Evaluating M&A Opportunities

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Wendy Harrison, Consultant in DWF's Corporate team joined an esteemed panel at Criticaleye's "Evaluating M&A opportunities" roundtable.

The discussion explored valuations in a listed and private equity context, M&A driving core strategic aims, considered risk factors, utilising tech and big data to assist decision-making, and the role of the Board in deal making.

One of the main talking points of the session was the continued importance of being 'deal-ready' - preparing well in advance for a potential sale or merger, ensuring that all aspects of the business are in order and ready for scrutiny by potential buyers or investors.

Being proactive allows companies to avoid unnecessary delays, additional costs, and potential deal-breaking issues during the transaction process. Here is a summary of our insights on how to ensure you and your business are deal-ready and some new and emerging critical factors to be aware of:

Don't believe your own fiction

When selling a business it is essential to adopt a buyer's perspective and critically assess as if you were a potential buyer. This involves imagining what a buyer would think when presented with the company's contracts, terms and conditions, share structure, and other key documents. It is critical to ensure that all paperwork is in place, properly signed, and free of any major gaps. Where there are gaps, knowing their location allows for transparent communication with potential buyers later on. Disorganisation and missing documentation can lead to prolonged due diligence, requests for indemnities, or even a reduction in the sale price.

'Culture eats strategy for breakfast'

As famously said by Peter Drucker, consultant and leadership guru. No matter how sophisticated or polished your business strategy is, any business plan will fail without an aligned organisational culture where people are empowered, equipped and incentivised to implement and reinforce it.

The role of cultural alignment between acquiring and target companies to ensure a smooth transition and maximise value creation has never been more critical. What does this mean? It means that leaders must actively shape and design a culture which includes, but is not limited to:

- A shared and common purpose where all employees are clear on why the integrated business exists, can act as a 'north star' to navigate complex business decision-making, and a platform to create synergies and collaboration;
- a cohesive set of ethical standards of behaviours and values that are hardwired into the corporate governance framework of the business; and
- the creation of a measurable and evidence-based cultural architecture that is able to dynamically shape the workplace behaviours and norms based on the principles of advocacy, empowerment, embedding and engagement.

Sustainable Business and ESG

Environmental, social and governance (ESG) considerations in M&A transactions have gained significant traction in recent years. The market has experienced increased awareness and recognition of the importance of sustainable business factors in assessing the long-term value and viability of businesses. The market has responded to this awareness by incorporating ESG due diligence into the M&A process. ESG provisions are now commonly included in transaction documents (such as specific ESG warranties) to ensure that ESG commitments are upheld post-deal.

How does the inclusion of ESG factors in M&A deals drive deal-readiness?

Firstly, it helps identify potential risks and liabilities associated with a target company's ESG practices, such as environmental non-compliance, business integrity and/or conduct and culture issues. By assessing these risks upfront, acquirers can make more informed decisions and mitigate potential future costs.

And secondly, Sustainable Business and ESG considerations have become decisive for securing funding in M&A transactions. Investors, private equity firms and institutional shareholders, increasingly prioritise sustainable investments and demand transparency in ESG performance. Therefore, target companies with robust sustainability practices and business outcomes are more likely to attract capital and favourable financing terms.

Strategic vs Optimistic M&A

When an opportunistic acquisition arises, it is crucial for CEOs to carefully evaluate how the target company aligns with their existing business and overall strategy. They should ask themselves why they want this particular business, what value it adds, and how it will complement and enhance their existing operations. Integration planning should be a key consideration from the outset. Without proper integration planning, the success of the acquisition can be at risk, and potential synergies may go unrealised.

Having the flexibility to consider opportunistic acquisitions, as well as acquisitions aligned with a broader M&A strategy, is essential. CEOs should approach opportunistic deals with the same level of diligence and attention as any other deal. Rushing into such acquisitions can lead to missed opportunities and detrimental outcomes. It is essential to give adequate time and consideration to ensure a comprehensive and integrated outlook for the combined entities.

While opportunistic acquisitions can be beneficial, their value diminishes if the buyer is ill-prepared. Deal-readiness enables companies to act quickly and capitalise on emerging opportunities effectively.

