...25%

(source: PWC)



Growth vs. Value

	<u>Existing Business</u>	<u>Expanded Business</u>
Revenues	\$100M	\$150M
EBITDA	\$10M	\$15M
Valuation multiple	6x	6x
Business value	\$60M	\$90M
Cost of expansion		\$30M
Net economic value		\$60M

Conclusion – No Economic Value Created



Creating Shareholder Value

- Shareholder value is created where the return on invested capital exceeds the cost of capital
- Shareholder value can be created through:
 - Negotiating a purchase price that is less than the intrinsic value of the target company
 - Realizing synergies in excess of what is 'paid for'
 - Deal structuring to better match risk and rewards of acquisition



Acquisition Opportunities in the Current Environment

- Active search for proprietary deals
- Turnaround situations
- Debt acquisitions
- Small cap public companies
- Private equity portfolios



The “7 Deadly Sins” of Corporate Acquisitions

1. Lack of strategic fit
2. Inadequate analysis
3. Too much emphasis on EBITDA
4. Ignoring the balance sheet
5. Overpaying for synergies
6. Focusing only on price
7. Poor integration



Lack of Strategic Fit

- Long term strategic plan
 - Role that acquisitions play
- Clear acquisition criteria
- Address basic questions
 - Build vs. buy
 - Large vs. small
 - Focus vs. diversification
 - Defensive vs. offensive



Inadequate Analysis

- Constraints due to time, cost, resources
- Over reliance on seller representations and warranties
- Key value drivers
 - Revenue stability and concentration
- Risk profile analysis
 - Sensitivity analysis
 - Degree of operating leverage
- Integration planning



Ignoring the Balance Sheet

- Working capital requirements
- Operating cash requirements
- Capital expenditure levels
- Retained earnings
- Debt management



Too Much Emphasis on EBITDA

- Accounting rules get in the way of economic value
- Focus should be on discretionary cash flow
 - Capital expenditures
 - Working capital
 - Income taxes
- Discounted Cash Flow methodology



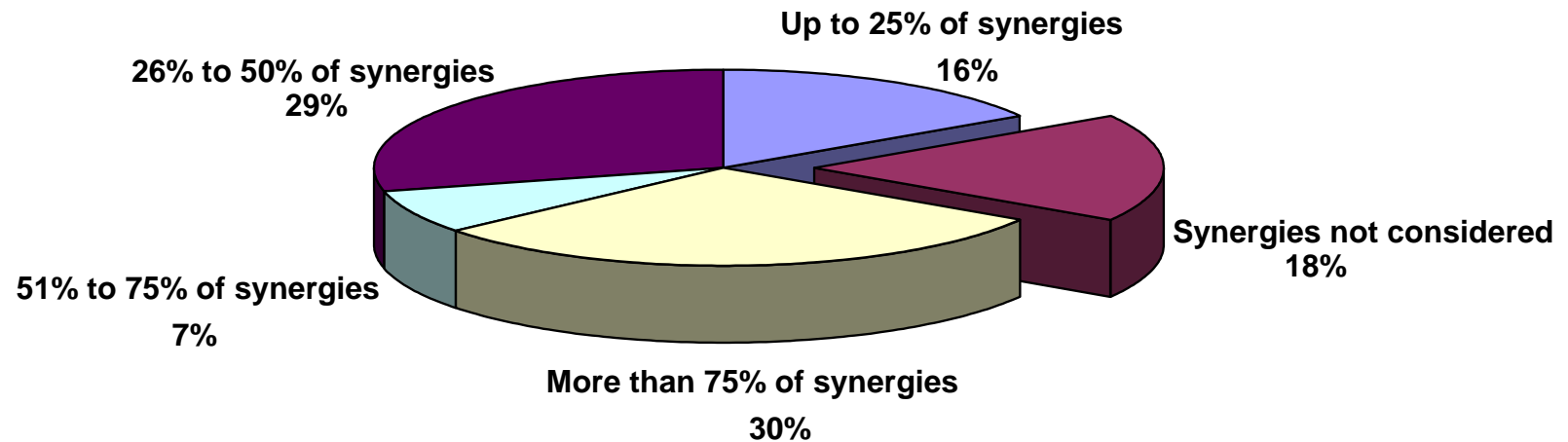
Synergistic Objectives (& Results) Driving M&A Deals

