

Grow by acquisition



Many businesses are not fully aware of the advantages that can be gained by growing through acquisition, according to research by Queensland Leaders sponsor company, Johnston Rorke.

Johnston Rorke partner in charge of Transaction Advisory Services, Warwick Face said a successfully executed acquisition strategy can quickly add value to a business. Current valuations are presenting opportunities to acquire competitors, to reduce competition or increasing bargaining power with a supplier. Acquisition also worked to become part of the supply chain, to improve the quality of the product/service.

"Or you can acquire businesses in new markets or product areas, to expand your market size or reduce risk," Mr Face said.

"Successful acquisition are generally executed within a defined strategy which evaluates the return versus risk equation and at all times have the owner's 'end game' in sight," Mr Face said. Some options included increasing the size and scale of a business for divestment or, perhaps, an IPO.

Mr Face said a healthy starting point was the Heads of Agreement.

"If clearly drafted the heads of

agreement will reduce disputes and costly delays which often lead to deals 'falling over'," he said.

The heads of agreement needs to have key content such as likely warranties, post deal vendor and adjustments mechanisms for items such as working capital.

But above all, the key to success in acquisitions was robust due diligence – commercial, financial and legal.

Mr Face said the key questions the potential purchasing business needed to ask were:

- Is it really the fit you thought?
- Does it actually make the cashflow they disclosed?
- What working capital and capital investment is required?
- Can you manage the business post acquisition – key person risk or cultural issues?

Also vital is a well drafted contract. "Properly drafted, this will ensure the acquirer completes on the agreed terms including warranties and indemnities," Mr Face said.

Mr Face said in his experience there were also so-called moments of 'post deal realisation' This involves recognising synergies and cost savings identified during due diligence, and also executing tax opportunities.

"It is also important to ensure on integrations cultural issues are managed, customer leverage opportunities are explored, and supplier synergies are realised," Mr Face said.

"Whilst acquisitions are not easy, well executed they are a great way to build business value." ■

IN BRIEF >>>

GRANT THORNTON SEES DECLINE IN OPTIMISM

Australian SMEs have suffered a 41 percent drop in optimism over the past year and will be erring on the side of caution in 2011.

That was one of the major findings of the Grant Thornton Australia 2011 *International Business Report (IBR)*.

"While Australia's optimism is still well above the global average at 38 percent, the survey highlights a significant decline which is a far cry from last year's soaring confidence of 79 percent," said Tony Markwell, Grant Thornton Australia's national head of privately held business. Increases in interest rates, declining property market values, current export conditions, and employment rates have contributed to the decline in confidence among Australia's privately held business owners.

"The decline in consumer spending as interest rates increased last year has shaken the confidence of Australia's privately held businesses making them err on the side of caution when looking ahead to 2011.

"Last year expectations were high as most business owners believed that Australia had, for the most part, managed to avoid the global financial crisis. With soaring confidence in 2010, many businesses were not prepared for the mildly bumpy ride experienced throughout the year as the affects of the crisis trickled through to our economy." Uncertainty in the property market has also contributed to the decline in optimism.

Grant Thornton is a Queensland Leaders sponsor.

www.grantthornton.com.au ■

IN BRIEF >>>

DOMINO'S DOUGHRAISER HELPS FLOOD VICTIMS

Domino's Pizza Enterprises Ltd along with their franchisees and team members supported for communities and families affected by recent floods in Queensland and Western Australia through a national *Doughraiser* on Australia Day.

Domino's donated \$1 from every pizza sold across the nation on Australia Day to disaster relief appeals set up to help in the aftermath of the Queensland floods and the Western Australian Gascoyne and Mid West region floods. Domino's chief operations officer, Andrew Rennie said, "The floods have had a traumatic and devastating affect

on people who have seen everything they own destroyed by raging rivers." The Doughraiser produced more than \$115,000 for the appeals.

Meanwhile Domino's half year net profit after tax was up 16.9 percent to \$10.2million and the versatile pizza company also found same store sales up 9.1 percent overall.

Domino's CEO and managing director, Don Meij said the strong first half results were supported by successful product launches in Australia and New Zealand. "We have recorded a strong performance for the first half of the 2011 financial year, particularly in

Australia and New Zealand where innovative new product launches, such as our Square Puff pizza and Prawn Pizza Range, have significantly contributed to strong sales and customer count growth," Mr Meij said.

"In Europe, Network Sales were up 14.4 percent on the same corresponding period last year, while core operating profits were up 52.3 percent before non-recurring items." Domino's Pizza is a Queensland Leaders partner. ■



Don Meij.