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MIDDLE MARKET M&A

Handbook for Advisors, Investors,
and Business Owners

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ADDITIONAL PRAISE FOR *MIDDLE MARKET M&A*

“As a business owner who has done several M&A deals, and as a former Chair of the Global Entrepreneurs Organization (EO), where I knew many business owners who did M&A deals, I found the information and practical advice in this book very helpful. We all read about the big deals that happen, but understanding the truths about small to middle market M&A is very different. *Middle Market M&A* is a great guide to navigating the entire process.”

—David Anderson Founder of several businesses, EO
Arizona member

“It's great to see a book recognize the middle market like *Middle Market M&A* does. Having owned and eventually selling a middle market company I sometimes felt we were, until now, the forgotten segment in the business world. This book is full of knowledge and insight and after reading it I no longer feel like the forgotten company owner!”

—Jim Baker Entrepreneur and author of *The Adventure Begins When the Plan Falls Apart*

“Whether selling to a strategic buyer or private equity firm, business owners and their advisors will find *Middle Market M&A* a go-to resource as they think about and work through the deal process.”

—Rush Benton, CFA Senior Director of Strategic Growth,
CAPTRUST

“Combining business, corporate strategy, legal, tax and accounting considerations and approaches involved in today’s middle market M&A transactions into a single, thorough, yet easily digestible format, I would consider the Middle Market M&A Handbook a “must have” desk side resource for today’s deal professional operating in the middle market segment.”

—Scott Bowers, Partner, Womble Bond Dickinson (US)
LLP

“All business owners will eventually exit their company. For those that want to proactively plan and know their options, *Middle Market M&A* is the go-to guide for understanding the process and gaining insights into how deals work and having an edge in getting the most value. Even if your exit is to the next generation, this handbook provides a perspective on value creation and making the succession and transition easier. *Middle Market M&A* should be a required read for every owner and entrepreneur.”

—Bill Buxton, Vistage Chair

“Having participated in middle market M&A over the past 25 years, I've learned how successful transactions hinge on many factors, beginning with the initial idea of a deal—to getting it closed. This handbook provides a rare and unique overview of the spectrum of topics and concepts critical to understanding and optimizing the outcome.”

—Lanny D. Bynum, CPA Thompson, Price, Scott, Adams
& Co. P.A.

“An owner’s business is often their largest asset. This handbook helps entrepreneurs and business owners properly consider their goals and objectives to enable them to present their company in an intentional manner to maximize the value of an asset they have often spent a lifetime building.”

—Terry J. Carlton, Managing Partner, Jordan Price Wall
Gray Jones and Carlton, PLLC

“The new edition of this handbook for advisors, investors, and business owners on middle market M&A is an outstanding update for anyone involved in mergers and acquisitions. It is a comprehensive, well-written, and stellar contribution to the M&A literature and to the M&A practice. It is a *must*-buy for businesses, investors, and advisors, not only for middle market M&A but for anybody interested in the field more generally.”

—Professor Sir Cary Cooper, CBE Co-editor, *Advances in Mergers and Acquisitions* Series Alliance Manchester Business School, University of Manchester, UK

“Whereas similar efforts barely manage to scratch the surface, the *Middle Market M&A* handbook represents a thoughtful and comprehensive treatise on topics of relevance to stakeholders across the transaction spectrum. An equally must-have resource for serious M&A professionals and the clients they serve.”

—Michael C. Gillette Shareholder, Polsinelli PC

“For the M&A market, sellers, buyers, and advisors alike can find a lot of helpful information here. This highly readable guide is especially relevant for the middle market space, where mom-and-pop meets the highly resourced, sophisticated worlds of corporate finance and private equity. This reference contains a detailed survey of M&A guidance including areas such as: reviewing seller’s goals and aspirations; understanding of market segments, types of buyers, and proper valuation; optimizing finance and capital structures; finding buyers; and structuring a deal so both sides can succeed. All of it is delivered in plain English, with practical thoughts on updated technology, ethical standards, and best practices. Well done!”

—Chris Hostetler Financial Advisor, Hilltop Wealth Advisors

“It is wonderful to see the second edition of *Middle Market M&A*, particularly in light of all the significant changes in this market over the past 10 years! As an M&A attorney, mainly on the sell-side, I frequently point my clients to this resource so that they are more knowledgeable about the M&A process. I am confident that these clients who delve into the handbook have better outcomes and fewer surprises in their transactions.”

—Fred D. Hutchison Hutchison PLLC

“Great collection of the how-to's of M&A. No BS advice. Highly recommend.”

—Bharat Kanodia, ASA Founder and Chief Appraiser,
Veristrat LLC *Inc. Magazine* contributor

“Having practiced corporate law for almost 20 years and teaching M&A to law students for the past 5, I have come to appreciate the complexity and nuance around M&A transactions. *Middle Market M&A* provides a well-organized and thoughtful journey through all of the key elements of a middle market M&A transaction. I have found the clear and detailed presentation of the material to be accessible to both seasoned practitioners and novices alike, whether in the legal, accounting, tax, or investment banking profession.”

