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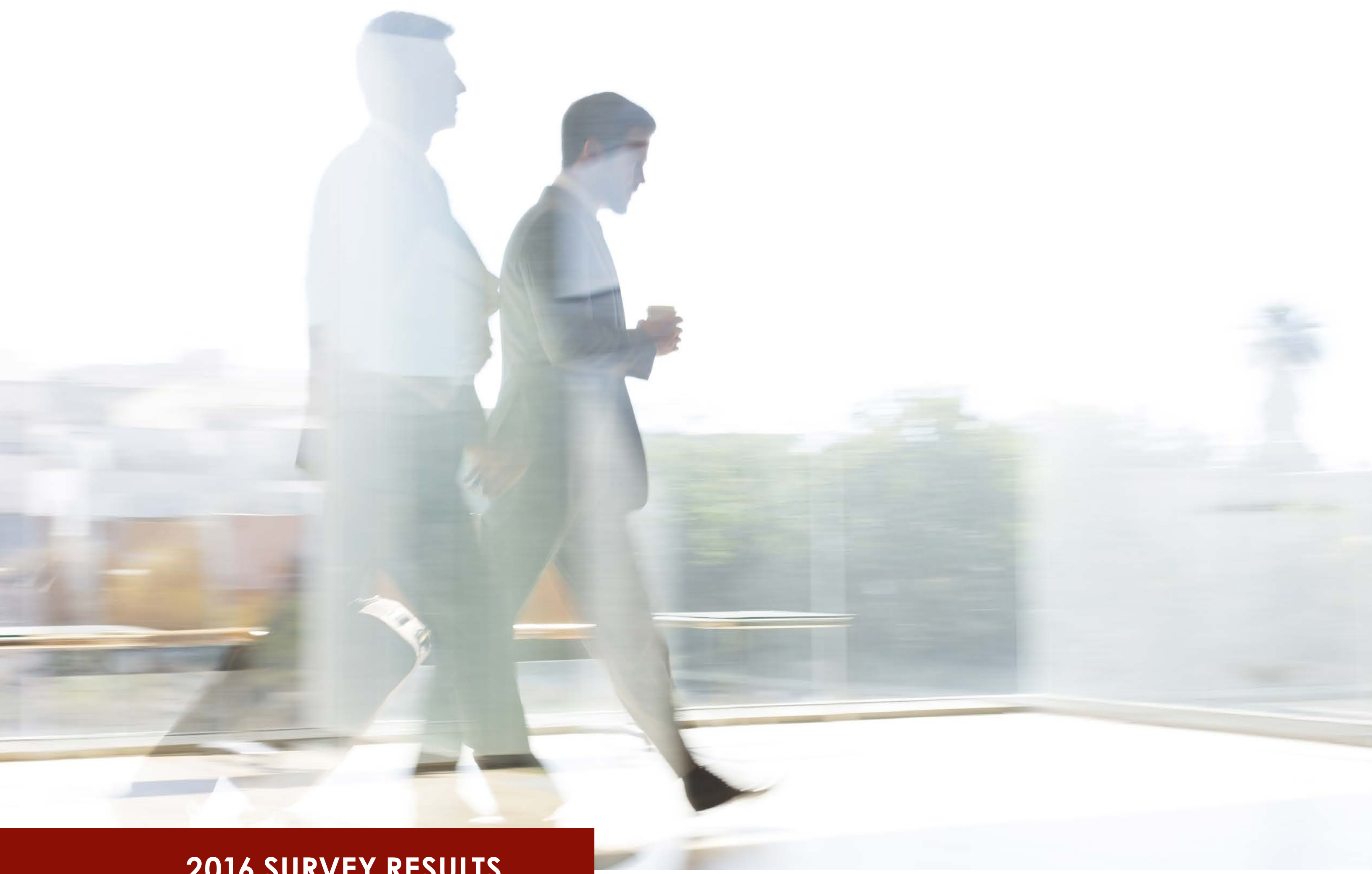

2016 SURVEY RESULTS

The Time is Right for M&A

Nearly 95 percent of business leaders are interested in M&A with a keen attention to timing.

