

Money gets left on the table in M&A, when people do a poor job of thinking through how a merger will create *incremental value*, over and above the sum of the parts. Or when they miss the most promising target.

Who is this for?

Our *M&A Value Creation* service is for businesses (based on science & technology) which:

- **seek an acquirer** which values them for strategic reasons, and *want to command a premium value* — greater than an industry-standard multiple of revenue or earnings; or
- **seek acquisition targets** which combine a good strategic fit and an attractive Return on Investment.

What challenge does this service address?

Merger & Acquisition outcomes are often disappointing

It is a truism that many M&A transactions fail to live up to expectations. While there are often execution issues, we believe that many of these suboptimal outcomes occur because of a lack of focus on the detailed upfront analysis of how two businesses will mesh to make a combined company that is *more valuable than the sum of the parts*. Here are two examples.

Sellers: “Strategic valuation” is elusive

When an emerging growth venture is acquired, there is typically a big increase in valuation if the acquirer sees the target as having significant *strategic value* — rather than being a simple *financial* acquisition, with a value related to an industry-standard earnings multiple.

Unfortunately, many emerging ventures fail to take full advantage of this potential strategic value *premium* — because, either:

- they fail to identify companies for whom they represent a truly strategic acquisition; or
- they cannot articulate the true strategic impact that they can have on the future of the acquirer’s business.

Buyers: Finding the “gems” is hard

Large businesses often have trouble separating the good from the bad among the many similar-sounding startups out there. This commonly leads to acquisitions that fail to live up to expectations. Or, to waking up one day and realizing your competitor has gained a huge advantage — as

a result of last-year’s acquisition of a startup that your company chose not to pursue.

Essential analysis is often neglected

In our view, there are three steps to a successful, *value-creating* M&A transaction.

- 1) Identifying two companies with strategic overlap, and figuring out why (and how) combining them will create more value than if they had stayed independent;
- 2) Doing the transaction; and
- 3) Executing cleanly on an integration plan to put the two businesses together.

We have found that many M&A activities fail to live up to expectations, as in the examples of the prior section, because step 1 is done poorly.

The M&A ecosystem has a “gap”

The blend of skills needed to complete step 1 is often not available *inside* companies. And even when it is, bandwidth tends to be a problem.

But the M&A ecosystem seems to have a “gap” when it comes to helping with step 1. While numerous investment bankers and lawyers focus on step 2 (transactions), and various “change management” experts help with step 3 (integration), it is much harder to get help with step 1 (target identification, & the value proposition). For small-cap or micro-cap deals, the services provided by transaction-oriented intermediaries, such as investment banks, rarely include doing a good job of step 1.

Our M&A Value Creation service is designed to fill this ecosystem gap.

Value creation requires deep digging

Step 1 starts with finding a group of companies with at least the potential for (that dreaded word) “synergy”.

Sometimes there are cost cutting possibilities that justify a merger. For example, going from two factories (or marketing departments) to one. While these can increase profits, they leave total revenues unaffected. Sometimes there are financial motivations for the merger. For example,

one company has cash the other one needs. Or perhaps the combined revenues of the merged entity will cross the threshold for analyst coverage, leading to higher p/e ratios.

We get excited about M&A combinations that lead to combined revenues (and profits) that are greater than just the sum of the two original revenue (profit) streams. Examples of such combinations include:

- exciting new products in one company, and a strong distribution channel (to the right customers) in the other;
- two companies with complementary, non-overlapping products and/or customers; or
- deployment of company A's technology into a parallel market served by company B.

Step 1 then involves painting a picture of what the combined company would look like. *This needs to go well beyond summing together revenue projections, and looking for potential cost cutting synergies.* Ideally it includes finding ways that product and customer overlaps can be leveraged to create incremental revenues that would otherwise not have been there.

This usually requires some pretty deep digging into each company's products and customers, and sophisticated insight into the likely directions the industry will develop in the years ahead. The whole exercise needs to be repeated for each target company!

Objectives

To help science- & technology-based companies, on either side of the M&A transaction process, create a "1+1=3" scenario — in which combining two companies creates a business considerably more valuable than the sum of its parts.

Benefits

For sellers:

- Identify the short list of companies that ought to see significant strategic benefit from an M&A transaction with your company; and
- Articulate clearly, for each such strategic acquirer, how the two companies would fit together, and why the resultant business would be worth more than the sum of the parts — and why you deserve a *strategic valuation*, rather than one based on standard earnings multiples.

