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1-ON-1 M&A

Techniques to acquire the best target at the best price

THINKING

1-on-1 M&A

Avoiding auctions and other benefits of 1-on-1

What is 1-on-1 M&A?

The general principle of 1-on-1 M&A is that the owner gives an exclusive opportunity to the potential acquirer in advance of signing a letter of intent when exclusivity is normally provided in legal form. Usually this advanced exclusivity isn't in the form of a formal promise but just the way things are orchestrated to happen. As acquirer, you will sometimes reciprocate in a monogamous way and sometimes not. Between the two extremes of the acquirer looking at only one target and at many, there are situations such as the acquirer not talking to competitors of the particular target. In short, 1-on-1 M&A is about stopping the owner's promiscuity for your advantage.

Why deal 1-on-1?

There are so many benefits of 1-on-1 M&A. The most obvious is avoiding an auction because its goal is to get the winner to pay more than the rest of the market.

Auctions can be avoided by persuading an owner planning to go into such a process to delay it while you deal 1-on-1. Or it can simply be used as part of directly approaching companies which have no plans to sell and to protect against the risk that your success in persuading them to open discussions leads them into an auction process. But 1-on-1 M&A's advantages extend beyond avoiding auction price escalation. It gives you the time to do M&A at your own pace so you can explore strategic and cultural fit. And, when 1-on-1 is played correctly, the special relationship it can develop between you and the owner can move a reluctant owner across the line to becoming a seller and view you as the bus that won't come along again.

Ultimately, 1-on-1 M&A is about getting the best price and the target that really fits, instead of paying top dollar for only the company on the block – the best, rather than worst, of both worlds.

Easier said than done

Every buyer would give his hind teeth to avoid auctions. But do they really know the full panoply of advantages of 1-on-1 M&A beyond price?

Many will say they have a policy of trying to generate non-auction opportunities. But do they really have a strategy or just a wish? Ask even an experienced acquirer what they actually do to foster exclusive opportunities and there will be a deafening silence in the room.

The reason their wish isn't their reality – other than if a deal just happens to work out that way – is that 1-on-1 M&A is a great science.

A complete 'ecosystem' of techniques is needed to foster an environment where 1-on-1 M&A actually works in practice. Understanding the eight techniques and then implementing them is what makes 1-on-1 M&A respectively a science and an art.

MAGIC INGREDIENTS

The checklist of 8 ingredients for success in 1-on-1 M&A

PLAYING EASY TO GET

Proactive
The buyer shows focus, availability and commitment to help set the tone and agenda. Buyer proactivity is key at least until the owner reaches an equal or greater level of psychological commitment. Goal is owner feels buyer is making a real effort and it would annoy them and be unfair to go out to market.

Interested
Buyer's interest in the target and conviction about the future is sincere and communicated. This sets the scene for positive 1-on-1 discussions. Goal is owner understands partner hand-picked the target and speaking to others wouldn't fit the spirit or be likely to lead to such a special situation.

Greed-proof
A proper search process identifies enough owners to find several with complex motivations beyond just money and who therefore don't feel the single-goal of auctions is right for them. Ask upfront how they will choose their exit partner. Goal is owner wouldn't even want an auction.

Strategic
Buyer focuses on targets with strong strategic fit and dialogue from outset is on investigating this in joint business planning. This will attract owners who care about how the target will fare post-transaction (and self-select out those who don't) and give logic to owner's focus on a single acquirer. It makes the acquirer more tangible reducing the risk of the unknown to the buyer. Goal is owner gets into the business planning together and doesn't want distraction from pure financial offers from others.

EFFICIENT

CHARMING

STRICT

FUTURE-ORIENTED

Speedy
From the point discussions are opened, the buyer moves as fast as possible to limit opportunity owner has to think about an auction and to make it impractical to arrange anyway, by putting an offer on the table before the owner expects it. Goal is owner believes it would be difficult to get competitive offers in time and decides to take it or leave it.

Human
The buyer builds trust and a personal relationship with the owner to the point where there is a strong bond. Don't promise two-way exclusivity if you won't be able keep to it. Goal is owner doubts that a clinical type of process would produce such a trustworthy partner and anyway would feel guilty going around their back.

Poker-faced
A buyer is ready to threaten to withdraw if the target were to go into a polygamous process. For this to work, buyer also must have behaved 'loyally' during the courtship. Goal is owner feels going to market would kill the deal.

Sharing
Buyer is open to offering owner a share of the upside, often with a lower payment upfront. This shows even mercantile owners that upfront value isn't everything and forces the owner to face a trade-off between auction vs. exclusivity. Goal is owner believes there is enough money in a unique win-win opportunity over time than in a traditional less-sharing structure.

