

Grand Junction Lecture Notes

Strategic Acquisitions
Corporate Perspective

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Strategic Acquisition Price is Usually Higher than Public Market Price

- Synergies that accrue only to a strategic buyer:
 - cost advantages (procurement leverage, manufacturing scale, supply chain, etc.)
 - no incremental SG&A (sell acquired products through existing distribution channels)
 - R&D avoidance (buy vs. make)
- Much higher profits to a strategic buyer
 - higher gross profits
 - gross profits = net profits

Strategic Buyer has different view of valuation

- Internal Business Case, usually involves:
 - higher volumes and revenue
 - lower product cost, R&D, SG&A
 - but has to deal with
 - goodwill amortization
 - EPS considerations
- Very important are:
 - time to market considerations
 - competitive threats

How to make sure you get the best price from a strategic buyer

- Threat of competition!
- Need to create a “stalking horse” with at least one other strategic buyer
- Quietly “shop” the company to a selected few
 - use your banker, your VC’s

Corporate Acquisition Process is Complex

- Each company has its own acquisition process
- The process can be lengthy and frustrating
- Many internal constituents have to be satisfied and approve
- The Corporate Development VP is your guide through this process
 - at some point, you have to view him as a “partner” rather than an “adversary”

Examples of Internal Corporate Constituents

- Accounting (cash vs. stock? pooling of interest? Line-item consolidation? Equity vs. Cost method of accounting? EPS implications.)
- Legal (IP, antitrust, national security, regulatory filings, disclosure requirements, board approvals)
- HR (retention, different cultures, compensation practices)
- Sponsoring Business Unit (commitment to revenue and cost objectives, post acquisition integration plans)
- Corporate Development (external interface to you, gearbox to internal processes, your guide and partner!)

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