



M&A

Insider®

Quarterly Guide of Trends and Information about Buying and Selling Mid-Size Companies

Vol. 7 No. 2

Summer 2001

The Meaning of Yes

Acquiring in Europe: Some Pitfalls and How to Deal with Them

by Philippe Craninx

I do not know about the Americans. I guess there may be differences, too. But I do know about the Belgian and the Dutch. If a Dutchman says "Yes", he means "I agree". If a Belgian says "Yes", he means "I understand what you are saying". Since not all Dutchmen know the difference, a lot of them have difficulties doing business in Belgium. How difficult is it then to do business in Europe?

I agree, Belgium is quite complex. But Europe itself is complex to the same extent. In fact, Belgium is often considered to be the ideal test market for launching new products into Europe since both the country and its inhabitants feature most particularities of Europe in a condensed way. Let's therefore use the Belgian example to get a flavor of the European experience.

Unfortunately, it is true:

You do not get what you see.

And yet - most of the time - your counterpart is absolutely reliable and delivering what he promised to. But there are a lot of reasons why you may not see right. Let's look into some of these pitfalls:

Language: In Belgium, most of the people speak several languages. Our official languages are Dutch, French and German. A typical Belgian may also speak English.

As a consequence, you may be able to conduct your negotiations in English. However, here comes the first pitfall: whatever your apparent impression, in reality people speak their own language using English words.

I gave the example of the meaning of "yes". You can imagine the effect when

using more sophisticated terms or trying to judge any particular situation. By the way, why would you be so confident that the Belgian in front of you really understands what you mean?

Diversity in languages, local habits, regulation, accounting systems etc. The best way to evade the pitfalls of misunderstanding and misjudgment, and to maximize your chances of realizing the right acquisition, is to hire local expertise.

Code of Conduct: Belgium has been occupied by every possible nation, ever since the Roman empire. Human behavior in the Belgian community reflects this history. Some examples:

- if one does not agree with his counterpart, one does not just tell him he disagrees. This has proven to be too dangerous over the last millennia. A typical Belgian would answer "yes", meaning "I understand what you are saying". On the other hand of course, he might agree and still answer "yes" - using another intonation. Absolutely clear to another Belgian but somewhat confusing to others;
- one does not talk about money, especially if you have real money. Nor about power, or any such issue. Again, it has always been too dangerous to be in the spotlights. In reality however, the

Yes/continued on page 3

Acquiring European Companies

by Dr. Daniel C. Denby

Now is an ideal moment for U.S. companies to consider acquisitions in Europe. Recent changes in several European countries' tax codes and increasing free-market and labour reforms have created numerous opportunities for international acquirers. The dollar is presently extremely strong, so foreign company prices are quite low in absolute terms when compared with U.S. company prices.

There are two approaches for making acquisitions: the "Passive Approach" and the "Active Approach"; or expressed another way, the "Opportunistic" or "Systematic" approaches.

The Passive/Opportunistic Approach

Most good *profitable* companies are usually not "For Sale". Therefore, if one goes about acquisitions in a purely opportunistic fashion (by simply waiting for companies to come on the market), a lot of very good potential Targets, not actively "For Sale", *but which could be acquired*, are overlooked.

If one passively waits for companies to become "For Sale", they are usually not financially attractive; or if they are, then this normally means that the owners have almost certainly engaged professional advisors and that other possible buyers are also looking at the same Target. This implies a competitive "Auction Situation" and almost always, higher prices!

Companies Actively "For Sale" Are Being Looked at by Other Buyers.

This Implies a Competitive Auction Situation With Higher Prices!

Acquiring/continued on page 2

International Association of Merger & Acquisition Professionals (IMAP)

IMAP is one of the world's leading merger and acquisition organizations serving to benefit buyers and sellers of mid-sized companies. All members are leading intermediaries in their respective markets. Each adheres to the highest ethical standards and possesses the skill, experience and reputation to be considered among the best in the business.

