



How Companies Should Evaluate Acquisition Opportunities and Develop an Actionable Pipeline

Companies considering inorganic growth (i.e., making an acquisition) must weigh a variety of factors, both quantitative and qualitative.

A successful M&A strategy also requires a highly organized—and regularly refined—pipeline of opportunities. The following framework serves as a quantitative and qualitative guide for business leaders evaluating an individual company for an acquisition. It also provides key questions for determining how to rank prospective targets—from high priority to those simply worth monitoring—as part of the considerations that should be balanced against economic factors related to timing.

Quantitative Questions When Evaluating a Target

1. Will the return on invested capital (ROIC) sufficiently exceed the long-term weighted average cost of capital (WACC)?
2. Will the internal rate of return (IRR) be high enough?
3. Will the gross margin and/or operating margin profile be good enough?
4. Will the pro forma projected growth exceed historical performance?

Qualitative Questions When Evaluating a Target

1. Will our company's current revenue volatility be diversified or reduced?
2. Will our geographic presence expand?
3. Will the competitive position of our product or service offering improve?
4. Will the new company align with our operating and management skills?

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Since 1935, William Blair has guided owners of closely held businesses and their trusted advisors through monumental decisions. Our relationship-driven approach empowers owners to maximize the value of their businesses—and turn that capital into an enduring legacy. We invite you to contact us to discuss the ways we support and advise business owners and help our clients capitalize on the tremendous opportunities available to them today.

Questions When Building an Opportunity Pipeline

1. How much of a strategic fit would the company be with broader products/services and/or growth vectors?
2. How much of an advantage would competitors gain if they acquired the asset?
3. How material is the synergy potential and value-creation opportunity?
4. How unique are the company's research and development and intellectual property capabilities?

The above framework has value in any economic climate, but it has special relevance now, given acquisition targets are becoming available at increasingly attractive multiples as compared with recent years. Please contact us to learn more about evaluating M&A opportunities.

Please feel free to contact us to learn more:

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