

Mergers & Acquisitions Magazine Q&A Excerpt: Chris Stradling Shares Outlook

CONTRIBUTORS

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***Buyers should specialize,
recommends Christopher
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WHAT IS YOUR OUTLOOK FOR MIDDLE-MARKET M&A IN 2019?

We're anticipating strong growth for 2019. We have M&A bankers with deep expertise in a variety of industries and what's great about that – beyond being able to serve clients – is that if there is a cyclical impact to one, others are likely not feeling that pressure. The mid market is powering the global economy – our middle market index continues to prove out that the private markets are providing more stability and sustained performance than the public markets.

DO YOU EXPECT AN ECONOMIC DOWNTURN?

I don't see a major correction happening in 2019. Companies overall continue to perform well. Low unemployment, rising wages and low inflation are all driving strong consumer confidence and spending. That said, it seems reasonable that sometime in 2020, we will see a modest economic correction.

WHAT OPPORTUNITIES AND CHALLENGES DO SELLERS FACE?

White hot market – M&A sellers today benefit from very strong M&A market that is likely to last through and beyond 2019. Slow growth – while the economy is performing well it is still only growing at low single digit rates. This means that only a small portion of companies will be able to consistently grow at double digit rates. Those that can, will certainly gather significant interest from acquirers. Valuation asymmetry between buyer and sellers – with valuations creeping ever higher, sellers often develop unrealistic valuation expectations for themselves. At the same time, buyers get uneasy at such high valuations and then fixate on downside risk. The combination of these two dynamics is, in some cases, creating artificial value gaps between buyers and sellers.

WHICH SECTORS AND WHICH TYPES OF DEALS ARE MOST PROMISING?

Specialize, specialize, specialize. With heavy competition, successful investors will have to form and continue to enhance specific areas of expertise.

The days of generalist investors using only financial engineering to drive 25%+ IRRs are long gone. Rather, those that thrive in the current market will have powerful insights in choosing the right investments and will provide significant operating value to their investments post-closing.

HOW IS THE LENDING ENVIRONMENT AFFECTING DEALS?

The market is still pretty aggressive. Debt multiples are still 1 or 2 turns ahead of historic norms. Interest rates are still low. And there remains an over-abundance of debt capital available, so the supply/demand curves continue to favor potential borrowers.

WHAT OPPORTUNITIES AND CHALLENGES DO BUYERS FACE?

On the deal side, competition for A-quality assets has never been greater. This is driving not only higher prices, but abbreviated sale and due diligence processes as well. In many cases, the winning buyers try to jump ahead of a sale process and perform third-party due diligence in advance of any formal bid. This is both a challenge and an opportunity. Winning investors need more than ever to specialize in certain sectors such that they can quickly and confidently select and pursue the best assets. On the operational side, companies that will thrive in the future economy will be very adept at harnessing the power of rapid technology while staying on the cutting edge of evolving consumer preferences.