Identifying the right M&A target
There was a time when companies could pursue several targets at once. But as resources remain scarce, companies need to be as efficient as possible about identifying the targets that best fit their business strategy.

Understanding the range of opportunities
Before you build a case for a particular target, it is important to know whether a merger or acquisition is actually the best way to achieve your business objectives. Business strategy, not M&A strategy, is the first step in the M&A journey.

Are you seeking to enter a new geography, develop a new product, expand an existing market or boost technology capabilities? Such criteria help establish where the company is now, where it wants to go and how it wants to get there. Then, the company can prioritize its business opportunities and understand the gaps it needs to close to capitalize on those opportunities.

At GE, once we have established a business opportunity as a priority, we analyze the costs and benefits of three possible scenarios:

1. Use in-house resources to achieve our goals.
2. Form a joint venture or a strategic alliance with another enterprise.
3. Seek a merger or acquisition.

If we determine that a merger or acquisition is likely to be one of our best options, then we formulate a strategy that aligns to GE’s strategic vision and the objectives we’ve established.

It is only now that we are ready to identify a pool of candidates.

Generating the target universe and finalizing the selection criteria
With desired benefits of the acquisition closely evaluated, we develop a preliminary list of companies that define the target universe. To arrive at this short list, we capture institutional intelligence (if any) through sales and marketing, senior executives or board members. We also use external sources of information, which depend largely on the industry sector of the target and whether it is a public or private company.

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For example, industry or trade associations, annual reports and straightforward internet searches are good places to start. Tapping external relationships with investment bankers, strategic consultants or contacts we meet through industry conferences and events also yield key insights. If we are pursuing public companies within the U.S., the Securities and Exchange Commission’s Electronic Data Gathering, Analysis and Retrieval (EDGAR) system may be a good source of information. Other external databases that may be useful for public companies include S&P Capital IQ, SNL Financial and Thomson ONE.

Based on all the information we have gathered, we finalize the selection criteria. The criteria are designed...
Business strategy is the starting point for the entire M&A process

Align to GE’s strategic objectives. Depending on the type of deal, we ask ourselves the following questions:

- What would the target contribute?
- Does it have the scale we need?
- Is it located in the right geography?
- Does the technology or capabilities it offers match our needs?
- Is it a high-growth market?
- How synergistic is the target to our business and our culture?
- What are the target’s financial prospects for long-term growth?
- Is now the right time to pursue this target? Is it even for sale?

Building a detailed target profile

Once we’ve vetted our target list against our selection criteria and we know which ones will offer the biggest bang for the buck, it’s time to get to know each company in depth. We get as much detail as possible. Generally, there are seven factors we consider:

1. Steady growth rate. If expenses are flat, provided that there is a sales growth rate, then a steady expansion suggests a margin improvement.
2. Diversity in growth. Portfolio diversification mitigates risk by reducing the company’s reliance on a single segment for growth.
3. Profitability. Increased market share should not come at the expense of cost control and fiscal responsibility.
4. History of innovation. A drive for innovation suggests resourcefulness that can sustain success over the long term.

5. Niche specialty. Market leadership indicates growth potential and a differentiated value proposition.
6. Legal, regulatory and environmental issues. We consider geographic location, whether there are any legal, regulatory or environmental issues.
7. Management. We consider who sits on the board of directors or audit committee and who are the senior executives.

We reach out to intermediaries, such as investment banks, management consultants, accountants, law firms or local advisors to validate our decision-making process, gain additional insights into a target’s strategic direction or deal potential, and gain access to detailed industry data that could help to further refine our priority target list.

We are careful not to reveal too much to intermediaries as they may share the information we’ve discussed with others, weakening our deal position. Or, they may not have enough information or expertise to offer the best advice to us.

We capture and document everything we learn about the target initially and as the target evolves. Deals can take longer than anticipated. By documenting what we learn we are able to retain the historical knowledge if team members leave.

We think seriously about alternatives to an acquisition that might interest the target’s key executives.
Making introductions

Once we’ve learned all we can about a target, it’s time to introduce ourselves. Developing a detailed target profile will uncover any existing relationships the buyer may have with the target company. But making introductions is not as easy as picking up the phone and dialing. We create a plan that balances relationship building and the need for confidentiality. We identify multiple contacts at the most senior levels within an organization, including the CEO, CFO or M&A leader. We also tailor ideas for discussion with each target, i.e., we think seriously about alternatives to an acquisition that might interest the target’s key executives. A partnership or joint venture may be a better starting point for the relationship and, as part of a long-term acquisition strategy, such a relationship may help us avoid an auction at a later stage.

If we are targeting a subsidiary of a larger enterprise, we consider the impact of the sale on the rest of the seller’s business so that we can proactively address the seller’s concerns.

If the target is publicly owned, target attractiveness may depend not only on valuation, but also on regulatory requirements pertaining to public companies, which can extend the transaction process. Making contact will be highly sensitive given the risk of share price movement. Any meeting we initiate typically focuses on the CEO. Approaching a major shareholder first could be considered a “hostile” move.

Throughout the initial courtship of a target, we continue to retain institutional knowledge by recording pre- and post-meeting minutes and discussions related to the target. A cross-functional advisory team often helps identify hidden opportunities or challenges that could reprioritize or eliminate a target. Such a team usually includes, among others, representatives from operations, legal and finance.

Following up

It is important to understand that finding the right company may take time. A merger or acquisition could take as little as a few months. But it could also take a couple of years. So, in addition to having short-term objectives, it’s also a good idea to consider the long game. We periodically reassess our chances of success based on target feedback, evolving relationships, market outlook, economic outlook and any shifts in business strategy.

If we don’t close the first deal we pursue, we consider it a learning exercise. We find immense value in courting a target — from establishing relationships to signaling to the market that we are looking to make a deal. Any initial effort, regardless of the outcome, generally positions us well for our next M&A opportunity.
Key takeaways:

- **Everything starts with having the right business strategy.** Your M&A strategy depends on it. It will define where your company wants to go, what it needs to get there and which companies it should be targeting to close the gap.

- **Establishing a list of criteria can help you to prioritize which companies offer the best fit with your business strategy.** Scenario analysis, forecasts and weighted metrics can then help narrow the list.

- **Before inviting a company to dance it is a good idea to get to know them first.** Consider creating a detailed profile, finding any existing relationships within your company that you can leverage and talking to your trusted advisors to get a feel for the company’s receptiveness to a deal discussion. This also helps retain institutional memory within your firm.

- **Talking to an acquisition target is not as simple as picking up the phone and making a call.** Consider having a well-planned tactical approach for establishing relationships at various levels within the organization, involving other resources where necessary, and using technology to capture what you hear and what you learn.

- **Not closing a deal on the first try shouldn't be viewed as a failure.** Instead, it offers a tremendous opportunity for your company to establish credibility in the market and create new industry contacts. Capture the value you gain and use it to your advantage when you are ready to pursue the next deal.