



## Due Diligence Maximising M&A success in 2014

# Conduit Consulting LLC

Jillian Alexander is the founder and Managing Director of Conduit Consulting LLC, a Strategy, Transaction, and General Management consultancy.

### Fact File



*"Focusing on the deal's strategic intent is imperative to maximising M&A success. When performing due diligence, evaluating the target and the future-state combined company against qualifying criteria is critical."*

Company: Conduit Consulting LLC  
Name: Jillian Alexander, MBA, CM&AA  
Email: [info@conduitconsulting.com](mailto:info@conduitconsulting.com)  
Web: [www.conduitconsulting.com](http://www.conduitconsulting.com)  
Address: 2530 Wilshire Blvd. Second Floor, Santa Monica, CA 90403, USA  
Telephone: +1 (310) 260-9765

Deals are done for a variety of reasons – access (to talent, raw materials, markets, etc.), synergistic gains, stopping competitor, or ego. Yet, for more than 20 years, various studies have found that between 70% and 90% of mergers are dilutive or otherwise fail. Additionally, we often hear about Buyers and Sellers being remorseful about their transactions. Considering that 100% of the deals I led or worked on have been accretive, it suggests different approaches are used.

Mergers and acquisitions are complex initiatives. Regardless of reasons for considering the deal, comprehensive due diligence is necessary and how it is conducted matters. Total cost includes the opportunity cost of disrupting day-to-day operations and reputation management if news of the deal leaks out. If not handled well, star talent and key customers of both the Buyers and Sellers will flee.

#### **Comprehensive Due Diligence Requires Complete Deal Team**

Most Buyers and Sellers require outside Strategic and Operations advisors to realize a deal's full potential. Traditional Deal Advisors are investment banking, legal, tax, accounting, or audit specialists whom typically have little to no operating experience, and seldom has one had the cross-functional management, organization design, merger integration planning, and transition change management experience necessary to quickly identify organization-wide interdependencies or realistically assess degree of effort and duration it will take to combine the entities into the desired "future state". Most in-house Corporate Development roles are filled by people with similar backgrounds. The traditional approach to due diligence ignores strategic and operational nuances, forgoing adjusting valuation and price negotiation results in the Buyer overpaying.

Sophisticated company leaders and conscientious traditional Deal Advisors recognize that reviewing operations and planning integration concurrently with performing legal and accounting due diligence facilitates structuring the acquisition, including financing, so that both an agreement is reached and after integration and

implementing post-acquisition strategy the deal will be accretive. In fact, preliminary findings from a soon-to-be-published Spring 2014 deal satisfaction study conducted by Conduit Consulting indicate that both Buyers and Sellers were more satisfied with transaction results when the Deal Advisors team included Strategic and Operations Consultants.

Engaging well-qualified Strategic Advisors as team members is key. Since the deal slump, more attorneys and investment bankers are recommending their clients engage Conduit Consulting to lead the deal. Our clients want more than a valuation and price. They want an assessment of the strategy and ability to execute against that strategy, and want to leverage our expertise in creating breakthrough innovations and breakaway strategies as a catapult toward success. Even if the deal's purpose is to shutdown a competitor, we will identify ways to profitably leverage and liquidate assets.

#### **Focus on Strategic Intent**

Focusing on the deal's strategic intent is imperative to maximising M&A success. When performing due diligence, evaluating the target and the future-state combined company against qualifying criteria is critical.

Yet, traditional Deal Advisors focus on completing the transaction, rather than strategic intent. While it seems this would benefit Sellers, it is often value destroying. Buyers which are not permitted to conduct operational and strategic due diligence either walk away or incorporate unknown risk cost into the deal. The Seller feels coerced to accept unattractive terms now or risk seeking another Buyer, restarting process and incurring more costs further diluting the transaction's value.

Conversely, by preparing my sell-side clients for comprehensive due diligence, we have consistently demonstrated the companies have scalable, efficient operations and completed transactions at premiums to comparable businesses' valuations.

#### **Overcoming Hubris**

Those that rushed to close deal after conducting only

legal and accounting due diligence or none at all are not doomed to failure. It is possible to turnaround the situation. It takes the talent of those skilled at creating valuable businesses from nothing to reconceive and transform the organization.

Several companies have completed an acquisition then engaged me to draft financial report disclosure statements. These initiatives expanded to strategic planning, including developing the merger integration plan. In other situations, we have been able to convert what was otherwise deemed as failure into a success by advising clients on marketing, procurement, manufacturing, and workforce strategies; redesigning the organization; and improving business processes and management practices.

### **Effective Communication**

While mismatch of organizational culture is often reported as the cause of failure, more often the ill-conceived strategy and failure to gain buy-in from employees is it.

Until terms, including transition plan, are agreed, it is best to limit the number of individuals' knowledge about the deal to as few as possible and not announce it publicly. Then, crisply conveying the deal's strategic intent and how the combined entity will operate to key employees, customers, suppliers, and other stakeholders cultivates confidence and gains buy-in to the plan.

### **Due Diligence in 2014**

We anticipate demand for comprehensive due diligence will continue to increase while the desire to complete deals NOW exists. With cheap debt and abundance of cash chasing too few high-quality company deals Private Equity firms are liquidating long-held position and pouring cash into new holdings. As savvy Corporate Buyers and others are wary of overpaying, they will continue to engage firms such as Conduit Consulting and other Strategic Advisors to vetted potential deals.