COUNTER-MERCANTILE

Note: In 1-on-1 M&A, the owner isn't a seller or even doesn't want to be a seller at the start of the process. We prefer to use the word 'owner' rather than 'seller' till the deal completes.

The Golden Mean

The dynamics of balance

The eight ingredients of successful 1-on-1 M&A fall into four main groupings – techniques of efficiency, charm, strictness and future-orientation.

Being proactive and speedy fall under being efficient; showing interest and making a human connection fall under charm; selecting greed-free targets and being poker-faced require a strict and disciplined approach to the process; and being strategic and sharing join together in being pointed towards the future. That's how the ingredients are cultivated in pairs for the perfect M&A 'soup'.

But the dynamics of these eight individual tools can be viewed from another perspective – how they balance each other. From this viewpoint, they fall into two groups.

Counter-mercantile tools

Four ingredients work specifically as 'counter-mercantile' tools to keep the price down: focusing on greed-free target and being poker-faced help a lot. But also being willing to share comes into play here because it undermines the zero-sum calculations and comparisons the owner might be tempted to look for in an auction. Finally, acting speedily can also derail this temptation simply through speed of action.

Sweeteners

The 'counter-mercantile' tools are totally ineffective on their own. They need the counter-balancing set of 'playing easy to get' tools – being proactive, interested, human and strategic – to create goodwill. Without the feel-good set, the others would be too tough. Thinking they can deploy only the tough tools is the first fallacy from which acquirers often suffer.

The feel-good set send the message you view the target as special. A second fallacy acquirers fall into is to think that letting the owner feel the opportunity is special to you is going to create price inflation.

And to the counter-mercantile efforts they often make the mistake of instead adding a policy of 'playing hard to get'. This creates a soup of ingredients that is entirely unpalatable to owners in the context of 1-on-1 M&A. It removes both the logical and psychological arguments for giving you exclusivity. You can't buy a company which isn't for sale by playing hard to get. Nor can you stop it going into an auction process by lack of interest. Playing with only half the cards is like having the aeroplane without the parachute.

"You can't buy a company which isn't for sale by playing hard to get!"

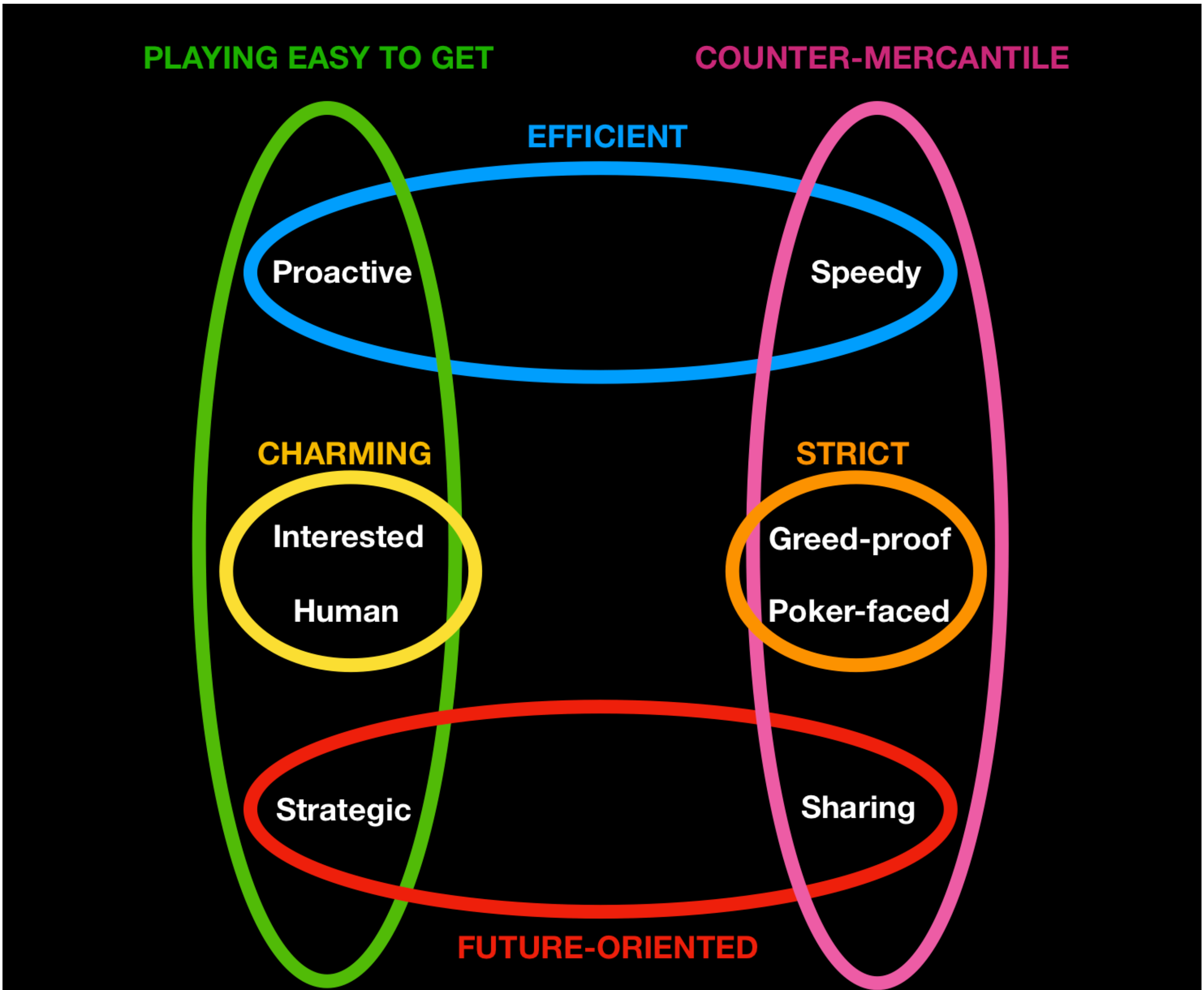
Also, if you still worry the 'playing easy to get' ingredients are going to increase your cost, consider this: not only are they designed to keeping the opportunity out of the market and indirectly keep the cost down, but ironically many of them can also reduce the price directly. Showing interest and building human relations can lead an owner to accept a modest price because of the offsetting benefit of dealing with you as a trusted party. And focusing on strategy inevitably leads you to being viewed as unique and a more valuable – or in any case more tangible – partner versus the unknown, all of which can translate into a fair price. Acquirers should appreciate they can create value 'in themselves' which becomes part of the economic value exchange equation, replacing some of the hard cash.

