



Left Lane
ASSOCIATES
Supply Chain M&A Advisors

The Merger & Acquisition Process for Buyers



416.551.6651



leftlaneassociates.ca



174 Brown's Line, Toronto

An Introduction to The Art of Buying a Company

“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” – Warren Buffett

In mergers and acquisitions (M&A) the motivation for sellers is quite easily understood by most entrepreneurs. After all, there are only a few options for how a business owner can raise capital or monetize their shares for a well-deserved retirement or transition plan. However, the motivations of a buyer can be a bit more challenging to understand. Who exactly are these buyers and what are they hoping to accomplish? How does one pursue an acquisition of another company? These questions and more will be explored in detail throughout this brief overview of the buy-side M&A process.

Buyer Motivation

“Without continual growth and progress, such words as improvement, achievement, and success have no meaning” – Benjamin Franklin

It is often said that in the world of business, your company is either growing or it is dying. Companies often meet limits on how much organic growth they can sustain. Perhaps the capabilities of the management team are stretched thin trying to keep up with the needs of the existing client base. Maybe the entrepreneur is not experienced enough in complimentary services or geographies to risk investing in unfamiliar markets.

There are many reasons for exploring M&A opportunities, some logical and others irrational. At their core, most good reasons will be driven by the improved economics of a combined operation.

Being able to cut existing operating costs to operate more profitably or grow top line revenue through increased selling capacity are key drivers of post-acquisition growth.

Ultimately, the goal of an acquisition is to create wealth for the shareholders and owners of the company doing the buying. Adding the customers and client relationships of the target makes the acquirer’s business larger and more diversified. However, the most significant value-creation opportunities lie in realizing revenues & cost synergies and allowing for new growth opportunities.

The Role of an Advisor:

“No enemy is worse than bad advice.”
– Sophocles

As with the sell-side, retaining an investment banker or M&A advisor can greatly improve the effectiveness of a company’s acquisition process. An experienced and specialized skillset is needed to manage the sourcing, valuation, and negotiation processes with any prospective sellers. Retaining an advisor who can properly execute these tasks allows the buy-side client to continue to focus on growing and running their existing business(es).

Selecting the right advisor largely depends on the specific needs of a buyer. Generally speaking, it is best practice to partner with bankers that have experience in M&A transactions and specialize in your industry. Specialist M&A advisors/bankers have a deep understanding of the nuances in your business and can better source valuable acquisition targets. On top of that, they will have a pre-existing network of contacts in your industry that could expedite the often-lengthy process of finding a suitable target.

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Phase 1:

Understanding a Buyer's Needs

"A pint of sweat, saves a gallon of blood."

– George S. Patton

The first crucial step towards value creation through M&A is taking a deep-dive on your own company with your advisor and exploring all of its relevant strengths and weaknesses. This will involve intensive question and answer sessions, site visits, and current market trend discussions. An advisor who is specialized and familiar with your industry can use these details to enhance the potential value of an acquisition. The more you know about your own needs, the better an advisor can source targets that will bolster your existing operations, cover current blind spots, and provide access to new verticals/ markets.

This discovery period will inform the rest of the process and should never be overlooked. When a good understanding of your operation is in place, your advisor can work with you to determine a "universe" of potential companies to pursue. These will be classified by various criteria including the companies' size, operations, geography, etc. Ultimately, a detailed and rigorous planning process will result in a more targeted search and better deal execution.

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Phase 2:

Prepare Marketing Materials

“Master the topic, the message, and the delivery.”

- Steve Jobs

Following the first phase, your investment banker will translate the search criteria identified into appropriate and strategic marketing materials to use in the outreach phase of the process. This involves forming a strategy for how best to communicate your search criteria to the target universe, including what channels and methods to use.

For example, in some cases keeping your company's name out of the marketing may be prudent. In other cases, you may want a more public campaign to draw awareness to your desire to grow via acquisition. Weighing the costs and benefits of each approach requires a collaborative and thorough discussion with your advisor. At the conclusion of this step, you should have an approved set of materials that professionally communicate your M&A goals to all prospective sellers.

