# Case Discussion:
# We Bought the Company, Now What?

Comments by Rod Hoagland – Financial and Accounting Project Series

## Business situation

One of the most interesting projects I have worked on was the carve-out of an 'orphaned' division of a US-based company on behalf of a foreign buyer. I received a call for help literally the day before the closing documents were signed. The entire negotiations relating to the sale had occurred in less than a month. Timelines to establish a stand-alone business from an embedded social media platform were very short. As the new interim CFO, the challenges of timing, detail and constant communication with a foreign buyer required significant technical expertise as well as management talent.

The rushed nature of this acquisition resulted when the foreign buyer, after having negotiated a territorial license for the social networking site a year earlier, realized there was significant opportunity to expand business to other regions. They wanted to assure no competitors emerged to purchase the platform. The basis for their urgency was the 100% increase in revenue they had achieved over the past year within their licensed territory.

The terms of sale required rapid action to:

- Take over all financial operating functions with new personnel
- Establish an independent banking relationship
- Obtain insurance coverage for the new business entity

## Solution

There were many technical details that needed to be addressed in a short period of time. The two immediate issues I needed to resolve as interim CFO of the new business were establishing stand-alone banking relationships and obtaining property and liability insurance. These items were critical to ongoing operations during the brief transition period.

To make matters more challenging, the seller's bank, a well known United States based entity, did not want to work with the buyer's company at all. The bank's primary concern was that the foreign buyer, located in a country with a grey reputation, was not adequately known to extend certification to under the United States Patriot Act regulations. The act requires banks to confirm that customers are not a funnel for funding terrorism or laundering money. A rejection like this is not uncommon, as many banks have curtailed business into areas they believe are risky or that they are not adequately prepared to manage.

I also discovered that the seller's bank planned to retire the current version of their credit card transaction processing system in less than 45 days from the sale date. Revenue for the business was over 50% collected through credit card transactions. Working with a new bank had issues, since implementation timing was critical. Multiple solutions had to be considered in parallel to ensure continued revenue through credit card transactions.

Obtaining the necessary insurance coverage, especially related to liabilities, required detailed discovery to properly disclose legal policies, monitoring practices, and prior requests for action by individuals, courts and various attorneys general. Typical for fast growing businesses with limited resources, many of the prior requests had an outstanding request for action, and were filed without any follow up documentation of the outcome. This added to the burden of work required, especially within the short timeframe.

Throughout the transition process constant communication with both buyer and seller was an absolute requirement. This was the buyer's first foreign acquisition, and they needed to be educated on many elements of the transition. Questions such as "Why does this bank not want our business, we are a legitimate company?" and "Why are there so many payroll taxes and what is this safe harbor election for a 401K?" required discussions supported by facts and the logic behind the decision making.

Constant detailed communication with the seller was necessary to address the tight transfer milestones set forth in the purchase agreements, even though many were simply not achievable. The seller needed to understand why the timing wasn't possible, what was being done to resolve the issues within a realistic timeframe, and to physically see work being devoted to the resolution.

## Benefits

The knowledge of an experienced financial leader who identifies key issues and develops solutions minimizes risks for businesses, especially when considering multi-million dollar transactions. A well managed transition plan that focused on eliminating road blocks to completion was fundamental to removing the buyer's transaction value risk. Additionally, understanding the communication styles and business biases among different cultures assisted building continued trust and maintained the common goal of both buyer and seller. The ability to quickly connect with a network of banking, insurance and other service partners that fit the unique requirements for the new business entity greatly assisted in reducing transition time, cost and risk.

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