Mergers and Acquisitions

Mergers and Acquisitions part 2

Narrator:

Acquisitions come in all shapes and sizes. In Part 2 of this interview Ian Wilson reflects on some of the different processes that lie behind them. First Smaller Deals.

There is a spectrum of deals from the small ones to the very large ones. And starting at the small end I mean, for example the shoe shop in Jermyn street that I sold. In that case we advertised the business in the Financial Times.

And I was quite surprised to find that the main players who I thought might be interested did respond. In that case we used a small boutique adviser who advised on the deal and we went through the usual contract with lawyers, due diligence and closing that.

Second Larger Deals.

Ian Wilson:

Lets talk about a deal that's perhaps in the order of 50 million to 500 million Euro. In that case a bank is normally retained as an adviser. And the first thing that happens is that an Information Memorandum is written by the bank in conjunction with the management of the organisation that's selling the property.

And that Information Memorandum will describe the business, the markets they're in. The competitors, the products. There'll be financial information in the Information Memorandum that shows the historic performance of the business in terms of its profit and its cash generation.

Probably a one off two page teaser of the Information Memorandum is sent to prospective purchasers by the advisory bank without actually disclosing who the seller is. And the recipients of the teaser are then asked to express an interest.

And the bank in conjunction with the seller will select a short list who are then sent the Information Memorandum.

Now on receipt of the Information Memorandum the prospective purchasers normally retain advisers to advise them on the value. And how that deal fits with their organisation.

And as a result after normally a couple of weeks having received the Information Memorandum they'll be asked to submit a non-binding bid to show the value that they place on the deal.

The response to the Information Memorandum is then considered by the advisers to the sellers and the number of purchasers is then again reduced. One normally takes the highest bids. Or at least the bids with the highest value. And then the two or three people left at that stage are asked to produce a mark up to a sale and purchase agreement.

At that stage the vendor’s advisers will instruct the purchaser’s advisers to maximise the value of their bids prior to possibly entering exclusive negotiation process with one or at most two bidders.

And of course the bidders then go away and maximise their synergies to maximise the value of the deal. But I have been involved with one situation where the seller’s advisers told the purchaser advisers that there were still several people involved in the deal. When in fact there was only one bidder left in.

And of course that’s a rather unethical way to try to increase the value.