



Successful Target Search

How BCG Helps Find Strong M&A Candidates

This brochure—one of a series of eight describing BCG’s capabilities in deal transaction and integration—explains why a disciplined approach to target search is essential to the success of acquisitions.

The brochure describes in detail the three phases that constitute an effective target search process: mapping out the industry segments where attractive candidates can be found; pinpointing specific company targets from the long list generated in the mapping phase; and prioritizing the next moves by matching the shortlisted candidates to corporate strategy in order to determine factors such as the best timing for a deal and whether the deal should be a “big bang” or a “string of pearls.”

Because target search is just one stage whose outcomes affect the long-term success of an acquisition, the brochure connects to other stages such as due diligence and post-merger integration. And it includes lively case studies to bring the concepts of target search to life.

Introduction

M&A is not a sure thing. In fact, the most recent study by Boston Consulting Group shows that more than 55% of all M&A deals actually destroy shareholder value.

Yet there are companies that get outsize value from their acquisitions. BCG's research reveals that time and again, such companies produce strong gains for their shareholders when they buy or merge with other businesses. They earn strong returns no matter how well a target has performed and regardless of the economic environment.

So what differentiates those companies from the rest? It's not just luck. They use M&A to constantly refresh and expand their corporate portfolios, looking at what will produce maximum value for shareholders. Our studies show that those top performers make multiple acquisitions each year and spend a significant slice of their investment budgets to do so. Most importantly, it is not solely about acquiring: They are always looking for opportunities to divest operations that no longer fit their strategic directions.

With M&A woven into their corporate strategies, successful acquirers have dedicated organizations to search for, pinpoint, and pursue targets that are an excellent fit for their portfolios. They cast the net wide and search across entire industries, not just for individual organizations. BCG's research shows that for every successful deal, leading serial acquirers perform approximately 20 outside-in due diligence exercises.

For them, acquisition is another business activity to be fostered, streamlined, and continuously improved upon. It has become an "industrial" process. That is the case at Danaher. The conglomerate's codified Danaher Business System has been used to generate significant value from acquisitions for more than 30 years.

BCG's approach to M&A mirrors such principles. We know that opportunistic "shopping lists" are highly unlikely to lead to value-creating deals. The process must be grounded in a systematic, strategic approach to identifying and selecting targets. BCG has applied this approach to help many companies, across a wide range of industries, geographies, and deal types, to identify and implement transactions that help them realize maximum value from their acquisitions. We have developed and regularly use several digital tools to accelerate and improve the effectiveness of end-to-end strategic target searches.

Putting it simply: BCG helps management teams get acquisition right—and it all starts with disciplined target search.



Tire Maker's Target Search Soon Pays Off



Not long ago, Bridgestone EMEA, a major business unit of global tire giant Bridgestone, wanted to be able to scan the horizon in search of targets that could help it future-proof its product portfolio.

The company was casting the net wide—everything from industrial conveyor systems to factory automation. Of particular interest were technology categories that would help Bridgestone EMEA diversify away from its legacy of producing tires and other rubber products and into markets whose growth potential would help it resist the headwinds in its core business.

To help accelerate that transformation, Bridgestone EMEA hired BCG to support a range of interrelated strategic activities, beginning with in-depth analyses of future mobility value pools (e.g., offering storage capacity for fleets of self-driving vehicles), which could enable new market positioning and help the company move quickly to define its strategic plays.

Soon after, BCG's target search specialists were brought in to help identify M&A targets across Bridgestone EMEA's then-current business ecosystem and to spot opportunities to ride new business waves, such as self-driving vehicle systems. BCG drew on its vast experience with

target search to develop a clear mechanism for evaluating and continually updating lists of targets. Throughout the initiative, we helped Bridgestone EMEA to build up its M&A "muscle" and expand its deal pipeline.

The work involved showing where the company might have a "right to play" in sectors such as autonomous driving and materials recycling. BCG also ran in-depth market assessments (technology trends, patent registrations, etc.) to validate M&A focus areas, and used multiple sources (e.g., IP scanning) to create a target universe as the basis for defining both long and shortlists of targets.

We also tailored and applied an analytical framework to assess strategic fit and M&A feasibility for identified targets, conducted pre-due diligence on the most promising targets, and structured a range of potential "M&A plays" to support strategic discussions and benchmark various investment options. Further, we set up an M&A radar mechanism to enable Bridgestone EMEA to spot changes in its competitive landscape and provided the company with a rich target repository (more than 2,500 detailed entries across the targeted mobility play) plus a framework for evaluating each target's strategic attractiveness.



Armed with its repository of targets and clear evaluation processes, Bridgestone EMEA could now see real opportunities to become a major player in mobility solutions for fleet services. BCG specialists were retained to carry out in-depth due diligence on specific acquisition candidates. The company now had what it needed to quickly validate a target it knew could be a perfect fit: TomTom Telematics, Europe's top provider of digital fleet solutions.

Early in 2019, Bridgestone EMEA closed on its successful \$1 billion acquisition of TomTom Telematics. Demonstrating our strengths in supporting strategic M&A from end to end, BCG was tasked with supporting the post-merger integration, identifying deal synergies, and supporting the newly acquired operation's growth strategy.

The purchase substantially strengthens Bridgestone's digital capabilities, gives it a prime position in a sector growing at double-digit annual rates, and propels the company toward its goal of being a diversified mobility solutions provider.

BCG Has Sharpened Many Target Searches.

Imagine What We Could Do for You

The truth is, many corporations still treat divestitures as an afterthought. When they decide to sell businesses, they focus on doing a deal, any deal, rather than finding the deal that maximizes shareholder value. But it doesn't have to be that way. BCG can help.

BCG has a long history of helping companies create value through acquisition. In the past two years alone, we have worked on more than 1,200 buy-side M&A projects around the world. Every year, we conduct more than 100 target screening projects.

We know from experience that success in M&A depends on a successful search to identify the segments that are most attractive and make strategic sense for the potential buyer, and on a rigorous assessment of the top targets within each of those priority segments.

We also know that many companies have difficulty in doing this alone. Very few businesses fit the description of “serial acquirer”; most can benefit from outside expertise to effectively scan and evaluate acquisition targets in ways that align with their corporate strategies.

BCG has industrialized target search in ways that significantly improve effectiveness and minimize the time needed. Our approach can always be adapted easily to accommodate client and industry specifics. Our target search

capabilities provide in-depth knowledge of relevant industries, markets, and operations. We apply the following principles to our search:

- **Fact-based view:** We operate on hard data, not hunches, drawing on multiple data sources and input from leading industry and market experts
- **Exhaustive search:** We leave no stone unturned in the search for potential targets, leveraging multiple data sources and frequent iterations on output
- **New insights:** We build on existing knowledge and perspectives of M&A strategy while also challenging conventional thinking with fresh insights
- **Hand in glove with the client:** We take a highly collaborative approach, ensuring continuous involvement of client stakeholders to secure ownership of the target list
- **Fast pace:** A typical target search can be completed in six to ten weeks; if digital tools and techniques are used, search times can be halved

Our approach involves three phases:

1

Map Out Attractive Industry Segments

We help clients review their strategic M&A rationales, identify industry sectors where value-adding targets can be found, highlight the most attractive opportunity segments, and create a longlist of potential acquisition targets within those segments.

