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Screening for Success: Identifying the Ideal M&A Targets

Target Identification – Introduction

The M&A deal execution process is kickstarted with screening and identifying relevant targets that aligns strategically and maximizes value is vital. This key step sets the stage for a successful deal. Right screening enables a banker to narrow horizons in a broad universe which has umpteen players in every industry, identify most promising targets, and helps in saving time that would otherwise be spent on unsuitable opportunities. While narrowing the search we bound the target identification with multiple constraints like sector, industry, products manufactured, services rendered, geography etc.

The process can be conducted from two different point of views depending on the demand of the deal whether it is a buy side mandate or a sell side mandate.

Further, we will discuss the common hurdles faced by the analyst, the rigorous procedure and the benefits of the process.



Common Challenges

First Screen: First set of screening extracted from the databases sets the foundation of the entire process. So, it is imperative that while extracting the first screening list, the analyst understands the tools of the database and applies all the appropriate filters. This will ensure that all potential targets are enlisted and will improve the quality and reliability of the output.

Data Capture: A common issue faced is unavailability of the data. To combat this, the analyst must review numerous sources in order to find the reliable information. Generally numerous market databases and company websites are used. It is important to ensure the scalability of the data so that unavailability doesn't hamper the quality of the output.

Criteria Clarity: Multiple analysts working on the lead generation process should have clarity about the strategy set by the banker. The team should be on the same page regarding the screening process to maintain consistency and avoid errors owing to different treatment.

5 Key Steps in Target Identification Process



Preliminary Screening

A broad criterion for relevant targets is defined by the banker. The criteria consists of the focus region (geographical presence), industry, ownership status (public/private), service or product offering, income metric, number of employees etc. Raw data to carry out the screening can be sourced from reputable market databases.



Manual Screening

Post extracting a list from the database, the analyst examines each entity to check for the relevance as per the criteria and identify a potential target. If an entity meets all the listed specifications, it is short-listed and added to the final list for further scrutiny.



Follow-up with the banker

The potential targets list is shared with the banker to get their view on the approximate number expected by them. Bankers share further details or additional criteria to narrow down the screened list or add more potential companies to the list.



Sanity Check

Once the potential targets are identified and consolidated, the analyst updates the list with the required data for all the relevant companies suitable to the agenda.



Sharing the screened output

The final list is formatted in a presentable and easy to read format, and shared with the banker for financial analysis.

Advantages to the Banker

Evalueserve has a team of deal sourcing specialists that have years of experience in managing the deal origination and execution process. The analysts are determined to ensure a successful deal flow by conducting a meticulous lead generation cycle. Following are a few benefits that clients gained from partnering with Evalueserve on this process:

- **Good Quality Output:** Since the analyst team is entirely focused on creating an extensive list of targets/buyers in the lead identification process, they diligently exhaust all available sources to furnish a list to aid the banker in the deal execution process. This kind of focus results in good quality output and requires minimal efforts from the banker in this key step
- **Increases Time Efficiency:** Since deal origination specialists work on numerous requests, they might have certain datasets ready which may match the criteria required by the banker. This can save a lot of time of the banker and can result in reducing the deal completion time
- **Provides Flexibility:** When an analyst team works on lead generation, the banker has the flexibility to review the interim output and make the necessary changes along the timeline resulting in increased efficiency
- **Channelizes Effort to Following Procedures:** While this step is carried out by the outsource team, the banker can invest his efforts and energies in making decisions regarding the following processes or on other deals. This will significantly reduce the deal closure time resulting in a competitive advantage and improved client relations

Conclusion

To conclude, the process of identifying relevant targets or buyers is a crucial step that kickstarts the deal execution process and is of utmost importance in deciding whether a deal will go through. Therefore, immense amount of focus and attention is required in preparing an exhaustive target/buyer list which will potentially be the counterparty in the deal process. An analyst team dedicated to this can create a comprehensive list to aid the banker in the deal origination process. Once, this step is complete, it is followed by financial analysis, valuation and financial modelling, drafting a CIM, deal marketing, due diligence, and deal closure. To understand and read about various steps involved in a successful deal execution process, click here: <https://www.evalueserve.com/blog/7-key-steps-in-the-deal-execution-process/>

Evalueserve has extensive experience of working with large, mid-market investment and boutique advisory firms providing deal execution support for live deal mandates across various sectors. Most mid-market and boutique advisory firms have leaner deal teams and require support for deal preparation and deal marketing phases. Our trained pool of analysts supports deal teams across the deal execution process, thus helping our clients to execute more deals. For more information, please visit: <https://www.evalueserve.com/solutions/deal-execution-support/>

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