

Director**Corps**

2019 Corporate M&A Survey

DEC 2019 | RESEARCH

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DirectorCorps

About DirectorCorps

DirectorCorps operates as part of a privately-held media company headquartered in Nashville, Tennessee, with a presence in Washington, D.C. The company delivers information to a hugely influential audience of corporate executives and board members through annual conferences, exclusive networking events, digital services, editorial products and research reports. For more information, please visit DirectorCorps.com.



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Executive Summary

Opportunities abound in today's marketplace: Almost two-thirds of the directors and executives responding to DirectorCorps' 2019 Corporate M&A Survey, sponsored by Crowe LLP, believe there are plenty of attractive targets to expand or complement their company's business. Overall, almost half are open to acquisitions but prefer to focus on organic growth; 43% aspire to be active acquirers over the next five years.

Many respondents reveal that they may make a deal in 2020: Two-thirds say they're very likely or somewhat likely to acquire a target in the same line of business; 55% say the acquisition of a complementary business line is likely; and 32% say it's likely their company will acquire a new line of business.

Deal rationale varies by industry, but overall, public companies primarily seek to increase earnings per share (54%), supplement or replace organic growth (51%), or expand into new markets (38%).

But pricing is a major roadblock to getting deals done. Overall, 88% of respondents cite pricing expectations on the part of potential sellers as a top-three barrier to making an acquisition in today's environment, followed by a lack of suitable targets, at 43%.

The survey features insights from independent directors, CEOs and senior executives representing a broad array of industries, particularly from the healthcare, technology and banking sectors. The group represents experienced acquirers: 71% say they've served on a board or the executive team of a company that has acquired or merged within the past three years. Responses were collected in August, September and October of 2019.

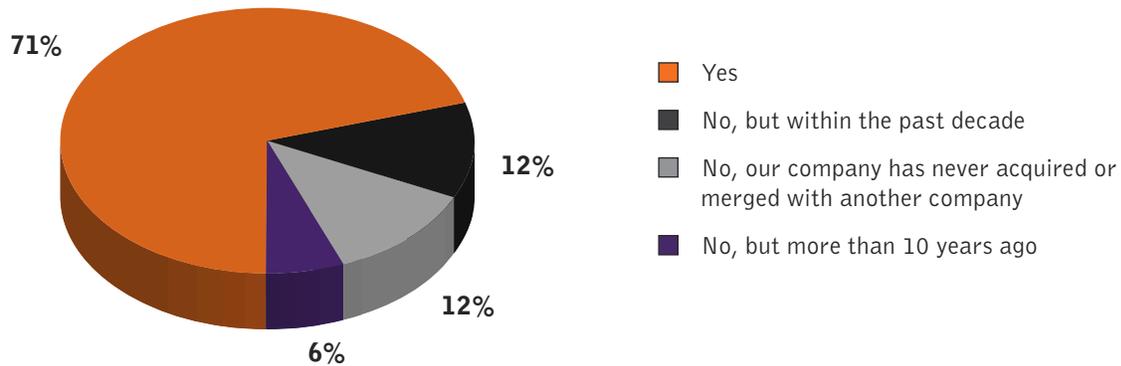
Additional Findings

- Forty-seven percent say coming to an agreement on deal price/structure is the greatest challenge faced by company leaders in considering an acquisition or merger.
- Respondents are split on deal valuation: Almost half believe deal pricing is too high for their industry, while 43% believe it's fair and reasonable.
- In a potential acquisition, more than half favor a transaction structure that's a mixture of cash and stock; 26% favor a combination that incorporates debt. As sellers, 41% favor a combination of cash and stock, and 31% want all cash.
- Sixty-one percent favor the use of earnout provisions as a prospective acquirer, but 56% would not agree to the use of earnouts in a potential sale.
- Forty-five percent say their board regularly takes time to discuss opportunities to acquire or sell their company; 34% discuss M&A as opportunities arise.
- When boards discuss M&A, three-quarters say deal valuation is discussed. Directors also frequently discuss potential targets (71%), expansion into new markets (68%), and the size of deals their company can afford (61%).
- Almost half of recent acquisitions by respondent companies feature private equity investors on at least one side of the transaction.
- Most respondents express a favorable outlook for the U.S. economy and predict modest (58%) or even significant (1%) growth. However, 20% believe the U.S. will experience a downturn or recession in 2020.
- Regarding the impact of President Trump's administration on their industry, 20% hold a mostly positive view. However, 20% hold a mostly negative view, with the healthcare and technology sectors holding a less favorable opinion.

GROWTH STRATEGIES

1. Have you served on a board or executive team of any company that has acquired or merged with another company within the past three years?

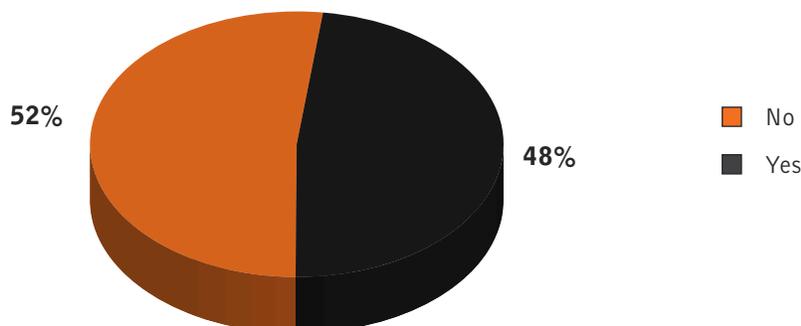
Numbers don't add up to 100 percent due to rounding. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
Yes	73%	78%	78%	59%	71%
No, but within the past decade	12%	-	11%	18%	12%
No, our company has never acquired or merged with another company	12%	22%	-	12%	12%
No, but more than 10 years ago	4%	-	11%	12%	6%

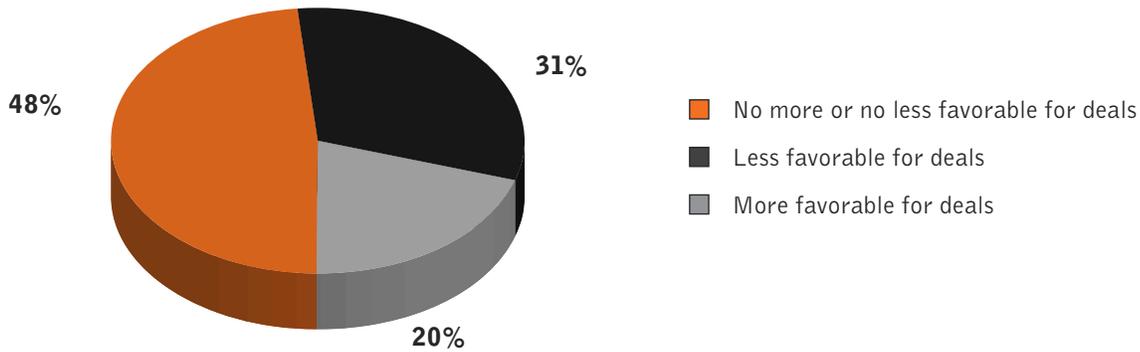
2. Considering your most recent acquisition, were private equity investors significant shareholders on either side of the transaction?

