

# To M&A or not M&A – that is the question

written by Bob Hanes | August 29, 2022

Micro-cap companies are typically defined as organizations with below \$250 million market capitalization, which these days is a pretty big club. About 60% of the public company acquisitions throughout the equity market involved [micro-cap companies](#). These acquisitions can represent an opportunity for an investment exit at substantial premiums for investors and executives alike.

Six months ago, dealmakers were optimistic about the year ahead. Global M&A had just had its best year on record, and there was no sign of the market slowing down. However, fast-forward to today, and the picture looks very different. Inflation and interest rates are rising, stock prices are falling, and the Russia-Ukraine conflict has deepened the energy crisis.

These challenges have put a sizable dent in [M&A activity in 2022](#). Compared to the first half of 2021, deal values declined by 20% and could fall even further. Deal activity has decreased to pre-pandemic levels, and deals above \$5 billion have decreased by [almost 40%](#) in the first half of 2022 compared to the last half of 2021.

Navigating this tricky time period can be difficult for small-cap space executives. Executives at small-cap companies who are being targeted for acquisition may struggle with how to move forward. With low market caps and share prices, CEOs don't want to upset shareholders by exiting at the bottom of the market. However, cash-strapped companies may be forced to sell if they cannot raise enough capital to continue operating. Executives need to reset their strategic priorities and focus on areas where they can be successful and score a win. With careful

planning and execution, deals can be successfully completed in today's environment.

## **1. Public-to-Private Transactions**

Executives at small-cap companies can look towards taking their companies private through private equity (PE) deals. Deals to take public companies private have increased by [more than 50%](#) in 2022 as compared to 2021.

This market trend is mainly due to the tremendous growth in PE "dry powder" – capital available for investment – reaching a record [\\$2.3 trillion globally](#). With this vast pool of capital available, PE firms have been increasingly active in M&A and now account for approximately half of all M&A deal value. Small cap executives can find deals to take their companies private.

## **2. Long-Term Focus**

In today's rapidly changing world, it is more important than ever for leaders to take a long-term view. Short-term thinking can lead to missed opportunities and poor decisions while focusing on the long term can help create value and generate successful outcomes. This focus is especially true in mergers and acquisitions, where a downturn can present solid growth opportunities.

A [PWC analysis](#) shows that deals done during a downturn are often the most successful, so it is crucial for leaders to be bold and pursue M&A with a strong capability fit. Leaders can position themselves to create value and achieve success by taking a long-term view.

## **3. Embrace Inflation**

Today's small-cap executives need to be inflation-prepared. As companies face a different set of challenges in an environment

where prices are increasing, it is essential to consider both present and expected future rates for economic growth when making decisions on valuation techniques or M&A strategies.

In order to approach valuations from a proper perspective, executives must understand how companies are affected by inflation and what repercussions this has for business decisions and shareholder value.

#### **4. Talent Management**

Workforce strategy should not be an afterthought in the M&A process. There is an increasing recognition that human capital issues are key in M&A deals. To get acquisition ready, executives should assess the impact of the deal on their company's workforce. This analysis includes questions on workforce composition, compensation and benefits, and future organization design and culture.

These factors can all impact future business performance. In addition, post-deal integration plans should take into account the role of the workforce in achieving desired outcomes. By taking workforce matters into account from the outset, executives can increase the chances of a successful M&A deal.

With the right approach, small-cap executives can manage an increasingly complex business environment and potentially secure an acquisition.