

# FEE

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## Cross-border Acquisitions of SMEs

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## SME Acquisition

- Why should a SME make a cross-boarder acquisition?
  - The home market is limited
  - To increase the market for the products
  - To increase knowhow
  - To increase the product portfolio
  - To get low cost production facilities
- Icelandic example
  - Iceland has to export to be able to import
    - Fish products
  - Icelandic companies export minded
    - Limited domestic market



## SME Acquisitions

- Icelandic companies from domestic market to export
- From small local companies to global leaders
  - Marel
    - Weighing scales and software for fish processing
    - World leader in equipment for food processing
    - 2007 revenue € 290 million/2008 Proforma revenue € 650 million
  - Sæplast/Promens
    - Insulated plastics boxes for fish
    - Diversified plastic converter
    - 2007 revenue € 766 million



## SME Acquisitions

- Icelandic companies from domestic market to export
  - Össur
    - Started to make silicone liners for amputees
    - A global leader in prosthetics and non-invasive orthopaedics
    - 2007 revenue \$ 335 million (€ 228 million)
  - Actavis
    - Founded as a purchasing coop ('56). Production of generic pharmaceuticals for domestic market ('72)
    - World leading player in generic pharmaceuticals
    - 2007 revenue € 1.380 million

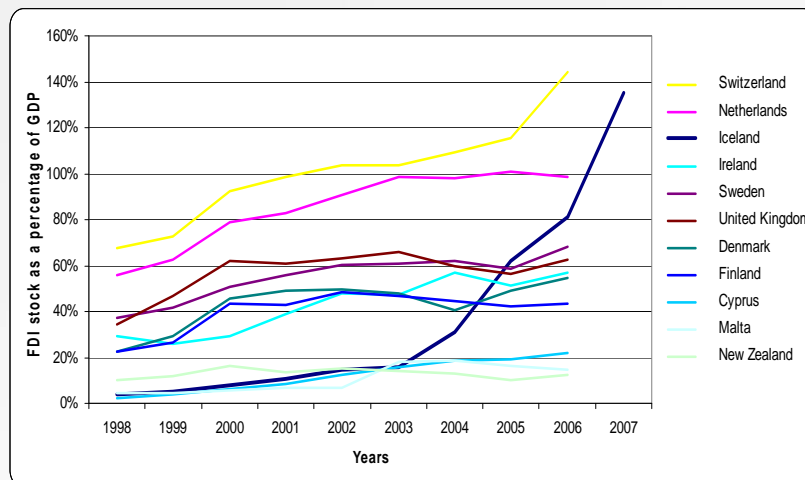


## Internationalization of Icelandic corporations

- Internationalisation of companies
  - Increased operation abroad
  - Integrated part of the operation
    - Marel, Promens, Össur, Actavis,
    - The banks: Landbanki, Kaupping, Glitnir
- Investment in stock and property
  - Aim to make profit by selling at a higher price later.
  - Influence on operation in most cases limited or non.
    - FL Group, Exista, Milestone
- Baugur
  - In between
  - Lead investor



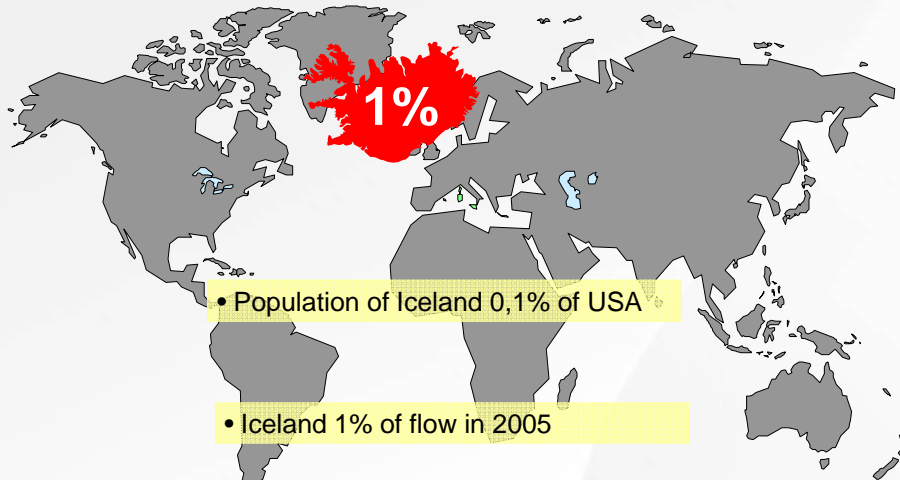
## Icelandic Investment Abroad



Source: Professor S. Ólafsson and associates  
UNCTAD & NBI



## Cross boarder flow of investment



Source: Source: Professor S. Ólafsson and associates  
UNCTAD

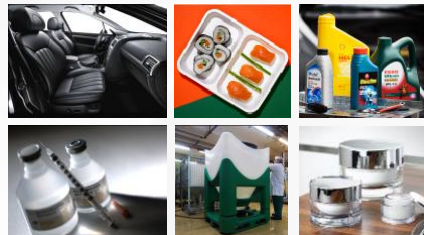
PROMENS

## Case study - Promens

2004 Sæplast - Small company  
6 factories in 6 countries  
One-product company  
Annual revenues 2.4 billion ISK  
( 27 MEUR)  
270 Employees

