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WHITEPAPER

"5 STRATEGIES FOR SECURING ACQUISITION FINANCING" October 2014

Strategic acquisitions can provide a viable way of driving added growth but they can also often present some unique challenges which can derail companies from reaching their ultimate goals. One of those challenges in financing. This white paper identifies 5 helpful strategies for effectively securing acquisition financing.

Acquisition Financing
5 Strategies For Securing Acquisition Financing

By Chris Risey, President, Lantern Capital Advisors, Atlanta

Strategic acquisitions can provide a viable way of driving added growth but they also often present some unique challenges, which can derail companies from reaching their ultimate goals. One of those challenges is financing. This white paper identifies 5 helpful strategies for effectively securing acquisition financing.

GET INPUT ON FINANCING WHILE NEGOTIATING THE LETTER OF INTENT: The last thing a prospective buyer wants is to reach an agreement to acquire a business only to have the deal fall through because they couldn't line up the financing. One way to significantly reduce the risk of such an event is to begin talking to funding sources early in the process. Ideally conversations with financing sources should start while you in the process of developing an initial Letter of Intent. By getting started early, you can better assure the acquisition can be funded in a way that is attractive to you. We routinely use this approach for our clients. For example, once our client determines they are interested to seriously explore buying a certain company, we do an analysis of the financials and begin preliminary discussions with potential funding sources. These early discussions help our client assure the seller they have the required funds to make the acquisition and they can use the feedback to adjust the acquisition terms to make the financing more attractive. This can include adjusting the acquisition price (higher or lower) or restructuring payment terms to obtain a lower cost, better covenants or longer payment terms.

CAPITAL MARKETS: The capital markets are comprised of literally thousands of possible financing sources and as many as a hundred firms would likely consider one specific acquisition opportunity. As such we strive to solicit 50 or more financing groups for each opportunity. Key terms like the interest rate, the term of investment, personal guarantees and equity participation (or ownership) are all important components of a financing package and those terms can vary substantially from one group to the next.

PRESENT THE FINANCIAL AND STRATEGIC BENEFITS OF THE ACQUISITION: When seeking acquisition financing, it's important to illustrate the financial performance of each company on an individual and combined basis. This means showing what the combined income statement and balance sheets will look like. As part of this you would also highlight added costs or savings (synergies) arising out of the acquisition. In addition to highlighting the financial merits of the acquisitions, it's also important to document the strategic benefits of the acquisition. A great way to identify those potential strategic benefits is to ask your team, "What value could this acquisition provide to our existing customers?" This question helps highlight the positive reasons for doing an acquisition beyond just the old economic rationale "one plus one will equal three". Attractive acquisition opportunities are ones that provide both financial growth and strategic growth for the acquiring company.

TRY TO MAKE THE SELLER HAPPY: While it is true you always want to buy as low as you can, focusing only on that can actually derail your longer-term goals. As an example, we helped a client get ample financing for an acquisition and the client then went to back and tried to negotiate a much lower price and seller note and the seller backed away. Afterwards my client acknowledged he got greedy and "got lost in the deal." Most sellers hate the idea of a big seller note because they feel they are giving the business away. If you have available financing and you believe in the business merits of the acquisition, it actually makes good business sense to try to make the seller happy. The value of making a seller happy is that you are often able to structure other aspects of the purchase in a way that is best for you. For example, you can negotiate a longer period of time to close the deal. This gives you time to really shop for the best possible financing and often the difference in financing terms can be more significant than the difference in the acquisition price. Of course, you have to do acquisitions at a price that you can afford to pay and bring added value to the business and if you have a price that achieves that and makes the seller happy – all the better! In the end, having a happy seller means they will be much more cooperative and flexible and it means many other aspects from financing, to operations, to due diligence and to the transition plan can be done in a way that works best for you and your team.

SOLICIT NUMEROUS POSSIBLE FINANCING SOURCES: There can be a big spread in the range of terms and the amount or cost of financing proposed from one capital provider to the next. Financing costs alone can vary by 50% or more. As such, it pays to have your financing opportunity reviewed by as many financing groups as you can and you want to consider many different types of capital groups. The capital markets are comprised of literally thousands of possible financing sources and as many as a hundred firms would likely consider one specific acquisition opportunity. As such we strive to solicit 50 or more financing groups for each opportunity. Key terms like the interest rate, the term of investment, personal guarantees and equity participation (or ownership) are all important components of a financing package and those terms can vary substantially from one group to the next.

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MANAGE DUE DILIGENCE EFFECTIVELY: Most financing sources (debt and equity) have a thorough due diligence checklist they use in the process of closing their investments. This checklist often will include business and non-business items to review or at least consider. Ask your prospective financing sources for any checklists they may have and get that early in the process. By doing so you can more effectively manage the data gathering and review. We provide such a checklist to our clients and they typically find it helpful to make sure they are covering all their bases.

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If you are interested to acquire another company and you really want to maximize your long term potential from such an opportunity, please consider these 5 strategies. Some of these strategies may seem counterintuitive but they have worked repeatedly for companies looking to drive growth and realize their ultimate objectives.

CONTACT LANTERN CAPITAL ADVISORS

To learn more about Lantern Capital Advisors and securing acquisition financing for your company, please visit our website www.lanternadvisors.com

About The Author

Chris Risey

Chris Risey is the founder and President of Lantern Capital Advisors, an Atlanta-based financial consulting firm that specializes in helping successful entrepreneurial companies finance growth, acquisitions and buyouts. Since its formation in 2006, Lantern Capital Advisors has helped clients develop strategies and fund their Company in order to drive more growth, build more value, and accomplish important goals. Prior to founding Lantern Capital Advisors, Mr. Risey served as a Managing Director for niche consulting firm that provided corporate financial consulting and helped companies raise capital from a variety of institutions including banks, specialty and mezzanine lenders, venture capital firms and underwriters. After nine years, Mr. Risey left to launch his own financial consulting firm to provide cost effective services, guaranteed results, and high client satisfaction. Chris started his professional career as a CPA in the audit and advisory services group for Arthur Andersen in New Orleans, Louisiana.

Active within the business and civic community, Mr. Risey has served for many years in a variety of leadership roles within Rotary International, Financial Executives International, and The Association for Corporate Growth. Mr. Risey is also a frequent writer and speaker to financial executives and entrepreneurs throughout the country interested to learn more about today's financing and planning strategies that have created significant value for a variety of companies. Mr Risey is a magna cum laude graduate of the University of South Florida with a degree in Finance. He was twice named Academic All-American (Men's Basketball) and is a former Rotary International Ambassadorial Scholar whereby he studied at the Australian Graduate School of Management at the University of New South Wales in Sydney, Australia. Chris lives in Atlanta with his wife and three children.

About Lantern Capital Advisors

Many clients have limited prior experience in the capital markets and want to gain the benefits of an experienced advisor to source funding alternatives and give advice that is in their best interest. Lantern Capital Advisors hourly based approach uniquely positions us to do just that. Our professionals have been engaged in a broad array of large and small assignments across various industries across the United States. Common client engagements and activities include one or more of the following:

- Develop detailed financial plans
- Secure capital for refinancing, growth, or liquidity
- Coordinate mergers/acquisitions
- Coordinate management buyouts
- Prepare quality business plans
- Replace current lenders or investors
- Remove personal debt guarantees
- Solicit underwrites for securities offerings