

Preface

Deal markets go through cycles just as the broader economy ebbs and flows. And after a long drought of merger and acquisition (M&A) activity, the market for private companies is on the rise again. If you own, operate, or advise a middle market company, one with \$5 million to \$500 million in revenues, what does this mean for you and your clients when thinking about shareholder liquidity, or selling or buying a business? And how can you improve the odds of getting a deal done? *Middle Market M&A: Handbook of Investment Banking & Business Consulting* is a foundational reference for those advisors, leaders, and executives involved in the lifecycle and process of M&A transactions. It is based on the body of knowledge of the industry benchmark credential: the Certified M&A Advisor[®] (CM&AA) originated and led by the Alliance of Merger & Acquisition Advisors (AM&AA).

As with all industries and segments, the private capital markets continue to evolve, addressing challenges and seizing opportunities. Significant influence in the middle market over the past several years has come from private equity, regulatory reform, and the impact of aging Baby Boomers seeking eventual liquidity or transitions from their middle market businesses. Couple these drivers with a cross-border appetite for investment and growth, and you have a wealth of opportunity.

From a private equity perspective, the dollars invested in middle market companies more than doubled since 2009. Buyout and growth equity funds have record amounts of committed capital ready to invest. The challenge continues to be credit availability (especially at the lower end of the middle market) and partner time tied up in fixing existing portfolio companies. Publicly traded strategic buyers like the S&P 500 companies have unusually high levels of cash, and are seeking to deploy part of this hoard to generate significant revenue through external growth initiatives like acquisitions. While most middle market companies by themselves will not move the needle in terms of revenue for the S&P 500-sized businesses, a number of strategic acquisitions can begin to impact their overall performance. These relatively smaller, or niche, acquisitions can provide access to new customers, higher-margin product lines, new technologies, and entrepreneurial

talent. The same concept applies to what private equity refers to as *tuck-in* or *bolt-on* acquisitions for larger existing portfolio companies. For buyout funds, some middle market companies provide a platform for entry into new markets and from which to add niche businesses for expansion.

On the surface, the number of transactions is increasing and appears to be rebounding; however, the character of the market and deals is different from that of the pre–Great Recession vintage. In the period from 2004 to early 2008, there was significantly less scrutiny in underwriting and financing transactions. There was an abundance of capital available to all types of companies, almost independent of operating performance. Coupled with easy credit, valuations soared. Today, the performance bar has been raised very high with a flight to quality. Transactions are being done primarily with the very best industry players within a market or segment; and these companies are able to garner valuation multiples at nearly 2008 levels. However, the average and lower performing businesses will likely find greatly depressed multiples, or worse, no interest from buyers or investors at all. Thus the quandary: the “value gap.” What is the typical middle market company to do to create a partial or complete exit for its owners? This challenge creates an opportunity for resolute leaders and executives as well as for innovative and trusted advisors.

This handbook is meant to be a practical guide and reference for those practitioners and operators, buyers and sellers, and educators and students. The term *M&A advisor* is used throughout the text as a reference to the many professionals involved in the M&A process, including investment bankers, M&A intermediaries and specialists, CPAs and accountants, deal and transaction attorneys, valuation experts, wealth managers and investors, and consultants and business advisors. The intent is to provide a holistic overview and guide concerning mergers, acquisitions, divestitures, and strategic transactions for middle market companies. It covers pretransaction planning, deal execution, and post-transaction considerations, and addresses the processes and core subject areas required to successfully navigate and close deals in the private capital markets. *Middle Market M&A* and the CM&AA program can be thought of as providing a horizontal perspective for the many participants in the process, which typically bring expertise in one or more vertical subject areas.

The main content is divided into three parts, with the first being an overview of the middle market including a global view. This market perspective is heavily influenced by the work of co-author Robert Slee and his research and experiences in the private capital markets (also the title of one of his books). Keeping in sync with market trends, this section includes a high-level discussion about corporate development and its intersection with the middle market. This is particularly important given the likely impact

that strategic buyers will have in shaping the exit and liquidity plans of middle market owners, and the competing pressure against private equity. As the public markets have become a less attractive alternative, these strategic buyers (represented by those in corporate development) also represent a potentially desirable exit for the same private equity buyers then selling a few years later. This section ends with a look at the global and cross-border impact of middle market M&A activity.

Part II focuses on the M&A processes and practice management. It addresses sell-side, buy-side, and merger processes and introduces a framework for professional standards and ethics. This is thought to be the first such introduction for the middle market.

Part III delves more deeply into the technical subjects. Each chapter is a stand-alone treatise on a specific topic. Together, they provide the supporting details to begin understanding the subtleties and intricacies in making a deal or transaction work. Keep in mind that this handbook is a guide. It is not intended as an endpoint in the search for understanding and clarity about M&A, but is rather a quick start to understanding the topics and processes and determining where more in-depth knowledge and experience is required.

The remainder of the text provides an epilogue for business owners; a glossary; references to a companion website (www.MiddleMarketMA.com) for tools and resources of the trade; and a brief introduction to Transaction Value, an alternative view of valuing companies based on the work and research of Mike Adhikari, a leading member, thought leader, and president of the AM&AA and the founder of Business ValueXpressTM software company.

Throughout the handbook, wherever practical, there are anecdotes and annotations that provide a global perspective: character, details, and practical advice about the subject matter as it relates to cross-border and regional differences and concepts. We expect to bolster these and make them more robust in future editions of this handbook.

The author team crafting this handbook includes Robert T. Slee, as mentioned above; Christian W. Bles, chair of the CM&AA credentialing program and a key instructor in developing its content; Michael R. Nall, CPA, founder of the AM&AA and the MidMarket Alliance; Mona Pearl, a special contributor to this work and author of *Grow Globally*; and Kenneth H. Marks, lead author of the *Handbook of Financing Growth* and also an instructor in the CM&AA program. We have endeavored to generate and capture content, knowledge, and experiences from industry and subject matter leaders to provide a holistic, practical, and balanced perspective. As you scan the list of contributors and reviewers involved in creating this edition, you will notice that the breadth and depth of experience, expertise, diversity, and backgrounds is vast.