BMI APPRAISALS

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Post-Acquisition Planning and Valuation

In the business world, companies often employ mergers and acquisitions (M&A) strategies in order to grow their business and enhance their competitive advantages through economy of scale, economy of scope, increased revenue or market share, cross-selling of products or services, tax reduction, vertical integration, etc. To be successful, it is generally recognized that a company should have a comprehensive and well-planned M&A strategy; however, the importance of a thorough post-acquisition integration plan and various subsequent accounting and valuation issues are often underestimated.

Planning

The benefits a company is able to receive after an acquisition are as important as how favorable a price can be negotiated to acquire a target. Such benefits can be quantified and exploited by projecting the revenues and profits for the combined entities; and developing strategies for building the combined company's revenues and market strength respectively. It is crucial that a specific post-acquisition plan is indispensable to deal with numerous matters which include the followings:

Commercial: A plan is necessary to allow the market beware of the acquisition and communicate properly with the major suppliers and customers to ensure they recognize the potential impact of the acquisition. In addition, the company should revise its business development, in order to operational strategies with regard to the new position it has after the acquisition and bargain for better terms and conditions for the contracts with suppliers and customers.

Financial: A thorough review of the finance and account of the company has to be done. Such review includes credit control and accounts payable procedures, management account preparation procedures, expenses policies and budgeting procedures, etc. In result of a better and a smoother transition, a checklist of tasks should be presented, which include items such as managing banking arrangements, changing banking mandates, transferring management of payables and receivables and computing corporation taxes.

Human Resources: Employees are the key to the success of a business. Anxiety and uncertainty of their future often occur after an acquisition. One of the solutions is to meet with them in person and understand their concerns. There should also be a HR checklist handling all the relevant issues such as reviewing the terms and conditions of employment contracts, circulating details of any share incentive scheme, issuing HR procedures and new contract, etc.

Other key areas need to be addressed in the post-acquisition plan are culture, health and safety, legal, logistics, etc.

Valuation

As part of the due diligence processes, an accurate business valuation is one of the most important aspects to ensure the deal terms are fair to both parties and the company does not overpay for the acquisition. In fact, the post-acquisition accounting treatments and related valuations should deserve no lesser importance in the early stage of an acquisition process as they may at the end impose significant impacts on the profit and loss of the conglomerate.

According to HKFRS 3 – Business Combination, a business combination is a transaction or event in which an acquirer obtains control of one or more businesses. When the standard is applied, special concerns have to be paid to the followings:

- Acquired assets and liabilities have to be fair-valued at their acquisition-date.
- Intangible assets must always be recognized and fair-valued.
- Non-controlling interests (NCI) have to be measured at either fair value or the NCI's proportionate share of net assets of the acquiree.
- Goodwill has to be fair-valued as at the acquisition date and goodwill impairment test has to be done for each year-end reporting date.
- The cost of an acquisition has to be measured which includes the acquisition-date fair value of contingent consideration. Changes of contingent consideration have to be determined. If debt or equity instruments have been issued for the acquisition, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement have to be followed.

Other accounting standards which may have to be complied with include IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, etc.

Conclusion

A well-considered post-acquisition plan can significantly reduce the workload after an acquisition and ultimately affect the success of the transaction as well as the business value of the combined company.

We, **BMI Appraisals Limited**, have a team of professionals which comprises of Chartered Surveyors, professional accountants, Certified Public Valuers, Charterholders of Chartered Financial Analyst and actuaries, etc who are experienced and specialized in providing consultancy and valuation services regarding M&A / business combination related matters. Should you have any enquiries, please feel free to contact Dr. Tony Cheng at (852) 2593 9633 or tcheng@bmintelligence.com .