2006 ACG/Thomson Survey Results

M&A Objectives
Survey respondents say the primary objective of mergers and acquisitions is to:
1. Increase revenues and profitability (46%)
2. Grow market share (33%)
3. Gain technology (5%)

The company attribute that matters most to an acquirer today is:
1. Sales and revenue growth (32%)
2. Attractive business sector (21%)
3. Management strength (19%)

“Dealmakers are working at full throttle to take advantage of this market before inevitable volatility cuts into momentum. Buyers are well aware that there is little margin for error at today’s prices and sellers know this is a great time to get out,” said Patrick Hurley, ACG Chairman and Managing Director of MidMarket Capital Advisors.

Hot M&A Sectors
Dealmakers see the following sectors experiencing the most merger activity in the second half of 2006:
1. Technology (27%)
2. Healthcare and life sciences (18%)
3. Manufacturing and distribution (17%)

Cross-Border M&A
Nearly half (49%) of dealmakers polled expect to be involved in an international cross-border deal during the second half of 2006, and 43% say cross-border deals are becoming more important to their firms. Geographically, they anticipate these deals will be with:
1. Western Europe (46%)
2. China (37%)
3. Canada (31%)

Bad Deals
The primary reason mergers fail, according to respondents is:
1. Poor post-merger integration follow-through (37%)
2. Overpaying (26%)
3. Poor pre-merger integration planning (19%)

Organic Growth
Survey respondents say the sectors that will experience the most organic growth are:
1. Healthcare, life sciences (28%)
2. Technology (20%)
3. Business services (20%)

Executives are also bullish on organic growth based on these elements serving as primary factors fueling organic growth in 2006:
1. An improved domestic economy (62%)
2. Ability to charge higher prices (13%)

3. Historically low interest rates (5%)

Executives caution, however, that energy costs (37% vs. 26% in January 2006) and rising interest rates (28% vs. 34%) are potential impediments to further organic growth.

Private Equity

Private equity professionals say the deal size and type that hold the most promise are:

1. Middle market buyouts (33%)
2. Small buyouts (27%)
3. Early stage venture capital (18%)
4. Later stage venture capital (11%)

Geographically, the areas with the greatest potential for private equity investments are:

1. United States (44%)
2. China (18%)
3. India (9%)
4. Western Europe (7%)
5. Eastern Europe (7%)
6. Latin America (5%)
7. Canada (3%)
8. Japan (2%)
9. Russia (2%)
10. Middle East/Africa (1%)

In addition to looking for new investments and exits for their portfolio companies, 57% of private equity professionals say they are more focused on growing the top-lines of those companies. The ways they plan to increase top-line growth are:

1. Enter into new strategic partnerships (31%)
2. Add to sales team (26%)
3. Add to senior management team (19%)
4. Add new distribution channels (18%)
5. Launch new marketing program (6%)

In an increasingly competitive environment, the primary reason private equity professionals won their most recent deals is:

1. Industry sector knowledge (36%)
2. Reputation or brand of their firm (35%)
3. Lack of competition (34%)
4. Pre-existing relationship with company management (29%)
5. Paid highest price (14%)

Survey Methodology

The survey, conducted in May 2006, was completed by 1,201 ACG members and Thomson Financial customers. Respondents were comprised of private equity, venture capital and buyout firm members (25%); investment bankers, intermediaries, brokers (27%); lenders, finance providers (9%); corporate professionals, entrepreneurs (16%); and service providers, such as lawyers, workout specialists, accountants and consultants (23%). The majority of respondents were from the United States (1,022), where 46 states were represented. Internationally, executives from 40 countries completed the survey.