Key message

The concept of deal readiness in M&A transactions is well known to many. However, what stood out in this discussion was the increasing glare of the spotlight on culture, corporate governance and sustainable business as critical enablers of a successful deal. The overall message? Ignore the governance, human and social capital factors at your peril when it comes to M&A.

Supporting Criticaleye's Growth Company Programme

Criticaleye's "Evaluating M&A opportunities" roundtable was the start of DWF's partnership with the peer-to-peer Board Community. Criticaleye inspires and supports leaders and their teams to fully realise their true creative and business potential. With 20 years' experience in transforming executives and leadership teams globally, Critical Eye have helped leaders positively transform both themselves and their organisations. We are excited to have secured exclusive sponsorship of the CEO and NED community for 'Growth' companies, this includes scale-ups, SMEs, PE backed & small (AIM) listed organisations

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"The inaugural session was "very informative and interesting to hear the different views and experiences of the Criticaleye community in relation to M&A activity. It was also very encouraging to hear that 31% of attendees at the recent Criticaleye retreat " will definitely" undertake an M&A transaction over the next 12 months with a further 24% of such attendees " actively considering targets" This is incredibly positive news for the industry"

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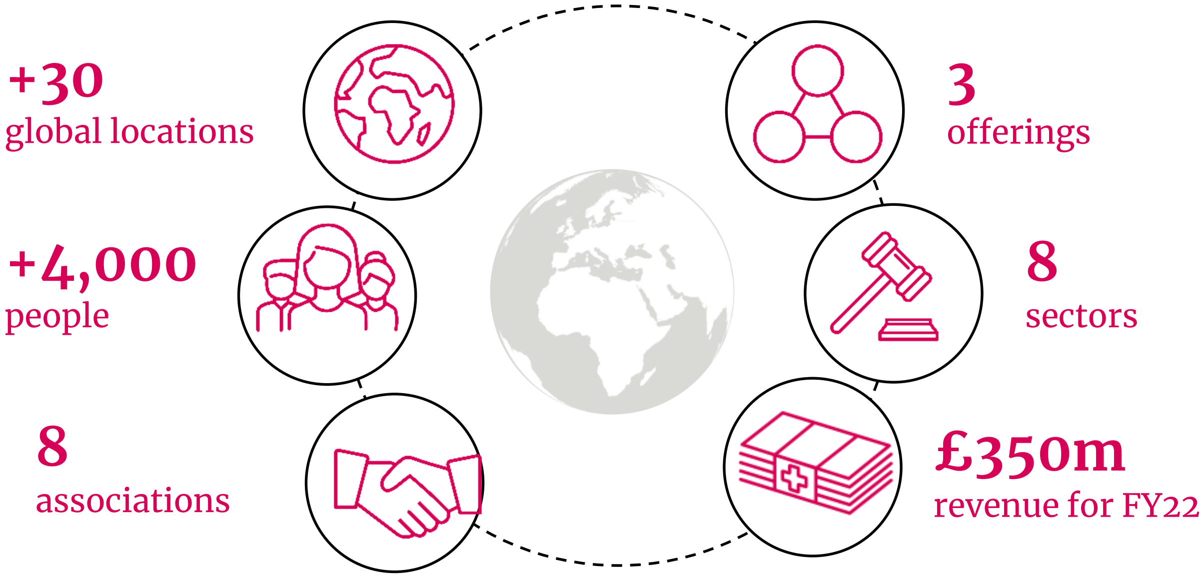
An Introduction to DWF

DWF is a leading global provider of integrated legal and business services, operating across eight key sectors in over 30 global locations with over 4,000 people. Our purpose is to deliver positive outcomes with our colleagues, clients and communities.



Our vision is to deliver integrated services on a global scale through our three offerings;

Legal Services	Legal Operations	Business Services
Premium legal advice and excellent client service. Our teams bring commercial intelligence and industry sector relevant experience.	Outsourced and process led legal services which standardise, systematise, scale and optimise legal workflows.	Products and business services that enhance our legal offerings.

Our ability to seamlessly combine any number of these services to deliver bespoke solutions for our clients is our key differentiator. This Integrated Legal Management approach delivers greater operational efficiency, price certainty and transparency for our clients. Without compromising on quality or service.

Our values

- Always aim higher
- Be better together
- Disrupt to progress
- Keep all promises
- Attend to details