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2012 Mergers & Acquisitions Survey Results

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Executive Summary

"Green shoots?"

In 2007, companies completed more than 12,000 M&A deals globally, with values totaling over $3.5 trillion.[1] But those volume and dollar records have since been buried under years of bad news. Dykema's 2012 Mergers & Acquisitions Outlook Survey indicates that the mortgage meltdown, the recession, the European debt crisis, the aftereffects of the presidential election and now the "fiscal cliff" have pushed expectations for 2013 to a near record low. The current year is on pace to be the slowest for M&A since 2009: through the first three quarters of 2012, volume is projected around 5,000 deals, and aggregate valuation is currently estimated at $1.5 trillion, significantly less than the 2007 figure.[2] Not surprisingly, survey respondents expressed many reservations about the year to come: a solid third predicted a negative U.S. economy, and a fifth anticipated a weaker M&A market.

Yet in this eighth annual survey, there are glimmers that may point to an eventual return to more robust deal-making markets. This survey, which polled respondents from November 7 to November 20, 2012, is designed to measure the perspectives of leading company executives and outside advisors on the direction of the M&A market in the coming year. More than half of the respondents expected to be involved in at least one transaction in the coming year, so they have good reason to keep a close watch on this market.

A telling pattern emerged, with more respondents than in the previous year predicting a strengthening of the U.S. economy and a strong U.S. M&A market. M&A may have hit another bottom; there could be headroom next year. In written comments, respondents predicted that once the shocks currently buffeting the economy are dealt with, the economy and the attendant M&A market may be spring-loaded for more activity.

This year's Dykema M&A Outlook Survey revealed that key respondents believe:

- Capital is plentiful. Many buyers say they are keeping powder dry, waiting for the right targets.
- Strategic and financial buyers have comparable influence on deal valuations in 2012, signaling a willingness of financial buyers to compete with strategics for the right targets.
- Strategic buyers will continue to drive the U.S. M&A market, although both financial and foreign buyers will increase their influence in 2013.
- In some sectors, like health care, strategic buyers may be motivated by changing fiscal and regulatory policies.
- Most respondents were rooting for the losing side in the November election. Many who responded after President Obama's reelection expressed gloominess at the result and the resulting effect on the markets. The silver lining may be that political risk and overall uncertainty will dissipate, positively affecting the economic outlook and the U.S. M&A market.
- As of this writing, the next shock that needs to be dealt with to help stabilize the M&A market is the so-called fiscal cliff—and what combination of spending cuts and taxes its resolution will bring.
- Almost all respondents agreed that we are entering a higher-tax environment. But fewer deal makers than expected said they are trying to close deals before tax rates change in January.
- Distressed deals are not expected to rise in volume, in contrast to last year when respondents were more pessimistic about the economic outlook.

A more detailed report of our findings is contained in the following pages. We hope you find this information insightful and informative. We plan to periodically reexamine these matters to keep you informed about opportunities and challenges of importance to you, our clients and friends.

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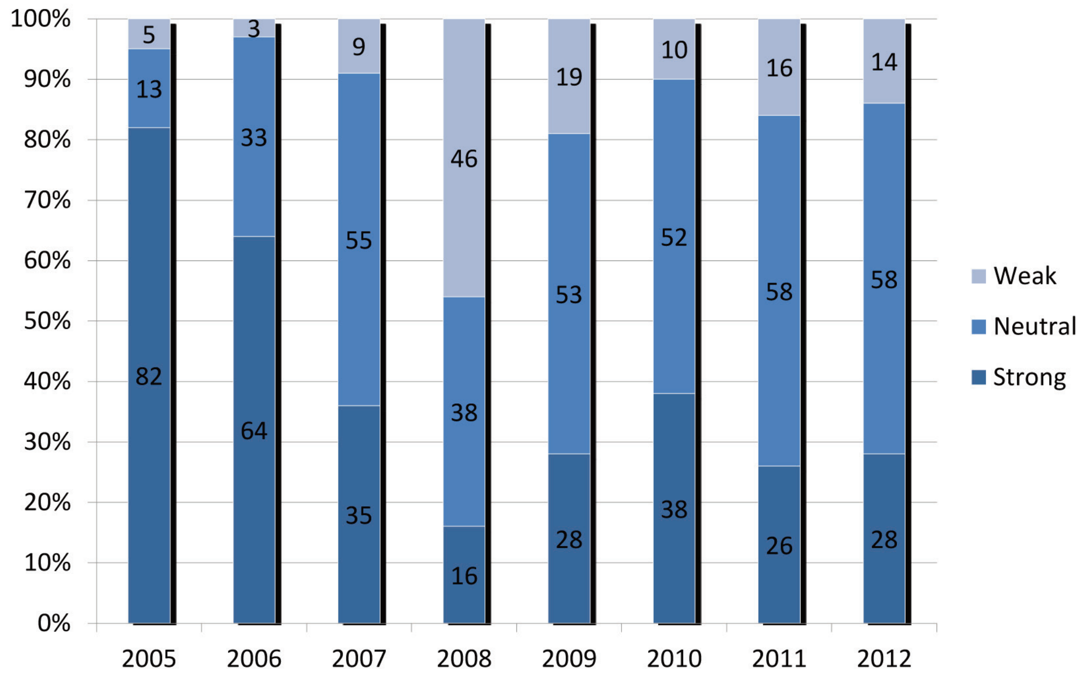
[1] mergermarket M&A Round-up for Q1-Q3 2012 http://www.mergermarket.com/pdf/mergermarketMARound-upforQ1-Q32012.pdf
[2] mergermarket M&A Round-up for Q1-Q3 2012 http://www.mergermarket.com/pdf/mergermarketMARound-upforQ1-Q32012.pdf

