



Valuable Advice from Workshop I

Driving Successful M&A: Acquisition Strategy, Extracting Value and New Deal Norms

Held on Wednesday 10 June 2015

Chaired by Kerri Dewe, Corporate and Commercial Principal at Lowndes, the sold out workshop was led by three speakers: Michael Stiaissy, Senior Partner of KordaMentha; Murray Schnuriger, Corporate Finance Partner at Pricewaterhouse Coopers and Ross George, Managing Director of Direct Capital.

Kerri opened the workshop noting the increased appetite for M&A deals in 2014, where M&A activity was, by value, at its highest level since 2007. This was characterised by small to mid-sized transactions in both the trade and financial sponsor spaces, with notable blockbuster exceptions such as Beijing Capital Group's acquisition of Transpacific's Waste Management, and Carter Holt Harvey's pulp and paper business sale to Oji Holdings and INC Japan. Kerri noted that an active climate looks set to prevail in 2015, with the market showing an uplift in prices being demanded and, crucially, received by sellers, competitive credit markets, a broadening pool of quality potential investments and strong foreign interest in New Zealand assets.

New Opportunities and Getting the Best from Deals



Kerri Dewe, Chair, with (L-R) Michael Stiaissy, Ross George and Murray Schnuriger.

Michael distinguished the M&A decision making process of a theoretical company board from a common New Zealand board. A theoretical board considers M&A activity based on whether the proposed action will maximise value for shareholders in the long term. This requires being aware of the value of each of your assets on a monthly basis and determining its relative worth to you or another prospective purchaser. In simplistic terms, the board's decisions are to:

- Hold cash;
- Buy another business and/or sell part of your business;
- Return money to shareholders.

Michael stressed we are not seeing enough New Zealand businesses engaging in M&A activity, with New Zealand board members generally risk averse and not considering this on an on-going basis. This cultural norm for New Zealand boards filters down to management who stop looking for new opportunities. In comparison, foreign companies undertake these M&A activities on a more frequent basis, and we are seeing a lot of foreign interest in New Zealand's assets.

Michael's advice to potential vendors was to "dress up the bride!" Vendors need to present their business in its best possible light. Michael outlined three key things a vendor should spend time and money on, being the major issues a purchaser is likely to look at:

- Potential health and safety risks, and the seriousness of these risks. If you have a risky business, spend significant time ensuring your policies and processes in this area are in great shape;
- Tidy tax and financial records; and
- Corruption issues.

Michael pointed to the dramatic change in who is purchasing our New Zealand businesses. He noted the importance of being aware of the cultural differences in the way various offshore purchasers do business. As generalised examples, Japanese purchasers look to enter into partnership models, but the Chinese model is very different, with the fundamental requirement of

Chinese investors being to obtain control, whether by majority shareholding, board representation, or through contractual supply or distribution arrangements.



The Current Market and Recent Deal Activity

Murray's discussion of the current market focussed on mid-market deals within the \$10-150 million range, noting 80% of deals are in that space. Murray noted a "wall of capital" currently looking for a home:

- 2014 saw more IPOs than in the previous five years together. While 2015 has been slow in terms of completed IPOs, there is plenty in the pipeline;
- There is a lot of committed capital in the market, and several Australian private equity funds are interested in the New Zealand market;

- Iwi investors (established as charitable trusts) are becoming increasingly commercially focused;
- There is enormous demand from Japan and China, with focus on the food, dairy, agricultural, forestry and technology industries;
- Europe and the United States are currently showing strong balance sheets and are actively looking for deals.

Murray agreed with Michael that generally New Zealand companies are risk averse and not prepared to put their capital at risk to grow their business, in comparison with the aggressive offshore competition. He encouraged NZ business to be more engaged in the M&A space as a legitimate form of creating shareholder value.

Murray noted the high competition for growth businesses (although less for "steady as she goes" businesses), and discussed how to compete for acquisitions:

- Go hard at targets outside of competitive processes;
- Make your approach at fair market value or better - low ball offers are unlikely to catch anything, and may incentivise the target to take the opportunity to market. Do it right first time – get them on the hook, keep deal momentum and keep the pressure on;
- If the opportunity does go to a competition process:
 - Look at the valuation. Make the judgment on information you have in front of you, not what you think you know;
 - Know your competition. Play to your strengths and highlight their weaknesses;
 - Consider warranty indemnity insurance. This is becoming popular and not expensive, and is an attractive proposition for the Vendor (i.e. a bonus for your offer) as it leaves the Vendor with no ongoing liabilities;
- Exclusivity is valuable. It has to be earned – provide fair value (due diligence can provide opportunities for renegotiating deal terms), a clean deal and demonstrate you have a low execution risk;
- As a buyer, stay disciplined. Don't get deal fever and over pay – pay what is fair!

M&A Strategy

Ross highlighted the importance of being the momentum player and a thought leader in your industry. He considers the easiest way to do this is through business growth.

Ross explained that from his perspective, purchasing businesses is not risky if well planned, well funded, well executed. Ross emphasised the value of a solid execution strategy, with a 100 day plan and 18 month implementation period to bring about the positive results you expected from the acquisition. A key element in unsuccessful M&A is a failure to staff the acquisition well, and failure to convince the target and its staff that they want to be bought by you.

Ross noted that there is no perfect company, so you need to continually consider change – what parts of the business are working, what parts don't fit and should be sold, are there bolt-on acquisitions that can add value, and ensure you change partners and alliances as required. Ross proposed that writing an annual information memorandum for your company is an essential internal exercise. This elucidates what's good, and what's bad, and allows you to focus on the changes required and not just "business as usual". Ross recommended listing:

- Who you would ideally like to buy (even if this does not seem achievable)? This will help you move from a capital-led strategy to a strategy encouraging you to approach opportunities that best suit your business – capital is available!
- What would you like to sell?

If after considering your lists you decide to do nothing, set out why the status quo is the best position for your business – the status quo is also risky.

Ross identified some key considerations in using M&A:

Don't have a capital-led strategy – identify what you want and then see how it can be achieved;

- Take account of the current market cycle you are in;
- Know and respect your competitors – you may have future acquisition or divestment opportunities with them;
- Include the personal components when assessing opportunities and implementing M&A – where is your time and effort best attributed?
- Incremental M&A is the best way to grow – buying a business is less risky than starting it up.

The session concluded after Kerri Dewe thanked the panel for sharing their passion, knowledge and experience, and thanking all participants and sponsors of the first of the 2015 Business Intelligence series workshops.



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