

Trendsetter Barometer™

A survey of leading privately held companies in the US

Private-company CEOs—serious about unlocking the capital in their business

Signs of economic recovery fuel plans for M&A activity in 2010

Highlights

- 72% of leading private-company CEOs plan to unlock the capital tied up in their business; 38% say they will do so over the next five years, and 60% of small private business owners say they will monetize via a sale in a reasonably short term.
- 46% of all private companies surveyed say they plan to sell their business; including 60% of small private business owners. Another 36% plan alternative exit strategies.
- 21% are planning business mergers or acquisitions over the next 12 to 24 months, while 30% are planning alliances, joint ventures, or both.
- The timeframe is reasonably short term, and this surge of anticipated deal activity bodes well for the future of M&A.

As the economy recovers and markets stabilize, America's leading private-growth companies are beginning to take a more optimistic view of their prospects. Many are now looking at mergers, acquisitions and divestitures as a means of unlocking the capital tied up in their businesses.

PricewaterhouseCoopers' 4Q 2009 *Private Company Trendsetter Barometer* survey of 251 private-company chief executive officers indicates that approximately 72% of respondents plan to monetize the capital in their business over the longer term, with 38% saying they seriously plan to do so over the next five years.

Why and how companies are planning to monetize business value

Sixty-six percent of leading private-company CEOs who are planning mergers, acquisitions or divestitures over the next five years cite their primary reason as being a desire to *diversify their own net worth and create liquidity*.

Interestingly, only 28% cite financial difficulties as their primary reason, while another 43% say they are driven by a *desire or need to retire*. More small-firm top executives cite retirement as a primary reason than do large-firm senior executives—59% compared to 11%.

Comparisons by firm type and size

According to our survey, more service firms have plans to monetize their businesses than do product firms—78% compared to 67%, and more cite their intended pathway as being outside sales (a net 53% versus 42%).

Interestingly, we found little difference in rationale between international and domestic-only marketers expecting to take action in the short term. For context, firms expecting to monetize the value in their business within five years forecast slower 12-month revenue growth than those looking longer term—8.0% revenue growth versus 10.6%.

Small companies are more active than large companies in planning sales and other exit strategies, but large companies are taking the lead in planning mergers and acquisitions.

Of the 21% of companies planning acquisitions or mergers over the next 12 to 24 months, 60% say they are motivated by the desire to *enter new markets or businesses and extend their customer base*; 51% seek to gain economies of scale, while 47% say *M&A is an integral part of their growth strategy*.

Now for the “how.” Overall, 46% of *Trendsetter* CEOs plan to sell their business. Another 36% say they will take an alternative path: 21% plan to transition the business to next generation family members while 12% are planning a management buyout (MBO). Ten percent say they will opt for an employee stock ownership plan (ESOP)—a higher number than we expected, since it remains difficult to finance these deals. We also find it surprising that only 4% of all companies surveyed are planning an initial public offering (IPO). Given what we are seeing, we would anticipate an uptick in IPO activity over the next 12 months.

Small companies planning more activity

More small companies (those with less than \$100 M annual revenue) plan to exit their businesses via a sale than do those with \$100 M or more—60% versus 24%, respectively. Further, more small companies than large are planning alternative exit strategies—family-member transitions, MBOs and ESOPs.

“The number of small business owners planning to monetize the value of the business through a sale is another positive indicator for future M&A activity,” says Ken Esch, partner with PricewaterhouseCoopers Private Company Services practice. “However, many expect there will need to be a further thawing of the credit markets before we begin to see transactions close.”

Private company CEOs—getting serious about mergers and acquisitions

Eighteen percent of the companies surveyed report having acquired another company or a division of a larger company during the past three years, and the trend continues. Overall, 21% of private companies surveyed say they will definitely, or are very likely to, make business acquisitions or mergers over the next 12 to 24 months. Large organizations (\$268.7 M) are outpacing smaller companies (\$105.5 M) in reporting M&A plans—24% versus 18%, respectively. Large M&A planners forecast growth of revenues at a faster pace than their smaller counterparts over the next 12 months (10.9% versus 7.8%). As for the 60% that are not seeking a merger or acquisition over the next year or two, 57% cited the primary reason as being their comfort with the company’s current internal growth.

“The survey responses indicate that there may be an increase in strategic acquisitions by larger companies, which is a positive force in the M&A market when coupled with sellers looking to monetize their business,” says Esch. “Now that the economy seems to have stabilized, strategic buyers are looking at this as an opportunity to expand geographically or increase their portfolio of products or services.”

Over the next 12 to 24 months, 30% of these leading privately held businesses seriously plan to complete alliances, joint ventures, or both. Similar to those business leaders planning mergers or acquisitions, CEOs seeking alliances and/or joint ventures say their primary reasons for doing so are to enter new markets or businesses (76%) and to extend their customer base (65%).

Portrait of an attractive candidate

A large minority of CEOs surveyed (45%) say they expect to see more competitiveness in terms of acquiring attractive M&A targets over the next 12 to 24 months. So what makes a target company compelling?

Typically, privately held companies seek candidates that:

81%

Operate in their own industry

64%

Have been established for at least three to five years

64%

Can be effectively integrated, consistent with their strategic plans

59%

Offer market or product expansion

47%

Offer geographic expansion

Small companies are more responsive to these factors; 46% are likely to seek a candidate offering skilled professionals or technicians. Large companies are above average (55%) in seeking geographic expansion.

“In addition to strategic acquisitions, many companies are looking to alliances or joint ventures as a way to accelerate revenue growth,” Esch adds. “Alliances and joint ventures also provide companies with a way to access high-growth markets—China, Brazil, India or Russia for example—where they don’t have much experience doing business.”

Perceptions around M&A pricing

Forty-two percent of survey respondents expect higher prices or valuations on M&A deals in the coming 12 to 24 months, while 28% expect prices and valuations to remain status quo. By contrast, 25% expect to encounter lower prices or valuations going forward.

Growing optimism—spurring deal activity

Long story short, prospects are looking up. With recovery underway and the markets stabilized, private-company leaders are turning their focus toward unlocking the value in their businesses through mergers, acquisitions and divestitures. When asked specifically about their perceptions of candidates, nearly two-thirds of the CEOs surveyed said they expect to see more attractive and viable candidates on the scene 12 to 24 months from now. What’s more, it is likely that frozen credit markets will thaw during that timeframe, easing access to deal-financing capital.

This positive mindset, and the resulting uptick in planned deal activity over the short term and beyond, bode well for the future of M&A.

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* tracks the business issues and best practices of privately held US growth businesses. The fourth quarter 2009 results incorporate the views of 251 chief executive officers (CEOs/CFOs) of leading US privately held growth companies, averaging 191.2 million in revenue/sales and including large, \$300+ million private companies.

Profile of management panel demographics:

Average number of employees.....	668
Average revenues	\$157.6 M
Average enterprise revenues	\$191.2 M
Average five-year growth.....	103%

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

For more information about Barometer surveys, including recent economic trend data and topical issues, please visit our Web site: www.barometersurveys.com