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2013 Mergers & Acquisitions Survey Results



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Executive Summary

Moving slowly forward, but moving forward

The expression: “There is nowhere to go but up” could apply to today’s mergers and acquisitions market. Yes, a government shutdown and possible default dominated the U.S. in recent weeks. Yes, the economy isn’t where it was six years ago. But those who live and breathe the M&A market see glimmers of hope – as witnessed with Dykema’s 2013 Mergers & Acquisitions Outlook Survey results.

When comparing the next 12 months of the market to the last 12 months, 68 percent of survey respondents believe that the M&A market will be stronger and 50 percent possess a positive outlook about the U.S. economy over the next 12 months. This is a dramatically different picture from the 2012 survey, which saw only 37 percent of respondents believing the market would be stronger and 25 percent saying they felt positive about the state of the economy in the next year.

As one survey respondent said: “There is a lot of capital that’s parked on the sidelines. If the economy is neutral to positive we anticipate that there will be investments, before interest rates creep up.”

“I believe that with modest improvements in the economy, or perhaps a slowing decline, there will be increased pressure to put excess capital to use or to utilize cheap long-term capital. In general when M&A activity starts it will snow ball as companies don’t want to get left behind as their competitors’ spend,” another respondent said.

Others throughout the industry share a similar sentiment. FactSet Research Systems released its U.S. M&A news and trends analysis in October and reported that U.S. M&A deal activity increased in September, going up by 3.9 percent with 745 deals announced compared to 717 in August.¹ Small steps forward, but still moving forward.

The U.S. M&A deal volume increased 10.5 percent in the third quarter, when compared to the second quarter, MB Capital Markets reported.² That report further says, “We believe that deal activity should continue to accelerate modestly throughout the rest of the year as more potential sellers take advantage of buyer demand.”

In October, small-business lending increased with the U.S. Small Business Administration backing 12,976 7(a) loans totaling \$5.3 billion in the third quarter, up from 11,442 loans totaling \$4.3 billion a year earlier. These loans help acquire an existing business or establish or expand a new one.³

M&A survey responders told us they see:

- **A positive outlook.** In 2012, only 25 percent thought the U.S. economy would look positive over the next 12 months compared to 50 percent of respondents in this year’s survey.
- **Room for improvement.** In 2012, only 30 percent thought the economy would improve in the next 12 months when comparing it to the prior 12 months. That number rose to 54 percent this year.
- **Continued uneasiness.** When rating the most common obstacles experienced in deals within the past 12 months, financing went from the second most common to the fourth most common from 2012 to 2013. Uncertainty in the economy remained at the top spot.

A more detailed report of our findings is contained in the following pages. We hope you find this information insightful and informative. We plan to periodically re-examine these matters to keep you informed about opportunities and challenges of importance to you, our clients and friends.

¹ FactSet Flashwire US Monthly: “U.S. M&A News and Trends,” October 2013. http://www.factset.com/mergerstat_em/monthly/US_Flashwire_Monthly.pdf

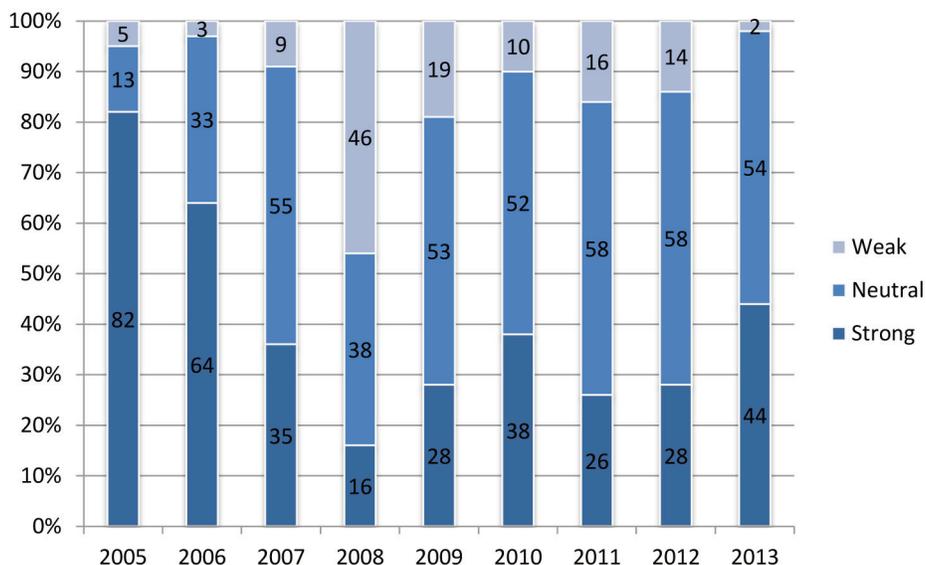
² MB Capital Markets October’s “Capital Markets & M&A Insights” report. (PDF)

