

ACQUISITION SERVICES

The risks involved in acquiring or taking over a business are significant and the process is very time consuming. Kerburn Rose's experience and expertise increases the likelihood of a successful acquisition whilst reducing the burden placed on the senior management team responsible for acquisitions.

The Kerburn Rose acquisition service is designed to support your company's growth strategy by pro-actively managing your acquisition programme, within pre-determined terms of reference.

By delegating the management of your **acquisition** programme to Kerburn Rose you are ensuring that this matter stays **at the top of your management agenda** without increasing the commercial risks of your existing business.

Kerburn Rose Acquisition service is a simple out sourced arrangement where **the client remains "in control"** at all times.

Why Buy?

An acquisition programme may be instituted to satisfy a number of strategic goals including:

- *Market Based* – increasing market share or establishing a presence for existing products in new markets.
- *Vertical Integration* – securing sources of supply or outlets for goods and services.
- *Diversification* – to widen the product or activity range to address existing problems e.g. static, declining or highly cyclical business activity.
- *Consolidation* – bringing together complimentary companies, to create economies of scale, improve purchasing power, rationalise overheads or address competitor price pressure.
- *Strengthening* – acquiring additional resources, management, technology production, distribution etc.
- *Management Utilisation* – to apply the skills held in the acquiring company to improve the target company's performance.
- *Financial* – specific financial motives such as adding to the acquiring company's earnings per share.

Kerburn Rose only accepts assignments from **goal-orientated management teams which have a clear corporate strategy.**

What to buy?

Acquisitions are best made against specific pre-determined criteria. These may include:

- Industry and market sector.
- Acceptable and unacceptable products or services within the targeted industry and market sector.

- Customer or sales/distribution profile.
- Geographical area.
- Size measured in terms of turnover, profitability, net assets and employee numbers.

Kerburn Rose will facilitate the production of **clear criteria** against which possible acquisitions can be identified and assessed.

Passive versus Active Acquisitions

The acquisition route can either be Passive or Pro-active.

Passive

A Passive Acquirer reacts to opportunities rather than initiates events. They circulate their acquisition requirements to investment bankers, business brokers and other intermediaries and wait for proposals to emerge.

Kerburn Rose will provide invaluable assistance in circulating acquisition criteria to known intermediaries and in appraising and filtering their responses to ensure **your management time is not wasted** on inappropriate opportunities.

It should be noted that in a passive search opportunities are likely to be either less attractive or in such demand that the acquisition target will carry a premium price.

Proactive

A recent research survey showed that those acquisitions which were **identified through a search, or fell within predetermined criteria** were **the most successful**.

A Pro-active Acquisition programme and commitment to the task of acquiring ensures that valuable management time is only spent on appropriate opportunities.

In most sectors where there are more buyers than sellers a **pro-active acquisition programme is the only effective way to ensure a competitive advantage**. Kerburn Rose are specialists in managing pro-active acquisition programmes.

The Pro-Active Acquisition Programme

Feasibility Study

Once the Acquisition Criteria are set it is important to establish their validity. This is best achieved through:

- High level analysis of the merger and acquisition activity in the chosen sector over the previous 18 months.
- A review of around 30 companies or businesses within the agreed acquisition criteria.

As a result of such a Feasibility Study Kerburn Rose would help refine the acquisition criteria which would then be used for the purposes of carrying out an acquisition search.

Target Identification

Acquisition Targets have to be identified against the agreed acquisition criteria. The first task in Target Identification is to establish the overall population. Kerburn Rose uses a number of information sources including on-line databases, Trade Associations and their directories, industry journals, published market and financial surveys and the Internet.

Once the population has been established it is screened to ensure that those well outside the acquisition criteria are discarded.

At the end of this stage Kerburn Rose provides a population report to the client so that the acquisition criteria can be reassessed and reconfirmed.

