An Introduction to Mergers & Acquisitions

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The Acquisition Process

- Determine Objectives
- Criteria
- Identify Candidates
- Evaluate Candidates
- Negotiate
- Due Diligence
Merger Objectives

Advances the Business Objectives as defined the Strategic Plan which may include:

- Horizontal Expansion to increase market share and increase returns to scale
- Vertical Expansion to decrease dependence from suppliers and decrease costs
- Product Expansion to increase sales to existing and new customers
- New Technology for New/Improved Products to increase sales and/or lower costs to company and maybe lower prices to customers.
Steps in a Good Merger Process

- Manage Preacquisition Phase
- Screen Candidates
- Value Remaining Candidates
- Negotiate
- Manage Post Merger Integration
Steps in a Good Merger Process

- Manage reacquisition phase
  - Instruct staff on secrecy requirements
  - Evaluate your own company through a Strategic Planning process to understand the role M&A will play and make sure you are prepared for it by being able to capitalize on economies to scale and exploit technology or skills transfer.
Steps in a Good Merger Process

- **Screen Candidates**
  - Look at public companies, divisions of companies and private companies
  - Prioritize opportunities
  - Identify elimination criteria
  - Decide on how to use investment banks = best used for business restructuring for financial engineering opportunities
Steps in a Good Merger Process

- **Elimination Criteria**
  - Size: Too large or too small?
  - Location: of Sales, of Operations?
  - Business Segments: Are some unattractive? Can they be profitability sold?
  - Overall Performance: Is business well run and if not, can you improve it
  - Availability: Friendly or Hostile combination
Steps in a Good Merger Process

- Merger Criteria
  - Industry/Segment
  - Distribution Channels
  - Size
  - Locations
  - Historical Performance – Financial, Customer Satisfaction, Reputation
  - Existing Management
  - Barriers to Acquisition – Political, Governmental, Financing, Legal Issues
Steps in a Good Merger Process

- **Identifying Candidates**
  - Horizontal – Competitors
  - Vertical – Suppliers and/or Customers
  - Products and New Technology—New Emerging Companies
Steps in a Good Merger Process

- **Value remaining candidates**
  - Know exactly how you will get back takeover premium
  - Identify real synergies
  - Decide on restructuring plan
  - Decide on financial engineering opportunities (investment bankers)
Steps in a Good Merger Process

Valuation: Evaluating Candidates
Framework of Analysis of Target Company

External
■ Market/Industry
■ Competition
■ Environment

Internal
■ Products/Services
■ Operations
■ Organization
■ Resources
Steps in a Good Merger Process

Valuation: Market / Industry Issues

- Market Size and Growth
- Market Segmentation
- Company Relative Market share
- Industry Trends and Economic Outlook
- Nature and History of Business
- Company’s Position in Industry
- Research and Development
- Relative Leverage of Buyers and Suppliers
Steps in a Good Merger Process

Valuation: Competitive Issues

- Who Are Existing and Potential Competitors due to Acquisition
- Competitor's Strengths and Weaknesses
  - Market Share
  - Products/Services
  - Distribution Channels
  - Cost Position
- Counter Strategies for Key Competitors
Steps in a Good Merger Process

Valuation: Products/Services Issues

- Match of Products to Market Segments
- Product Profitability
- Customer/Market Segment Profitability
- Relative Quality
- Relative Service Levels
Steps in a Good Merger Process

Valuation:

Operations/ Organization Issues

- Marketing and Distribution Channels
- Physical Production Resources and Capabilities
- Company’s Management
- Company’s People Resources and Gaps
- Company’s Operational Strengths and Weaknesses
Steps in a Good Merger Process

**Negotiate**
- Decide on maximum price and stick to it
- Understand background and incentives of the other side
- Understand value that might be paid by third party
- Establish negotiation strategy
- Conduct due diligence
Steps in a Good Merger Process

- Manage post merger integration
  - Move as quickly as possible
  - Carefully manage the process
M & A Information Resources

- Ibbotson Associates, Inc. publications
- McKinsey & Company, Inc. publications
Jeffrey H. Bunin

- B.Ch.E. - CCNY
- M.B.A. - Rutgers
- Adjunct Professor, Rutgers MBA Program
- 20+ years of REAL WORLD BUSINESS PLANNING EXPERIENCE in chemicals, manufacturing and high-tech
- References available upon request
End Presentation

- Thank You for viewing this slide show.
- Please contact me soon to discuss your future needs.

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