



Dear Sir or Madam,

It is 8:30 in the morning. A wonderful sunny Sunday morning in November. I'm sitting in the conservatory with my laptop enjoying the sun's rays and answering the many e-mails that have accumulated in my in-box since Friday. There's nothing new in any of this, and yet I do feel that things are changing. Enquiries about mergers, acquisitions and partnering are cropping up more and more: An entrepreneur from southern Germany wants to take over a listed company and needs a quotation. A system integrator would like a project plan for buying into a Polish competitor. Two IT distributors want to fuse and JP Mergers & Finance is to mediate. A large international publishing house is requesting a quote for consultation on the acquisition of European specialist publishers... and so on.

The market has turned about. There's brisk activity on behalf of buyers to be seen. There is also considerable interest in mergers and acquisitions from companies in Poland, for example, and even from India. And yet, it is rare for attractive companies to be on offer. Over 75 % of the companies offered for sale do not meet out selection criteria. They are often on the brink of insolvency.

There are exceptions, of course, such as the rapidly growing telecommunications services provider with a 10 % profit margin that is on the lookout for a private equity minority shareholder. But where are the others? Where are all those companies with high growth and above-average ROI? Don't they have problems with succession? Don't they need growth capital? They're not looking for partners for improved internationalisation?

My impression is that the owners of companies up for sale are waiting for better times. They think that the current prices are too low and that the selection criteria are too tough. The thing is, a good performer doesn't have to be afraid of due diligence. And the prices for companies are on the climb. Whoever wishes to look for a partner in spring 2005 is well advised to start with the necessary preparations straight away.

With kind regards

Heinz Jäger

-CEO of JP Mergers & Finance AG-

Topics of this issue

■ **Company prices climb with leveraged buyouts**

[The banks are swimming in cash right now. And as things are not overly rosy in investment banking in 2004 ...](#)

■ **Borrowing capital - Professional showmanship helps you gain capital**

[Put simply, banks think in straightforward terms. Their formula for lending money is ...](#)

■ **57 % of SME's in an investment squeeze**

[A survey of Europe's 500 reveals that the majority of small and medium sized enterprises are not investing because banks are not ...](#)

■ **Controlling on demand – an alternative solution to close a widespread competence gap**

[The term controlling has certainly lost some of its former shine and may be a little out of fashion. Despite this ...](#)

■ **IT - a success factor in profit-orientated enterprises**

[A company's effectiveness is determined to a significant extent by its IT infrastructure which has, without doubt ...](#)

Company prices climb with leveraged buyouts

The banks are swimming in cash right now. And as things are not overly rosy in investment banking in 2004, the institutions are offering their excess cash to financial investors at attractive conditions. The banks are currently financing almost all of the company transactions of private-equity businesses.

The investment companies want to maximise the earnings on their contributed capital, which is why they are trying to increase the leverage effect of the buyouts. In a time when large amounts of outside capital are available at good conditions, the investors are naturally tempted to pay higher and higher prices. They can use the bank financing to affect an upward leverage on the returns from their own investments.

In view of this, financial investors are frequently paying a higher price than strategic investors. This is a dangerous development for the lending banks and for the private-equity companies. What happens if the bubble bursts or if an exit strategy is to be realised? If industrial competitors are paying lower prices even today, how is a profitable exit in, say, 5 years going to be possible?

The big banks are running from one hotspot to the next as they constantly shift their strategies as often as the fashion designers in Paris, Milan and New York produce their new creations. The banks are using loans to finance company prices of up to 6.5 times the EBITDA. That is a loan of 6.5 times the company's earnings before interest, taxes, depreciation and amortisation.

That's a very sporting price—but what happens if the economy slows down or the stock market drops? These financing structures will collapse. And as the post-sale merged companies often have an equity ratio as low as just 20%, they too are at risk from turbulence.

"One man's gain is another man's loss..."—for the sellers of strongly performing small and mid-sized companies, this is a good time to be placing a management buyout as long as this is done professionally, in line with international standards, and with sufficient preparation.

In general, the sale of a participation or even of 100% of the company shares to private-equity companies can be recommended to SME entrepreneurs. These venture capital companies are highly experienced in company transactions. The sale is often quicker than with strategic investors. As a rule the price discovery is transparent and fair. However, it is recommended that you have an experienced M+A consultant at your side who knows the game and understands the thought patterns of the investment industry.

Author: Heinz Jäger

[To the top](#)

Borrowing capital - Professional showmanship helps you gain capital

Put simply, banks think in straightforward terms. Their formula for lending money is:

Good management + promising business plan = credit at attractive interest rates

A banker's aim is to get the loaned capital back again, safely and with interest.

The security of the credit is established by rating, a procedure that is much talked of today. Far-reaching and complex rating procedures are the instruments used by rating agencies, the relevant bank branches and consultants to earn money. A great deal of money. And that is why the word rating is being mystified into something magical. So stay calm!

