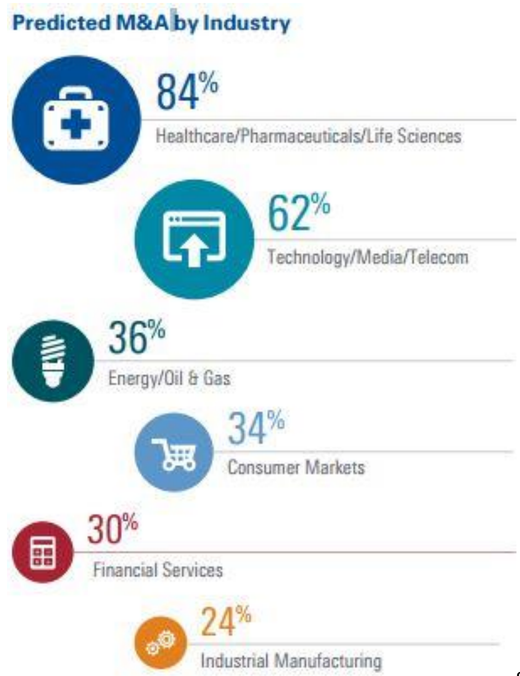
Merger & Acquisition Market Overview 2015

The current economic environment consists of low interest rates, record stock prices, strong job growth, and an increasing abundance of cash. These indications that portray strong economic growth imply that the Mergers & Acquisitions market will also see an increase of deal-flow in 2015. Analysts are expecting several factors to drive an increase in merger and acquisition activity in 2015. While the M&A industry has finally reached prerecession levels, the amount of deals announced during the first three quarters of 2014 are the highest on record and produced a seven percent increase in volume and a thirty-three percent increase in value from 2013, particularly in the middle-market arena. Never before have American companies stockpiled more cash than they have now, setting the stage for a surge in mergers and acquisitions. As Private Equity funds and businesses all around the country have record amounts of cash and uninvested capital, the rapid increase of M&A transactions does not look like it is coming to a halt anytime soon. Historically, this supply of cash has corresponded with a pronounced increase in M&A activity. Corporate shareholders are putting increasing pressures on corporations to fuel growth through acquisitions. For many of these well-funded companies, inorganic growth – growth through strategic acquisitions – will be as important as organic growth. These corporate acquirers will be targeting companies that help fill a missing product/service offering, allow entry into adjacent markets, expand geographic footprint, increase customer base or simply accelerate the acquirer's revenue profile. A survey conducted in 2014 by KPMG and Mergers & Acquisitions magazine polled 735 M&A professionals from U.S. corporations, private equity (PE) firms, and investment banks. . According to the survey, the sectors most expected to benefit from this surge in M&A activity are as follows:

Predicted M&A by Industry by percentage of respondents:

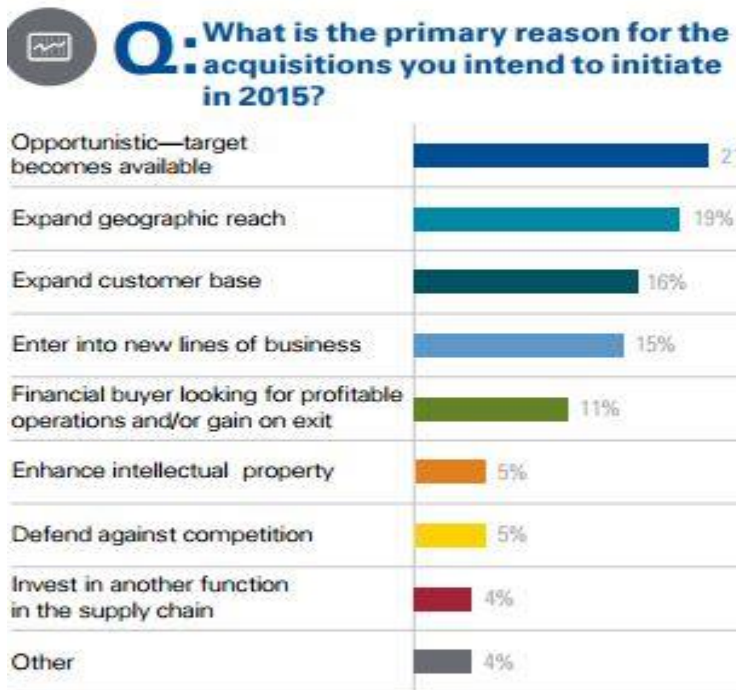


Source: KPMG Research

Additionally, Private Equity (PE) firms are also expected to help fuel M&A activity. PE firms have continued to raise substantial funds for acquisitions. While 2014 saw a substantial increase in M&A activity from these PE firms, there will continue to be an increasing sense of urgency and pressure by their investors to put the newly raised capital to work through corporate acquisitions. These PE firms are looking to acquire companies across a number of sectors.

Of course, M&A requires both a willing buyer and seller. From a seller's perspective, valuations continue to be high, and a significant number of Baby Boomers who own businesses are now reaching retirement age. Business owners are increasingly receptive to entertaining a sale or partial sale (a.k.a. recapitalization) of their company. Many observers predict that within the next several years, we may see a glut of businesses coming to market as the population ages, and an out-of-balance situation between buyers and sellers will create softness in the market. For that reason, we expect to see a healthy number of business sales in 2015 as astute sellers take advantage of the still strong sellers' market.

Additionally, many businesses have seen their growth stifled/impeded by a credit environment that has only recently re-opened to middle market companies, which made it impossible for them to find the necessary financing to grow to the next level. These companies now have an opportunity to find strategic and opportunistic investors/acquirers eager to participate in the funding of their business growth. In fact, most of the KPMG survey respondents expect opportunistic investments to be the primary reason they seek to initiate acquisitions in 2015.



Source: KPMG Research

For the middle-market business owner who is not yet ready to retire from the business but looking for growth capital numerous options exist. A variety of structures are available to the business owner that allows him to partner with well-funded investors while maintaining equity in the business and at the same time taking "chips off the table". Recently, Kaye Scholer surveyed 100 US-based hedge fund managers, distressed debt investors and private equity professionals. Close to half of the participants believe that strategic M&A transactions will drive primary deals in 2015.M&A activity has finally reached prerecession levels. Now, as the economy is becoming stronger, there are many signs that suggest M&A activity could be increasing even more by equally motivated buyers and sellers.