



2018 SURVEY RESULTS

Primed for Growth, Confident Business Leaders View Mergers and Acquisitions as a Key Workforce Development Strategy

HARRIS WILLIAMS/INC. SURVEY FINDS THAT BUSINESS LEADERS ARE HIGHLY OPTIMISTIC ABOUT THE FUTURE—AND SEEKING CREATIVE SOLUTIONS TO A TIGHT LABOR MARKET.

INTRODUCTION

Business leaders are feeling good about their companies today and even more enthusiastic about their growth prospects in the future. As a result, they're increasingly looking beyond the walls of their own companies for continued growth opportunities.

This was one of the key conclusions of the fourth annual Harris Williams/Inc. survey on exit strategies conducted with more than 400 business owners, founders, and leaders nationwide. Among the findings: Ninety-four percent of respondents are considering a transaction such as a merger, acquisition, or another form of a sale, virtually the same exact percentage as in 2017. Seventy percent say that mergers and acquisitions (M&A) are more important than they were just one to three years ago.

BUSINESS LEADERS CONSIDERING A TRANSACTION SUCH AS A MERGER, ACQUISITION, OR ANOTHER FORM OF A SALE



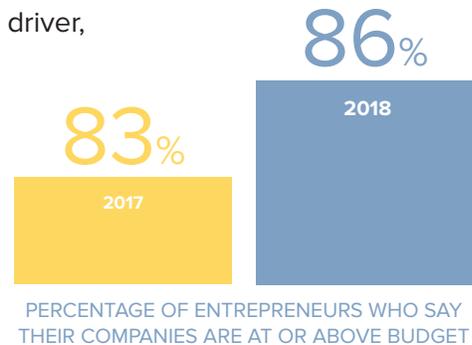
These business leaders conveyed an exceptionally enthusiastic assessment of the business environment and their own company's position in it. The share of entrepreneurs who say their companies are at or above budget continues to climb, reaching 86 percent—up three points from 2017.

Finding the right talent to fuel growth is a top-of-mind issue with more than half (54.5 percent) of business leaders saying that growing and retaining a workforce is the one issue that concerns them most.

With unemployment hovering around four percent, the tight labor market is making it increasingly hard to find the right talent, from entry-level positions all the way up to the C-Suite. While revenue growth and geographic expansion are still the top two reasons for companies

to pursue M&A opportunities, talent acquisition is a rising third driver, outranking new products and technologies, as well as supply chain savings.

“There are benefits in acquiring talent,” comments Jason Bass, a managing director at Harris Williams. “We certainly see buyers taking organizational charts into consideration, and in many cases that can be a deciding factor in completing a transaction.”



OPTIMISM IS UP, AND GROWTH IS IN THE FORECAST.

Business leaders are feeling the winds at their backs, as optimism continues to climb from already high levels in 2017. Nearly nine in ten business leaders (89 percent) say they are very optimistic or optimistic about business prospects in 2018, up from 76 percent last year. This increase was fueled by a surge in optimism among companies with revenues under \$10 million. Eighty-seven percent of respondents with this size company say they are very optimistic or optimistic about their business prospects —significantly up from 71 percent in 2017.

Notably, of those who lead companies with revenues of more than \$10 million, 90 percent say they are very optimistic or optimistic about their business prospects. Leaders of companies of all sizes share a similar sense of optimism, where there was previously a gap.

Few things excite entrepreneurs as much as surging sales, and 96 percent of those polled say their sales are on the rise. Nearly two-thirds (65 percent) say that sales revenue will increase by 10 to 99 percent this year, while 14 percent expect sales growth to exceed 100 percent.

“High-quality companies continue to grow. There’s room to run and no reason to believe that’s going to stop and go the other way in the near term.”

Jason Bass
Managing Director, Harris Williams



29% OF BUSINESS LEADERS ANTICIPATE MORE THAN 100% SALES GROWTH OVER THE NEXT FIVE YEARS

The longer-term horizon is looking even better. Over the next five years, nearly all respondents see their sales increasing, with most predicting sales growth between 10 percent and 49 percent. Twenty-nine percent anticipate more than 100 percent sales growth over the next five years.

“High-quality companies continue to grow,” says Bass. “There’s room to run and no reason to believe that’s going to stop and go the other way in the near term.”

