



• GROWTH STRATEGIES • BUSINESS DEVELOPMENT •

M&A, Meet CIA

Four Actionable Lessons

March 2020

Naysayers – who's your Cassandra?

In Greek mythology, Cassandra was cursed to utter prophecies that were true but that no one believed.



Who were reported as naysayers:

- CEOs – 5.6%
- CFOs – 19.4%
- Sales/marketing execs – 10.2%
- Operations execs – 27.8%
- Board of Directors – 16.2%
- HR execs – 4.2%
- R&D execs – 6.9%
- All other roles – 9.7%

Feedback on naysayers:

- Constructive – 48.6%
- Substantiated – 20.7%
- Distraction – 19.8%
- Unhelpful/ignored – 5.4%
- Ignored with regret – 1.8%
- No naysayers – 3.6%

Constructive:

- “Opposition created a hurdle that needed to be cleared with additional data.”
- “Constructive tension helps ensure a proper review.”

Substantiated:

- “Realistic opposition based on facts”
- “Deep consideration provided to concerns”
- “Opposition was helpful as it forced more organized analysis to specific issues”

Distraction:

- “Opposition is, in many cases, driven by fear, which is a bad advisor.”
- “Distraction in the beginning but eventually people got onboard.”

Unhelpful/ignored:

- “Opposition was discussed and senior leadership prevailed.”
- “Objections were considered to be unhelpful and not ‘on the team.’”
- “Listened to politely , then ignored.”

Beware of Checklists!

“Comprehensive M&A Diligence List for Buyers”

1. General Information

- 1.1. Company Overview
- 1.2. Business Model
- 1.3. Market Position
- 1.4. Financial Performance
- 1.5. Legal and Regulatory
- 1.6. Human Resources
- 1.7. Intellectual Property
- 1.8. Environmental, Social, and Governance (ESG)
- 1.9. Risk Assessment
- 1.10. Other

2. Financial

- 2.1. Historical Financials
- 2.2. Projections
- 2.3. Capital Structure
- 2.4. Tax
- 2.5. Debt
- 2.6. Cash Flow
- 2.7. Valuation
- 2.8. Other

3. Legal

- 3.1. Corporate Governance
- 3.2. Contracts
- 3.3. Litigation
- 3.4. Regulatory
- 3.5. Intellectual Property
- 3.6. Other

4. Operational

- 4.1. Production
- 4.2. Logistics
- 4.3. Quality Control
- 4.4. Inventory
- 4.5. Other

5. Marketing

- 5.1. Branding
- 5.2. Advertising
- 5.3. Sales
- 5.4. Distribution
- 5.5. Other

6. Human Resources

- 6.1. Organizational Structure
- 6.2. Compensation
- 6.3. Benefits
- 6.4. Training
- 6.5. Other

