Synergy™ INSIGHTS
SUPPLEMENT

REACTIVE vs. PROACTIVE ACQUISITION APPROACHES

In pursuit of their M&A objectives, some active acquirers use primarily the "deal flow" to generate acquisition opportunities. The term "deal flow" refers to the universe of active Sellers that are in the market to be sold at any one point in time. Typically, companies enter the deal flow by putting themselves up for sale or by engaging sell-side advisors to sell them. The fact that a company is for sale comes to the attention of an active acquirer, who then determines if they have enough interest in acquiring the Seller, to warrant making an offer to buy the business.

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In the case of opportunities appearing through the deal flow, it is very rare that the Seller's business is a perfect fit for an acquirer. The acquirer is merely reacting to the opportunity that has been presented, as opposed to the acquirer having proactively identified the Seller from a well-executed internal planning exercise, in which the acquirer first determines the desired characteristics and profile of the preferred kind of acquisition target, identifies the targets that best fit the profile, and proactively pursues the targets to see if they will sell. By using this more proactive approach to doing acquisitions, an acquirer could theoretically experience significant advantages over using the more reactive "deal flow" approach, as a result of being able to identify targets that predominantly align with the buyer's criterion of what fits best.

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Disadvantages of the Reactive Approach

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By contrast, review of targets coming through the "deal flow" often results in an exercise of trying to fit a square peg in a round hole. It is not unheard of for active acquirers to have to review a hundred, deal flow-originated targets to get a couple worth acquiring, a ratio that is vastly less efficient than with a more proactive approach.

A second disadvantage of sourcing targets through the deal flow is that such opportunities are typically part of a formal auction process that is moving forward on a specific timeline. The acquirer is given a limited period of time to determine his level of interest in the business being sold, and this puts the acquirer into a reactive and pressured mode during which oversights and/or mistaken judgments can more easily occur.

Another disadvantage of the deal flow and auction dynamic is that the buyer must participate in a competitive bidding process, in which the bidding can often escalate

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to prohibitively high levels that are affordable only for the most strategic of acquirers. When drawn into the bidding through the "deal flow", one's efforts are, therefore, less likely to result in an acquisition. However, perhaps the greatest disadvantage of pursuing deal flow-generated targets is that as long as one is occupied by reviewing such opportunities, time and attention will be distracted from profiling and proactively pursuing the best-fitting kinds of acquisition targets. It might make sense to monitor the deal flow to detect the rare instance when a target actually fits well with one's criterion. It is obvious, however, that a better planned and more proactive approach to acquisitions could foster a higher degree of efficiency and success in the acquisition of well-fitting targets.

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The Problem with the Proactive Approach

However, there is one major difficulty for acquirers that proactively focus on pursuing the acquisition of targets that fit the best, and this one issue is the reason why the deal flow approach, despite its disadvantages, is so commonly used by acquirers. The pitfall in pursuing the best-fitting targets is that they are almost never already for sale. Therefore, acquirers use the deal flow to access actionable targets, despite the approach's unsuitability for accessing well-fitting targets.

Proactive Approach Problem Solved!

Fortunately, the "final-phase" of the unique proactive acquisition methodology devised and employed by Taylor Companies, allows acquirers to successfully pursue acquisition targets that are not already for sale, thereby effectively addressing the

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previously identified difficulty inherent in the proactive approach. When approaching best-fitting targets, they agree to move forward with Taylor's clients 50% of the time. This high rate of receptivity enables the proactive approach to be the preferred avenue of pursuing acquisitions, since it neutralizes the only compelling reason for using the deal flow as a means of generating acquisition targets.

Creating Synergy vs. Filling Portfolio Gaps

Also, the "front-end" of Taylor's methodology, which is used to identify the best-fitting targets, is uniquely effective in that it is based on creating synergy rather than focused on eliminating portfolio "gaps", which is frequently the intent of proactive planning processes intended to identify targets that fit. Such planning processes commonly look to fill the acquirer's product, technology/know-how, or market gaps based on the logical general assumption that eliminating gaps is strengthening to the overall portfolio, but filling a gap does not necessarily result in synergy value creation. Unless the gap-filling initiative eliminates existing weaknesses of the acquirer or Seller, or leverages the acquirer's or Seller's existing strengths, synergy will not be created, and it is quite possible for gaps to be filled without any synergy being created. It is for this reason that Taylor's methodology is focused on identifying opportunities for creating synergy through acquisitions, and if that results in filling a portfolio gap, that is

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fine, but not a driver in and of itself. To be sure, filling gaps can easily result from Taylor's synergy-driven approach as in the cases of Taylor's:

- ***Synergy 5/6* —** The acquirer or Seller obtains know-how/technology of benefit to one another.
- ***Synergy 13* —** The acquirer obtains products/services that could be sold to the acquirers existing customers.
- ***Synergy 16* —** The acquirer obtains access to customers to which the acquirer's existing products/services could be sold.

Summary

Taylor's effectiveness in approaching not-for-sale acquisition targets simultaneously eliminates the benefit of sourcing targets from the "deal flow", and overcomes the only disadvantage of the proactive approach. Additionally, using Taylor's target identification methodology guarantees that the acquisition and proper integration of the identified targets, will create synergy regardless of whether or not they fill portfolio gaps, the filling of which does not necessarily produce synergy.

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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