- Create list of attractive industry areas
- Prioritize the most attractive segments
- Assess segments for fit with corporate strategy
- Clarify M&A guardrails and define scope of search

2

Identify Specific Company Targets

We assist with detailed outside-in analysis of the longlisted targets, gauging their fit and attractiveness, assessing their financial performance, and producing shortlists of targets that are immediately available and those that should be kept on the radar.

- Generate longlist of potential targets
- Define analytical framework for target assessment and filtering
- Assess strategic fit and feasibility of the deal
- Consider financial performance
- Define action list and radar list and boost the deal pipeline
- Get a head start on due diligence

3

Prioritize Next Moves

With attractive targets shortlisted, BCG guides clients through a careful, unrushed approach that is fully aligned with corporate strategy, factoring in the best timing for a deal, whether the deal should be a “big bang” or a “string of pearls,” what might affect the deal, and more.

- Link action list back to overall corporate strategy
- Define possible moves for acquiring targets
- Be clear about the timing of a deal as real-world issues crop up
- Keep monitoring for news updates, deal triggers, and other changes

These phases typically occur in that order, but they can also be broken out as separate projects. For example, a company that has already identified opportunity segments can skip Phase 1.

Let's review each phase in detail.

1

Map Out Attractive Industry Segments

Most companies still approach M&A opportunistically, usually when an attractive target becomes available, or a surge in available cash encourages a spend mentality.

But opportunistic acquisitions are not the way to create value. There are no shortcuts to finding targets. BCG's comprehensive approach helps make sense of "where to play" in the first place. Instead of going straight to reviews of alluring candidates—the typical jumping-off point—BCG starts with a detailed exploration of the industry environment in which the acquirer operates and the suppliers, customers, and partners with which it interacts. Then comes an exhaustive analysis of potential opportunity segments—the sectors where there might be attractive companies to buy.

CREATE A LIST OF ATTRACTIVE INDUSTRY AREAS

The first step is to identify attractive industry verticals. That involves exploring all corners of the acquisition universe, looking at sectors where targets could support the core business as well as "new frontiers," areas where previously unknown targets might open up brand-new growth vistas for the acquirer. This involves using a variety of tools and techniques to probe that universe, from conventional bottom-up material-form classifications and top-down company classifications, such as Standard Industrial Classification (SIC) codes, to deep-dive research into customer dynamics and economic macrotrends. BCG uses an array of digital tools proved to dramatically speed up target search. We leverage in-depth industry analyses (including megatrend and deal analysis) and carry out AI-based clustering for attractive intellectual property. We can also enhance the standard search approaches by using big-data text analysis to scan for early signs of attractive verticals.

PRIORITIZE THE MOST ATTRACTIVE SEGMENTS

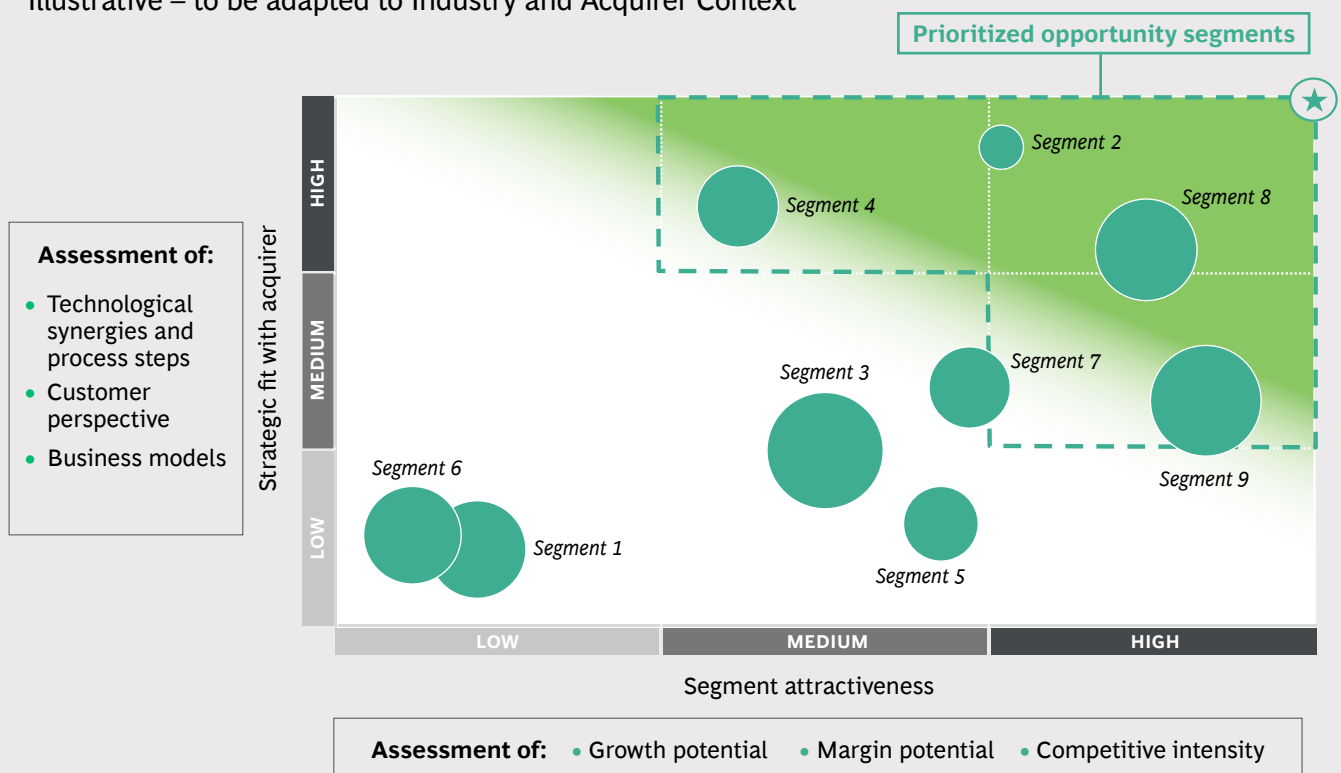
Next is validating the target industry’s stand-alone attractiveness to ensure it is a strategic fit. Acquisitions in that field have the potential to create real shareholder value for an acquirer; it’s possible to glimpse some synergies and to see how the buyer could be a target’s “best owner.”

Key to this step is a frank review of industry trends, looking not just at the current influencing factors but also at what will reshape the industry in the future. For example, in the telecommunications sector, the analysis might chart the spread of videoconferencing in the wake of the COVID-19 pandemic and look ahead to the emergence of 6G networks.

For each search direction, the longlist may go through additional filters—for example, customer fit (would the targets align with the client’s existing customer base or be more viable as stand-alones?) and capability fit (is there synergy with the client’s existing capabilities?). Depending on the client’s situation—every search direction is custom-tailored—the BCG team may use a matrix that looks at two dimensions: the strategic fit with the acquirer in terms of technological suitability, customer perspective, and business model attractiveness; and how attractive the segment is regarding margin potential, growth, and competitive intensity. The matrix highlights opportunity segments (those scoring high on each dimension).