Initial Assessment

Those targets remaining after the initial screening need to be assessed in greater detail to ensure their suitability. Kerburn Rose carries out detailed desktop research on each of the chosen target companies. This involves examining historic report and accounts, obtaining details of products or services and prices and where possible ascertaining the strength of management.

At the end of the initial assessment stage Kerburn Rose will have provided sufficient information to enable our clients to rank and compare candidates.

Detailed Research

For those candidates ranked at the top of the target list Kerburn Rose will carry out extensive research to ascertain their strengths and weaknesses.

Kerburn Rose uses a number of methods which may include visiting the target premises and interviewing second line management. The purpose of the detailed research is to give an effective insight into a target so that it is possible to determine:

- Whether the target is suitable for an approach.
- The best basis for making the approach.

The Approach

The manner of the approach is extremely important. The owners and managers of a target company may not be the same people and may therefore have a different agenda.

A **professional approach** by an appointed intermediary such as **Kerburn Rose**, whether directly or through the largest companies advisers, **has a number of benefits.**

- It indicates that the approach is serious.
- It enables a preliminary discussion to take place between Kerburn Rose and the directors/shareholders of the target company without the risk of them compromising confidential commercial information.

It ensures that the acquiring management team is not in breach of any regulatory issues (Financial Services Act).

Preliminary Due Diligence

Preliminary Due Diligence is to confirm or correct all known information on the target company and get additional information so that a proper valuation can be made. This means obtaining, if possible, the trading results for the year to date, forecast trading results for the current and the next two years with supporting cash flow and net assets analysis. Best covered in a series of meetings arranged by Kerburn Rose between the management teams of the buyers and sellers, these discussions usually take place under a legally enforceable confidentiality agreement

Valuation

Based upon the information obtained through preliminary due diligence, Kerburn Rose will advise the acquirer of its opinion of the fair value of the target and the basis for arriving at this opinion. The work done to provide this experienced and independent valuation will assist the management team when they both negotiate the acquisition terms and come to raise the finance to complete the acquisition.

Given all available information the Acquirer must decide whether they wish to proceed and, if so, what the business is worth to them and, as a result, the price they are prepared to offer and ultimately pay for the target.

Funding

Acquisitions have to be affordable. They should also add to the earnings per share of the Acquirer. Acquisitions are usually financed with either cash, the acquirer issuing new shares in itself or, on occasions, the seller lending the acquirer part of the purchase consideration or possibly a mixture of all three.

Acquisitions usually require the involvement of third party financiers who will wish to establish for themselves the commercial logic of any proposed deal. To do so they will want to see detailed financial projections for the aggregate of the acquirer and the target company's business.

Kerburn Rose is skilled in structuring affordable deals and in helping acquirers raise the necessary finance, whether it be through a regulated stock exchange, institutional or venture capital investors, or banks specialising in acquisition finance. Kerburn Rose's extensive contacts have proven to be indispensable to clients when it comes to raising the money needed to finance a deal.

Negotiations

The negotiations process should result in a detailed Conditional Offer Letter or Heads of Terms being produced which is agreed and signed off by both parties. This will include:

- The amount to be paid – now and in the future.
- How the consideration is to be paid – cash, share loan, stocks etc.
- The principal terms of the warranties and indemnities – length of time, amounts etc.
- Terms of management service agreements – non competition and non solicitation
- Conditions to be satisfied prior to contracts/completion

- Investigating accountants – tax advisors or clearance – share holders
- Timetable for exchange and completion of contracts and vendor lock-out arrangements.

Kerburn Rose's involvement in preparing the Heads of Terms or Conditional Offer Letter **will** ensure that **all important commercial issues** are **discussed** and **negotiated** at an early stage.

Execution

Once the deal has been negotiated to Conditional Offer Letter, Heads of Terms or Letter of Intent stage, then solicitors, accountants, tax advisors and other professional advisors, including if appropriate stockbrokers, investment or merchant bankers (and/or nominated advisors), are appointed to execute the transaction.

