



Making M&A a Success

Continued growth is crucial for ambitious businesses. Whether the growth is achieved through key alliances or acquisitions the key to success is down to meticulous planning.

In this article, Lesley Stalker, lead tax partner at award winning Robert James Partnership looks at three key areas FD's should consider when planning a merger or acquisition.

Know what you want

When looking to grow your business you should have a clear aim of what it is you want to gain from the intended merger or acquisition.

You may wish to diversify to improve your market reach and grow revenues and earnings. For example, an insurance firm buying a stock broker could then sell its products to the stock broker's customers while the broker can sign up the insurance firm's customers for brokerage accounts.

Alternatively you may wish to purchase a similar business and examine what profits could be made with greater economies of scale. You could make savings from something relatively simple such as stationary ordering to more complex measures such as reducing duplicate departments thus lowering the costs of the company relative to theoretically the same revenue stream, consequently increasing profit. An accountant can advise you on these options and may even act as a matchmaker between complementary companies.

Are you purchasing shares or assets? This decision is undoubtedly driven by tax considerations. In a share purchase you as the purchaser can 'cherry pick' the particular assets you want to acquire, without necessarily acquiring all of the liabilities (except for employees). However this situation is unlikely in practice as in almost all cases sellers, primarily for tax purposes, prefer to sell shares whereas vendors prefer to buy assets.

Due diligence

Due diligence is the stage at which you should verify all the claims that are being made by the vendor. It is vitally important that at this stage you seek professional advice from solicitors and accountants with experience of similar sales as they may be able to pick up something you have missed. On your behalf they should check out:

- The accounts and tax returns of the business (a minimum of three years)
- A full list of debtors and creditors, with balances and payment schedules
- Company secretarial and other statutory documents
- All relevant legal and HR documents e.g. copy leases, employment contracts

It is important that at this stage you take into account issues that will affect the employees of the company you wish to purchase. For example are they shareholders? If they are, do they stand to make a lot of money from the sale of the business? How do you retain the assets and equities of the company?

Integration

In a research report by the CIPD on mergers¹ the range of key issues that need to be addressed for a successful M&A to occur, highlights that when HR is actively involved, mergers are more successful.

Staff matters you should consider include: skills gaps and how to fill them, pay differentials between the companies, how to get staff from both businesses to build working relationships, appropriate policies and procedures for the combined business, cultural changes, and how to share knowledge between employees.

In M&A activity good planning, investigation and integration will benefit you in the long run, so that you know what you are buying and are able to tackle any potential conflicts of interest before they arise.

Lesley Stalker and her team of tax advisors were awarded a “Tax Team of the Year” award at the 2006 Lexis Nexis Tax Awards. For more information on tax planning visit www.rjp.co.uk.