Question only asked of respondents who indicate they served at a company that has acquired or merged within the last three years. Does not include bank data.



3. How do you feel about the current environment with regard to merger and acquisition (M&A) activity for your industry, compared to a year ago?

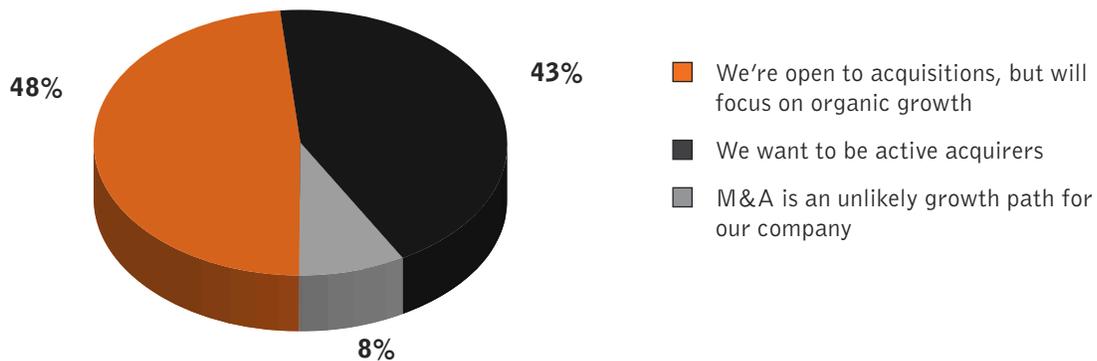
Numbers don't add up to 100% due to rounding. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
No more or no less favorable for deals	42%	33%	67%	67%	48%
Less favorable for deals	40%	22%	-	27%	31%
More favorable for deals	18%	44%	33%	7%	20%

4. How would you characterize your company's growth strategy over the next five years?

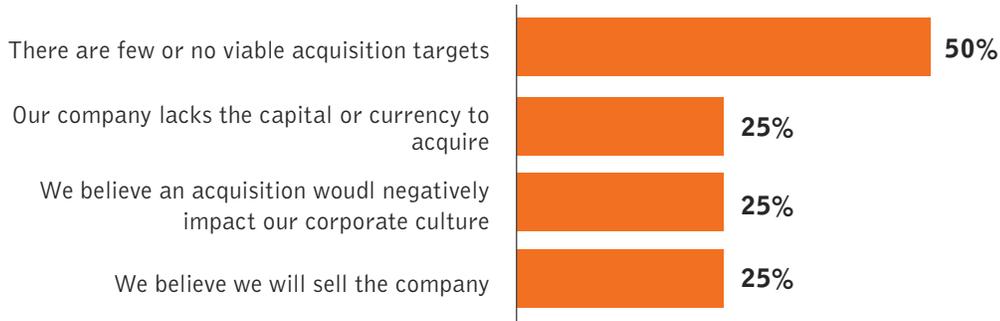
Numbers don't add up to 100% due to rounding. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
We're open to acquisitions, but will focus on organic growth	54%	22%	44%	47%	48%
We want to be active acquirers	40%	44%	56%	47%	43%
M&A is an unlikely growth path for our company	6%	33%	-	7%	8%

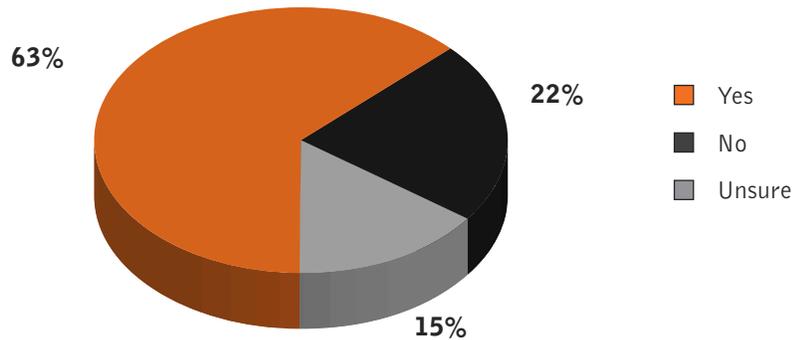
5. Why is your company unlikely to acquire in the next five years?

Respondents were asked to select all that apply. Question only asked of respondents who indicated their company is unlikely to acquire in the next five years. Doesn't include bank data.



6. Are there a sufficient number of viable acquisition targets that would expand and/or complement your company's business?

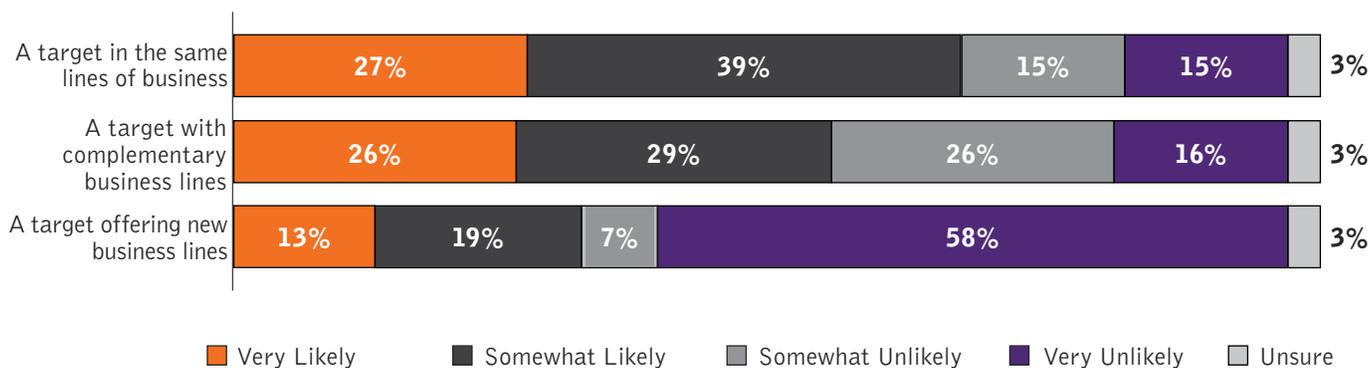
Banks were asked about targets in their markets or markets they want to enter. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
Yes	63%	67%	78%	53%	63%
No	24%	22%	-	27%	22%
Unsure	12%	11%	22%	20%	15%

7. By the end of 2020, how likely is it that your company will acquire the following?

Numbers don't add up to 100% due to rounding. Doesn't include bank data. *Indicates less than 10 within a category.



