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Who are today's acquirers and why do these Buyers Buy?

We continually see items in the business and financial media about public and private companies acquiring other staffing and business solutions firms. The majority of the acquisition activity over the last several years has been by publicly traded companies, often using their escalating stock as the method to fund some or all of the acquisition.

Over the past eighteen months, we have seen many more small and medium sized private firms enter the mergers and acquisition arena, often as first time buyers. As the value of the shares of the publicly traded firms has declined, the cost of money to fund acquisitions has become almost the same for both public and private firms. Thus enabling the private buyer to compete more effectively with his public counterpart for choice acquisitions.

Private buyers often have more flexibility, as they have less pressure to achieve quarterly results than their more thoroughly scrutinized public equivalent. Operating results need only satisfy the private buyer's lenders and their private shareholders. As their quarterly results are usually not made public, they may have more time to achieve their vision and business goals. They certainly operate with fewer Wall Street analysts reviewing and commenting on their every move. At times, this "fish bowl" environment is a hidden cost of public ownership and public responsibility.

While there are still many public firms involved in high value, large staffing firm mergers, often referred to as secondary consolidations, the private firms are completing almost as many transactions, although the volume and the market impact of these deals is much smaller.

As staffing stocks rise, the public buyers once again will become more active in pursuing mid-market transactions. Through consolidations like Adecco and Olsten, Interim and Norell, Vedior and Select Appointments, several multi-national firms have further positioned themselves to compete globally. As a result, when a several billion-dollar firm purchases a \$50 million firm, it has very little financial impact on the buyer's stock value. In future years, industry giants will enter the mid-market arena for purely strategic purposes, to extend service offerings horizontally, vertically and to improve margins.

Many active buyers also found they needed more time than perhaps anticipated to successfully integrate their acquisitions into their core operations. The sheer number of acquisitions in the late 1990's created some corporate indigestion for many buyers.

This should level out in the future, but the “good old days” of transactions at very high multiples may not be seen for some time, if ever again. Perhaps those years were market aberrations and our current situation is the sustainable reality. It is useful to maintain some historical perspective on the numbers reported. Everything (including statistics) is relative to its time.

Why Buyers Buy

The urge to merge is often driven by one or more of the following motivators:

1. To more fully meet customer needs
 - The cost of getting a new customer is very high
 - One-stop shopping allows vertical integration of a customer
 - Increase in fewer source purchasing
 - Increase in large and national purchasing contracts
 - Enter new geographic markets
 - Redefine customer relationships

2. To gain administrative efficiencies
 - Often it's less expensive to buy market share or market presence than build it
 - Become a lower cost producer
 - Increase their purchasing power of insurance, employee benefits, marketing and advertising
 - Spread fixed costs over a broader base

3. Use size to make their services more appealing
 - Compete on the basis of price as the major differentiator
 - The ability to service customers in more markets and sectors

Another strong motivating factor for public firm acquisitions has a lot to do with diversification and integration (forward integration vs. lateral or reverse integration), especially those in the IT Services arena. Diversification provides the opportunity for a wider service offering to customers, the "one stop shopping" concept. However, a more powerful motivator is the drive to improve margins, and hence earnings per share. The "prod" from shareholders and Wall Street is not only to continue revenue growth, but continue margin growth as well.

A perfect example of this is the wave of acquisitions by public staffing firms into the IT arena, and now the wave of acquisitions by so called IT Service firms into the "solutions" arena and more recently their migration to the E*Commerce arena. The nature of these acquisitions provides a FORWARD INTEGRATIVE move up the service “food chain” to a more sophisticated and profitable service offering that is currently in demand within the underlying economy.

The beauty of integration in the IT Services sector is that it is a rapidly expanding service with no apparent end in sight. Although, we have seen parts of the IT sector slow down to focus on Y2K compliance, this has only been for a relatively short period.

As those firms in the IT Services arena find their service offerings turning into a commodity due to competition (i.e. market saturation). Prices begin to fall for the "older" service offerings, margin pressure rises and the need to improve margins drives the need to integrate upward, resulting in the need to acquire more profitable service offerings.

There are many reasons buyers buy, some proactive and some reactive to the ever-changing market environment. Growth by acquisition is not for everyone. Some former active buyers are now putting more resources toward organic growth, while newer buyers are emerging. For acquisitions to be successful, adequate resources and energy are required for integration. See Part V, M & A Integration Strategies.

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