The Impact of a Market Peak & the Need for Collaboration

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During a recent Mid-Market Alliance Collaboration Committee call planning a session for the upcoming Winter conference, we talked about market dynamics. Had the market reached its peak in terms of the volume and in multiples? Many of us felt that we were indeed starting to see signs of cooling.

Price ranges are compressing. Previously, private equity funds competing for a potential target saw a wide range of prices from high to low – sometimes with a several turn spread. Prices now are coming closer together and the aggressive multiples are less common.

The time from Letter of Intent to deal close is lengthening. Earlier in the year, deals were closing in 60 to 90 days. Now, it is more like four to six months potentially before the deal closed. Banks and other financing sources are giving even more scrutiny over deals and taking are their time.

We've been talking for a while about how the Baby Boomers are going to create this tsunami of businesses coming on the market all at once. It was going to be a great boon for the AM&AA ecosystem. There's truth to both points but it's coming about slower than many, many of the prognosticators believed - for good reasons. The Great Recession set everybody back on their heels, delaying retirements and investments. Secondly, Boomers are redefining what retirement looks like. Many business owners are holding on and remaining active in their businesses well beyond that magical age of 65. Rather than age defining an exit timetable, it's more likely a crisis that forces the business owner into a sale situation. Nonetheless, it's possible that the backlog of businesses that we've been waiting to come to market may arrive just as the current market cools.

What does a cooling market mean for us as an M&A community and ecosystem? What does it mean for the business owner as they are looking to plan their exit in the next few years?

As an ecosystem, transactions will continue. Dry powder will still seek out the prince of companies. There will, however, be more frogs to kiss. A lot more. This will demand more time vetting the frogs and potentially longer gaps between the princely opportunities.

On the business owner side, there will be more demand for education and support as they want to exit, along with more frustration. Most owners do not understand the dynamics of the M&A market. They are ill-prepared for the discipline sophisticated buyers use to evaluate an acquisition let alone comprehend what drives value in their business and what buyers will pay for businesses that do not resemble frogs. As the market cools and shifts from a sellers' market to a buyers' market, buyers will continue to be highly selective over their deals. For the business owner, this puts more pressure on them to make sure that they are worthy to be the crown-adorned prince.

This situation presents a clear opportunity for collaboration throughout the AM&AA ecosystem. It's even more important that investors, financing partners, value growth advisers, CPAs, investment bankers, wealth advisers, attorneys and other advisers collaborate around and with the business owner. We are in the best position to educate owners on what drives value in their company. We have relationships to connect them to the specialty experts that can objectively and independently educate them on how to better position their company and be attractive to the next investor. We can open their thinking to the variety of options available to them for obtaining liquidity out of their business.

For example, historically business owners thought they had just one of just a few options – family, employees or outsiders. Unless it was a family succession, it was often thought to be an all-or-nothing 100% sale transaction at a single point in time. The market has creatively evolved to offer many more options from minority recapitalizations to majority recaps to 100% recapitalizations, seller financed internal successions and so on. They have options. We have the tools to help them learn about them, prepare and choose the path that makes the most sense for them and their families.

It's our job, as a collaborative community, to educate business owners and do it in such a way that they feel they can be open to the different possibilities. Fundamentally this means that we must earn the business owners' trust. We must demonstrate that we want to help them and that we're not just trying to make a sale. To effectively do that, we need make introductions to and participate with AM&AA colleagues. Value Growth advisors need to build connections with investment bankers so they know which players align best with the business owners' industry, culture, and objectives. Private equity groups will forge deeper relationships with investment bankers for deals and divestitures along with value growth advisors to accelerate the achievement of their return. Other advisors join the conversation at varying stages of preparation, deal-making and post-exit.

This means deepening the trust amongst ourselves as an ecosystem and between advisers. As we get to know each other, we build confidence that we're not going to poach each other's clients or cause their clients to take a different path. There's appreciation each other's competence and that our styles are compatible. We are working together to make it a win-win-win.

Business owners are going to need more help than ever as the market cools. The question is whether we, as an ecosystem, will come together to create that win-win-win.

What are you seeing in the market? What are your thoughts? Join the dialogue.

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