A target in the same line(s) of business				
Industry	Healthcare*	Technology*	Other	Total
Very likely	22%	44%	20%	27%
Somewhat likely	44%	33%	40%	39%
Somewhat unlikely	-	11%	27%	15%
Very unlikely	22%	11%	13%	15%
Unsure	11%	-	-	3%

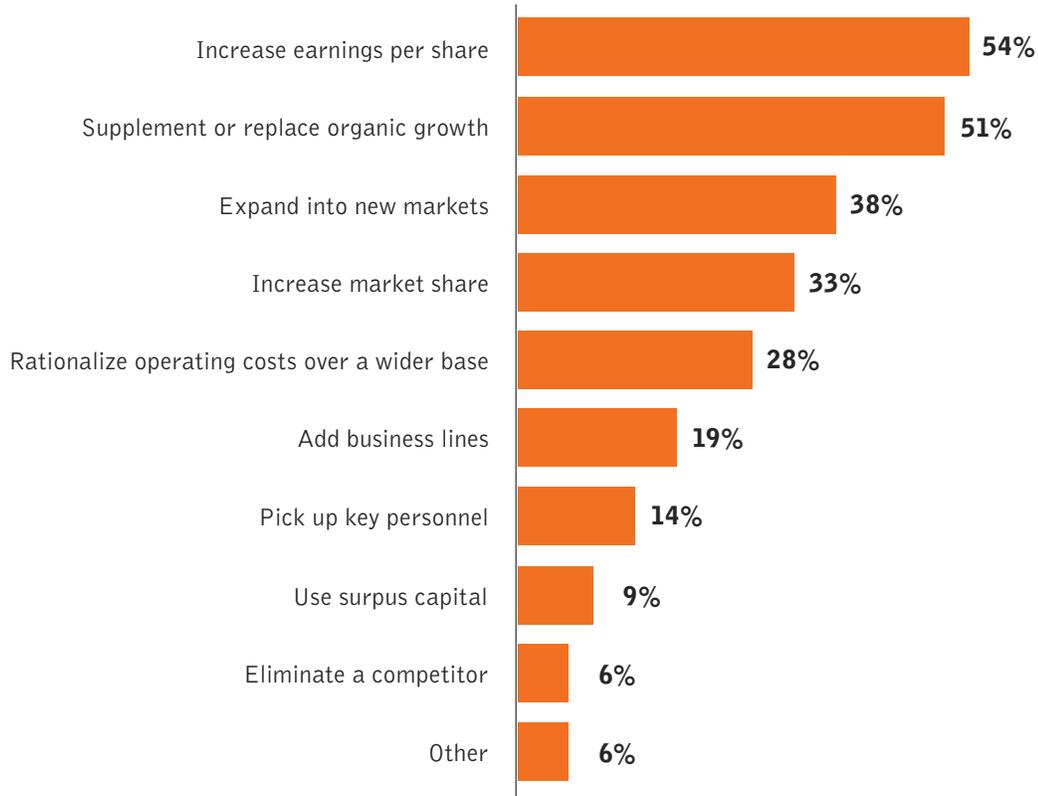
A target with complementary business line(s)				
Industry	Healthcare*	Technology	Other	Total
Very likely	29%	56%	7%	26%
Somewhat likely	29%	11%	40%	29%
Somewhat unlikely	-	22%	40%	26%
Very unlikely	29%	11%	13%	16%
Unsure	14%	-	-	3%

A target offering new business line(s)				
Industry	Healthcare*	Technology	Other	Total
Very likely	14%	22%	7%	13%
Somewhat likely	29%	11%	20%	19%
Somewhat unlikely	14%	11%	-	7%
Very unlikely	29%	56%	73%	58%
Unsure	14%	-	-	3%

M&A RATIONALE & EXECUTION

8. What would you consider the top three reasons your organization would make an acquisition in today’s environment?

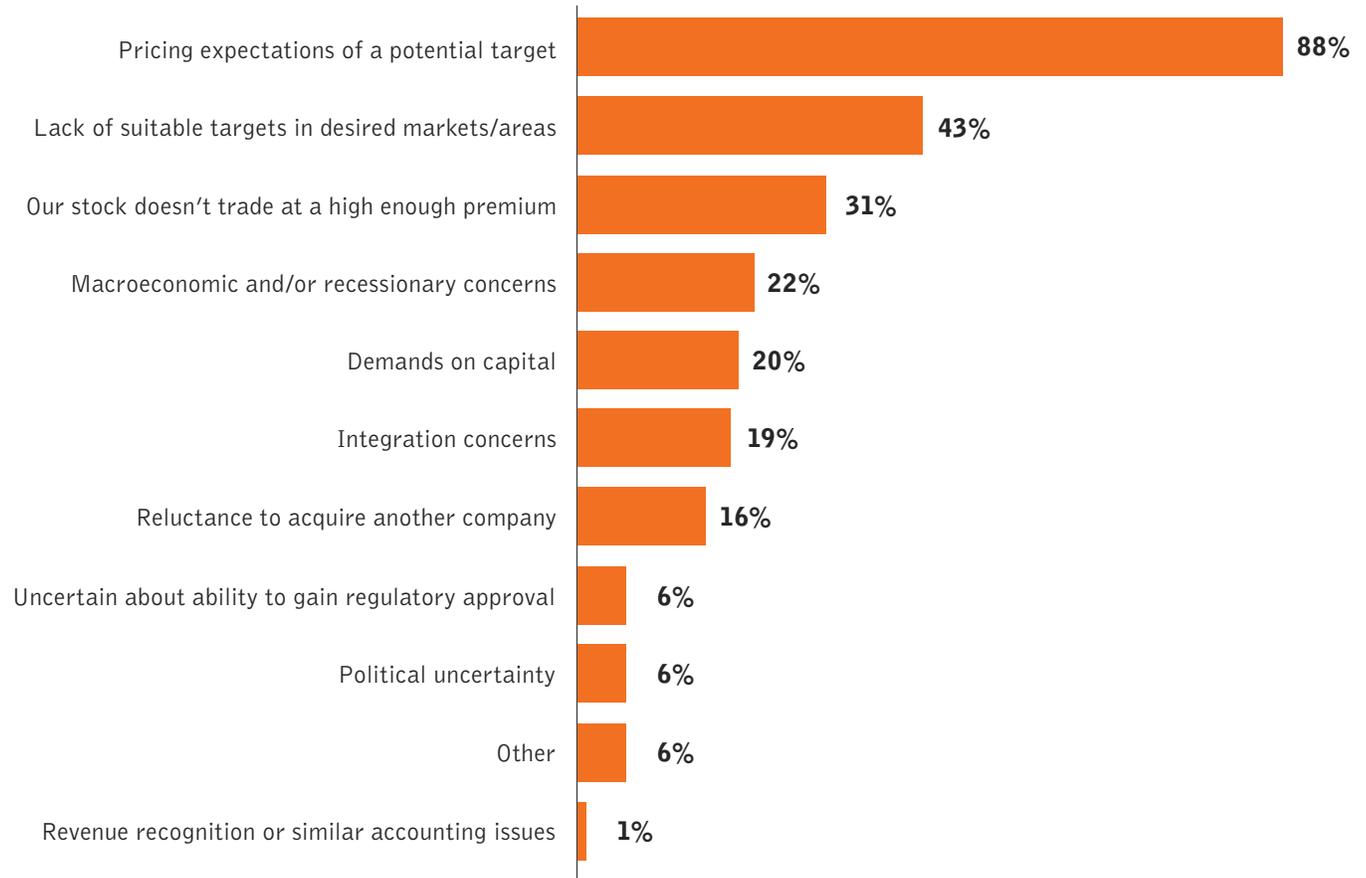
Respondents were asked to select up to three options. Bank respondents were offered additional options specific to their industry that are not included here. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
Increase earnings per share	65%	22%	44%	43%	54%
Supplement or replace organic growth	39%	78%	44%	79%	51%
Expand into new markets	41%	33%	44%	29%	38%
Increase market share	26%	33%	44%	50%	33%
Rationalize operating costs over a wider base	33%	22%	22%	21%	28%
Add business lines	11%	44%	33%	21%	19%
Pick up key personnel	9%	-	44%	21%	14%
Use surplus capital	9%	11%	11%	7%	9%
Eliminate a competitor	n/a	-	11%	7%	6%
Other	n/a	-	-	14%	6%