IMAP recognizes and addresses the fact that the acquisition and sale of middle-market companies has become increasingly complex. Legal, tax and environmental issues are of greater concern than ever. Technology is changing at an accelerating pace. Global influences now affect virtually all industries. Access to strategically oriented buyers and sellers as well as alternative sources of financing is often necessary for optimum results.

IMAP serves as an informational vehicle for its members regarding these critical matters to enable them to better serve their client's needs. In addition, we sponsor a dedicated network through which our members and their clients may gain confidential access to highly qualified buyers and sellers, both domestically and internationally.

This newsletter has been provided to you by the IMAP member in your area. If you would like additional information regarding our association or whom to contact for a specific need, please call our director in Des Moines, Iowa, USA at (515)282-8192 or E-mail at imap@imap.com. The IMAP WWW homepage location is www.imap.com. ■

INTERNATIONAL ASSOCIATION OF MERGER & ACQUISITION PROFESSIONALS

The *M&A Insider* is published by the International Association of Merger and Acquisition Professionals as a service to decision makers involved in the aspects of buying and selling middle market companies.

The *M&A Insider* is available without charge. Questions, comments, and requests for additional information regarding IMAP services are welcome.

We welcome your comments and suggestions. Write:

Editor-*M&A Insider*
525 SW Fifth Street, Suite A
Des Moines, IA 50309 USA

©2001. Entire contents International Association of Merger and Acquisition Professionals; No unauthorized use; all rights reserved.

Acquiring/continued from page 1

In fact, locating and acquiring a good company is very similar to recruiting a top-level executive. All the good ones are usually already happily employed; they seldom read the help-wanted ads; and must be actively located and "seduced" to leave their existing employment.

As can be expected, success with a passive approach is also very unpredictable. Luck plays a very important role since one must wait until a Target exactly matching his acquisition criteria comes on the market, and this very rarely occurs in practice.

The Active/Systematic Approach

In an "Active Approach", one undertakes a very comprehensive and systematic search of the entire market by contacting and screening all potential Targets according to his acquisition criteria; and then entices the attractive ones to the negotiating table, *even if they have never seriously considered selling before*.

By taking this initiative, one almost always finds himself in a "sole-bidder situation"; and the "hit rate" with this approach is extremely high. As a by-product, a wealth of general market intelligence is also obtained.

Most Good Profitable Companies Are Usually NOT "For Sale" . . . They Must Be "Seduced" to the Negotiating Table!

For European or other foreign acquisitions, IMAP obviously recommends the "Active Approach" which overcomes a plethora of problems, not the least of which are the differences in language and culture.

IMAP Europe

At IMAP's most recent worldwide meeting held in Amelia Island, Florida, the group implemented a plan to assist its U.S. clients make European acquisition through a closer collaboration with its European partners (which now numbers eleven firms, with fifteen offices, and more than 60 professionals located in nine different countries).

The majority of day-to-day effort would obviously be expended in Europe; but the process would be managed and co-ordinated by the U.S.-based IMAP member having direct contact with the U.S. "buy client". The process can be summarised as follows:

Setting Criteria

The IMAP member would meet personally with the acquiring company's relevant

key executives to understand clearly what his "Ideal Target" should look like.

Comprehensive Search

Based upon the criteria set and the countries selected, IMAP Europe would undertake a very comprehensive and systematic search to identify all those Target companies whose characteristics coincided with our client's acquisition criteria.

Confidential Approach

All Targets identified would be contacted to determine their interest in possibly being acquired. At this point, if a buyer so wished, he could remain anonymous. No Target would be informed who the potential acquirer was until such time that he thought it prudent to reveal his identity.

"Seduction"

Since most good profitable companies are usually not "For Sale", IMAP Europe would apply its local knowledge to convince owners at least to consider a serious discussion with our client, in an attempt to create a sole-bidder situation.

