



Sellers Market for New Jersey M&A

By CRAIG ALLSOPP, CBI

Market data from leading reporting agencies show that mergers and acquisitions of privately held New Jersey companies increased by 16.8% in 2005, a trend that is not expected to slow down anytime soon, say brokers and lawyers who actively work with companies in the small and middle markets.

The bullish climate is being fed by rival investors competing for good companies, available capital to fund acquisitions and a demographic trend of aging baby boomer owners starting to consider their exit options.

"I would say that M&A remains the liquidity event of choice and will remain so" says Michael Weiner, a mergers and acquisitions attorney with Pepper Hamilton in Princeton. "Private equity funds have substantial capital that they need to invest, so the appetite for platform and add-on transactions should continue to be robust."

Not surprisingly sales of smaller companies are leading the way. Just six of the 239 transactions covered by research firm Capital IQ topped \$100 million in 2005 while dozens of smaller transactions in the \$5 million to \$10 million range took place.

For sellers the increase in activity means higher sales prices. The numbers show prices paid for "mid-size" companies – those with revenues of \$10 million or higher – averaged 6.2 times EBITDA, a seven-year high. This is up from a multiple of 5.3 times earnings in the dark years of 2001 and 2002.

Investor competition is driving prices higher, says Steven Cohen, a partner at the law firm Morgan Lewis in Princeton. Cohen and others anticipate an active market in 2006 as strategic corporate buyers vie for good companies with Private Equity Groups (PEGs).

"The convergence has continued into 2006 and has not just led to an increased number of transactions but to an increase

in acquisition prices and acquisition price multiples compared (to earlier years)," said Cohen.

While some sectors are "in favor" there is buyer demand across industries. New Jersey sales in 2005 included hotels, banks, vitamin distributors, industrial firms, investment businesses, communications companies, research firms, pharmaceutical manufacturers, data services, water companies and retail chains, among others.

"We are active buyers," says Robert Winneg, founding partner of Winwood Capital Group, a private equity firm near Boston. "We look at firms up and down the East Coast. We like companies with strong management - consumer products companies, business and consumer services firms, manufacturing and distribution."

Main Street Market Also Healthy

Regional business brokers say the same trends – retiring owners, available capital and lots of competitive buyers – are having a similar effect in the "Main Street" market – smaller companies that range in size from \$500,000 to \$5 million.

"Business acquisition and demand during 2005 were strong for both the mid-market and the small business segment," said Steve Wain, president of the Mid-Atlantic Business Brokers Association, a professional group with members in New Jer-

sey, Eastern Pennsylvania and Delaware. "Continued corporate turnover created both a pool of qualified buyers, as well as marginally higher prices for well performing businesses."

Wain said some intermediaries are cautious about 2006, due to potentially higher interest rates, but that he has not seen any slowdown in demand for good businesses with growth potential.

Historically, small businesses have sold for 2 to 3 times seller's discretionary earnings, or SDE, according to Business Valuation Resources, a company that tracks private transactions. Last year was a good year for sellers as business traded at the high end of the range.

What does this mean for the owners of smaller companies?

Frank Merenda, a director of MABBA, and a broker near Philadelphia says business owners never really know when conditions may change.

"There's been a flurry of activity in recent weeks," he said. "If a business is profitable and the owner is considering selling in the next two or three years it's time to start getting his business ready for sale now."

Craig Allsopp is president of Harbourton Group LLC, a transaction planning and brokerage firm in Hopewell.



MC Mercer Commercial Construction, L.L.C.

General Contractors For Interior Renovations & Commercial Fit-Outs for Warehouse, Office, Retail & Flex Space. Specializing in tenant improvements for both landlords and tenants

With more than 30 years combined experience, we complete your project on time & within budget!

john Schragger
REALTY, L.L.C.

Call John Schragger
(609) 219-6000
Fax: (609) 219-1330