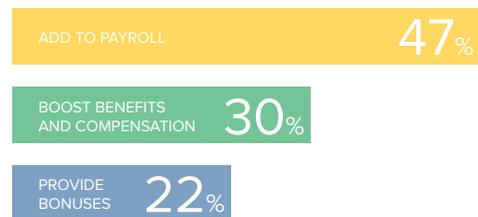
HIRING IS IN THE SPOTLIGHT.

With Washington delivering corporate tax cuts in 2018, companies have more cash in the coffers. The top priority for that influx of cash, by far, is workforce development. Forty-seven percent say they will add to their payroll, 30 percent say they’ll boost benefits and compensation, and 22 percent say they’ll provide bonuses.

What is clear is that human resources are becoming an increasing worry for business leaders. “Three things we hear from CEOs all the time: ‘We can’t hire enough people, it can be tough to hire the right people, and we’re concerned about retaining our best people,’” notes Bass.

Indeed, more than half (54.5 percent) say that growing and retaining a workforce is the issue that concerns them the most, which is an increase of 10 points from the 2017 survey. “We can’t find enough workers from the pool available to us,” commented one business leader surveyed. Another states it succinctly: “We need more workers.”

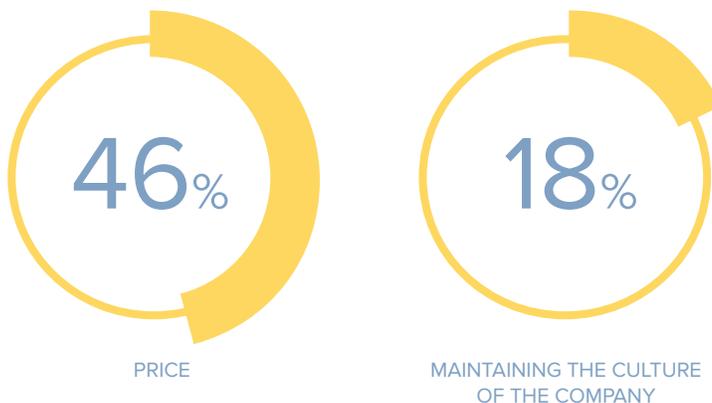
HOW BUSINESS LEADERS PLAN TO SPEND THEIR EXCESS FUNDS IN 2018



GROWTH THROUGH M&A IS A KEY FOCUS.

Overall, M&A continues to be of strong interest to business leaders. As noted earlier, more than nine in ten business leaders say they were considering a transaction over the next three years, and seven in ten say that M&A is more important today than it has been in the recent past. Sixty percent said they would consider making an acquisition, while 44 percent said they would be interested in a sale.

MOST IMPORTANT FACTORS BUSINESS LEADERS CONSIDER DURING AN M&A TRANSACTION



Price continues to be the most critical factor when considering an M&A transaction, with 46 percent of respondents saying it’s the most important outcome. Maintaining the culture of the company ranks second, with 18 percent identifying it as an important issue.

Amid strong concern about employment, it may seem surprising that the share of employers who rank “stability for employees” as a key concern of an anticipated M&A transaction dropped seven points

from last year, to 12 percent. In part, this reflects an increasing sophistication among business leaders about M&A overall, observes Bass. An outdated idea about an M&A transaction is that a large number of employees would lose their jobs, he says, but today’s buyers are increasingly aware of the importance of a workforce to a company’s ongoing success, and indeed are often creating retention packages as part of a deal to make employees even more excited about coming to work in the morning. According to Bass, “Buyers are creating more career opportunities than were there previously, so employee stability is a reason to do a deal—not a reason not to.”

Similarly, increasing sophistication in the entrepreneurial community helps to explain why companies planning growth through M&A are getting more comfortable with the idea of selling to a strategic buyer or corporation, or to a private equity firm. Slightly more than half (50.4 percent) say a strategic buyer would be their first choice, up nearly 10 points since 2017, while the share of those who ranked a private equity buyer as their first choice increased to 24 percent, continuing a steady climb from 2015, when just 15 percent said private equity was their buyer of first choice.

“Strategic buyer and private equity groups are both very active in today’s market, and valuations are strong regardless of the nature of the purchaser. Entrepreneurs are becoming increasingly comfortable with both types of buyers as they become more knowledgeable about M&A generally,” says Bass.

CONCLUSION

Based on the current economic climate, M&A transactions are top of mind for companies of all sizes.

Nearly 90 percent of business leaders are optimistic, and an even greater percentage forecast sales growth over the next five years. Since many are looking for the right workforce to fuel that growth, that’s become a rising motivator for a transaction.

