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# Poll: Wisconsin M&A activity to grow in 2010

**The Business Journal of Milwaukee**

Professionals in Wisconsin's mergers-and-acquisitions industry say the current deal environment remains anemic, but said they are guardedly optimistic that activity will increase in 2010.

Strategic investors — companies that buy competitors or related businesses — and distressed sales are expected to continue leading the types of deals that get done, according to the latest twice-yearly survey by the **Association for Corporate Growth** (ACG) and **Thomson Reuters** released Tuesday.

The survey revealed that negative sentiment about the deal-making environment has not changed during the past year, with 89 percent of M&A professionals from Wisconsin saying the current environment is fair or poor.

However, over the next six months, 77 percent of survey respondents said they expect an increase in merger activity.

The survey polled investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in October and November.

"The M&A market is definitely beginning to pick up," said Ronald Miller, managing director at **Cleary Gull Inc.** in Milwaukee and president of ACG – Wisconsin. "We expect the volume of transaction to increase in 2010 as both buyers and sellers adjust to the realities of the market."

While the credit crunch has decreased in importance as the biggest obstacle to M&A activity, the gap between the prices at which companies are willing to sell and the prices that buyers are willing to pay has been rising in importance, respondents said.

Wisconsin deal-makers predicted the following industry sectors to experience the most merger activity in the first half of 2010: manufacturing and distribution, 40 percent; financial services, 17 percent; business services, 10 percent; and health care/life sciences, 10 percent.

**FOR ADDITIONAL INFORMATION SEE FULL PRESS RELEASE BELOW**

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## Wisconsin Dealmakers Expect Rebound in M&A Activity in 2010

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***ACG-Thomson Reuters Year-End 2009 DealMakers Survey Reveals Obstacles and Opportunities for M&A and Private Equity Investing***

**MILWAUKEE, December 15, 2009** – Merger professionals from Wisconsin say the current M&A environment remains anemic, yet express guarded optimism about a pickup in the 2010, with strategic investors and distressed sales continuing to leading the way.

The latest twice-yearly survey by the Association for Corporate Growth (ACG) and Thomson Reuters reveals that negative sentiment about the dealmaking environment has not changed during the last year, with 89% of dealmakers from Wisconsin saying the current M&A environment is fair or poor.

Over the next six months, however, 77% of dealmakers from Wisconsin expect an increase in merger activity.

The ACG-Thomson Reuters Year-End 2009 DealMakers Survey polled investment bankers, private equity professionals, corporate development officers, lawyers, accountants and business consultants in October and November 2009.

86% of survey respondents indentified the current environment as a buyer's market. 84% of respondents said the current market favors strategic investors. And, 98% of respondents expect strategic investments to accelerate in 2010. 51% of respondents are actively pursuing distressed and undervalued companies.

Dealmakers expect the following percentage of M&A deals to be distressed in the first half of 2010:

- 0-10% (7%)
- 11-25% (49%)
- 26-50% (40%)
- More than 50% (2%)

"The M&A market is definitely beginning to pick up," said Ronald Miller, Managing Director at Cleary Gull Inc. and President ACG – Wisconsin. "We expect the volume of transaction to increase in 2010 as both buyers and sellers adjust to the realities of the market."

While the credit crunch has decreased in importance as the biggest obstacle to M&A activity (37%), the gap between the prices at which companies are willing to sell and the prices that buyers are willing to pay has been rising in importance (40%).

Average middle-market EBITDA multiples have fallen to 5.1x in the third quarter of 2009 from 6.0x in 2007, according to GF Data Resources. In fact, 78% of Wisconsin dealmakers expect to pay no more than 5x EBIDTA for companies over the next six months.

