Raymond Chabot Grant Thornton

Growth Through Acquisition, One Step at a Time

Raymond Chabot Grant Thornton prepared a report on the issues facing small- and medium-sized enterprises (SMEs) in Quebec based on a Léger survey amongst 300 business leaders. This research identified the main development approaches used by organizations. One of these approaches, acquiring another company, requires a complex process that must be well thought out and planned.

Since companies carry out a limited number of acquisitions during their life cycle, business leaders often lack experience in this area. This document provides relevant information, statistics and expert advice to support your growth strategy reflection and help you maximize its benefits.

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Overcome Challenges

Philippe Durocher
CPA, CA
Partner, Financial Advisory

There are two types of organizational growth: **organic growth** and **growth through acquisition**.

Generally, most high-growth companies combine the two. Organic growth is more logical and progressive, but also slower. It is therefore not as common to see only organic growth unless the company is in a new industry or new market.

Our study indicates that 8% of companies carried out an acquisition in the past two years and, in 81% of the cases, the transactions were undertaken in Quebec.

Stand Out!

According to Philippe Durocher, with growth through acquisition, it's possible to stand out from competitors and increase sales and financial performance.

However, a successful acquisition is a major challenge.

The entrepreneurs surveyed stated that the main issues in such a transaction are:

26% The ability to integrate

20% The implementation of the culture and common values

17% Employee management

Once a transaction has been concluded, it seldom achieves the targeted value creation. In fact, a Grant Thornton study, the Value Curve Study, indicates that **there are four main reasons why transactions do not achieve their objectives:**

- Price paid is too high
- Synergies are overestimated
- Integration is slow at the beginning
- Management reacts impulsively or too quickly

The acquisition project can, however, be properly planned to anticipate and limit risks while maximizing the potential for success.

A Pivotal First Step

The Value Curve Study also reveals that only 30% of managers say they used a clear, well-understood merger and acquisition strategy.

It is essential that all of the steps of such a process be planned to ensure its benefits. The initial analysis stage is thus crucial. It helps to ensure consistency between the acquisition strategy and how the planning will be performed, optimizes communication between the stakeholders and provides a clear and precise presentation of the transaction's financial and human values.

Here are the main questions you should ask to increase the chances of your project's success and define the next steps:

- What is your vision? What is it that you want to buy?
- What are the key value creation levers?
- Does one of the two companies have a lower profit margin? Why? Can it be improved?
- Is there additional growth capacity or is it a mature business that has maximized its growth?
- What are the main risks and risk mitigation factors?
- What will the integration strategy be?
- How can integration success be measured? What are the key success factors?
- What is your integration plan? What are the steps to follow?
- What is the integration management and governance structure?

According to Philippe Durocher, what's important is looking beyond the numbers to identify trends, weaknesses and risks.

Are we likely to maintain or improve the company's performance, grow it, reach new markets or attract new customers? We can then anticipate risks, while ensuring that we carry out a transaction that makes sense from a strategic and operational point of view.

Trends

Weaknesses

Risks

With the support of experts, you can also clearly define your needs, measure a business's fair value and get the best price while making the financing and transaction process easier. Additionally, the questions they ask during the process can help determine the best way to carry out the acquisition and ensure an efficient, profitable integration.

Taking Action

Martin Deschênes
CPA, CA
Partner, Financial Advisory

Now that you've completed the analysis and identified existing issues, are you still interested in acquiring a business?

Martin Deschênes, Financial Advisory Partner, sets out the steps to follow to reduce risk and get the most out of an acquisition investment.

The letter of intent

This letter is the starting point for negotiations without being a formal offer. It's a commitment by both parties to negotiate in good faith. As the buyer, you are stating your intention to acquire the business based on a number of previously discussed conditions.

The letter of intent defines:

- The sale price and potential adjustments
- Assets acquired and liabilities assumed in the transaction
- The payment terms and some representations and guarantees

At this stage, it's important to clearly define the transaction parameters. The importance of this document should not be underestimated.

Due diligence

This is a critical step that serves to properly prepare the transaction and integration process while fostering synergy. When it is conducted with the assistance of specialists, a due diligence audit provides a portrait of the target organization's key financial, tax, legal and operational aspects and the main risks associated with the transaction. Among others, it validates the information provided by the seller and protects you from unpleasant surprises.

The due diligence audit also makes it possible to detect business issues in the target company as well as matters involving the integration of activities (obsolete computer systems, potential departure of key employees, etc.). It's never too early to start the due diligence process and identify what can be resolved quickly, such as combining sales forces, reducing or negotiating procurement or supplier agreements, or integrating operational best practices in either company. While due diligence may be demanding, businesses that have undertaken such a process have no regrets. Additionally, the due diligence audit can sometimes result in reducing the purchase price.

