

CASE STUDIES

Taylor Companies believes that a good understanding of synergy will necessarily lead to the highest price for a company or division being sold. As Case 1 will illustrate, this may occur because synergies are identified that the buyer did not foresee, or because the existing synergies are communicated in ways that better expand the buyer's understanding of value. Sometimes, however, the breadth or depth of Taylor's understanding of synergy leads to identification of "outside the box" categories of buyers that can yield an unexpectedly high selling price, as is reflected in cases 2 and 3 on pages 3 and 4 of this Newsletter.

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Case Study 1

Prior to engaging Taylor to sell its Valtra tractor business, Finnish headquartered Kone had attempted the sale of the asset without success. Taylor conducted a thorough synergy analysis of the business in an attempt to determine the most synergistic categories of potential buyers. After completing the analysis and identifying the most synergistic categories of buyers, Taylor compiled the lists of actual companies that comprised each category. While a couple of new buyers not included in the previous process were identified, many of the previously approached acquirers again found their way onto the list of companies to be contacted. Although one of the newly identified buyers did ultimately serve as a “stalking horse” that introduced a heightened competitive dynamic into the bidding process, the most significant factor in the sale of the business was the effectiveness with which Taylor identified and communicated the specific synergies that were found to be achievable by the winning bidder, US headquartered AGCO Corporation.

AGCO was in fact a participant in the prior process but had not been willing to make a compelling enough offer to entice Kone to sell its tractor business. However, Taylor’s in-depth analysis of the synergies on the combination of AGCO and Kone revealed additional synergy substantially beyond that known by AGCO during the former sale process. Identified synergies included:

- Sale of AGCO tractors, combines, and transmissions to Valtra’s customers in Northern Europe
- Sale of AGCO’s combine harvesters to Valtra’s customers in Brazil
- AGCO’s backward integration into Valtra’s cost-advantaged tractor engine business
- Combined R&D overhead reductions

The thoroughness of Taylor’s synergy analysis combined with effectively communicating the justification for these synergies empowered AGCO with enough confidence to offer significantly more than its bid in the prior process. After all was said and done, the buyer agreed to nearly double its offer, which of course Kone gladly accepted.

Case Study 2

Taylor received a mandate to sell a polystyrene division of a large company in Europe. The company had previously and unsuccessfully tried to sell the operation focusing on more local buyers in Scandinavia, but could not obtain an acceptable price. The sale of the business was made more complicated due to deteriorating market conditions that were squeezing in profitability over time.

Taylor did a synergy analysis of the business to better understand how to get the highest price for the operation. The weaknesses and underutilized strengths of the business were identified as a basis for determining all categories of potential buyers. The optimal buyers could, in combination with the seller, mitigate the weaknesses and/or more fully leverage the strengths of the business. Through this analysis, it was determined that the business's functional proximity to Russia was a considerable strength. Specifically, the ability to make shipments into Russia without being directly impacted by the high volatility of the local manufacturing environment present at that time. This strength in combination with the business's simultaneous weakness of having declining Northern European market demand, pointed to the likely applicability of Taylor Synergy 20: Continuing to Supply Key Customers. This "outside the box" category of synergy was used to determine which specific polystyrene manufacturers were facing the challenge of supplying products to the Russian market and would benefit from our client's polystyrene business being located on the Finnish/Russian border.

While investigating which potential buyers might fit synergy 20, it was determined Win-Cup was competing to get the supply contract for McDonalds as it expanded its presence in Russia, where the company needed to source Styrofoam cups and food containers. Our client's polystyrene operation in Finland was perfectly located to effectively serve Russia without being subject to the uncertainties of operating within the totalitarian Russian state. As a result of these advantages and how ideally the operation served the needs of the buyer, our client's business was bought at a premium instead of the fire sale prices it had attracted only a short time before Taylor was engaged in selling the business.

Case Study 3

Another instance in which Taylor's deep and broad understanding of synergy led to identifying an outside the box selling strategy arose when Taylor conducted the sale of Atlantic Richfield's US ethylene cracker in Geismar, Louisiana. Only a year before Taylor's engagement, the business underwent a sale process in which the seller's minimum selling price failed to be achieved. As is customarily the case, Taylor conducted its synergy analysis of the business in which the weaknesses and underutilized strengths of the operation were identified and analyzed. While examining the business's degree of manufacturing capacity utilization (Taylor Synergy 1) it was reasoned that the land rights allowing the existence of the pipeline infrastructure were underutilized. Although the plant operated at nearly full capacity, the in-depth synergy analysis uncovered that the land could have multiple uses in addition to the pipeline operations.

Based on this outside the box notion, a further investigation was conducted to determine which additional categories of land uses could be compatible with pipeline operations. It was determined that communications infrastructure requires land access over significant distances and the providers typically seek to expand across contiguous states. Consequently, the pipeline's path – running across the three attractive telecom markets of Texas, Louisiana, and Florida – would be a potentially attractive land access opportunity for communications companies. Taylor investigated which specific companies in that industry might be interested in our client's particular footprint and, as a result, identified a highly motivated buyer from an altogether different sector than our client would typically think to consider.

The "usual suspects" were contacted about their interest in the ethylene cracker during the prior and unsuccessful sale process, but that attempt was not able to generate offers that satisfied even the seller's minimum acceptable price. Taylor's outside the box thinking, however, produced a kind of buyer that justifiably paid a substantial premium for our client's business. The ongoing cash flows of the business justified a base price aligned with the market dynamics at the time, but on top of this base price, the buyer was able to pay a significant premium for the benefit of effectively gaining presence in the attractive geography of the communications market occupied by our client's pipeline infrastructure.

Conclusion

As the preceding cases illustrate, a good understanding of synergy can many times lead to extraordinary results in the sale of businesses. Effective communication based on compelling understanding of deal synergies can motivate otherwise lukewarm buyers and sometimes reveal buyers in unexpected places or with atypical reasons for buying. When there is a compelling fit for the buyer, he may pay a higher price for the deal than the seller thinks is realistic to obtain. Thoroughly analyzing the synergy and its effective communication by a skilled intermediary are the factors that create a win-win situation resulting in additional value creation for the successful buyer and a justifiably higher price for the seller.

WE WELCOME READER FEEDBACK

We are interested in your feedback and examples of synergy applied in acquisitions and divestitures with which you may have been involved. To share examples, or if you have questions, comments, or are interested in seeing a specific subject discussed, please contact us at SynergyInsights@tay.com, attn: Warren Bellis.



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