Admincontrol

Half of all M&A deals fail.

Don’t be another statistic

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Introduction

For many organisations there are times when there's a clear advantage to be gained from joining with another company that can add new products, markets, customers, or expertise to the business. A merger or acquisition (M&A) can bring competitive edge, increased profitability, growth, new value, or in some cases all of the above. So it's clear why M&A features in the growth strategies of so many successful companies.

But the statistics tell us that at least half of all M&A deals fail[1].

In fact, depending on whose research you choose, the failure rate of mergers and acquisitions is even quoted as between 70% and 90%[2].

There is also some ambiguity as to what constitutes "failure" in this context – from abandonment of a deal before there is a signed agreement, through to M&A's that fail to yield the desired outcome after completion.

This guide examines:

The potential reasons for failure in both scenarios – after all, any M&A has its sights set on long term success for the deal.

After this, we'll explore what businesses can do to give themselves the best chance of being on the right side of the success vs failure statistics.

Why do M&A deals fail?

Every party entering into an M&A deal clearly wants it to be a success, and fully believes it will be. Failure not only means losing out on the business benefits you foresaw from a successful conclusion, but it can also be extremely costly.

Both deal abandonment and longer term failure of the joint entity mean the loss of substantial amounts of time, resources and professional fees, while both sides could suffer damage to reputation and value.

So what are some of the main reasons why M&A deals don't reach a successful conclusion?

Price McKinsey reports[3] that the biggest factor contributing to the failure of M&A deals is disagreement about the value of the company being acquired. If the target company is overvalued, or the buyer overpays, it can be a costly mistake from the outset, and often beyond.

Lack of a clear strategy. A successful M&A should be driven by sound business motives and a clear plan. The notion of growth by simply adding more companies regardless of the synergy and with scant thought about the long term value each party brings to the merged organisation may scupper the deal.

External factors. An M&A deal can be thwarted by factors outside the control of those involved. Economic factors, sudden market disruption, political or legislative change, and as we've seen all too recently with Covid-19, global emergencies, are the kind of unforeseen circumstances that could derail your deal.

Not enough synergy between the businesses. At the end of the day, you might find that the business fit between the two joining organisations just isn't right. Does the new company bring the customers, products and services, expertise and markets that complement and enhance your business? Is there synergy between operations and processes? If the answer is no, then the outlook for success is bleak.

Too many deals fall apart because the parties can't agree on how the two companies will operate together going forward.

Lack of an integration plan. Effective integration is imperative if the M&A deal is to add value, and too many deals fall apart because the parties can't agree on how the two companies will operate together going forward. So agree an integration strategy before the deal is signed. From core functions like finance and security to location, products, even brand names, you will need clarity and agreement, not just to ensure harmony going forward, but to create tangible, long term business value from your new entity.

Why do M&A deals fail?

Lack of synergy between cultures.
The need for synergy extends beyond the "hard" transactional considerations, into the "softer" people-focussed areas of each company. Is there alignment and harmony between the values, vision, purpose and attitudes of both companies? If not, there will be friction from the start and the potential for a breakdown in relations.

Underestimation of resources required.
Sometimes the sheer complexity of an M&A deal turns out to be greater than anticipated – potentially down to one or more of the stumbling blocks listed here. This clearly puts more pressure on the acquiring company's resources – with a corresponding negative impact on finances from which it will struggle to recover.

Lack of management involvement.
While bringing M&A experts into the process is usually necessary, and advisable, the deal should still be overseen and driven by existing management. It is they, after all, who will be running the company once the agreement is signed, and have responsibility for managing the ongoing integration and success of the new business entity.

Lack of due diligence. Due diligence is so important in the M&A process that we cover it in depth later in this eBook. Its purpose is to uncover and audit all information relevant to the sale or purchase of an organisation and its assets. Due diligence is crucial for an accurate valuation of the company being acquired and helps to reveal any financial, legal, or operational risks that may otherwise have been missed, or undisclosed on either side.

Tips to maximise your chances of M&A success

Unfortunately there's no silver bullet and no guarantees when it comes to effectively concluding an M&A deal and ensuring its ongoing success. But there are steps you can follow to give yourself the best chance of a successful conclusion, and having a good grasp of the pitfalls is a good starting point in terms of where to direct your attention - and equally, what to avoid.

