



Tips for Buyers in doing Acquisitions

Although most readers of SPT are likely to end up being Sellers rather than buyers, it may still be useful to both buyers and sellers to identify some key tips for buyers. Most of these tips come from experience in my own practice with Harding Security and some from working for 12 years before helping two of the larger Canadian alarm companies buy before that.

.If you know what you are doing and do it well, buying another business is a great way to grow your business quickly. Growing organically can not only take a long time but depending on the industry is becoming more and more costly. “Buying” rather than “building” today is particularly attractive today in the security alarm business because the cost to create new accounts organically has sky-rocketed. As a result there are very few of the smaller alarm dealers who I talk to today who are growing their account base much organically.

But buying any business is always risky. Not only does it absorb a lot of capital that might have been deployed in another way but you cannot be assured of getting the returns you banked on. In fact the stats in the M & A world suggest that at least 50% of all deals do not return what they were supposed to.

So how do buyers go about making sure they are on the right side of that 50%?

First know what you are looking to buy and how the acquisition fits into your overall strategic plan.

Surprisingly many buyers don't quantify what they expect to get from a deal and have not thought through what doing the particular deal will do to the original business. Will the business fit your existing company culture? How long will it take to integrate the new business?

Then assuming that the deal makes sense strategically, have you calculated how much you should be prepared to spend on the deal. My father who ran a successful national carpet manufacturer and distributor of carpet always told me the golden rule when do acquisitions is “never pay too much”. As a buyer it pays to have an advisor to help you assess the acquisition target and determine the maximum price you should pay; but make sure those advisors are being paid to complete deals. My guess is these days is most buyers over pay when they buy. Be prepared to walk away.

Another point when buying anything today is to calculate what the purchase will do to your overall working capital needs and make sure you get the seller to turn over sufficient working capital as part of the deal. Even buying alarm accounts which can be folded into your existing alarm account base can draw on future working capital needs.

It goes without saying that every buyer needs a good mergers and acquisition lawyer to draft the purchase and sale agreement to protect his interests down the road.

Most of the really successful deals that I have been part of over the last 12 years have seen the original owner stick around to provide good transition advice for at least 3-6 months after. Even a simple alarm accounts usually involves combing 2 different approaches to managing an account base.

After making sure that the deal is a good fit for your company and not paying too much, then doing a good integration of the target company is next most critical step. Jack Welch of GM fame who did a lot of deals while running GE used to say that the integration process should start while you are doing your due diligence on the company. Sometimes it is better to completely fold the company into the mother ship including doing away with the target company name and market profile. Sometimes it is better to keep the target going as is separately for a few years after. Even integrating something as simple as another alarm account base can be messed up badly because the buyer's organization for example bills in different rotations, breaks out their monthly invoices differently, has different practices about cancellations- and on and on. I am currently following (from a distance) an acquisition of 1200 alarm accounts that I did with a major Canadian buyer and the attrition on the base has more than doubled since the larger player took over- all I think because the buyer handled the mundane things listed above very differently from the seller. Frankly it has been a mess.

Some other tips I have picked up along the way:

- Most of the time it does pay to be prepared a little more pay up for a very good company. Warren Buffett would support this.
- As a buyer, don't pay too much attention to trying to pick the exact right time to buy. Good companies come on the market all the time, in good times and bad. The baby boom generation is retiring and there are a lot of companies going to come on the market in the next 5 years. Moreover deals can be done at almost any time- even all through covid.
- What I read and hear is that as a buyer you should expect that the performance on both the mother company and the acquisition target to drop a little immediately after a deal is done. Plan for that.
- Remember as a buyer that if you buy assets, most of the time you can write most of your purchase off against income over time. This should mean you can pay more than if you are buying shares.
- It pays to have or develop a small team inside your organization who handle acquisitions- someone from finance, operations and even IT. This does not have to be their full time job. And establish accountability with those team members.
- Finally like everything else in life, you should get better at buying as you do it. The stats show that those who do acquisitions as an integral part of their ongoing daily life usually are better at doing deals. The first deal might be tough but after that you should get better at it.

Buying can be a great way to grow your business. No question about that. But like everything else in business you need to know what you are doing.

Victor Harding
Harding Security Services Inc
victor@hardingsecurity.ca