2012 Mergers & Acquisitions Survey Results

Respondents were asked to complete a questionnaire designed to measure their thoughts and perspectives on the direction of the M&A market in 2013. The following charts represent the collective input of all respondents. An overview of the survey methodology can be found at the end of this report.

Q1. How strong will the overall U.S. M&A market be during the next 12 months? (Select one option.)



Last year's relatively gloomy outlook proved prophetic. Global M&A spending through the first three quarters totaled only $1.4 trillion, down 19 percent from the same period in 2011.[3] This year respondents—who were surveyed in the two weeks immediately following the federal elections—were slightly less pessimistic.

- Even with the uncertainty of the fiscal cliff and the still-unfolding European financial crisis, respondents were marginally more likely to express confidence that M&A would be strong (28 percent) or neutral (58 percent) than they were last year.
- Only 14 percent of respondents surveyed predict a weak year for M&A, down from 16 percent last year.

[3] mergermarket M&A Round-up for Q1-Q3 2012 http://www.mergermarket.com/pdf/mergermarketMARound-upforQ1-Q32012.pdf

Q2. How will the U.S. M&A market for the next 12 months compare to the last 12 months? (Select one option.)

Responses	Count	%	Percentage of total respondents
Market will be stronger in the next 12 months	87	36.71%	
Market will see no significant change in the next 12 months	105	44.30%	
Market will weaken in the next 12 months	45	18.99%	
Total Responses	**237**		0% 20% 40% 60% 80% 100%

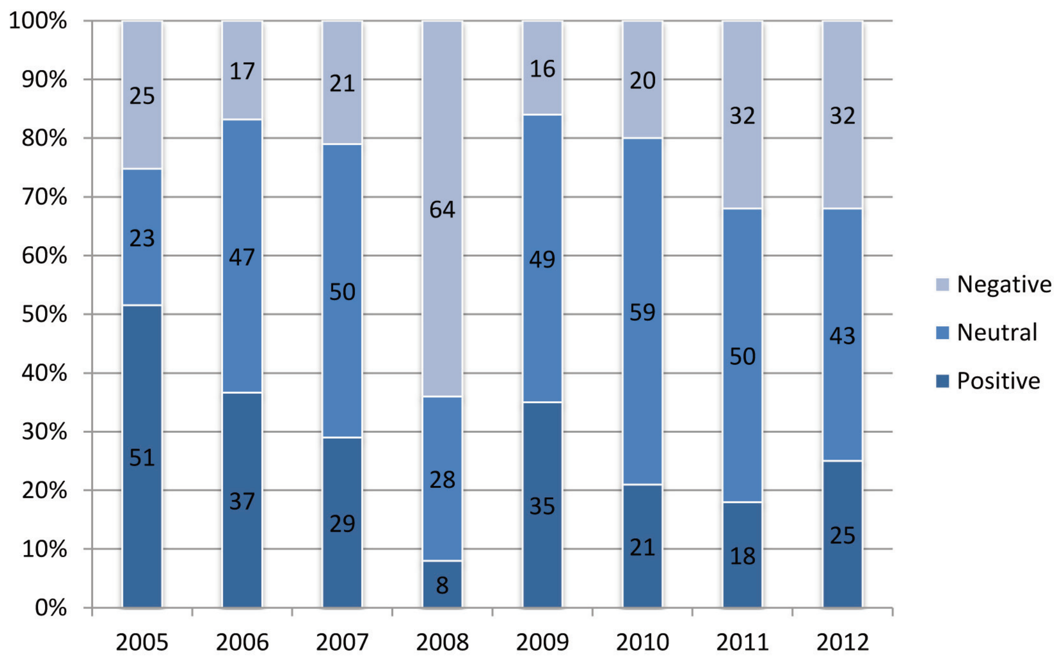
- When asked specifically about the domestic M&A market, respondents were more negative than last year, when only 10 percent said they believed the market would weaken over the next 12 months. However, as last year, the leading sentiment was an expectation of "no significant change."

Q3. Which of the following is most responsible for fueling current U.S. M&A activity? (Select one option.)