9. What would you consider the top three barriers to making an acquisition in today's environment?

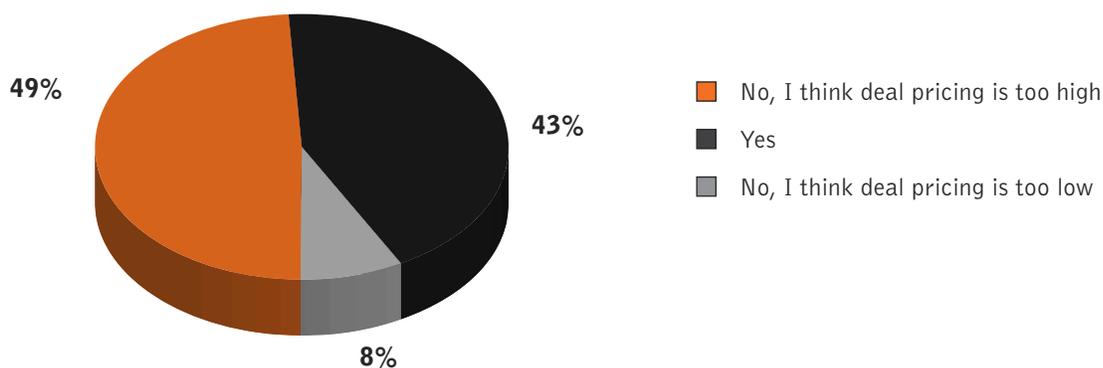
Respondents were asked to select up to three options. Bank respondents were offered additional options specific to their industry that are not included here. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
Pricing expectations of a potential target	86%	78%	100%	93%	88%
Lack of suitable targets in desired markets/areas	43%	44%	22%	57%	43%
Our stock doesn't trade at a high enough premium	33%	44%	22%	21%	31%
Macroeconomic and/or recessionary concerns	n/a	11%	11%	36%	22%
Demands on capital	10%	44%	56%	14%	20%
Integration concerns	20%	11%	11%	21%	19%
Reluctance to acquire another company	n/a	11%	33%	7%	16%
Uncertain about ability to gain regulatory approval	6%	-	-	14%	6%
Political uncertainty	n/a	22%	-	-	6%
Other	n/a	-	11%	7%	6%
Revenue recognition or similar accounting issues	2%	-	-	-	1%

10. Do you believe the prices paid for targets in your industry are fair and reasonable?

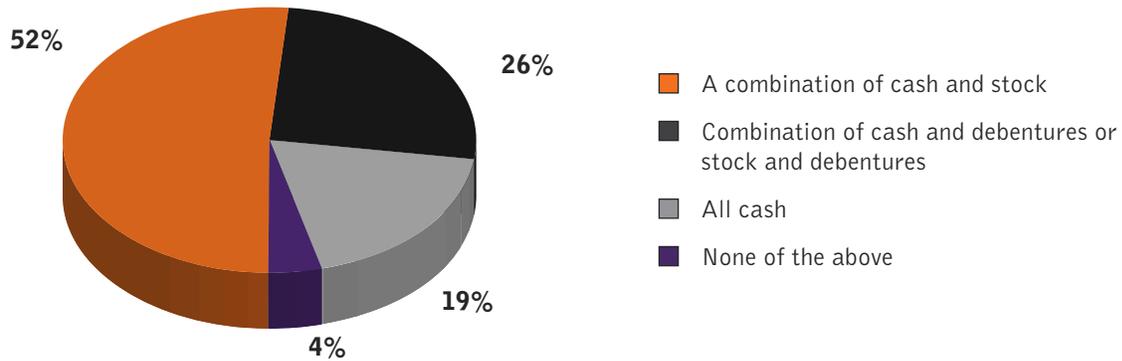
**Indicates less than 10 within a category.*



Industry	Banks	Healthcare*	Technology*	Other	Total
No, I think deal pricing is too high	51%	44%	33%	57%	49%
Yes	40%	56%	67%	29%	43%
No, I think deal pricing is too low	9%	-	-	14%	8%

11. If your company were to make an acquisition, how would you want to structure the transaction?

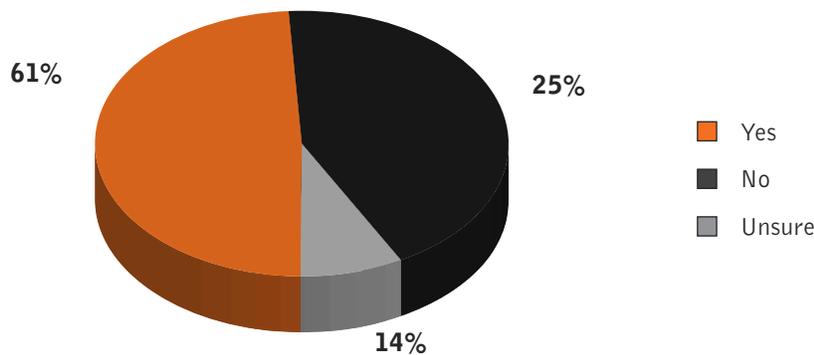
Numbers don't add up to 100% due to rounding. Question only asked of respondents who indicated their company wants to be an active acquirer or is open to acquisitions. Doesn't include bank data. *Indicates less than 10 within a category.