7. Technology

- 7.1. IT Infrastructure
- 7.2. Software
- 7.3. Data
- 7.4. Other

8. Environmental, Social, and Governance (ESG)

- 8.1. Environmental
- 8.2. Social
- 8.3. Governance
- 8.4. Other

9. Risk Assessment

- 9.1. Market
- 9.2. Financial
- 9.3. Legal
- 9.4. Operational
- 9.5. Other

10. Other

- 10.1. Industry
- 10.2. Competition
- 10.3. Other

11. Summary

- 11.1. Key Findings
- 11.2. Recommendations
- 11.3. Other

12. Appendix

- 12.1. Documents
- 12.2. Other

13. Glossary

- 13.1. Definitions
- 13.2. Other

14. Index

- 14.1. Page Numbers
- 14.2. Other

15. Acknowledgments

- 15.1. Contributors
- 15.2. Other

16. Disclaimer

- 16.1. Limitations
- 16.2. Other

17. Contact Information

- 17.1. Authors
- 17.2. Other

18. Bibliography

- 18.1. Sources
- 18.2. Other

19. Executive Summary

- 19.1. Overview
- 19.2. Key Findings
- 19.3. Recommendations
- 19.4. Other

20. Introduction

- 20.1. Purpose
- 20.2. Scope
- 20.3. Other

21. Methodology

- 21.1. Approach
- 21.2. Tools
- 21.3. Other

22. Findings

- 22.1. General
- 22.2. Specific
- 22.3. Other

23. Conclusions

- 23.1. Summary
- 23.2. Other

24. Recommendations

- 24.1. Strategic
- 24.2. Operational
- 24.3. Other

25. Appendix A

- 25.1. Documents
- 25.2. Other

26. Appendix B

- 26.1. Documents
