BMO Middle Market M&A update

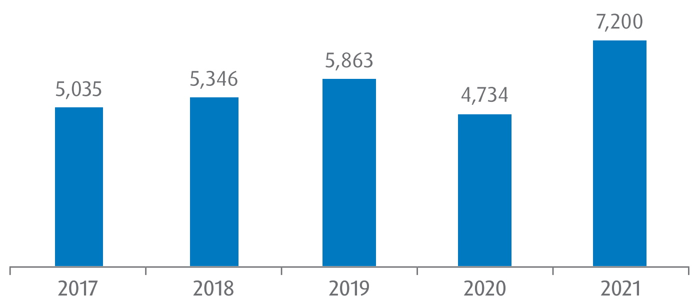
Record deal volume

Is not without challenges

Pent up deal flow, record levels of private equity dry powder, favorable debt and equity markets, strong corporate balance sheets and pending tax changes have all combined to create a flurry of M&A activity through the first half of the year and there are no signs that these dynamics will abate in the second half.

The current conditions certainly make for a seller's market as buyers remain aggressive and valuations continue to be extremely attractive across sectors, but the particularly high deal volume is not without its challenges for those looking to sell their businesses in 2021.

U.S. M&A Transactions: January to June[1]



Service providers

Lack the capacity to handle the volume

The third-party service providers that serve as critical constituents in a transaction (e.g., lenders, lawyers, market study providers, environmental consultants, etc.) are having challenges keeping up with the current deal volume and it is leading to longer lead times and process bottlenecks.

This challenge is particularly acute with quality of earnings providers, where lead times are often 30+ days and highly respected firms have had to go as far as turning down work because they lack the capacity to take on any additional projects.

Buyers

Are being more selective in what they pursue

Given the amount of deals flooding into both financial and strategic buyers, they are having to be more thoughtful as to where they spend their time and which deals they choose to chase. When buyers feel as though they lack a clear and differentiated angle, they are often opting to pass on opportunities earlier than they might otherwise in a more normalized market environment.

Hart-Scott-Rodino ("HSR")

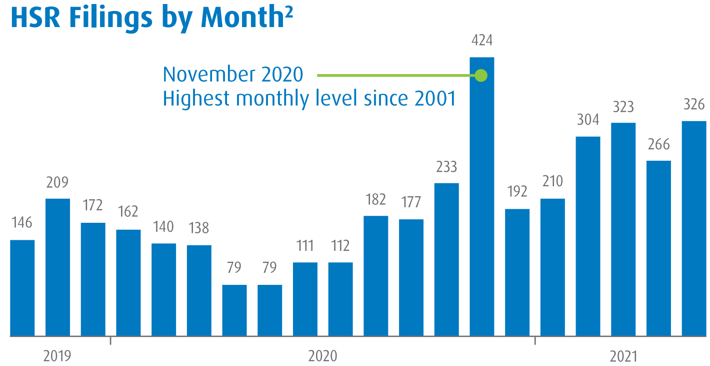
Takes longer with increased scrutiny

On February 4, 2021, the Federal Trade Commission ("FTC") officially announced that it was implementing a "temporary suspension" of the Early Termination process, meaning buyers and sellers will now need to wait 30 days at a minimum from the time of initial filing to the time of closing. The FTC is citing the unprecedented volume of filings and the need for the new administration to transition as the primary reasons for the suspension, and they are yet to provide any guidance on if and when Early Termination will be restored. Historically, approximately 75% of all transactions reported filed for Early Termination, and of those, approximately 75% were granted.

Not only is it taking longer, but mergers and acquisitions are likely to garner further scrutiny from the new administration—leading to more Second Requests and ultimately more blocked transactions.

On July 1, 2021, the FTC voted to broaden its mandate to now challenge what it finds to be unfair methods of competition, going beyond the existing consumer welfare standard.

HSR Filings by Month[2]



BMO We're here to help.™

Continued

Navigating the current market

Requires a strategically designed sale process that is uniquely aligned to each individual transaction

With many sellers focused on closing a transaction in 2021, it is critically important that sellers and their advisors are flexible, nimble and creative in their go-to-market strategy. A sale process launched over the summer months will need to be executed with a sense of urgency while also providing busy and distracted buyers sufficient time to assess and diligence the opportunity.

Process design and execution considerations in today's environment

Preparation

The time needed to prepare the documents and information required to go-to-market is currently prolonged due to service provider capacity constraints, but this window can serve as an ideal opportunity to seed the market in advance of a process launch. Raising the opportunity with buyers before it goes to market provides them advanced notice as they manage their own deal pipelines—enabling them to allocate sufficient resources to the project once launched.

In situations where there is a relatively small group of differentiated buyers for a business, early look meetings with a select group can be an effective tool in a process. These meetings provide the likeliest buyers a perceived angle and can often lead to buyers pre-emptively pursuing a company in advance of a broader sale process.

Positioning

Given the historically high deal volume, it is more important than ever to effectively position a business and clearly articulate why it is differentiated and what makes it a truly compelling opportunity. Buyers are overwhelmed with the amount of deals in the market and tailored messaging is critical in getting their attention and having them engage.

Conducting live conversations with buyers and personally communicating the key differentiating themes is a must in the current market. It is unlikely buyers will engage with a process where they simply receive a set of marketing materials without targeted correspondence. There are too many other conflicting priorities in the market and this high-touch approach is necessary to optimize buyer engagement and outcomes.

Momentum

Maintaining competitive tension throughout is a cornerstone of any successful process in any given market environment, but the current conditions require that sellers be nimble and tailor timing to successfully achieve this dynamic.

Managing various timelines across buyers can be complex to execute but setting rigid process milestones can lead to "downtime" for buyers—creating the risk that they become distracted with other opportunities and drop out of a process.

Everything is taking longer in this market, from quality of earnings to financing to HSR, so it is imperative that sellers are flexible in their process and work around the inevitable bottlenecks that arise in order to facilitate eager buyers.

Let's connect

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

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[1] Source: Factset

[2] Source: Federal Trade Commission