Industry	Healthcare*	Technology*	Other	Total
A combination of cash and stock	50%	63%	46%	52%
Combination of cash and debentures or stock and debentures	50%	25%	15%	26%
All cash	-	13%	31%	19%
None of the above	-	-	8%	4%

12. As a prospective buyer, would you favor the use of earnouts to bridge the gap between the seller's asking price and your company's offer as an acquirer?

Question only asked of respondents who indicated their company wants to be an active acquirer or is open to acquisitions. Doesn't include bank data. *Indicates less than 10 within a category.

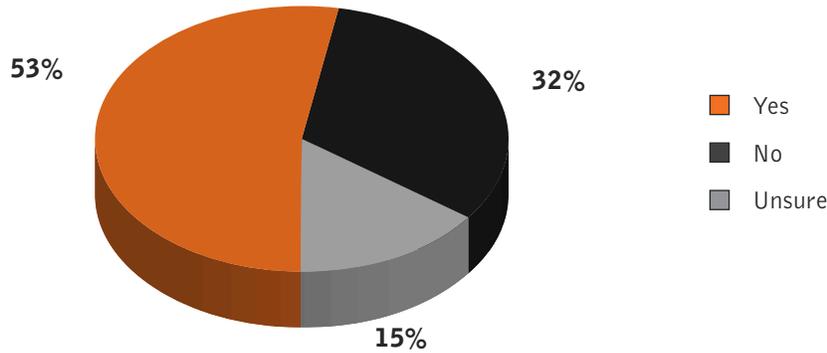


Industry	Healthcare*	Technology*	Other	Total
Yes	83%	67%	46%	61%
No	-	22%	38%	25%
Unsure	17%	11%	15%	14%

SELLER CONSIDERATIONS

13. If your company were to seek a sale, do you believe it would be easy to find a buyer for your company at a fair price?

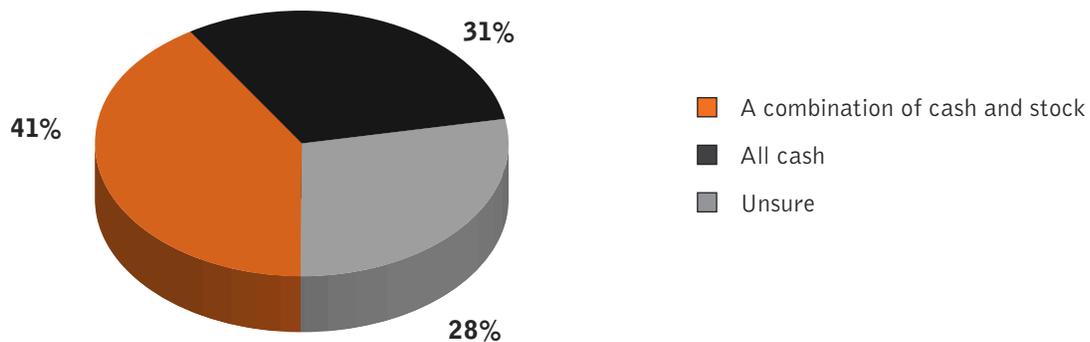
**Indicates less than 10 within a category.*



Industry	Banks	Healthcare*	Technology*	Other	Total
Yes	60%	44%	33%	50%	53%
No	28%	33%	44%	36%	32%
Unsure	13%	22%	22%	14%	15%

14. If your company were to sell, how would you want to structure the transaction?

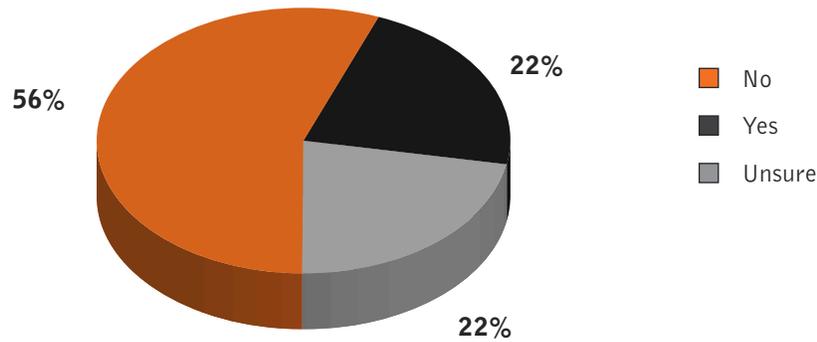
*Doesn't include bank data. *Indicates less than 10 within a category.*



Industry	Healthcare*	Technology*	Other	Total
A combination of cash and stock	44%	44%	36%	41%
All cash	33%	22%	36%	31%
Unsure	22%	33%	29%	28%

15. If your company were to sell, would you agree to an earnout provision to bridge the gap between your company's asking price and an acquirer's offer?

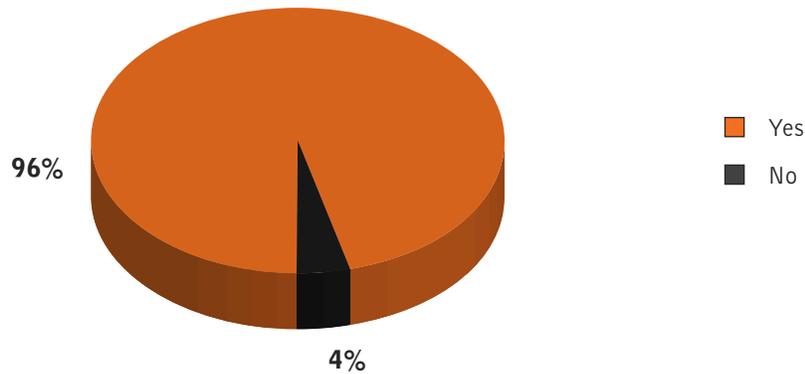
*Doesn't include bank data. *Indicates less than 10 within a category.*



