Insights: Alerts

Top Takeaways: State of the Current Southeastern M&A Market

JANUARY 4, 2017 Written by David A. Stockton

Kilpatrick Townsend partner **David A. Stockton** recently joined other industry leaders at the "BDO 2016 Year-End Client Conference" in Atlanta. Mr. Stockton, along with fellow panelists representing investment bankers, fund sponsors and due diligence experts, discussed the **"State of the Current Southeastern M&A Market."** They provided timely updates and insights on the state of the markets and trends and developments in M&A transactions that impact both public and private companies.

Top takeaways from the event include:

- Middle market M&A in the Southeast is strong, even if off a little from 2015 levels. Macrothemes driving the markets are low interest rates, accumulated cash on corporate balance sheets, and private equity dry powder at historically high levels.

- Since the election, optimism about the economy and M&A markets has been building. This is due to expectations of tax relief, broad deregulation and stimulative economic policy, together with the uncertainty caused by the election being diminished. Optimism up and uncertainly down means that many businesses are more actively considering engaging in transactions, both selling and buying.

- The lending environment is robust, and with the potential rollback of Dodd-Frank Act limitations, that environment may get even stronger. Many alternative lenders have come into the market, providing more competition to banks.

- Mr. Stockton described how the use of Reps & Warranty Insurance has exploded in the last 3-5 years, and is facilitating the closing of many M&A transactions. This dramatically increased usage is due to less expensive premiums (typically 2-4% of coverage amount), less significant coverage exclusions, and the compressed underwriting process timeline. The result is a more meaningful opportunity for buyers and sellers to take risk off the table.

- Mr. Stockton also discussed how earn-outs can facilitate closing a deal by bridging valuation gaps. The downside is that they can also lead to post-closing disputes over how the sold business is managed. The best way to avoid such disputes is to address post-closing operating controls in the definitive agreement. Negotiating these matters can delay signing or even kill a deal, but is worth the effort where earn-out payments are important to the seller.

Related People



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