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Phase 3: Outreach to the Market

*“Our patience will achieve more than our force.”
- Edmund Burke*

After the marketing material has been professionally produced, it is time to undergo the most time and labour-intensive phase. Outreach involves approaching the key decision makers at potential target companies. This is a process that can take months and in some cases years to yield the proper acquisition target. That being said, this is also not a step that one wants to rush. Careful and thoughtful approaches are necessary to identify the best opportunities for your company. Your M&A advisor will filter through sellers with unreasonable value expectations or red flags in the integrity of their financials or operations.

Once again, this is a step where engaging a banker with extensive experience in your specific industry can add tremendous value. They will have a wide network of established relationships with the key decision makers you need to reach. This network will also contain other investment bankers who will likely be representing sellers that could match your criteria. The depth of a specialized banker's database and ability to speak directly to industry leaders can yield better results more efficiently. Additionally, they will know the key criteria to ask and look for when prospecting a potential target. All of this

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translates into you, the client, speaking only with the most qualified leads who run high-quality operating companies. Engaging the right investment banker will give you access to the best targets and save you significant time and headaches.



Phase 4:

Drafting an Expression of Interest (EOI)

“We cannot negotiate with people who say what’s mine is mine and what’s yours is negotiable.”
- John F. Kennedy

If the initial conversations with a target company have gone well, and the information they have provided suggests a value-creating deal could be reached, it’s time to move to an EOI. This expression of interest (sometimes referred to as indication of interest – IOI) document is drafted in collaboration with your advisor to outline the skeleton for a potential transaction. To be clear, this is not a legally binding document, but rather a reference point to ensure both parties to the transaction are on the same page with respect to valuation and structure. The common terms that will be included (to name a few) are: the enterprise value placed on the company, the structure of payment, whether the deal is for shares or assets etc. The contents of each EOI will depend on the specific deal but these are the most common features. Once the seller is agreeable to the basic terms, value and structure, they will move onto drafting a Letter of Intent (LOI).

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Phase 5: Drafting a Letter of Intent (LOI)

“Until the contract is signed, nothing is real.”
- Glenn Danzig

An LOI will be drafted to continue the discussion of purchase and sale of the target company. This document will be more detailed than the EOI with respect to: funding sources, transaction timelines, key management to be retained, earnout/payout details and various other items. The LOI will ultimately be a roadmap for the eventual purchase agreement. Unlike the EOI, the LOI will have an exclusivity clause in order to allow both parties to negotiate and perform due diligence only with each other, thus removing further parties from participating. The exclusivity length can vary but a minimum of 60 days is standard in the industry, with some cases lasting as long as 180 days. The specific length and covenants to the exclusivity would be negotiated by your advisor. Depending on the scope and scale of the deal, a Letter of Intent could be legally binding. This makes an experienced legal team vital to ensure any binding agreement is properly vetted to mitigate any potential risks by either party.

A prudent advisor will serve as a key go-between to submit the draft LOI to the seller and negotiate changes with the buyer as necessary. This role as a buffer between the two parties is extremely important in keeping the transaction productive and moving forward. It reduces the friction that can all too easily arise during discussions of value and ownership. Having an advisor for both sides to communicate through

provides level-headedness to these negotiations and increases the likelihood that a deal is consummated. Also, an advisor who has the ability to separate the emotional aspect of deal negotiations between all parties will yield the most successful results.

Once both the buyer and seller have come to an agreement on all the terms in the LOI for the transaction, they must sign onto the document to initiate the due diligence process.

**This is where
an advisor
can create
tremendous
value, by serving
as an objective
third party.**



Phase 6: Due Diligence

“The leading rule for the lawyer, as for the man of every calling, is diligence.”
- Abraham Lincoln

After having signed the LOI, the seller is now in an agreed upon period of exclusivity (the exact length of which can vary on a deal by deal basis as described above). During this time, the seller is prohibited from approaching other buyers or entertaining conversations with parties looking to acquire their company. This is an absolutely key clause as it ensures a level of trust and commitment to closing a deal between counterparties.

