

BMO Middle Market M&A update

Are You Prepared When a Buyer Comes Knocking?

The challenging dynamics of the M&A market over the last year, from tightening credit conditions, financial sponsors pulling back on exits in portfolio investments, and difficult public markets have all led to a renewed focus on a key pool of assets: **Privately-Held Companies**⁽¹⁾ (“Nonbacked”). As we’ll see throughout this article, this critical asset class of Nonbacked companies are continuing to grow in terms of volume and increasingly making up a significant portion of the overall M&A market. That being said, founders and privately-held business owners should begin to address the key question of: “*When the time comes, how well prepared are you and your business for a potential ownership transition?*”

The Universe of Privately-Held Companies Remains Strong....

Per the Small Business Administration Office of Advocacy (“SBA”), small-to-medium private enterprises are broadly defined as having less than 500 employees. In total, private businesses play a critical role to the U.S. economy per [Figure 1](#). In analyzing this private company universe, Pitchbook estimates the pool of available and investable Nonbacked companies remains strong with ~1.5 million across the U.S. and growing annually. The facts matter and there remains a substantial and healthy universe of private Nonbacked enterprises that represent an attractive pool for M&A activity.

...Combined with Renewed & Sustained Interest from the Buyer Universe

There are a few core reasons why both corporate and financial sponsors view Nonbacked companies as highly coveted targets for M&A. There typically is no previous funding or outside capital sources that can complicate the capital structure. The acquirer can potentially offer resources from centers of expertise across functions, to professional management resources, or identify growth avenues for the business. At times, these companies do not have access to substantial means of capital, so an acquirer could enhance credit worthiness leading to financing for capital investment or acquisitions to support growth. Acquirors enjoy the diversity this asset class offers and the sheer number available.

The buyer interest has illustrated a recovery, over time, as outlined in [Figure 2](#) that has closed the gap to levels experienced pre-2009.

M&A Activity for Nonbacked is Strong in the Middle Market

Doing everything that you can as an owner to maximize value through sales growth, operating efficiencies, and profit is part of the equation. The other part is the M&A market. Nonbacked companies of less than \$500M in deal value represented ~96.0% of Nonbacked M&A Activity, outlined in [Figure 3](#), illustrating strong investor appetite for lower- to middle-market Nonbacked businesses...

SBA Private Business Facts

- 46.4%** of the Total Private Sector Employment
- 43.5%** of the Total Private Sector U.S. GDP
- 50K** of Net New Business Formations Annually

Figure 1 – Per the SBA Office of Advocacy, U.S. Bureau of Economic Analysis⁽²⁾

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% Nonbacked to Total M&A Deal Count

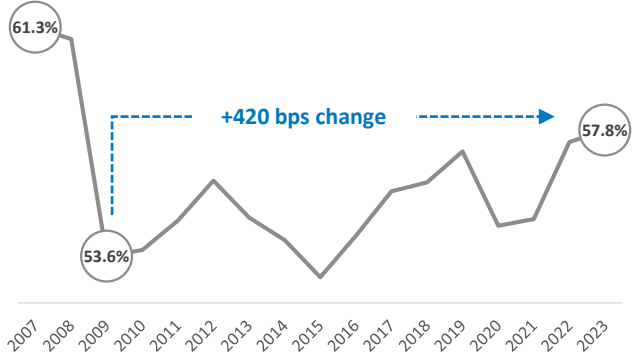


Figure 2 – Per Pitchbook

% Nonbacked M&A Value by Size

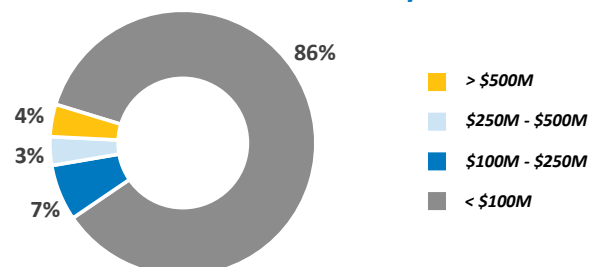


Figure 3 – Per Pitchbook



...the two main factors fueling the surge in Nonbacked M&A being, (i) corporate buyers are increasingly evaluating ways to create step-function growth, often through strategic M&A, and (ii) sponsors are still sitting on significant amounts of dry powder that needs to be deployed to start generating returns for their limited partners (please see our prior mailer [here](#)).

Preparation is Key to a Successful Outcome for any Family Business

Action Items to Consider as an Owner

Juggling the day-to-day life as a business owner / family run-operation can be quite challenging no matter the size, but here are a few key takeaways that you as an owner, management team member, or founder should consider:

- **Succession Planning:** What is your vision based on existing management / ownership and are there actionable plans in place to successfully achieve those goals? Do you feel comfortable in the plan today or does it need to be refined?
- **Financial House in Order:** Do you have the right financial staff (CFO) in place to be prepared for a financial audit or quality of earnings? Are these individuals ready for the pace and volume of diligence that occurs in an M&A process?
- **Prep IT Systems:** Do you have the appropriate systems in place (ERP, CRM, cybersecurity, etc.) that are reflective of your size and sophistication? Buyers take you more seriously if you invest the time to enhance your infrastructure.
- **Minimize Concentration Risk:** Customer and supplier risk are valid and frequent concerns of buyers that need to be addressed in advance. Evaluate ways to diversify and lower this overall risk so it does not impact your process or value.

The M&A Advisor

In this market and any future market, having a level of readiness will always prove to be valuable when going through any strategic process. However, often the question is, “Does having an M&A advisor in either a proactive sale process or when approached by a potential buyer really elevate my position as an owner?” In short, having the right M&A advisor that understands your business, industry, and potential buyers proves to be invaluable. A few considerations are listed to the right (*note, this is not an exhaustive list*).

Confidentiality

Navigate confidentiality concerns through an intermediary

Sounding Board

Match strategic objectives with process customization

Valuation Support

Provide real-time insight on precedents & buyer insights

Shield Management

Act as a buffer to buyers, since your time is critical

Build Competitive Tension

Maximize value through a strategic process

BMO Stats

BMO Middle Market M&A and your Commercial Banking Relationship Managers are here to support you in various ways. With more than 60+ Middle Market M&A Advisors and a deep bench of Commercial Bankers across North America, we want to support you, as an owner, to be successful in various capacities. The validation is in the numbers:

> 60%

M&A Deal Volume with Founders & Family-Owned Businesses

4 Core Verticals

Industrials; Food, Consumer & Retail; Healthcare; Tech / Business Services

\$12Bn

In Total Combined Enterprise Value of Deals Completed since 2019

20+ Years

Of Average Experience Among Our Senior M&A Bankers



Let's connect

Whether you're expanding through acquisition or are ready to transition the business, our middle-market M&A experts are ready to help you take your company to the next phase.

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1. Defined as private, with no outside capital from private equity or venture capital

2. Private sector universe includes SBA and Non-SBA entities, but excludes any public sector entities

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