Rating generally consists of 120 – 150 analytical criteria. Most of them are important. But some are unnecessary. Rating criteria are composed of so-called “hard facts” and “soft facts”. Hard facts are quantifiable data such as the balance sheet numbers, past and present figures, etc.

Any borrower is well advised to provide the banks with a monthly report of 10 – 15 pages of meaningful information. This should analyse the company's development and comment upon it with a headline on each page. Don't bury it in numbers; instead, offer the banker guidance with punchy, well formulated headlines and informative charts. And please: no half-truths or even lies. They'll soon catch up with you and destroy trust. This “trust” is exactly what we need to establish and strengthen by “managed” reports.

We are constantly surprised that hardly any SME's operate a truly professional reporting system for their banks. In our most recent cases of recapitalisation, major banks, savings banks and cooperative banks were impressed with the reporting systems that we installed at short notice. “No other customer sends us such good reports as this”, they commented.

The best hard facts and reports are useless if the qualitative soft facts are not in tune. Banks loan capital to people and not to business plans. The impression that the management makes is crucial. Face your bank with confidence, assertiveness, and be positive. Be proud of what you have achieved! But whatever you do, avoid being arrogant. You and your team have to impress the bank with your competence; show that you are very well informed. Don't forget to present the banks with your figures personally on a quarterly basis. The bank presentation is a good opportunity for you to “sell” the management to the banks.

It often makes sense to coach the management in presenting the “bank show”. An experienced coach uses role play to help you rehearse your presentation, he will analyse your figures and reports for possible weak points, work out answers to potentially critical questions and formulate a strategy for the meeting. As you can see, having the right coach is very worthwhile.

Conclusion: Banks do indeed think in straightforward terms. Every entrepreneur has an opportunity to present company information clearly, persuasively, and confidently. So it's down to you to act on behalf of your company.

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[To the top](#)

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[To the top](#)

57 % of SME's in an investment squeeze

A survey of Europe's 500 reveals that the majority of small and medium sized enterprises are not investing because banks are not granting them sufficient — or even any — loans. The survey shows that deferred investments add up on average to around 15 % of annual revenues.

On the other hand, banks are swimming in cash and, as we know from our own experience and from several of our customers, Commerzbank, HypoVereinsbank, Dresdener Bank, and the Sparkassen (savings banks) and Volksbanken (cooperative banks) are increasingly approaching medium-sized companies with new programmes (profit-sharing certificates, mezzanines, etc.). It seems that the banks are returning to traditional corporate banking with a new range of products.

It must be said that the lack of experience that small-business entrepreneurs have in dealing with banks places strong constraints on borrowing capital:

Bankers and entrepreneurs don't always speak the same language. They don't understand the problems that the other side has to deal with. This makes it difficult to arrive at a solution that is satisfactory for both sides.

An entrepreneur's presentation of his company, his planning, and his liquidity do not always match the bank's expectations of a professional presentation of company details. The most common reason for this is that the management of SME's are often unfamiliar with the standards used by the banks.

The image presented to the banks is often neglected. Even in good times the banks expect regular reports about the situation and developments of the company.

Entrepreneurs not familiar with marketing themselves and their companies to the banks have little chance of success.

The [JP Mergers & Finance AG](#) provides active support in communicating with banks for small and mid-sized enterprises. Our services include setting up a professional bank reporting system, management coaching for banking conferences, developing an overall financial strategy, selecting suitable banking associates, raising equity and outside capital (including special funds from the EU), and realising the plan within a fixed time frame under the supervision of qualified time managers.

Author: Dorota Blaszczyk

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[To the top](#)

Controlling on demand – an alternative solution to close a widespread competence gap

The term controlling has certainly lost some of its former shine and may be a little out of fashion. Despite this, the task behind the term is more important than ever. The often discussed three R's - rating, reporting and risk management — are anything but “nice to have” themes; they are often legal requirements and of vital importance for the company.

The literature describes controlling as an aid to management and, in practice, can be summarised under the following themes:

Cost accounting: Extracting and presenting information essential for controlling the company, e.g. from company accounts for cost centres and calculations.

Planning: Planning of projects, budgets and for the mid-term; indispensable for day-to-day contact with investors and credit institutions.

Projection: Continuous forecasting of end-of-year results with a catalogue of measures. System of key figures: Meaningful ratio systems can provide an early indication of developments even in complex administrations.

Projection vs. actual: Analysing, presenting and interpreting information from current business activities (= actual) and planning.

Reporting: The sound interpretation and concentration of the relevant information and its presentation in a manner suitable for the target audiences.

Adequately meeting the requirements listed above is often a major problem for medium-sized companies in particular. Smaller business units can rarely justify a full-time controller; with competent personnel, the tasks can be accomplished in less than a few days or even hours per month. On the other hand, the demands placed on a good controller are high. A well-founded understanding of the fine details of the company accounting system is just as important as a thorough understanding of a company and a feeling for essentials.