As project managers, **Kerburn Rose** will ensure that each of these professionals is properly briefed and managed so that the **transaction is efficiently and effectively completed**. This includes the preparation and monitoring of a detailed timetable and preparing a list of documents with specific responsibility for actions.

How long will it take?

An acquisition programme operates within periods of both controlled and variable timeframes.

The Acquisition Search and Deal Execution periods operate against fixed timetables usually comprising periods of eight to sixteen weeks.

The period between identification of target and execution can be indeterminate. It is not unusual, when first approached, for a vendor to have unrealistic expectations of the value of their business. Allowing a vendor to meditate for a period of months can help to bring about commercial realism. Further, the vendor might want a period of time to reorganise their business affairs before they are in a position to proceed with a transaction.

Kerburn Rose's skills and experience in careful monitoring and keeping in touch with potential acquisition targets has **resulted in deals being completed which would have otherwise gone cold**.

Kerburn Rose's project management approach ensures that a transaction is expedited as efficiently and effectively as possible.

Why appoint Kerburn Rose?

Our research skills

Our subscription to and knowledge of a wide range of generalised and specialist data bases, coupled with our experience in searching through other pertinent media, means that your acquisition criteria are compared against a comprehensive yet relevant population of potential target businesses. As a result our clients are more likely to have a better list of prospects.

Our professional approach

The appointment of Kerburn Rose differentiates our clients by demonstrating to target companies that the approach is serious and not driven by some other ulterior motive. Further, the research we will have

carried out into the target company enables our clients to go into the initial meetings from a position of strength.

Our intermediary role

As an experienced intermediary Kerburn Rose can educate prospective sellers in realistic methods of valuing their business and explain in a detached manner the logic of our clients' proposals. Further, as an intermediary we can take up a position, which our clients can subsequently change as negotiations proceed. An intermediary can also be invaluable in exploring options and helping resolve misunderstandings.

Our Project Management Skills

Kerburn Rose's distinguished track record of managing acquisition programmes means that our clients can safely delegated this task to us in the certain knowledge that they are dealing with experienced professionals. Kerburn Rose's involvement reduces the management burden normally associated with acquisition programmes whilst they remain fully in control. A project management approach ensures that the proper momentum is maintained throughout the transaction.

Our contacts

Kerburn Rose has developed and maintains strong links with all the key players within the financial services industry. These include clearing and private banks, merchant and investment banks, nominated advisers, stockbrokers and the major institutional investors and venture capital companies. In addition we have excellent relationships with many firms of solicitors and accountants. These affiliations have been built through many years of working closely on successful transactions and are available to our clients

Pay for results

By linking remuneration to the completion of a successful acquisition Kerburn Rose's clients primarily pay for results. By outsourcing their corporate finance requirement to Kerburn Rose our clients only pay for these highly specialised skills when they need them.

Commitment

Kerburn Rose is committed to providing a quality and responsive corporate finance service. When we take on a project for a client it is done with the clear expectation that there will be a successful outcome.

Our Fees

Kerburn Rose acquisition service fees are based upon the following arrangements:

Feasibility Study

Writing the initial search brief and subsequent feasibility study are usually carried out **free of charge**.

Retained Fee

Kerburn Rose normally works on a retained basis where we are paid a Retained Fee to manage our clients acquisition programme. This usually comprises a competitive monthly fee depending upon the size, scope and nature of the work. The total amount paid as a Retained Fee is then set off against any Success Fee which becomes payable upon completion of a successful transaction.

Success Fee

Kerburn Rose is paid a Success Fee upon the completion of a transaction. The Success Fee is calculated as a percentage of the capital value of the transaction with the percentages varying depending upon the size and complexity of the transaction. Deducted from this success fee are all amounts which have been paid to us under the Retained Fee arrangements.

Engagement Letter

There is **no obligation to Kerburn Rose** until an engagement letter has been negotiated and signed by both parties. This engagement letter sets out in detail the search criteria, Kerburn Rose's terms of reference and the agreed fee arrangements.