No matter the type of M&A transaction, the key to success is thoughtful and early preparation. “At Harris Williams, our engagements start earlier and last longer than they once did. That has a lot to do with sophisticated business owners realizing that the time to get ready to sell your business is not when you have a knock at the front door,” says Bass. “You want buyers to see the things they’re looking for in a potential acquisition—which means that they’ll pay more and compete harder for the deal.” With the right game plan in place, he notes, “the best companies are bought, not sold.”

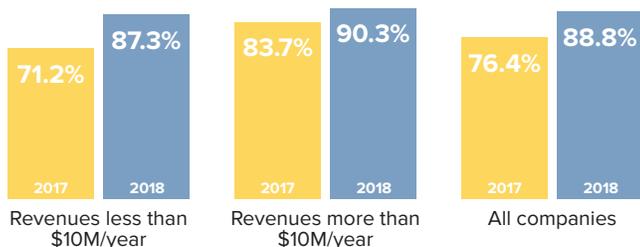
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Measures of Success

HARRIS WILLIAMS/INC. SURVEY FINDS BUSINESSES IN FULL GROWTH MODE.

FROM GOOD TO EVEN BETTER

Optimism is up among businesses of all sizes.

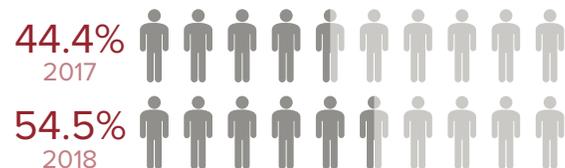


Percentage of business leaders who say they are "optimistic" or "very optimistic" about their business prospects

HELP WANTED

Unemployment is at a nine-year low at just below 4%,* making finding the right employees a challenge for growing businesses.

*as of August 2018



Percentage who say hiring and retaining employees is the issue that concerns them the most

MIND ON M&A

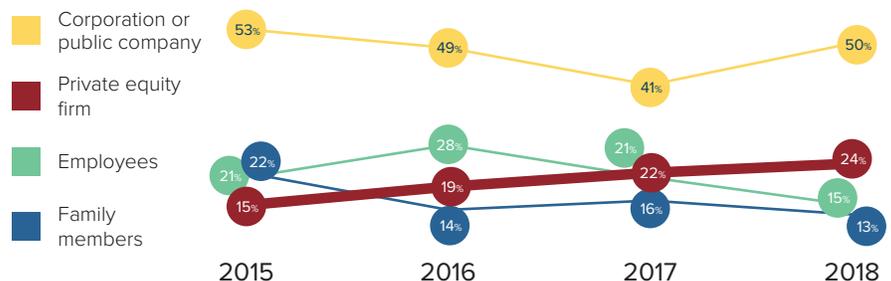
A staggering 94% of entrepreneurs surveyed say they'd consider an M&A transaction.

Entrepreneurs think M&A is important



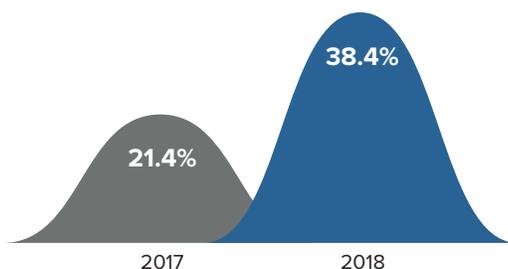
Percentage of entrepreneurs surveyed who said M&A was more important than it was 1-3 years ago

Although selling to corporations remains a constant favorite, private equity continues to gain share.



GROWING PAINS

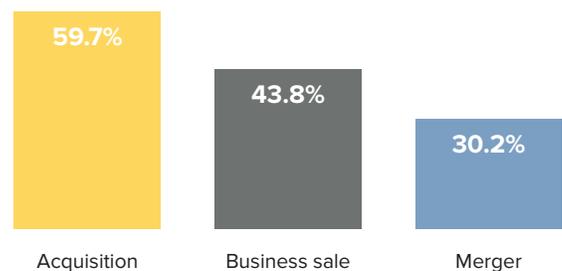
Business leaders are increasingly concerned about keeping up with growth.



Percentage who say dealing with rapid growth is the issue that concerns them the most

LET'S MAKE A DEAL

Entrepreneurs in the survey show a strong interest in M&A transactions of all types.



Business leader interest levels in various M&A transactions