Map the Most Attractive Opportunity Segments

Illustrative – to be adapted to Industry and Acquirer Context



Source: BCG analysis

For example, a high-end automotive manufacturer reviewing its acquisition options might determine that industry subsets such as engine components and power electronics offer opportunities to create value. BCG’s rigorous analytical approach to opportunity segmentation might reveal that production of lightweight pistons—components of internal combustion engines—or new types of power cables for electric cars could be the narrow industry segments that offer the highest additional value.

ASSESS SEGMENTS FOR FIT WITH CORPORATE STRATEGY

The purpose here is to challenge the acquirer to develop a defensible rationale for the acquisition. The company must be able to demonstrate the logic of how the deal will create additional value. The acquisition may help grow the buyer's core business, for instance, or make it easier to enter attractive new markets. BCG's approach probes for how well the industry segments match the strategic objectives expressed in various M&A archetypes. Would it be a roll-up move, intended to buy other companies in the same industry to build competitive advantage through scale and scope? A bid to buy up direct competitors to consolidate and reduce costs because there is excess capacity in the market? Or—continuing with the automotive industry example—a chance to “feed the machine,” snapping up small, early-stage companies that could offer an edge in high-performance internal-combustion engine design?

The prerequisite for this step is to identify growth objectives by analyzing the acquirer's portfolio. Does the acquirer want to expand in Latin America? Is there a gap in its product portfolio that an acquisition could fill? What adjacent markets could be a good fit for its current portfolio of products and services? A detailed analysis will help answer such questions.

The analysis will also elevate important buy-or-build decisions. For example, if the exercise exposes gaps in the product lineup, the company may decide to develop its own complementary products rather than try to acquire them even though it may take longer to do so.

Different M&A Archetypes Apply to Different Strategic Objectives

Acquisition intent	Strategic archetype	Value-creation objective
Support and grow existing business	1 Roll-up	Acquire direct competitors to build competitive advantage through scale and scope
	2 Consolidate	Acquire direct competitors in an overcapacity market to consolidate and reduce costs
	3 Leverage operational excellence	Acquire companies in same or close industries to deploy superior operational capabilities
	4 “Feed the machine”	Acquire small, early-stage companies to fill an R&D pipeline into an advantaged distribution network
Extend business by adding to the portfolio	5 Accelerate access	Acquire strong companies in same industry to access attractive geographies or customer segments where acquirer currently has no position
	6 Enter adjacency	Acquire companies with adjacent products or capabilities to diversify portfolio in related markets
Change business	7 Create new leg	Acquire unrelated companies to diversify into new higher-margin or growth industry
	8 Change existing leg	Acquire unrelated companies to migrate portfolio by exiting one market to enter one with better growth potential

Source: BCG analysis

CLARIFY M&A GUARDRAILS AND DEFINE SCOPE OF SEARCH

The final Phase 1 step describes what is out of scope on any prospective deal, providing a candid appraisal of how ready the organization is to embark on an acquisition journey. Are shareholders or other stakeholders especially sensitive to the company buying into, say, the military equipment or the tobacco industry? Let's say the acquirer is a pharmaceutical company: Should it pursue blockbuster drugs only? Generics? Realistically, is this potential target too big for the acquirer to buy and integrate with? Is the deal likely to be too

complex—requiring a carve-out, perhaps? How fast can the acquirer move? And the most typical scoping factor: What's the "ticket size" the acquirer can do? One billion dollars or \$200 million? What sources of funding are there, and how readily available are they? Would the acquirer be willing to raise additional external financing to enable the deal?

All of those factors and others must be addressed, carefully thought through, and then set up as guardrails to ensure the success of the subsequent deal.



2

Identify Specific Company Targets

CREATE A LONGLIST OF POTENTIAL TARGETS

With attractive industry segments identified, the search begins for discrete targets within those segments. Traditionally, this has involved launching a series of search requests on a wide range of sources (publicly available databases, news reports, analysts' reports, interviews with experts, and so on). The outcomes can be very comprehensive—as extensive as the efforts and investments the acquirer puts into them.

However, for many potential acquirers, traditional target search processes are somewhat ad hoc and still largely manual, which means they are slow and labor-intensive, tying up resources that could be better utilized elsewhere. Equally important: They don't shine light into all possible corners of the acquisition universe.

To help illuminate and create a comprehensive longlist of possible targets, BCG uses a mix of advanced digital tools and analytical talent. Multiple search engines simultaneously examine unstructured big-data sources, structured databases, and reports. In less than ten days, they uncover potential targets that typically elude acquirers' searches. The automated tools are managed by our knowledge specialists, who are also investigating and digging into sources that would typically not come up in digital searches, such as exhibitor lists at trade shows.

The longlist work generally spans five sub-steps, with the third and fourth optional.

BCG Digital Target Search filters a broad target list in five sub-steps



1

Raw Data Collection

The first sub-step is raw data collection. BCG ensures the potential acquirer is making full use of the latest, most capable versions of widely available databases from providers such as Thomson Reuters, S&P Capital IQ, and LexisNexis, along with the industry-specific tools used regularly in the sector in question. Simultaneously, we tap into a wealth of proprietary information not readily available to most acquirers. We draw out pertinent market knowledge from BCG's databases and from our global network of industry and business-function experts.

2

Data Cleaning

Next, we whittle down the universe to target a few hundred prospects. (Our proprietary tool can be used for this.) The tool rapidly removes duplicate entries and obvious subsidiaries, merging them into one row. It also addresses different spellings of the same company name as well as flawed entries in which, for example, revenue is obviously too high. And it can easily be customized to filter for variables such as geography or ownership type.

3

Text Analysis

Then comes text analysis, one of the two optional sub-steps since it digs so deeply into the activities of prospective targets. Using Quid, an AI platform that extracts contextual meaning from any form of written content, BCG can quickly discover additional, previously unseen targets and subcategories of targets. Quid reads any text found online to identify key company words, phrases, people, and products by focus area. The third-party tool then compares words from each company to create links between them based on similar language, and repeats the process at scale, producing a network to show how similar companies are to one another.

4

Innovation Mapping

For acquirers looking specifically for technology expansion, innovation mapping—scrutinizing capabilities and intellectual property—comes next (the other optional sub-step). BCG has exclusive license rights to tools such as Thomson Reuters' Innovations engine, which tracks companies across the innovation landscape and highlights key patent holders by research area. Continuing with the automotive industry example from Phase 1, our analysis might home in on manufacturing newcomers whose 3D-printing equipment and expertise can produce pistons that are substantially lighter than those made using conventional casting and machining methods.

5

AI Algorithm

In the final sub-step, we could reapply BCG's proprietary Digital Target Search software to further narrow down the list to a manageable number. It acts as an initial pre-filter; we "train" the software's AI algorithm using a narrow test sample from the thousand or so targets still in the mix and then assign relevance ratings to about half of that sample. The algorithm then goes to work on the remainder. Our knowledge specialists act as the second pre-filter, constantly fine-tuning to arrive quickly at the longlist of a few dozen targets.