Industry	Healthcare*	Technology*	Other	Total
No	56%	33%	71%	56%
Yes	22%	33%	14%	22%
Unsure	22%	33%	14%	22%

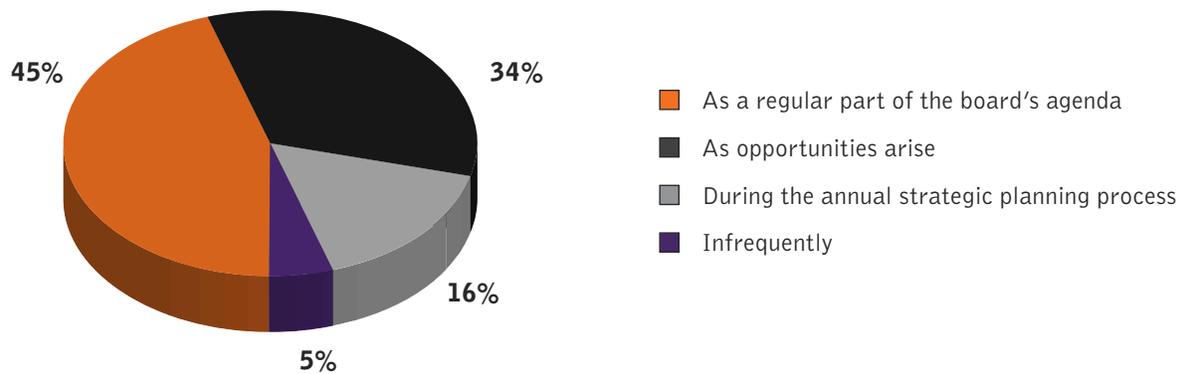
BOARD DELIBERATIONS

16. Does your board have one or more directors with experience in mergers and acquisitions?



17. How frequently does your board discuss an acquisition or possible sale?

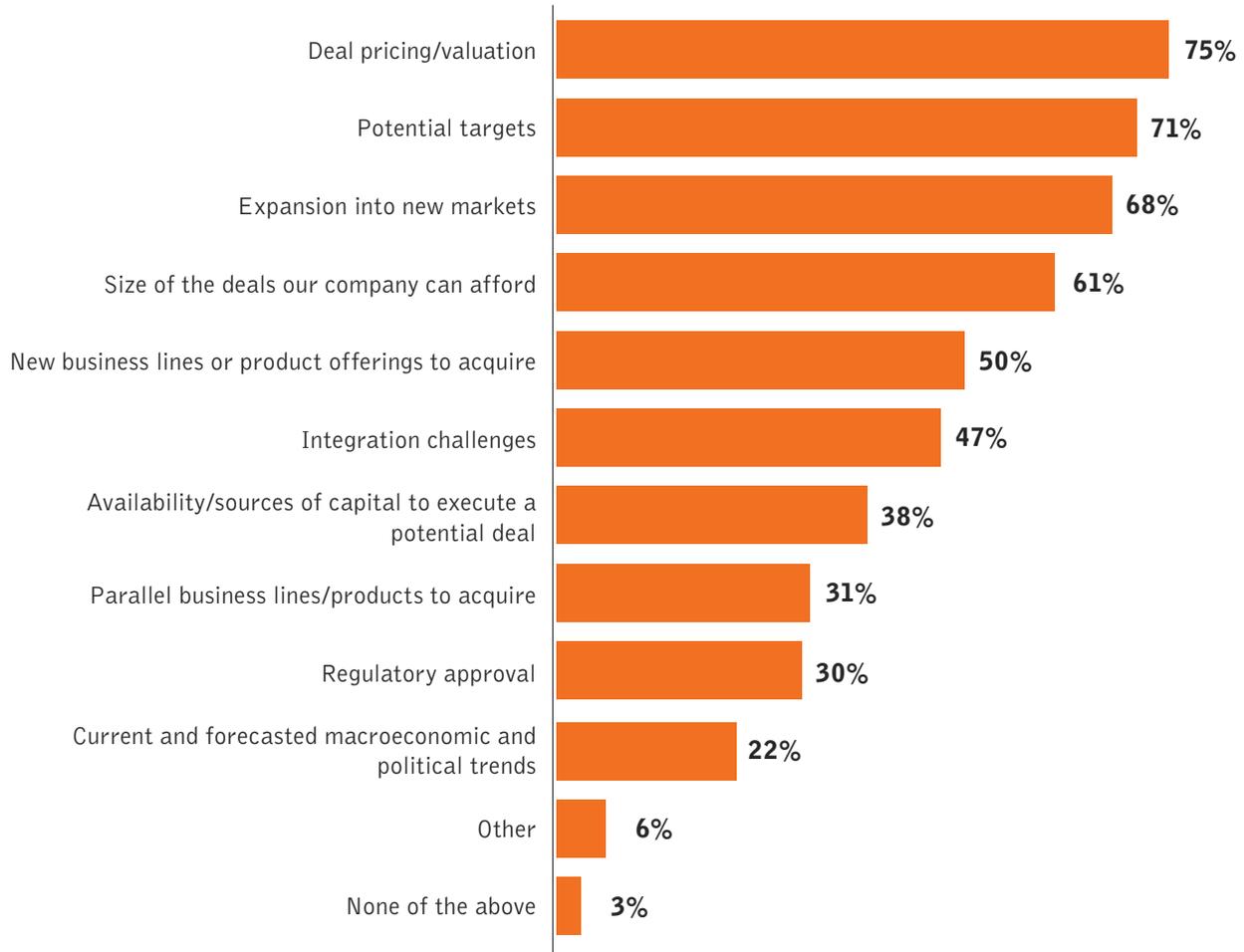
**Indicates less than 10 within a category.*



Industry	Banks	Healthcare*	Technology*	Other	Total
As a regular part of the board's agenda	44%	56%	44%	43%	45%
As opportunities arise	38%	33%	22%	29%	34%
During the annual strategic planning process	16%	11%	22%	14%	16%
Infrequently	2%	-	11%	14%	5%

