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M&A DEAL UPDATE

August 2019

M&A SCORECARD REPORT

Business Owner Resources

You and your business are at a crossroads: where will you go next?

Webinar

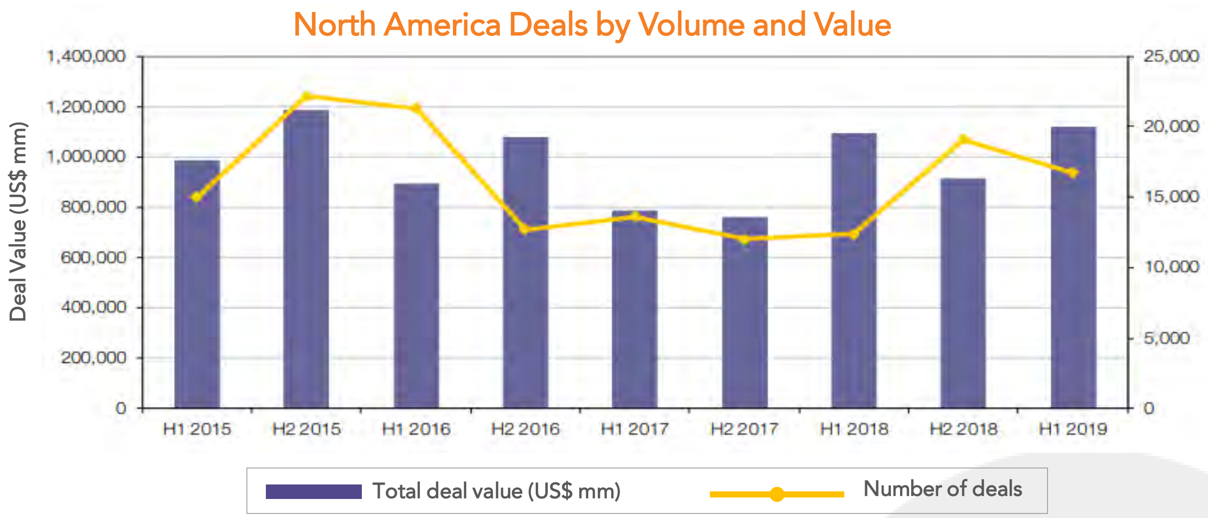
Industry Consolidation: Timing is Everything

Looking Ahead: Middle Market Trends for H2 2019

Market Insights

M&A Scorecard: Ample liquidity fuels robust overall environment in 2019

Propelled by increased economic confidence due to the recent strong stock market performance, coupled with low financing costs, M&A deal making in North America remained healthy during the first half of 2019, reaching its highest value and one of its highest volumes since H2 2015. According to Bureau Van Dijk's *Global M&A Review H1 2019*, 16,742 transactions totaling $1.1 trillion (up 22% from H2 2018 and 3% year-over-year) were completed. From a global perspective, North American activity represented 33% of H1's global deal count and 44% of its value.



Bureau van Dijk – M&A In Review H1 2019

North American private equity and venture capital activity was up as well from the previous six-month period on both counts: 7,784 deals (up 4%) were announced, totaling $222 billion (a 38% increase compared to H2 2018).

Among the mega-deals which contributed to the upsurge in value were United Technologies' $121 billion purchase of defense contractor Raytheon, Bristol-Myers Squibb's acquisition of biopharmaceuticals maker Celgene for $74 billion, Occidental Petroleum's $57 billion winning bid for Anadarko, Fidelity National Information Services' $43 billion acquisition of payment processing company and technology provider Worldpay, and BB&T's takeover of SunTrust Banks, an Atlanta-based lender, for $28 billion.

In a breakdown by industry, 'Chemicals, rubber and plastics' led by value, with a total of almost $119 billion, while the 'Machinery and equipment' sector led by volume, with a total of 1,682 deals. Healthcare was also active with a few massive oncology deals, such as Lilly's $8 billion bid for Loxo Oncology and GlaxoSmithKline's $5.1 billion purchase of Tesaro. Finally, technology was another strong sector; notable transactions included Salesforce's purchase of Tableau for $15.7 billion, Alphabet's $2.6 billion acquisition of Looker, and Apollo Global Management's $2.7 billion buyout of Shutterfly.

