

2020 M&A OUTLOOK

Outlook Still Favors Sellers, but M&A Urgency Recedes as Growth Continues

Last year turned out to be another strong year for M&A activity, and mid-market leaders are expecting more of the same in 2020. According to the responses of our recent survey of more than 500 executives, the prevailing sense is that the backdrop is favorable but the urgency to get deals done has ticked downward. In this environment, we see a picture where mid-market leaders are approaching M&A with measure and restraint.

Economic Strength Poised to Continue

The popular press may talk of an impending economic slowdown, but mid-market leaders do not seem to be convinced. In fact, they demonstrated more confidence in the trajectory of the economy, as well as that of their sector and company, than in 2019. Given these expectations, it's no surprise that companies expect to continue hiring workers in the year ahead.



34%
Increase hiring

Hiring expectations

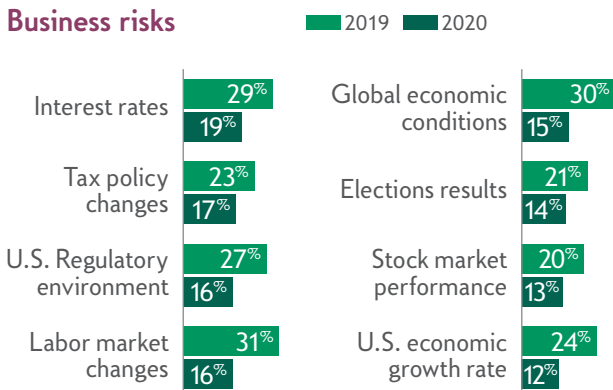


43%
Remain the same



21%
Decrease hiring

Business risks



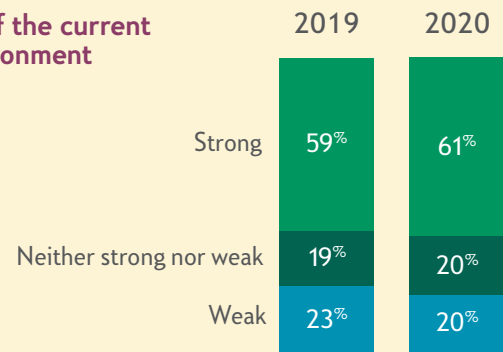
Worries Have Eased

Another sign of the broad-based confidence among mid-market leaders: they have fewer worries. In fact, only 15% believe global economic conditions could or will negatively impact business operations, compared to 30% in last year's survey. We saw similar declines in other risk categories, including interest rates, trade agreements, labor markets and elections. As they look ahead, no single risk appeared to be the primary concern of business leaders.

Upbeat M&A Outlook

Almost two-thirds of mid-market leaders surveyed believe that 2020 will be another strong year for M&A. They said the expanding U.S. economy, favorable tax policy changes and the accommodative capital markets bolster their M&A strategies.

Strength of the current M&A environment



Organic Growth Opportunities Tick Upward

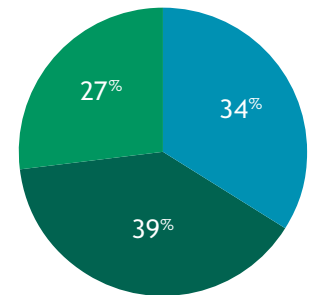
With a stronger economic outlook in 2020, businesses expect to grow more through organic strategies than through acquisitions. Another indicator that organic growth is more promising: fewer participants are looking to sell their entire business. In 2020, 27% of sellers have expressed interest in selling their entire business, down considerably from 47% the year prior.

Expected sources of growth



Scope of sale

- Entire business
- Part of the core business
- Ancillary/Non-core piece of the business



Fewer Firms Looking Abroad to Buy and Sell

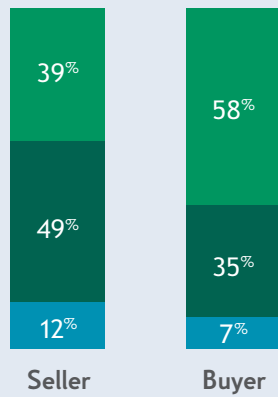
For companies exploring M&A, fewer mid-market leaders are looking abroad for M&A opportunities. The exchange rate could be dampening interest in international deals as the U.S. dollar continues to strengthen against its peers.