- 26.2. Other

27. Appendix C

- 27.1. Documents
- 27.2. Other

28. Appendix D

- 28.1. Documents
- 28.2. Other

29. Appendix E

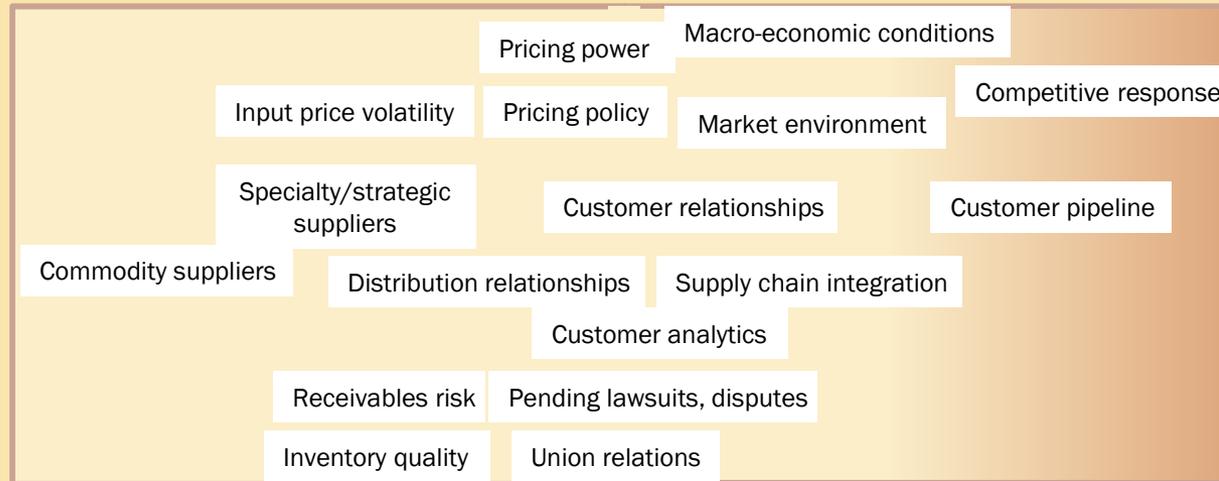
- 29.1. Documents
- 29.2. Other

30. Appendix F

- 30.1. Documents
- 30.2. Other

Wide, Wide World of Due Diligence

**External
to Target**

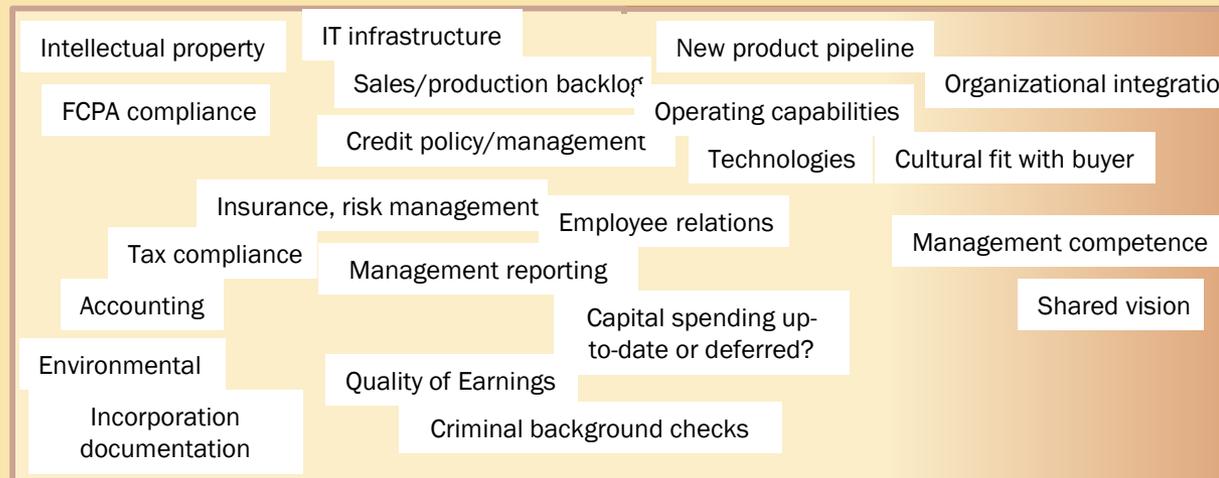


“Facts/Figures”



Subjective

**Internal
to Target**

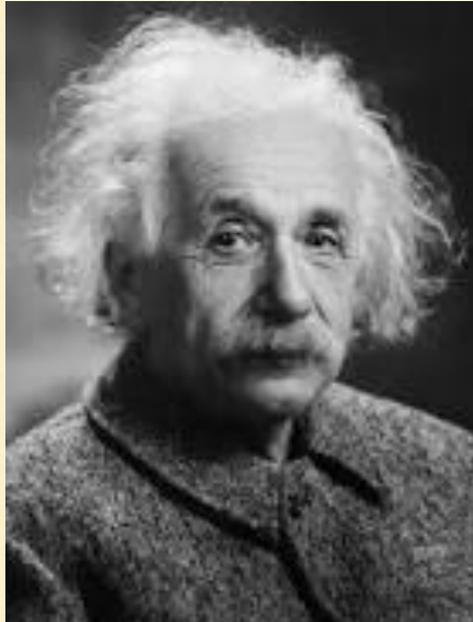


Quantification – Source of false confidence

- Do you agree or disagree with the following statement: “The vast majority of risks in an acquisition can and should be quantified?”
- Agree – 70% (119 of 170)
- Disagree – 30% (51 of 170)
- Of which, CEOs:
 - Agree – 88% (8 of 9)
 - Disagree – 12% (1 of 9)

“Quantified, probably not. Identified and handled yes. Not all risks are quantifiable but the result of ignoring them certainly is.”

Chief Executive
Officer



“Not everything that counts can be measured. Not everything that can be measured counts.”

Albert Einstein
1879 - 1955

“One critical risk is organizational assimilation and blending of cultures. I am not smart enough to attempt to quantify that in a sensible way.”

Chief Financial Officer

“Numbers don't lie, but they often don't tell the truth either.”

