

Small Companies

Date:

A Checklist for Acquisitions

Questions

Company:

Target:

1. Who approached whom:

1a. Pre-acquisition provisions/fair value adjustments:
Details:

2. Potential cost savings:

Is this nullified by reorganisation provisions:

3. Initial consideration:

Details of structure:
Shares retained by the vendors:
What will the goodwill write off be:

4. Deferred consideration:

Details of cash/shares:
Is it capped(IFICO):
Will it be provided for in the accounts(Control Secs):

5. Debt of the target:

Overdraft:
Committed fac's:

6. Has the target been the subject of an accountants report
(long or short form):

7. If target business based on contracts has company visited
all putative clients(SPS,VPI,Clarke Hooper's Canadian acq).

8. Will there be surplus properties,surrender fees
etc(Gestetner/Nashua):

9. On previous disposals check whether consideration has
been received(Pict and their Claymore stake).

10. What are the advisors fees(usually 1-2% of market cap):

11. What is the core profitability of the target (contracts and retainers) which can be guaranteed a year out. VPI, SBJ.

Core profits:

Margins on the core business vs ad hoc:

12. What percentage will the target account for of pro-forma group turnover (VPI > Carter):

13. Will the bidder be relying on the incumbent management at the target (Br Fittings):

14. Are the accounting and computer systems compatible:

15. Warranties:

16. What are the directors doing on the issue:

Figures

Expense		Consideration	
	£m		£m
Assets		Shares	
Goodwill		Cash	
Provisions			
Deferred Con			
Inter co loans repaid			
Total price:		Total debt assumed:	
Total P/E:			
Total fund raising:			

EG Expense fig quoted by companies is often substantially lower than the ultimate cost, Davy Corp and Traf House, Raine and WLawrence, Evode and Chamberlain Phipps

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General Points about Acquisitions/Bids

1. Often the weaker company bids for a stronger(Lilley/Tilbury, Southend/Frogmore). In this case sell the bidder if the bid fails.
2. Brokers forecasts at the time of an acquisition are often unduly high.
3. Do not place reliance on stakes built up by other companies in the target eg Taylor Woodrow in Lovell, ECCO/Adia in Select Appointments, ITEL Tiphook in TIP Europe because they often have no idea of the trading of the target.
4. If a company issues an unexpectedly positive statement(eg Interlink) it may have received a bid approach at a low level.
5. If the target is a weak company its bid defence may be to issue a number of profit warnings eg Caird and Severn Trent, USH and Meggit.
6. The building up of unusual shareholdings may be arbitrageurs eg 88 Corp in Century Oils.
7. If a predator is offered a stake and declines it this does not rule out an imminent bid eg Arlington and British Aerospace, KIO's Midland stake and Lloyds. It possibly indicates a paper bid.
8. Beware companies that reverses a rights issue supported acquisition soon after the deal eg Ossory Estates as these are disguised rights issues.
9. Acquisitions by companies may often be in the period that turns out to be their final throes and thus should not be misconstrued as a sign of robustness(LIT, Davy Corporation, Dean & Bowes, FKB, B&C for Atlantic).

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