Responses	Count	%	Percentage of total respondents
General U.S. economic conditions	96	40.34%	
Favorable interest rates	28	11.76%	
Availability of capital	70	29.41%	
Financial markets	9	3.78%	
Other (please specify)	35	14.71%	
Total Responses	**237**		0% 20% 40% 60% 80% 100%

- U.S. economic conditions were cited by most respondents as the leading driver of M&A activity. Last year, respondents called capital availability the biggest driver. Improved economic conditions, particularly in the Midwest, and a need to drive growth through acquisitions, may explain this shift.
- Taxes were cited by 5 percent of respondents who selected "other." Impending rate changes may be motivating some deal makers, according to many of these write-in comments.
- Other respondents cited *"owner fatigue," "confidence"* and *"good deals"* as factors fueling M&A in the coming year.

Q4. What is your outlook for the U.S. economy, generally, over the next 12 months? (Select one option.)



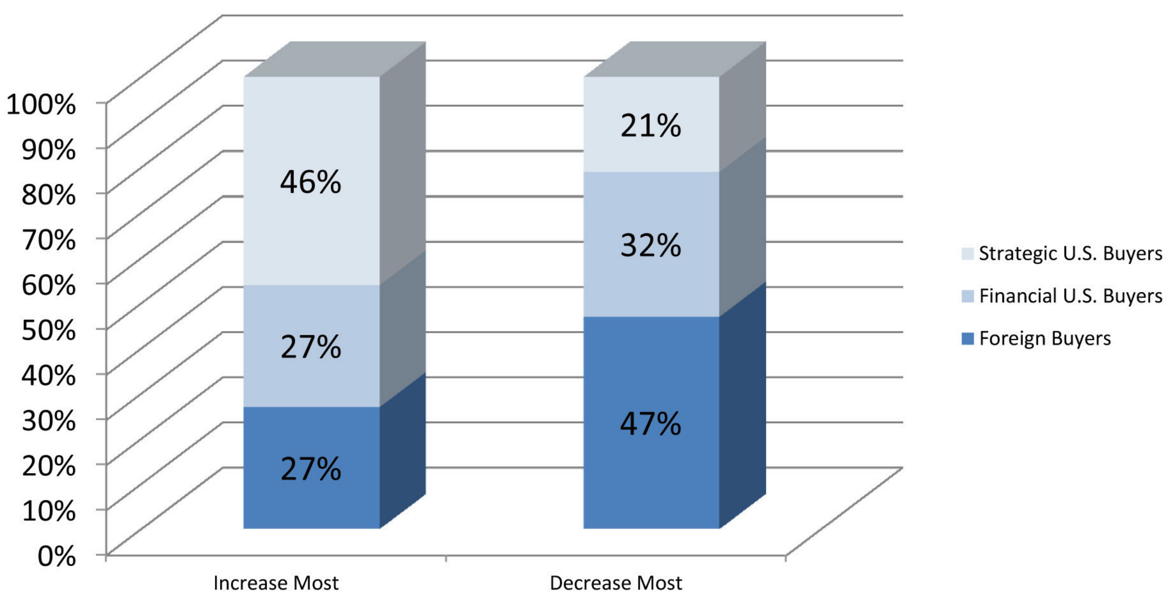
- Respondents are a polarized group: just as many believe the economy will worsen as believe it will improve.
- A quarter of respondents feel that the U.S. economy is headed in a positive direction. Last year, only 18 percent held a similar opinion.
- Yet 32 percent of respondents feel that the U.S. economy is headed in a negative direction—about the same as last year.
- Those respondents who answered this question after the election were by and large less optimistic than those who replied before the election, with about a three-point difference between the pre/post-election groups predicting an upswing.
- The most negative responses came from respondents from larger companies—firms with 2011 revenue of $100 million or more.

Q5. How will the U.S. economy for the next 12 months compare to the last 12 months? (Select one option.)

Responses	Count	%	Percentage of total respondents
U.S. economy will improve over the next 12 months	70	29.54%	
U.S. economy will see no significant change over the next 12 months	99	41.77%	
U.S. economy will worsen over the next 12 months	68	28.69%	
Total Responses	**237**		0% 20% 40% 60% 80% 100%

- When asked to specifically compare the next 12 months to the previous, respondents remained divided, with just under 30 percent predicting an upturn and about the same number predicting a setback for the U.S. economy.
- Here political persuasion aligned with economic outlook. Only 13 percent of Republican respondents predicted economic improvement, whereas 44 percent of non-Republicans expressed optimism.
- The recent election results and political uncertainty in the U.S. seemed to contribute to this dichotomy.

Q6. Which one of the following categories of buyers will increase its presence and which one will decrease its presence the most in the U.S. M&A market over the next 12 months (as a percentage of total transactions)?



- For the fifth year in a row, respondents considered strategic buyers most likely to increase their presence in the market. However, the percentage of respondents who believed this fell year over year, from 51 to 46 percent.

  —The percentage choosing financial buyers rose slightly, from 21 percent in 2011 to 27 percent this year.

