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Consider an Acquisition During Tough Economic Times

by Curtis Campbell, CPA, partner, HMWC CPAs & Business Advisors

In a difficult business environment, accounting firms can be significant contributors to their clients' success. HMWC CPAs & Business Advisors is particularly proud of how we make a difference for our clients by adding value in M&A transactions.

Acquisition Strategy

Right now, many manufacturers and distributors have excess capacity. They are committed to space and equipment, so they haven't been able to downsize as quickly as other types of companies during this downturn in the economy. Many are struggling to survive.

Acting as business consultants, we have helped several of our clients recently improve their overall situation. One strategy that can be effective in improving cash flow is making an acquisition of a struggling competitor. Through this horizontal integration of a smaller or similar business, a client can gain critical mass to generate higher sales, increase market share, eliminate duplicate costs, improve buying power from suppliers, increase margins and improve overall profitability.

Tax Structure is a Key to Cash Flow

The tax structure of an acquisition is very important and can have a dramatic impact on the post-acquisition cash flow of a company. Typically, an acquisition is structured as either a stock or asset transaction. The tax ramifications differ greatly between the two types. Normally, a seller prefers a stock sale to receive 100% capital gain income and the buyer prefers an asset sale so they can deduct the purchase price. In an asset transaction, the CPA can make a big difference on structure which impacts after-tax cash flow. The purchase price paid is required to be allocated among the assets based on fair market value. However, as with most things, value is in the eye of the beholder and a savvy CPA can attempt to negotiate a favorable allocation for his client providing him or her with more current tax depreciation and amortization deductions.

Given the current economic conditions, acquisition pricing and costs are more favorable than we have seen in years. When companies are struggling financially, you can

typically get a very good deal on buying them. In addition, financing and interest rates are cheap. However, obtaining bank financing can be a challenge given the tighter regulatory restrictions. Our goal at HMWC is to work with both parties to develop a creative financing strategy which allows the deal to get done. These strategies sometimes include seller financing and/or an earn-out structure in which the seller can earn more money in exchange for sharing in some of the risk. Both of these ideas allow a buyer to pay for the acquisition overtime and use the cash flow from the business to essentially pay for itself. The seller gets interest income from any note established and a delay in paying taxes to Uncle Sam on the deal.

With the right situation, this strategy can have immediate results and lead to better profits and cash flow even during poor economic times.

Need a CPA to Make a Difference for You?

This is just one example of how HMWC makes a difference with our clients. Since 1968, HMWC CPAs & Business Advisors has specialized in serving the financial and tax needs of privately-held businesses and their owners throughout Southern California. At HMWC CPAs & Business Advisors, we are more than accountants, we are trusted business advisors. Our mission is to provide our clients, regardless of size, with a level of service and quality that is unparalleled in the industry.

Curtis Campbell is a partner at HMWC CPAs & Business Advisors (www.hmwc CPA.com), one of Orange County's largest local accounting firms. Contact him at (714) 505-9000 to discuss how your company or client could benefit from HMWC's services.



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