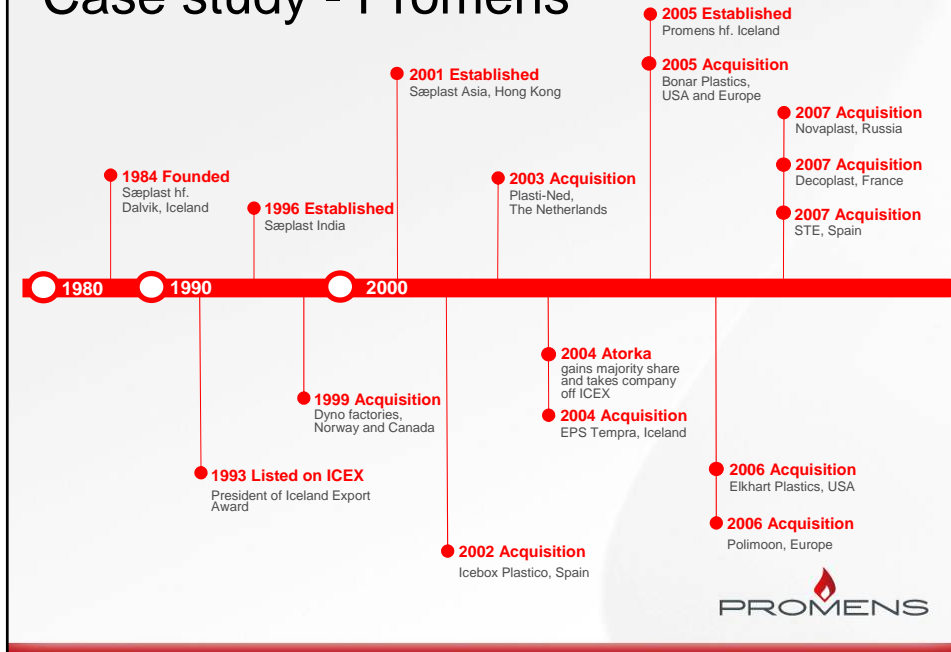


2008 Promens – Large company  
60 factories in 23 countries  
Diversified plastics converter  
Annual revenues 800 MEUR  
6000 Employees



PROMENS

# Case study - Promens



## Acquisitions - What is important

- What is important
  - Does the target fit to your strategy?
  - What are the true earnings?
  - What are the future earnings?
  - Quality of the assets?
  - Potential liabilities?
  - Is the price acceptable?
  - Do we have the resources?
  - How do we get out of the acquisition what we intended to get?



## Acquisitions - What is important

- Does the target fit to your strategy?
  - What is the strategy for growth?
  - Is the target in the same market?
  - Does the target have complementary products?
  - Is the culture of the company very different from yours?
  - Do you have the resources?
    - Financial
    - Management



## Acquisitions - What is important

- What is the true earnings?
  - The statutory accounts do not necessary show the true earnings?
- What is the true cash flow?
  - Are there one time cost items?
  - Is there need for investment in equipment or product development?
- What will be the future earnings?
- What will the future cash flow be?
  - Has to support
    - Investment and growth
    - Serve the loans and return to owner



## Acquisitions - What is important

- Quality of the assets?
  - Not purchase of the assets but the business
  - Condition of fixed assets
  - How good are the debtors
  - Are the inventories current?
  - Other assets
    - IPs
- Potential liabilities?
  - Are there any undeclared liabilities
    - Pension, Product liabilities, Environmental liabilities, Legal cases



## Acquisitions - What is important

- The price acceptable?
  - Price evaluation based on:
    - Discounted Future Cash Flow
    - Future Revenue and cost
    - Capex
    - Synergies
    - Discounts rates
      - Cost of capital
      - Return on equity



## Due Diligence

- To establish a solid base for the evaluation and acquisition
- Establish relevant and correct information about the target
- Different type of Due Diligence
  - Financial - Tax
  - Legal - Environmental
  - Technical - Operational
  - Business - Market





## Deal structure

- Stock deals
  - Debt free - cash free
    - All debt paid up by seller and no cash in the company
  - Net working capital target
    - Based on history
  - First offer conditional upon Due diligence
    - Price range
  - Signing of contract
  - Closing
    - Take over
    - Audited accounts
    - Adjustment of price



## After the deal has been completed

- How do we get out of the acquisition what we intended to get?
- To many mergers and acquisitions do not deliver the expected benefits
- The purchase price usually includes half of the benefits
- The post acquisition integration period may take too long
- Integration execution must start immediately



## Financing

- SME making acquisitions
  - Home based financing
    - Unknown abroad
    - The only alternative
  - When becoming larger this will change
  - Our experience
    - First acquisitions home based financing
      - Landsbanki
    - Last acquisition we were able to finance internationally



## GAAPs/IFRS

- Different GAAPs no problem
- IFRS
  - Positive to try to establish uniform reporting
  - Gone over the top
    - No use to management or the owners
    - Possibly used by analysts
  - Evaluation of Goodwill in acquisitions
    - Takes management and owners by surprise
    - Varies enormously between auditors and countries
    - Capitalisation of order book, customer base etc.?
  - Impairment test



## Role of Accountants

- Accountants play a key role
  - Financial Due Diligence
  - Tax Due Diligence
  - Interpret the Statutory accounts
    - Not required in some countries
    - Often more for tax purposes
  - Are independent
    - More critical than the potential buyer
  - Act as advisors



## Cross-border Acquisitions of SMEs

**Thank you**

