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Not all marriages are made in heaven: The EO Mergers & Acquisitions Department

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Mergers and Acquisitions
Not All Marriages
Are Made in Heaven
The negotiating skills of a diplomat, the insight and sensitivity to people of a psychiatrist, the tactical ability of a chess master, and the patience of a saint. And behind it all, a solid knowledge of such areas of accounting expertise as audit, tax, SEC and other federal, state and local regulations. Mix them all together in just the right proportions, and you have a profile of the ideal mergers-and-acquisitions specialist.

Obviously the ideal does not exist, "but Haskins & Sells is trying to come as close as possible to it," according to Bertram Frankenberger, Jr., partner in charge of the EO Mergers and Acquisitions Department since June 1976, and chairman of the Mergers and Acquisitions Advisory Policy Committee established three months earlier.

In addition to Bert, the committee is made up of partners Frank J. Borelli, Bergen County PIC; Thomas P. Finan, Miami; Gary F. McMahon, Denver; Gary D. Mallery, Washington; Francis C. Oatway, head of the EO International Tax Department; Mark J. Walsh, Jr., Los Angeles; and Russell W. Wende, Chicago.

"You really have to look at things in historical perspective," Bert said. "Informally, Haskins & Sells has always been involved in mergers and acquisitions activities. But Tom Hogan was the guiding spirit behind the Firm's recognition that M&A is as much of a specialty as other services the Firm offers to its clients."

In 1960 the Firm formalized its procedures for an exchange of M&A information between EO and the practice offices. This system became even more structured seven years later with the establishment of the M&A coordinator program.

At present, the main thrust is toward broadening the base of M&A specialists, or coordinators, within the United States and abroad, and for providing even more effective channels of communication between EO, the coordinator network, the practice offices and our clients. The committee meets twice a year and advises both the EO M&A Department and the coordinators in such areas as the establishment of policy guidelines, professional training, promotion of the Firm's capabilities and services, coordination of interoffice activities and specialized consulting services.

"We have put and are continuing to put heavy stress on the development and expansion of the M&A coordinator system because this places the specialist right in the practice office, where his particular talents and training are available to the client. This grassroots approach is not only more efficient for the Firm, but gives the client immediate access to an M&A specialist who is a close associate of the partners, managers and staff on that engagement," Bert pointed out.

At present H&S has more than 100 M&A coordinators based in offices in the United States and abroad. The strong support given to the coordinator system by top-level Firm management is evident in the increase in EO personnel assigned to mergers and acquisitions, the 25-percent increase in M&A coordinators, and the number of Firm meetings in which presentations have been made on M&A activity. More than 75 percent of the M&A coordinators are partners with significant mergers and acquisitions experience.

The Executive Office M&A Department functions as the nerve center and supplier of support services for the Firm's mergers-and-acquisitions effort. Headed by Bert Frankenberger, the team includes supervisor John F. Byrne, manager Joseph A. Lopez and administrative assistant Nancy Butler. The department functions as an arm of the Firm's practice-development effort, working closely with Jule Phoenix, partner in charge of the EO Practice Development Department.

"M&A work is one area where there's no substitute for experience," Bert insists. "Of course you have to have a solid technical background, but, because person-to-person relationships play such a key part in negotiations, actual experience and participation in all phases of a merger or acquisition are vital!"

All three men in the M&A Department have substantial backgrounds in various phases of mergers and acquisitions. Bert Frankenberger joined H&S in New Haven in 1956, but left after a short period to become a partner in the New Haven CPA firm of Weinstein & Timm. He rejoined H&S as a partner in 1970 when the two firms merged. Although he had some experience with M&A situations as early as 1959, it was in 1964 that Bert became heavily involved in that activity. Since then he has participated in some eighty merger, acquisition or divestiture actions, as well as having functioned as an intermediary.

Before joining H&S in 1968, John Byrne held positions as treasurer, controller, director and assistant to the president with a number of public corporations.

Joe Lopez, with H&S since 1967, was an audit manager with the New York office before transferring to EO in July 1976 to work with Bert. He has a solid grounding in various aspects of mergers and acquisitions, and has participated in about twenty-five businessman's reviews, a key service provided by our Firm in M&A situations.

Nancy Butler, who is credited by Bert with "keeping all the paperwork flowing," was a paraprofessional with the H&S New Haven office small business services department before coming to EO.

Because certain elements such as confidentiality, ready availability of information and rapid response time are of such importance to the success of M&A activities, the cornerstone of the department's operations is its information-retrieval system for data on acquisition and/or merger candidates and its library of published financial and statistical data.

"The basic information for this file is supplied by our practice officers," John Byrne pointed out. "As an example, an office will provide us with data about a client that is interested in being acquired or merged into a larger corporation. We then prepare an acquisition profile that includes such information as industry, location by general section of the country, marketing area and method, summary of operations for the past three years, a condensed balance sheet for the most recent period, a brief word on management, type of ownership—public..."
or private, asking price, type of transaction desired, whether or not a finder’s fee is to be paid and by whom, and any other information that might be important.