—Geoff Krouse, JD Assistant Dean for Alumni & Development and Senior Lecturing Fellow at Duke Law School; Of Counsel at Smith Anderson LLP

“This updated second edition of the *Middle Market M&A* handbook is a great resource for owners and advisors involved in the M&A process. It covers all the important topics in working through sell-side and buy-side deals, especially at the lower end of the market.”

—Brent Kulman Managing Director, Business Development, Five Points Capital

“As an entrepreneur having sold my landscaping business to a large industry leader, understanding the terms and concepts outlined in *Middle Market M&A* was highly valuable. This handbook is a great tool to have as you think about selling your company.”

—Don W. Long Best-selling author, speaker, and transformational leader former; owner of Long Brothers Landscaping

“Often overlooked or discussed only as an afterthought, Marks and his co-authors have focused on an increasingly important part of the vibrant M&A market—the so-called middle market where indeed the most deals take place. This market is huge as are the implications for buyers of mid-sized companies, their founders and sellers, the myriad advisors, investors, and business school students. This book should be on the bookshelf of every one of those groups. This handbook provides not just an overview of the necessary elements for success in mid-market dealmaking, but is a rigorous and, importantly, up-to-date compendium of the broad range of issues that anyone dealing in this market will encounter.”

—Professor Scott Moeller Director, M&A Research
CentreBayes Business School (formerly Cass), City,
University of London

“It is not a question of if, but when, you will sell your business ... and when you do, this handbook should be front and center during the process. Entrepreneurs are the best at growing businesses ... the guidance in *Middle Market M&A* by these experts is what is needed to translate your hard work and passion into valuable business building and successful M&A!”

—Randy H. Nelson, Serial Entrepreneur Author of the
Decision Series for Entrepreneurs

“Understanding how private businesses access capital for growth and successful owner transition is one of the most critical and least understood parts of the small- and medium-sized business economy. This second edition of *Middle Market M&A* is a must read for anyone who needs to master the ever-evolving dynamics of the private capital marketplace. There is no better reference book for equity investors, private company owners, and the advisors that unite them.”

—BRETT PALMER, President Small Business Investor Alliance (SBIA)

“A valuable M&A handbook. This edition of *Middle Market M&A* provides readers with a solid understanding of where the middle market and private capital markets currently sit while going into best practices from a sell-side and buy-side perspective. The technical section covers vital information and doesn't just scratch the surface, but goes into detail that all M&A practitioners, whether they have 2 or 20 years of experience, will find beneficial.”

—Kison Patel CEO and Founder of M&A Science

“I have been doing mid-sized M&A deals for over 30 years and *Middle Market M&A* is the most comprehensive guide I have come across. The glossary alone, with its extensive definitions, could be a book itself. As the authors suggest, there is often an “asymmetry of knowledge” in the middle market because most entrepreneurs only sell their business once, whereas buyers can be frequent practitioners of the art. Readers of *Middle Market M&A* can minimize this disadvantage when armed with this impressively complete book.”

—Reed Phillips, CEO of Oaklins DeSilva & Phillips and
author of QuickValue

“The authors and contributors to this second edition provide practical guidance in the planning and execution of M&A transactions for founder-led and family-owned businesses. Their experience and approach shine through in *Middle Market M&A: Handbook for Advisors, Investors, and Business Owners*.”

—Gerald Roach Firm Chair of Smith Anderson;
corporate, securities, and merger and acquisition lawyer;
and—Byron B. Kirkland, Managing Partner, Smith
Anderson; corporate, private equity, and mergers and
acquisition lawyer

“I am often asked whether there are any differences between a middle market deal and a traditional upper market deal. I just say ‘Read This Book.’ It has everything you need to think about in structuring, negotiating, and closing a middle market deal from the advisors I would hire to lead the deal.”

—Margaret Rosenfeld Chief Strategy and Legal Officer,
Deltec International Group

“Middle Market M&A is a superb reference for C-suite members and professionals serving the middle markets. The authors provide a unique perspective on how to structure transactions and manage organizations to maximize enterprise valuations. This book is full of terrific guidance for understanding and maneuvering within the middle markets, with clear and cogent advice on managing to a timely and certain closing and transaction.”

—Larry Robbins Partner, Wyrick Robbins

“Middle Market M&A is a must-read and a valuable practical resource for anyone who spends all, or any part, of their day in middle market corporate transactions—whether as an advisor, investor, buyer, seller, or student. It doesn't matter whether you're a veteran or a rookie, this book will help you navigate the always changing and challenging world of M&A. In fact, this is not just a book to read; it's a book to use. Make notes in the margins, dog-ear the pages, skip around out of order, keep it nearby as a handy reference, and refer to it often whenever you're faced with old and new problems to solve. This is the one book to have in an increasingly overwhelming array of M&A resources.”

