



Abstract: After consultation with M&A experts, how does a company screen for the best deals? Because no two businesses have the same goals, there's no single right way. As this article discusses, through screening (narrowing the list of potential candidates) based on a company's criteria and risk tolerance, the odds increase that the focus remains on the most attractive opportunities.

How to screen acquisition candidates

After consultation with M&A experts, you've decided to grow your company through an acquisition. So how do you screen for the best deals?

Because no two businesses have the same goals, there's no single right way. But through screening (narrowing your list of potential candidates) based on your criteria and risk tolerance, you can increase the odds that you'll focus on the more attractive opportunities.

Set your criteria

Screening is an excellent way to develop a manageable list of acquisition candidates warranting further investigation. By establishing "must-have" requirements, you can eliminate from consideration any companies that lack those traits.

The best screening results come when you and your M&A advisor work as partners, developing criteria that apply specifically to your company's needs. Start by filtering out undesirable attributes, which may include:

- **Weak management.** Perhaps you've identified a firm in an attractive business niche, but it has underperformed because of poor management. If you believe your team can do better, you may be able to acquire the company for an attractive price.
- **Cyclical businesses.** Your screening process might uncover depressed cyclicals — companies whose fortunes have moved in tandem with the economy. For example, manufacturing companies typically suffer during recessions, even if their financial position is otherwise solid. Identifying high-quality cyclical businesses in the downside of the cycle may help you uncover a relative bargain.
- **Poor financial management.** Companies that manage their assets ineffectively may also warrant a further look. For instance, a business may have excessive inventory or receivables or inefficiently use its fixed assets. Such companies may provide yours with a chance to unlock hidden value.

As we've just seen, some of the companies you may filter out for one reason may be viable for another reason. Work closely with your M&A team to pinpoint what will and won't work for you.

Pinpoint what works

Identify opportunities for synergy by screening for companies whose products or services fill a specific need. If, for example, your company manufactures bolts, you and your M&A advisor might develop a screen that catches wrench makers meeting specific criteria.

Though synergy occasionally works better in theory than in practice, taking advantage of the right opportunity may add long-term value to your company. In the end, if your screen is effective, you'll be left with a short list of candidates and can begin in-depth research of each.

Evaluate your risk tolerance

After using screens to narrow your list of candidates to a manageable few, you can also implement a second set of screens to filter out undesirable risk factors.

Say your initial screening process yields five companies you believe warrant further investigation. To avoid companies with high risks, you might exclude any companies that depend on just one or two customers for more than half their sales, or rely on only one or two suppliers for their raw materials.

By screening for both desirable and undesirable characteristics, you can be increasingly confident that the names on your final list will represent the most attractive acquisition opportunities. Instead of researching every company in your industry, you can focus your efforts on firms with the characteristics most important to your company's needs.

Sidebar: Ask around

Even in the age of real-time news, word-of-mouth remains an effective way to find a desirable prospect. Just as the best jobs aren't necessarily advertised in the help wanted ads, the best business opportunities aren't necessarily public knowledge. In fact, many companies may not even *know* they would consider selling for the right offer.

Ask everyone you know — friends, family, customers and vendors — if they know of an acquisition opportunity. If they don't know of a prospect themselves, they may be able to put you in touch with someone who does.

If you have exhausted your entire network, or if you lack the time to lay the groundwork for a comprehensive search, talk to your M&A advisor. He or she can approach suitable companies on your behalf and find out how receptive they are to acquisition talks.