For acquirers:

- Find those rare acquisition target gems, that help you reach otherwise unattainable strategic goals — such as *accelerating growth*; breaking into *hot new markets*; or *leapfrogging the competitors* with innovative technology;
- Decide how your company can accelerate its long term growth through targeted acquisitions;
- Identify the type of acquisition that can generate that growth acceleration, and describe the key attributes of the ideal target for acquisition;
- Sift through the industry (taking a global perspective), and identify a short list of likely strategic fits; and
- For each potential acquisition target, articulate *how* your company would meld the two businesses, and *why* the result would be more valuable than the sum of the parts — focusing on business fundamentals, not just spreadsheet combination of financial projections.

How does it work?

Our approach involves an unusual blend of analysis, strategic advice, and hands-on execution in support of your team.

We work closely with your internal management team, over a number of months. We can support both the M&A activity and the subsequent integration. Our focus is to help figure out what the overall M&A strategy should be, which companies make sense as targets, how to articulate the value of the combination of the two companies, and how to mesh the businesses post-acquisition.

While we do not act as a "broker", and our services exclude solicitation, negotiation or execution of a securities transaction, we are happy to collaborate with such transactional experts as part of the overall M&A team.

To take the next step

On our website you can see examples of articles, and videos of talks, that show in greater detail how we approach problems: www.tangiblefuture.com/informationbank.html

Contact our CEO, Richard Caro, to discuss your company, or to ask questions about how we work.

Our Teams

The TangibleFuture® business model involves working with a network of specialized, independent industry experts, as well as with industry analyst firms where appropriate. We assemble our teams from this network on a project-by-project basis. This approach allows us to assemble an optimal team for each project.

What sets us apart?

Our effectiveness derives from an uncommon blend of skills, experience and knowledge:

- senior management experience in high technology businesses: *we know what it's like to be in our client's shoes, and what it takes to succeed;*
- a track record of successful consulting engagements with clients ranging from startups to large multinational companies: *we know how to provide effective help;*
- expertise in both technology and market analysis: *we know how to find out what customers will need several years in the future, and understand what a technology could be capable of by then;* and
- deep industry expertise and a global perspective: *we know already a great deal about the industries in which we specialize, and the activities of their key participants in North America, Europe and Asia.*

Industry expertise

Our overall focus is on high technology growth businesses. Recent engagements have been in fields such as *life sciences, communications, cleantech, homeland security, and applications of photonics & small-tech.*

We have an ongoing research activity investigating markets we believe will be promising loci of future innovation. This helps us to offer deep industry insight, and enables us to be productive immediately when we work in those markets. We specialize in markets/industries in which things are changing rapidly, or new disruptive technologies are emerging and creating turmoil. Our recent engagements, above, are examples.

Because many companies view the world through the lens of a specific *technology*, we have a watching brief on specific technological fields as well as on specific markets. We spend time thinking about the full range of possible

product categories, in all industries, that might be impacted by those technologies. Examples include a variety of *cleantech* technologies; *nanotechnology & MEMS*; *photonics*; and the *convergence of silicon, micromachining and biotech* as a platform for healthcare devices.

Biography: Richard G. Caro



Since 2004, Dr. Richard G. Caro has been CEO and founder of **TangibleFuture, Inc.**, where he helps managers and entrepreneurs create and grow businesses based on innovative science and technology.

Prior to founding TangibleFuture, Inc., Richard was Managing Director at **RHK**, a provider of advisory services to the communications industry, where he led consulting engagements with multinational businesses such as **Intel**, and **Carl Zeiss**; research institutions such as **Battelle**, and **Sarnoff Corporation**; and a variety of as-yet-unknown, emerging startup companies.

From 1986 to 1999 Richard held operational roles in high tech companies in Silicon Valley and Boston. He was CEO (founder) of **Vital Insite**, a venture-backed, medical device start-up, developing noninvasive monitoring products; Engineering Program Manager at **Coherent**, one of the world's largest laser manufacturers; and CTO (employee #5) of **Summit Technology**, a pioneer in the laser refractive surgery (**LASIK**) business. Before entering industry, he was a member of the research staff at **Stanford University**.

Richard has been responsible for the development of a number of successful products, and has 23 issued patents. In addition to his work with TangibleFuture, Inc., he is an occasional angel investor, and has a keen interest in the education of science and technology entrepreneurs — speaking regularly, around the world, on topics relating to *turning science into profitable businesses.*

Born and raised in Australia, Richard received a B.Sc. (Hons.) degree from **Melbourne University**, Australia (1977), and a D.Phil. in experimental physics from **Oxford University** (1982) — where he was a **Rhodes Scholar**. In 1982 he was awarded an **IBM** post-doctoral fellowship to work at **Stanford University**, and migrated to the USA where he has lived ever since.