As reported by Pitchbook's *2Q 2019 M&A Report*, median M&A deal size for the first six months rose to $93.5 million, and multiples remained elevated, reaching 10.2x in H1 2019, up from 9.4x in 2018 and one of the highest values in over a decade.

Against this backdrop and the early August stock market plunge, the important questions we get from middle market business owners are: "What should we expect for the rest of 2019? Have I missed my window of opportunity?" →

Middle Market M&A Trends: H2 2019

Tailwinds

- Excess liquidity driving acquisition demand
- Decrease(s) in interest rates
- Greater drive for innovation via acquisition
- Corporate tax and repatriation reform

Headwinds

- Trade wars, tariffs, and international instability
- Overheating of the 2019 U.S. equities market
- Political instability, leading to possible delays in business-related legislation
- 10Y-1Y yield curve inversion in May 2019

Liquidity and future interest rate cuts will sustain acquisition demand

- Significant levels of cash on corporate balance sheets and equity capital raised by financial sponsors
- Private equity and venture capital firms sitting on ~$1 trillion of "dry powder" (Source: Pitchbook)
- In a low organic growth environment, many companies will look to grow via acquisitions
- The Fed has stated that it will "act as appropriate to sustain the expansion" of the current economy – Fed interest rate cuts in the future will only help to increase acquisition demand

Interest rate cuts by the Fed will lower the cost of borrowing

- The Fed has just announced an interest rate cut of 0.25%, the first in more than a decade
- Many believe the Fed is also likely to cut rates at least one more time before January 2020
- As the cost of borrowing lowers and transaction multiples remain constant, the effective purchasing power of potential buyers increases

Trade wars may affect valuations if margin degradations persist

- Tariffs are increasing operational costs for companies across many industries
- Trump stated on June 29th that, while negotiations continued, he would not increase further the existing 25% tariffs on approximately $250 billion of Chinese goods. In a subsequent tweet on August 1st, Trump stated "The U.S. will start, on September 1st, putting a small additional Tariff of 10% on the remaining 300 Billion Dollars of goods and products coming from China into our Country." Meanwhile, the Eurasia Group forecasts only a 45% chance that a deal is made between China and the United States before the end of 2019
- Firms will be wary of higher input costs and their impact on profit margins

Yield curve inversion may scare potential buyers

- The recent 10Y-1Y treasury yield curve inversion suggests an incoming economic recession, which may discourage potential buyers from making acquisitions
- The yield curve inversion is known to precede recessions by anywhere between two to six quarters, which means Q4 2019 is likely the earliest time a recession might occur

Watch: Latest BCMS Webinars

Industry Consolidation: Timing is Everything

M&A activity within an industry naturally peaks during a consolidation phase – should that impact your personal timetable for a sale?

Watch this 40-minute webinar to learn the lessons from the personal journey of a private business owner who saw his industry consolidating, and successfully sold his company.

You will discover:

- How to know the stage of growth of your industry
- How timing impacts the sale price of your business
- When you'll have the greatest chance of successfully completing a sale transaction
- And more…

Watch it on demand

Healthcare M&A: Technology, Regulation and Politics

From medical practices to research organizations, insurance and other service providers, the healthcare industry has seen a host of changes in recent years. These shifting dynamics create challenges and opportunities for private business owners contemplating their strategic options.

During this one-hour session, you will learn what is driving M&A within the healthcare sector and how you can take advantage of it.