> "This is often a weakness in acquisitions. Buyers focus on the numbers without looking into how to align the two organizations' activities and gain additional benefits to improve performance.
>
> – Philippe Durocher, Partner, Financial Advisory

The purchase agreement

Now that you've developed an accurate portrait of the company you want to acquire, you're ready to draft the purchase agreement. The agreement covers conditions and guarantees to protect you from various risks, particularly those identified in the due diligence audit. For example, you could include indemnification, confidentiality, non-solicitation and non-compete clauses.

By having a detailed purchase agreement prepared by an expert, you will save both time and money and be adequately protected against the most significant risks.

Overcoming the Integration Challenge

François Fournier
MBA, CPA, CGA
Senior Manager,
Management
Consulting

The post-acquisition integration must be very carefully planned and, generally, should not last more than two years to maximize the chances of achieving the anticipated synergies.

Furthermore, the integration pace must be sustained, since the organization has a limited ability to maintain momentum. This is where the first 100 days take on their meaning.

The main challenges of an acquisition

26%
An organization's ability to integrate a new business

17%
Human resource management

However, a successful integration plan largely depends on the commitment of the management and the employees. It is therefore important to mobilize them by communicating your guiding principles, vision and values. In addition, a well-planned integration clearly identifies the key employees, includes an appropriate retention plan and provides them with opportunities for growth in the context of the combined entities. Behind any successful acquisition, the human aspect is always a key factor!

Integration Approaches

There are various types and degrees of integration, each with its own advantages and disadvantages. It is important to determine the approach that best adapts to each transaction with regard to the specific contexts of the organizations involved.

Complete assimilation

In most cases, the buyer plans to fully assimilate the acquired company by purchasing its assets, customer relationships, competencies or technologies and integrating them under a common brand name.

Reverse assimilation

In this case, the organizations combine under the acquired company's brand name.

The best of both worlds

Based on a reflection of the advantages and disadvantages of the different integration models, a third type of integration tends to give more autonomy to the targeted company: "the best of both worlds".

The objective here is to achieve what is considered to be the optimal degree of integration. In this model, both companies tend to maintain unique aspects. The acquired company will therefore retain a certain degree of flexibility or autonomy over key functions, such as sales, marketing and operations.

The pros and cons of the best of both worlds

The advantages and disadvantages of this type of integration are analyzed below with the assistance of François Fournier, Senior Manager, Growth and Integration Strategies at Raymond Chabot Grant Thornton.

Stability, a major benefit

1

Initial disruptions are limited in both organizations.

One of the most important issues in an integration context is the organization's ability to absorb change. With a hybrid and coherent approach, major changes are limited. In many cases, resources and operational structures are left intact.

2

The uniqueness underlying the target's success is retained.

There is a tendency to want to protect the commitment regarding the organization's values and culture. What attracted customers to this organization and kept employees will not change completely overnight. This type of integration can therefore allow one company to penetrate a geographic market quickly while benefiting from the other organization's brand and success factors, for example.

3

Acquisitions are carried out much more easily.

The integration program for this type of acquisition is less complex to implement and less disruptive, but still presents its share of challenges. Since an important level of autonomy is maintained, the transaction can be completed more quickly. Another significant potential benefit is the increase in the acquiring company's purchasing power.

In a context where a business's procurement volumes have a significant impact on results, this solution can allow the acquisition target to improve its financial performance through the combined purchasing power of both entities, without having to deal with new suppliers or renegotiate agreements.

More complex management

Managing several cultures simultaneously is difficult.

If we let two different cultures evolve in parallel for a long time rather than work to integrate them, and the values perceived and conveyed by each group are very different, it will be even more difficult to change position or approach.

Our study indicates that the culture change is the main acquisition challenge for 20% of respondents.

Studying the corporate cultures, understanding their specific aspects and assessing their ability to interact are essential and can become a very complex exercise. Experts can help you determine the values and practices that influence interactions within your organization and those involving external stakeholders. This will make it possible to identify commonalities and significant discrepancies in order to implement change management strategies.

Best practices in each organization are not easily integrated.

Some of the business practices in one organization may be beneficial to the other. Limited integration minimizes the ability of the combined organizations to share and therefore integrate these best practices.

Maximum potential synergies are hard to achieve.

Considering potential synergies from an acquisition, it makes sense to want to streamline the cost structure and optimize revenue-generating capabilities by maximizing the use of resources. Synergies will often be more limited if no adjustments are made and the two entities do not effectively share their assets and resources.

Variable Degrees of Integration

According to François Fournier, organizations evolve according to their specific internal and external environments. The required integration needs and level may therefore vary over time.

In this sense, it is recommended to ensure that you have an accurate reading of the advantages and disadvantages of each approach in your specific context to define the optimal degree of integration at the time of the transaction, measure the achievement of objectives along the way and periodically reassess the organization's performance, for example as part of the periodic strategic planning. This makes it possible to redirect interactions between the organizations, according to changing needs, and assess whether adjustments to the degree of integration are needed.

