

# Contents

---

**Preface** xiii

**About the Author** xvii

**Free On-Line Resources by Steven Bragg** xix

|   |           |
|---|-----------|
| <b>1 The Acquisition Process</b>            | <b>1</b>  |
| Why We Acquire                              | 1         |
| Why a Target Sells                          | 5         |
| Acquisition Strategy                        | 7         |
| The Basic Acquisition Process Flow          | 10        |
| The Auction Process Flow                    | 18        |
| Locating and Culling Acquisition Targets    | 21        |
| The Optimal Target Size                     | 25        |
| Evaluate Acquisition Targets with Alliances | 26        |
| Acquisition Risks for the Buyer—Valuation   | 28        |
| Acquisition Risks for the Buyer—Legal       | 29        |
| Acquisition Risks for the Seller            | 31        |
| Acquisition Follow-Up Activities            | 32        |
| The Hostile Takeover                        | 33        |
| Defending Against a Hostile Takeover        | 35        |
| Summary                                     | 39        |
| <b>2 Key Participants</b>                   | <b>41</b> |
| The Acquisition Team                        | 41        |
| Attorneys                                   | 42        |
| Board of Directors                          | 43        |
| Brokers                                     | 44        |
| The Chief Executive Officer                 | 46        |
| Investment Bankers                          | 47        |
| Investor and Public Relations               | 48        |
| Lenders                                     | 50        |

|  |           |
|--|-----------|
| Line Managers                          | 51        |
| Specialist Consultants                 | 52        |
| Players in Hostile Takeovers           | 53        |
| Integration Team                       | 54        |
| Summary                                | 54        |
| <b>3 Valuing an Acquisition Target</b> | <b>57</b> |
| Alternative Valuation Methods          | 57        |
| The Control Premium                    | 65        |
| Synergy Gains                          | 65        |
| The Discounted Cash Flow (DCF) Model   | 66        |
| Constructing Cash Flow Scenarios       | 69        |
| Cash Flow Adjusting Factors            | 71        |
| The Earnout                            | 74        |
| Qualitative Factors                    | 75        |
| Which Valuation Method is Best?        | 77        |
| The Method of Payment                  | 78        |
| Summary                                | 82        |
| <b>4 The Term Sheet</b>                | <b>83</b> |
| Reasons for Using a Term Sheet         | 83        |
| Components of a Term Sheet             | 85        |
| Summary                                | 92        |
| <b>5 Due Diligence</b>                 | <b>93</b> |
| Due Diligence Team Staffing            | 93        |
| Due Diligence Interviews               | 95        |
| Due Diligence—Overview                 | 96        |
| Due Diligence—Market Overview          | 99        |
| Due Diligence—Culture                  | 101       |
| Due Diligence—Personnel                | 102       |
| Due Diligence—Intellectual Property    | 106       |
| Due Diligence—Brands                   | 107       |
| Due Diligence—Risk Management          | 109       |
| Due Diligence—Capacity                 | 110       |

**Contents****ix**

|                                      |     |
|--------------------------------------|-----|
| Due Diligence—Assets                 | 113 |
| Due Diligence—Liabilities            | 116 |
| Due Diligence—Equity                 | 119 |
| Due Diligence—Profitability          | 120 |
| Due Diligence—Cash Flow              | 124 |
| Due Diligence—Customers              | 126 |
| Due Diligence—Product Development    | 128 |
| Due Diligence—Production Process     | 130 |
| Due Diligence—Information Technology | 132 |
| Due Diligence—Legal Issues           | 132 |
| Due Diligence for a Business Segment | 136 |
| Due Diligence—Forecasts              | 137 |
| Due Diligence—Missing Information    | 138 |
| Complexity Analysis                  | 139 |
| Due Diligence—Red Flags              | 140 |
| Due Diligence—Seller’s Perspective   | 143 |
| Due Diligence—Documentation          | 144 |
| Summary                              | 146 |

**6 The Purchase Agreement****147**

|  |     |
|--|-----|
| Components of a Purchase Agreement                     | 147 |
| The Merger Section                                     | 148 |
| The Letter of Transmittal Section                      | 153 |
| The Representations and Warranties Section—Seller      | 154 |
| The Representations and Warranties Section—Buyer       | 162 |
| The Survival of Representations and Warranties Section | 163 |
| The Conduct of Business Section                        | 165 |
| The Additional Agreements Section                      | 165 |
| The Closing Section                                    | 167 |
| The Termination Prior to Closing Section               | 168 |
| The Supporting Documents Section                       | 169 |
| Exhibits   | 170 |
| The Seller Disclosure Schedule                         | 170 |
| The Closing Memorandum                                 | 171 |
| Special Clauses  | 173 |

|                                    |     |
|------------------------------------|-----|
| Post-Closing Activities            | 177 |
| Negotiating the Purchase Agreement | 178 |
| Mechanics of the Close             | 179 |
| Summary                            | 180 |

## **7 The Acquisition Integration Process** **181**

|   |     |
|---|-----|
| Integration Timing                            | 181 |
| Integration Planning                          | 182 |
| Synergy Realization                           | 186 |
| The Integration Manager                       | 192 |
| The Integration Team                          | 195 |
| Integration Communications—Internal           | 196 |
| Integration Communications—External           | 198 |
| Anger Management                              | 199 |
| Progress Reporting—External                   | 200 |
| Cultural Issues                               | 201 |
| Employee Integration—Qualification Assessment | 205 |
| Employee Integration—Job Positioning          | 206 |
| Employee Integration—Relocations              | 208 |
| Employee Integration—Key Employees            | 209 |
| Employee Integration—Founders                 | 212 |
| Employee Integration—Unions                   | 213 |
| Layoffs                                       | 214 |
| Compensation Integration                      | 215 |
| Sales Integration                             | 217 |
| Process Integration                           | 219 |
| Technology Integration                        | 220 |
| Controls Integration                          | 221 |
| Board Integration                             | 222 |
| Integration Metrics                           | 222 |
| Integration Pacing                            | 224 |
| Summary                                       | 225 |

## **8 Accounting for Acquisitions** **227**

|                           |     |
|---------------------------|-----|
| Purchase Price Allocation | 227 |
|---------------------------|-----|

**Contents**

**xi**

Fair Value Determination 228  
 Intangibles Identification 229  
 Duplicative Assets and Assets Targeted for Disposition 233  
 Example of the Accounting for an Acquisition (with Goodwill) 233  
 Example of the Accounting for an Acquisition  
 (with no Goodwill) 237  
 Initial Goodwill Impairment Testing 239  
 Ongoing Goodwill Impairment Testing 241  
 Example of Goodwill Impairment Testing 242  
 Timing of Annual Goodwill Impairment Testing 245  
 Push-Down Accounting 245  
 Summary 249

**9 Types of Acquisitions 251**

The Tax Implications of a Acquisition 251  
 The Asset Acquisition 253  
 The Type “A” Reorganization 255  
 The Type “B” Reorganization 256  
 The Type “C” Reorganization 257  
 The Type “D” Reorganization 258  
 The Triangular Merger 260  
 The Reverse Triangular Merger 260  
 The All-Cash Acquisition 261  
 Appraisal Rights 261  
 Summary 262

**10 Government Regulation 265**

Anti-Trust Regulations 265  
 International Anti-Trust Regulations 268  
 Environmental Regulations 269  
 Summary 271

**Appendix A: Due Diligence Checklist 273**

**Index 291**

<http://www.pbookshop.com>