

# Creating clear skies

How Navtech Inc., a small Canadian firm, has taken on Europe with a savvy acquisition — a company more than twice its size. Effective communication within its own ranks, a clear understanding of its own business, and a strong due diligence process all made a big difference

By Robert Colman

In late 2005, a small Waterloo-based company pulled something off that many would think impossible — it bought up a company almost three times its size in a bid to solidify the European market and expand its product set. The acquisition, and subsequent merger of operations in Canada, Sweden and the U.K., offer a useful lesson in how to carefully execute an M&A strategy. Relationships are crucial, as is a remarkable attention to detail.

## Matchmaker

Navtech, Inc. is a leading international provider of flight operations software. This software is used to provide airlines with a competitive edge by helping them increase safety, maximize efficiency, and reduce costs. For instance, Navtech's dispatch solutions help optimize flight paths — the flight plan might direct an aircraft to take a longer route rather than a straight line to the destination, but that route would take better advantage of jetstream winds, thus economizing on fuel.



The technology also ensures compliance with complex national and international safety regulations.

Navtech's crew planning software, on the other hand, builds and manages schedules that minimize costs and increase employee satisfaction. The software allows the development of parameters — i.e. seniority, preferred flight plans, and swapping forums — to automate and thus simplify the scheduling process.

Since CEO David Strucke took the helm, Navtech has experienced steady growth over the last few years — remaining profitable 16 quarters in a row. The company had grown throughout the '90s and early 2000s with a number of acquisi-



Photo courtesy of Navtech

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tions, but to be a fully integrated flight operations systems provider, a significant piece was still missing — charting and navigational data products.

Navigational charts and data are an important part of any airplane's cockpit, explaining all available routes to the crew. Only three companies in the world supply this information, and currently Jeppesen in the U.S. enjoys the bulk of this business in North America.

“Our customers have said to us in the past, ‘if you had charts and navigational data, we would gladly consider you,’” notes Strucke. “For us, it was a matter of finding the right partner in the business. EAG became an option about two years ago.”

European Aeronautical Group AB (EAG) has been a wholly owned subsidiary of the SAS Group, an airline and travel

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group, since it was spun off from the parent company in 1995. Two years ago, SAS decided it wanted to focus on its core competencies as an airline, and so began considering purchasers for EAG.

EAG had the opposite problem that Navtech did. “We were still developing our brand in the European market,” says Strucke. “Approximately 75% of our revenue came from North America. EAG, on the other hand, is primarily in Europe and hadn’t been able to get a foothold in North America.”

The challenge for Strucke was to make Navtech a favoured player for the company.

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## top tips for your acquisition plans

- 1. Understand your clients’ needs.** What are your clients looking for from you? Are you adding an essential service for them? Like any business move, an acquisition requires a company to review its core competencies and clearly understand the target.
- 2. Build a relationship.** Before an offer can even be put on the table, it’s useful to develop a relationship with those who will be involved on the other side of the table. Through the development of a relationship, you will better understand the target as well.
- 3. Understand the cultural commonalities — and differences.** Company culture is important to consider when searching to expand your interests. If the cultures don’t mesh, integration is going to be tough, and most likely full of surprises.
- 4. Due diligence is essential — don’t skimp.** As David Strucke, CEO of Navtech, notes, chances are that your due diligence exercise will cost more than what you planned for. The extra expense is worth it for the peace of mind it will give you in the long run.
- 5. Communicate.** Communication with everyone involved in an acquisition is important. Remember that clients are just as concerned as staff about how operations will be affected.

### Relationship building — the first step

It was two and a half years ago that Strucke began developing a relationship with EAG’s CEO at the time. “After about a year, we had developed a solid relationship,” says Strucke. “Their CEO was comfortable with who we were. It also became quite clear through our discussions that the cultures at the two companies were quite similar. EAG was a small business unit with people that were interested in running their business like a small business — they wanted to be close to customers, very entrepreneurial, and make decisions to support customers quickly. That culture was similar to ours and made them a great fit for Navtech.”

Navtech is very focused on customer service. “We make sure that we move a high degree of expertise in close to our clients, which is why we have satellite offices in the U.S. and Asia — so that there is always someone on the ground to support client needs. Ours is a recurring revenue model so this is essential — it’s worth spending extra money on customer service training and sales/user conferences to make sure we maintain that.”

Strucke stresses that SAS’s final decision to sell to Navtech really came down to its reputation. “As part of our agreement, SAS will remain as a customer of Navtech/EAG for three years, so it makes sense that they would go with a company they feel comfortable with. Between the relationship we had built prior to the purchase and our place in the market, we had a solid footing in their minds.”

### Board buy-in

Another reason the acquisition made sense to Navtech was the similarity of the company profiles. Both serve primarily mid-market airlines, although each have some larger airlines as customers. This was an important part of explaining the acquisition to the board as well.

“We had to show the board how this fit into our strategy. It’s not that we’re trying to steal all the business from the goliath here in North America. We simply hope to leverage the strengths of both organizations to create a strong number two in the international market.”

It was important that Strucke maintain good communications with the board throughout the process. “Our board and shareholders were key in making this happen. The better they understood what was happening, the more efficiently we were able to execute our plans.”

Navtech’s larger shareholders helped find the company a good debt financing partner, and added more of their own support as well. “Our shareholders and new debt financing

partner, ABRY Partners from Boston, have bought into the vision of the company. I believe they see there might be greater opportunities to work together in the future.”

### Due diligence challenge

The due diligence process was critical as well. “We really pushed hard throughout this exercise,” says Strucke. “When we hit a roadblock, we waited and came back to the same question from a different angle until we found what we needed. By the end of it we had a solid financial and integration model. Three months on, we had virtually no surprises. The reason so many integrations fail is poor

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due diligence. When there’s poor due diligence, there’s always surprises.”

Strucke believes it’s better to overestimate the effort involved in this process. “Decide what you think is the most it’ll take. Whatever you come up with, assume that it’ll take more. But the effort is worth it — it mitigates risk in the end.”

To make the due diligence easier to manage, Strucke made sure that he had a solid team around him. “We worked with great legal firms in Boston (Choate, Hall and Stewart) and Sweden (Delphi), and had support from KPMG and Deloitte. The costs seem quite high when you’re in the midst of it but the confidence that gives you in your post-acquisition integration plan is worth it.”

### Communicating change

Thus far, the process of merging the two organizations has proceeded without a hitch. Part of that has simply been the complementary cultures of the two original organizations, but some has also come from effective communication among the operating divisions and with external customers.

“We have dedicated a significant amount of money for travel between the businesses in Canada and Europe,” says Strucke. “We are also encouraging individuals to move

from the European offices to the Canadian office, and vice versa. This type of exchange should help to ease communication between the offices — if one of our people in Canada needs to reach someone in Europe, they have a resource on hand who can make sure they know who to talk to. It’s helping us tear down walls between the businesses. We’re making sure people are getting value out of the move.”

Strucke has dedicated a fair amount of time and travel to communicating with staff and customers, reassuring them that, if anything, service levels should improve with the change.

“Business is all about relationships, and we want to make certain that we keep the ones we have strong,” says Strucke. Now, with a stable of 250 airlines around the world using its service, Navtech is hoping for clear skies throughout 2006. ■

Robert Colman is editor-in-chief of *CMA Management*.

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