Considering an international sale or purchase



Valuation expectations

- Will increase
- Will remain stable
- Will decrease



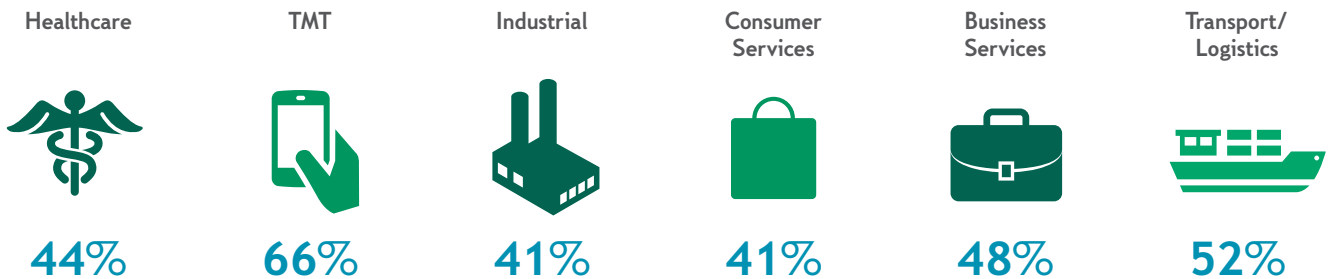
Sellers and Buyers Expect Continued Valuation Strength

Mid-market leaders expect valuations to remain strong in 2020. Nearly 50% of all respondents believe valuations will climb in the year ahead, while only 10% anticipate a decline. Though the valuation outlook is generally strong, we did observe a notable gap between the expectations of sellers and buyers.

Notable Variation in Sector Valuation Forecast

As anticipated, mid-market companies report differing valuation outlooks by sector. Expectations for higher valuations appear strongest in the Tech-Media-Telco (TMT) sector, while the outlook in the Industrial and Consumer Services sectors is more bullish than the year before. Sentiments in the Business Services sector have cooled, while expectations for the Healthcare sector were in-line with the prior year.

Expect valuations to increase



	2019	2020
Active Sellers	62%	44%
Active Buyers	71%	55%

Fewer Sellers and Buyers in the Queue

Mid-market leaders revealed a significant drop in the pool of likely sellers heading into 2020, down 18% from a year ago. Sellers also indicate lower confidence in the prospect of completing a deal in the year ahead. The buyer pool is also smaller which is a continuation of a trend across the last four years, down every year from a peak of 84% in 2017. After a multi-year run of strong M&A activity and ever-higher valuations, buyers continue to wait patiently on the sidelines.

Possibility of Lower Deal Volumes

The smaller pool of sellers and buyers could indicate that deal volumes will be lower in 2020. Another potential sign: mid-market leaders report they are receiving fewer solicitations than in years past.

Firms who experienced a decrease in deal solicitations



2019	4%
2020	12%

Top 3 reasons to work with an advisor

Seller

- To speed up the process
- To help get the best price
- To help structure financing

Buyer

- To speed up the process
- To help assess an opportunity
- To help with due diligence

The Value of the Advisor Remains Steady

As in prior years, the majority of both buyers and sellers indicate they are likely to hire an advisor if they do engage in M&A activity in the year ahead. Speed and efficiency appears to be the primary driver for both buyers and sellers.

Ready for M&A Advisors Who Think Like Owners?

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As a part of Citizens Financial Group, Citizens Capital Markets is able to leverage the strength of one of the oldest and largest financial institutions in the U.S. to accelerate the delivery of valuable ideas and execution capabilities beyond what a traditional M&A advisory firm can do.