³ *The Wall Street Journal*: “Finally, a Good Time to Sell the Business,” Oct. 25, 2013

2013 M&A Survey Results and Insights

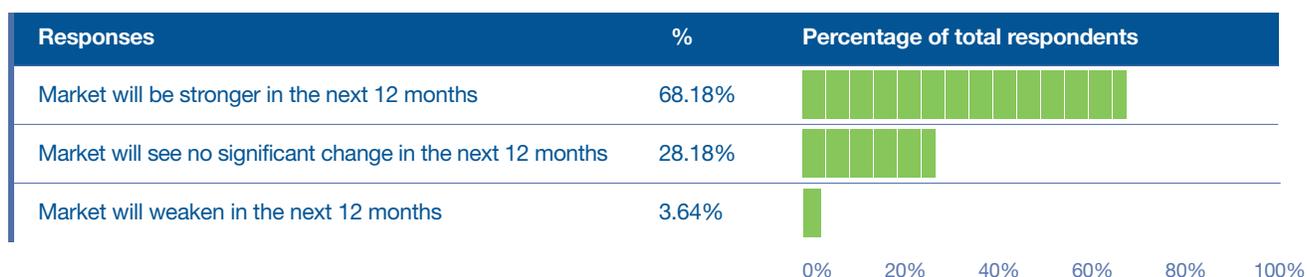
Respondents were asked to complete a questionnaire designed to measure their thoughts and perspectives on the direction of the M&A market in 2014. The following charts represent the collective input of all respondents as well as added insights. An overview of the survey methodology can be found at the end of this report.

Q1. How strong will the overall U.S. M&A market be during the next 12 months? (Select one option)



- Those respondents who said “strong” increased by 16 percentage points from 2012 to 2013.
- Growing boardroom confidence has been reflected in consistent quarterly increases in M&A value during 2013, with Q3 up 23 percent on Q2 and 47 percent higher than Q1.⁴

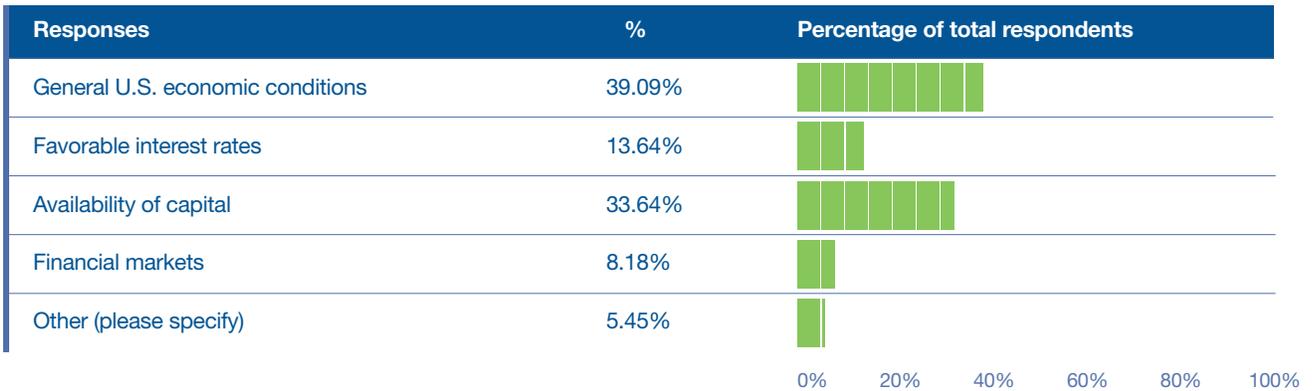
Q2. How will the U.S. M&A market for the next 12 months compare to the last 12 months? (Select one option)



⁴ Mergermarket Q1-Q3 M&A Trend Report. October 2013. <http://www.mergermarket.com/pdf/Mergermarket.Q1-Q32013.PRAAdvisorM&ATrendReport.pdf>

