

State of Middle Market M&A 2015

The Capstone Strategic Report

March 2016

Executive Summary

Capstone conducts an annual survey of company owners and executives to elicit their perspective on M&A in the middle market. The 2015 Survey is our third in the series. It follows the same format and includes many of the same questions. New questions have been added reflecting our most recent work with clients seeking growth through M&A.

Key Findings

1. In terms of **overall growth**, respondents gave a mixed picture of growth for their industries 2015. More respondents saw extremes in their industries. Those reporting high growth grew from 4% in 2014 to 11% in 2015, while those reporting contraction grew from 2% in 2014 to 9% in 2015. Between these two poles, most respondents were seeing modest growth in their industries during 2015 (58%).
2. The **business environment** was seen by most in a positive light, with the majority reporting the same (46%) or an improved (36%) environment for growth.
3. **M&A activity** across the board is mostly seen as the same (36%) or growing (33%).
4. When asked about **strategic goals**, our respondents were evenly split between “selling current products in new markets” (40%), “creating and selling new products in current markets” (36%), and “increasing sale of current products in current markets” (38%). (Some respondents were pursuing more than one goal).
5. **Looking forward**, our respondents are significantly more inclined to engage in M&A in the coming year than the last time we asked (53% certain or likely, compared to 41%).
6. As for **barriers to engaging in M&A**, once again the reasons are often strikingly internal, with respondents citing “lack of resources” (33%) as a primary barrier.

Middle Market M&A Activity in 2015

Confirming Capstone’s own on-the-ground observations, 2015 was an active year for middle market transactions. While many companies are still holding cash on the sidelines, perhaps still nervous from the impact of the 2008 financial crisis, more players are emboldened to expand through external growth. This includes acquisitions, of course, but also minority ownership deals, joint ventures and strategic alliances. When revenues and profits stagnate, some owners and executives realize that the fastest path to growth may be through partnership of some kind with another company.

The full survey, State of Middle Market M&A 2015 can be viewed at <http://capstonestrategic.com/report.html>.