—Mike Saber Partner, Smith, Anderson, Blount, Dorsett,
Mitchell & Jernigan, LLP

“Middle Market M&A provides a comprehensive and approachable overview of merger and acquisition transactions. That is not surprising to me, as it reflects the real-world insights and experiences of the writers in getting deals done.”

—Randy Whitmeyer Partner, Morningstar Law Group

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Middle Market M & A

***Handbook for Advisors, Investors,
and Business Owners***

Second Edition

**KENNETH H. MARKS
CHRISTIAN W. BLEES
MICHAEL R. NALL
THOMAS A. STEWART**

WILEY

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In support of doing God's work, and for our families.

Preface

Deal markets go through cycles just as the broader economy does. The volume of deals flows or ebbs, influenced by interest rates, overall economic conditions, demographic or industry trends, the availability of capital, and other factors. These factors also affect the price of deals (i.e., the average multiple of revenue or EBITDA [earnings before interest, taxes, depreciation, and amortization] a buyer is willing to pay), which also rises and falls. The need for guidance is constant, however, whether the mergers and acquisitions market is bullish or bearish, whether it favors sellers or buyers. As you will see in this book, middle-market capital markets, which are mostly private, are fundamentally different from public markets. Transactions are different in private markets. The participants—buyers, sellers, and the advisors who help each party—also tend to be different; many big investment banks do not do deals in the middle market, for example. Most sellers (and many buyers) are inexperienced—selling a founder-led business is almost always a once-in-a-lifetime event. Acquisitions involving private companies are largely unregulated by groups such as the Securities and Exchange Commission.

For all these reasons, the body of knowledge for middle market M&A differs in critical ways from what is taught in corporate finance classes and practiced by global enterprises, big investment banks, stock exchanges and their regulators, and others who are involved in deals that make headlines. Middle market M&A rarely moves markets or rates a mention on CNBC. But it makes all the difference to a founder and a founder's family; it can lead to an infusion of capital that transforms the economic life of a

community; it can give employees a whole new range of opportunity; it can create large fortunes; it can transform a niche player into an industry powerhouse. Or it can be bungled.

If you own, operate, or advise a middle market company, one with \$5 million to \$1 billion in annual revenues, understanding middle market M&A is important for you and your clients when thinking about shareholder liquidity or selling or buying a business. How can you evaluate different options and opportunities? How can you improve the odds of getting a deal done? If you are the prospective buyer of middle market companies, how can you better understand sellers, and how can you make offers structured so that, once you close a deal, you can make it successful afterwards?

Middle Market M&A: Handbook for Advisors, Investors, and Business Owners is a foundational reference for those advisors, leaders, and executives involved in the lifecycle and process of M&A transactions. This is the second edition of this book. The first, published in 2012, was based on the program for the Certified M&A Advisor® (CM&AA) credential originated and led by the Alliance of Merger & Acquisition Advisors (AM&AA). When it was published, the market for private companies was beginning to come back as the financial crisis of 2008 faded and the subsequent Great Recession slowly began to release its grip on financial markets and a long drought in M&A activity was coming to an end.

This edition appears after a very different economic shock: the sudden stop-and-restart impact of the Covid-19 pandemic. That event and its extraordinary human cost brought deal making to an almost complete halt in the first half of 2020. With employment and economic activity plunging, no one could have anything more than a

gambler's instinct for the short- or long-term prospects of a company or the true value of a deal. While Covid-19 itself persisted (and persists, as of this writing), its impact on the deal market disappeared almost as quickly as it arrived. By the second half of 2020, middle market M&A activity was not just back, but at a record pace, and that pace continued into 2022, though we now face a potential recession.

But while the volume of activity is back to (or above) “normal,” the nature of middle market M&A has changed in fundamental, structural ways. Some of these changes were sparked or accelerated by economic shocks, but others are the result of long-term trends. Five stand out.

First, middle market M&A has become a much bigger business. In 2021, the total global investment in middle market M&A was nearly \$5 trillion, compared to just under \$2.5 trillion in 2012. That is just the money that was put to work in deals. As of this writing, there is an estimated \$1.3 trillion in “dry powder”—capital held by private equity funds, family offices, pension funds, and others whose owners are looking for middle market companies. The recent jump in the number of deals may be partly driven by pent-up demand after the Covid shock, but it has long-term causes, too, including the massive intergenerational wealth transfer now underway as the Baby Boom generation retires and boomer-owned companies come on the market.

It is not just that the pool of capital has grown; a second major change is in who is providing the capital and who is making deals. A decade ago, institutional investors such as pension funds included private equity as a relatively minor part of their portfolio of so-called alternative investments. Today middle market M&A is mainstream, not alternative, and there is scarcely a pension fund that does not have a separate asset category for middle market private equity investing. In 2012, more than 75% of middle market M&A