Training AI with Initial Sample

BCG BOSTON CONSULTING GROUP

HOME PAST SEARCHES AUTOMATION ABOUT MS

STEP 1: Start Processing Results ▼

The text from the search results has been successfully preprocessed.
Use the sliders to adjust the tag cloud.


Minimum Occurrence Frequency

1 75 100

Maximum Words to Display

10 135 200

NEXT



STEP 2: Improve the Accuracy of the Model with a Training Sample ➤

STEP 3: Fill In and Upload the Training Sample ➤

STEP 4: Apply the Model to the Full List ➤



DEFINE AN ANALYTICAL FRAMEWORK FOR TARGET ASSESSMENT AND FILTERING

Now it's time to start paring down the longlist. Again, this doesn't happen overnight; it is a complex process that requires discipline.

This step is about defining the analytical framework for assessment—the scoring “recipe,” in effect. At this point in a typical target search, many acquirers emphasize the financial performance of targets. They tend to believe that only strong performers are good acquisition targets. But that isn't necessarily so. Yes, financial performance will be reflected in the acquisition price. However, the long-term success of the deal will hinge not on past performance or stand-alone attractiveness but on the ability to realize synergies and create value in the future. A distressed company may blossom through a focused restructuring effort by its acquirer and hence be a very attractive acquisition target.

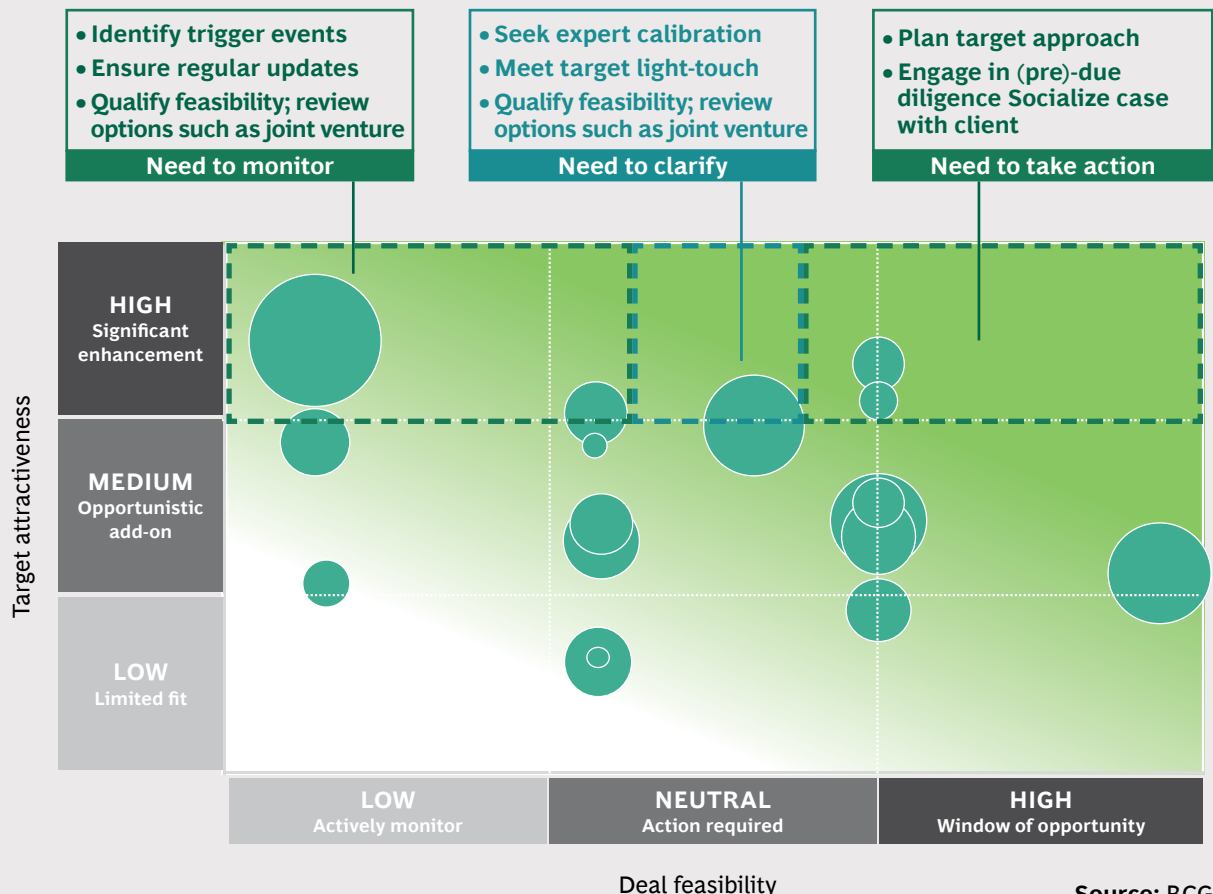
The key is to properly assess two dimensions: the strategic fit between potential candidate and acquirer, and the feasibility of a deal. Only after assessment can the acquirer identify the targets it should pursue.

ASSESS THE STRATEGIC FIT

This step puts the analytical framework into action. To do so, BCG uses a more granular version of the guardrails step described in Phase 1. After applying binary knockouts—detailed yes/no criteria such as company size and geography that will immediately eliminate some targets—we then score each company on its attractiveness. How well does it fit with the acquirer? How complementary are its operations? Does the target merit four stars for its geographic footprint? Five stars for bringing in new customers? Three stars for having many of the same suppliers? BCG's processes enable acquirers to gauge the significance of the cost or revenue synergies that a particular purchase might generate. We use expert interviews and draw on our deep industry knowledge to gather the data needed to inform those assessments.

ASSESS THE FEASIBILITY OF THE DEAL

Acquirers will probably waste time and money if they pursue a company that is not for sale. Conventional approaches to target search usually do not show whether or not a target is available. To test for deal feasibility, BCG examines both ownership structure and market intelligence on the likelihood of a sale.



History shows that companies with long-term shareholders such as families or trusts are less inclined to pursue active M&A opportunities, whereas those owned by financial investors with shorter investment horizons, such as hedge funds or private equity firms, are far more receptive to the idea.

BCG's market intelligence mechanisms—its extensive industry and functional networks as well as its databases and other resources—mean we are among the first to know whether a company is considering M&A. Our mechanisms quickly get answers to key questions such as: Has the company been put on the block by its parent? Has there been a recent change in ownership that might favor a transaction?

CONSIDER THE FINANCIAL PERFORMANCE

BCG also considers the financial performance of an asset. As explained above, financial performance should not be used as a knock-out criterion with which to prioritize targets. The financial performance will likely dictate the premium and affect the acquisition price and might also indicate deal complexity, but it does not help distinguish between attractive and unattractive targets.

