



MERGERS &amp; ACQUISITIONS



# MERGER MANIA

2018 is shaping up as a banner year for M&A, according to the advisers in the middle of the deals

BY BRETT JOHNSON

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**H**ow hot has the mergers and acquisitions business been in the state lately? Some would say you can chart the industry through its relationship with tourism and leisure — or lack thereof.

At least, that's the backhanded way **Bob Anderson**, chair of the Mergers and Acquisitions Group at **Lindabury, McCormick, Estabrook & Cooper P.C.**, looks at it.

"I went nine straight months without a vacation day, because there was just one thing after another coming through the door," he said. "Starting last summer through today, those months have probably been my busiest of the past 30 years."

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## Focus On ... Mergers & Acquisitions

# The impact of tariffs

Advisers fear one casualty of a trade war will be the thriving market for mergers

BY BRETT JOHNSON

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The last thing a metal fabrication company that does business in France would want to wake up to is news of steel tariffs.

But, that's just what happened to one local business recently.

Daniel Everingham, a leader at mergers and acquisitions advisory firm **Everingham & Kerr Inc.**, said he and others in the field feel there are some serious concerns about tariffs and retaliatory actions putting a damper on deals — even in the best market for transactions that anyone can remember.

“Depending on the business, there's no doubt it's going to come up in discussions of potential issues,” Everingham said.

Experts in the field are still trying to figure out what all the implications of an international trade war could be for the thriving market for merger and acquisition activities.

Bob Anderson, who works with clients going through transactions at **Lindabury, McCormick, Estabrook & Cooper P.C.**, hasn't had a client directly tied to steel or other categories threatened by expected countertariffs.



Bob Anderson

Regardless, he foresees potential for the talk of trade wars to permeate other sectors of the economy, potentially adversely impacting other business segments. Worst case, this could make for a stifling of the free-for-all in business buying and selling that's going on currently, he said.

### Conversation Starter

Reach Dan Everingham of Everingham & Kerr at: [dre@everkerr.com](mailto:dre@everkerr.com) or 856-546-6655, ext. 115.



Daniel Everingham, a leader at mergers and acquisitions advisory firm Everingham & Kerr Inc. — EVERINGHAM & KERR INC.

“It definitely has given a lot of different buyers a scare, even if it hasn't outright stopped any deals,” Anderson said. “In any case, it will complicate analysis.”

As a rule, he further explained, the uncertainty surrounding how much tariff retribution will continue to escalate doesn't lend itself to the conditions under which

deals like to exist.

“It's a headwind because, when you're making a deal, you like certainty,” Anderson said. “You have to be able to predict what earnings are likely to be and what the future is going to look like. The more issues that come up as wild cards, like trade wars, the more difficult it is to do projections of the

### Hacking impacting M&A

An average number of days cited for a business to even realize it was hacked: 200.

“And that means a business is potentially stepping into the middle of that during a merger or acquisition,” said Bob Anderson, an attorney at Lindabury, McCormick, Estabrook & Cooper P.C., who focuses on these transactions. “And that can really throw a monkey wrench into projections.”

Anderson said this is becoming a bigger deal as time goes on.

“It's now a key part of the due diligence process for a buyer,” he said. “It was a headline issue in the past year, and, today, cybersecurity and potential data breaches are looked at in every single deal. Businesses need to know they're not stepping into minefield if they acquire a company.”

company's future.”

Federal policy as a whole seems to be a mixed bag for the appeal of buyouts.

“(Because), with the tax bill passing, a lot of companies have expected better corporate earnings in a way that may counterbalance any pressure on valuations,” Anderson said.

Everingham doesn't think the future of New Jersey's market for transactions is contingent on political maneuvers, despite the concern of some businesses affected by tariffs.

“The rebound of (M&A) started a few years ago — before any of these issues,” Everingham said. “Now, we're in the best time for deals in decades, and nothing so far has slowed it.”

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But New Jersey's M&A professionals can't feel too bad about it; they're all experiencing a much-needed break from the Great Recession's long-lasting slowdown of deals.



