



Inbox

Insights

Bottom Fishing: You never know what you might catch!

By John Kielich, CPA, CVA

Many business owners, investors and advisers are discussing that this is an opportune time to acquire another company. They are generally speaking about businesses that are in trouble due to the current economic situation which is also known as "bottom fishing."

The rationale for wanting to acquire such a business is to get something at a discounted price. The ability to acquire new customers and quality human capital can be key drivers for an acquisition. Acquiring a business that is in a distressed situation and looking for any way out might be a tempting catch, but in the end, you might just get what you paid for...a terminally flawed company.

The first question I always ask when starting the acquisition process is: "Why is the company for sale?" Reasonable answers to this question are: "I want to retire and spend more time with the family;" "I have taken the business as far as I can;" or "I am getting a divorce and I need to sell." Generally, answers like this do not cause any alarms to go off. If the answer is (even in the current economic environment): "I am losing money and I can't pay my bills," I would start to get nervous.

If you are still tempted by a distressed company, here are some things you should consider in your due diligence and your projections to avoid catching something you would rather throw back.

1. What costs will have to be incurred to realize synergies from the transaction? Eliminating people, closing facilities and integrating systems do not come free.
2. Are the people you're getting really that good? Think about the fact these are the people in key positions of a company with financial difficulties.
3. Why are their customers doing business with them and not you? Can you be certain that you will profitably retain those customers post-acquisition or will they go somewhere else?
4. What disruptions will this cause your current core business?
5. What will be the reaction of your employees and current customers?

At Kolb+Co. we have the resources to assist you in designing and implementing a sound acquisition process and the tools to help you assess a potential candidate. Contact John Kielich, jkielich@kolbco.com or 262/754-9400 to discuss your situation.