DEFINE AN ACTION LIST AND A RADAR LIST

Now that the acquirer has determined its top targets by attractiveness, it can summarize the results of this phase in a prioritization matrix. Companies on the longlist that are not a good enough strategic fit are no longer given high priority, regardless of their availability (further reinforcing the shift away from opportunism).

Those still on the list and found to be a strong strategic fit are split into two categories:

1. Action list: Companies with a strong strategic fit and high deal feasibility. In our experience, these companies are typically open to exploring a sale, and there is an immediate window of opportunity. For each one, the teams should start compiling a dossier that assesses the target's revenue and cost upsides. BCG has abundant experience carrying out thorough value assessments that can be added to the dossier. The information collected will help teams pressure-test each target's potential for adding shareholder value. With a detailed dossier in place, BCG can then work with the acquirer to present its management team with a solid argument for acquiring the target.



2. Radar list: Companies with a strong strategic fit but low deal feasibility. Because the target search should not be a one-time effort, BCG establishes an ongoing monitoring process that will alert the acquirer to anything that might lead to a change in availability of the companies on this list. Monitoring methods can include triggers that send alerts when there are changes or signs of changes in ownership. They can also extend to regular patent screening to pinpoint interesting new players in key industry sectors.



BOOST THE DEAL PIPELINE

A proper target search process also arms the acquirer with a detailed repository of potential targets—essentially a deal pipeline that can sustain a yearslong M&A initiative. The repository helps clarify whether or not a target is of interest, making it easier to respond to the investment banks that regularly receive and forward information on new potential targets.

GET A HEAD START ON DUE DILIGENCE

Now is a good time to invest in so-called micro due diligence (DDs) activities to kick-start the actual deal process with a handful of the most attractive targets. These exercises are not as comprehensive as the formal due diligence stage to come, but they are useful for accelerating it. Micro DDs require desk research to understand a target's financials, product offering, and value proposition. They may also call for interviews with experts familiar with the target, its competitors, and the industry. Micro DDs are tailored to each client's needs; they may involve two hours' work by one analyst or, if, say, the client's management team is preparing a major presentation for the board, the exercise might require a week of work by a team of five analysts.

BCG ADDS VALUE IN THESE WAYS:

Detailed analytics: Target search requires discipline and sometimes can feel like finding a needle in a haystack. BCG takes a stage-gate approach and has a proven methodology to find the most attractive candidates.

Proprietary frameworks: We have developed proprietary frameworks and tools to support your target search. Our tested deal feasibility framework helps you understand, in a systematic way, which companies are available. The assessment of strategic fit is also based on a proven approach and helps us identify companies with high synergy potential early in the process.

Creation of a comprehensive target search repository: In a target search project, you receive not only a shortlist with potential acquisition candidates but also a comprehensive target search repository. The repository contains key information (financials, strategy, etc.) on a large set of companies and is a central aspect for all future target search and M&A efforts.

3

Prioritize Next Moves

The approaches described so far help acquirers shortlist the most attractive companies and divide them into two categories. Now it's time to prioritize the next moves. This is not about rushing to make an offer on one of the shortlisted companies; it means taking a careful, considered approach that is fully aligned with corporate strategy.

This phase is different from the preceding two in its depth and specificity. If Phases 1 and 2 were the rough cuts, Phase 3 is the fine cut, putting all possible next moves in very practical terms: Is the timing right? Are we still comfortable with the logic of our initial search? Are we still ready to do a big-bang deal rather than a string-of-pearls series?

This is the crucial phase before due diligence. It is the last point at which the client's M&A specialists should request the company's strategy experts and business unit leads to double-check all assumptions to date and to uncover any potential obstacles not yet identified by those closely involved with the M&A activities. BCG can help with much of that outreach and collaboration; our teams are highly experienced with everything from defining business priorities to resolving conflicts.

Four steps are necessary, and they are especially important for those companies for which M&A is not yet a routine practice:

1) LINK THE ACTION LIST BACK TO OVER-ALL CORPORATE STRATEGY

This step involves reviewing the targets on the action list in light of the acquirer’s various strategic objectives for creating value. A radar chart is one way to do this, showing at a glance which objectives a target meets fully, partially, or not at all. It enables the acquirer to quickly assess the trade-offs that will inevitably have to be made since it is highly unlikely that any one target can meet all of the necessary objectives.

The target’s characteristics will affect its “signature” on the radar chart—for instance, whether its operations are centralized or decentralized, or are geographically dispersed or concentrated in one hub; whether it is a new player or a long-time competitor; whether it is in the same industry or a different one; or whether or not it is asset-heavy.

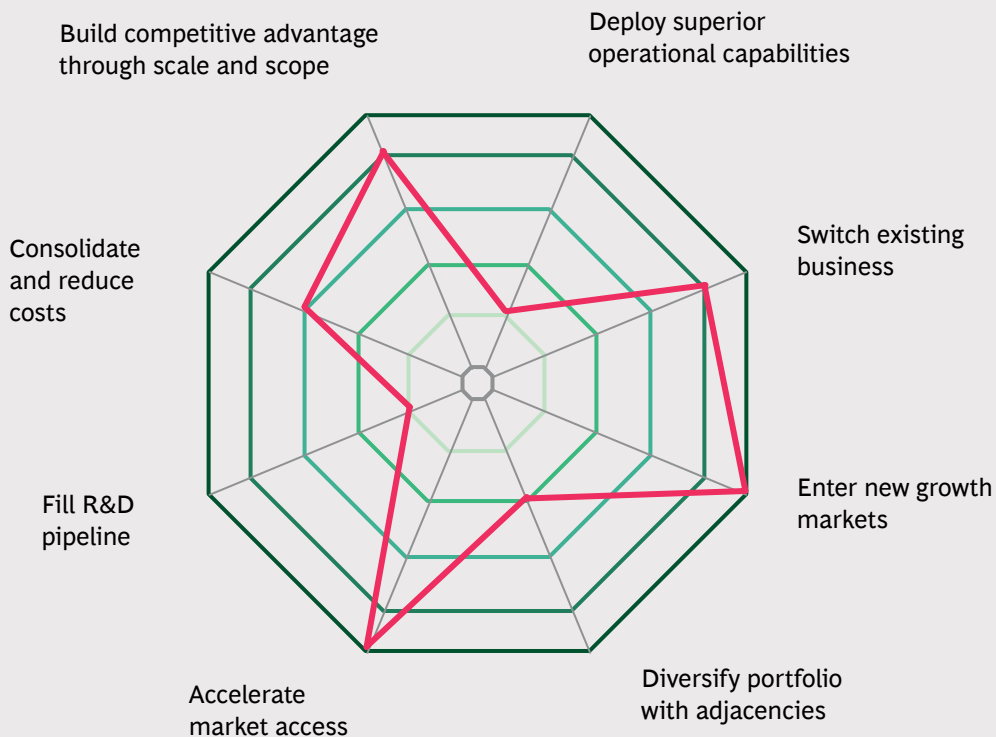
2) DEFINE THE POSSIBLE MOVES FOR ACQUIRING TARGETS

There are different ways to achieve the same overall strategic objectives, each with its own pluses and minuses. A big-bang acquisition—typically a single large buy—will fulfill most of the acquirer’s strategic M&A goals in one go. However, it will be high risk by virtue of its large deal value and because the target’s availability may not be assured. Also, the integration phase will be complex, extensive, and costly.