- One respondent commented: *"Capital is plentiful but opportunities are not."* Another remarked: *"Financial buyers will pause until the economy is on firmer footing."*

- Strategic buyers may be deterred less by uncertainty than their financial counterparts. They may also, as some respondents speculated, increase their M&A activity as a way to combat slower organic growth in 2013.

  —One respondent wrote: *"U.S. strategic buyers have cash to spend, and need growth that they will only be able to achieve through acquisitions."*

- Many strategic deals are being pursued in the health care sector, as providers seek vertical integration and scale to prepare for health reform.

- Despite—or maybe on account of—troubles in Europe, 27 percent of those surveyed believed foreign buyers would increase their presence, up from 21 percent a year ago. Respondents expressed caution, however, that if the dollar strengthens these deal makers will pull back from the U.S.

Q7. Which of the following types of buyers have most influenced deal valuations over the past 12 months? (Select one option.)

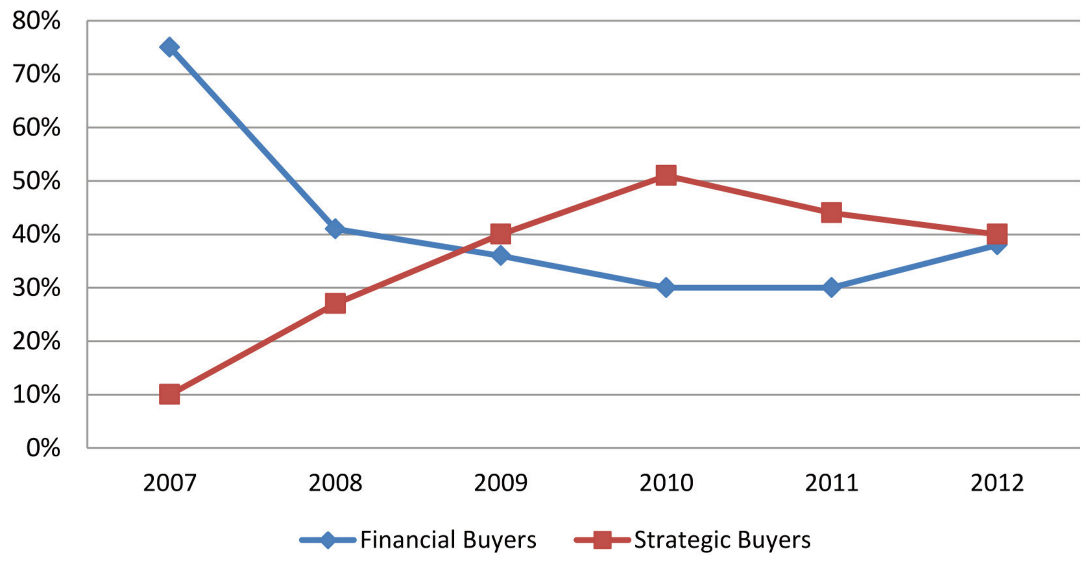
Responses	Count	%	Percentage of total respondents
Strategic U.S. buyers	95	40.43%	
Financial U.S. buyers	89	37.87%	
Foreign buyers	30	12.77%	
None of the above	21	8.94%	
Total Responses	**235**		0% 20% 40% 60% 80% 100%

- Though strategic buyers are predicted to play a bigger role overall, there is parity in sentiment about strategic versus financial buyers' impact on prices. The same assets may attract both kinds of buyers.

- This is a change from last year, when respondents were more likely to predict that strategic consolidators (44 percent) over financial ones (30 percent) would affect prices.

- Financial buyers may finally be forced to *"deploy their cash,"* wrote one respondent. Whether they'll get the required returns is the big question. Notably, many respondents predicted a similar need to deploy cash in last year's survey, but looking back at 2012, such activity was not as prevalent as anticipated.

- The projected impact of foreign deal makers has remained about the same, according to those surveyed.



Q8. What are the most common obstacles you have experienced in deals in the past 12 months? (Rank top 3, with 1 being the most common obstacle.)

Responses	Rank 1	Rank 2	Rank 3	Weighted Rank (Score)
Uncertainty in economy	83	55	39	1 (398)
Financing	35	26	35	2 (192)
Availability of quality target	36	28	20	3 (184)
Valuation	24	38	32	4 (180)
U.S. political situation/pending elections	20	33	39	5 (165)
Buyer competition	18	21	20	6 (116)
Due diligence	14	6	17	7 (71)
European debt crisis	3	17	22	8 (65)
Lack of buyer interest	2	11	11	9 (39)
Total Responses				**235**

- Uncertainty weighs most on key deal-making respondents.
- The U.S. political situation is clearly weighing heavy on deal makers.
- Financing was the second most cited concern, followed by a lack of appropriate targets.
- Buyer competition was rarely cited as a major obstacle, suggesting that deal values are not trending high enough to result in the bidding wars over assets seen earlier in the decade.

