

M&A deal flow slow but building

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GRAND RAPIDS – According to one local company, the region is experiencing more financial optimism and more merger and acquisition deals getting done in the last couple of months.



Wroten

Richard Wroten, a managing director with **NuVescor Group LLC**, told *MiBiz* in late August that his company will close six or seven deals in the next 90 days. The deals range from a buyer with \$4 to \$5 million to invest on up to a \$100 million transaction involving a Fortune 20 company. NuVescor, an M&A advisory firm founded in Grand Rapids in 2007, focuses on middle market companies.

Although there's much less activity compared to one and a half years ago, M&A activity is going in the right direction, he said.

"We're seeing a much greater amount of activity and closed deals," said Wroten, noting the fourth quarter also looks good for NuVescor. "I'm not saying we're back fully to the levels we were at a year ago. Multiples haven't fully come back."

He said his company is making introductions to get deals done and more buyers and sellers are finding transactions much more palatable.

Bank financing virtually dried up in September and October 2008 with a wait-and-see environment for M&A activity during "the biggest economic event since the Great Depression," Wroten said. He noted many banks that received bailout money are paying the government back and some people are starting to buy cars again.

"We're not completely recovered yet, but everyone's taking an easier breath," Wroten told *MiBiz*.

About 90 percent of NuVescor's business

involves representing owners of companies preparing to sell. Potential sellers may be owners of larger family-owned businesses who are ready to move on and try something else, business owners whose children are not interested in running the company or businesses that are hemorrhaging and may have to sell.

NuVescor dealmakers look for strategic buyers in a similar or related industry where there is synergy or efficiencies built in.

"There are hundreds of private equity groups interested in specific types of companies," Wroten said.

Examples include interest in manufacturers, distribution or medical equipment. Oftentimes, owners may sell a company through NuVescor and then look for an opportunity to buy another company a couple of years later. Wroten said private equity firms are looking for specific types of companies of a certain size threshold. They look for opportunities of a particular profile and invest in certain types of companies.

"We will perform a marriage with a buyer like that," Wroten said.

Larger companies acquiring smaller, related businesses already have the infrastructure in place where they can go in and take over relationships with existing customers. A lot of general expenses can be eliminated.

Creative structuring of deals is spurring some of the M&A activity. Wroten said NuVescor can work out an "earn-out" where a buyer will pay an upfront purchase price and then agree to pay a portion over time based on the earn-out.

For example, a company that previously had \$12-\$15 million revenues may have fallen to \$10 million in revenues. In the deal, a buyer will agree to pay an extra amount over what was paid at the closing based on the company reaching certain revenue goals. Sellers financing part of the transaction is also an example of creative structuring.

"This makes the buyer feel a little bit more comfortable. If sales stay at the same level or decline, then the extra amount will

not be paid," Wroten said.

Other creative structuring involves the seller continuing to have a minority equity piece in the new company or a provision for an employment agreement.

Wroten's optimism is also fueled by many Baby Boomers hitting their 60th birthday and beyond. Companies of varying sizes will be transitioning.

"Combine the vibrancy of this community, the diversification and the entrepreneurial aspects of West Michigan, and Baby Boomers coming to this age – this is a very healthy place to be," Wroten said.

John Pollock, managing director of **LV2 Equity Partners LLC** describes the M&A market as "stuck in neutral." He does expect the level of investment to pick up in 2010.

"I see signs of more optimism compared to six to nine months ago," Pollock told *MiBiz*. He said M&A activity is directly impacted by what's happening in the credit market.

"Credit has been tight for at least a year. Until that starts to recover, it will be hard for mergers and acquisition activity to open up much," Pollock said.

For improvement in the credit market, banks must cleanse their balance sheets of bad loans to improve the capital situation. Once that happens more lending will naturally take place to generate revenue and earnings growth, Pollock said.

Buyers of businesses are now moving forward and looking at opportunities, according to Mike Moraw, VP, senior Small Business Administration product specialist for **Huntington Bank**. He said the activity level isn't near what it was in 2004 and 2005, but there's a little bit of new activity.

Mergers in the healthcare industry continue to occur, largely as one physician buys into the practice of a retiring physician. Moraw said he is seeing deals in many other types of companies including service and manufacturing.

As the confidence levels increase, recovery will take place, although it won't be "leaps and bounds like we all want it to be," concluded Moraw. **MIBIZ**