String-of-pearls deals, or serial acquisitions of smaller targets, will allow for easier timing of integration, and smaller individual deal sizes will further lower the risks of this M&A move. Both tuck-in and bolt-on setups are feasible. There are several drawbacks to the serial approach, however. Thorough preplanning steps are required; the availability of all targets cannot be guaranteed; and the final implementation of the M&A strategy is fragmented.

Another route is to buy as the market opens up opportunities. As with the serial approach, smaller deal values and less complex post-merger integrations (PMIs) lower the overall risks. But the opportunistic route shares the challenges of a fragmented final acquisition state and uncertainties over target availability. And it isn’t easy to stay true to the M&A strategy.

Verify Varying Strategic Value Creation Objectives

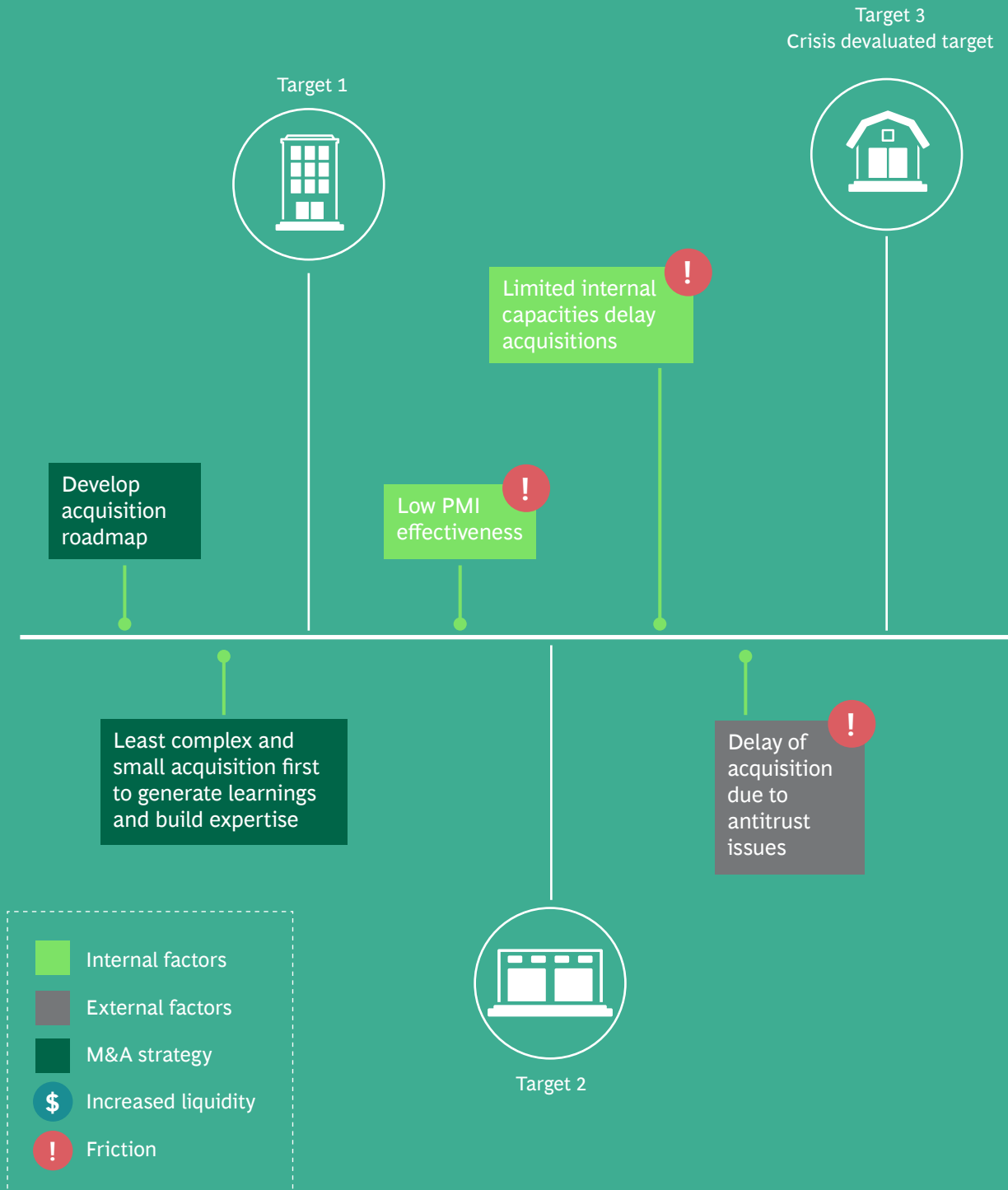


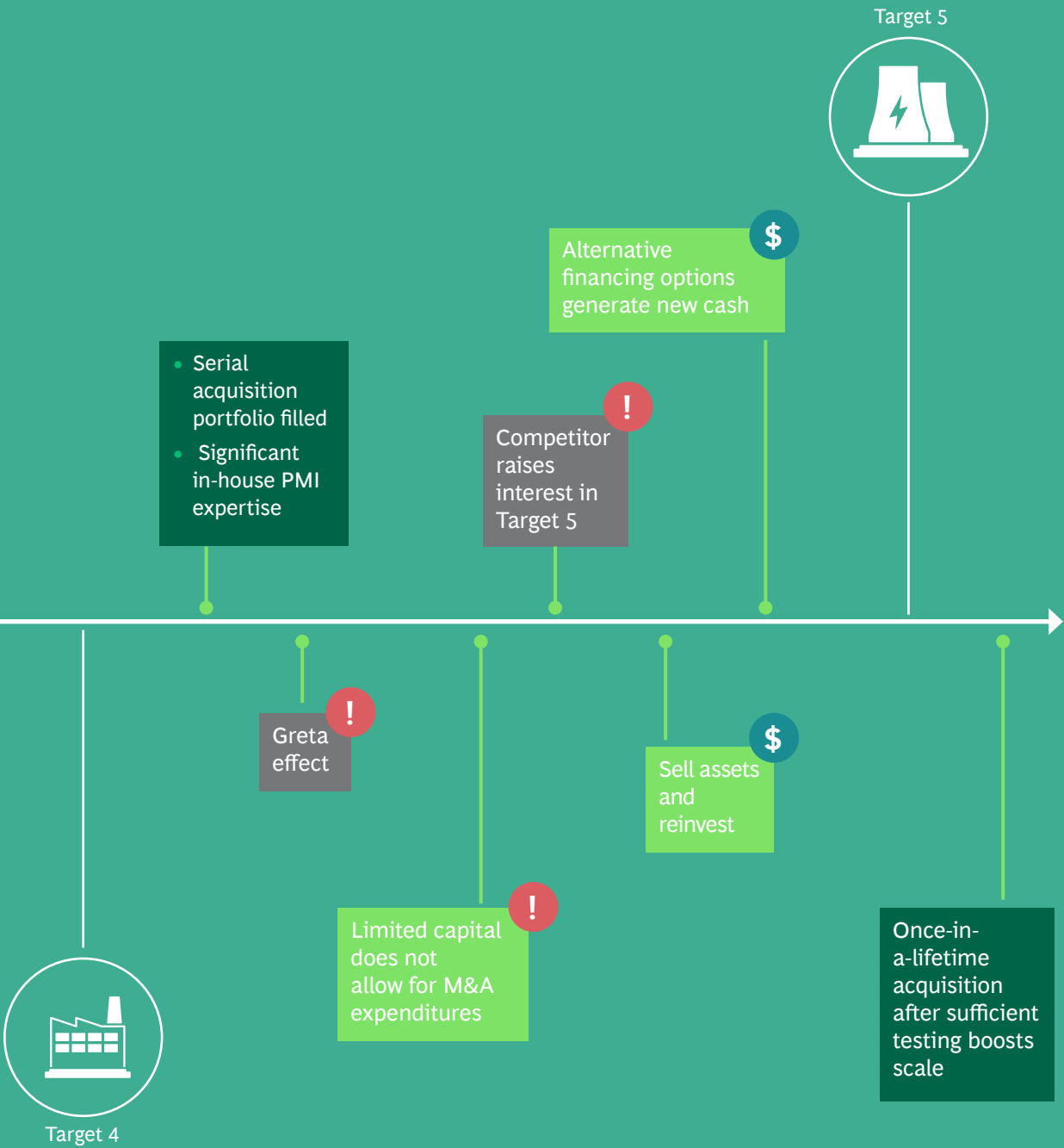
3) BE CLEAR ABOUT TIMING AS REAL-WORLD ISSUES CROP UP

This step brings timing into the picture in light of internal and external factors that often cannot be anticipated. It is not atypical for an acquirer to have multiple potential deals in play at the same time, so it is important to line them up in terms of which is available and when. For example, one target might be available immediately, but

another, equally attractive, might have been taken off the market or suddenly become much less attractive because of the loss of a crucial senior executive or a huge supply-chain upset caused by a natural disaster. A timeline is also important to help companies less experienced with M&A to see how they can start small and gradually build up experience.

Prioritize Alternatives for Timing and External/Internal Factors





4) KEEP MONITORING FOR NEWS UPDATES, DEAL TRIGGERS, AND OTHER CHANGES

Of course, everything is in constant flux in the market, at the targets, and in the economy as a whole. Therefore, it is crucial to keep a watch on changes on all fronts. The target repository must be constantly updated with new information on the targets' markets, their financial data, their ownership structure, and much more—all of which requires an ongoing data-gathering

regime.

Specific trigger events may come up: unexpected changes in top management at either the acquirer or target, removal of government subsidies, or an environmental catastrophe, for instance. At the same time, new targets may appear on the radar. Again, it is necessary to monitor all such potential circumstances, with a coordinated approach to tracking publicly available news and clear accountability for monitoring and reporting.



BCG ADDS VALUE IN THESE WAYS:

We help the acquirer's M&A team double-check all assumptions to date and to uncover any hurdles not yet identified by those closely involved with the M&A activities.

We advise on the best moves—for example, whether the acquirer would benefit most from successive smaller string-of-pearls deals or a single big-bang acquisition.

We compare alternative M&A candidates to understand which of the acquirer's strategic objectives a candidate meets fully, partially, or not at all.

We help with timing. An acquirer may have multiple potential deals in play simultaneously, so it is important to line them up in terms of which is available and when.

In the final stages, we monitor changes. Everything is in flux in the market, at the targets, and in the economy as a whole.

Questions the CEO Must Ask

When the key target search themes have been communicated to the executive team and the board of directors, the CEO is in a position to lead active discussions on the topic. Here is a checklist of key questions that the CEO might ask at the next executive management meeting:

- When we look for acquisition targets, are we doing more than just reviewing our direct competitors in our industry?
- How clearly can we articulate the value logic of a possible acquisition in an adjacent industry sector, or up or down our industry's value chain? How does that logic inform the acquisition moves we make?
- What's the analytical basis for our longlist filtering process? How transparent is it? Can we be sure that it's solid enough to use as a reference for potential future opportunities?
- How do we know whether the most attractive candidates on our list are really up for sale or soon might be? What's our mechanism for knowing this?
- What's our process for monitoring the most attractive candidates? How can we be sure the process is robust enough that we don't miss great opportunities?
- Do we have the in-house M&A capabilities and processes needed to drive a proper target search process? If so, can we deploy those capabilities and processes without getting lost in governance issues and without compromising our value-creation agenda?
- Have we named the dedicated team of internal experts, and external advisors where needed, who can react quickly when an opportunity arises?
- Do we know more about potential targets than our competitors do? Are we finding and using all possible nonpublic sources to do that and to reduce our margin of error in gauging the value of potential targets?

Move Forward with Due Diligence

Ideally, after working through the phases described so far, an attractive target will be in view and the acquirer will be the only viable buyer on the horizon—a situation much more in its favor than any auction process will be. At this point, due diligence can begin.

A core purpose of due diligence is to pinpoint and prioritize key issues unique to each target and to identify relevant markets in all dimensions. It also highlights each target's potential for value creation, including identification of key drivers and sensitivities. The activity typically has four phases: getting a close-up of the attractiveness of the target and its market; examining the synergies of the potential deal; scrutinizing the target's business plans; and reviewing the feasibility of a deal (the investment required, the realities of retaining the acquired company's talent, etc.).

However, because no two due diligence projects are the same, it is best to underpin the activity with deep, data-based analysis rather than simply applying a standard checklist. BCG adds value throughout that phase, blending fact-based strategic and industry perspectives with a willingness to challenge conventional wisdom. This enables BCG to thoroughly assess the business case for the acquisition and, as needed, challenge it. The result is a professional, realistic, and neutral assessment of the target and the deal, allowing for a rational, well-thought-out decision.

Why BCG Is Your Best Partner for Target Search

01

Our approach to target search is grounded in deep insights into companies' strategies and operational specifics

02

We know the verticals: We bring specialized industry experts who know what senior executives in the respective industries need because they work with them every day

03

We know the geographies: We bring experts from around the world with deep local knowledge of the business dynamics in each market

04

We use a wide range of cutting-edge digital tools to speed the search process and uncover "hidden" targets: BCG puts its powerful proprietary tools to work and deploys third-party tools to which we have exclusive access

05

We are the leader in M&A services: BCG is rated the best M&A partner by an independent authority; we conduct more than 100 target screening projects every year


06

We work with you, never at arm's length: Everything we do for you is done with you, continuously and collaboratively