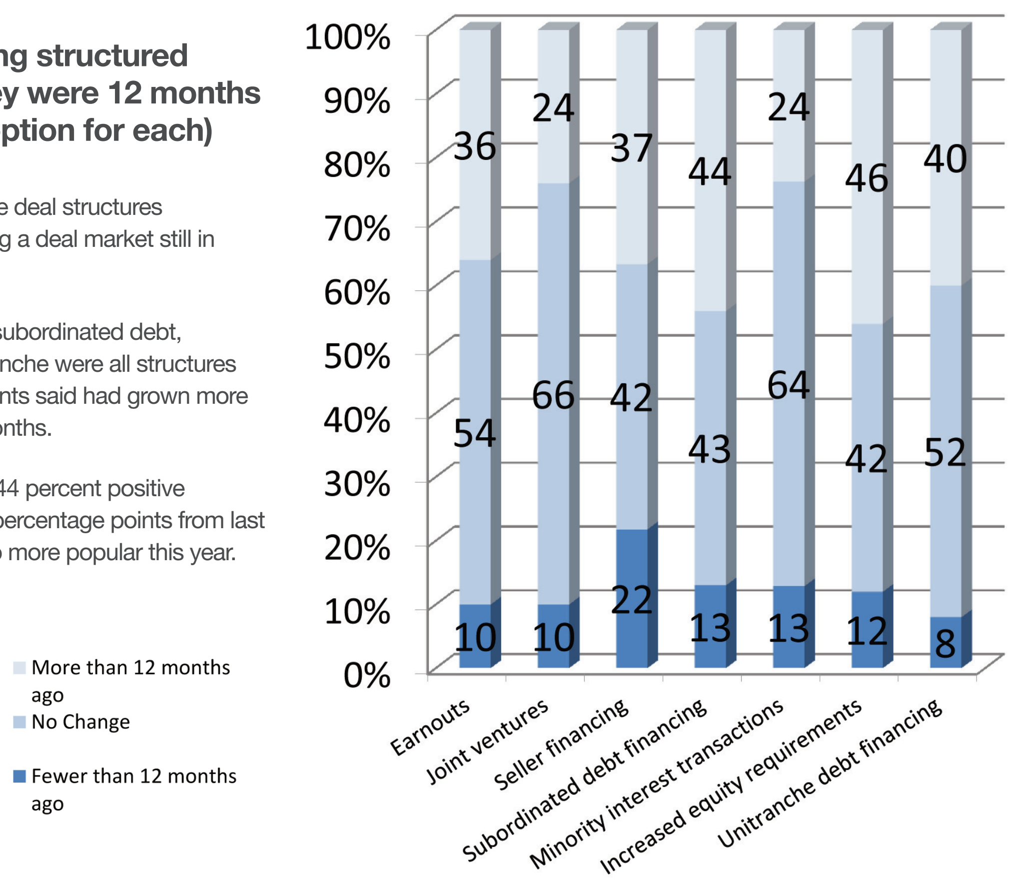
Q9. Will there be a change in the number of distressed transactions in the next 12 months? (Select one option.)

Responses	Count	%	Percentage of total respondents
Significant increase	6	2.52%	
Some increase	110	46.22%	
No significant change	97	40.76%	
Some decrease	21	8.82%	
Significant decrease	4	1.68%	
Total Responses	**238**		0% 20% 40% 60% 80% 100%

- Distressed deals may show some increase, but overall there was no discernible agreement that the market would trend one way or the other.
- Now with some distance from the depths of the downturn, and with financing still plentiful, it may not be the time for deep-value investors to get the best bargains.

Q10. How are deals being structured differently than they were 12 months ago? (Select one option for each)

- The heavy use of alternative deal structures continued in 2012, reflecting a deal market still in recovery.
- Earnouts, seller financing, subordinated debt, increased equity and unitranche were all structures that deal-making respondents said had grown more popular over the last 12 months.
- Subordinated debt, with a 44 percent positive response rate, jumped 20 percentage points from last year. Seller financing is also more popular this year.



