ACG

chairman'sletter

Depth of the M&A Market Bodes Well for ACG

By T. Patrick Hurley

Absolute values and relative prices are at an all-time high. Most companies simply are worth more than ever because of a permanent step-up in the valuation of good businesses. That is a plus, even if there's less low-hanging fruit that may have driven returns for some. So what if buyers have to have a growth strategy and expand margins in order to make deals work.

Multiples are unlikely to climb further, but are likely to hold at current levels. Buy-side demand will not be diminished by a mere slowing of economic growth or a few ticks in interest rates.

Corporate buyers and private equity firms stand to benefit as much as any owner of an independent target because the whole system works more smoothly than only a few years ago.

Financial buyers often are also sellers, and many a corporate divestiture has benefited from the enhanced competition of a market with depth. An interesting consequence of the quest for proprietary deal flow has been a broadening of investment appetite.

ACG has had a hand in this shift. We bring dealmakers together in more than 50 geographic markets around the corner and around the globe on a regular basis to promote market efficiency and to facilitate relationships that pay off.

The result is a healthier middle-market M&A environment with stability beyond the current boom. While 2006, with its big deals, is almost sure to smash statistical M&A records, the mid-size deals are where the vast majority of practitioners and market participants live.

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Our 10,000-plus members represent the highest concentration of mid-market M&A dealmakers in the world, hailing from public and private operating companies, private equity firms and hedge funds, investment banks, lenders, and all types of deal support professionals.

The United States probably will see 100 deals valued at $1 billion or more each this year, but there are another 10,000 domestic deals and an additional 10,000 overseas transactions that make up global activity.

Each blockbuster $10 billion deal equates to 200 deals valued at $50 million. The math is simple, but 200 deals each driving a $1 million fee for the intermediary and $100,000s in professional and financing fees for ACG members have much more impact on the economy.

Much has been written about the failure of M&A to create shareholder value. That spotlight shines on big deals that are often surprisingly short on strategic vision. The opposite is true for well-managed private companies that are ripe for being taken to the next level by professional ownership.

There are literally hundreds of thousands of companies from which to mine attractive investment opportunities for buyers of all stripes. The owners of those businesses range from the hungry innovator raring to expand further to those weary of the grind just waiting for your call.

The advances in market efficiency are good because they help sustain the momentum that feeds us.

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