4 Reflections on M&A in 2016

By [Brent Beshore](http://www.axial.net/author/brentbeshore/) (http://www.axial.net/author/brentbeshore/), adventur.es | January 24, 2017

Missouri-based private equity firm **adventur.es (https://network.axial.net/a/company/adventur-es/)***, which invests in "family-owned companies with unfair advantages," recently released their* **2016 Year in Review (https://www.adventur.es/adventures-blog/2017/1/compounding-knowledge-and-returns-2016-year-in-review)** *report. Below is an excerpt, featuring founder and CEO Brent Beshore's reflections on the middle market in 2016.*

We often get asked about the general market for private companies and it's always a tricky topic to discuss. With the caveat that I can only speak to **our little corner of the world (https://mobile.twitter.com/BrentBeshore/status/821368874176233472)**, here are a few observations:

1. The variance in valuations are currently the most extreme we've experienced. We have seen some pure insanity on the high-side, with zero-moat businesses asking 7-8X multiples and fetching 6-7X multiples. We have also seen some good businesses not get sold, repeatedly, because of disappointing bids/buyers. It feels like the market is getting less efficient, not more efficient. While this may seem positive for us, it's not. The high-side sets unrealistic expectations, which could be partially responsible for driving a lack of activity at lower multiples.

2. We continue to see traditional PE activity move down-market. Some of the ridiculous prices are being paid by PE funds who have traditionally acquired larger companies. They're in for a rude awakening if they think the needs, challenges, or stability of a $3M pre-tax earning company resembles anything like that of

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it's larger cousins. It's apples to oranges, but unfortunately the need to deploy dollars can lead to goal-induced blindness, or indifference. How will it play out? We'll find out in 5 to 10 years.

3. On the other end of the spectrum, fundless sponsors are gumming up the works. It feels like there is a factory somewhere pumping out early-40s to late-50s former executives who love to make big promises with no ability to deliver. The playbook is simple — promise the moon, lock up the company in a prolonged due diligence, go hunt for country-club dollars with fancy spreadsheets and nonsensical projections. Does it occasionally work? Yep. Does it often result in tremendous disappointment, a gigantic waste of time, and a management disaster post-close? Almost always. We're often not the first pick for Prom, but happy to be a last-minute stand-in for the right partner.

4. On a more positive note, income statements and balance sheets continue to improve. Many of the debts, both financial and otherwise, are being paid down. Profits are steadily rising, even in highly competitive markets. That's a testament to the strength of the economy, but also signals some additional risk. Just as trees don't grow to the sky, economies cycle. Are we reaching a peak, or is there still plenty of curve to climb? I'll throw out that this economic rally feels more stable, but it's anyone's guess. We plan to stay conservative both within the portfolio companies, and as an adventur.es family, and be a cash buyer during the next downturn.

Read the full adventur.es Year in Review report **here (https://www.adventur.es/adventures-blog/2017/1/compounding-knowledge-and-returns-2016-year-in-review)**.

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