INTRODUCTION

After a record year in 2015, the opportunity for M&A remains strong. Many business leaders are seeking to expand their companies by acquiring assets, and the appetite from private equity groups and corporate buyers to invest in growing businesses remains at an all-time high. Additionally, some business owners are looking for ways to realize the financial rewards of their hard work and investment during a period when valuations are at historically robust levels.

A successful M&A transaction hinges on many factors, but a highly influential and complex dimension is timing. How do business leaders know the optimal time to enter the market? How long should a company grow before it is sold or an owner takes on a new partner? When is the right time to engage an advisor? To better understand perceptions about the market and how timing and other success factors come into play during a sales process, Harris Williams & Co. partnered with Inc. to survey nearly 500 senior business leaders and executives of middle market companies, including those on the Inc. 5000 list. Business leaders across a wide range of industries were asked about their near-term M&A plans, their current sentiment toward the market, and to provide some peer-to-peer advice about future transactions.

The results revealed that a growing number of companies are seeking out M&A opportunities and that there is a keen attention to timing, both in terms of macroeconomic conditions, a company's internal readiness to sell, and when to consult advisors. Above all, business owners underscored the advantages that can be gained by exploring transaction options well in advance of actually going through a process.

Current sentiment toward M&A

Interest in M&A climbed significantly among middle market companies this year, and perceptions of the market are generally very positive. Nearly 95 percent of survey respondents said they are interested in a transaction in the next three years, up from nearly 81 percent last year. That interest increased across all transaction categories — which include selling, merging, and acquiring — though similar to last year, selling all or a portion of the company tops the list. The majority of respondents — 58 percent — see M&A conditions as "broadly healthy" or "relatively good," and very few (less than 3 percent) did not view the market as healthy.

The growing interest in M&A suggests that middle market business leaders are interested in taking advantage of macro-trends within the marketplace. "High quality companies are attracting high valuations," said John Neuner, a managing director at Harris Williams & Co. who participated on a panel about exit strategies at last year's Inc. 5000 conference.

The two dominant groups of buyers — private equity firms and large corporations, or strategics — are both well-positioned to acquire attractive assets. Private equity groups have approximately $540 billion in "dry powder," or available capital, to invest and showed a significant increase of roughly 30 percent in popularity among respondents as the preferred buyer type compared to the research conducted last year. Large corporations also have healthy balance sheets with ongoing pressure to supplement what is often tepid organic growth prospects with strategic M&A. In the U.S. alone, S&P 500 companies have approximately $1.5 trillion in aggregate cash on their balance sheets in addition to relatively easy access to inexpensive debt financing options. These factors have led to robust levels of M&A activity and suggest that deal flow will remain strong. "The imbalance between demand for high quality assets and the supply in the market means it's a great time for sellers to come to market, or at least to start thinking about it," said Neuner.

