Lead Left Interview – Marc Daniel

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This week we chat with Marc Daniel, managing director, mergers and acquisitions, SunTrust Robinson Humphrey. STRH is recognized as a top provider of M&A services for deals under $500 million and has executed hundreds of transactions for private and public companies, as well as financial sponsor firms, across a wide variety of industries and market capitalizations.

The Lead Left: Marc, we served as panelists at the Middle Market Symposium in May. I thought it would be helpful for you to reprise for our readers some of your views on the state of M&A today.

Marc Daniel: Thanks, Randy. Well, between May and now there's been no material change in general trends. M&A markets are good, not great. There are headwinds and tailwinds. Generally, Strategic M&A activity has been supported by the need to show top-line growth in an otherwise low organic growth environment, supportive debt markets, and cash sitting on a balance sheet. Separately, PE firms continue to be active acquirers not only because of availability of debt at attractive pricing but also because of an abundance of dry powder. LPs are committing new money to PE funds at the fastest pace since 2008, potentially as a result of their strong performance relative to other alternative asset classes.

Across sectors, for both buy and sell-sides, and for entrepreneurs, there's not been much change in the toggles that move the pipeline. What drives volume is everything.

On the plus side for sellers, multiples are high, in some sectors more than others. Valuation is not thwarting buyers who are interested in deals. If they want to acquire an asset, you don't hear "it's too rich or pricey."

TLL: How are buyers and sellers making decisions about whether to move forward?

MD: These are complex economic decisions on what and whether to sell. If the business is performing well, owners may want to sell now. If it's not performing they can choose to wait until performance improves. Or maybe sellers just don't need the cash now, so they choose to wait and see. Every seller weighs multiple variables when deciding when to sell or not.

On the buy-side, corporates with cash and in-house corporate development teams are taking initial looks at a lot of businesses. But they are spending time only when the spending decision makes sense. If the initial determination says do the work, they do. But if it's iffy, they will walk away.

TLL: Are you seeing fewer buyers?

MD: We're seeing more disciplined buyers. When it comes to private equity buyers, pricing is driven by the debt markets. And those markets are pretty generous right now. If a strategic likes the business, it's tough for sponsors to compete. In the pre-auction phase, the sponsor makes a strategic decision; if not, they play a softer role. Private equity in general has limited resources to bid. The key, as you've no doubt heard, is they need to "have an angle" to compete successfully. Otherwise they won't waste time.

TLL: Has the pace of transactions picked up?

MD: The trends are up. 2015-17 have been good M&A years, but not out of the park. Volume has been up and down within a band. The most recent quarter was down, but not indicative of any slowdown. My sense is that the outlook is pretty stable.

TLL: What kind of exogenous drivers are out there? Certainly nothing tax-related at the moment.

MD: I'm not in the business of forecasting, but I can't see a fourth quarter surge. Of the last seven years, three or four have spiked at the end of the year. Most tax law changes should be more seller-friendly later, so it might pay to wait. But that's pure speculation. Most clients are minimizing the tax impact of their transactions. Taxes are sixth, seventh, or eighth on an eight point scale of top motivations.

TLL: Are you seeing buyers employ acquisitions as a way to offset modest economic growth?

MD: Absolutely. Thoughtful growth is important. Organic growth is the first step, then you look to acquisitions. PE in large part is looking to grow via bolt-on acquisitions. Financial engineering alone is not the driving force. Add-ons and synergies play important roles.

TLL: Any themes to auctions today?

MD: There tend to be more targeted auctions now than five or ten years ago. Back then, both PE and strategics were making lots of bids. The days of half-heartedly doing the work and then seeing what happens doesn't work anymore. You need to be ready to close at the end of the auction. There's less need for the seller to have many buyers hanging around the hoop.

TLL: Are you seeing management teams make a difference in the sales process?

MD: Yes, generally buyers pay more if they like the management team. If management is not also the owner, they can still be influential in helping to woo buyers and drive up the price and solidify a bidder's interest.

TLL: Kind of like dating.

MD: Well, it's certainly not just about price, though price is the predominant factor. Price and certainty of close. The value is higher if the lower price is more certain.

TLL: Are you seeing any broken auctions?

MD: Not mine! Certainly no more than before. Sometimes we say that about the competition. Problems tend to have less to do with the business than how the process was managed. A lot of it comes down to unrealistic seller expectations, as well as inviting and advancing the wrong buyers during the auction.

To be continued the week of Aug 14

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