From the seller's perspective, there are five key phases: preparation, pre-marketing, buyer interaction, due diligence and closing information. Here they are, step by step:

Tips to maximise your chances of M&A success

1

Step one: Preparation

The preparation phase is where you do the groundwork and planning that ensures you're ready to talk to third parties about a potential M&A deal. It will include identifying and assimilating the right data, conducting product and business analyses and defining a likely buyer universe – you don't want to go into any exclusive negotiations without identifying the full scope of any potential interest. You'll also need to prepare your data room.

2

Step two: Pre-marketing

The second phase is where you begin to contact the companies you've identified to verify their interest. Consider using a deal marketing or sourcing platform, such as Dealsuite.com to help you. Once you've evaluated their feedback, you can tailor your next steps, which could include distributing a summary of your proposal and, importantly, a signed Non-Disclosure Agreement (NDA).

3

Step three: Buyer-seller interaction

In this phase you'll build your financial models – including portfolio and growth analyses, prepare and deliver your management presentations, follow up and answer queries and set a date for any indicative bids. Once bids have been clarified and evaluated, letters of intent can be drawn up and agreed.

4

Step four:

Due diligence This vital part of the M&A process is where the business will come under intense scrutiny, so you'll need to finalise your virtual data room to ensure not only that it contains all the correct information, but that it's secure, and that all the necessary stakeholders – and only those necessary – can access it. Then all parties involved can be invited and due diligence can begin.

5

Step five:

Closing Information This is the phase of negotiation and where the sellers draft and purchase agreement are drawn up, agreed and signed. Congratulations – your deal has closed successfully.

For an at-a-glance summary of the M&A process, see our checklist

Remember that, even if you have concluded successful M&As in the past, every deal and every company is different.

Previous success doesn't necessarily guarantee it every time. So tailor your approach, don't rush - seeing a deal through takes time, and be sure to monitor the economic, political and global landscape as well as the markets in which you operate.

Due Diligence

As we've seen above, due diligence is critical in the M&A process. Respondents to KPMG's sixth global survey into M&As[4] put it top of the list when asked to consider which parts of the process they would approach differently if they were to go through it again. The top three were:

Better due diligence and planning

Faster implementation/ integration

More attention to HR and cultural matters

So what exactly is due diligence? And why is it important?

Due diligence is the process by which buyers obtain the detailed information they need to confirm they're making a good purchasing decision. With due diligence, the acquiring organisation not only knows what it is buying, but also what obligations, liabilities and risks might be involved once the deal is concluded - from debts, leases, employment contracts and customer agreements to potential data breach and cybersecurity issues, intellectual property disputes, lawsuits and more.

The due diligence process helps both parties understand the current and potential value of the target company, as well as helping them understand their synergies – or lack of them.

With McKinsey citing "mismatched expectations around synergies and value creation" being the most frequently quoted obstacles to successful M&A deals, due diligence is where these can be addressed.

What does the due diligence process entail?

Every aspect of the target company's operations should be investigated: financial, commercial, operational, environmental, social, human resources, tax and regulatory, IT, governance, health and safety, and more.

Make sure you are prepared for the process by assimilating all the right information and documents. They will include (though won't necessarily be restricted to) the following:

General corporate information

This will include a description of the company's business operations, what it does, the markets in which it operates and its history.

Financials

You will need to provide financial statements, tax assessments and returns, budgets and forecasts, auditor correspondence, an overview of corporate assets and a valuation of both assets and company.

Due Diligence

Legal

Legal information will include the relevant agreements for the aforementioned valuations, along with summaries of patents, licences and trademarks, copies of lease agreements, correspondence with tax authorities and assessment bodies and information about any legal disputes, past or present.

Corporate structure

Information to include here will be an overview of the board, its members and deputies, minutes from board and AGM meetings and an explanation of the company's corporate governance.