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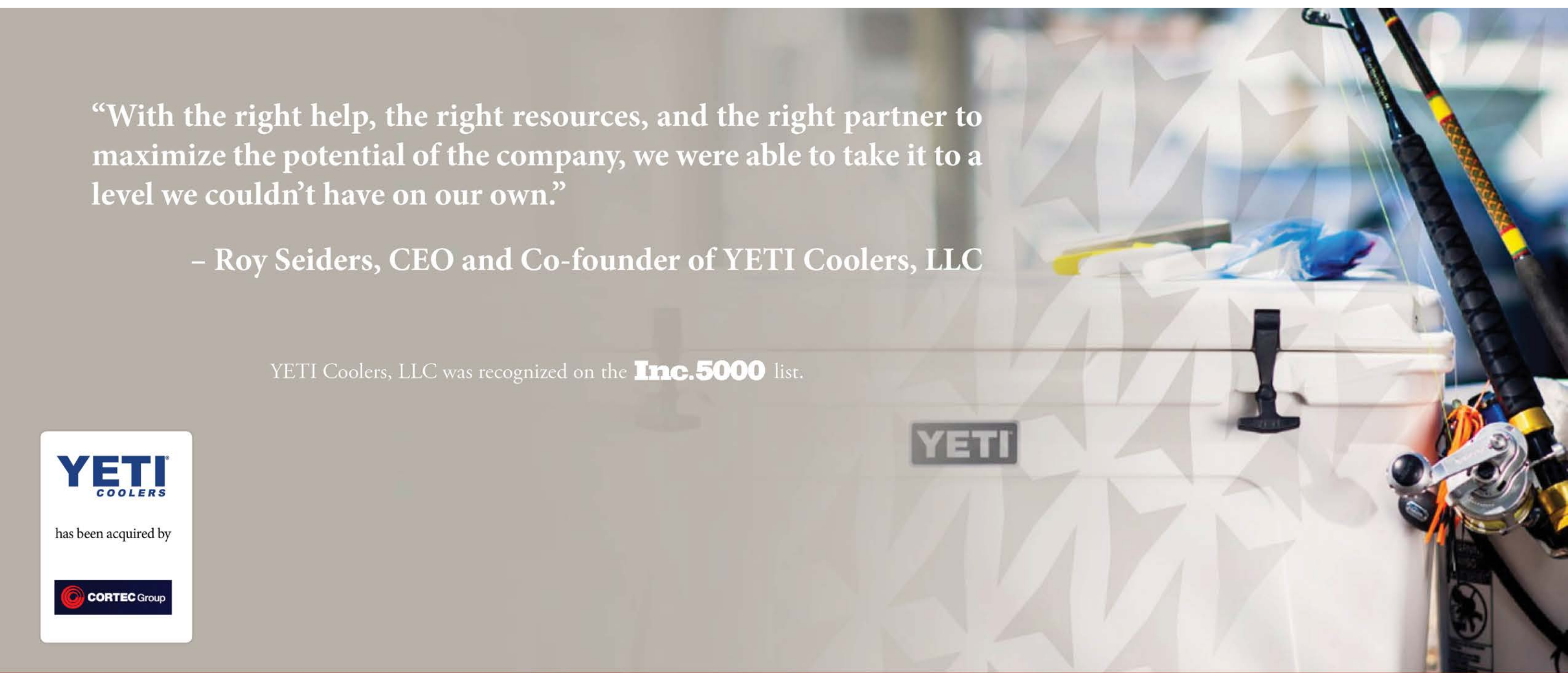
John Neuner,
Managing Director
Harris Williams & Co.



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What goes into the right timing?

It's clear that timing is an important factor in an M&A transaction, but what makes for good timing? The survey asked the 40 percent of business leaders who had previous M&A experience to share what they had learned along the way, and as it turns out, timing was the prevailing theme of their advice. Similarly, timing was a top consideration for the firms that had been approached unexpectedly by a potential buyer.

> Good timing is a balance of patience and speed.

Business leaders noted that one of the most important lessons from prior M&A transactions was to wait until the company achieved a certain level of internal readiness before going to market, even if that required patience. "Don't sell the company too early," wrote one; others advised potential sellers to "figure out the brand ahead of time," "make sure [company] data is set up and ready for buyers," and "start the internal financial analysis earlier."

Good timing also involved taking time to get to know potential buyers and weighing buyers carefully. "Good deals take time," counseled one respondent. "Don't eliminate alternatives too quickly," wrote another. In fact, when asked about their perceptions of the biggest potential roadblocks in a sales process, respondents commonly wrote in answers to the effect of "finding the right buyer" or "the right fit."

"The Harris Williams & Co. team was there for us at all times throughout this process making us feel like their only client. They were always thinking about the next thing and always making sure that our interests were number one. That was important to us."

- Scott Mandell, CEO of Enjoy Life Foods

Enjoy Life Foods was recognized on the Inc.5000 list.

Enjoy life has been acquired by Mondelēz International

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To address these types of timing concerns, business leaders often need to think about transactions long before they are ready to enter into them. They should also carefully weigh their vision for the business against their own personal desires to exit or move on. “Two years from now, a company can have a very different valuation than it does today,” said Neuner. While it’s important to avoid rushing into a deal, “you want to sell when the wind is still at your back. One of the biggest mistakes we see is waiting too long, until growth has flattened out. Another factor to consider is that the market is cyclical and you should take advantage of a positive M&A environment while you can.”

