

## NOTEBOOK: Why aren't there more sellers in the M&A market?

Sellers are relatively scarce in the mergers and acquisitions market right now, and that's causing the firms that are buying to become more aggressive in their tactics as they pursue deals, say regional M&A advisers.

That was one of my takeaways from last week's 2016 M&A conference in Des Moines hosted by the Faegre Baker Daniels law firm. About 220 finance professionals from a variety of industries gathered last week at the downtown Marriott to hear about the latest trends in mergers and acquisitions.

I sat in on a lunchtime panel made up of four Midwest M&A experts, among them Adam Claypool, managing principal of Bridgepoint Merchant Banking, and Tom Cavanaugh, a shareholder with BCC Advisers, both based in Des Moines. They were joined by Kyle Crowe, a managing director with Greene Holcomb Fisher in Minneapolis, and Rob Biodrowski, a financial adviser with Wells Fargo Securities in Chicago. Moderating the panel was Bruce Engler, who leads Faegre Baker Daniels' M&A practice in Minneapolis.

Last year "was definitely a high-water mark for M&A deals," said Crowe, who said he doesn't expect that many level of deals to reach that high this year. In 2015 there were more than 12,300 deals completed for U.S. middle-market firms (with deals valued between \$1 million and \$50 million), up from just under 11,400 in 2014, "These are incredible times for M&A activity," he said. "It's been a strong market for the past five to six years."

Nationally, the majority of acquisitions being completed – about 80 percent – are by strategic buyers versus 20 percent being acquisitions by private equity firms.

Biodrowski noted that when viewed on an industry-by-industry basis, valuation levels of deals have continued to reach new highs within many industry segments.

Crowe said a contributing driver of high valuations is "private equity overhang," which sounds like a problem you'd work on by going to the gym. Actually, that term refers to the amount of "dry powder" in private equity capital that's out there looking for deals – more than \$543 billion – which translates to an estimated \$1.5 trillion to \$2 trillion in buying power, he said.

Looking at Midwest M&A data, the Bridgepoint Midwest M&A Index decreased 14.5 percent from the first quarter of 2016 to the second quarter, its lowest level since 2009. On a year-over-year basis, the index decreased 18 percent, continuing the declining trend in Midwest M&A transactions over the past four years, Claypool said.

The median M&A deal by transaction size increased to \$36 billion in the second quarter of 2016, a five-year high, Claypool said. Despite a 15.6 percent increase in transactions in the second quarter, Midwest deal volume was at its lowest point since the second quarter of 2012.

"Midwest buyers continue to outpace Midwest sellers, a trend we've seen since 2014," Claypool said.

So why aren't more companies coming on the market to sell?

Biodrowski's take was that many companies have decided they're better off continuing to incur the business risks of operating, rather than paying half the sale proceeds in federal taxes and then investing the the rest at mediocre U.S. Treasury rates.

"There really needs to be a premium paid for some of these business owners to take their chips off the table," Cavanaugh said. "But if I had a problem of where to put a half-billion dollars, I'd take that problem; it's a high-class problem."

Overall, more buyers are being offered "fireside chats" with prospective suitors to shorten the sale process, and more buyers are making pre-emptive cash offers, the panelists said.

Engler said he believes the transition of business ownership will be increasingly delayed as people are tending to live longer and healthier lives and are delaying retirement. "And I think that technology is helping that trend. You can spend six or seven months in Florida every year and still be plugged in," he said.

Interestingly, the panelists agreed that that they don't see a threat to the healthy M&A market from the upcoming presidential election, regardless of which of the two unpopular candidates wins.