THE WATERMARK WIRE

# HOW WATERMARK ARRIVED AT ITS CURRENT BUSINESS MODEL: COMPREHENSIVE M&A FOR INFREQUENT ACQUIRERS


Watermark's current focus on providing comprehensive assistance for infrequent acquirers to complete mergers & acquisitions (M&A) stems from our thirteen years of experience in helping a vast array of companies.

We have learned that what companies really need to succeed in M&A is not only to close the M&A transaction, but to be strategic about the processes preceding and following the closing as well. This *Wire* lays out the path that Watermark traveled to arrive at its current business model.

**My Personal Journey**

When I started Watermark Advisors back in 2002, I was not yet aware of the significant needs that companies with 1-4 completed mergers or acquisitions in the past decade have. These infrequent acquirers became Watermark's focus much later.

In 2002, the business world was quite different. 9/11 shook everyone. An attack by a foreign force was something we read about as children--a story for the history books, but not an experience we could relate to in our generation.

For me, this tragic event corresponded with a small event, a merger between Wachovia and First Union banks. I had been working in the investment banking division of Wachovia for almost six years. Over those years I realized I had a passion for M&A, but not for the area I had been working in for two years, investment grade debt origination.

I had asked my managing director to reassign me back into M&A. Unfortunately he was let go and then within months, Wachovia announced its merger.

Integration efforts began. I was re-recruited in investment grade debt, but would have to relocate back to Charlotte from Atlanta, a reverse move I had made just over two years prior. Not excited about the role, and remembering a lesson I had learned in business school--align passion with career and you can't go wrong--I made a bold move to leave the Wachovia-First Union organization.

**Back to Greenville**

In addition to knowing that M&A was a passion of mine, I had a personal interest in returning to my childhood hometown of Greenville, SC. I had been away from family for over 13 years. South Carolina was not, and is not, known as a center for the investment banking industry. Maybe Charlotte or Atlanta in the Southeast, but certainly not Greenville.

Through my time at Wachovia, I had observed a steady flow of smaller private companies that sold. Could a small boutique investment banking firm that catered to SC and other southeastern companies be profitable and allow me to earn a living?

I had just turned thirty and was willing to take a risk. I enlisted the support of Ben Duster, a 17-year Salomon Brothers investment banker who had led the M&A effort for Wachovia for five years. We would not reinvent the wheel, instead our business model offered a traditional sell-side M&A shop that provided M&A advisory services, private placement capital raise services and valuations.

Year 2002 did not seem like the most obvious time to start an investment banking firm in Greenville. The corporate world was scarred, with the then recent Enron scandal, and the tech bubble bursting combined with 9/11, spiraling the economy into a recession. I moved forward anyway, with $90,000 in capital I had saved over my seven years of career. After spending six months drafting the company's business plan, I opened the doors to Watermark in July 2002.

**The Early Years**

For six years, Watermark experienced modest success, closing 1-2 M&A assignments a year along with several annual valuations. In 2008 we charted a growth path of placing additional Watermark offices in mid-sized, often overlooked

markets throughout the U.S. We would open a NYC office to possibly become a hub and spoke model. We began raising private capital to execute this model, but then the economy collapsed with the subprime mortgage crisis in the fall of 2008. With that collapse, we retreated from our plans.

**Collapsing Economy, Inward Reflection**

As we watched and waited for the economy to recover, we became inwardly reflective. For me, reflective periods include a lot of reading and thinking about the world we live in. What makes the world of M&A go around? It is the acquirer.

Acquirers pursue M&A as a vehicle to increase shareholder value. They have alternatives to M&A, including R&D, joint ventures, and alliances. Without acquirers, there would be no M&A. I became intrigued by the acquirer.

In my research I continued to run into one type of headline over and over again. M&A seemed to be a losing game for acquirers. All too often, I saw statistics like "…only about 20 percent of all mergers succeed…" I found myself asking, How could M&A be so embedded in corporate America if the outcome is so frequently negative?

***The* Study on M&A**

I then ran across *the* study on M&A conducted by the now dean of UVA's Darden School of Business, Robert F. Bruner. In his book titled *Deals from Hell* (2005), Bruner reports results from 130 surveys and studies of closed acquisitions spread out over nine decades of business. His work is head and shoulders above other research.

He compared ROI from M&A to the return investors could have earned on other investment opportunities of similar risk, and found "the average, benchmark-adjusted return to corporate investment in M&A is close to zero, and that only 20-30% of all transactions earn returns significantly in excess of their cost of capital."

**An Expensive Problem**

While confirming the fact that acquirers are consistently coming up short in ROI, I was startled by the sheer magnitude of this problem. In 2014 alone, in the U.S. there were 11,913 acquisitions that closed, accounting for $1.6 trillion in M&A investment by acquirers. That so much money is spent on an endeavor that often does not create value is a huge problem that has gone unsolved.

The problem is occurring across the board, in all industries, with companies of all sizes, and both with frequent and infrequent acquirers.

For most investment bankers, success is defined by what occurs at the closing table. If the investment banker helps the client close the acquisition successfully, the work is labeled a "win" and the investment banker is paid a fee for the work. However, for the acquirer, success depends on much more than the fact that the acquisition closes.

**Our Response**

I asked, "What would improve ROI for acquirers?" and concluded that acquirers' troubles arose in three phases: how they prepared to make the acquisition, how they executed the transaction, and how they integrated the target post-closing.

As a result of observing this, Watermark launched its comprehensive approach to M&A in 2014, with services in the preparation, transaction and integration phases. With this three-phased approach now at the core of Watermark's business plan, Watermark's clients are much more likely to make and sustain gains from their acquisitions.