Thinking ahead about a company’s ideal timing to engage with buyers or investors can also help them filter inbound calls from interested parties. Seventy-two percent of respondents said they had been approached by an entity interested in buying their company, with over half saying they had been approached within the past year. “This is indicative of a broader market trend, where buyers are more apt to proactively reach out to attractive targets,” said Neuner.

Of the companies that chose not to sell to the preemptive buyer, more than 60 percent noted they ultimately spurned the interest because they believed the timing wasn’t right. This answer was by far the most popular, garnering nearly triple the response of options such as, “The buyer wasn’t the type of entity we wanted to sell to,” and “We thought we could get a better deal.”

More than 60 percent of companies that spurned preemptive buyers named timing as the leading reason.

Getting to know an M&A advisor and working with them well in advance of entering a transaction is also very beneficial to business leaders. “Hire the M&A [team] up front,” advised one respondent. “The more we get to know and understand the business ahead of time, the better partner we can be,” said Neuner. For example, “we can often help owners understand very quickly why 10 people have called them in the past two months — what’s happening from a market perspective and why their business has become more valuable. Additionally, we also can be helpful to owners who wish to understand what strategic investments by a company today will be viewed most favorably at the time of a sale.” Such conversations don’t necessarily lead to an immediate transaction, but can help lay the groundwork for a successful deal down the road. A good advisor will be able to assess a firm’s current and future business prospects, introduce business leaders to a wide variety of potential buyers, and help them move the process along at an appropriate pace.

While patience may be a virtue in preparing a company for sale, timing considerations can shift, and the need for urgency typically occurs after a seller has chosen a buyer. Several respondents cautioned, “Do your due diligence, but be sure to dedicate the time to move quickly.” After a buyer has expressed interest, lingering can be detrimental to a sales process. “Once you’ve made a decision to effect a transaction, time is not your friend,” said Neuner. “You want to move quickly to eliminate uncertainty and also to be able to communicate with employees, customers, and other stakeholders about the next phase.”

CONCLUSION

The significant rise of interest in M&A and the emphasis on timing indicate that business leaders believe that current market conditions positively support M&A transactions and that they have confidence in the strength of their businesses to take advantage of market opportunities.

With interest in M&A among middle market businesses up approximately 16 percent over last year, timing is clearly top of mind with today's business leaders. Effective planning is a multi-faceted equation that requires both patience and speed at different phases, and above all, is the product of advanced preparation. Engaging a trusted advisor early in the process will help business leaders understand and maximize their options. ■

THE STATE OF M&A:

Why the right time to sell might be right now

Harris Williams & Co. and *Inc.* surveyed nearly 500 business leaders about the state of mergers and acquisitions in the U.S. The results revealed strong interest in M&A and a healthy market – if you've been thinking of selling your business, now could be the right time.

THE M&A LANDSCAPE

Interest in M&A has increased by approximately 16% since last year.

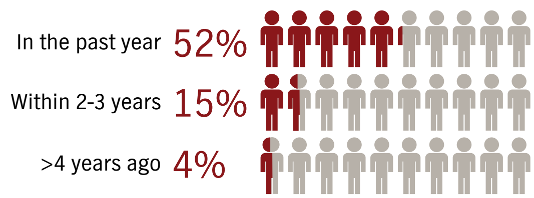
Business Leaders Interested in M&A Over the Next 3 Years

The majority of respondents feel that market conditions favor an M&A transaction.

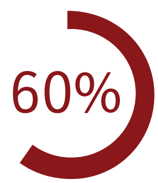
Percentage of Respondents Who Believe the M&A Market Is Healthy

TIMING IS KEY

72% of respondents have been approached by buyers.



When Respondents Were Approached by Buyers



chose not to sell because the timing wasn't right.

For Those Who Decided Not to Sell to the Preemptive Buyer, Timing Was a Key Factor

SEEKING OUTSIDE HELP

Identifying and engaging an advisor early in the M&A process was one of the main pieces of advice from those who had prior M&A experience.

- Why are buyers suddenly interested in my business?
- What is happening in the M&A marketplace?
- When is the right time to sell?
- What do I need to do to get ready?

An M&A advisor can help you understand the current market as well as provide guidance on how to add value to your business and prepare for a transaction.