Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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Dear Jay,

Quote of the Month:

"Good artists copy. Great artists steal."

Pablo Picasso

Best wishes to everyone for an outstanding New Year!

In this issue we first take a look at the active sectors for acquisitions in 2011 and what the drivers are for this broad upswing. Then, before you get too comfortable in the mainstream view of things, we make a departure to glimpse on the impact of the emergence of new, dynamic firms on what it means to be a good and successful acquirer. The traditional ways of doing things will certainly constitute the bulk of acquisition activity, but those that want to succeed in the new arenas will need to reconsider what an acquisition is all about. This is a starting point.

In the January Newsletter:

Why will 2011 be a big year for M&A? The catalysts are growth, technology, cash and the economy?

Hillary Cramer of Forbes looked at various sectors where significant acquisition activity is likely to take place, providing a good road map for the months ahead.

In our era of slow internal growth, managers are looking to move top-line numbers - and adding new business units or customers via a transaction is a way to improve growth projections. Acquiring firms that are focused on particular sectors can be candidates to provide desired growth. Such companies are very attractive, as buyers are looking for technology-based competitive advantage to leapfrog competitors.

According to Steve Lipin, senior partner at the global corporate communications powerhouse, the Brunswick Group, "We're seeing a lot of interest from overseas acquirers closely studying their options in North America," says Lipin, who specializes in all areas of global M&A, especially cross-border transactions. "But don't count out the big U.S. companies using 2011 to expand their strategic and geographic footprints as well."

Attractive Sectors

We can anticipate a growing number of deals this past year across a number of sectors.

Technology is one such major sector, having seen a huge number of acquisitions by companies of all sizes over the last year. The largest buyer has been Google, with 25 acquisitions in 2010. Oracle made nine deals, including the $7.4 billion acquisition of Sun Microsystems. Additionally, International Business Machines did 15 transactions and Hewlett-Packard acquired six companies, including 3PAR for $2.35 billion and Palm for $1.2 billion. This activity shows no signs of slowing; indeed, technology transactions should only accelerate as tech continues to be a key component of businesses and consumers' purchasing decisions in this renewed economy.

Keep an eye on these other sectors for significant acquisitions to take place are:
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- **Advertising industry and media companies** from both strategic and financial buyers interested in content and services

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- Other sectors that were rocked severely during the recession, like **real estate** and **finance**, are now seeing survivors move to increase market share and divest non-core assets

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- **Health care**: Big pharmaceutical companies like Eli Lilly, Pfizer and Merck, along with biotech firms and those in the health care services sectors will all be on the prowl. Increasing demand from an aging population, health care legislation, and expiring patents creates the need to buy smaller biotech firms with new drug discoveries.

Of course, stockpiled cash and other factors, including regulatory changes, are prompting major acquisition moves more broadly across the US and other world economies. The acquisition by Duke Energy of Progress for $13.7 billion is another sign that the broader market is thawing under the right conditions.

All of this comes together to drive more and more deal making in 2011.

Another Take on Groupon's Rejection of Google's $6 Billion Acquisition Bid

Too often we who are focused on our special areas need to listen to other voices. Here are excerpts from an interview of James Altucher (JamesAltucher.com) with Henry Blodget on why Groupon turned down Google's $6 acquisition bid.

The refreshing thing that this conversation reveals is that there is a broader dynamic at work here. This is not just the case of one company seeking to acquirer another and being thwarted. Rather, what is taking places is the emergence of a whole new group of companies that are moving their field, and in this case the Internet, to a next level. The move for acquisitions takes on a new and different meaning here. There must be much more than the usual incentives to entice the owners of these new generation companies to sell out at a time they are seeing that "they" are the future. The question then becomes, "What could a company like Google do and how could it relate to these new generation firms so that they could leverage each other for a greater outcome than either could achieve themselves."

Consider James Altucher's (jamesaltucher.com) comments in a interview with Henry Bloget, Editor in Chief of *The Business Insider* (http://finance.yahoo.com/tech-ticker/groupon's-rejection-of-google-marks-a-new-and-improved-internet-bubble-says-james-altucher-535706.html?tickers=goog,yhoo,^ixic,qqqq,xlk):

According to Altucher:

"It's not only Groupon. Everybody has rejected Google: Facebook, Yelp, Twitter, maybe Foursquare, maybe LinkedIn, etc.

"All of these companies are fast growing, earnings positive companies. It is not just a bubble. This is a real boom. They are saying, "No" to Google not because Google's cash or stock are no good. They will make more money than if they took Google's stock.

"These companies are going to be worth hundreds of millions of dollars. The investors and employees are going to recycle that money into the next generation of Internet companies. These companies are growing 15-20% a year. They should be worth $15-20 billion or more. The owners know that. The owner of Groupon is worth $100 million. Why would he want to be an employee of Eric Schmidt when he could go on to make $3-4 billion out of this?

"All of these companies are going to go "public", meaning that Google won't be the only acquirer. Groupon and others (Facebook, Twitter, LinkedIn, etc.) will also be active acquirers."

To confirm Altucher's point, the financial news service, *Dealbook,* reports that Groupon Inc. is pushing forward with its plan to take the company public, at an estimated $15 billion or more."

This is another dimension of the "new normal". It is not just the "Crash of 2007" but also the emergence of a whole new cluster of companies that are creating value that did not exist in exactly this way before. These new companies and new futures need to be appreciated for what they are. For those involved with growing organizations through strategic acquisitions, this is a departure point for rethinking what an acquisition is and what it could mean.

For one thing it means that the company that is seeking the acquisition must present at least as good an opportunity for the target firm as the one it could create on its own. The acquirer must also offer a compatible culture, provide a high degree of recognition, and serve as a vehicle for the target to achieve its goals. In a sense the acquisition equation is being reversed here. The acquirer must demonstrate that it is worth considering, rather than the other way around. Partnering between the acquirer and the target moves to a whole new level of equity here. Once this is understood, the choice to acquirer becomes much clearer. The acquirer must demonstrate that it has the set of capabilities that will lead to mutual success for all parties.

The February Newsletter will go into types of both partnering and critical integration capabilities in significant depth. We will be reviewing a the newly published book, The Essential Advantage*, which has a major focus on capabilities and examine the related need to take partnering in acquisitions and integrations as fundamental to achieving desired outcomes for the newly emerging company.*

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Using Social Media to Speed Up and Improve Performance and Outcomes of Your Integration Processes

Is social media a fad or is it a viable set of tools for advantage in an integration? Social media is now mature enough to be a major accelerator of speed and quality in integration outcomes. Click on this link to the Social Media Strategy to Transform Integrations PowerPoint presentation to see how you can start developing this capability in your organization now. See how you can develop and implement an effective social media strategy in your firm. Contact Jay Chatzkel or Euan Semple to make arrangements and for further information.

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Please send in your comments, contributions and suggestions to Jay Chatzkel, editor. They are important to making the newsletter as relevant to you as possible.

You are welcome to forward this newsletter on to a colleague or friend.

All the best,

Jay Chatzkel

Jay L. Chatzkel is coauthor of the *Beyond the Deal,* and editor of the Newsletter. He is Principal of Progressive Practices where he assists organizations in transforming themselves into knowledge-based, intelligent enterprises. This includes working with organizations to develop skills and practices in the areas of merger and acquisition integration, intellectual capital, knowledge management, leadership and collaboration, business process management and performance measurement.

He is also author of *Knowledge Capital: How Knowledge-Based Enterprises Really Get Built* (Oxford University Press, 2003) and *Intellectual Capital* (John Wiley & Sons, 2002).