

# Outlook for Buying or Selling a Company in 2017

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The trend lines in the M&A market for 2017 appear to be strong. Both financial buyers (private equity buyout firms and independent sponsors) and corporate buyers continue to look for acquisitions, and business owners believe that valuations for their businesses will stay strong in 2017. A recent middle market survey<sup>[1]</sup> sheds some further light on trends that buyers and sellers are anticipating:

- **Selling Activity is Ramping Up:** More than half of the market is currently involved in or open to selling in 2017 (53%), up from 34% in 2016. Potential tax policy and regulatory changes may assist in driving increased 2017 deal flow.
- **Sellers are Ready to Deal:** 25% of Sellers are extremely confident that their company will be acquired in 2017. Though extreme confidence does not always translate to a successful closing, it does indicate an increased desire and a ramp up in activity from recent years.
- **Top 3 Drivers of a Sale:** The top reasons for selling have remained fairly consistent, with an emerging driver being the desire to alleviate owner fatigue.
  - 1. To provide liquidity to the owners
  - 2. To maximize value of the business and take advantage of current market value
  - 3. To alleviate owner fatigue
- **Top 3 Seller Worries:** With valuations as high as they are, Sellers recognize that the likelihood of being undervalued is low and their window of opportunity could be closing:
  - 1. Meeting stated target revenue or growth goals after acquisition
  - 2. Losing key employees during/after sale
  - 3. Meeting stated target revenue or growth goals prior to acquisition
- **Urgency to Sell:** 6 in 10 Sellers believe that there will be a significant financial crisis in the next 3 years, which has instilled an even greater sense of urgency among those selling. Many Sellers also want to capitalize on fairly high valuations before the window of opportunity ends.
- **Buyers Remain Active:** 73% of Buyers indicating they are currently involved in or open to considering making an acquisition (up from 60% in 2016), with 23% of Buyers indicating very high confidence that they will make an acquisition in the next 12 months.
- **Top 3 Drivers for Buyers:** For financial buyers, acquisitions of a solid platform company are the lifeline of their

business. And for an existing company, the key drivers to acquire often include:

- 1. To increase revenues
- 2. To put cash to work
- 3. To expand geographic reach within U.S.

• **Top 3 Buyer Worries:** When doing a deal, Buyers indicated that they are most worried about:

- 1. Inherited liabilities
- 2. Merging differing corporate cultures
- 3. Overpaying/overvaluing target firm

Each of these concerns can be mitigated in different ways:

- (1) liabilities: through thorough financial and legal diligence, and effective contractual protections and/or M&A representation and warranty insurance;
- (2) corporate culture: through a well thought out and executed integration plan
- (3) over-paying: having pricing discipline and using alternative consideration where appropriate (Seller note, earn-out, equity participation by Sellers, etc.)

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