Wisconsin dealmakers expect the following sectors to experience the most merger activity in the first half of 2010:

- Manufacturing and distribution (40%)
- Financial Services (17%)
- Business Services (10%)
- Healthcare/Life Sciences (10%)

They expect the following sectors to experience the most organic growth:

- Healthcare/life sciences (21%)
- Government-related (19%)
- Business Services (14%)
- Food (7%)

According to Thomson Reuters, the volume of all worldwide mergers and acquisitions totaled $1.8 trillion in announced deals through November 30, 2009, a decrease of 33% over the comparable period in 2008. Of this total, M&A deals in the mid-market, defined by Thomson Reuters as transactions under $500 million, fell 31% from the 2008 level, totaling $461.9 billion.

Through November 30, 2009, strategic M&A activity totaled $1.7 trillion, a 32% decline from the comparable period in 2008. Overall, strategic merger activity accounts for 94% of total announced M&A this year, the highest percentage since 2001.

**Dealmakers See Improved Debt Markets, But Plan on Increased Equity**

Dealmakers are optimistic that the debt markets will continue to rebound, with 70% saying they will improve over the next six months, 26% saying they will remain the same and 5% saying they will worsen.

Respondents say the maximum leverage level in today's environment is:

- 1-2x (16%)
- 2-2.5x (59%)
- 2.5-3x (22%)
- 3-3.5x (3%)
- More than 3.5x (0%)

Most deal professionals (59%) do not expect leverage levels to increase in the next six months.

Despite an expected improvement in access to credit, 58% of dealmakers expect to put more equity into deals over the next six months, with more than half (53%) saying they expect to invest 40% or more equity in companies in the next six months.

**Private Equity Eyes Opportunities**

Dealmakers say the best strategy for success in the current environment is:

- Focus more on add-on acquisitions (40%)
- Stick to original strategy (16%)
- Focus more on portfolio companies (11%)
- Consider more minority/growth capital investments (8%)

Industries that present the best opportunities for buyouts are:

- Manufacturing and distribution (55%)
- Business Services (20%)
- Consumer products and services (10%)
- Financial Services (5%)

Industries that present the best opportunities for distressed investing are:

- Real Estate (25%)
- Manufacturing and distribution (62%)

Respondents say they have written down their portfolio company values in the last 12 months by:

- 15% or less (27%)
- 16-25% (23%)
- More than 25% (4%)
- Held steady (38%)
- Marked up (8%)

The majority (64%) of private equity professionals say they expect to maintain portfolio company values at year-end 2008 levels; while the remainder forecast write-ups over 2008 year-end levels of:

- 15% or less (28%)
- 16-25% (4%)
- More than 25% (4%)

49% of respondents say that 50% or more of their portfolio companies are performing below their prior year in EBITDA.

In 2010, private equity will change in the following ways:

- Significant consolidation, winnowing out (42%)
- Increased need for PE firm differentiation (38%)
- No change (15%)
- Rapid growth, innovation (0%)
- Other (4%)

Some 43% of respondents are concerned about the public's perception of private equity.

"The value of middle market private equity comes through loud and clear in this survey," said Gary A. LaBranche, CAE, ACG President & CEO. "Even as the growth community works to recover from the Great Recession, dealmakers are confident in the future of free enterprise and the job growth and opportunity that it provides to society. That speaks volumes about why middle market private equity is so vital to our economy."

**Survey Methodology**

The twice-yearly survey, conducted in October and November 2009, was completed by 921 ACG members and Thomson Reuters customers, including 43 from Wisconsin. Respondents from Wisconsin were comprised of private equity, venture capital and buyout firm members (12%); investment bankers, intermediaries, brokers (28%); Corporate professionals (28%); lenders, finance providers (9%); and service providers, such as lawyers, workout specialists, accountants and consultants (23%). For a copy of the full global survey results, please go to: www.acg.org.

**About ACG**
The Association for Corporate Growth (ACG) is the global community for middle market M&A dealmakers and business leaders focused on driving growth. ACG members have access to data, content and networking opportunities to find the opportunities, capital and knowledge they need to drive and sustain corporate growth. Founded in 1954, ACG has grown to more than 12,000 members organized in 54 chapters throughout North America, Europe and Asia. For more information, please visit www.acg.org/wisconsin.

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*Editors Note: ACG leadership are available for more in-depth interviews. Please contact John Scheibel for assistance.*