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CORPORATE DEALMAKER FORUM

Dealscape

Bankers: Outlook good for midmarket deals in 2008



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Many investment bankers who focus on transactions under \$500 million say that the performance of smaller companies has remained strong and that mergers are going forward, with financing only rarely being a deal breaker. On the other hand, some financial sponsors suspect that if tight financing conditions prevail amid a weakening economy, the steep valuations of recent years will likely moderate, and deal activity will slacken.

This article reports that 2007 ended on a strong note for middle-market deals: There were about \$10 billion worth of deals in December for transactions \$100 million to \$500 million in size, compared with \$10.9 billion in November and \$9.9 billion in January 2007, according to research firm Dealogic.

Jim D'Aquila agrees. He's a managing director of **Mercanti Group**, the boutique investment banking firm focused on mid- and small-cap corporations. Among the factors he sees as driving the trend are:

- Capital, which moved to the sidelines as assets got pricier, is now poised to return;
- More realistic leverage ratios, debt pricing and equity return expectations;
- High-quality companies will continue to be highly in demand;
- A new class of investors -- business development corporations, SBICs, special purpose debt funds -- that are unaffected by the subprime meltdown; and
- Continued liquidity in the financing markets albeit at slightly reduced leverage ratios.

The M&A advisory team at Piper Jaffray & Co. is in line with these predictions, noting that financing will be much harder to find for megabuyouts.- *Baz Hiralal*