Business Leaders, Confident in Their Companies and the Economy, Express Record Interest in Mergers and Acquisitions (M&A)

Survey finds business leaders are in full growth mode amid a wide spectrum of viewpoints about the administration in Washington.
Business leaders are decidedly optimistic about near-term prospects for their businesses, and 95 percent are considering some form of M&A activity in the near future. In the third annual Harris Williams & Co./Inc. survey on exit strategies, more than 400 business owners, founders, and leaders across the U.S. expressed great confidence in the business climate.

The study was conducted immediately after the Trump administration’s first 100 days in office. Despite varied political viewpoints, three quarters (76 percent) of business leaders identified themselves as either optimistic or very optimistic with more than a third (35 percent) describing themselves as very optimistic. Respondents were exceptionally interested in exploring business exit strategies, as interest in M&A continued its three-year upward trajectory and hit an all-time high of 95 percent compared to 81 percent in 2015.

The results reveal an overall upbeat outlook on business and M&A that is largely independent of mixed views about the current political environment.

Business leaders are feeling good about their businesses

When taking a close-up view of their own companies, business leaders are enthusiastic. Eighty-three percent said they are performing either at or above budget, with 39 percent saying they’ve exceeded their revenue targets. Business leaders reported that they are planning to invest in their companies in a number of ways:

• 32 percent indicated their biggest investment in the coming year will be in sales and marketing
• 10 percent said they’ll invest the most in technology and telecommunications
• 9 percent said they will prioritize research and product development

Business confidence and expanding workforces are among several key drivers of the increased interest in M&A, explains Mike Wilkins, a managing director at Harris Williams & Co. “When a company is feeling good about itself, entrepreneurs start to ask themselves, ‘is now the right time to go through a transaction?’ It’s typically not a question of if, but of when.”

**M&A is top-of-mind**

Respondents expressed a record high level of interest in M&A in 2017, with 95 percent considering growth through acquisition, the sale of all or part of their businesses, or a merger with another business over the next three years.

The share of entrepreneurs who report an interest in acquiring a company in the next three years has continued to increase sharply. A 65 percent majority said they were interested in acquiring other companies, up significantly from 38 percent in Harris Williams & Co.’s 2015 study. On the other side of the coin, 52 percent said they would consider selling all or a portion of their businesses, and 36 percent would consider a merger.

“The increased interest in acquisitions is the result of both the positive and sustained environment for M&A and a growing awareness that in addition to an organic growth strategy, companies must have a well thought-through inorganic growth strategy,” Wilkins says. “Inorganic growth opportunities—they’re essential these days,” he observes. “When a company is contemplating a transaction, an inorganic growth strategy has gone from a nice-to-have to a must-have.”
Entrepreneurs have generally positive perceptions of the M&A market, however the statistics and underlying market fundamentals are stronger than respondents perceived. More than a third (36 percent said it’s a relatively strong market favoring certain sectors and company sizes and 17 percent said it’s broadly healthy. This comes on the heels of one of the most active periods of M&A in history. In the first half of 2017, M&A activity in the U.S. and Canada reached an all-time high in terms of transaction volume. Following a record Q1 with more than 3,500 M&A transactions closed in the U.S. and Canada, Q2 was also a record quarter when compared to the same time period historically. “When we look at the M&A environment, we see lots of cash on corporate balance sheets amongst the S&P 500 and private equity firms sitting on massive amounts of available capital,” Wilkins says. “It’s a robust market, and overall deal activity and valuations suggest continued health,” he added.

“Whether it’s through selling their company or making an acquisition, a matter of great importance to entrepreneurs during a transaction is the effect on their employees. While receiving the best possible price was respondents’ first concern in a transaction, employee stability was a strong second. Indeed, the share of business owners who cite stability for their employees during a transaction as their top concern has increased almost five points over the past year, to 19 percent. A similar share (18 percent) reported that maintaining their company’s culture is a top concern.

