

M&A Market Update[®]

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The McLean Group is a national, middle market investment bank serving businesses generating up to \$500 million in annual revenue. For more information, visit www.mcleanllc.com.

Feature Article:

Key Factors Driving 21st Century M&A

By Dennis Roberts, Chairman

Mergers and acquisitions of the 21st century are being driven by significant industry changes that are rapidly transforming the M&A landscape. Three dominant factors stimulating growth are: the imminent tidal wave of retiring Baby Boomer business owners, the Information Age's perpetual evolution, and the foreseeable curtailing of government spending. These changes will dramatically affect M&A in the next 10 years. Buyers and sellers should prepare to take advantage of the fruitful, yet surely competitive, forthcoming M&A environment.

From 2011 to 2019, 67% of middle market business owners will be reaching retirement age. More than 800,000 middle market businesses collectively valued at \$3.3 trillion will be sold or otherwise disposed of through 2029; that's an average

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Expert's Corner:

The Importance of an Acquisition Search Team

By Zane Markowitz, Senior Managing Director

Every buy-side company seeking an acquisition should have a team of executives and internal staff, with each team member playing a designated role to push the deal forward, negotiate and revise engagement terms. This team must be driven by a leader who is willing and able to be the chief as well as the whipping boy. Above all, the acquisition program leader must have the trust and support of top management and the Board.

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of 43,000 middle market businesses annually. In order to compete effectively among the other 799,999 businesses, for-sale prospective sellers - with the help of their M&A advisors - should devise their exit strategies well in advance.

Shifts in government spending also will alter the M&A landscape. In the Greater Washington, DC metropolitan area, where government contracting has been a key driver for more than a decade, growth by acquisition likely will increase if government spending is cut. And government spending must be cut if we are to avoid 80% income tax rates at some point in the (very near) future.

Industry studies and professional experience indicate that 60% of most buy-side business growth is attributable to acquisition and 40% to organic growth. However, as prospects for organic growth generated by new or increased government spending decline, growth by acquisition will become the new normal, creating a wealth of M&A transaction opportunities.

Technological advancements continue to accelerate, driving businesses' imperative to constantly evolve to avoid disruption and obsolescence. This, too, will contribute to the perpetual, growing need for M&A going forward. Firms that fail to upgrade technologically (and continuously) – whether through internal innovation or active M&A initiatives – will not deliver the cutting-edge solutions demanded by their own rapidly-evolving markets. Inevitably, they will be overtaken by competitors, and eventually fail.

Whether caused by Baby Boomers exiting to retirement, technological advancement and transformation, a decline in government spending, the rapidly-accelerating trend toward a

single economic world-order, or the estimated \$465 billion in new Private Equity Capital seeking business acquisitions, there undoubtedly will be a rise in M&A activity within the next decade that will drive the industry for years to come.

In light of the impending surge of M&A, buyers and sellers alike should consult a reputable and experienced investment banker. There is too much to be gained for business owners to risk “winging it.”

Far too often, business owners wrongly assume that the sale or purchase of a business is just like any other negotiation they previously have taken part in. Trust me: it isn't. But given the mistaken belief that it is, business owners often decide to lead their sell-side M&A transaction by themselves. The resulting transaction proves quite costly to those “do-it-yourself, first-time M&A” business owners. Why? Because they often overlook the fact that the value of a transaction involves far more than just the price they might negotiate for their business. The terms of a given transaction often cause first-time sellers to leave huge sums of money on the table (or cause first-time buyers to significantly overpay for their acquisitions). Misunderstanding or misapplying balance sheet, working capital and tax strategies (among many other deal elements) can make a reported \$30MM transaction worth far less than a professionally-intermediated \$20MM deal. Studies published over the past 35 years repeatedly demonstrate that such aforementioned over-inflated purchase prices have caused roughly 70% of buy-side acquisitions to fail to achieve their objectives primarily due to an over-estimation of “synergies.”

