Scoring with strategic buyers

Take advantage of a resurging M&A market

Following several years of stormy weather, the sun is finally beginning to emerge, albeit slowly, on the M&A market. Many observers expect strategic buyers to be major players in this recovery. That's good news for most business sellers, because strategic buyers typically pay more than financial buyers.

Finding and negotiating with strategic buyers isn't necessarily going to be easy, though. Intense competition among businesses that have been waiting for the M&A market to improve, and that are now entering the market, means that sellers must be prepared to make a compelling case.

The new dealmakers

Strategic buyers choose targets based on projected synergies and other factors that they believe will contribute to their company's long-term growth. And they aren't only the *dominant* players right now — they're pretty much the *only* players.

A study conducted by the Association for Corporate Growth and Thomson Reuters found that through Nov. 30, 2009, strategic M&A activity totaled $1.7 trillion. Although this number represents a 32% decline from the comparable period in 2008, it accounts for 94% of announced M&A deals last year — the highest percentage of strategic deals since 2001. Private equity funds traditionally make up the bulk of financial buyers, which choose their acquisition targets based on economic value. But scarce financing and poor investment returns have kept most of these buyers out of the market in recent years. Strategic buyers, on the other hand, tend to be more financially stable and often have the capital needed to make cash deals. They also don't face the same time pressures as financial buyers, who typically look for temporarily undervalued targets that can be bought relatively cheaply.

Usual suspects

Most strategic buyers are mature companies seeking growth via a well-chosen acquisition.
These buyers are likely to have spent the last few years on the sidelines, waiting out the economic downturn and building up substantial cash reserves. They typically fish in their own waters, targeting industry peers or companies with complementary products and services. For example, to increase their online reach, Japanese ad agency Dentsu recently purchased digital ad firm 360i, and AOL bought video production and distribution platform StudioNow.

Another common type of strategic buyer is the big fish in the small pond — a middle-market company in the $10 million to $50 million range that's dominant in a fairly limited geographic region or product line. Such companies often have limited opportunities for organic growth, but can benefit enormously from acquiring the right company.

Positioned to sell

If you believe your company would make a good strategic acquisition for a specific buyer (or even general class of buyer) you'll want to focus your marketing efforts by highlighting similarities in products or business culture. You also need to emphasize potential cost synergies that could be realized by combining workforces, offices and production facilities. Also, work with your M&A advisors to research potential buyers' strategic objectives for those that require them to make an acquisition.

Catching a buyer's interest is a big hurdle, but once you have it you must be willing to negotiate on price. Strategic buyers typically pay more than their opportunistic counterparts, but they don't buy companies they consider overpriced or that put them at extraordinary financial risk.

Expect strategic buyers to know how your financials compare with those of your peers and whether the price you're asking is comparable to those of other companies on the market. With a surplus of sellers, buyers can afford to be picky, so be sure you approach the negotiation stage realistically.

Stay smart

A strategic buyer can be a great catch for a selling business owner. But if you're readying your company for the M&A market, be sure you approach the process knowledgeably. Buyers of all stripes are looking for both quality and value.