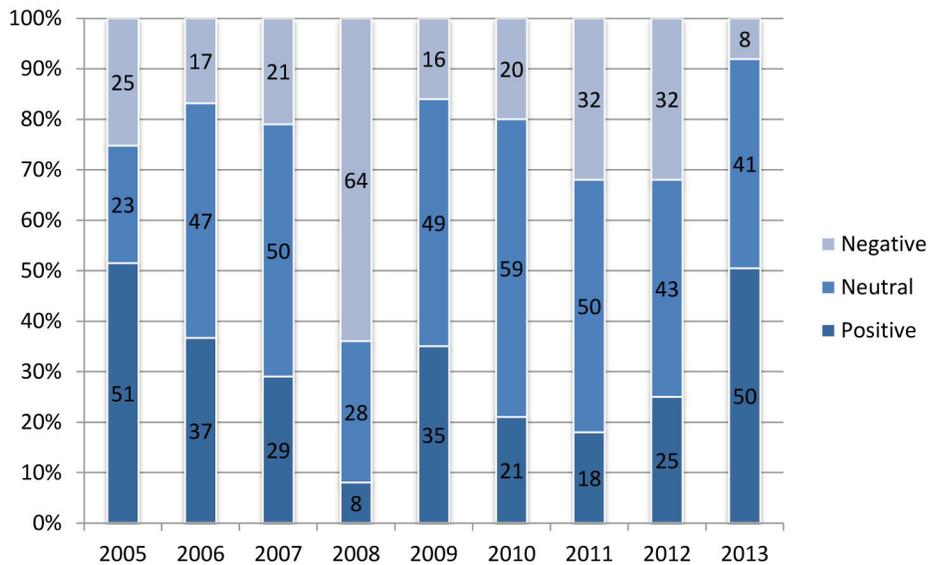
- Anecdotal evidence from people within the financial services industry suggests that the economy may be improving in part because managers are learning how to run their companies better and more efficiently.
- They see potential opportunities over the next 12 months. Some buyers and credit markets eager to deploy capital are driving up valuations for quality businesses and creating a good situation for business owners considering selling.⁵

**Q3. Which of the following is most responsible for fueling current U.S. M&A activity?
(Select one option)**



- In 2012’s survey, 40 percent of respondents pointed a finger at general U.S. economic conditions for fueling the current U.S. M&A activity and 29 percent felt that availability of capital was most responsible.
- In 2012, “other” was cited by 15 percent, and taxes were mentioned most in the comments section. This year, 5 percent cited “other” and respondents mentioned such areas as capital investors outside the U.S., low growth and Obamacare.

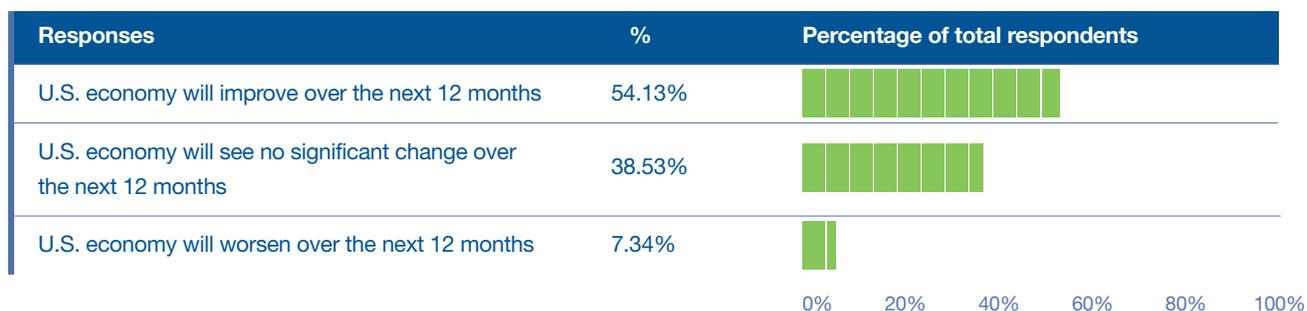
**Q4. What is your outlook for the U.S. economy, generally, over the next 12 months?
(Select one option)**



⁵ MB Capital Markets October’s “Capital Markets & M&A Insights” report. (PDF)