Information Gathering

For each Target identified coinciding with our client's acquisition criteria, and which indicated willingness in opening preliminary discussions, we would collect as much relevant data as possible for our client's review. We would then prepare a two to three-page "Company Profile" which would normally contain information on each Target's products or services; markets; distribution channels; sales methods; competition; personnel; physical facilities; and some basic financials. We also include a full set of the Target's promotional literature.

Short Listing

We would discuss the apparent pros and cons of each Target with our client and then jointly prepare a short-list of those Targets where the client felt that a "good fit" existed.

Initial Visits

IMAP Europe would then organise and participate in all visits to those companies short-listed. During these initial visits, our client would be able to inspect the Target's facilities, to meet its owners and management and generally be able to pose any questions he felt appropriate.

Analysis

The typical presentation of a European company's financial statements and the accounting principles upon which they are based, are normally quite alien to a U.S. buyer and his customary financial advisors. Our European professionals would present a Target's financials in a format readily

understandable to U.S. companies.

Valuation & Deal Structure

Based upon internationally accepted valuation methods, as well as the current market conditions prevalent in those European countries selected, we would advise our client on the valuation of each Target in which he was seriously interested.

We would also give recommendations for structuring the deal with respect to the terms and methods of payment, as well as in the minimisation of potential tax liabilities for both the buyer and vendor.

Negotiations

We would assist in the usually delicate and emotional negotiations between buyer and seller and act as a buffer between the two opposing camps. We tend to instill an attitude of co-operation, rather than conflict throughout the negotiations. Language and culture differences and the many intricacies and emotions involved in dealing and negotiating with European companies would be avoided. Furthermore, we can usually offer a plethora of different viable formulas for structuring and closing a European deal, which the buyer and seller, by themselves, might not ever think of.

Apart from trying to negotiate the lowest price possible for our client, we would also attempt to maximise the necessary representations, warranties and other guaranties from the seller.

Due Diligence Process

We would establish a timetable for completing the deal and co-ordinate our client's entire due diligence process by providing leadership and supervision of the many meetings between his and the seller's professional advisors (lawyers, auditors, fiscal advisors, etc.).

Follow-up & Closing

We would continuously follow-up and co-ordinate to ensure that each party does what he is supposed to do, when he is supposed to do it, and that the transaction is eventually and successfully completed.

Recommendation

Any company interested in expanding internationally should contact his local IMAP member to discuss his requirements, to learn more details of the aforementioned process and to obtain an idea of all the costs involved.■

Dr. Daniel C. Denby is President of Redirection, Spain's oldest M&A advisory firm and an IMAP member.

Dr. Denby can be contacted by e-mail at denby@redirection.com.

The International Association of Merger & Acquisition Professionals Top \$3 Billion in Closed Deals for 2000

The International Association of Merger & Acquisition Professionals ("IMAP") is a prestigious association of 51 member firms worldwide that represent buyers and sellers of middle market companies in the \$5 million to \$500 million revenue range. At the association's recent semi-annual member meeting, it was announced that for the year 2000, IMAP's NAFTA member firms completed 121 transactions having an aggregate value of \$2.5 billion and IMAP's European member firms completed 61 transactions worth \$611.8 million, making IMAP on a collective basis one of the major M&A advisory groups in the world.

Five new member firms recently joined IMAP, including Pro-Invest International in Warsaw Poland; M&A Consulting, AG of Mannheim,

Germany; DHD Corporate Finance of Southampton, U.K.; HT Finanz of Königstein, Germany; and The Harrington Partnership Limited of Sydney, Australia. These firms are considered to be some of the largest M&A firms in their respective countries. With IMAP's expanding coverage, it is expected that cross border transactions will rapidly become a growing segment of IMAP's deal flow.