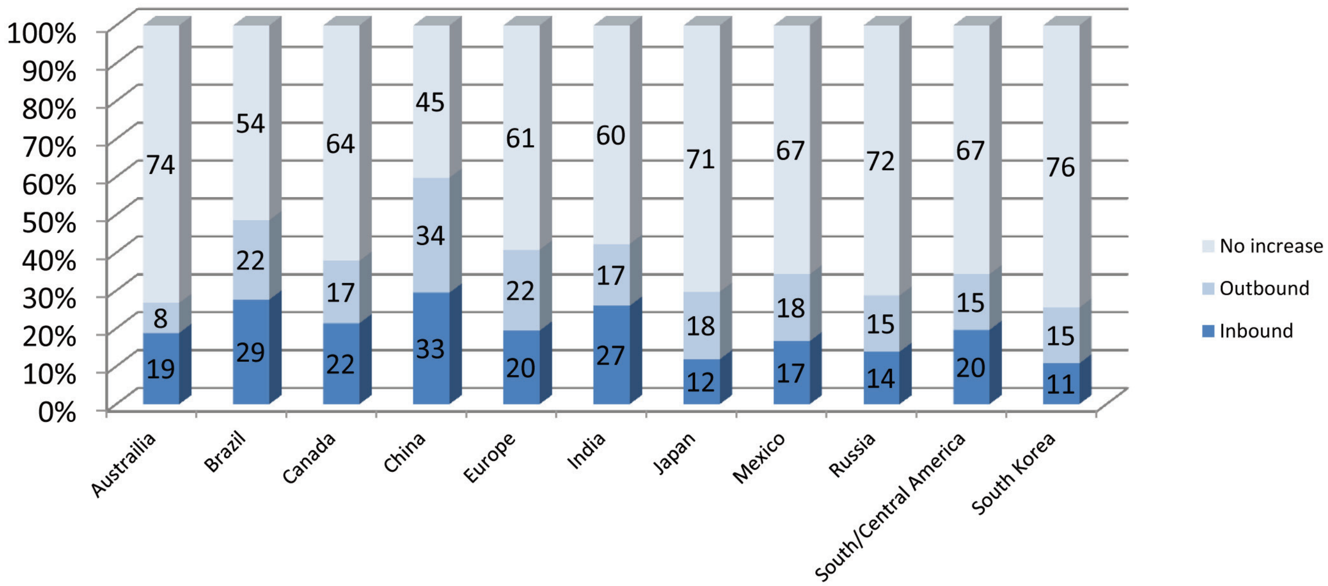
Q11. Which of the following provisions in purchase agreements have you found to be the subject of increased negotiations during the past 12 months? (Check all that apply.)

Responses	Count	%	Percentage of total respondents
Earnouts	103	45.58%	
No shop/no talk	25	11.06%	
Financing contingencies	83	36.73%	
Working capital purchase price adjustments	109	48.23%	
Escrow	49	21.68%	
Termination closing dates	25	11.06%	
None of the above	30	13.27%	
Other (please specify)	16	7.08%	
Total Responses	**440**		0% 20% 40% 60% 80% 100%

Percentages added may exceed 100 because respondents could select multiple answers.

- Respondents emphasized the importance of the working capital purchase price adjustment, which was cited by half as a key negotiating point in deals.
- Structuring earnouts and financing contingencies were both cited by more than a third of those surveyed as factors that led to increased negotiations over the past year.
- Closing dates were a factor for many. This may be linked to fears about rising taxes, with buyers having some leverage here if they can close deals quickly.
- In the comments, respondents also described increased negotiations over *"accounting practices," "environmental standards"* and *"key employee retention."*

Q12. What regions will experience an increase in inbound/outbound U.S. M&A activity in the next 12 months?



- Consistent with past years' results, China leads the pack for regions that will see an increase in cross-border deal making in 2013, in both inbound and outbound transactions.
- Inbound investments in Brazil and India represent the next two highest levels of increased activity expected by respondents.

Q13. Are you currently involved in an M&A transaction that you are looking to close by year's end due to uncertainties surrounding potential tax policy changes? (Select one option.)

Responses	Count	%	Percentage of total respondents
Yes	90	38.79%	
No	142	61.21%	
Total Responses	**232**		0% 20% 40% 60% 80% 100%

- More than a third of deal makers reported that they were trying to close a deal with the current tax regime in place.
- More surprisingly, nearly two-thirds were not trying to close a deal by year end to take advantage of expected lower tax rates, suggesting that deal valuation was more important to sellers than tax-rate increases.

Q14. Where do you expect capital gains rates to be one year from today? (Select one option.)

Responses	Count	%	Percentage of total respondents
Significantly higher	83	35.32%	
Somewhat higher	123	52.34%	
Essentially unchanged	23	9.79%	
Somewhat lower	5	2.13%	
Significantly lower	1	0.43%	
Total Responses	**235**		0% 20% 40% 60% 80% 100%

- A supermajority (87 percent) of respondents believed capital gains rates would climb higher.
- New Medicare taxes on capital gains kick in for high-income taxpayers next year. That, combined with any negotiated tax increases to avoid the "fiscal cliff," could result in a significant increase in long-term capital gains taxes, possibly pushing the rate well above 20 percent.

Q15. In the next 12 months, do you believe your company, or a company that you own, will be involved in an acquisition as the acquirer? (Select one option.)

Responses	Count	%	Percentage of total respondents
Yes	93	52.54%	
No	84	47.46%	
Total Responses	**177**		0% 20% 40% 60% 80% 100%

