The McLean Group
Investment Bankers to the Middle Market

M&A MARKET UPDATE

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THE M&A BOOM CONTINUES

By Dennis Roberts

The middle market and the boom

We often talk about the correct timing of a sale in our McLean Group seminars. While much of the following material relates to acquisitions of large companies by large companies, history has demonstrated a direct correlation to deals in the middle market as well. The abundance of funding coupled with a need to grow by large companies trickles down directly to the middle market (companies with sales between about $4million and $300 million). No one knows in reality how long these booms will last although typically they seem to last about three years. But while they do last, they present an opportunity for many middle market business owners to reap excellent premiums on the sales of their companies.

Domestic M&A

More than two thirds of the companies in the Fortune 300 expect to engage an advisor for a domestic acquisition next year, according to a new survey. Half of the large US companies interviewed by consultancy Greenwick Associates expect to use an advisor on a domestic deal in the next 12

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EXPERT TIPS

Preparing Your Company for Sale

Before an owner embarks on the sale of a business, there are some basic steps to be taken that are likely to improve the company's sales prospects. These include:

- Improving profitability by cutting costs
- Restructuring debt
- Limiting owners' compensation to market levels
- Cleaning up financial statements (balance sheets and income statements)
- Seeking the advice of consultants (accounting, legal, transaction and financial planning)
- Improving the management team (filling vacancies), and
- Upgrading computer systems

Trends to Act On

Private Equity Fundraising Continues to Break Records

Private equity fundraising activity continued its record-breaking pace in 2006. Thomson Financial and the National Venture Capital Association reported that private equity groups raised a total of $215.4 billion, a 33% increase versus 2005. Venture capital posted its highest fundraising year since 2001, with 200 funds raising $28.5 billion. Buyout and mezzanine funds recorded their highest year ever as 138 funds raised $102.9 billion.

In the mergers and acquisitions market, this means that private equity groups – including buyout and corporate finance funds, venture capital, mezzanine funds and funds of funds – are willing to leverage their newly-minted capital in combination with cheap debt to continue making sizable deals. It remains to be seen how long this trend will last: valuation multiples paid by financial buyers continue to escalate while returns realized by limited partners continue to deteriorate. Nevertheless, for 2007 the M&A market is expected to remain a sellers' domain with financial buyers paying price premiums similar to those being paid by strategic buyers.

Exit Planning

Stay Bonus Plans

A helpful approach for business owners to ensure that key employees will stay with the company after the transaction, involves setting up a Stay Bonus Plan. One way to implement such plan involves creating an escrow with say, 5% of the acquisition price. Each key employee will be entitled to a Stay Bonus equal to his or her pro-rata share of the escrow amount, as he or she becomes vested. A key employee becomes vested at the closing and receives one-third of the bonus at that time, one-third at the first anniversary, and the remainder at the second anniversary of the closing date. If a key employee chooses not to remain with the new company for the entire two years, he or she will not receive the full amount of the Stay Bonus. Any funds remaining in the escrow after two years will revert to seller. Having such a plan in place improves the marketability of the company and increases its value in the eyes of a potential buyer due to management continuity.

Exit Strategies Institute
The McLean Group
PlanYourExit.org

For more information on exit planning visit The McLean Group Exit Strategies Institute [Click Here]

THE M&A BOOM CONTINUES
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months. Jay Bennett, a consultant at Greenwich Associates, said: "The expectations for the domestic M&A business represent an increase even over the bullish expectations expressed by these companies last year, when 45% of companies said they planned to be active [in acquisitions]." US M&A volume is $1.5 trillion (€1.1 trillion) this year, up 24% from last year according to provisional figures from data provider Thomson Financial.

European M&A

As we have said many times in our McLean Group Seminars this isn’t your fathers M&A world anymore and that includes even smaller middle market companies. Standard & Poor's Equity Research has forecast that European M&A volumes will increase by about 12% next year. European M&A volumes have reached an all time high of $1.4bn according to provisional data from Thomson Financial, beating the previous $1.2bn record in 1999. S&P said this upward trend is expected to increase in coming years because there is a great deal of cheap financing available for acquisitions. Acquiring firms tend to use cash 80% of the time to finance a deal. Clive McDonnell, chief European equity strategist at S&P, said: “Only when we see investors switch their preference to using equity or bonds as the initial currency to finance acquisitions can we say that the M&A boom is entering its mature phase."

M&A Premiums

While volumes are expected to increase, the rates of return will be harder to achieve and companies will pay more to gain control of targeted companies. So far this year, the average premium paid for M&A transactions in Europe was 18.5%, compared to 14% a year earlier. Premiums in the US have averaged 27%.

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ABOUT THE MCLEAN GROUP

The McLean Group is a middle-market investment bank providing merger and acquisition, business valuation, capital formation, executive advisory and litigation support services. Its focus is on serving middle-market businesses generating between $5 million and $300 million in revenues. The firm has a widespread practice with particular expertise in the IT services, technology, telecommunications, government contracting, staffing, and travel and hospitality sectors. Registered broker dealer.

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