Product information

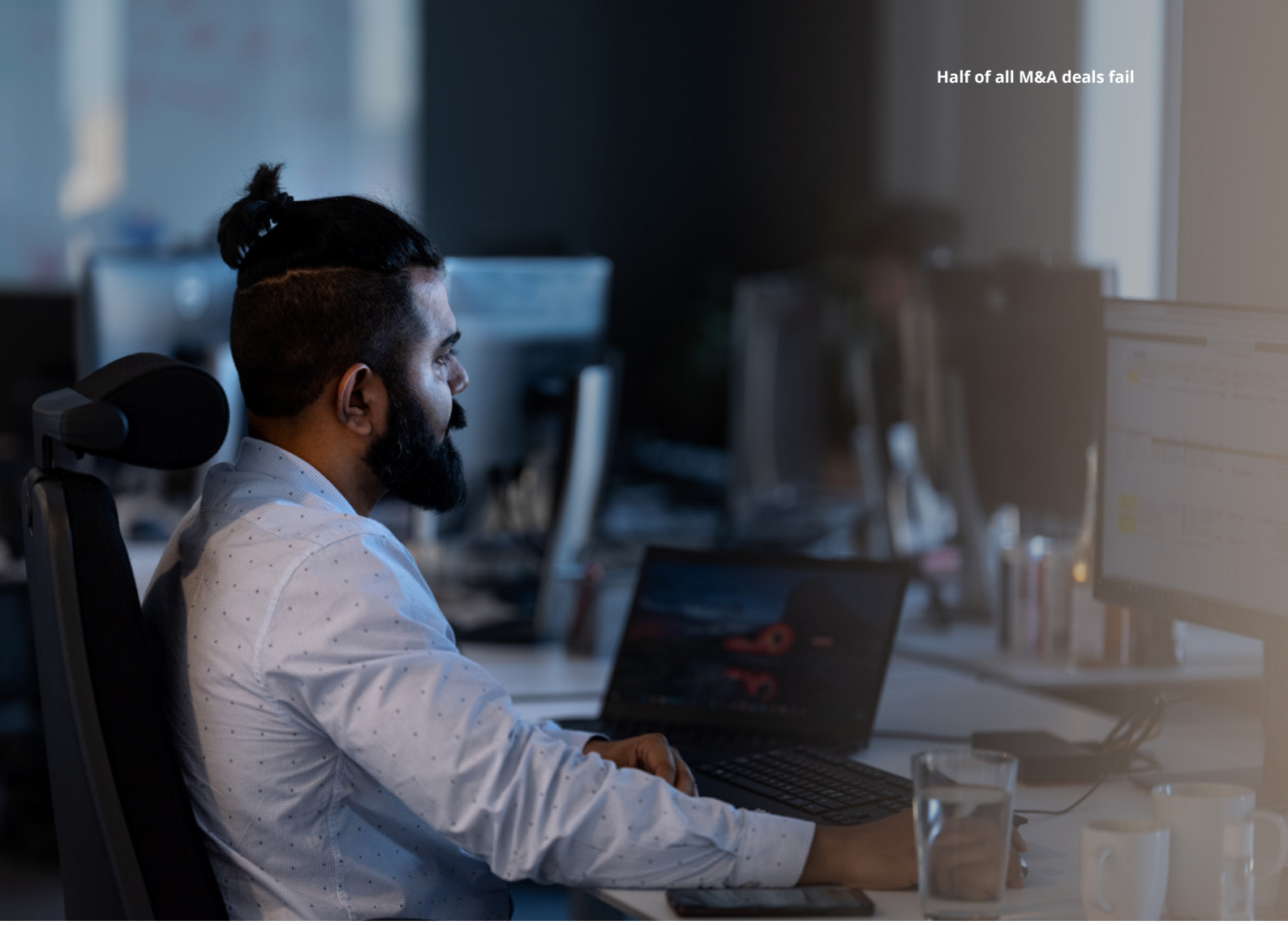
Not only will you need to provide a list and description of the company's products, but an overview of its key customers, competitors, market share and market position. Information about pricing structure should also be included, along with plans for further product development – along with associated costs.

Employees

You'll need to list the names, jobs and salaries of all employees, along with their contracts, salary and bonus agreements. Include information on staff turnover and give an overview of management and other key employees. You'll also need a copy of your staff handbook.

For a handy checklist of the documents you'll need for due diligence, download our pdf.

DOWNLOAD



The Data Room

M&A due diligence takes place in a data room – a secure and central place where the seller keeps the essential documents that the process requires.

Unsurprisingly, as digitisation has swept the globe, these traditionally physical locations have been superseded by virtual data rooms, which are cost effective, convenient and, from the right provider, ensure total confidentiality for your sensitive information and documents.

