

State of Middle Market M&A 2017

The Capstone Strategic Report

February 2017

Executive Summary

Capstone conducts an annual survey of company owners and executives to elicit their perspective on M&A and external growth in the middle market. The 2017 report is our fourth in this series. It follows the same format and includes many of the same questions. New questions have been added to reflect our most recent work with clients seeking growth through M&A.

Key Findings

1. **M&A activity** across the board is mostly seen as the same (43%) or growing (31%).
2. **Looking forward**, our respondents are evenly split on whether or not they will pursue M&A in 2017. 35% less than 50% likely to execute acquisitions and 35% are more than 50% likely.
3. The **top driver for pursuing M&A in 2017** is access to new markets (47%).
4. Time and attention demanded by the process is the top **barrier to pursuing M&A in 2017** (25%).
5. The most common reason for **not considering M&A as a tool for growth** is lack of appropriate target companies (28%).
6. The **overall growth picture is improving**. Those reporting modest growth rose from 58% in 2015 to 67% in 2016 and those reporting high growth grew from 11% in 2015 to 13% in 2016. Those reporting contraction shrunk from 9% in 2015 to 5% in 2016.
7. The **business environment** is seen by most in a positive light, with the majority reporting the same (50%) or an improved (35%) environment for growth. Compared to last year, fewer executives saw a worsening environment for growth (8% compared to 13%).

Middle Market M&A Activity in 2016

2016 remained an active year for middle market mergers and acquisitions with most respondents reporting the same or growing M&A activity in their industry. However, uncertainty over the U.S. presidential election as well as a more positive environment for organic business growth meant fewer executed acquisitions in 2016 than in 2015. As the political and economic landscape stabilizes we expect a renewed interest in pursuing acquisitions.