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M & A Performance has actually improved over the Years

Sometimes it is useful to reflect on a certain field and see whether things in that field have got better or worse over time. I often wonder whether the performance of M & A deals in general has improved or not over the last 20 years or so. The conventional wisdom on all M & A, including the security industry, was that up until the last 10 years or so ,70% of all deals closed did not produce the returns that the buyers initially had wanted. Various reasons are quoted for these bad results. The buyer did not have a clear idea of what they wanted from an acquisition and ended buying the wrong company. The buyer simply paid too much for the deal or the buyer failed to pay enough attention to the integration part of the deal after the deal was closed. These were just some of the reasons.

Then I recently read an article written by David Harding, Dale Stafford and Suzanne Kumar of Bain and Company on “How Companies got so Good at M & A” which said that indeed the financial results from deals has improved over the last 20 years. Along with that acquisitions in general have increased in number over the last 20 years. More and more companies are using M & A as an integral part of their strategy for growth. A tangential comment in this Bain and Company article was that companies that do regularly do acquisitions show better overall financial results that those that do not.

The Bain and Company article tells us that buyers appear much more satisfied with the returns they are getting from acquisitions a much higher 5 of the time. This is a big turn-around. How did this happen?

I am going to relate some of the points in the Bain article to what I have read elsewhere and actually experienced in my time in the security industry. It stands to reason that if we look at the security alarm industry in Canada the bigger buyers like API Alarms, Telus and SecurTek would not continue to buy unless they were getting good results from deals

What can we learn from the Bain article to help understand how to improve the financial results on deals?

Firstly, buyers that do consistently do deals produce better results than those that don’t do lots of deals. I have read this conclusion in other M & A books and my own experience in dealing with buyers is that those that do lots of deals are not only better and easier to deal with but also get better results. This not only seems obvious to me but is something that sellers should keep in mind when they are selling. It is almost always easier doing a deal with a buyer who has done deals before than with a buyer who is doing his first deal with you.

Secondly doing lots of smaller deals is usually safer and more financially rewarding to a buyer than doing one huge deal. Huge deals can be so much riskier and can consume so much of the buyer's time. They can also transform the buyer in a way that they did not want.

Another change I have seen is that more buyers today appear to have thought through why they are buying, what they want to buy specifically and what they want to pay. Part of this is driven by the fact many of these accumulators are being run by private equity or highly trained management. In some cases, it could be a family-owned firm that has learned over the years that acquisitions if done properly can be very profitable.

The reason why deals are being done has expanded as well. Up until recently the main reason I see security industry buyers buying today is that they wanted to build *scale*. We see this in all parts of the security industry. That is what is behind most of the deals done by the bigger Canadian buyers in the alarm industry.

But today more deals are also being done that include what you could call expanded" scope ". A scope deal is where the buyer is looking at you because you provide an adjunct or new product or service to his existing business but in a slightly different field. We see this with alarm companies want to buy a small fire company to add to their alarm business. Or a guard company looking to buy a commercial alarm business. The assumption behind many of these scope deals is that the buyer thinks his existing business and staff can learn the new business quickly and the new business is not only profitable but may add to the buyers existing business. You could argue that scope deals can be a little riskier but they can also produce great returns.

Another reason why deals have improved is that buyers are paying more attention to their people and the people in the target company. Sometimes a buyer will buy mainly because they want the people that the seller has. A smart buyer will look at a seller staff and see that certain members of that staff will fulfil gaps in his existing structure and are just high performers. Often one or two top notch performers in the Sellers can make a huge difference to not only the seller but also the buyer.

As a seller it pays to try to get some idea of why a buyer is interested in you. If your company aligns with what a buyer is looking for it is likely the buyer will pay up to buy you and the deal will likely go more quickly.

Finally, there are some other steps that buyers are taking that have improved "their batting average" on deals. Firstly, they are doing more due diligence on the culture of the company they are looking at to buy. Will the Sellers culture fit with the buyer's culture. This is not easy to determine but definitely worth examining. Secondly the companies that I see with an acquisition team in place almost always end up doing a better job at acquiring than those without. Finally, as I have made mention in previous articles acquisitions can be destroyed by a bad integration. I sold a fire company to a large Canadian and American buyer about 8 years ago. I have never seen so much value destroyed by a buyer in my life. I was shocked at how bad the integration was. When you buy you not only want to hold onto the Sellers existing customers but set up the combined company so the Seller can increase its customer base. That will not happen if the buyer does a lousy job for example of transferring the Seller's billing and monitoring data after the sale or if the buyer ignores the Sellers staff after the deals is done. Integration is everything.

Despite all these issues, the main point here is that over the years M & A activity has improved. More deals closing today produce successful returns.

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