18. When your board discusses acquisition opportunities, which of the following are analyzed?

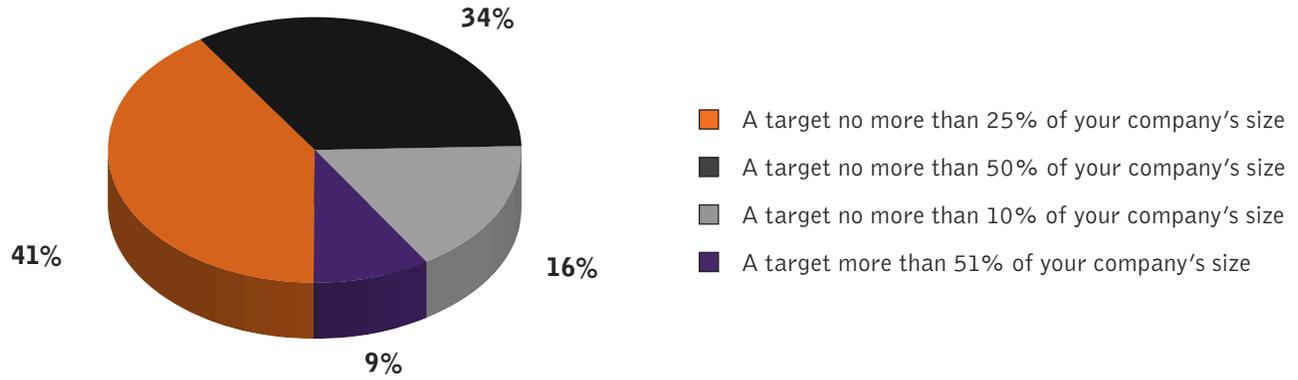
Respondents were asked to select all that apply. Bank respondents were offered additional options specific to their industry that are not included here. *Indicates less than 10 within a category.



Industry	Banks	Healthcare*	Technology*	Other	Total
Deal pricing/valuation	77%	67%	100%	57%	75%
Potential targets	66%	67%	56%	100%	71%
Expansion into new markets	84%	78%	22%	43%	68%
Size of the deals our company can afford	59%	56%	67%	64%	61%
New business lines or product offerings to acquire	n/a	67%	56%	36%	50%
Integration challenges	52%	44%	33%	43%	47%
Availability/sources of capital to execute a potential deal	32%	56%	67%	29%	38%
Parallel business lines/products to acquire	n/a	33%	33%	29%	31%
Regulatory approval	30%	56%	22%	21%	30%
Current and forecasted macroeconomic and political trends	n/a	33%	22%	14%	22%
Other	n/a	-	11%	7%	6%
None of the above	2%	11%	-	-	3%

19. In considering the size of targets that are attractive to your company, do you prefer?

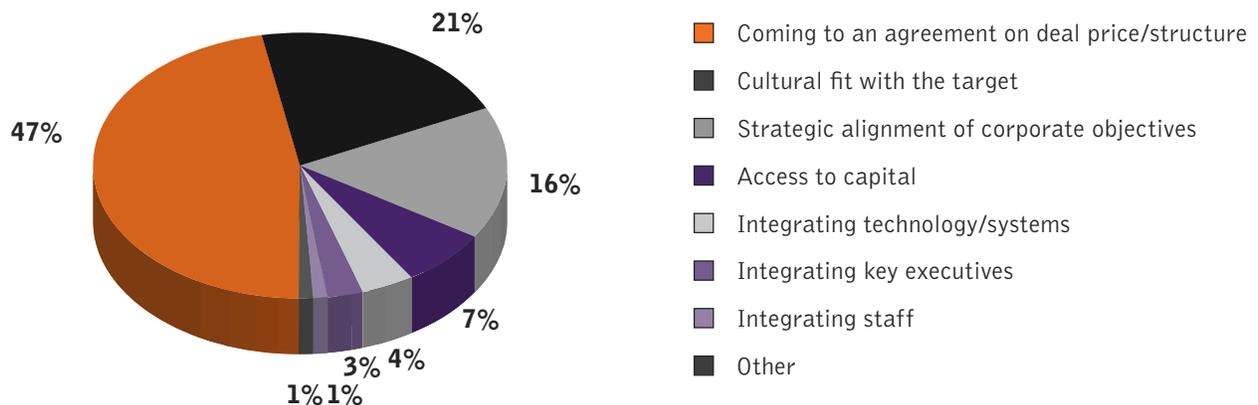
Respondents were asked to select the option that best describes the maximum size they would consider. Doesn't include bank data. *Indicates less than 10 within a category.



	Healthcare*	Technology*	Other	Total
A target no more than 25% of your company's size	33%	56%	36%	41%
A target no more than 50% of your company's size	22%	44%	36%	34%
A target no more than 10% of your company's size	11%	-	29%	16%
A target more than 51% of your company's size	33%	-	-	9%

20. What is the greatest challenge your board and management team face in considering an acquisition or merger?

*Indicates less than 10 within a category.

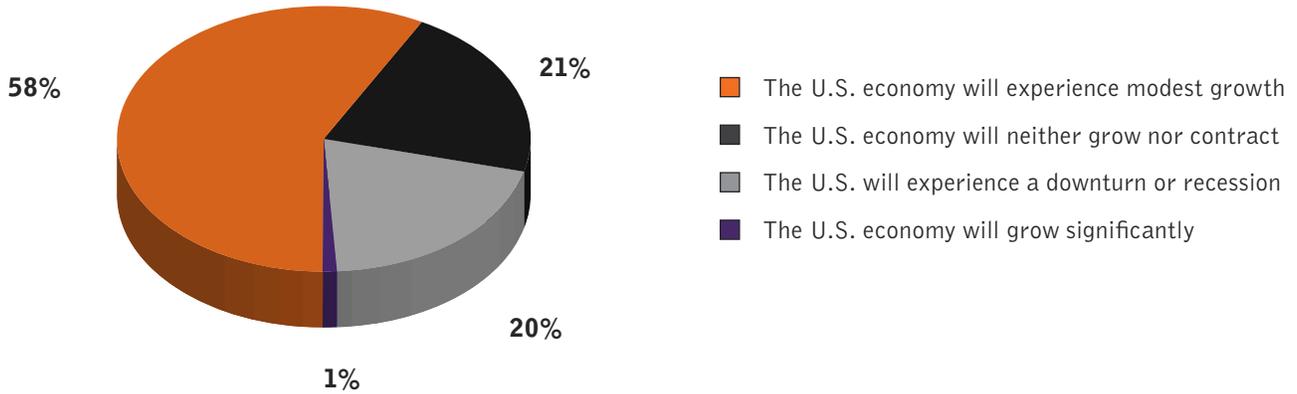


	Banks	Healthcare*	Technology*	Other	Total
Coming to an agreement on deal price/ structure	52%	33%	44%	43%	47%
Cultural fit with the target	25%	-	22%	21%	21%
Strategic alignment of corporate objectives	14%	22%	22%	14%	16%
Access to capital	-	33%	11%	7%	7%
Integrating technology/systems	5%	11%	-	-	4%
Integrating key executives	-	-	-	14%	3%
Integrating staff	2%	-	-	-	1%
Other	2%	-	-	-	1%

