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## M&amp;A: SHAPING THE FUTURE

## Seven habits

## Highly successful buyers and sellers follow these rules

by Peter W. Mattingly

Actuaries are often intimately involved in insurance company merger and acquisition (M&A) activity. Actuaries are vital to the process because they have the key elements of knowledge to understand whether the numbers being raised really make sense. For actuaries working in M&A, this article offers a framework in which to view and perhaps improve their companies' level of success.

Although the number of mergers and acquisitions is at an all-time high, some companies seem to be much more successful than others at closing transactions. There are buyers who complete one deal after another without apparent effort, while other prospective buyers search and search but never close a deal. And some sellers quickly complete transactions at premium prices, while others seem to be on the market forever as one deal after another falls through.

Companies failing in today's M&A market tend to assume that lack of success is the result of bad breaks, lousy timing, an excessively tough negotiator on the other side, or similar factors. In reality, success in the M&A marketplace comes to those players who discipline themselves to develop certain habits in their M&A process. Two for both

Two habits apply to both successful buyers and sellers: one, make deals a high priority of senior management, and two, put a dedicated team in place.

**1. Make deals a high priority of senior management.** Each transaction, whether for a buyer or a seller, requires

a series of strategic decisions and the marshalling and coordinating of a range of corporate resources — legal, accounting, actuarial, financial, and others. This process simply cannot occur efficiently in an organization unless senior management is actively involved. Delegation to subordinates

with instructions to surface deals once they reach the critical stage does not work. There are too many opportunities for delay and indecision — both anathema to the deal process. In companies with a history of successful transactions or a seller that successfully completed a deal, chances are very high that a CEO was intimately involved in the M&A process.

**2. Put a dedicated team in place.** Even with senior manage-

ment attention, it is necessary to dedicate a small group of managers and outside advisors to the M&A process. Completing the transaction must be one of the group's most important priorities, if not the only one. Too often, promising transactions get derailed because a key participant cannot devote enough time and attention to get the job done.

5 more for buyers  
In addition to the above, five other characteristics are exhibited by successful buyers in approaching the M&A process. Such buyers:

- Set clear strategic objectives.
- Focus on the big picture.
- Define financial criteria.
- Respond rapidly to acquisition opportunities.

- Secure financing in advance.

**3. Set clear strategic objectives.**

A number of buyers, believe it or not, don't have a clear concept of why they are looking for a deal or what type of company they want to acquire. This makes it tough to find anything, or worse, easy to find something that will greatly destroy value. Successful buyers spend time defining the type of company they wish to acquire. When they see that type of company, they pursue it aggressively and quickly discard others.

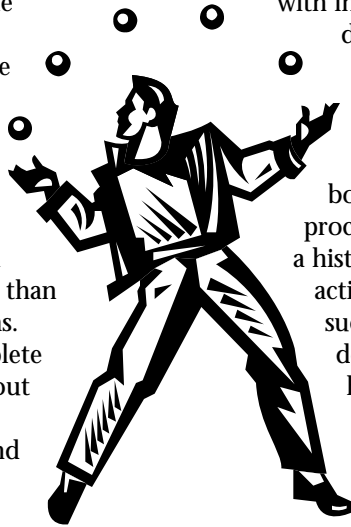
**4. Focus on the big picture.**

Successful buyers first determine whether targets meet their strategic criteria. Detailed due diligence, such as examining tax returns or reviewing audit papers, is left until after the acquisition team has reviewed major strategic issues such as marketing compatibility. This big-picture focus can and should be taken only by one to three senior executives examining high-level material and meeting with their counterparts in the target organization.

**5. Define financial criteria.**

Successful buyers establish in advance the financial criteria for target companies. These may include predetermined return on investment, return on equity, or EPS dilution, among other factors. If prospective candidates fall outside their parameters, the buyers move on, recognizing that even companies meeting strategic business criteria also must produce acceptable financial returns.