“Strong-arming” the company accountant into becoming a part-time controller is probably just as poor a solution as appointing somebody from sales or a technician. On occasion, controlling

tasks such as plan formulation are done in consultation with tax consultants or even with account managers from the banks. With all due respect to these professions — such compromise solutions are rarely satisfactory.

In general, an expedient solution can be achieved by outsourcing these controlling tasks to external professionals. This often spares the company the laborious task of building up specialised competence with the risk of over capacities described above.

These services could potentially be sourced from the plethora of companies offering business services, many of which have emerged in recent years, but which also tend to concentrate on tasks closer associated with accounting. As far as general outsourcing considerations are concerned, this may be an opportunity to kill the proverbial two birds with one stone.

Companies with their own accounting structures would benefit from the assistance of a management consultant experienced in controlling. Many consultants have a background of practice in controlling and can also address other matters such as business plan formulation, investor relations, etc. Do not underestimate the danger of being blind to organisational deficiencies, which can be effectively addressed by deploying outside professionals. These tasks can be divided into three groups:

Standard monthly tasks, such as continuous projection vs. actual comparisons, results analysis (reports for banks).

Standard annual tasks, such as planning for the year, evaluating the annual financial report, etc.

Special themes such as the preparation of presentations for investors, banks and committees, and the drafting of business plans.

The advantage for the company is not just carrying out these tasks in a competent fashion, but also the fact that only necessary controlling must be “purchased”; it is fully adjustable - **controlling on demand**.

Author: Hans-Jürgen Kenntner

[To the top](#)

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IT- a success factor in profit-orientated enterprises

A company's effectiveness is determined to a significant extent by its IT infrastructure which has, without doubt, a major influence on the success or failure of the company.

IT has developed into a self-contained and, in part, isolated cosmos within the company with its own language, rules and laws. This development is potentially dangerous when IT and non-IT areas of the company emerge. It is not unusual for “sides” to develop which were previously typified by the tensions between Sales and Controlling.

There are many reasons for this. Individual communication is just one piece of the puzzle. It also arises from the perception that IT is not relevant to sales in the daily competition for contracts and orders. It is often seen as a fixed-cost structure that must be funded from operations. Running costs for IT are often accepted grudgingly and with gritted teeth as a “fact of life”.

On the other hand, friction losses from sub-optimal corporate processes are simply not acceptable in economically demanding times such as these. Put positively — in view of the holistic corporate process, an immense potential for savings and optimisation is just waiting to be realised.

First of all it is necessary to take three steps backward for a fresh look at the operational (IT) processes and structures, to analyse them, and scrutinise them. Essentially, three subject areas relate to IT:

IT capacities - make or buy?

The individual company must carefully check and evaluate whether or not the much discussed outsourcing of (a portion of) the IT is an interesting alternative. Obtaining quotations in dialogue with external suppliers is, whatever the outcome, an excellent opportunity to evaluate the current situation. Benchmarking with the competition or other comparable companies is also highly effective. In our experience, this procedure and the immense pool of new ideas that emerges benefits everybody involved. Concerns about maintaining company secrets during the benchmarking process are unnecessary as long as certain game rules are observed.

Proprietary software vs. standard software

The positive aspects of proprietary software are often clouded by dangerous personal and financial dependencies. Very often, the long-term suitability of in-house development of software is an issue that is simply not discussed. Here in particular we have recently been able to identify potential for savings in costs of up to 80 percent, even with allegedly specialised applications. What is surprising is that the standard software presented as an alternative offers a greater degree of flexibility than the in-house application with all of its historical tumour-like add-ons, each of which was probably justified at the time.

Software integration—project completed successfully?

In practice, software projects (implementation, migration, etc.) are often just loaded onto internal and external IT personnel. What is often underestimated is the potential for rationalisation that far exceeds the benefits of the software application itself. Software projects are ideally suited to identifying and removing organisational excesses and redundancies and realising long-overdue potential savings. A prerequisite for this is a thorough examination of operational processes from the corporate perspective, a task that is probably impossible for an individual department.

The key to success for a software project should therefore be a comprehensive process analysis of the entire complex, of which the IT processes represent only a portion. This is certain to be a painstaking process, but an assessment of the current situation will identify potential savings and optimisation even at this early stage. This potential can then be integrated into a binding target strategy. Typical comments in this situation include “We’ve tried all that already”, especially from

companies that have been written off as dead already, and should be interpreted as a clear indicator of latent potential. The target strategy produces significant inputs for the probably obligatory target specification with the usual follow-ups.

Recently, many companies have been turning to external management consultants to handle these analyses and project tasks. Apart from avoiding the load on internal resources and professional project management, a further benefit is ensuring the corporate angle already referred to.

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[To the top](#)

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[To the top](#)

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Corporate finance, mergers and acquisitions, partnering, financial engineering, strategy / planning / controlling, restructuring, participation management.

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[To the top](#)

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[To the top](#)

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