10 M&A Insights

Distribution executives, investment bankers and advisers share tips for navigating the current mergers-and-acquisitions landscape, including reasons behind 2016's flat activity and best practices for approaching a deal.

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#1

Energy, price transparency and the strong U.S. dollar have slowed M&A across distribution.

"All of those key themes have meant that it's been a little harder to demonstrate the growth of a platform, and there's been a slowdown in upper middle market M&A this year. But at the same time, distributors are continually looking for ways to augment the top line so they have been active with bolt-on acquisitions."

- **Jason Kliewer**
Co-head, distribution investment banking group, Baird

#2

Strategic buyers are looking to buy growth. Financial buyers are going to deploy capital.

"What's going to happen the remainder of the year is a tough question to answer. There's still tons of cash on the sidelines. The strategic buyers are dominating the market right now, but that comes in waves, as well. There's a trillion dollars of buying power in private equity right now, and they have a period of time that they need to invest that money. With every day that passes, that money needs to be invested, and there's increasing pressure to invest that money."

- **Jim Miller**
Principal and founder,
Supply Chain Equity Partners

#3

Effective M&A requires balance.

"You want to improve the top line, but you don't want to do it at the expense of the bottom line. You want the top line to grow at the same slope as the bottom line. If you do too many, too quickly, your top line will grow but your bottom line will go the other way."

\- **Bob Mucciarone**
COO,
F.W. Webb Co.

#4

Know yourself before identifying an acquisition target.

“Look at your core business today and say, ‘What am I really good at? What do I do well and do better than someone else? What is close to that? I think I can create some traction and some scale.' If you have an alignment … then maybe it makes sense. Know yourself first. Chasing volume for the sake of volume, or chasing geography for the sake of geography, I wouldn’t advise that for anyone.”

- **Dave Gabriel**
  President,
  Sonepar North America

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#5

Look beyond the numbers for a true assessment of an acquisition target.

“We are always looking at the talent. The financials are what they are; the key to us is are we acquiring a talented team of people that can grow the business with more resources and a different risk tolerance. Some people can do that, some can’t, regardless of the company.”

- **Dan Tinker**
President and COO,
SRS Distribution Inc.

#6

Ask yourself this critical question before acquiring growth.

"When you talk about acquisition, the first part is where do you add value? What's your value proposition? There's a lot of really stupid acquisitions where people buy things and they destroy shareholder value."

- **Mike Marks**
Co-founder,
Indian River Consulting Group

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#7

A distributor hoping to get market value or better must get their business in order first.

"M&A is not a flip-the-switch activity. It does take a little while to successfully sell a business. So if you're going to move down that path if you've made a strategic decision to sell, it takes a little bit of time to execute that strategy to get a deal done."

- **Reed Anderson**
Head of industrial distribution practice,
Houlihan Lokey

#8

Align your business investment with your timeframe for selling.

If you're looking to exit the business quickly, focus on "cleaning your financials, getting your inventory cleaned up, getting your receivables cleaned up." But "on a five-year plan, the advice we give distributors is to build your business as if you're never going to sell it. Invest in the people, invest in training, invest in IT systems, invest in infrastructure, invest in the product lines."

- **Jim Miller**
Principal and founder,
Supply Chain Equity Partners

#9

Invest in your business – especially technology – and improve the "customer experience."

"You see the better metrics with companies that know how to create a better, more progressive customer experience. You also see it evidenced in their growth rates, as well, so that companies growing above the industry growth rate – implying that they're taking some share from other companies – they either have a disruptive technology to help them deliver a better customer experience or just a better approach to making their customers happier. Otherwise it's harder to differentiate themselves."

- **T.J. Monico**

Head of distribution, investment banking,
KeyBanc Capital Markets

#10

Savvy executives start planning now for the next generation – or next owner – to take over.

"Real shareholder analysis is where you sit down with somebody and say, 'How do I get out of here? Do I bring somebody in to run it? Do I have offspring to pass it off to? Do I want to sell it? Do I want to keep it in the family?' Having those discussions before the fact, so people can start to think about what it is they want to do, creates a lot more shareholder value."

- **Mike Marks**
Co-founder,
Indian River Consulting Group

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