Joseph Kampf

Chairman and Chief Executive
Officer of CoVant

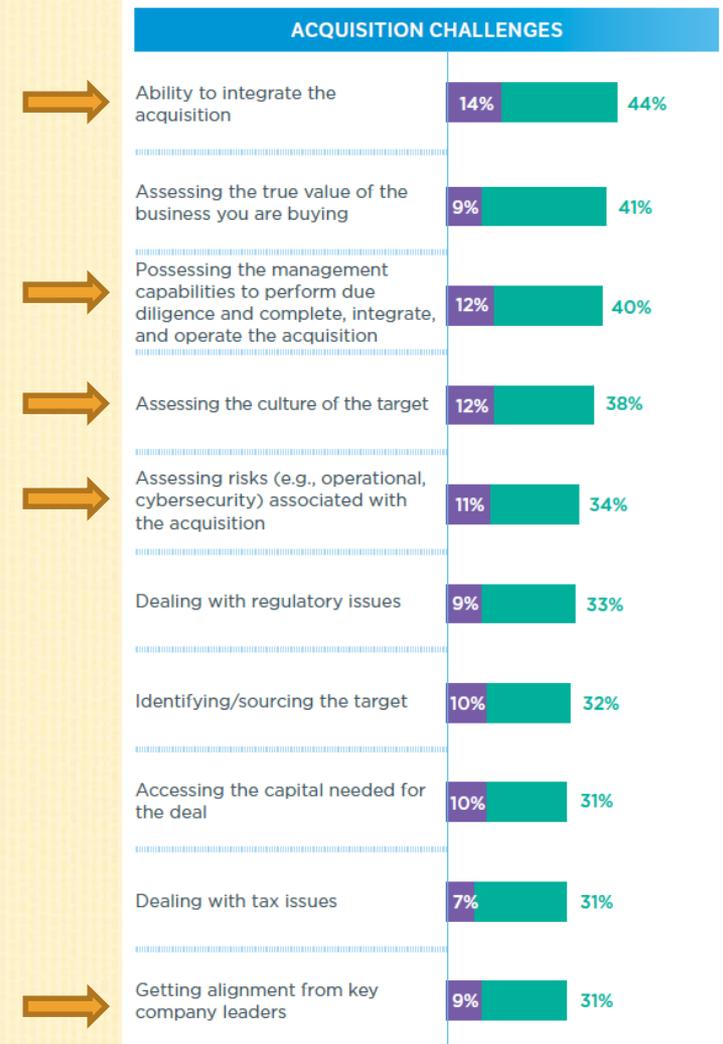
Former Chief Executive Officer
of Anteon International
Corporation

Culture and organization

Which of the following best describes the post-closing surprises in your most recent deal?

- Organization, people – 30.3%
- Customers, products, markets – 28.8%
- Integration of systems, processes – 19.7%
- Operations, supply chain – 16.7%
- Legal or liabilities – 12.1%

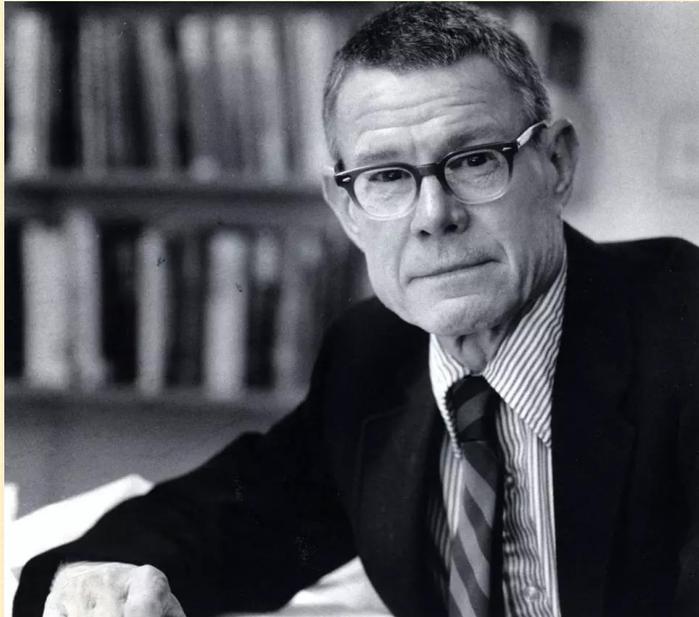
n = 66



National Center for the Middle Market

Would some different pre-closing efforts have helped identify the organizational/people surprise before closing?

- Definitely – 34.0%
- Possibly – 48.9%
- Unlikely – 10.6%
- Very unlikely – 6.4%



“One thing a person cannot do, no matter how rigorous his analysis or heroic his imagination, is to draw up a list of things that would never occur to him.”

Thomas Schelling

Nobel Prize winning economist

1921 – 2016

“If I have seen further,
it is by standing on the
shoulders of giants.”

Sir Isaac Newton
1643 - 1727



- Naysayers – who's your Cassandra?
- Beware of checklists – solving the wrong puzzle
- Quantification – source of false confidence
- Culture and organization – deal challenge worth a fresh look

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