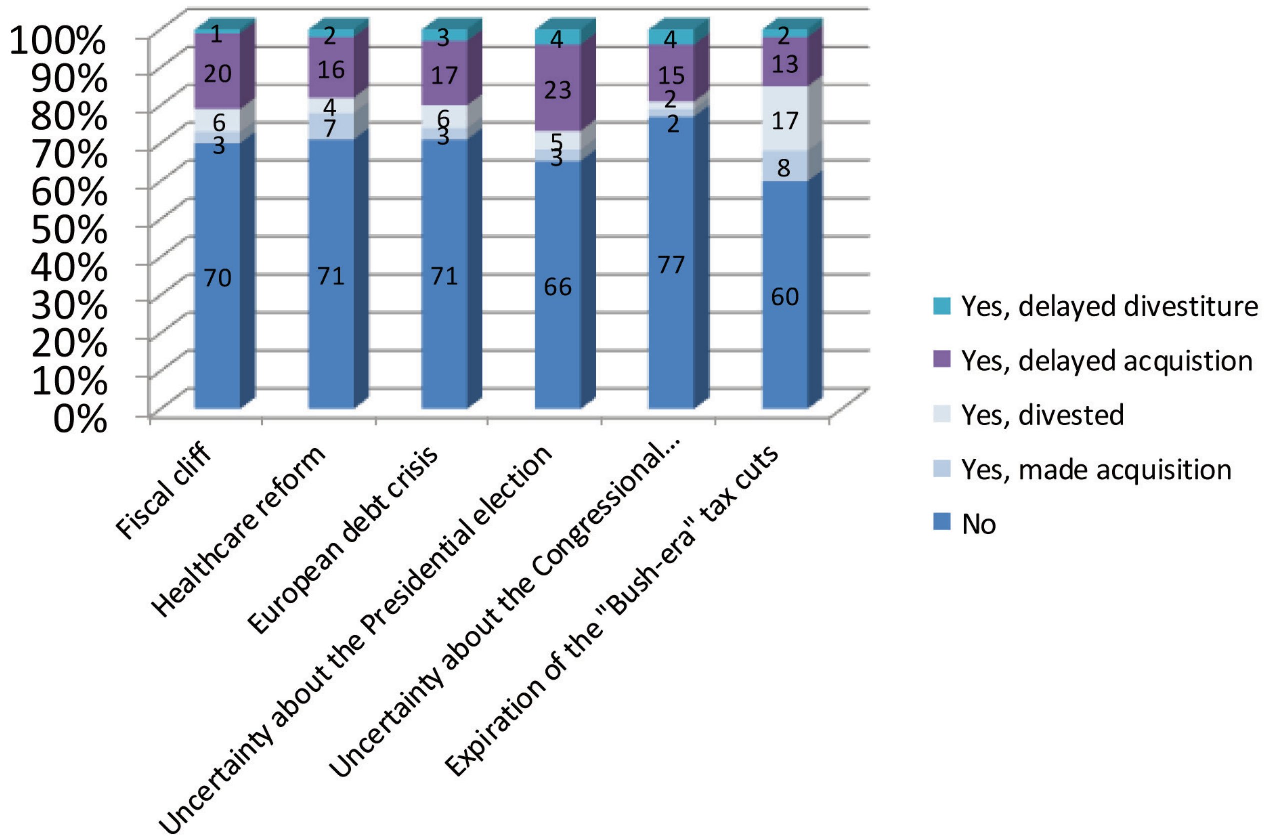
- As in past years, more than half of the respondents believe they will be on the buy side of a transaction in 2013.

Q16. In the next 12 months, do you believe your company, or a company that you own, will be sold or consolidated? (Select one option.)

Responses	Count	%	Percentage of total respondents
Yes	35	19.89%	
No	141	80.11%	
Total Responses	**176**		0% 20% 40% 60% 80% 100%

- As in past years, respondents believe they are more likely to be buyers than sellers in 2013.

Q17. Have any of the following political issues impacted your company's deal making in 2012?



- Political uncertainties had a surprisingly limited effect on deal making in 2012. Tax-rate uncertainty was more important.
- External shocks to the economy had the most negative impact on deal making in 2012.
- Over a fifth of deal makers reported that the presidential election, the “fiscal cliff” and/or the European debt crisis delayed an acquisition.
- The planned expiration of Bush-era tax cuts was a motivation for acquisitions for 25 percent of respondents.
- Health-care reform drove acquisition for over 10 percent of respondents, likely due to the effect of reform on business models.

Q18. In the recent election, which presidential candidate did you believe would support policies more favorable to the U.S. M&A market? (Select one option.)

Responses	Count	%	Percentage of total respondents
Barack Obama	33	14.16%	
Mitt Romney	200	85.84%	
Total Responses	**233**		0% 20% 40% 60% 80% 100%

Q19. In light of President Obama's reelection, how strong will the U.S. economy be in 2013? (Select one option.)