As a buyer, it is your responsibility to use the diligence phase to verify that all the information presented by the seller corresponds to their true underlying economic reality. This includes all financial and accounting data, legal records, operational data, human resource records and anything else that may impact the value of the company. During this phase, a buyer may also have detailed discussions with management, inspect physical records or assets, as well as tour any of the properties/facilities. You as the buyer, have to be certain that what you are buying is worth the value you have attributed to the company based on the information provided.

Your investment banker will assist in this process by providing supporting contacts to lawyers, accountants and appraisers who are experienced with working on M&A transactions. As the buyer you may also choose

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to hire or retain your own lawyers or accountants, but in either case, an M&A advisor can help manage all the parties involved and ensure they are adhering to any stated timelines. A good M&A advisor will ensure that all the differing agendas are coordinated smoothly so that the process does not get bogged down. Many great deals have succumbed to “deal fatigue” resulting in a lost opportunity simply because the process was extending itself far too long.

Phase 7: Deal Closing

"I never think of the future - it comes soon enough." - Albert Einstein

With the exclusivity period drawing to a close, the buyer has taken the time and necessary steps to conduct a thorough review of every aspect of the business(es) being purchased. If no major issues or misrepresentations have been identified in this process, it is time to proceed along the deal terms outlined in the LOI.

The buyer will now coordinate with his advisor and legal counsel in drafting the final purchase and sale agreement that will legally govern the transaction. This will be a binding agreement that finally transfers ownership of the business from the seller to the buyer.

This phase will once again involve some negotiation on more secondary characteristics of the deal including working capital levels, leases, employment agreements and non-compete clauses. All of this can take a varied length of time depending on the number of issues to be discussed and the responsiveness of the legal counsel retained. When all terms have been agreed to, both parties will sign and execute the agreement, officially concluding the transaction process.

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Phase 8: Integration and Transition

“They must often change, who would be constant in happiness or wisdom.”
- Confucius

With all the documentation complete, the final matter to attend to is the actual operational work of integrating the two companies. The transition process is a vital element to determining if the deal will be successful in the long term. As the buyer, one must take care to identify areas where they can potentially add value with the newly combined operations. At the same time, one must be careful to never force truly incompatible systems together. Integrating to the best system rather than the buyer's system is the general rule of thumb for any successful merger. Integration is a slow process of observation, analysis and action. Nothing should be done to jeopardize the enormous amount of work and finances put into an M&A process, simply in the interest of getting things done quickly.

In due time, depending on the overall strategy, a buyer can expect to reap the benefits of now commanding a larger, more diversified operation. Having a wider client base will allow cross-selling opportunities while also reducing redundant staffing needs across the combined

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entity. This will allow management to reach levels of growth and profitability that would not have been possible via organic growth alone. Additionally, the experience gained through the process can then be used towards any future acquisition opportunities.



Questions?

Contact Left Lane Associates

“Be less curious about people and more curious about ideas.”
- Marie Curie

Left Lane Associates is an M&A advisory firm that works exclusively with companies in the supply chain industry. Our deal team executes successful M&A transactions that create enterprise value for shareholders.

M&A is one of the surest paths to value creation for businesses and should be a part of every entrepreneur's plan. Reach out to us today to discuss your M&A strategy and any questions you might have.



The Left Lane Team

Peter Stefanovich	President	peter@leftlaneassociates.ca
Nicholas Somos	Director - M&A, Vice President	nick@leftlaneassociates.ca
Alex MacKinnon	Director - M&A	mackinnon@leftlaneassociates.ca
Marcin Sakowicz	Associate - M&A	marcin@leftlaneassociates.ca
Kanav Setia	Associate - M&A	kanav@leftlaneassociates.ca
Dawson Carty	Analyst - M&A	dawson@leftlaneassociates.ca
Ihit Badhwar	Analyst - M&A	ihit@leftlaneassociates.ca
Jackie Doyle	Research Analyst	jackie@leftlaneassociates.ca
Ryan Manzolini	Research Analyst	ryan@leftlaneassociates.ca
Moses Odemuyiwa	Director of Sales	moses@leftlaneassociates.ca
Josh Ball	Sales & Marketing Analyst	josh@leftlaneassociates.ca
Mia Robregado	General Manager	mia@leftlaneassociates.ca