

M&A Quick Analysis Worksheet

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Every merger and acquisition is different and should be viewed on its own merits. However, there are several rules of thumb that investors and executives use to decide whether a deal makes sense. Unfortunately, the importance of each individual rule varies according to a firm's specific acquisition strategy. A technology firm that acquires early-stage startups would be crazy to expect them to be profitable from the get-go. Similarly, a medical-services business is likely to care more about the quality of personnel than the assets of the business.

How, then, to quickly decide if a deal makes sense? We've put together an assessment questionnaire to help you think through the various dimensions of an M&A decision. The questionnaire is no magic bullet, nor is it a substitute for the hard thinking that must go into a formal due-diligence process. But in just a few minutes, it could provide an early indication of whether you're on the right track — or heading for an M&A disaster.

Part 1: Financials

Revenue: If the target acquisition candidate has a revenue stream, divide the expected purchase price by the average yearly revenue stream over the past two years.

- The result is less than or equal to 2. (4)
- The result is more than 2 but less than or equal to 3. (4)
- The result is more than 3 but less than or equal to 4. (3)
- The result is more than 4 but less than or equal to 5. (0)
- The result is more than 5 or the company has no revenue stream. (-1)

Profit: If the target is profitable, divide the expected purchase price by last fiscal year's earnings before taxes, depreciation, and amortization. (If not profitable, score 0.)

- The result is less than or equal to 5. (6)
- The result is more than 5 but less than or equal to 7. (4)
- The result is more than 7 but less than or equal to 9. (2)
- The result is more than 9 but less than or equal to 11. (0)
- The result is more than 11 or the company is not profitable. (-1)

Stock Value: If the target is publicly held, divide the dollar value of the target's outstanding stock by its last year's net profit. Do the same for your firm.

- The target's valuation is more than twice your firm's valuation. (5)
- The target's valuation is more than your firm's valuation. (3)
- The target's valuation is identical to your firm's valuation or the target is not publicly held. (0)
- The target's valuation is less than your firm's valuation. (-3)
- The target's valuation is less than half your firm's valuation. (-7)

Subscore #1: Add up the points for each answer: _____ (SS1)

Part 2: Product

Uniqueness: The target's offerings are:

- Absolutely unique in this industry (5)
- Better than other offerings (3)
- About average for the industry (1)
- In need of some work to come up to par (-1)
- Obsolete and out of date (-6)

Customer Base: The target's product offerings have:

- A fanatically loyal user base (4)
- An enthusiastic user base (3)
- A set of early adopters (2)
- Some interested potential customers (1)
- Existing customers who are actively hostile (-5)

Market Share: The target's product offerings command:

- A major share in a rapidly growing market (7)
- A minor share in a rapidly growing market (3)
- A major share of a mature market (3)
- A minor share in a mature market (2)
- The product has yet to establish a market (-2)

Subscore #2: Add up the points for each answer: _____ (SS2)

Part 3: Personnel

Competence: In general, the target's management:

- Possesses unique knowledge and experience (5)
- Would be a big asset inside any organization (3)
- Are about average for the breed in this industry (2)
- Would be accepted, but without enthusiasm (1)
- Could do cameos in a #Dilbert# comic strip (-3)

Uniqueness: In general, the target's employees:

- Possess technical skills that are impossible to find elsewhere (7)
- Would be extremely expensive to recruit separately (5)
- Have compatible skills with your employees (3)
- Are barely adequate to the tasks at hand (1)
- Are candidates for layoffs soon after the merger (-4)

Culture: Our corporate culture compared to the target's corporate culture is like:

- Manhattan compared to Queens (5)
- New York City compared to Boston (3)
- New York State compared to Arkansas (-1)
- The United States compared to Kazakhstan (-5)
- Planet Earth compared to #Bizzaro# world (-10)

Subscore #3: Add up the points for each answer: _____ (SS3)

Part 4: Your M&A Strategy

Rank the following strategic reasons for your M&A from 5 (highest) to 1 (lowest) according to their importance to your firm:

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- | | |
|--------------------------------|-----------|
| • Improved revenue and profit. | • _____ A |
| • Reduce cash on hand | • _____ B |
| • Obtain advanced technology | • _____ C |
| • Get hard-to-find personnel | • _____ D |

-
- Expand into new markets
 - _____ E

Final Scoring

- Multiply A and B and SS1: • _____
 - Multiply C and E and SS2: • _____
 - Multiply D and SS3. Quadruple the result: • _____
-
- Add the subtotals to get your Final Score: • _____

Analysis

- **Final score is over 300.** This is a highly attractive deal. You have obviously done your homework and found a candidate that matches your strategy.
- **Final score is between 200 and 300.** This is an excellent deal. While there may be some challenges, there's a good chance that the acquired firm will integrate well and help you achieve your corporate strategy.
- **Final score is between 100 and 200.** This is a marginal deal. There are some things about the acquisition that might be advantageous, but there are problems waiting in the wings. Proceed with great caution.
- **Final score is less than 100.** Forget it. Run, don't walk, to the nearest exit.