

# Acquisition Guideline Considerations

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When considering an acquisition (merger and joint venture as well) we all know there are many pitfalls associated with opportunities in the process. We all know to avoid as many of these as possible, detailed plan and a set of objectives related questions must be considered. CHEMARK has developed such a set of considerations designed to maximize a successful acquisition.

Specific issues, which MUST be addressed during the acquisition investigatory stages include:

- Development and agreement of appropriate screening and selection criteria for the target companies and business management (champions).
- Structural overview of the target markets to provide a framework to identify potentially attractive target segments (8-10 max).
- Analysis of target segment value chain “clusters,” to identify potentially attractive opportunities for strategic value creation and/or extraction.
- Identify, qualify and prioritize potential acquisition candidates, and develop initial “business build” scenarios for construction of a successful industry participant to take advantage of identified value creation and/or extraction opportunities in target segments.
- Develop in-depth acquisition profile for top ten acquisition candidates, detailing opportunities for value creation/extraction and recommended initial negotiation strategy.
- Identify and screen potential management candidates, either from within target acquisition candidates, or industry at large, who could be the “Champion” to lead implementation of the business building strategy.
- Develop initial “business build” scenarios, including analysis of potential value creation/extraction and risk/return.

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## Approach and Methodology:

We see a three phase methodology:

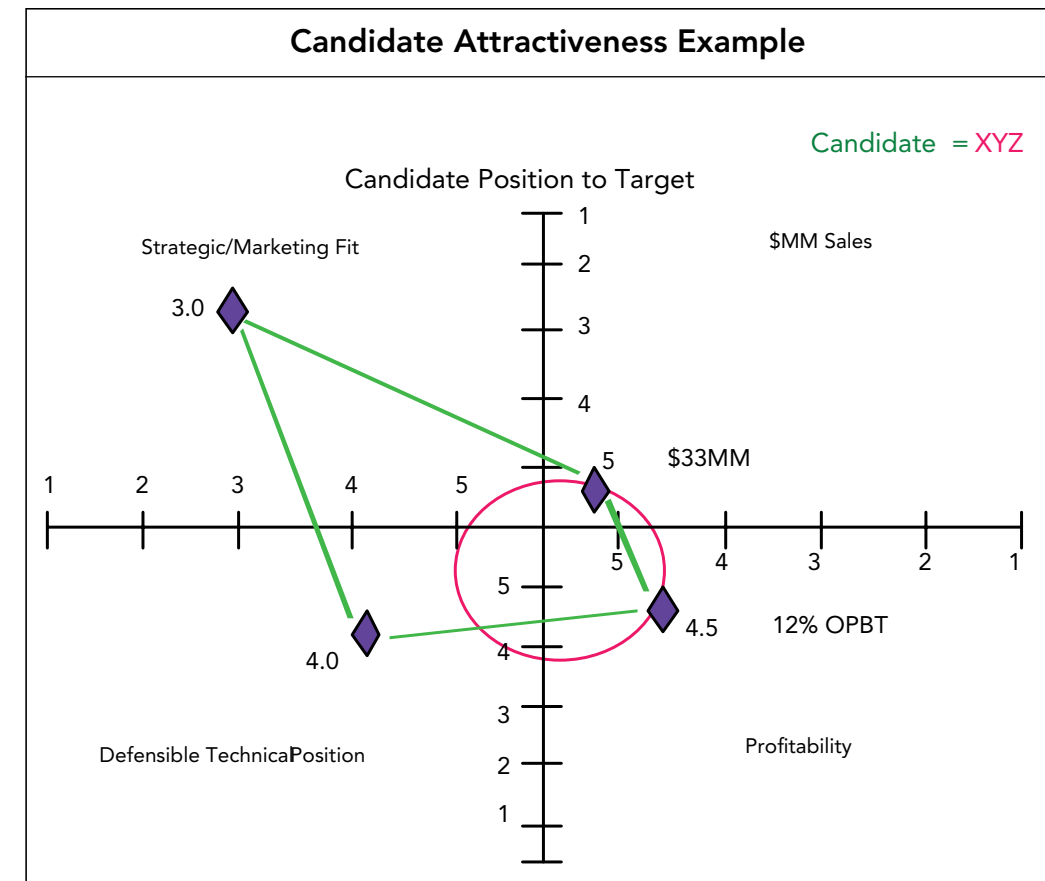
- **Phase 1** Building a foundation through establishment of clear selection criteria, structural market assessment and identification of possible opportunities.
- **Phase 2** Targeting of attractive opportunities, acquisition candidates and business build scenarios.
- **Phase 3** In-depth analysis of selected candidates and ‘business build’ strategy development.

