

## **HOW TO BUY A COMPANY IN THE USA**

Many Israeli companies are very interested in establishing or increasing sales in the USA markets. One alternative is to establish a presence in the USA by purchasing a USA-based company. Experience has shown that the best procedure is as follows:

### **1 – THE PLAN** -In writing, clearly state:

- Why it is that the purchase of a USA company should be sought
- Clearly specify the desired characteristics required in the acquired company
- Types of products
- Types of customers served
- Current methods of distribution
- Size of target companies in terms of sales and company valuation
- Location in USA
- Expected sources of funding
- Preliminary plan for operations after an acquisition

### **2 – THE TEAM** - Designate the company team that will be responsible for the project.

**3 – INTERMEDIARY** – Engage an investment banking firm (IB) that is experienced in your industry, knows many of the industry companies, and is familiar with the range of valuation and purchase contract terms common in the industry segment of interest. This will require payment of success fees, client approved expenses, and probably also monthly retainer fees which may be offset, in whole or in part, against success fees.

**4 - TARGET LIST** – In close cooperation with the IB, develop a list of companies that may be attractive acquisition targets. At this point, it is not likely to be known which, if any, listed companies will be interested in considering sale. Additions to, and deletions from, the list are to be expected.

**5 – APPROACH TARGETS** – The IB then calls the target companies, seeking to determine their willingness to talk about a possible sale. It is almost certain that most of the target companies will have no interest whatsoever. With perseverance, it should be possible to open discussions with a few target companies.

**6 – HOLD PRELIMINARY DISCUSSIONS** – Initial discussions, probably just with the IB, are intended to gather such necessary information as the target is willing to disclose at this stage, and to fully describe the Israeli company, and its intentions for management and further development of the target under new ownership. At this stage, it is too early to talk about valuation.

### **7 – TARGET INFORMATION NEEDED** – To the extent possible, information should be gathered on the following:

- Financial statements for the last three completed years, and current year.
- Organization chart, with information on each key person
- Sales to each of top ten customers, probably without customer names
- Sales of top ten products
- Forecasts of next few fiscal years.
- Adjustments to profits that target asserts need to be considered

**8 – ANALYZE SUPPLIED DATA** – Determine whether the Israeli company remains interested in the target. If yes, list additional information requests, develop preliminary valuation, and arrange for a meeting at the main premises of the target for discussions and plant tour.

**9 – LETTER OF INTENT** – If all goes well, the Israeli company, working with the IB and the buyer’s lawyer, will develop and present a non-binding letter of intent (LOI) that states a valuation, proposed payment terms, employment and compensation of continuing owners and executives of the target, and any other pertinent terms proposed for the purchase of the target.

**10 – NEGOTIATION** – It is not to be expected that the target will accept and sign the LOI as initially presented. Hopefully, negotiations will result in an LOI that both parties are willing to execute. The Israeli company must be represented by an attorney skilled and experienced in mergers and acquisitions.

**11 – PURCHASE CONTRACT AND NEGOTIATION** – Either buyer or seller may present its contract draft, which will then involve further negotiations, and hopefully signing and closing of the transaction. Contract negotiations are often long and contentious, generally over allocation of post-closing risks between buyer and seller.

**12 – OPERATIONS AND INTEGRATION POST-CLOSING** It is essential that the buyer and seller work closely together to assure a smooth process of integration, cooperation, and plan execution. The Israeli buyer must install its own person to be in charge and be responsible for making the acquisition successful.

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