

# Merger and Acquisition Money Bountiful For Those Who Look; Survey Shows How

*Global M&A Group Reports Robust '98; Local Member Sees More Money Than Worthy Deals, which Can Favor Sellers*

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Cash is readily available for merger and acquisition deals especially from financial buyers who are putting together mega-funds to go out and buy companies, according to a study released by an international group of m&a professionals.

The International Merger & Acquisition Professional Transaction Survey showed that, during 1998, the group's members completed the sale or acquisition of 143 companies with a total value of \$1.68 billion in the United States alone. In the international market, members in Europe and South Africa completed 289 transactions for \$1.42 billion.

The survey reveals "industrial consolidations and roll-ups are dominating the market, with acquisitions activity more industry-specific, said Paul Reamer, president of Executive Sounding Board Ltd., of Baltimore, one of the founding members of IMAP.

The numbers also show the results of "a strong stock market and "a lot of cash out there for transactions," he said.

## **Homeless cash?**

Financial buyers - those who develop funds for the acquisition of companies - ate emerging as one of the strongest segments influencing the m&a market, he said.

In fact, Reamer said, many of these fund managers don't know what to do with all the money directed their way by investors looking for growth.

"People are throwing money at some fund managers who don't want to take on more money than they can find deals," he said. "No investor wants his money sitting in a bank making ~ percent. So often fund managers have to cut off new money.

"If you look around, there is enough money in these funds to last a long time," he said.

"There's more cash than there are good deals," he said.

Is this an enviable position? "It is only if you have a good company to sell," he said.

The survey participants agreed, with 66 percent indicating the market for selling a company was better in

1998 than in 1997.

Last year, the financial buyer represented only 18 percent of those plunking down cash for a company. The strategic buyer, the one adding a company to fill in a niche horizontally, represented 54 percent of the transactions, while the synergistic buyer; one who buys a company much like the ones he already owns, accounted for 28 percent of the deals,

The average equity these buyers were putting up was 35 percent to 40 percent, Reamer said. "That's more substantial than when buyers used to put in zero percent. The buyer is putting in equity, not borrowed funds."

This segment was led by operating companies, 38 percent; and followed by investor groups at 36 percent and individuals at 26 percent.

Breaking out the U.S. deals by size of companies, Reamer reported 16 transactions under \$1 million; 77 transactions of \$1 million to \$10 million and 50 transactions over \$10 million.

While middle-sized companies represented the greatest percentage of the deals at 54 percent, the under \$1 million and over \$10 million accounted for the greatest leaps with the smaller dealers doubling from eight to 16 between 1997 and 1998, and the larger transactions jumping from 21 to 50.

Reamer said companies are able to enter the m&a arena more easily now because of the bank financing that has been available since 1994. Prior to that, banks usually required buyers to have their own line of credit.

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### **Shifting ratios**

Reamer remembers back to the 1970s when the bubble burst after a buying spree when acquirers were borrowing more than they were paying for the company. "A very high equity share makes the company more stable. It's actually the banks that are requiring people to put more money into the deal" he said.

Buyers also were broken out into types of buyers, including individual, investor group and operating company.

### **Seller option**

Fewer sellers are holding notes for the buyer, a decline to 32 percent last year from 43 percent in 1997 and a high of 79 percent in 1993. But Reamer said sellers' notes shouldn't be discounted as a financing arrangement, especially in the smaller deals.

A majority of the IMAP members, 39 percent, decided lenders had not changed their attitudes since 1997, although 33 percent did find lenders more generous and 28 percent found them less generous. There was a giant leap in 1997, however, when 82 percent of the respondents reported lenders more

generous and only 18 percent said they were less willing to part with their money.

Reamer also noted that the increase in the use of earn-outs is "very telling." Thirty-seven percent of the transactions, a jump from 24 percent in 1997, involved earn-outs in which the buyer agrees to pay one price, but will double or triple it if earnings predictions hold for the next year or two after the acquisition.

If anything surprised Reamer, it was the median age of sellers - 54 years. That was slightly older than the 50 years reported in 1997.

"It's not big enough to make a statistical difference," he said. "But we're in a society where everyone is working toward self-satisfaction very quickly, so I think many owners are selling earlier. When we started out, however, the sellers were closer to 70 years old"

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