The anatomy of a merger

By Jen Vogelsong
Contributing writer

Many people have worked for a company that has been bought by or merged with another. The difficult process can cause worries about changes in corporate culture, job descriptions and employment security.

What they might not understand is everything that goes on behind the scenes during a company merger or acquisition, and how the process unfolds.

Ronald Myer, president of Summit Advisory in Lancaster, has been quarterbacking such deals for 14 years. He took some time to explain how it all goes down.

When a company wants to sell, its owners have two options: do it on their own or hire a broker.

If the company already has a buyer and has negotiated the price and terms of sale, typically only the company's accountant and attorney would be involved to take care of the financial and legal aspects of the transaction.

When a company hires an investment banker such as Myer to handle the process, his or her first job is to understand the goals and timeline of the seller. Then comes a financial analysis of the com-

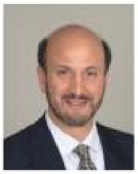
MANUFACTURING

- Glatfelter, a York-based supplier of paper goods, purchased Georgia-based European Georgia-Pacific LLC division for $185 million on June 19.
- A German medical device manufacturer acquired Lancaster County-based Precision Medical Products Inc. on May 25.
- Armstrong World Industries Inc., based in Manor Township, acquired Plasterform, a Canadian architectural firm, on June 1.
- Connecticut-based Penwood Select Industrial Partners bought Hampden Township warehouse for $33.1 million on May 3.

LAW

- Salzmann Hughes P.C. acquired long-time Gettysburg law firm Campbell & White P.C. on June 1.
- Harrisburg-based McNees Wallace & Nurick LLC purchased Harrisburg-based lobbying firm Capital Associates on Feb. 1.

pany and determination of its worth. "We want to make sure they are willing to sell at that value," he said.



Myer

Myer spends months doing due diligence – investigating information provided by the seller.

"It's not just looking at financial statements but a full analysis of the company's strengths, weaknesses, opportunities and threats. We spend a lot of time trying to answer every question that can be answered by a buyer," he said. "It's kind of like an IRS audit – if you can answer their questions immediately, there are fewer questions."

The investment of time and resources pays off in the number of potential buyers the broker can bring to the table, creating a competitive situation.

"It's not just about going out and finding a buyer, but finding the buyer who can pay a premium and it makes sense for them to do so because it would be a good fit," he said.

A good fit might mean the ability to cross-sell products or use excess capacity to improve service to existing customers.

"It's a lot more than cost reduction and elimination of positions," Myer said. "If you have two thriving businesses and not a lot of overhead, you can get synergies through building on existing relationships. That's where the value comes."

Once the research is done and the picture is clear, Myer and his team work to market the company by reaching out to hundreds of potential buyers. They use buyer databases, attend mergers and acquisitions events, and target specific buyers with emails and phone calls, following up with even more outreach.

It's a bit of a dance – offering enough information to entice buyers, yet not disclosing information that could harm the seller once the deal is done. "You need to be able to get them interested without divulging confidential information," Myer said.

He said a seller's customers and vendors shouldn't even know the company is being sold until after the deal goes through: "Otherwise it can create issues as they worry about what impact it would have on them."

The key is not to hide information, but to disclose it at the right step in the process to the right people.

"You usually only sell a business once," Myer said. "If you have never gone through this before, you don't know what to say in steps one through five because you have never been to step 15. You could be saying things that impact negotiations later."

Please see **ANATOMY** page 18

ANATOMY

continued from page 11

Once the list of potential buyers is narrowed down, a broker begins to negotiate the structure of the deal. Does the seller want to retain a position in the company after the sale? Will the seller receive earn-out pay on a contract that comes in after the sale that it has put months of work into? What kind of non-compete clauses will be part of the agreement? What are the terms of payment?

"It's more than just the purchase price," Myer said.

He pulls in accountants to do a tax analysis of the transaction and attorneys to prepare the legal documents, including purchase agreements.

John S. Stoner, partner with RKL

Stoner

in Lancaster, said he encourages his clients to look at the options for structuring a deal before they decide how they want to proceed.

"There can be dramatically different tax consequences for both parties, so we look at whether there is a more tax-efficient way to complete the desired transaction," he said.

Coordinating the closing can take months of paperwork for a medium-to-large business. Details such as transferring web sites, changing checking accounts, updating tax paperwork, name changes, and merging employee 401(k) plans must be taken care of.

"It's almost like setting up a new business," Myer said. "You want the process to be transparent for vendors, customers and employees because the goal is for them to feel neutral or positive about the changes."

Once the sale goes through, the broker often stays involved with communication and business planning, helping the new company define roles and track earn-out pay to the seller.

"It's a very complex transaction with a lot of moving parts," Myer said.

The new entity must consider how it will handle its accounting, personnel, technology and communication with customers and vendors.

Stoner said businesses often look at financial statements and get excited about the savings they could achieve by coming together. But if they don't plan ahead how they will design the new company, things often don't go seamlessly: "Then they never actually reap the benefits they saw on paper." M&A