

Market research and M&A

Transcript

SPEAKERS:

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WADE KRUSE: Hello, I'm Wade Kruse, National Managing Partner of Advisory Services at Grant Thornton, and today we're continuing our Growth Series and talking about market studies. And with me, Chris Smith, Grant Thornton's Chief Strategy Officer, and Elliot Findlay, Grant Thornton's Lead for M&A Solutions. Let's talk about market studies a little bit. We hear this term out there a lot. I've got a few questions, but let's just ground ourselves in, what is a market study?

CHRIS SMITH: It's really straightforward. It's just the analysis of current and future demand for a product or service. It tends to be broken down into five categories. You have the market sizing, opportunity sizing dimension. You have competition and substitutes. You have the customer. You have macro and micro trends that usually encompasses technological shifts, regulatory shifts, COVID shifts. And then last but not least, you have the product service. Pricing is in there. The product and service pricing trends. Those are the five pillars of a market study and we're doing deep analysis to figure out, is this thing as lucrative, is it as big an opportunity as we think it is? And we see market studies show up in two primary motions. You have buy side or sell side. On the buy side we see strategics and private equity. On the sell side we see strategics and investment banks. So maybe, you work a lot in this space, Elliot, maybe give a little bit more color commentary what you're seeing on market studies and investment banking and private equity.

ELLIOT FINDLAY: I think when working on and when supporting a sell side transaction we're seeing a higher adoption rate of market studies on the transactions, really trying to prove out the investment thesis that the investment bank is presenting in the forecasts. I think on the buy side it's certainly sometimes looking at things that are not being taken advantage of, those opportunities out there post-acquisition. So there's a

slightly different angle, although as Chris mentioned, the same information is being analyzed, it's just perhaps being presented differently. But adoption is definitely up. And then the majority of the sell side transactions that we're working on, market studies are involved.

WADE KRUSE: So that's the profile of a company that could benefit from this, size-wise, industry, where are they on the maturity curve? Are there some that need it and some that don't?

ELLIOT FINDLAY: In my opinion, and I'll let Chris weigh in, I don't think there's a disadvantage to doing it at any size. Sure, there are certain limitations of certain small companies, very small companies. But ultimately, as you're looking and you think about growth, and ultimately in the M&A space there is a growth component to either side of the transaction, on the buy side or the sell side, and I think it really helps detail and essentially build some structure around that growth and all the factors that Chris just mentioned. Do you see size being a component?

CHRIS SMITH: I see complexity. If size and complexity are directly proportional, then yes. But I tend to think about, the more complex a business is, the more niche a business is, the need for a market study goes up. Now that said, I think straightforward businesses also need them. When you're on the buy side, you really are pushing, challenging the sell side analysis on, is this true? Is it as valuable as they think it is? Are the trends going in the direction they say they're going?

And on the sell side, as Elliot noted, so often when we're doing market studies, we're identifying potential revenue streams that are not being seen. And so sometimes trying to take credit for that and paint the picture of what the value could be two years, three years, five years out is highly advantageous when you're trying to price the deal.

ELLIOT FINDLAY: I think the applicability is comparable to that of the quality of earnings. As small as a business is, there's always relevancy to it and something that can be presented that will definitely add value to a transaction. Certainly we've seen that combining the financial diligence and the market study under one umbrella has added a number of benefits, not only from an output and teaming perspective, but also on our client side from just streamlining the deliverables and making sure that, you really want all the advisers on a deal to be thinking about the deal in the same way. So we've seen some real synergies with combining market studies and financial diligence.

CHRIS SMITH: And those synergies, they just drive increased confidence, and that's what this is all about with our clients is increasing their confidence that they are buying the right asset at the right price point, or that they're getting the right value on the sell side.