Our guests:

- **Kevin Chmura**, CEO, Aergo Solutions (a leader in the Revenue Cycle management industry)
- **Jon Santemma**, General Partner and Co-founder of Regal Healthcare Partners (and formerly Global Head of Healthcare Investment Banking at Jeffries)

You will hear:

- How private equity firms are sizing up deal opportunities
- Advice from a healthcare business owner who recently sold his company
- Why behavioral health is one of the hottest sectors in healthcare
- And more…

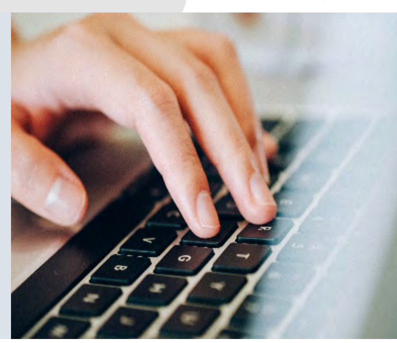
Watch it on demand

ONLINE SESSIONS FOR BUSY BUSINESS OWNERS

www.bcmscorp.com/webinar

BCMS Webinars offer practical insights to a wide range of issues facing private business owners considering an eventual exit.

Featuring commentary from experienced M&A professionals and entrepreneurs who have successfully sold their companies, as well as resources, analysis and downloads, our webinars can be watched live or on-demand, from wherever you are in the world.



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Transaction Spotlight

Jacobs Marketing Group has been acquired by NextGen Growth Partners

BCMS is pleased to announce the recent sale of Jacobs Marketing Group, LLC ("JMG") to NextGen Growth Partners ("NGP").

JMG has developed proven methodologies and a comprehensive portfolio of direct mail solutions for the automotive industry, which helped attract significant interest from the marketplace.

Notably, NGP acquired JMG and a second company, Dealer 121 LLC ("Dealer 121"), simultaneously.

Despite this complex set of circumstances, both seller and buyer achieved their objectives, due to BCMS's expertise with a broad range of transaction structures.

NGP is a private equity firm that partners with the best and brightest entrepreneurial talent to acquire, operate and grow lower middle market businesses across a variety of industries.

The acquisition of JMG is one of many Marketing and Advertising industry deals that BCMS has recently completed. To view more of our successful recent completions, click here.

JMG

acquired by

NGP
NEXTGEN
GROWTH PARTNERS

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DELIVERING AN ATTRACTIVE OUTCOME FOR OUR CLIENTS

"The BCMS deal team really delivered for me. Despite the fact that our transaction was particularly complicated, I knew we'd cross the finish line and be satisfied with the deal."

-- **Scott Jacobs,** Founder and CEO of Jacobs Marketing Group, LLC

Featured Recently Completed BCMS Transactions

Mammoth Restoration Acquired by FirstService Corporation

mammoth
RESTORATION & CLEANING

acquired by

FirstService

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Founded in 2006, Mammoth Restoration is a market leader in property damage restoration, offering emergency clean up, restoration, and repair services throughout the state of Ohio.

Mammoth Restoration's full-service offerings, strong geographic presence, unmatched customer service, dynamic team, and excellent reputation made it a fundamentally attractive acquisition candidate. BCMS's compelling positioning of Mammoth and thorough identification and development of potential buyers combined to generate broad interest from large private and public firms across North America.

For Mammoth Restoration, the cultural fit with First Service was an important consideration and facilitated the completion of the transaction in an efficient and timely manner.

BCMS advised on the sale of Mammoth Restoration to Toronto-based FirstService, whose expansion in the US has been driven by acquisitions in property restoration, property management, home storage solutions, residential painting and cleaning, home inspection, and floor coverings. FirstService, a publicly-traded company listed on the NASDAQ and Toronto exchanges, has annual revenue of approximately $2.0 billion and 34,000 employees across North America.

DELIVERING
AN ATTRACTIVE
OUTCOME
FOR OUR CLIENTS

"My wife and I were reflecting on the journey with BCMS that started when I attended a seminar at the Marriott by the airport. Then, last February when I formally engaged with BCMS and was introduced to the deal team. It has been a lot of work and a great experience. Thank you for your hard work and guidance throughout this entire process."

-- **Matthew Farris**, CEO of Mammoth Restoration

XLDent Acquired by Valsoft

XLDent
SMART TECHNOLOGY. EFFICIENT SOLUTIONS.

acquired by

VALSOFT

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Valsoft Corporation Inc. ("Valsoft"), a Montreal-based company specializing in the acquisition and development of vertical market software businesses, has acquired Professional Economics Bureau of America, Inc. (d.b.a XLDent) ("XLDent"), a leader in the dental practice management software market, based in Loretto, Minnesota.

