University of Richmond ROBINS School of Business
The Richmond MBA

MBA Dinner Series

Topic: Mergers and Acquisitions

Contributors

Aaron Barnes
Thomas Davis Asset Management and
MBA Candidate

David Earle
Evergreen Enterprises and
MBA Candidate

Debbie Fisher
Assistant Director, MBA Program

Steve Gannon
Executive VP & Deputy General Counsel
Capital One Financial

Matt Hannay
Markel and
MBA Candidate

Hiter Harris
Managing Director
Harris Williams

Andy Krukiel
Capital One and
MBA Candidate

Gray McDermid
Associate of Boxwood Partners and
MBA Alumnus Robins School of Business

Jason Repak
Rolls Royce and
MBA Candidate

Jennifer Tarry
MBA Candidate

Richie Whitt
President & Co-Chief Operating Officer
Markel Corporation

Key Knowledge Points Developed

Strategy

- Business leaders must consistently evaluate long term strategies to avoid becoming a "wagon wheel company" that is forced to acquire to survive.
- If growing organically will take a long time, companies should look to acquire.
- Acquisitions can be a key part of a company's growth strategy. They can provide synergies at the revenue or cost level and help companies overcome barriers to entry in other market segments or geographic areas.
- Corporations can utilize M&A as a way to increase returns and hedge risk through portfolio diversification.
- Every deal has a different approach; take into consideration potential regulations, hurdles and cultural pitfalls.
- The most successful firms define the success factors and the failure factors in advance.
- Some of the synergies acquiring companies find important include finance, operations, technology, and brand.
- Sometimes businesses are worth more if they are broken up.
- At times, M&A work can be boiled down to nothing more than crisis control.

Negotiation

- Acquiring firms must get better at determining when/if they are negotiating against themselves to avoid paying more than necessary to close a transaction.
- Potential complications can be reduced if the buyer is a seasoned acquirer and uses good negotiation strategies.
- If a buyer is interested in only a fraction of the company, sellers must have other buyers lined up to complete the deal.
- The interests of third parties (regulators, unions, politicians) can cause collateral damage to many transactions.
- When a union is involved in negotiations, acquisitions can become more difficult.
- Don't go into a deal weak; never fabricate, and be able to tell the company's story well.

Culture and Integration

- Culture is not the be-all, end-all. If the numbers don't work, culture doesn't matter.
- Finding acquisition targets that fit a company's strategy is half the battle. Following an acquisition, the company must work quickly to integrate the acquired company into the corporate culture.
- Culture of the target matters more to the acquiring firm than those representing the target.
- The acquiring company must be declarative about cultural integration.
- Companies are not only concerned about cultural integration, but product and geographic integration as well. They must also look at the transactional pieces that come into play.
- Synergies are in the eye of the beholder.
- If acquiring companies don't have the core competencies to run a new business, they must have trust in the existing management of the acquired company.
- M&A transactions must be led by the existing business lines to ensure accountability and completeness of the integration.
- Go as fast as you reasonably can to integrate or your resources can become strained.

M&A Future

- M&A activity will increase in the coming months and years for four reasons:
  1) The S&P 500 has more cash on its balance sheet than ever before, earning little to no return.
  2) Valuations are rising, motivating sellers to act.
  3) PEG's have a significant amount of committed capital that needs to be put to work very soon.
  4) Growth rates are quite low, at or just above GDP, spurring demand for higher returns that will force growth through acquisition.
- The current regulatory environment, excess cash on many corporate balance sheets, and a sense of urgency in the private equity market are all factors that are contributing to a robust M&A market, with deal multiples at pre-recession levels