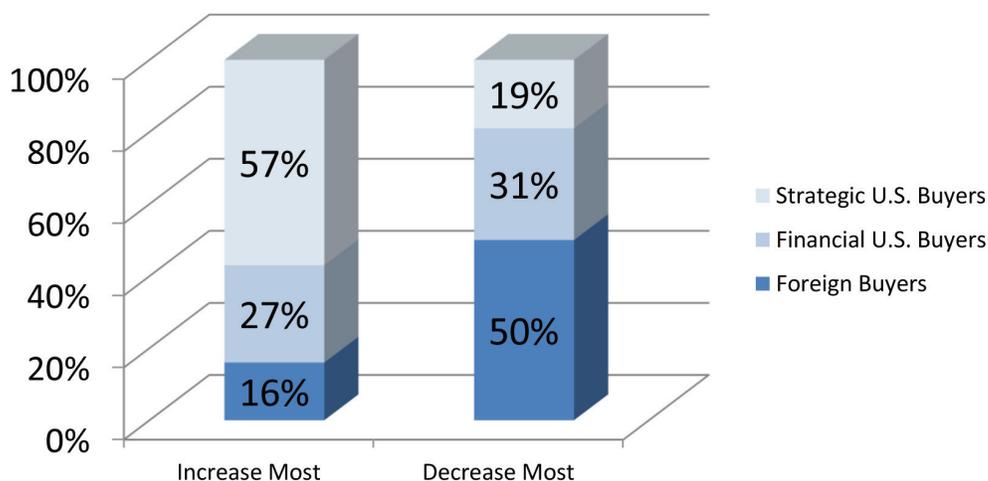
- It's been eight years since respondents used the word "positive" at the level that they used it this year to describe the U.S. economy's outlook over the next 12 months. In 2005, 51 percent had a positive outlook.
- The U.S. public equity markets rose in the third quarter with the S&P 500 advancing 4.7 percent and the NASDAQ advancing 10.8 percent, respectively, for the quarter. Public companies possess a strong acquisition currency in the form of their stock; and confidence, to the extent that it is influenced by stock market returns, continues to grow.⁶

**Q5. How will the U.S. economy for the next 12 months compare to the last 12 months?
(Select one option)**



- In the manufacturing world, optimism among U.S. industrial manufacturers regarding the global economy reached its highest level in this past third quarter since the first quarter of 2012.⁷
- Over the past three months, such industries as real estate, brokerage and investment and management consulting have seen the biggest increases in M&A deal activity, when compared to the same three-month period a year ago.⁸
- Nineteen of the 49 industries tracked by FactSet Mergerstat posted relative gains in deal flow over the last three months compared to the same point a year ago.⁹

Q6. Which one of the following categories of buyers will increase its presence and which one will decrease its presence the most in the U.S. M&A market over the next 12 months (as a percentage of total transactions)?



⁶ MB Capital Markets October's "Capital Markets & M&A Insights" report. (PDF)

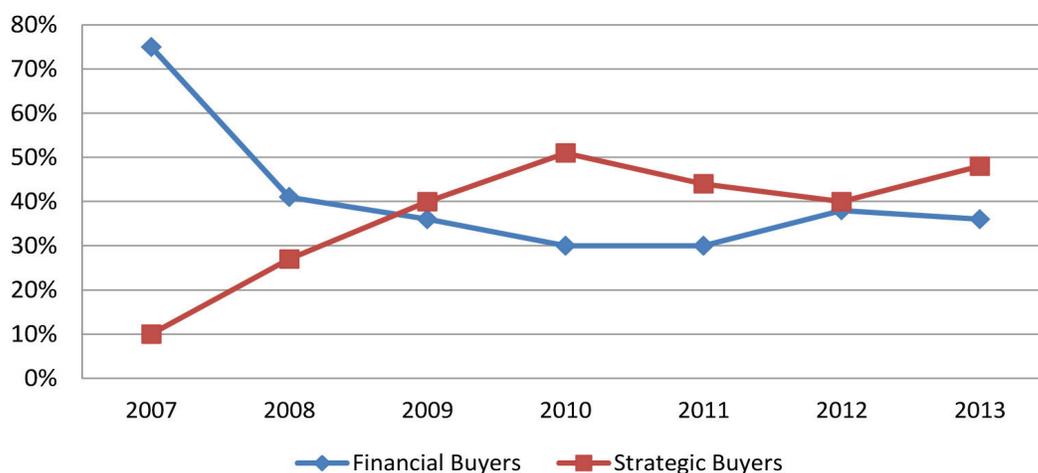
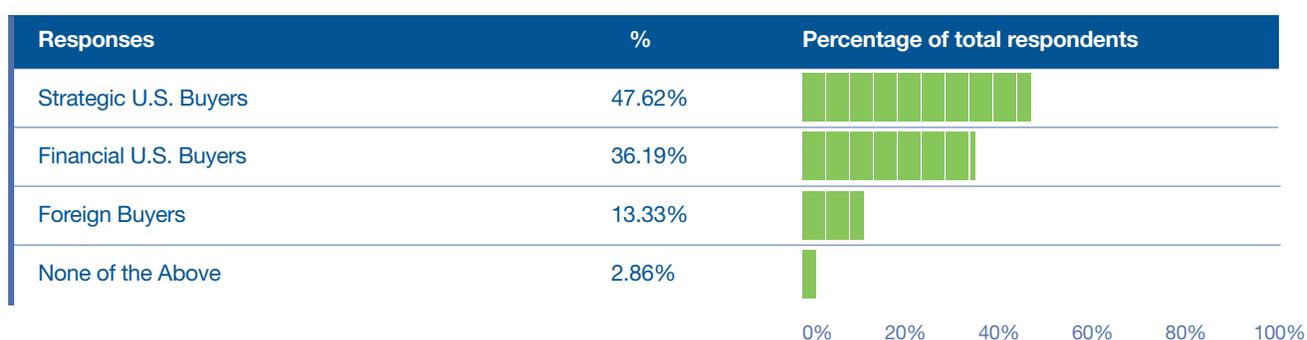
⁷ PwC's Manufacturing Barometer, October 2013 <http://www.pwc.com/manufacturing-barometer>