• Access to new markets	...76%...	(74%)
• Growth in market share	...74%...	(60%)
• Access to new products	...54%...	(72%)
• Access to talent	...47%...	(51%)
• Enhanced reputation	...46%...	(48%)
• Reduction in operating expenses	...46%...	(39%)
• Access to distribution channels	...38%...	(60%)
• Access to new technologies	...26%...	(63%)
• Reduction in # of competitors	...26%...	(80%)
• Access to new brands	... 25%...	(92%)

Source: PWC



Proportion of Synergies Incorporated by Acquirers in Valuing Acquisition Targets





Price vs. Terms

- Terms of the deal are just as important as the stated purchase price
- More flexibility with private company acquisitions
- Accounting rules get in the way of economic value



Deal Structuring Parameters

- Assets vs. shares
- Forms and terms of payment
 - Holdbacks, promissory notes, share exchanges, earnouts, etc.
- 100% vs. control
 - Tradeoff of financial resources and incentives vs. shareholder rights and accountability costs
- Management contract

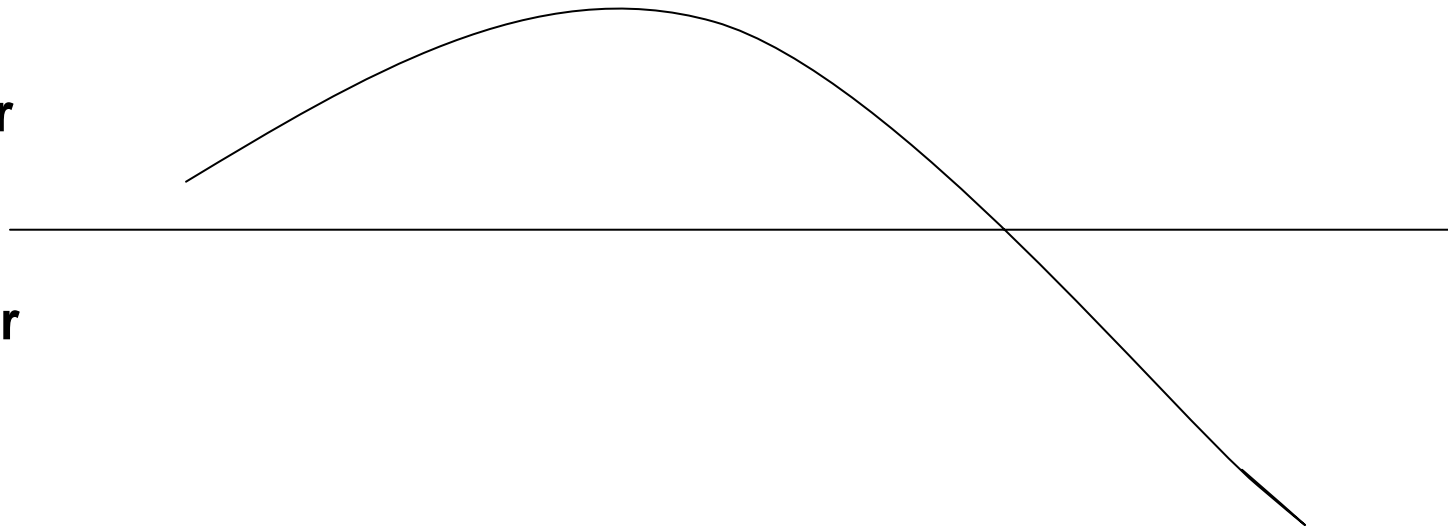
Value-Based Pricing Strategy



The Buyer/Seller Advantage Curve

Seller

Buyer



Management Presentation Multiple Offers LOI Negotiations Exclusivity to Buyer Closing



Transition Risk

- Poor integration is a primary cause of deal failure
- Loss of goodwill and intangible value
 - Customers, employees, etc.
- Cultural issues
- Time and cost involved



Key Components of a Corporate Acquisition Program

- Sound strategic plan
- Well established acquisition criteria
- Objective assessment of strategic fit and risks
- Comprehensive valuation and pricing analysis
- Value-based pricing strategy (where possible)
- Strong negotiating skills
- Thorough due diligence
- Well managed integration



Resources

Books

- ❖ The Acquisition Value Cycle™ (Carswell, 2009)
- ❖ Corporate Finance for Canadian Executives (Carswell, 2007)
- ❖ Selling Your Private Company (CICA, 2005)
- ❖ The Valuation of Business Interests (CICA, 2001)

Articles and other resources at www.veracap.com

- ❖ Exit Strategies for Business Owners
- ❖ Various articles, surveys, etc.