Since 1971, XLDent has been supporting thousands of loyal customers across the United States. Their flagship practice management system provides dental offices with an intuitive, robust suite of tools built to optimize the clinic's performance. The XLDent product line has expanded over the years to include a suite of fully integrated and interactive eSolutions and imaging tools, helping clinicians and their staff to optimize their workflow and productivity.

BCMS acted as exclusive financial advisor to XLDent.

- Cross-border transaction

Featured Recently Completed BCMS Transactions

Net-Translators acquired by Morningside Translations

Net-Translators provides high-quality translation, localization and multilingual testing services to leading global medical device manufacturers, pharmaceutical companies, life science research organizations, and software developers.

S.C. Wright Construction, Inc. acquired by First Wright LLC, a Childress Engineering Services, Inc. subsidiary

S.C. Wright Construction, Inc. is a nationally recognized forensic construction firm servicing insurance companies, attorneys, general contractors, subcontractors and developers with expert witness analysis and testimony, risk exposure evaluation and full-service general contracting.

Caps'n Plugs acquired by Caplugs

Jay Cee Enterprises Limited (d/b/a Caps'n Plugs) is a leading Canadian manufacturer and distributor of standard and custom plastic components.

Firmstep acquired by Granicus

London-based Firmstep has developed the UK's leading SaaS platform for automating government services. Vista Equity-backed Granicus is the leading US provider of cloud-based communication software and digital engagement services to help the public sector move more services online.

- Cross-border transaction

You and your business are at a crossroads: where will you go next?

Robert Goldsmith

Bob Goldsmith is President and CEO, as well as a founding partner, of BCMS North America. He has been advising entrepreneurs, family businesses, and other organizations on issues such as sale transactions, succession and exit planning, divestitures, corporate growth, international expansion, and general strategy for over 15 years. Prior to BCMS, in addition to advising clients, Bob spent ten years working in senior roles in consumer, commodity and international business. *This article was originally published on his M&A blog on Forbes.*

"We did not want to take the business to the next level. It was at the point where it needed probably another five years investment in time and money, and another layer of staff. For us it had been a hard 10 years, a 24/7 slog. Potentially, we could have put in another five years and doubled its size. But we knew we would have to make more investment, and we didn't have the appetite for that."

These are the words of Marc Noel, a former client. His dilemma is typical of many entrepreneurs: having enjoyed dynamic year-on-year growth, his business hit a ceiling. Breaking through required more personal and financial investment than he was prepared to commit. Reinvesting company profits to fund expansion was starting to feel like a gamble. He was experiencing – in his own revealing phrase – "that stick-or-twist moment."

Crucially, Marc was also quick to recognize that moving on to that next level requires leadership with a different skill set. The shift from inventive, proactive entrepreneur to hardened, strategic CEO is often challenging. You may be reluctant to make changes that could unsettle the culture; maybe the idea of your enforcing such change unsettles you.

What are the options for business owners in similar positions? At one point in your career when capital seemed like the primary hindrance to growth, you may have imagined a silent partner with deep pockets to share the risk. But as ABC's Shark Tank proves weekly, convincing someone to bankroll your unique vision – with you retaining control – is never easy.

Here's where the business exit plan comes into play: handing over all or part of your business, either to internal candidates if they are fully capable and if they have access to capital, or to an external buyer or investor. There are two clear reasons to consider an exit. First, because it's the right route for your business. Second, because it's the right route for you.

Sometimes the two are connected. Quite understandably, many business owners are far too focused on managing day-to-day operational matters to fully explore their range of options, exploit market conditions, and strategically grow their business with a sale in mind. Instead of the really big questions, you find yourself constantly answering a series of smaller ones. Where are those forecasts for next quarter? When is the renewal date on those contracts? Our VP of Sales has just resigned – who's going to replace him? It's so great that we signed Toyota as a customer a few years back, but they boosted revenue by 10% while absorbing 25% of our time.

Ironically, the more of your time you spend on these issues, the less you focus where you add your highest value. If you are great at winning new business, why aren't you out doing that every day. Another former client put it this way: "when you're too close to the elephant – all you can see is gray".

