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## **SYNERGY: THE PREMIUM FOR SUCCESS OR 1 + 1 = 3**

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In acquiring a company, the results of putting together the acquiring company and the company being acquired results in significant synergy. This can be synergy in many different forms benefiting both buyer and seller. At a minimum, things like increased utilization ratios, ability to capture new diversified projects, removing overlapping expenses (overhead), better service offerings to clients, result.

Many times, acquiring architectural/engineering firms will pay a premium on the firms that they acquire. You might ask, "Why would they do this?" Why would they a buyer pay a 4.25 multiple (of adjusted cash flow) as a purchase price when the firm values at a lesser multiple?

The answer is quite simple: The synergy realized of putting two companies together; truly a 1 + 1 = 3 situation. An acquisition benefits shareholders of an acquiring company when a firm's post-closing value increases by the value of synergy. It's not always all about current numbers when acquiring a firm; certainly not like acquiring real estate. A piece of real estate has a value that can be obtained easily with comparable sales where the only way the value can be increased is because of improvements to the real estate or market conditions.

There are many reasons companies make acquisitions. Diversification of service offering, geographical expansion, personnel capacity and adding skillsets are just a few, all in addition to synergistic results of a company with greater resources to achieve new and improved objectives. This, many times can result in the paying of a premium to an acquired company.

Once a company decides it wants to acquire another, it will calculate a real value on the company to be acquired. Once the worth of a company is determined, acquiring company will decide how much it's willing to pay on top of that (a premium) in order to

present an attractive deal, especially if there are other firms considering acquisition.

Most companies pay acquisition premiums for two reasons: (1) to ensure that the offer is accepted by a seller and that a deal gets closed and (2) because they feel that the synergies described above generated by the acquiring company and acquired company will be greater than the total sales price paid for the acquired firm.

Acquisitions are strategic and can result in faster growth for companies. Understanding values, premiums, the process and the benefits is something all companies, especially professional service companies should consider.

To learn more about the process of selling or making an acquisition, understand more about what we are seeing in the market and finding out what you could expect, contact us:

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