IMAP also announced the organization of several industry specialty groups, including automotive, information technology, packaging, business services, food and beverage and industrial distribution. These groups enable members to exchange valuable information on specific industries to provide exceptional service to clients in the respective industries.■

Yes/continued from page 1

average Belgian ranks amongst the top-five of wealthiest individuals in the world. Ever heard about the Belgian dentist?

Not understanding the code of conduct will most certainly lead to misjudgment on "what you see". On top, it will complicate the acquisition process or even make it fail. Because again this kind of communication goes both ways and your counterpart may be dropping out because he misjudges your behavior.

Regulation: There are major differences both in the legal and the tax system all over Europe. Of course the European Union has contributed to harmonize part of these differences, but the result remains complex. Belgium for instance, with its population of about 10 million people, has three communities (Dutch-, French- and Germanspeaking), two geographical regions (Flanders and Wallonia) and the Brussels Capital, all of which have - to a certain extent - a proper government and a separate legal and tax system. On top of this, we have the federal level with its own

government and system.

"Why?" I hear you think. Mostly because of historical and cultural reasons, that I will be glad to explain whenever we meet. The most important however, is to understand the system you are dealing with in a particular case and to judge its consequences when analyzing your risks. And please, do not make the mistake to think you understand simply because you recognize the words. Their meaning may be quite different, remember.

Figures: Another nice pitfall. On any given Belgian company, a lot of legal and financial information is publicly available and of good quality. So you may believe it is easy to detect the right targets and to be able to quickly screen potential sellers. But are you sure to understand?

Let's use a simple example: You do know what "depreciation" is? So do I. But we are probably talking about a different figure. Most Belgian companies have one bookkeeping, complying both with the legal and the tax constraints at the same time. Depreciation normally is calculated to minimize tax payable, being quite

Yes/continued on page 4

Lindeteves-Jacoberg Limited

Singapore

acquired via a Newco 100% of the shares in

Schorch Elektrische
Maschinenund Antriebe
GmbH, Mönchengladbach

from

elexis AG
Frankfurt am Main

HT FINANZ initiated, structured and implemented the transaction, and acted as advisor to the seller

HT FINANZ - KGaA
Königstein, Germany



Hendersonville, NC

a subsidiary of

Porvair PLC
Norfolk, England

has acquired



Raymond, ME

a unit of

SPX Corporation
Muskegon, MI

the undersigned initiated this transaction

American Corporate Services
New York, New York



A wholly owned subsidiary of



Danaher Corporation

has purchased

Anatel
Corporation

The undersigned initiated this transaction and acted as financial advisor to Anatel Corporation.

OEM Capital
Westport, Connecticut



The above tombstones represent some of the transactions that were recently finalized through the services of IMAP member firms.

Yes/continued from page 3

different from economic depreciation. Consequently the complete balance sheet would look different if to be judged from a business perspective.

The most important consequence again, is that most Belgian companies are substantially more profitable and wealthier than you may notice at first sight. On the other hand, if they are not, you will have more difficulty in detecting so.

Moreover, as you may recall, Belgians do not like to show their wealth. So you may find out that the business you are looking for, is split over different companies without any consolidation being published. It makes the task somewhat less

easy, don't you agree?

The purpose of this article was to give you a flavor of the European experience. In Europe, diversity is king. Diversity in languages, local habits, regulation, accounting systems etc. The best way to evade the pitfalls of misunderstanding and misjudgment, and to maximize your chances of realizing the right acquisition, is to hire local expertise.

To get what you see, make sure you see what you get.

When constituting your M&A project team, the selection of your local advisors is

of utmost importance. This exercise is even more complex and important if you are looking into potential acquisitions located in different European countries, as "local" expertise should really be read in a country-specific manner. The good news is that such local expertise is available, and sometimes even organized in global networks ... if you see what I mean. ■

Philippe Craninx is Managing Partner of Winx Capital House NV/SA, the Belgian member firm of IMAP dedicated to Corporate Finance.

Mr. Craninx can be reached by e-mail at phcraninx@winx.be.