The Times, They Are A-Changing: M&A Past Versus M&A Present

Flashwire Weekly touched base with a seasoned group of bankers and lawyers in the M&A industry and asked them what they thought were some of the biggest changes in the M&A landscape over past decades compared to today. Here's what our sources had to say:

Paul Schaye, Managing Director of investment bank **Chestnut Hill Partners**:

"There's a new elephant in the room and that elephant is private equity. Who was doing M&A 30 years ago? It was corporates buying corporates. There were no financial investors on the scale that there are today. There are club deals now that are monster. That's the biggest change. It's changed the whole dynamic.

Financial engineering has totally changed, too. Thirty years ago we didn't have leveraged buyouts. No one did LBOs. Banks didn't look at the balance sheets and say 'Let's look at this differently.' Mezzanine financing didn't exist before private equity, either. There's something like $500 billion in dry powder sitting around ready to do deals. Blackstone just raised $15 billion in a private equity fund. That's a huge number. Now hedge funds are getting into it.

The new players haven't boxed out corporate entities, but they have created a whole new set of acquirers that didn't exist before. Then you've got the whole international factor. No one would have predicted US firms setting up offices in London, Japan and China, but as Thomas Friedman said, the world is flat. The sandbox is worldwide, now."

Murray Beach, Managing Director of investment bank **Boston Corporate Finance**; President of **M&A International**:

"Obviously one of the things that's very clear in M&A and how it's changed is that now there are two drivers. The world really is flat and we find that about 70-80% of transactions have very serious cross-border implications or bidders. That was unheard of 20 or 30 years ago. Only the very largest transactions got attention internationally and today that's just not the case at all, especially in technology, where standards are set across the world.

The biggest change has been the advent of private equity firms as really being the major buyers from a numbers point of view. In the '80s there was a private equity market and by the late '80s there was a very aggressive LBO marketplace, but what's changed is that now there are thousands around the world with hundreds of millions of dollars or more that can invest in companies of all sizes and shapes, so that has changed the approach to M&A work in that you would focus on strategics with obvious business bids. Now you're looking at the management palette and a firm with an interest to go into certain industries. They don't have to be totally strategic fits.

There's really a need for specialization now. Industries have gotten larger and it's very global, so now you need to know not only the fundamentals of the industry, but also know the marketplace, know common strategies in that industry, and be familiar with investors in that space. It requires a lot of homework and study.

Also, access to research and information has totally changed the way business is done. I started before fax machines were a staple in offices and electric typewriters were as high-tech as most offices got. Then PCs and Internet came along, which has opened up a huge amount of reach for people to understand what's going on in the market. That has changed business as much as any other factor.

When I started it was a very provincial, regional who-you-know type of business, and now it's a global, expert, information-intensive business with a much broader audience, both in terms of geography and who will look at businesses and consider what they should be buying and selling."

Allan A. Siposs, Senior Vice President at valuations firm **FMV Opinions** Inc:

"What I've noticed in the last 10-20 years is sellers have greater understanding of their liquidity options. Twenty years ago when an entrepreneur sold a company, he sold that company to a competitor, to other industry players. These days sellers are more sophisticated and they're looking for a recap, for international buyers, for ESOP as a liquidity event, for a partial sale. The sophistication of the M&A advisor is critical.

Starting around 10 years, but even more so in the last five years, sellers have come to a greater awareness and because there are more options and they're more aware, there's more of a need for planning. We've noticed many of our clients come to us for a sale and we break our client objectives into three categories: timing, value and lifestyle objectives. As for timing, many clients have a milestone in their lives at which point they want to exit. With value, they may indicate a value they're considering, but then we have to decide on structure – do they want 100% cash, seller notes, or even a retained piece? With lifestyle, sometimes people want to sell the company and be on the beach two weeks after, which suggests very different routes than growing the company with a private equity group for 3-5 years. Now we really have to develop set of strategies pre-sale."

John Lino, Chair of Corporate & Securities Practice Group at law firm **Reed Smith**:

"From the legal perspective the biggest changes have to do with advances in technology. Twenty years ago we didn't even have word processors and now we have remote email with Blackberries and cell phones, and because of that we have to be available 24/7. I remember 10 years ago when we had a FedEx deadline and after that we could relax, knowing there weren't ongoing changes. Now it's such a global economy, you have to work constantly, sometimes early morning and sometimes very late.

Also tied to technology is the advent of online data rooms used for due diligence. Technology has been great for increasing flow and speed of information, but the challenge is in sorting through all of this information and knowing what's significant and what needs to be prioritized.

Documents might have been 30 pages 20 years ago, but now they're 120 pages. Computers give you the ability to build and add to forms, making negotiations longer.

Some clients now are even getting involved in reviewing documents. It depends on the sophistication of the client, obviously, but clients used to send a team of lawyers into a conference room where all the documents were assembled. Now, the managing director can sit in his office in New York and pull up documents on his computer."

Murray Rudin, Partner at private equity firm **Riordan, Lewis & Haden**:

"The three primary areas of change have been pace, depth of due diligence, and competition, all of which are interrelated. The pace of the deal process has increased because of dramatic technology improvements and greater competition for deals. Due diligence has become more intense because the Internet and digital content have enabled the rapid availability of much more information, and the speedier pace of deals requires that buyers gather and process the requisite information more quickly. Competition for deals has grown due to the proliferation of private equity capital, the ability of buyers to more quickly get up to speed on a sector and a company, and the resulting increased efficiency of the M&A marketplace."

Chris Kramer, Managing Director at investment bank **Strategic Equity Group**:

"Valuations have certainly been coming up. There's a significant amount of private equity capital driving that and we've seen expansion in multiples and a willingness to pay more than might have been typical years back. There's a significant amount of capital still out there, looking for companies and transactions to deploy capital.

In last few years, as the public markets return to higher levels than where they were three or four years ago for public companies making acquisitions, their stock is now back to levels where they can pay a little more. Add to that banks in the most recent year or two loaning a little bit more, and all those things are positive impacts on valuations.

Private equity firms are looking for investments, too, so there's very competitive bidding for quality transactions, especially in the $25 million and above range. I've been seeing higher and higher multiples paid for larger companies over last 10 years and it may have plateaued recently."