**6. Respond rapidly to acquisition opportunities.** The M&A process today is extremely competitive. Successful buyers respond promptly to all opportunities. They want to focus on good prospects immediately and to save time by quickly eliminating prospects



that don't meet their criteria. Such a pattern of response also has the advantage of encouraging intermediaries to bring deals to the buyer's attention.

**7. Secure financing in advance.** Highly successful buyers know they must have acquisition financing in hand before approaching sellers. Few sellers want to negotiate with a buyer who may not have the funds to close a deal. Moreover, the buyer who finds the rare seller willing to wait for financing runs the risk that the offer will be topped or that financing will not be found on acceptable terms.

5 more for sellers

In addition to making a deal a high priority of senior management and establishing a dedicated transaction team, successful sellers consistently follow five other patterns of behavior. These sellers:

- Identify strengths and weaknesses.
- Establish a price.
- Define a sales process.
- Make necessary data available.
- Realize that competition from potential buyers is healthy.

**3. Identify strengths and weaknesses.** Successful sellers are realistic

about what they are selling. They understand their company's weaknesses as well as strengths. Because they have this perspective, they can make a balanced judgment on purchase proposals.

**4. Establish a price.** Successful sellers set a price that is acceptable to them and then take it when it's offered. M&A history is filled with bad examples on this score. These include sellers who never set a price objective and so didn't know a fair deal when it came along and, worse yet, sellers who held out for that extra 10% they never got.

**5. Define the process.** Depending on market conditions and the seller's circumstances, either private discussions with a small number of carefully screened prospects or an auction process may be appropriate. Successful sellers make this determination in advance and instruct the transaction team accordingly.

**6. Make necessary data available.** Every company has data that it wants kept confidential. Successful sellers know that prospective buyers must have certain key financial data. Before

the process starts, competent sellers identify this material and have it ready for serious prospective purchasers.

**7. Realize that competition is healthy.** Buyers who believe that they are the only game in town cannot resist negotiating more aggressively. While sellers need not auction their companies to the highest bidder, successful sellers know that buyers will move more quickly, and bid a little higher, if they fear that a competitor is lurking in the wings.

It's not luck

If your company has successfully completed transactions, much of the above is obvious. How else would one do it? On the other hand, if M&A success always seems just out of reach, then it will be worthwhile to add these habits to your M&A processes. Success in today's M&A market is not due to luck but to adopting patterns of behavior that have proven successful time and again.

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## 34th ARC will encourage academics and practitioners to share ideas

"Building Bridges Between Theory and Practice" will be the theme of the 34th Actuarial Research Conference (ARC), Aug. 8-11.

The annual conference provides an opportunity for academics and practitioners to meet and discuss actuarial problems and their solutions. Jointly hosted this year by Drake University and The Principal Financial Group, the ARC will be held at Drake in Des Moines, Iowa.

The theme signals the 1999 conference's focus on enhancing relationships between academics and practitioners. In keeping with the theme:

- The conference will be held in an easily accessible downtown setting.
- Sessions will be organized by topic.
- Single-day registrations will be available.
- Breakout sessions will be scheduled to increase opportunities for interaction.

Presentations on all topics of interest to actuaries are welcome. They will be published in the conference proceedings, *Actuarial Research Clearing House 2000.1*.

To be assured of a program slot, presenters must submit a title and

abstract to Stuart Klugman or Sarah Christiansen by June 15. For more information, contact Klugman at Drake University, 2507 University Avenue, Des Moines, IA 50311 (phone: 515/271-4097, e-mail: [Stuart.Klugman@drake.edu](mailto:Stuart.Klugman@drake.edu)) or Christiansen at The Principal Financial Group, 711 High Street, Des Moines IA 50392-0650 (phone: 515/247-7441, e-mail: [christiansen.sarah@principal.com](mailto:christiansen.sarah@principal.com)). Information is also available on the Web at [www.drake.edu/cbpa/ARC/arc99.html](http://www.drake.edu/cbpa/ARC/arc99.html).