Mega-deals dominate in Midwest with strategics leading the way


The superlatives are flowing along with robust deal activity in the Midwest, driven by record levels of cash in the hands of buyers, favorable interest rates and business-friendly policies emanating from Washington, regional experts say.

“In my 25 years I think it’s the best M&A environment I’ve ever seen for sellers,” said Dave D. Dunstan, president and managing director of the Cleveland-based investment bank Western Reserve Partners, a division of Citizens Capital Markets.

Rocky Pontikes, a Chicago-based managing director in the investment banking group of Mesroiov Financial, added, “Our outlook for M&A in the Midwest is very rosy and we believe that middle market M&A will remain strong for the foreseeable future.”

The Midwest led all North American regions in 1H deal value (USD 263.5bn), largely on the strength of two announced deals accounting for nearly half of the total: Cigna’s proposed purchase of St. Louis-based Express Scripts [NASDAQ:ESRX] for USD 67.6bn, and T-Mobile’s [NASDAQ:TMUS] USD 60.8bn offer for Overland Park, Kansas-based Sprint [NYSE:S].

To put things in perspective, the region’s 1H deal value outpaced the USD 224.9bn the Midwest recorded in all of 2017, according to Mergermarket data.

Not surprisingly, business services (Express Scripts) and TMT (Sprint) were the leading sectors in the region based on deal value, while industrials/chemicals/engineering was at the top in deal volume with 136 announced deals out of a total of 492 in the Midwest. Other active sectors in terms of volume were business services (82), TMT (65) and financial services (55).

If anything is likely to hold back deal activity in the months to come, it will be the relative scarcity of quality companies to buy after nearly eight years of economic expansion and healthy M&A activity, the experts said.
Mesirow is seeing very active, competitive sale processes attracting a high number of bids at strong valuations. Particular interest is coming from cash flow-rich strategic buyers looking to diversify and supplement sluggish organic growth rates.

Meanwhile, Pontikes said that PE firms – collectively sitting on more than USD 1trn in cash – are aggressively pursuing platform investments and bolt-on acquisitions to average down implied purchase price. Many financial buyers, however, are struggling to compete due to higher valuations in these competitive auctions, he added.

As buyers, strategics continue to hold the upper hand for the most part, the bankers said, with the cash balances of S&P 500 companies at record levels, and a reduced US corporate tax rate that is contributing to the repatriation of funds from overseas subsidiaries. Pontikes estimated that 80% of transactions that Mesirow sees result in a sale to a strategic.

Private equity firms are not conceding the field, however. “I think PE can be just as competitive” as strategic buyers, said Kristina Heinze, co-founder and partner with the Chicago-based private equity firm ParkerGale, which closed three acquisitions in the first half of the year.

“We are able to win when the founder or management team want to stay on and continue to grow the company, and aren’t looking for a strategic to take over. We provide the opportunity for a seller to take cash off the table but keep the culture and take care of employees,” said Heinze.

Interest in the Midwest from entities outside the region or country also is driving M&A activity, the sources said. Dunstan said about 25% of Western Reserve’s recent transactions have had an international counterpart, with Brazil and China among those represented. “There’s still global demand to buy well-performing US companies,” he said.

by Jeff Sheban and Kasia Patel in Chicago