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

- 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!)