



MidMarketCapital, Inc.

SELLING YOUR BUSINESS – THE 2006 M&A OUTLOOK

By Dave Kauppi President MidMarket Capital

Wall Street reported a banner year for Mergers and Acquisitions activity with corporate coffers bursting with excess cash. It seemed like every large company deployed this capital in one of three ways; a stock buy back, an increase in dividends, or an acquisition. All three activities represent a vote of confidence in the future growth of the economy. Our economy has demonstrated incredible resilience in barely missing a beat during a series of devastating natural disasters and a huge run up in energy costs. Nothing on the immediate horizon will interfere with this growth in 2006. How does this affect the owners of family businesses?

We are just beginning the well-documented cycle of the retirement of the baby boomers. The baby boomers generation started and grew hundreds of thousands of successful privately held businesses. Those owners are facing retirement as well and are faced with the difficult decision of how to retire and exit their business. Having capable and well trained heirs involved in the business is the easiest exit. You combine gifting and buyout to achieve liquidity for the parents while allowing the next generation to continue the business. Statistics show that only one-third of all family businesses are successfully transferred to the next generation and only 13% are transferred onto the third generation. My feeling is that these percentages are decreasing over time. We therefore are entering the perfect storm for mid-market M&A from the supply side. Over the next 10 years we will see a huge increase in the available businesses for sale.

Economics 101 would tell us that with a glut of supply comes an erosion of prices. To the extent that your business is a commodity type, me-too, not differentiated, low margin business, you will be hard pressed to get aggressive multiples when you sell. That will be somewhat offset by the demand of larger companies in the same industry feeling optimistic about the economy and having available capital from profits to spend. Most industry roll-ups were entered with great promise, but for the most part were poorly executed. The buyers paid way too much in the feeding frenzy to grow market share – look at the waste management, electrical and HVAC, and equipment rental markets as examples of low performing roll-ups. The second major mistake was overestimating the synergies that should be achieved with size. The good news is that history is a good teacher and the industry consolidators are much better at it. You may not get an outrageous multiple, but you have a better chance of receiving future value from any portion of your deal that is in the form of company stock or performance based earn-out.

The good news is that attractive companies are very much in demand by both corporate buyers and Private Equity Groups. There is a lot of money waiting to be deployed. These folks with this money recognize what characteristics make a company attractive and may bid up the price in a competitive environment. Some of the characteristics they are looking for are unique market niche, barriers to entry, high margin, scalability of technology, proprietary technology, contractually recurring revenue, a strong management team and customer and product diversity. Grade your company in those areas. If you have some weaknesses, address them and your exit will be a lot more financially rewarding. 2006 will be a very good year to sell a strong company. *Dave Kauppi is a Merger Acquisition Advisor with Mid Market Capital, Inc. MMC is a business broker firm focused on middle market corporate clients. We provide M&A and divestiture, succession planning, and valuations. Dave is a Certified Business Intermediary (CBI), a licensed business broker, a Certified Estate Advisor (CEA) and a member of IBBA and the MBBI. Contact (630) 325-0123, davekauppi@midmarkcap.com or www.midmarkcap.com*