FPM360: A Successful Acquisition

Nicolas Plante
MPM, PMP
Partner, Management Consulting

In 2019, Raymond Chabot Grant Thornton acquired a service business and experienced the challenges of this situation.

Nicolas Plante, Management Consulting Partner, answered our questions and described the integration of FPM360.

What was the context of this acquisition?

"We had an opportunity to acquire a consulting services firm in a complementary sector,

which would double the size of our management consulting department. It was a strategic decision. Furthermore, our clients could benefit from additional leading-edge expertise and the resulting synergies could make the investment profitable.

What were the first steps?

"Once the process began, we held meetings and negotiation sessions over several months

to get to know each other and make sure that the leaders' cultures and visions were aligned. Then, we undertook the due diligence audit and began to implement a retention, training and communication plan. The main challenge was to ensure that professionals considered the acquisition as a beneficial change and that they felt listened to.

Did you overcome challenges along the way?

Even with careful planning, there are always challenges. Our analysis of the situation showed that, while the organizational cultures were relatively similar, employees in a small firm and a large firm had different expectations.

There was therefore a staff retention and mobilization issue to consider.

The management systems were also very different. During the integration, the new procedures and structures also created some friction. However, our planning allowed us to significantly minimize these issues. The execution of our integration plan was supported by a communication and training plan as well as the constant involvement of our human resources department, a key player in this context.

As we already mentioned, challenges will always arise. The key to minimizing the consequences is careful planning, listening through ongoing communication and having a governance structure that addresses these issues quickly.

How did you integrate the other organization's activities?

There were two important considerations for us—protecting what makes FPM360 unique and retaining the current staff.

FPM360 therefore became a Raymond Chabot Grant Thornton division. The objective was for the market to understand that FPM360 was joining a large firm with significant potential and capacities while preserving its own characteristics. We opted for a mixed integration approach by retaining the target's identity and brand, protecting certain processes that contributed to its success over the years and combining certain functions to maximize efficiency.

What was the recipe for success in this acquisition? What's next?

During the integration period, there were continual follow-ups with employees and the management team.

We are now in an operational phase. We have to ensure that we can maximize the benefits of the acquisition within three to five years.

This transaction provided attractive internal benefits:

- Access to a pool of clients we had never served.
- A service offering that complements our existing offer: FPM360 offers finance function optimization services with technological tool implementation support.
- Immediate access to high quality talent in the context of the workforce shortage where hiring is more difficult.

There are many approaches to growing a business. The most successful, over the long term, combine organic (or internal) growth with an acquisition strategy.

62% of businesses have carried out growth-related activities in the past two years.

The most common development activities

37% Product or service diversification

31% Strategic partnerships with other businesses

27% New market penetration

There is no winning formula and the approach must be specific to the organization. This is why it's important to ensure that the growth approach is carefully thought out and efficiently planned.

A Model to Follow

It's always inspiring to see leaders grow their business with vision and energy. Marie-Claude Boisvert, Partner at Clearspring Capital Partners, and her team are very good examples.

After having acquired a majority stake in Demers Ambulances, Clearspring and the management team succeeded in doubling their size thanks to the acquisition of the U.S. manufacturer Braun Industries, in February 2018. Merging Demers and Braun helped create a company earning $200M in annual revenues with over 500 employees in its Belœil and Ohio facilities. Eight months later, Demers-Braun merged with another competitor that manufactures both ambulances and buses: Crestline Coach, in Saskatoon.

Marie-Claude Boisvert and the Clearspring team were involved in all aspects of the acquisition, financing and integration once the transaction was concluded. According to her, Clearspring implemented an aggressive merger and acquisition plan and was able to focus on a win-win approach to successfully merge three competitors in such a short time.

> It's exciting to achieve some change initiatives that allow companies and their management team to grow and reach new heights.

– Marie-Claude Boisvert, Partner

CLEARSPRING CAPITAL PARTNERS

Winner 2019 Person of the Year Awards

INSTINCT Category

For the results she was able to bring to Demers Ambulances and the subsequent growth, **Marie-Claude Boisvert** won in the INSTINCT category at the Person of the Year Awards.

RAYMOND CHABOT GRANT THORNTON
JOHN MOLSON SCHOOL OF BUSINESS
PERSON OF THE YEAR Awards

The Person of the Year Awards, presented by Raymond Chabot Grant Thornton and Concordia University's John Molson School of Business, celebrate local business people who play an active role in the development of local, leading-edge enterprises and the emergence of tomorrow's talent.

Who will be the headliners of the 2020 Person of the Year Awards?

Follow what's happening with the latest edition of the contest by visiting **rcgt.com/awards**.