⁸ FactSet Flashwire US Monthly: "U.S. M&A News and Trends," October 2013. http://www.factset.com/mergerstat_em/monthly/US_Flashwire_Monthly.pdf

⁹ FactSet Flashwire US Monthly: "U.S. M&A News and Trends," October 2013. http://www.factset.com/mergerstat_em/monthly/US_Flashwire_Monthly.pdf

- For the sixth year in a row, most respondents believe that strategic U.S. buyers will increase their presence most in the market. From 2012 to 2013, this response increased from 46 percent to 57 percent.
- U.S. M&A deal volume was up 10.5 percent in Q3 2013 from the previous quarter. Of the U.S. M&A deals that were disclosed, the volume totaled 2,144 for third-quarter 2013. The average disclosed deal size for U.S. M&A transactions was \$66 million in 3Q 2013.¹⁰
- As one respondent said: “Strategic companies are positioning themselves to increase their market share. Foreign buyers’ currency is worth more than the U.S.’s—not much of a reason to invest here. They have already saturated the U.S. market and see our overabundance of debt.”

Q7. Which of the following types of buyers have most influenced deal valuations over the past 12 months? (Select one option)



- Strategic U.S. buyers held onto the top spot again this year with 48 percent of respondent seeing this group most influence deal valuations over the past 12 months. In 2012’s survey, it was at 40 percent.
- U.S. domestic deals accounted for half of the highest valued deals so far this year. While cross-border deals accounted for less global M&A deals in Q1-Q3 2013 compared to Q1-Q3 2012.¹¹

¹⁰ MB Capital Markets October’s “Capital Markets & M&A Insights” report. (PDF)

