

M&A



intangible capital: five things you should know

- 1 70% of the value of the average merger is intangible** – If you have been in the M&A business for a decade or two, you know that the intangible portion of transactions may vary from year to year but over time intangibles have become more and more important. Data from Ernst & Young for mergers of all kinds around the world in 2007 showed 70% of the average deal was intangible. These deals had 47% goodwill meaning that roughly half of the value in deals was unidentified.
- 2 Cash flow, not balance sheets, drives today's deals** – The absence of intangibles from the balance sheet means that cash flow is the most important factor determining valuation. But cash flow does not explain the capacity, sustainability and future potential of a business. For this, you need to understand the intangibles.
- 3 Intangibles information can also improve the dismal success record of M&A as a strategic alternative** – It's not surprising that over half of mergers fail when you see the fact that half the value of the average deal goes unidentified as goodwill. How can a team deliver on the value when they don't know where it is to begin with?
- 4 Measurement of intangibles provides greater transparency** – Information about capacity, sustainability and potential—the old job of the balance sheet—can be measured. M&A professionals should learn when and how to use the suite of intangibles measures that include cost, quantitative and qualitative metrics.
- 5 M&A professionals who understand intangibles will enjoy greater success** – There is significant evidence linked transparency with better valuations. M&A professionals that buy into this thinking and know how to achieve it will be able to get more deals done successfully.

Of Special Interest: Part 1 (understanding how today's business works as a knowledge factory), Part 3 (the new accounting)

reader's guide: *intangible capital: putting knowledge to work in the 21st century organization*

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