

M&A Outlook: Experts Predict Strong 2005

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2004 Recap

After reaching record levels in 2000, M&A activity declined precipitously in 2001 and 2002, and then experienced a modest rebound in 2003, which continued and accelerated in 2004. Strategic buyers finally returned to the M&A market after spending several years on the sidelines. The appetite of private equity firms, with over \$100 billion in available capital, remained strong. All of this demand translated into rising valuations, which resulted in an influx of sellers to the markets.

In the U.S., the number of mergers and acquisitions announcements rose 14.8% to 9,964 in 2004 and spending on deals shot up 43.7% to U.S.\$777 billion, according to the latest statistics from FactSet Mergerstat, a leading provider of global mergers and acquisitions information. It was the best overall performance for U.S. M&A since the record-breaking market of 2000. Private company transactions also provided a major lift to M&A deal flow. The number of private company announcements in the U.S. climbed 24.4% to 5,109 in 2004.

Much of the boon in deal flow for large deals and private company transactions was the result of dealmakers having greater access to financing. Throughout 2004, leverage multiples steadily increased, as bankers were more willing to provide acquisition financing than they had been during much of the 2001-2003 period. Also aiding dealmakers in their pursuit of transactions was the fact that the lending environment became extremely competitive due to an enormous amount of liquidity in the capital markets at all levels, including greater access to high yield debt financing.

Competition may also be responsible for boosting the activity of another key segment of the M&A market: strategic buyers. Prior to 2004, many strategic buyers were too pre-occupied with internal matters to focus on acquisitions. As the competitive pressures in their respective industries have grown and shareholders have turned their attention to growth and capturing market share, strategic buyers have refocused their attention on the M&A market. That fact is

evident from a recent FactSet Mergerstat study, in which the number of M&A transactions announced by S&P 500 companies in 2004 rose 2.8% to 913 and the total dollars spent by these companies on their transactions increased 31% to U.S. \$355.8 billion. It was the first time in four years that year-over-year acquisition activity grew for this key strategic buyer group.

And finally, it was a record year for private equity investors according to Fact Flashwire, a weekly trade publication that tracks M&A activities nationwide. They spent an unprecedented \$91.1 billion on 1,387 U.S.-based targets in 2004.

2005 Outlook

Dealmakers are confident that global merger and acquisition activity will continue and even improve in 2005, according to a survey by the Association for Corporate Growth and Thomson Financial. Seventy-two percent of the 1,803 dealmakers polled in November said the current environment is good or excellent. This view compares with just 45 percent the previous year. Also, 87 percent of those surveyed - which included investment bankers, corporate development officers, private equity professionals, lenders and lawyers - think the M&A environment will improve. According to the survey, only 2% of respondents characterize the current M&A environment as poor, compared to 8% last year. The sectors expected to see the most M&A activity are technology, manufacturing and distribution, and health care and life sciences, according to the survey.

Behind the continued growth: A robust economy and soaring corporate profits have boosted stock prices and cash. Other factors are at play, too. The weak dollar makes U.S. assets more inviting to foreigners. Stricter governance standards are forcing poorly performing CEOs and boards to entertain unwanted offers. And in a repeat of the 1990s, deals are spawning more deals as companies scramble to keep up in consolidating industries.

While it's a good bet that at least some acquirers will overpay or make bad choices, few are holding back. Some investment bankers say the new deals will fare better than past ones because acquirers are paying smaller premiums. Managers and boards, under closer scrutiny, are less likely to overpay in the wake of late-'90s deals that flamed out.

In such a dynamic and turbulent environment, it's critical that both buyers and sellers seek professional advice to help them develop and execute their M&A strategy.

New Opportunities

<p>Business For Sale - <i>Niche Manufacturer/Distributor</i> - supplies a non-lethal defense spray to the law enforcement market. Significant Intellectual Property. Revenue of \$1.5 - \$2.0 million, very profitable. Operates with a just a few employees. Relocatable.</p>

<p>Business For Sale - <i>Ambulatory Anesthesiologist Practice</i> - services provided to Ambulatory Surgical Centers (ASCs). The company has grown rapidly in part due to the dramatic growth in ASCs in recent years. Revenue of \$5 million and \$2 million in EBIT.</p>
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<p>Business For Sale - <i>Building Maintenance Company</i> - janitorial and specialty services, based in the Mid-Atlantic. Revenue of \$20 million and \$2 million in EBIT.</p>
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<p>Growth Capital Investment - <i>Private Equity Firm</i> seeks "non-control" investments in Maryland-based companies requiring capital to realize their growth potential.</p>