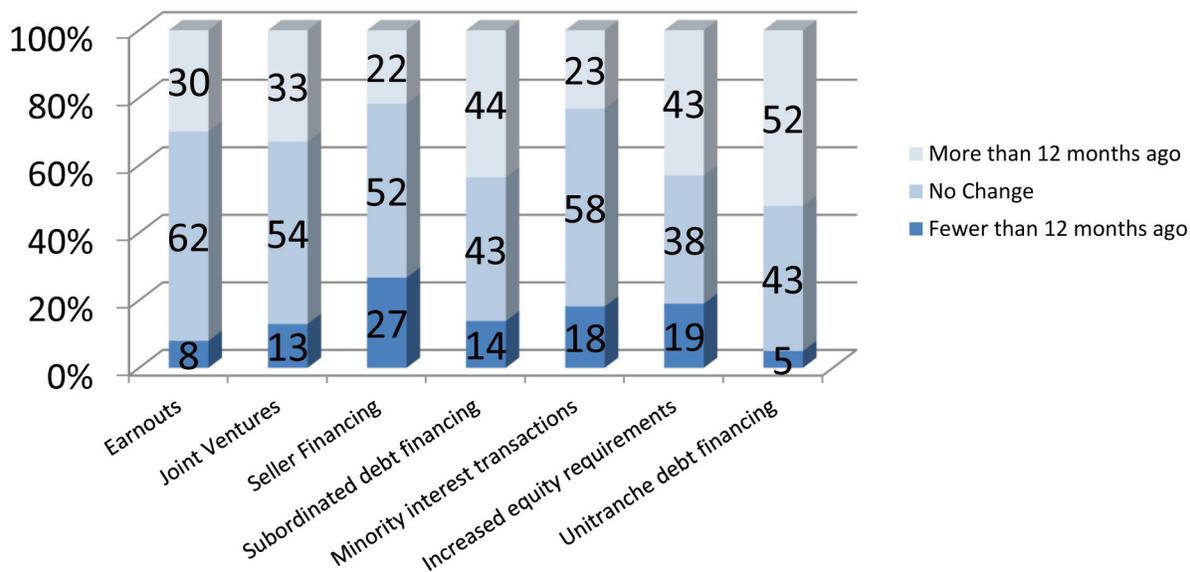
¹¹ Mergermarket Q1-Q3 M&A Trend Report. October 2013. <http://www.mergermarket.com/pdf/Mergermarket.Q1-Q32013.PRAdvisorM&ATrendReport.pdf>

**Q8. What are the most common obstacles you have experienced in deals in the past 12 months?
(Rank top 3 with 1 being the most common obstacle)**

Responses	Rank 1	Rank 2	Rank 3	Weighted Rank (Score)
Uncertainty in economy	43	20	17	1 (186)
Availability of quality target	28	19	23	2 (145)
Valuation	15	29	13	3 (116)
Financing	7	20	6	4 (67)
U.S. political situation	5	9	16	5 (49)
Buyer competition	4	7	14	6 (40)
Due diligence	3	1	16	7 (27)

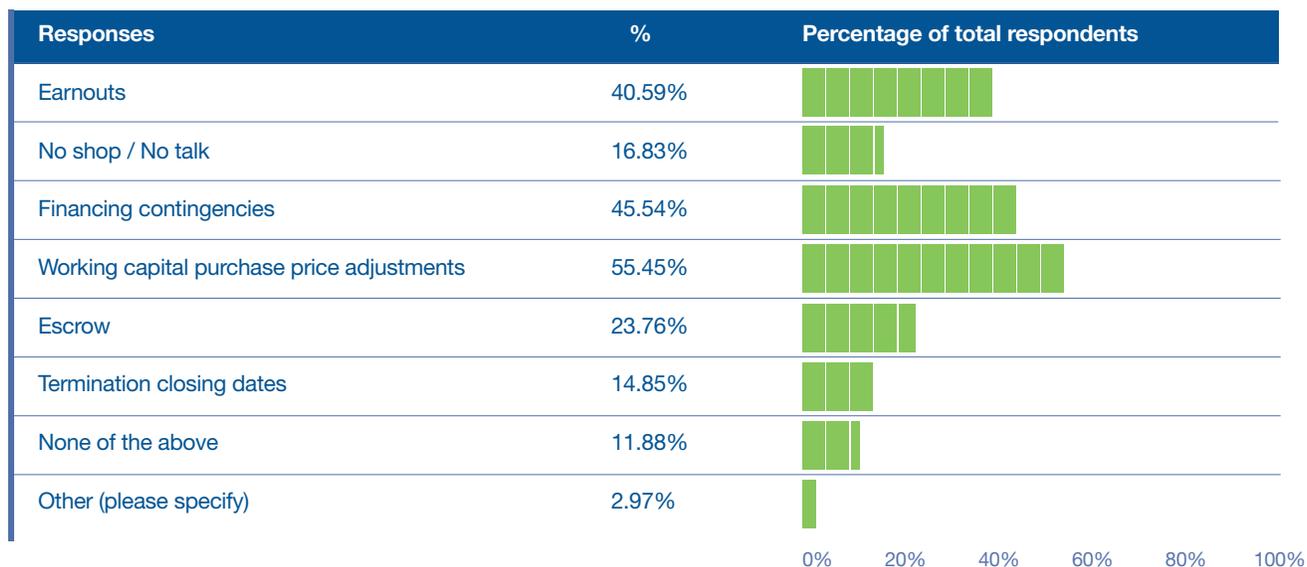
- Uncertainty in the economy ranked first again this year.
- Availability of a quality target ranked No. 2 this year, when last year it ranked third.
- Valuation took third in this year’s results. Last year, financing took second and valuation was ranked fourth.