It’s impossible to overemphasize the importance of the individual. . . . since we’re really talking about corporate interests, growth plans or strategy.

Since it is vital to protect the confidentiality of an acquisition/merger candidate,” John continued, “each profile is coded so that only Executive Office personnel have direct access to the names of the profiled companies. We’re also very careful to ascertain to whom the profiles can be shown—whether only to H&S people or also to principals and intermediaries. These profiles are sent to all our practice offices.

“When we receive word of a client interested in acquisitions, a letter providing all pertinent information is sent to our offices here and abroad,” John said, “which keeps our coordinators and management current on both situations available and who is looking. Naturally the same degree of confidentiality is maintained in the letters as in the acquisition profiles.”

Since the ready availability of information is so important to the M&A effort (as well as to other areas of the H&S practice), the Firm recently acquired a computer tape from Standard & Poor’s covering about 37,000 companies. “The information is computerized,” Joe Lopez noted, “so we not only have rapid access to basic information about these corporations should such data be requested by a client, but we can perform special surveys and studies. These can be done on a geographical basis, for example, or by industry or by size of organization. This information is particularly valuable for identifying potential candidates for clients considering expanding their operations through acquisition or merger.”

But this vast pool of information is useless unless it can be employed efficiently to the best interests of the Firm’s clients. “Almost every aspect of an accounting firm’s operations involves close relationships with client executives,” Bert Frankenberger said, “but personalities can be the one factor that makes or breaks M&A negotiations, no matter how good a transaction may look on paper. To put it simply, people are paramount.

When we talk to clients interested in acquiring, merging or divesting, we explain the various services we can provide. But the emphasis is always on people. For example, we point out that bringing H&S into an M&A situation means having some 1,300 people—our entire U.S. management team—working for them, trying to find the buyer or seller they want. What we’re really telling them, of course, is that we’re involving the whole M&A structure, some 100 specialists around the world, to coordinate an effort to meet their needs—and at no cost to them. We don’t charge a fee for this initial search procedure.”

M&A activities tend to center around certain services vital to the successful completion of any negotiation, whether it is for an acquisition, a merger or a divestiture. The businessman’s review is one of the services most frequently provided. A businessman’s review is a comprehensive and objective analysis of a subject company’s organization, businesses, operations, finances and other matters that are usually of concern to a potential buyer or seller. In short, the review, while not an audit, provides client executives with information needed for making sound investment decisions.

“The number of people conducting the businessman’s review can vary from a single accountant to a whole team of people. It all depends on the size of the company being reviewed, whether there are domestic and/or foreign subsidiaries, and what we’re asked to investigate,” according to Joe Lopez. “Before we begin, we meet with the client to determine the scope of the investigation, the extent of any tests to be performed, the types of analyses to be made and the nature of the report to be rendered, and to pin down any other information that the client may want from the review.”

“While the basic investigation is done at the candidate company, where we work closely with management, internal auditors and accounting personnel in order to gather financial and operating data we need, we do draw on larger resources. Various industry, government and similar sources are tapped for additional information about the company, the industry in which it operates and its performance in relation to its competitors. We may also use our computer timesharing programs for reviewing forecasts of the company’s financial results, preparing breakeven analyses, cash-flow projections and making other analyses using variables determined by the client,” Joe said.

The ability of Haskins & Sells to provide clients with high-level consulting services has been a key factor in the growth of the Firm’s M&A practice. M&A people frequently are called on to give advice and consultation in such areas as accounting, tax, SEC and finance. In many instances, specialists from the Executive Office SEC, Research, EDP and Tax Departments are called on for assistance.

“A merger can often be accomplished, or structured, in any number of ways,” Bert observed, “and frequently there is no single ideal arrangement. Much depends on the objectives of the acquirer and the company being acquired. These objectives may even seem incompatible at first. After we’ve conferred with both parties to determine their goals, we can conduct our studies and then present realistic evaluations of the various options open to both parties to make the merger feasible.”

“An area of critical importance in almost every acquisition/merger situation is the tax implications. We can provide the client with an evaluation of the federal, state and local tax implications of the merger, while at the same time exploring various tax-planning opportunities for the combined company. We can and frequently do review our client’s filing, reporting and disclosure requirements of the Securities and Exchange Commission. We may function as an adviser to the prospective buyer’s or seller’s negotiating team. We can assist with postmerger affairs, such as integrating accounting, financial and reporting systems. It’s difficult even to enumerate the various consulting services we can provide in merger/acquisition situations,” Bert said, “since these cover such a broad range, beginning with the initial search and carrying over well past the completion of the merger or acquisition.”
...There is immense satisfaction in seeing lengthy negotiations through to completion and being able to look at the new structure you've helped create.