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Pre-selection of acquisition candidates in the bidding process

Generally, in a well-managed company auction process, only a limited number of acquisition candidates are approached. This ensures a balance between confidentiality and the desired bidding dynamic. Hence, the question is which criteria are applied to select acquisition candidates.

Generically, there are three types of buyers in medium-sized transactions: strategic investors (other companies); temporary financial investors; and permanent financial investors. These three buyer types have different investment criteria which have to be considered by the seller when selecting the acquisition candidates. In mid-sized transactions, vendor loans typically cannot be used to cover the purchase price, and the equity required to finance the acquisition is substantial; hence if the management wants to perform an MBO, it is typically a junior partner to a financial investor.

Strategic buyers typically strive for market- and customer-focussed synergies. The target may complement the buyer's product portfolio, increase customer benefits, and/or open access to a new market (geography, customer groups). In our experience these factors substantially drive the value for strategic buyers. Acquisitions along the value chain (customer buys supplier or vice versa) only make sense in exceptional market constellations, e.g. if the supplier has a factual monopoly. Cost synergies – typically over-estimated – are much weaker value drivers.

Targets in a crisis or which are, generally speaking, operationally instable (for example if they lack qualified management) are typically not interesting for strategic buyers as the

latter normally don't have the management capacity to turn the target company around. Owners of companies in a crisis often believe the contrary – that another company could fix their business, which is usually not the case.

Permanent financial investors are generally interested in stable constellations. A target may be interesting to them if it is a well-established competitor in a mature market. Examples are providers of technological specialities that enjoy a strong, monopoly-like market position and expect no consolidation pressure. The anticipated stable cash-flows allow the financial investor pay back acquisition debt, to



create stable incomes through dividends, or to use the cash-flow to fund further acquisitions.

Temporary financial investors such as private equity groups ("PEGs") by definition must resell the target, typically within three to seven years, and have to make a substantial profit over the term of their investment. Some of the PEGs are specialised in turn-arounds and have the means and capacities to lead a



company out of a crisis. Others forestall the consolidation in a sector and collect a group of companies which is together stronger than all the targets individually. Others again invest in growth companies which later are sold to a large strategic buyer or are listed on a stock exchange. Temporary financial investors by definition are not long-term new owners of the target, and the latter's ultimate fate (and the future of its employees) is completely open – the sellers have to be aware of this.

It is our experience that temporary financial investors communicate their criteria and preferences very clearly and transparently. With few exceptions they are all interested in a strong management which is also willing to participate financially and entrepreneurially. In order to make a target interesting for temporary financial investors it is imperative that there is a plausible strategy leading to a potentially highly lucrative exit. There have to be strong reasons to believe that the value of the investment at the exit will be substantially higher. This may be due to profit growth (e.g. in a turn-around

situation), or just by the growth of the company. While higher profits obviously lead to higher valuations, the so-called "valuation multiples" (purchase price divided by profit) of smaller to mid-sized companies increases with the size of the target. Alternatively, the industry of the target may enter consolidation (which may be anticipated at the date of the first investment) which then again leads to higher valuation multiples.

An intelligent selection of bidders in a controlled auction requires experience and a good feeling for strategic constellations. Familiarity with the preferences of buyers and intimate knowledge about the target are also indispensable. In the auction process, it is important the information material comprises the key arguments for each buyer category, and later for the individual buyers. This substantially drives the sales price. It goes without saying that this is more than pure "match-making" between target and buyer, and requires deep understanding of the industry of the target and its strategic environment.

Completed projects

Spirig Pharma AG is an international dermatology company known for its brands Daylong® (sun protection), Excipial® (dry skin) and Tretinac® (acne). Kurmann Partners has accompanied the owners and management of Spirig Pharma AG since end of 2010, supporting the strategic repositioning of the company and leading the divestment of its three businesses.

Upon the sale of the Swiss generic drugs and OTX business to STADA Arzneimittel AG in January 2012, **Spirig's Pharma wholesale business** became strategically obsolete. We led a competitive process to find an optimal new owner for the operations and the employees. Only four months after the divestment decision was taken, an asset transfer agreement was signed with **STADA Arzneimittel**. The wholesale and the generic business of Spirig are now re-united under the ownership of STADA.

The focus on innovative dermatology products opened new potentials which, however, required a larger organization to be fully addressed. This induced the owners and management of **Spirig** to start a sales process with a small number of carefully selected potential strategic buyers. Within only five months, the owners could seal the sale to **Galderma S.A.**, an ideal new owner. Galderma, a joint venture of **Nestlé** and **L'Oreal** with headquarters in Lausanne, CHF 1.6bn revenues and 4'000 staff, is the globally leading dermatology company. Galderma intends to build a global Center of Excellence in Egerkingen and will continue to invest into the company.