**Bob Anderson**

Buoyed by an economic bounceback, private equity's capital flow and foreign buyers, interest in mergers and acquisitions continues to rise for local firms facilitating these deals. It's a high-water mark that comes with excitement as well as concern, because the tide may soon turn back.

For the time being, **Alan Scharfstein**, CEO of the **DAK Group**, said his advisory firm is as active as it has ever been.

"We had one period in which we did five deals in seven weeks, which is crazy for us," he said. "We're seeing record levels of activity. And they were all terrific transactions, what I'd call high valuations."

Because he works off a pipeline of future deals that often have enormous lead time prior to being closed, Scharfstein said his firm has a good idea of what's to come — at least in the short term.

Based on that, his forecast is that this year will be a strong one for mergers and acquisitions, and next year will start off similarly robust. Beyond that, he doesn't have much certainty.

That uncertainty in itself has become a driver for many middle-market business owners on the seller side of transactions.

"These business owners have started to worry about how long the great deals are going to continue, and that's driving a lot of their interest in M&A activity," Scharfstein said. "They don't want to miss the train; they're afraid it's leaving the station."

Despite reaching a seeming top-dollar peak of valuations today, buyers still believe

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Alan Scharfstein, CEO of the DAK Group. — DAK GROUP

their greatest potential growth will come through acquisitions of at least a high enough level to gain partnerships. Private equity firms are also more eager than ever to bolster portfolios with new acquisitions.

That has been a boon for baby boomer business owners, who had their plans for retirement put on hold somewhat by the past decade's period of economic downturn. People overseeing today's transactions are citing retirement as an increasingly common motivator for sellers.

"Business owners' desire to retire is definitely a factor," Scharfstein said, who added that his firm also had "a great deal of younger business sellers, not yet near retirement age, selling because they see it as the perfect time for it."

Business owners face the decision of whether to sell the whole business, or part of it to take some money off the table and capture the upside of a good market for sellers. Younger business owners are often hedging their bets with the latter option, M&A experts say.

Just as the profile of today's business seller varies, so do the industries involved in the uptick of transactions. **Jeffrey Cassin**, counsel at **Scarinci Hollenbeck**, said there are a lot of sectors that are experiencing the present flurry of mergers and acquisitions.

"But the buzz is that technology is

going to be driving M&A for the balance of the year," he said. "It's already happening, with companies buying up tech tools that augment existing products."

Cassin said there's a growing interest — mostly among large corporations — in making acquisitions to add digital service lines, such as purchasing a smaller company for its proprietary software solution.



**Jeffrey Cassin**

"These are different kinds of transactions than a traditional merger of equals, because these startups tend not to be offering existing revenues or business lines, but, rather, the ability to augment the acquirer's assets," Cassin said.

**Daniel Everingham**, owner at **Everingham & Kerr Inc.**, cites that trend as a factor in the banner year his Mount Laurel-based M&A advisory firm is headed toward.

He added that it's not limited to the local tech sector, providing as an example one of his

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## Going global ... isn't always easy

Some local mergers and acquisitions advisory firms, such as the DAK Group, are dealing with buyers outside the United States in about half of the transactions they are doing today.

But, despite the tremendous interest in local markets by foreign entities, it's not always easy to make these deals work.

Daniel Everingham of Everingham & Kerr Inc. fields calls from interested parties abroad. But only a handful of the 500-some deals he has been involved with have been successful cross-border transactions.

"In the lower middle market segment, the transactions are often too small for foreign buyers," he said. "Also, (the U.S.) is the most optimistic country in the world, and the country's buyers tend to pay more, from our experience. I think it's because people have the perception that America means lawyers; so, even when they make the most sense as buyers, they don't always give the best offer."

Everingham referenced a transaction involving negotiations with a German company. That company, which was told it didn't have a high enough offer to acquire another company, lost out to a bid from a stateside private equity group. The company later regretted it.

"Part of it is it seemed like they didn't believe us; there seemed to be a communication or cultural barrier," he said. "So that can be a serious obstacle, too."

recent deals: a mouse breeding company that had a multibillion-dollar corporation buy it to expand its own internal research capabilities.

"Certain industries are truly explosive and growing, but, at the same time, there's just no industry that has been left behind," Everingham said. "Everyone is getting in on deals today."

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