### Phase 1: Foundation Building

All key decision-makers (investors included), need to fully understand “What will the success look like?” Goals and objectives for the concept company will be translated into a set of “screening criteria” to be used in identifying and assessing possible acquisition candidates. Possible dimensions for consideration include potential for market growth, organizational capabilities and capacity for innovation, competitive advantage and opportunities for value generation. A detailed list of key perspectives to consider for each of these dimensions is shown below.

With these selected criteria in hand, a structural analysis of the markets aimed at identifying potential opportunity targets, is launched. It’s important to quickly and thoroughly establish the size, growth and trends of the market segments targeted. Interviews with material suppliers, formulators, end-users, trade associations and other industry participants provide the bulk of the needed information. Depending on the complexity of the acquisition, analysis could consider 20-70 interviews market segments will be analyzed to provide detail on consumption, relative segment profitability, growth rates, market dynamics, participants, positioning, unmet needs, etc. This analysis will provide the foundation identification and assessment of potentially attractive target segments that match the developed criteria.

At the conclusion of Phase 1, it’s important to stop and thoroughly consider the quality of the results. The overview of the structural



market analysis, and review identified opportunities, should then yield a prioritization and selection of 8-10 market segment targets for further assessment in Phase 2.

### Phase 2: Opportunity Targeting

Phase 2 focuses on deeper analysis of target market segments for value creation and extraction opportunities, identification of possible acquisition candidates, and development of possible ‘business build’ scenarios.

For each of the target market segments, develop a comprehensive Value Chain “Cluster” designed to uncover and show where industry structure, value chain inefficiencies, supply/demand balance or other structural issues may present attractive opportunities for strategic value creation or extraction, the Channel captain (or, captains) for each segment be identified. This Value Chain exercise will highlight the attractive niche/segments, allowing for a more focused determination of potential acquisition candidates.

Using the criteria developed in Phase 1, and the identified value opportunities identified above, develop and assess initial ‘business build’ scenarios for construction of a successful industry participant to take advantage of identified value opportunities in the target segments. Potential acquisition candidates to support potentially attractive ‘business build’ scenarios would then be identified, qualified and prioritized.

At the conclusion of Phase 2, there is review of analyses, scenarios and candidates. Prioritization of select acquisition candidates for in-depth acquisition analysis, and development of a detailed ‘business build’ plan. At this juncture, it is important to be focused on qualified, attractive market opportunities, a business development plan and strong candidates, which support that plan.

### Phase 3: Strategy Development

The focus of Phase 3 is validation of the value opportunity hypotheses and development of an acquisition detailed and

‘business build’ strategy to meet the business goals set out by you.

In-depth acquisition profiles of the top candidates should be developed. Profiles should detail issues such as current offerings, estimated revenues, costs, and profitability, positioning, basis of competitive advantage, vulnerabilities, organization, management structure and strength, operations overview, strategic fit with parent organizations (if division), value creation/destruction levers, and estimated cost of acquisition.

Each candidate will also be profiled relative to the key screening criteria developed in Phase 1. The chart to the left provides an example of one

format planned for use. The closer to the epicenter the stronger the candidate is for acquisition consideration. This example is based on the following key criteria:

- Size = Dollar revenue and units
- Strategic/Marketing Fit
- Defensible Technical Position
- Relative Profitability

In the final task of Phase 3, a detailed ‘business build’ stand alone or integration strategy and plans for target start-up, including a risk/return analysis must be put in place. One of the key questions to be addressed is “What will happen with this new entity and why?”

A Decision Summary should be developed, and opportunities for specific value creation/extraction, as well as recommended approach and negotiation strategy should also be included. Since this is a summary slide exhibiting, at the top, the decision criteria from left to right in a descending weight of importance and the five target acquisition candidates on vertical left, each cell must contain the various detailed data inputs that cause the “excellent” or “fair” final rating. **CW**