Lessons on a Buy and Build Strategy

With the market ripe for M&A, we ask a range of business leaders to share their insights on building up a business through acquisition

While the slow global economy means organic business growth is relatively weak, M&A continues to provide strong opportunities to develop a business and increase its bottom line. It's of particular interest to private equity houses, which have significant funds to invest.

Survitec Group, the global market-leading provider of survival technology to the marine and aerospace sectors, is a case in point. It's been backed by a string of private equity investors with its current owner, Onex, reportedly paying 10x the multiple at £450 million for the business in 2015.

Under PE backing, Survitec has pursued an aggressive buy and build strategy, acquiring 14 businesses over the last three years alone. According to its CEO, **Brian Stringer**, who spoke during Criticaleye's Global Conference Call, The Challenges of Pursuing a Buy and Build Strategy, the company is continuing its acquisitive growth story.

"Since being bought by Onex we've bought three businesses and bid for a further three, one of which is in the due diligence stage and will hopefully be completed soon. Our expectations are that with targeted acquisitions the group turnover of £300 million will increase to around half a billion by this time next year," he said.

Rising Competition

According to **Paul Russell**, Partner at BDO, last year saw 1,350 M&A deals in the UK alone. Activity was largely driven by the appetite of private equity investors, both from the UK and internationally.

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"Everyone was forecasting the end of private equity as an asset class in 2008 and 2009 but the opposite has happened – it's boomed. This largely boils down to the availability of capital – and the nature of that capital in particular is really driving buy and build," said **Paul**.

"The PE guys are looking for a 25 per cent compound rate of return and a business growing organically is unlikely to satisfy that, so they are asking their companies to aggressively pursue a buy and build strategy."

Of course, not all M&A activity is being carried out by PE-backed businesses but their appetite is pushing up prices and making the market tougher for others. It seems there are just not enough M&A opportunities to go around.

"Everyone is rushing into what is perceived to be a lucrative market but there aren't enough companies to satisfy the cash," said **Paul**. "Across the world there was $750 billion of dry powder as of December 2015. That figure for the UK was £50 billion. It's an enormous amount that you can't imagine will be satisfied by deal flow."

Scanning the Market

This heightened competition means there is greater pressure to ensure the right acquisitions are made. This is true both of PE-backed businesses with cash to burn and those scaling up slowly.

As **Brian** explained: "One of our core competencies today is our ability not just to buy businesses but to integrate them and realise the synergy benefits.

"Our PE owners are pretty aggressive in terms of the returns we can gain and therefore there's a lot of emphasis on making sure we get the right acquisition and do it at the right time."

BSI, a multinational business standards company, is pinning one third of its growth on acquisitions, all of which are self-financed from cash reserves. Its CEO, **Howard Kerr**, explained: "When I joined we did deals that were purely opportunistic but now we're disciplined and only buy the best companies. "We typically buy one 'meaningful' company a year – to us that's a £20 to 50 million turnover business."

To pick the right acquisition you need an eye on the market at all times. Survitec has a team of 10 dedicated M&A experts who currently have 250 businesses on their radar – this reflects the scale of its activity. Meanwhile, BSI is monitoring 20 companies and in conversation with four or five.

"We have just one guy – our Corporate Development Director," said **Howard**. >

"But all of our country managers are tasked with being on permanent watch for possible acquisitions. To do this we need a clear strategic plan and statement."

You also need a fully briefed and well prepared board, explained **Tom Beedham**, Director of Programme Management at Criticaleye. "It's the board's responsibility to ensure everything is aligned for a smooth transition," he said.

"The board must fully understand the business that is being acquired and why it's a good fit. Consider what synergies you expect to gain, how the integration will be managed and where overlap between the two companies may cause friction.

Understanding the business, its culture, brand, employees and customers early on leads to greater post-acquisition gains and a smoother integration."

Joining Forces

It's important to consider how you want the acquired business to stand within the context of the existing organisation; even the best M&A opportunity will lose value if not properly integrated.

Anne Stevens, Criticaleye Board Mentor, Board Trustee for charity Over The Wall and former Vice President of People and Organisation for Rio Tinto Copper, has worked on numerous M&A deals of varying sizes – the largest of which was the 2002 integration of PwC's consultancy business into IBM in a deal worth $3.9 billion.

She advised: "Question whether to integrate the business or not – there

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might be commercial reasons as to why it's best to leave the entity as it is. For example, if the company you're acquiring has a very strong brand, integration may undermine it."

Joanne Thompson, CEO of Penrillian, has seen first-hand how the wrong decision can play out: "I've worked in companies where we've taken over businesses, then integrated them within the processes, governance and expectations of the larger organisation and lost the very essence of what we wanted to acquire in the first place."

She also warned not to underestimate the amount of time it takes. "When BT acquired six of its European ex-joint venture companies in 2001, I was responsible for integrating all of the sales and service organisations into a single pan-European organisational structure with shared systems, products and processes," **Joanne** explained.

"It took a year to complete, because each JV had operated very differently and had separate accounting systems, sales management tools and staff terms and conditions – everything that could be different was."

Brian at Survitec advised that planning will help you jump the inevitable hurdles along the way. "Having done so many of these I can tell you that you'll never get them all right, the key is to do the work upfront in a lot of detail and understand what you really want out of the acquisition," he said.

"Make sure your business plan is robust and deliverable, and that you have solid processes to go about the integration and synergy realisation." ■

Featuring Commentary From:


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