“Our employees are our family and one of the most important pieces of the company,” one survey respondent says. “Employees helped build this company,” added another. “I will do everything in my power to secure their future. This is my duty and responsibility.”

This sentiment was no surprise to Wilkins. “We spend a lot of time helping our client companies address this,” he noted. “The sales process and list of prospective buyers need to be developed with the client’s objectives in mind. It’s also important to have a well-thought out communication plan and to get in front of the issue with employees.”

Mixed attitudes toward the Trump administration

The 2017 study was conducted following the first 100 days of the Donald Trump presidency. Half of the respondents believe the Trump administration will have a positive impact on their businesses, while 18 percent believe it would be negative, and 20 percent expressed uncertainty.
Business leaders described strikingly disparate early assessments of President Trump’s administration. Viewpoints ranged from “I like the business style of leadership in action,” and “There is a greater optimism in the market which is driving increased spending by our clients,” to “Uncertainty and constant chaos in Washington has negatively affected business.” Despite the spectrum of opinions, there was consistency in the issues that they believe need to be addressed. Tax reform was the top issue on the minds of business leaders, with 71 percent identifying it as an important issue for their businesses. Other top priorities identified included healthcare reform and infrastructure investment, with more than half of business leaders indicating these were key issues. Business leaders also reported that they sought reduced regulations (46 percent) and job creation (44 percent).

When it comes to policy, entrepreneurs are in the position of “trying to read between the lines,” Wilkins says. “They are trying to understand if anything going on in D.C. would have an impact on the equity markets or the valuations attached to their businesses.”

IN SUMMARY

Business leaders are optimistic about their companies and the economy, and companies appear to be primed for growth. This optimism is creating record levels of interest in M&A. Opportunities are strong, and business owners are in a position to leverage today’s M&A market to fuel expansion. “Business owners are right to stay focused on building their companies and not the short-term distractions that can fill front pages of the media. Mid- to long-term market fundamentals are healthy, and companies that continue to perform well are those that will be most equipped to leverage today’s robust M&A environment,” Wilkins advises.
A PULSE ON THE ECONOMY
Confidence in Business and Future M&A Activity

Survey finds business leaders are in full growth mode amid a wide spectrum of viewpoints about the administration in Washington.

A NEW ADMINISTRATION, A NEW PERSPECTIVE?

Just over 100 days into Trump’s presidency, here’s how respondents believed the new administration’s presidency would impact their business:

- **50%** Positive
- **20%** Unsure
- **18%** Negative
- **12%** No change

MONEY MATTERS MOST, BUT IT’S NOT EVERYTHING

When asked what matters most when considering a possible sale of their company, the #1 answer (39%) was “selling the company for the best possible price.” But employee welfare and company culture are increasingly important:

- **19%** Cited the stability of the company’s employees
- **18%** Cited maintaining company culture

M&A ACTIVITY IS TOP OF MIND

Over the next three years, 95% see themselves engaging in M&A:

- **65%** Will consider acquiring another company
- **52%** Will consider selling part or all of their company
- **36%** Will consider merging with another company

CONFIDENCE IS EXTREMELY HIGH ABOUT PROSPECTS FOR 2017

This study found that business leaders are decidedly optimistic when it comes to the prospects for their businesses in 2017:

- **76%** Optimistic or very optimistic
- **18%** Somewhat optimistic
- **6%** Not optimistic or not sure

TAX REFORM TOPS WISH LIST FOR FEDERAL ACTIONS

Here’s what respondents hope to see coming out of D.C.:

- **71%** Reforming tax policy
- **55%** Fixing or replacing the Affordable Care Act
- **52%** Investing in infrastructure
- **46%** Reducing regulatory hurdles

LOOKING FOR MORE INFORMATION?

Contact Harris Williams & Co. at info@harriscwilliams.com or by visiting www.harriscwilliams.com.