There are some business owners who are disciplined enough to take a longer-term view and are almost evangelical about the need to have a clear exit strategy in place.

Take Jonathan Barker, who, with BCMS, sold his chain of luxury watch repair shops to the largest Omega, Tag Heuer and Gucci dealer in the world. "Sometimes a business is ready to sell but the people running it don't realize it. But to carry on year-in year-out with no exit plan is not an option. It may take three years or 20 years to sell. The exit plan has to be part of being in business – and that should be considered every single year."

These owners intuitively recognize that there are things that you can and should do years in advance. For instance, developing and then devolving responsibilities and authority to a quality management team. Upgrading the quality of staff. Codifying good systems, processes, and controls. Instituting a yearly budgeting process and developing future projections that are measured and reviewed. Formalizing a corporate governance structure. Upgrading the basis for financial statement preparation to enhance credibility with potential buyers. Establishing an organized, effective, and measurable business development process. Taking a longer-term view to staff training and development. Insisting on effective credit control and working capital management.

Sounds simple? Of course it isn't, and the personal implications must never be underestimated. Many business owners see their company as an intrinsic part of their being, and feel emotional responsibility in its development, its people and its future. It's pretty tough to look at your business as an asset in the simple sense of the word. It is even tougher to imagine it without you. Of all of the tough questions you may need to ask yourself, the toughest one may be: "Am I the right leader for my business moving forward?"

Still, you balance the potential benefit from change with the status quo. Status quo leaves you in full control but with significant daily constraints. A transaction and new partner might lead to:

- Cross-selling opportunities with you selling your products to a new partner's clients and their selling their products to your clients were a large corporate to acquire you
- The value of combined resources to reduce costs such as unnecessary facilities and administration
- Employee development and growth opportunities
- The gaining of a high value CRM or other advanced IT platform
- Access to quality executives and staff
- Financial resources to fund key initiatives along with a more growth-oriented risk profile now that all responsibility is not squarely on you
- Ensuring the long-term viability of the business in ways you alone cannot
- A peer group, because it is lonely at the top and it is good to share the leadership burden with others
- The ability to focus on longer-term goals instead of managing from one day to the next

Along with the financial and commercial rationale, selling your company can be personally rewarding. As one of three shareholders at different stages of their career and with different ambitions, Jerry Abendroth engaged us to help sell his Texas-based building envelope engineering business. After the transaction closed, the message to his team was overwhelmingly positive: "We told them: 'You are becoming part of a company that can afford you a lot of opportunities we can't.'" That included his fellow shareholders.

Jerry's advice to other entrepreneurs at the crossroads is equally clear-eyed. "Define your goal. Our first goal was to take care of our employees, and the second was to get a good and reasonable price for our company. We are living our goal right now."

It's all about recognizing the commercial and emotional triggers, and acting on them. Perhaps you're a hard-wired doer, frustrated at the bureaucracy. Perhaps you are turning away work due to capacity issues. Perhaps you want to pass on the business internally, but to who? Perhaps you've fallen out of love with your business, and have a new idea you just have to pursue. Perhaps, quite simply, you are "just exhausted maintaining the pace". Whatever the case may be, some planning today goes quite a long way.

The process for selling a business can seem intimidatingly opaque; an advisor can make it less so. The good news is that these days there is probably more choice in terms of transaction types than ever before, if you know where to look. There are also record levels of cash on company balance sheets. Private Equity investment funds are at or near historical highs - $1.1 trillion in dry powder – available funds waiting for the right opportunity. With the right advisor, and a choice of potential buyers, deals can be shaped to suit you: a 100% cash sale; a sale and future partnership with a growth oriented private equity group; a Management Buyout or Buy in; the incorporation of a part-time consultancy role; an earn-out where you commit to delivering some key milestones; a recapitalization where you grow the business with a new financing partner.

There aren't just three routes on the crossroads, as Marc, Jonathan, Jerry, and others will tell you. There are potentially dozens of different paths you and your company can take. Like any first-time journey, you will need a map and probably a guide. You will definitely need to take the initial steps to prepare you and your company for your eventual choice of path forward.

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