Deals That We've Helped Happen


2020

2020




Strategic advisor in JV transaction

Value not disclosed




2020/2019



buying 49.99% of Santander Securities Services from

Strategic advisor to the buyer and on PMI

Value not disclosed



2020



Strategic advisor to the buyer

\$5.1B



2020




Strategic advisor to the buyer

\$332M




2020




Strategic advisor to the buyer

Value not disclosed





2019

2019




Thinking lives and life worth




Strategic advisor to the buyer

Value not disclosed



2019




BNP PARIBAS

buying 22.5% share of



Strategic advisor to the buyer and on PMI

Value not disclosed



2019



buying 5% share of





Strategic advisor to the buyer

\$200M




2019






Strategic advisor to the buyer

€910M




2019






Strategic advisor to the buyer, Strategic advisor to the buyer and on PMI

\$484M




2019

Strategic advisor to the buyer and on PMI

\$2.9B




2018

2018





Strategic advisor to acquirer in JV transaction

\$40B




2018



DAIMLER

combined their mobility services in an equally owned joint venture

Value not disclosed



2018

SPAXS

buying 72% share of





Strategic advisor to the buyer

\$51M




2018

Strategic advisor to the buyer, Strategic advisor to the buyer and on PMI

Value not disclosed



2018

FERRERO

buying US candy business of



Strategic advisor to the buyer


\$2.8B



2017


2017

FERRERO





Strategic advisor to the buyer

\$1.2B




2017






Strategic advisor on PMI

\$24B




2017






Strategic advisor to the buyer

Value not disclosed




2017





Strategic advisor to the buyer


\$5.2B



2017




TORINO, ITALIA, 1895





Strategic advisor to the buyer

\$160M




2017

Strategic advisor to the buyer

\$0.9B





Meet Our Team

BCG's experts represent a richly diverse group whose experience comes from solving the key issues faced by companies around the world. For every focus area, we also have local experts who provide pivotal insights into the dynamics of individual markets.



Jeff Gell

Managing Director and Senior Partner

Jeff Gell is a Managing Director and Senior Partner based in BCG's Chicago office. He is a core member of BCG's Consumer, Operations and Corporate Finance and Strategy practices and leads the Transaction and Integration Excellence business globally.



Chris Barrett

Managing Director and Partner

Chris Barrett is a Managing Director and Partner based in BCG's Dallas office who joined BCG in 2001. He has worked on Post-Merger Integrations across many industries, geographies, and topics. Chris has also worked in our Los Angeles and Amsterdam offices.



Dr. Jens Kengelbach

Managing Director and Senior Partner

Dr. Jens Kengelbach is a Managing Director and Senior Partner based in BCG's Munich office. He is the Global Head of M&A and the Leader of the BCG Transaction Center.

BCG's Corporate Development Practice Encompasses:



More than 150 partners and 700 trained professionals across all seniorities, each with significant experience in corporate development and corporate finance.



Teams that always combine the specialist's expertise with our proven industry expertise, bringing strategic know-how to all industries and geographies.



A "solution first" mindset that means we help to constructively manage the dealmaking process at the strategic "macro" level as well as at the level of detail required.



A collaborative approach from beginning to end, continually working with the client's own experts and management teams and with key stakeholders, such as banks and outside legal counsel.



Daniel Friedman

Managing Director and Senior Partner

Daniel Friedman is a Managing Director and Senior Partner based in BCG's Los Angeles office. He is the Los Angeles Office Leader and the Leader of the Transaction and Integration Excellence Business in North America.



Jesper Nielsen

Managing Director and Senior Partner

Jesper Nielsen is a Managing Director and Senior Partner based in BCG's London office. He is currently the Regional Leader of our Transaction and Integration Excellence business in Western Europe, South America, and Africa



Teemu Ruska

Managing Director and Senior Partner

Teemu Ruska is a Managing Director and Senior Partner based in BCG's Helsinki office. He is the Regional Leader of our Transaction and Integration Excellence business in Central and Northern Europe and Middle East.



Max Strauch

Project Leader

Max Strauch is a Project Leader based in BCG's Berlin office. He joined BCG in 2013 as a Recruiting Director supporting marketing activities in Germany and Austria. He is a core member of the Corporate Finance and Strategy and Energy practice areas, of Transaction and Integration Excellence, as well as the European Corporate Finance Task Force.



Timo Schmid

Partner and Associate Director

Timo Schmid rejoined BCG in January 2016 after spending four years in the corporate M&A team of Wesfarmers in Australia. He is focused on M&A and based in the Melbourne office. Timo is a core member of the Corporate Finance and Principal Investors and Private Equity practice areas and the BCG Transaction Center.



Philipp Jostarndt

Managing Director and Partner

Philipp Jostarndt is a Managing Director and Partner based in BCG's Munich office who joined BCG in 2007. He is a core member of the worldwide Industrial Goods and Corporate Development practices and a core member of the Metals and Mining sector.



André Kronimus

Managing Director and Senior Partner

André Kronimus is a Managing Director and Senior Partner based in BCG's Frankfurt office and the global Topic Leader for Corporate Finance and Strategy (especially end-to-end M&A and PMI) in Health Care, Life Sciences, and Chemicals. He is a core member of both the Corporate Finance and Strategy and Health Care practice areas as well as BCG's Transaction Center and the European Corporate Finance Task Force.



Decker Walker

Managing Director and Partner

Decker Walker is a Managing Director and Partner based in BCG's Chicago office. He is a core member of the Industrial Goods and Corporate Finance and Strategy practice areas with a particular focus on Agribusiness and M&A topics. He is also a core group member of BCG's Transaction Center. Prior to joining BCG, he was an economist at the World Bank in Washington, DC.



Read All About It

Our clients operate in nearly every industry and region around the world, and they come to us for fresh approaches to the issues that matter most to them. Through a rigorous analysis of each client's individual situation, we develop customized solutions that meet the organization's specific needs. The case examples here illustrate how we help clients sharpen their capabilities, create value, and deliver sustainable advantage.

Transaction and Integration Excellence Product Series



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How BCG Supports Strategic
Due Diligence



**Successful Business
Separations**
How BCG Supports
Carve-Outs



**The Clean Team
Advantage**
How BCG Enhances
M&A Success



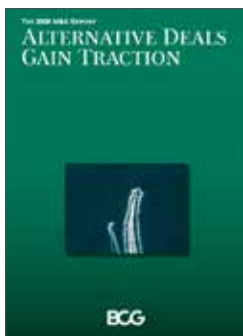
Successful Merger Integration
How BCG Helps Maximize the Value from a Deal



Successful IPOs, Spin-Offs, and Dual Tracks
How BCG Supports Effective Transactions



Successful Merger Clearance
How BCG Helps Clear the Path for Acquisitions



The 2020 M&A Report
Alternative Deals Gain Traction

Transaction

CENTER

BCG's Transaction Center is the hub of the firm's global M&A expertise and provides businesses with end-to-end transaction support, including strategic decision-making in mergers and acquisitions, preparing and executing divestitures, and supporting IPOs and spinoffs. The Transaction Center combines BCG's deep sector expertise with our comprehensive knowledge of, and experience in, all aspects of M&A across all sectors and industries. These services complement the process-focused offerings of investment banks. With more than 300 professionals worldwide, we concentrate on the commercial drivers of the business plan and equity story. We help both corporate and private equity clients execute deals efficiently and, more importantly, maximize value.

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<https://connect.bcg.com/transactioncenter>

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