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**Firmex Inc. (This report is provided from [Divestopedia](#))**

### **Mid-Market Report: M&A Outlook for North America in 2016**

**Takeaway: A summary of Firmex's report created in collaboration with Mergermarket on North American mid-market M&A projections for 2016.**

Virtual data room provider, Firmex, worked with Mergermarket and a panelist of industry experts to produce a recently released report on the outlook of M&A deals for North America in 2016. As pointed toward in their last report, business development companies (BDCs) and strategic acquirers are to thank for the emergence of both cheaper financing and increased competition. However, uncertainty remains about how decreased oil prices, what the interest rates will be in 2016 and who will be the next U.S. president will all affect future mid-market M&A deals.

#### **Current Factors Affecting North America's Mid-Market M&A**

Jerry Black, a partner at Akerman, lists the following as factors currently shaping M&A in North America's mid-market:

- Cheaper financing;
- Economic stability;
- Positive economic growth in US;
- Demographics (i.e. baby boomers retiring);
- Increase of companies pursuing growth through acquisitions; and
- Decreased supply of quality acquisition targets and increased valuations.

Eric Zoller, co-founder and partner at Sixpoint Partners, adds to the list with the following factors:

- Sellers' view that the market has peaked;
- Buyers' concern about valuation and hitting the peak of the market;
- Substantial amount of dry powder;
- Growing number of players in dealmaking arena;
- Increased direct lending funds; and
- Decreased private equity-backed funding (45% from 80% a few years ago).

T. Patrick Hurley, Jr., managing director at MidMarket Capitol Advisors, also adds that the primary factor is whether it's time for a business owner to sell, regardless of market conditions. Finally, David Horing, managing director, American Securities, weighed in with his two factors: "interest rate sentiment and wider issues facing the global economy."

## **Commodity Prices in 2016 and Impact on North American Mid-Market M&A**

In regards to commodity prices in 2016, oil prices will continue to dominate concerns, as Jerry Black indicates a decreasing demand for commodities, especially oil. "This should have a positive impact for reduced operating costs of mid-market companies, as well as businesses and consumers generally, and should improve the revenue and profitability of target companies," says Black.

Hurley adds that we'll see an "upside" in oil prices and increased prices in other commodities as well, especially food. And Zoller concludes there are two schools of thought on the topic of commodities: 1) "commodity prices have hit a trough and now's a great time to enter the market"; and 2) "commodity prices will be depressed for a longer period of time [and investors] are holding off making new investments."

## **How Interest Rates and the US Presidential Election Will Affect the North American Mid-Market M&A**

Continued low interest rates means attractive financing options for acquirers, and those who think rates will rise after the U.S. election means acquisition deals will have incentive to close beforehand, according to Mr. Black. Hurley, on the other hand, thinks rates will rise and there will be "... a rush for the higher-quality companies that can be traded." Zoller agrees rates will go up, although he reminds us no one knows when that will be, but "[I]n the near-term we'll see continued stability and activity in the M&A market — a lot of capital is chasing a limited number of deals." Regardless of whether rates will go up or not is not as important as "...the idea [emphasis added] that interest rates can add volatility to the market," concludes Horing.

## **Sectors That Will Shine in the 2016 North American Mid-Market M&A**

Everyone knows the technology sector will continue to grow, but here is a list of other sectors that the experts highlight for 2016:

- Healthcare IT;
- Construction and building supply;
- Specialty retail;
- Restaurants;
- Software (as a service); and
- Energy.

## **Fundraising Environment for Mid-Market Buyers in 2016**

There won't be much change in the way of the fundraising environment and interest rates should stay low until after the election, according to Jerry Black. Agreeing, Horing states that the fundraising market is strong and will continue to be next year. And Hurley doesn't predict much change either, stating that capital is always available and it doesn't have to be from private equity funding. However, Zoller takes a more complicated view, stating: "The fundraising environment for PE is still a bifurcated market between restructured funds on the one hand, one-and-done funds on the other hand, and the wide middle of GPs who are taking usually 16 months to raise a fund."

## **Opportunities and Challenges for Mid-Market PE in 2016**

Finally, the experts weigh in on the opportunities and challenges they foresee for mid-market PE in 2016.

### **Opportunities:**

- PE firms seeking smaller companies at the lower end of the mid-market
- PE can increase their level of discipline in managing the value of their target businesses
- Gathering interest from investors for spin outs
- Developing relationships with LPs through the co-investment process
- Banks' unwillingness to finance new deals

### **Challenges:**

- Inflated valuations in lieu of decreasing potential targets
- Increased competition from strategic purchasers
- PE must differentiate themselves and show real value
- Fee compression
- Regulations in terms of greater scrutiny, transparency and reporting to LPs

Bottom line, mid-market companies can overcome the uncertainties discussed by taking control of which course they want to take in 2016. Similarly, PE firms must be decisive about how they plan to differentiate themselves from the competition.

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