



THE CORN IS HIGH!

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It's July in the northeast with lots of sunshine and gentle rain, and the corn is rising. The corn is especially tall in Cleveland (where I'm from) this week with the news of being named the GOP convention site for 2016 – not to mention the return of our favorite basketball son!

But, I digress from chatting about wholesale distribution. Staying with the analogy, the “crop forecast” for 2014 is looking strong for our clients and friends in the industry, and the outlook for the next few years is good by most accounts.

Thus you might expect that merger & acquisition activity – and deal prices – in wholesale distribution are strong, and you would certainly be correct. Not only do we see a sales and profit upswing for many distribution companies, as we all know interest rates are at historic lows and stock market prices are at record highs. As if that isn't enough to fuel the market, there is an enormous amount of equity money looking for good companies to buy. Banks are willing to finance these deals.

A very smart friend of mine, Marc Morgenstern, is a San Francisco lawyer and founder of Blue Mesa Partners. He invests in private operating businesses through his firm. To quote Marc:

When you can get liquid, you should get liquid. When everybody desperately wants what you have, that's a very good time to sell. For most companies, there are very logical buyers for them - might be three, might be 20. It's not thousands. Timing really is 99% of life, and you can't just say to somebody... 'buy me in three years.'"

We are seeing deals for smaller distributors (say \$25 million sales, \$2 million EBITDA) priced at very high multiples with favorable terms for the sellers (all cash deals). These smaller companies are getting offers with valuations that would typically be for larger firms, those in the \$5 million EBITDA range.

Of course the rosy situation could change quickly with bad news from the financial markets or a disruptive event in the news.