The enormous potential for such errors, and their catastrophic implications, is likely to

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increase significantly in coming years. However, such errors easily can be avoided by enlisting the skill and knowledge of a professional M&A advisor who has extensive industry experience along with a mastery of the art and science of M&A. For most middle market business owners, the sale of the company will be among the most significant financial transactions of a lifetime, and far too important to accept the many risks implicit in going-it-alone as a first-time seller. ♦

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The acquisition program leader needs to have the ability to find compatible acquisitions—not just convenient financial deals. Increasing deal flow, or the number of candidates considered as potential acquisition targets in industries of interest, is one way to ensure that a buyer will acquire a compatible seller who will strategically grow the business. Acquisition teams may have to research and identify as many as 100 companies before finding a good acquisition and



leaders must be prepared to meet multiple times with roughly 10 to 15 different prospects before finding the perfect match.

Additionally, the team should include a review committee that has the flexibility to meet as often as twice a month. During these meetings, members of the committee will:

- Review new acquisition prospect submissions
- Review the status of ongoing negotiations
- Review and revise acquisition program criteria and direction, and
- Review odds on closing a transaction by a previously determined date.

The third and final component of the acquisition search team is the negotiation division. This division consists of carefully chosen M&A savvy accountants and attorneys. The team leader will rely heavily on their advice and assistance during what are sometimes tense, final negotiations.

Good acquisition teams are well-scripted and avoid opportunistic acquisitions of poorly-suited companies simply because they are on the market. Acquisition teams should approach and screen companies in relevant industries on a systematic basis. Thus, it is important to actively seek out well-suited companies before the competition identifies and acquires them. In short, the acquisition team should control the acquisition process rather than allow the acquisition process to control the team. ♦

Our Locations:

Washington, DC (Headquarters)	703-827-0200
Anchorage, AK	907-277-3725
Asheville, NC	828-606-1101
Atlanta, GA	678-461-0775
Austin, TX	512-687-3485
Baltimore, MD	410-347-3818
Boston, MA	978-475-2511
Bozeman, MT	406-586-9746
Buffalo, NY	716-539-5546
Chicago, IL	312-994-2550
Cleveland, OH	440-484-1060
Dallas, TX	214-705-1112
Erie, PA	814-397-7737
Hartford, CT	860-255-0107
Halifax, Nova Scotia	902-832-2774
Hattiesburg, MS	601-671-4098
Houston, TX	713-988-8000
Lafayette, LA	337-365-3979
Miami, FL	305-804-6181
Milwaukee, WI	262-646-6490
Phoenix, AZ	602-549-9946
Reno, NV	775-825-7637
Sacramento, CA	916-929-0900
San Diego, CA	858-245-0003
San Francisco	510-444-6195
Silicon Valley, CA	650-638-2310
St. Louis, MO	314-307-1090
Tulsa, OK	918-492-3388
Tallahassee, FL	904-219-5750
Tampa, FL	559-289-7878

About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. The McLean Group serves businesses generating up to \$500 million in annual revenues. Headquartered in Northern Virginia's technology, communications and government contracting corridor, the firm is among the largest independent middle market investment banks in the Washington, DC area. The McLean Group is a FINRA Registered Broker/Dealer and Member FINRA/SIPC.

- **M&A:** The McLean Group leverages its considerable expertise across a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Capital Formation:** The McLean Group arranges private equity, venture capital, senior debt and subordinated debt in amounts ranging from \$5 million to \$250 million to support clients' expansions, M&A, refinancings, recapitalizations, leveraged buyouts and shareholder liquidity objectives.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, that provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.
- **Litigation Support:** From quantifying economic damages to valuing a minority interest in a business, the firm has the business valuation experience and credentials to support cases involving a variety of legal issues.
- **Exit Planning Services:** Based on its extensive experience advising owners of middle market businesses, The McLean Group has developed a proprietary process that analyzes more than 60 value/risk drivers that have a significant impact on the value of a business.

