

## **M&A Activity Survey Shows Dealmakers Increased Optimism**

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As a member of ACG (Association for Corporate Growth), we have access to this recent survey. We have underlined items of particular significance and relevance to our client partners. If you have any questions, please feel free to contact **Chris Crawford** @ [Crawford@ClearPathBA.com](mailto:Crawford@ClearPathBA.com) or 925-209-3045.

### Survey Summary:

After 18 months of pervasive gloom, dealmakers are increasingly more positive about the M&A environment, according to the twice yearly ACG-Thomson Reuters DealMakers Survey.

The latest survey results reveal a brighter sentiment about the dealmaking environment. While the last three surveys were consistently dreary, with more than 80% of dealmakers reporting a fair to poor M&A environment, the most recent survey reports that 85% of dealmakers expect an increase in M&A activity in the next six months. A year ago, only 56% predicted an increase.

The survey reflects responses from nearly 700 investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in March and April 2010.

Here are a few highlights:

- Eighty percent of survey respondents identified the current environment as a buyer's market. 97% of corporate professionals expect strategic investments to accelerate in 2010.
- The greatest drag on M&A activity today is sellers unwilling to sell at multiples offered, according to 38% of dealmakers. This is followed by the credit crunch, which has steadily decreased in importance as the biggest obstacle to M&A activity (27% today vs. 29% at year-end 2009, 33% one year ago and 43% 18 months ago.)
- Thirty percent of private equity executives say that this year they expect the majority of their portfolio companies to experience job growth.
- In the past 12 months, 35% of private equity firms say they have marked down their portfolio company values, 43% have held values steady, and 22% have marked them up.

- Portfolio companies are showing signs of improvement. Seventy-four percent are performing above their prior year EBITDA, while 26% are performing below last year's EBITDA.
- “An increasing number of business owners, who have the desire to sell but have held back for the last couple of years until the value of their companies rebounded, are again thinking of selling their businesses, especially if they can do so this year before tax rates potentially increase,” said Katherine Morris, Managing Director, Tax Partner at Morris Consulting, Inc., and Chair of the ACG External Relations Committee.
- According to Thomson Reuters, the volume of all worldwide mergers and acquisitions totaled \$573.3 billion during the first quarter of 2010, a 21% increase over the first quarter of 2009.

Dealmakers expect the following sectors to experience the most merger activity in the second half of 2010:

- Healthcare/Life Sciences (20%)
- Manufacturing and Distribution (20%)
- Financial Services (13%)
- Technology (12%)

They expect the following sectors to experience the most organic growth:

- Healthcare/Life Sciences (25%)
- Government-related (15%)
- Business Services (13%)
- Technology (13%)

Private equity professionals the best strategies for portfolio company success are:

- Cut costs (59%)
- Focus more on marketing (44%)
- Diversify by industry (25%)

Private equity executives say that this year they expect the majority of their portfolio companies to experience:

- Job growth (30%)
- Job cuts (7%)
- Same staffing levels (63%)

“Private equity firms will continue to focus on their portfolio companies and limited partners, but with portfolio performance stabilizing or improving, private equity firms are increasing their efforts on growth strategies such as add on acquisitions, platform deal sourcing, and marketing,” said Michael Carr, ACG 2010-2011 Chairman and Managing Partner, BAC Investments.

Industries that present the best opportunities for buyouts are:

- Business Services (32%)
- Healthcare/Life Sciences (19%)
- Manufacturing and Distribution (15%)

Industries that present the best opportunities for distressed investing are:

- Manufacturing and Distribution (41%)
- Financial Services (17%)
- Real Estate (15%)

“As the economy improves, the business services sector is expected to gear up quickly to help companies grow, while real estate, finance and manufacturing present good opportunities for distressed investing,” said Jim Beecher, publisher of *Buyouts*, a Thomson Reuters publication. “With corporate balance sheets improving, we could see a vibrant exit market for PE firms emerge later this year and into 2011.”

### **Private Equity Professionals Forecast Increasing Leverage Levels**

Private equity professionals are optimistic that the debt markets will continue to rebound, with 73% saying they will improve over the next six months, 22% saying they will remain the same and only 5% saying they will worsen.

Respondents say the maximum leverage level in today’s environment is:

- 1-2x (14%)
- 2-2.5x (38%)
- 2.5-3x (32%)
- 3-3.5x (12%)
- More than 3.5x (4%)

Most private equity professionals (52%) expect leverage levels to increase in the next six months, but at the same time, more than half (55%) expect to invest 40% or more equity in companies in the next six months.

A complete report on the survey results may be viewed [here](#).

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