

M&A activity to remain strong through rest of 2010

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The merger and acquisition market has seen a steady uptick across the country this year, and Milwaukee M&A experts say that if the economy remains stable, the rest of 2010 should show similar if not more robust activity.

“The first half of the year was extremely busy for M&A activity,” said Howard Lanser, director of mergers and acquisitions at Milwaukee-based Robert W. Baird & Co’s Chicago office.

“Dependent on the financing markets and the state of the economy, it’s looking like it is going to be a very good 2010.”

According to the most recent industry statistics gathered by Baird, there have been 5,833 deals completed in the United States since January, 2,825 of those were middle market deals and 552 of those were middle market deals conducted in June.

During May, 489 middle-market transactions were completed in the nation, according to the Baird report.

“Month over month the increase in the amount of deals being done has been extremely high in comparison to last year,” Lanser said. “That being said, last year’s numbers were uncharacteristically low because of the economy.”

Increased stability within the financing markets and the relative stability of the economy are driving the M&A markets this year, Lanser said.

“During 2009 there was little to no financing activity, it was virtually non-existent,” he said. “The liquidity is back in the middle market so we should see a significant surge in activity.”

Activity remained strong during the first six months of 2010, but dipped a little near the end of May as talk of the debt crisis in Europe created panic of a double dip recession here in the U.S., Lanser said.

“That doesn’t mean that M&A activity stopped completely, but most probably took a step back and delayed the closing of their deals,” he said. “It took a few weeks to digest, but now that there is some feeling of stability we should see more of those deals starting to come through during the second half of the year.”

Ron Miller, managing director at Milwaukee-based Cleary Gull Inc., said his firm is much busier this year and expects to be even busier next year.

“The M&A markets have clearly improved over last year,” Miller said. “And lending has definitely returned to a more responsible level.”

Doug Marconnet, managing director of Waukesha-based Mertz Associates Inc., has started to see an increase in interest from strategic buyers who are proactively going out and looking to make acquisitions.

“The deals that have been getting done haven’t been that reliant on financing,” Marconnet said. “That might be part of why they are getting done. Most involve cash buyers and some earn out. If a buyer doesn’t have a strong balance sheet it is still difficult for them to make acquisitions.”

Corner Stone Business Services Inc. closed three deals in June, but Scott Bushkie, president of the firm, agreed that very few deals have been done in the traditional way with 20 percent down payment and 80 percent financing.

“Sellers and buyers both have stepped up to take on more risk,” Bushkie said. “Buyers have been forced to put in more equity, and no money down is not in the cards right now.”

But Miller disagreed, saying that while the financial lending market is not at the level it was when it peaked in 2007, it has improved significantly this year.

“One of the most notable changes in the market has really been the return of the commercial banks,” Miller said. “The market is not as robust as it was at the peak but almost every mid-tier bank is looking to grow its loan portfolio, and the debt markets were one of the main reasons why the market stalled last year.

“Some buyers will still try to compete with cash, but they tend to bid lower and are often less successful. Our firm isn’t particularly concerned about financing contingencies. We don’t see that being a problem anymore. A year ago that was far more important.”

Buyers are continuing to grow their appetite, and the supply of businesses for sale is continuing to improve with the stability of the economic cycle, the demographics of aging entrepreneurs and the age of the private equity portfolios.

“There is an incredible pent up demand,” said Miller. “Strategic buyers have record amounts of cash on their balance sheets and private equity firms have capital to invest and are looking for transactions as well.”

The M&A outlook for most industries is positive, according to Miller, and there is an impetus to complete transactions before a capital gains tax increase is implemented on January 1, he said.

“For many sellers who have emerged from the downturn it makes more sense to sell now,” Bushkie said. “Selling a business is going to become more expensive, so it’s time to start looking at selling now to try to beat the capital gains increase and net the most money.”

Mertz Associates has had a successful first six months, and expects the second half of the year to remain steady, but Marconnet said he doesn’t expect to see a rush of sellers in the second half of the year.

“It’s getting a little late in the year to start a process if you want to sell by year’s end,” he said. “A lot of businesses I think will take advantage of the stable economy and try to increase their overall revenues before trying to sell now.”