Harmony to win

This balance between a healthy deployment of the four 'counter-mercantile' tools and the four of 'playing easy to get' is an intoxicating concoction that owners find hard to resist. And the alchemy of this balance is so potent that an owner who can resist it is anyway unlikely to be suitable for 1-on-1 M&A. The technique therefore has a self-selecting quality. It is not a 'good cop-bad cop' technique but rather a harmonic one which leads to win-win transactions.

Keeping these two main categories of ingredients in balance with the precise quantities of each in the 'soup' and getting the timing right of when each ingredient should be added – with the effect that the soup is actually morphing over time to reflect the dynamics to favour the buyer – is the art of 1-on-1 M&A.

We call it the 'Golden Mean'.



Source: ThinkingLinking

ThinkingLinking has completed more than 80 M&A transactions in over 25 countries.

Our buy-side M&A methodologies

- Proactive search according to our 'Total Universe' approach
- Target Scoring & Prioritisation model
- Concurrent evaluation & negotiation methodology
- Joint Business Planning facilitation
- 1-on-1 M&A techniques, at key point in process

USPs of our approach

- Expanding number, suitability and 'buy-in' of opportunities to:
  - avoid auction situations
  - deliver richer strategic fits
- Enhancing bargaining power through greater choice, and timing of discussions
- Resulting in the optimal transaction in the market based on highest synergistic IRR or client's own measure of value

Companies wishing further information on our services can contact info@thinkinglinking.com.

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1-ON-1 M&A

A fresh M&A philosophy

No one should question that success in M&A is about making the optimal deal. It isn't just a dream - the best partner does exist. Some advisers don't believe in the optimal deal, even though it is out there by definition. Other advisers strive for it through a combination of finance and negotiation. Sounds good, but the truth is that the optimal transaction requires a combination of those two skills as well as three others: strategy, arbitrage and methodology. We like to call them The Three Graces. Also, we believe in a fully-integrated approach to M&A where everything we do is logically connected to achieving the optimal transaction.

In short, we believe that M&A should be done in two stages: thinking, then linking, hence the name of our firm.

This paper on '1-on-1 M&A' focuses on the concept of exclusivity which, like optimal, cannot be achieved without rigorous thinking before linking.

The 1-on-1 technique is an integral part of our overall methodology to help acquirer clients complete the optimal transaction. It is typically deployed after the careful selection of target companies has reached a point when the moment is ripe.