For **Grupo Farma**, a Venezuelan pharmaceutical company with Swiss capital, we have initiated, structured and conducted the acquisition of the pharmaceutical business of **James Brown Pharma CA** in Ecuador. With this acquisition Grupo Farma has strengthened its market position, particularly in the Andean region.

Ongoing projects

Selected sales projects from our portfolio

GE-AT-CH	Developing and manufacturing company with leading, patented products in the field of food intolerances. Worldwide distributors.
GE-AT-CH	Developer and distributor of personal care and perfume products with good distribution at the relevant retailers.
CEE	Largest and fully integrated supplier of green energy crops in CEE is seeking up to € 40 million in additional capital to finance new plantations.

Our customers are interested in acquisition possibilities in these areas

CH, GE	Manufacturers of machine tools and subsystems with leading technology.
GE, AT	Manufacturers of precision tools incl. hard metal processing for demanding markets such as machine building, automotive engineering, and medical technology.
CH, EU	Specialized component manufacturers with strong growth and high profitability in laboratory automation and sensor technology.
CH, EU, LATAM	Pharmaceutical products (Rx, OTC, Nutraceuticals) or manufacturers/distributors).
CH	We are looking for companies with sales of CHF 10 to several hundred million in various industries for management buy-ins.
CH, GE, AT, FR, BENELUX	High-margin convenience food company with a leading position in its segment.

What is your company worth?

As a simple, rough method for assessment of a company's value ("enterprise value," i.e., including financial debt), so-called market multiples can be used. For Swiss companies, lower taxes and cost of capital generally lead to higher multiples than abroad. At the same time, it should be noted that specific niches of the relatively broad industry categories listed below can differ substantially and that a professionally-led sales process can yield prices which significantly exceed these published market multiples.

Industry	Size Category							
	Turnover <€50m				Turnover €50m to 250m			
	EBIT-multiple		Turnover-multiple		EBIT-multiple		Turnover-multiple	
	from	to	from	to	from	to	from	to
Consulting Services	5,6	7,6	0,55	0,94	6,3	8,8	0,64	1,05
Software	6,4	8,3	0,71	1,02	7,1	8,9	0,77	1,15
Telecommunications	5,4	7,6	0,59	0,96	5,8	7,8	0,63	1,04
Media	6,0	7,7	0,61	1,05	6,8	8,5	0,70	1,15
Trade and E-Commerce	5,6	7,8	0,56	0,94	6,1	8,4	0,55	1,01
Transportation, Logistics and Tourism	5,0	7,1	0,47	0,89	5,8	7,8	0,56	0,95
Electrical Engineering and Electronics	5,3	6,9	0,59	0,89	5,8	7,7	0,64	0,99
Vehicle Construction and Accessories	5,2	7,1	0,43	0,72	5,5	7,3	0,44	0,76
Machine and Plant Construction	5,5	7,3	0,52	0,79	5,8	7,8	0,56	0,93
Chemical Industry and Cosmetics	6,0	8,0	0,55	0,84	6,6	8,8	0,64	0,96
Pharmaceuticals	6,3	8,6	0,75	1,31	6,7	8,5	0,80	1,43
Textile and Clothing	4,7	6,2	0,42	0,62	5,3	7,2	0,50	0,76
Food and Alcohol/Tobacco	5,2	7,0	0,49	0,83	6,0	8,1	0,57	0,93
Gas, Electricity, Water	5,8	8,0	0,54	0,86	6,3	8,5	0,64	1,03
Environmental Technology and Renewable Energy Sources	5,0	7,0	0,59	0,95	5,6	7,8	0,68	1,05
Construction and Craft	4,0	5,4	0,39	0,58	4,8	6,1	0,44	0,67

Source: FINANCE Magazine, November 2012. More on multiples at www.finance-magazin.de.



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About us

Kurmann Partners is an independent M&A and strategy consulting firm, specialized in medium-sized companies. We structure and direct the process for the sale of companies, develop and implement growth through acquisitions, and consult on value-enhancing strategies.

Since 1987, we have conducted more than 100 transactions, most of them across borders. As the exclusive Swiss member of IMAP, the largest organization of independent M&A companies worldwide and with over 400 consultants in 30 countries, we have local resources, contacts, and knowledge at our disposal worldwide. All of our partners have their own company experience and can, for this reason, also develop practical solutions even in complex and demanding situations, and implement them together with the customer.

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**We create
and realize value
for our clients.**