**Q9. How are deals being structured differently than they were 12 months ago?
(Select one option for each)**



- With respect to earnouts, 62 percent saw “no change” in this year’s survey, while 54 percent said “no change” in 2012.
- Twenty-two percent believed that more deals are being structured with seller financing than 12 months ago, 52 percent saw “no change” this year and 27 percent saw fewer deals structured this way than 12 months ago. This may show continued availability of capital for deals.
- Unitranche debt financing is a type of debt that combines senior and subordinated debt into one debt instrument; it is usually used to facilitate a leveraged buyout. In terms of unitranche debt financing survey results, 52 percent said there were more deals done this way than 12 months ago; while last year’s survey saw 40 percent in that category.

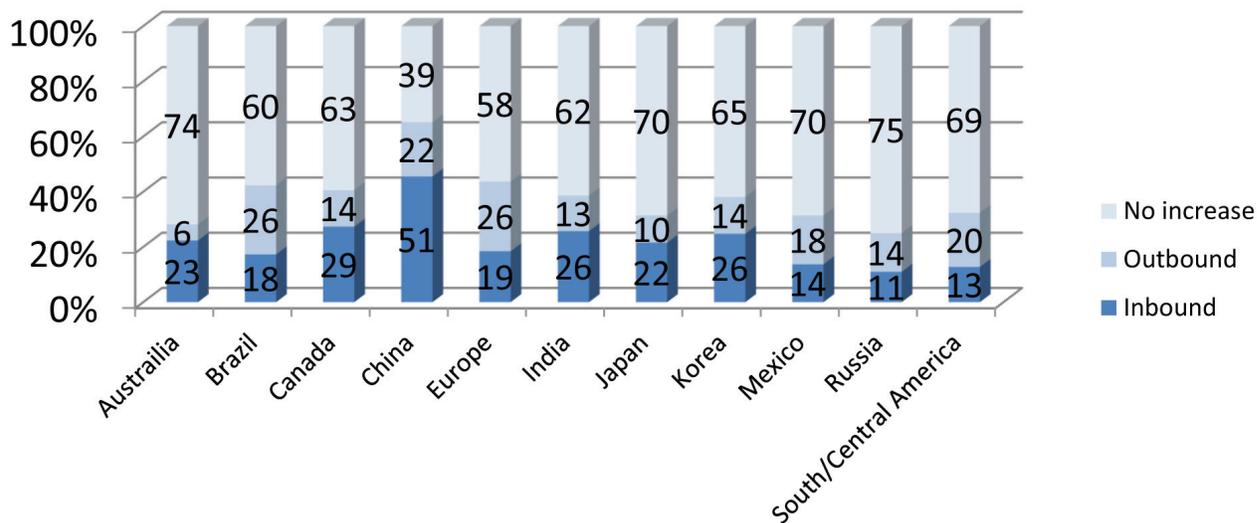
Q10. Which of the following provisions in purchase agreements have you found to be the subject of increased negotiations during the past 12 months? (Check all that apply)



Multiple answers per participant possible. Percentages added may exceed 100 since a participant may select more than one answer for this question.

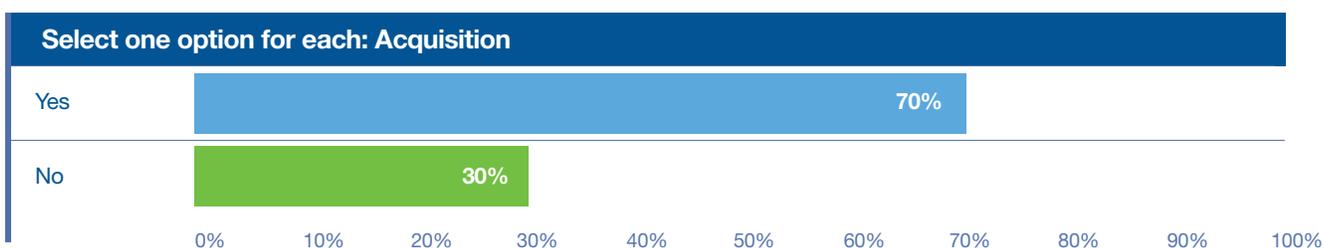
- Working capital purchase price adjustments continued to hold onto the top spot in this year’s survey increasing to 55 percent from 48 percent.
- Last year, earnouts ranked second with 46 percent. But this year, financing contingencies ranked second with 46 percent—last year 37 percent picked this area.
- Three percent picked “other” and several respondents wrote in indemnity basket and caps and indemnification.