Here's what you should look for when choosing a virtual data room provider:

The Data Room

6 things to look for in a virtual data room

1. Security

A fit-for purpose virtual data room should safeguard your data in line with recognised current international standards and be equipped with the very latest encryption measures to ensure communications are protected. Beware of using free, cloud-based file sharing and storage services, which are designed for consumer use and don't meet enterprise-class security standards. Look instead for a provider that is ISO 27001:2013 and SOC 2 Type II certified, to ensure your business-critical documents and communications are safe.

Beware of using free, cloud-based file sharing and storage services, which are designed for consumer use and don't meet enterprise-class security standards.

2. Full control of your data

Not only does a virtual data room provide a safe place to store, share and comment on documents within the secure and robust functionality of the platform, but you should also be able to regulate who has access to them via a secure and flexible administrator panel. A good virtual data room allows you to add or remove users as required, and control access permissions depending on what individual users need to see and/or do within the platform.

3. Easy to use

With many different stakeholders accessing the platform at different times and from various locations, your data room needs to be user-friendly. For example, you should be able to create your own document templates in a few simple steps with simple, intuitive tools – or choose and adapt best practice, ready-to-use templates, created with leading legal and financial advisors.

4. Preparation portal

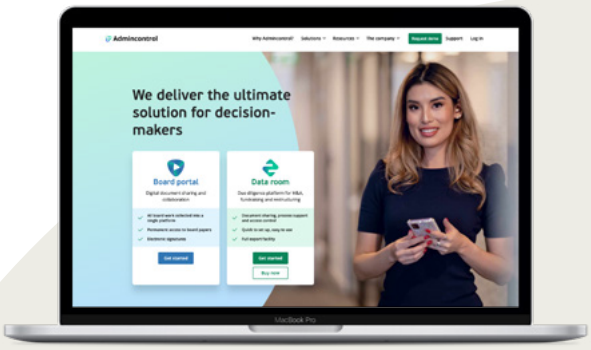
Since the M&A process, particularly due diligence, requires extensive and meticulous preparation to be sure all information is present and correct before proceeding to a potential sale, it's worth choosing a data room with a built-in preparation portal. This is a restricted data room with all the functions you need for preliminary work before any buyer groups are invited to join.

5. AI tools

Artificial intelligence takes the heavy lifting out of a great many business processes and M&A deals are no different. Admincontrol has teamed up with Luminance, a leading provider of artificial intelligence for the legal profession, so that legal advisors benefit from a fully secure and encrypted sync between platforms, making document review swift and easy.

6. Instant purchase and generation

For sheer speed and simplicity, look for a provider through which you can buy online and generate your data room instantly, the moment you place your order.



All the features recommended above come as standard with Admincontrol's Data Room.

How Admincontrol can put you on the path to M&A success

With our unique platform you can be confident not only of a full-function data room with the highest levels of security built in, but because of our dedication to simplifying the due diligence process, you can also be sure of several features and benefits beyond the standard.

USER-FRIENDLY

Simple, user-friendly set up for all parties

Quick and easy document uploads and administration

SECURITY & CONTROL

Secure sharing of sensitive information

Full overview with access control right down to document level

TASK MANAGER

An efficient way to keep track of who is responsible for which task, saving time and effort

ADVANCED Q&A

Advanced Q&A module with Gatekeeper functionality

Questions are linked to content structure for increased security and control

FULL EXPORT

Entire data room and Q&A history are exportable

Full folder structure saved for reuse and documentation

We are always looking for new ways to make it easier for our customers to execute all the tasks related to due diligence right within the safe and secure data room platform.

Admincontrol - the ultimate solution for decision-makers

A leading provider of Board Portals and Virtual Data Rooms in the Nordics, Admincontrol offers a smart and secure collaboration platform for due diligence and other business critical processes.

Founded in Norway in 2005, Admincontrol has since established local offices across the Nordic region and in selected markets in Europe such as the UK and Netherlands. Today, more than 4000 companies and 85,000 users enjoy the benefits of Admincontrol's platform.

Since 2017, Admincontrol has been a part of the successful Visma Group, Europe's largest SaaS company.

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Sources:

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2. Harvard Business Review - The Big Idea: The New M&A Playbook
3. McKinsey - Done deal? Why many large transactions fail to cross the finish line
4. KPMG - Why due diligence is of utmost importancein a M&A transaction