

PE Hub

Featured

Dealflow is strong and getting stronger in lower-mid-market, says Sperry, Mitchell's Beatrice Mitchell

For many private company owners, 'covid took the wind out of their sails and the fun out of running their businesses. They are ready to move on.'

Mary Kathleen Flynn - 7 August 2023



Beatrice Mitchell, Sperry, Mitchell & Company

While dealflow for bigger deals has slowed down this year, life in the lower-mid-market has been fast-paced, reports Beatrice Mitchell, the co-founder and managing director of Sperry, Mitchell & Company.

Since its founding in 1986, the New York-based sell-side boutique investment bank has arranged more than 300 transactions across a wide spectrum of industries, including business services; consumer products; distribution and retail; healthcare; industrial products; packaging; and telecom and technology.

For example, Sperry, Mitchell recently advised NEL Frequency Controls on its sale to **Abracon**, which was acquired by **Genstar Capital** earlier this year.

PE Hub asked Mitchell for her outlook on dealmaking in the second half of 2023.

What was Sperry, Mitchell's dealflow like in H1, compared with the last few years?

Interestingly, our dealflow has remained consistently strong since covid. Our business is sell-side M&A advisory work for private company owners. Activity levels in the lower middle market are always less volatile than larger M&A transactions. Of course, the rising cost of money and buyer concerns about weakening earnings impact all markets. However, many of our private company owners decide to sell primarily for personal, non-economic factors, rather than trying to time the market perfectly. On the demand side, we still see great buyer appetite. Corporates and PE sponsors alike are awash in cash, with continued pressure to put it to work.

**Do you think your dealflow will increase, decrease, or stay the same in H2?
Why?**

We believe that deal activity will continue to increase over the coming quarters. Buyers are flush with cash, interest rates are expected to trend down, and many PE sponsors who have been sitting on the sidelines will be under even greater pressure to transact. And ... it now appears that the long-awaited recession may not actually happen.

Tell us about some recent deals you've worked on lately, and how they reflect trends in the lower-mid-market.

One definite trend that PE sponsors seem to have pursued in great measure has been roll-ups/consolidations in what are perceived as "fragmented" industries. The concept is to achieve operating efficiencies and gain market presence/cross-selling opportunities/pricing power by consolidating a lot of smaller players in an industry.

A decade ago, there were only a handful of PE shops that pursued consolidation deals as a core strategy, Audax perhaps being the prime example. Today, consolidations are a fundamental plan of action for many, if not most, PE sponsors in the lower middle market.

We recently sold Bradford Soap to Gemspring Capital Management.

Bradford is a leading developer, formulator, and manufacturer of solid beauty and personal care products, primarily producing soap for both major and emerging personal care brands. Gemspring's goal is to use Bradford as a base to build out a broader contract manufacturing platform providing an array of products and services to the personal care industry.

Similarly, we recently sold NEL Frequency Controls, a developer and manufacturer of leading-edge frequency control products, to Abracon, a portfolio company of Genstar Capital. Under Genstar's ownership, Abracon has become a very active consolidator in the field of electronic components for the aerospace, communications and defense end-markets.

Why is the lower-mid-market active in dealmaking during this challenging economic period when larger deals have slowed down?

Deals in the lower middle market more likely involve sales of private companies than sales by PE sponsors or corporate divestitures. As I mentioned previously, owners of private companies often have considerations beyond the state of the economy when deciding when to sell. Personal considerations (like a desire to retire, or disagreements amongst partners or family members) often are the determining factor. Because of this, lower middle market M&A activity is always more consistent and stable than the larger deal M&A markets. There always seems to be a steady stream of private company sellers.

Besides, we have always found that there is a great appetite for well-performing businesses with defensible market niches, irrespective of the external markets or economic outlook.

I would also add that managing through the vicissitudes and challenges of covid changed the outlook for many private company owners. Once their companies recovered and began to gain momentum, many of these owners have shortened their timelines to selling. Frankly, covid took the wind out of their sails and the fun out of running their businesses. They are ready to move on.

What is Sperry, Mitchell's biggest challenge in 2023, and how are you meeting it?

Our biggest challenge in 2023 is probably the same challenge that we have seen brewing for some time now. Putting together an M&A deal is always a complicated, intricate dance, one that requires expert choreography to pull off. Such choreography becomes even harder when a private company owner is on one side of the transaction. However brilliant or impressive private company owners may be, most have no experience or sophistication in M&A transactions. This provides a huge asymmetry in terms of deal dynamics and leverage. One of our greatest challenges is to convince our clients to agree to hire the right set of advisers and do all the necessary upfront prep work to help ensure successful sale outcomes.

This has become even more of a challenge because of the increased speed in completing deals today. Both the marketing processes and the timelines for buyers to close have condensed significantly over the past few years. Of course, buyers can only keep to these timing demands if sellers are properly prepared to engage.