Q11. What regions will experience an increase in inbound/outbound U.S. M&A activity in the next 12 months? (Check all that apply)



- With respect to China, last year's report showed that 45 percent anticipated no increase, 34 percent predicted increases in outbound U.S. M&A activity in the next 12 months and 33 percent thought inbound U.S. M&A activity would see the greatest increase.
- For Japan, inbound U.S. M&A activity predictions increased from 12 to 22 percent from 2012 to 2013.
- Europe was the most targeted region for cross-border activity between countries with a 45 percent of the market share. North America followed with a 22 percent market share for cross-border deals.¹²

Q12. In the next 12 months, do you believe your company, or your portfolio company, will be involved in any of the following transactions?



- This year more people anticipated that they would be involved in an acquisition with 70 percent saying yes, as opposed to 53 percent in 2012.
- Recently, the Fed announced that it would continue its bond buying program, which keeps downward pressure on rates intact for a while. For both financial and strategic acquirers, lower rates mean a lower cost of funds to finance acquisitions.¹³

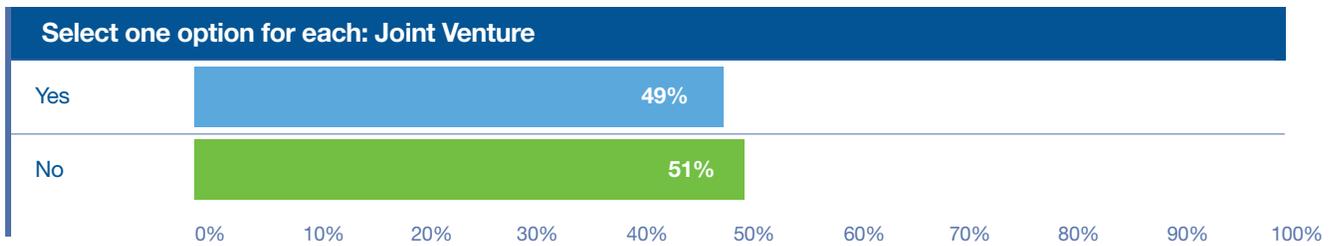


- This year 65 percent did not anticipate being involved in a sale, while in 2012 that percentage reached 80 percent.
- Many people didn't sell their businesses for a variety of reasons last year. Perhaps they didn't think they could get the right price or that it would be worthwhile from a business perspective. But confidence appears to be growing.
- There were 1,685 small businesses sold between July and September, up from 1,189 during the same period last year. It was the third year-over-year quarterly increase in a row.¹⁴

¹² Mergermarket Q1-Q3 M&A Trend Report. October 2013. <http://www.mergermarket.com/pdf/Mergermarket.Q1-Q32013.PRAAdvisorM&ATrendReport.pdf>

¹³ MB Capital Markets October's "Capital Markets & M&A Insights" report. (PDF)

¹⁴ *The Wall Street Journal*: "Finally, a Good Time to Sell the Business," Oct. 25, 2013



- Opinions were nearly split on this question regarding joint ventures. But experts are seeing that businesses are either putting more money into their companies or participating in joint venture models that need work or restructuring.

Methodology

In mid-September, national law firm Dykema distributed its Mergers & Acquisitions Survey via e-mail to a group of senior executives and advisors, including CEOs, CFOs and other company officers. Twenty-four percent of the 110 respondents identified themselves as company officers or executives, and 23 percent identified themselves as investment or commercial bankers. Industries represented included banking/financial services (23 percent), automotive (16 percent), nonautomotive manufacturing (15 percent), nonbanking business services (9 percent) and private equity (5 percent).

The 2013 survey is the ninth annual M&A market analysis developed by Dykema, and the results are being released in conjunction with firm M&A Survey events in Chicago and Dallas.

Percentages in question 10 exceed 100 percent because respondents were asked to check all that apply.

Due to rounding, all percentages used in all questions may not add up to 100 percent. A few minor edits were made to verbatim responses to correct spelling, punctuation, and verb tense.



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