ECONOMIC & POLITICAL OUTLOOK

21. What is your outlook for the U.S. economy through the end of 2020?

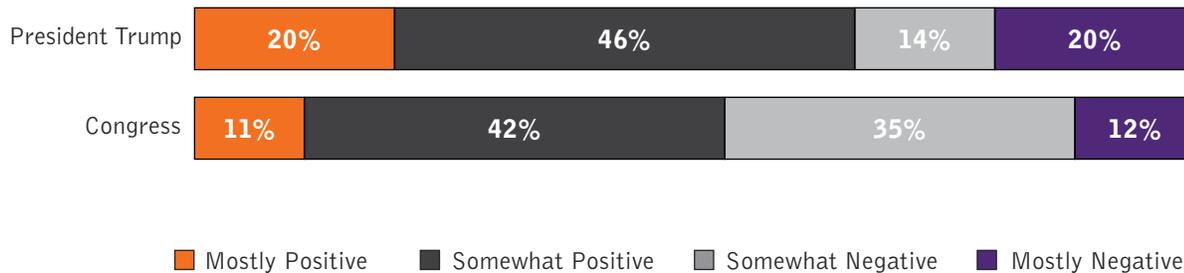
**Indicates less than 10 within a category.*



	Banks	Healthcare*	Technology*	Other	Total
The U.S. economy will experience modest growth	66%	44%	56%	43%	58%
The U.S. economy will neither grow nor contract	23%	11%	-	36%	21%
The U.S. will experience a downturn or recession	11%	44%	33%	21%	20%
The U.S. economy will grow significantly	-	-	11%	-	1%

22. In your view, has the impact of Congress and President Trump’s administration on your industry been positive or negative as a whole?

**Indicates less than 10 within a category.*

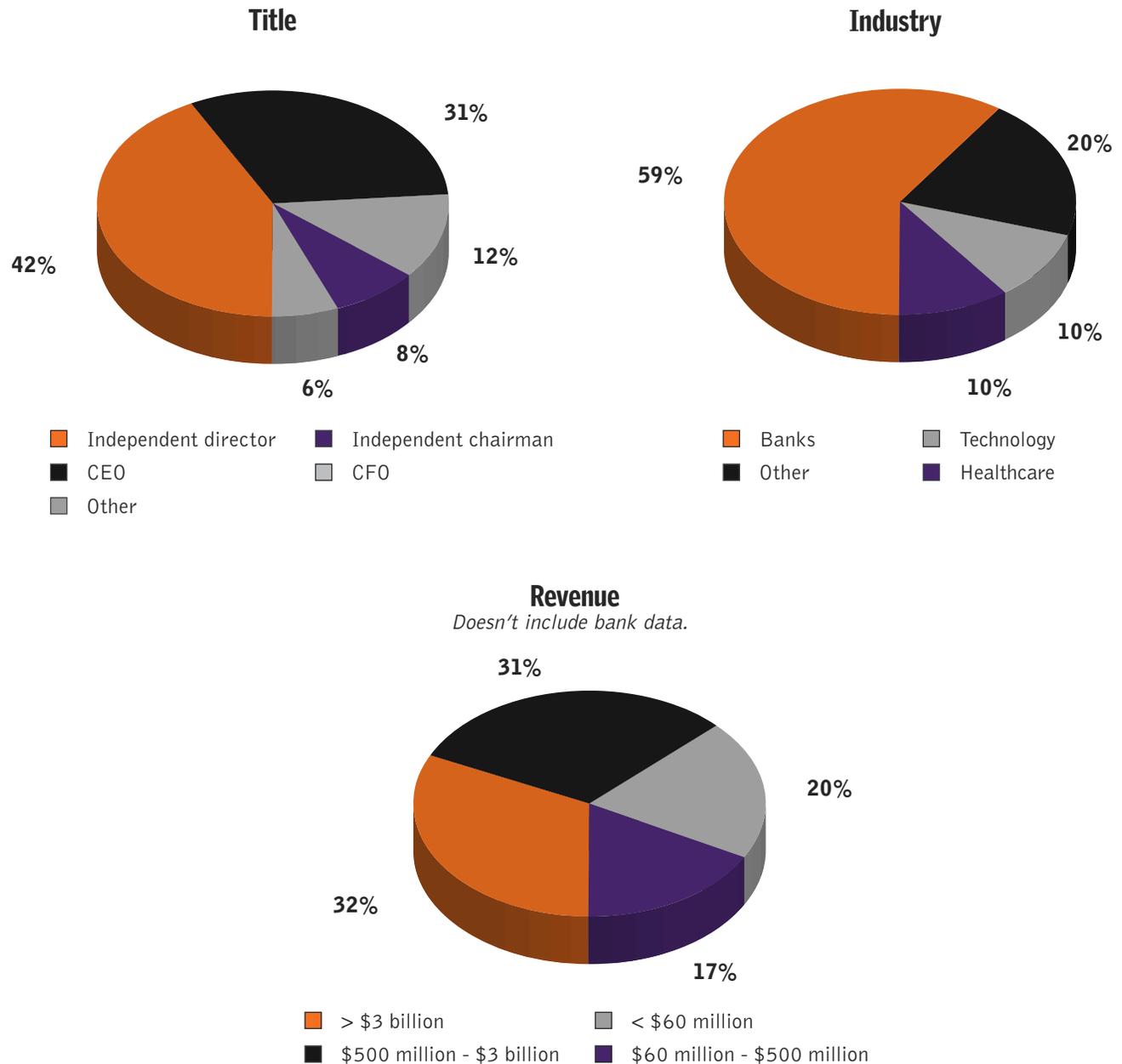


President Trump					
	Banks	Healthcare*	Technology*	Other	Total
Mostly positive	27%	11%	11%	7%	20%
Somewhat positive	48%	33%	33%	57%	46%
Somewhat negative	7%	11%	33%	29%	14%
Mostly negative	18%	44%	22%	7%	20%

Congress					
	Banks	Healthcare*	Technology*	Other	Total
Mostly positive	16%	-	-	7%	11%
Somewhat positive	44%	13%	44%	50%	42%
Somewhat negative	30%	63%	44%	29%	35%
Mostly negative	9%	25%	11%	14%	12%

ABOUT THE SURVEY

DirectorCorps’ 2019 Corporate M&A Survey, sponsored by Crowe LLP, surveyed 86 independent directors, chief executives and other senior executives of U.S. public companies representing a broad array of industries, particularly from the healthcare, technology and banking sectors. Half of respondents serve as independent directors or chairmen. Respondents were asked to share their perspective based on the largest public company, by revenue, on which they served as an executive or director. Banks were surveyed separately. The survey was conducted in August, September and October 2019.



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