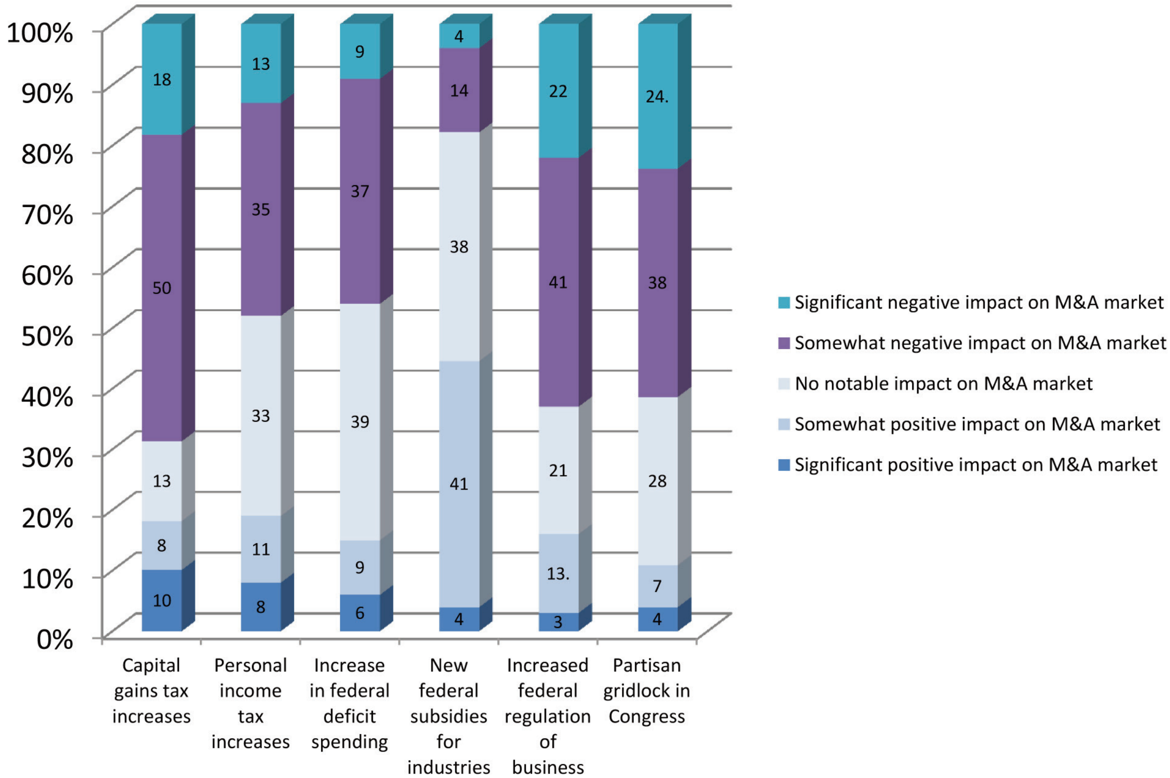
Responses	Count	%	Percentage of total respondents
Stronger than 2012	50	21.46%	
About the same as 2012	92	39.48%	
Weaker than 2012	91	39.06%	
Total Responses	**233**		0% 20% 40% 60% 80% 100%

Q20. In light of President Obama's reelection, how strong will the U.S. M&A market be in 2013? (Select one option.)

Responses	Count	%	Percentage of total respondents
Stronger than 2012	56	24.14%	
About the same as 2012	112	48.28%	
Weaker than 2012	64	27.59%	
Total Responses	**232**		0% 20% 40% 60% 80% 100%

- Respondents preferred Mitt Romney (86 percent) to Barack Obama (14 percent) in the presidential election, although 68 percent thought the U.S. economy would fare the same or better in 2013 despite the election results.
- Yet deal makers were more dissonant on the effect on their business, with equal numbers saying the U.S. M&A market would be weaker or stronger as a result of Obama's reelection.

Q21. Please rate the likely impact of each of the following potential issues on the U.S. M&A market in 2013.



- Going forward, deal makers most fear tax increases (68 percent), regulation (63 percent) and political gridlock (61 percent).
- Only federal subsidies for industries were predicted to have a net positive impact on M&A deal activity.

Q22. What M&A-supporting issue(s) would you like the President and Congress to focus on in 2013?

When asked what M&A-supporting issue(s) they would like the president and Congress to focus on in 2013, respondents listed a variety of concerns:

- *"Rebuild U.S. infrastructure"*
- *"Reform of Dodd-Frank to encourage financial institutions to support M&A activity"*
- *"Job creation, repeal of Obamacare, reduce deficit spending, approval of pipeline and drilling permits, modest tax increases"*
- *"Rolling back non-value-added SEC reporting requirements for nonpublic entities"*
- *"Maintaining capital gains"*
- *"Reduce spending to aim towards balanced budget target"*

Methodology

Following the November 2012 federal elections, national law firm Dykema distributed its Mergers & Acquisitions Survey via e-mail to a group of senior executives and advisors, including CEOs, CFOs and other company officers. Nineteen percent of the 242 respondents identified themselves as company officers or executives, and 28 percent identified themselves as investment or commercial bankers. Industries represented included banking/financial services (31 percent), nonbanking business services (13 percent), nonautomotive manufacturing (12 percent), private equity (8 percent) and automotive (7 percent).

The 2012 survey is the eighth annual M&A market analysis developed by Dykema, and the results are being released in conjunction with firm M&A Survey events in Chicago, Detroit and Los Angeles.

Percentages in question 11 exceed 100 percent because respondents were asked to check all that apply.

Due to rounding, all percentages used in all questions may not add up to 100 percent. A few minor edits were made to verbatim responses to correct spelling, punctuation, and verb tense.

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