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MIDDLE MARKET COMPANIES

The sweet spot is in the middle

Bankers, advertisers see heightened activity among midsized clients

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With businesses looking to borrow, buy and sell at a quickening pace, [Suzanne Morrison](#) and her team of commercial bankers at **Wells Fargo & Co.** can't help but think back to the days when the market for medium-sized companies wasn't as heady.

Morrison, regional vice president, is focused on serving companies with annual revenue of \$20 million to \$1 billion. It's a huge segment of companies known as the middle market — they're too big to be considered small businesses and not yet big enough to be major corporate players on Wall Street. Many are family owned or closely held by a group of investors. They operate mainly in manufacturing, technology, retail, health care and equipment.

Banks and other firms that wish to serve the companies often are required to invest in months and years of hand-holding to reach the market.

"It can be years of conversation," Morrison says of efforts to serve middle-market firms. "It's often long-term thinking."

Right now, the segment is on fire. And that patience through lean years is paying off. Company valuations are up. Strategic buyers are on the prowl. And lenders, investment bankers and professional-services firms are in line for a piece of the action.

At Wells Fargo, the bank with the largest middle-market client base in the Carolinas, commercial credit facilities in North Carolina are up more than 15% so far this year from last year. Merger and acquisition activity increased 59% last year from 2013, including 77 deals in North Carolina valued over \$25 million.

In addition, \$68 billion was raised via 254 initial public offerings in 2014 across the U.S., according to Wells Fargo. That's the best year since the dot-com boom in 2000. Nine of those offerings involved N.C. companies.

The activity is expected to continue this year, driven by higher multiples, low interest rates and an improving economy. Bank of America Merrill Lynch in its annual middle-market CFO Outlook says more than half of the companies it surveyed expect to add employees and see more sales in coming months.

It's a potential windfall for firms serving the middle market. But it can also be a challenging time because good advice is in high demand.

"It all goes back to balanced, trusted advice," Morrison says. "We've helped them grow. Now, can we help them manage the wealth?"

One major trend creating opportunity in the middle market is the uptick in mergers and acquisitions. The prolonged period of slow growth after the recession has prompted strategic buyers and private-equity funds to scout the U.S. for healthy middle-market companies. But sellers are often considering more than a chance to cash out. Many are faced with the decision of selling or ceding control of a family business built over decades. Advice on more than financial outcomes becomes key. Large buyers have specific demands, too. And finding the right match of buyer and seller can be difficult.

"Financial buyers have lots of capital that they have to get deployed, so we have buyers calling us all day for deals," says [Justine Tobin](#), managing partner at Tobin & Co. Investment Banking Group, a Charlotte firm that works with small and middle-market companies.

"We also work with our clients in the numerous calls that they get each week, asking if they are for sale. But our clients aren't motivated to work deeply with these buyers. Most of our clients have a broken deal in their history, and they don't want to go through that again at this time," Tobin adds. "They want a motivated buyer who will pay a fair price. Our clients' biggest challenges are finding a liquidity event, if they want one, with a desirable partner who is going to close."

[Rick Dowd](#), vice chairman and managing director at Wells Fargo Securities, says the M&A markets are robust and Wells has invested in resources to serve middle-market companies. He also sees some obstacles in sales of middle-market companies, especially among owners who want a specific outcome beyond the sale itself, including retaining some influence or finding specific types of investors.

"There's a financial aspect, but there's also an emotional aspect," Dowd says. "They all want a strong financial outcome, but they care deeply about what happens to the company. We have to really understand their thinking and then craft a solution that meets their needs, something they can be proud of."

But Dowd says the recent rise of valuations to an average of 10-times annual earnings has motivated some sellers to strike while the iron is hot.

"The M&A game is a chess board. Somebody makes a move and it changes the environment," he says. "Sometimes we get bids in and see a strategic buyer willing to pay 15% more. Then our client will say, 'Never mind. That's the direction we need to go.' It's really expensive to buy. But it

can be really profitable to sell."

Providing services to the middle market is a booming business in Charlotte, especially as more firms make the Carolinas and the Queen City home.

[Jen Leary](#), managing partner at CliftonLarsonAllen, says her firm's client activity has increased 36% in the past year, including more phone calls, visits and work performed. The firm helps privately held middle-market firms with tax, audit and consulting services. She says the Charlotte office is particularly busy with inbound calls from overseas and out-of-market firms looking to add operations in Charlotte. Such calls historically happened twice a month, but this year the firm is receiving two inbound prospect calls or more every week. CLA this year will welcome its largest-ever intern class, and it's hiring consistently.

"Charlotte is seen as a comfortable landing spot. That's the power of the growth in our city," she says. "We're investing at every level."

Leary says middle-market firms are increasingly interested in one-stop shopping for a menu of services. So CLA often invites clients in for a full day of conversations. "They might come to us for tax, and we end up helping them with wealth management."

Other service providers are experiencing growth here, too. Dixon Hughes Goodman has added dozens of staff members. Law firm Shumaker, Loop & Kendrick recently added an emerging and middle-market practice group. And banks such as Chase and RBS Citizens have added middle-market commercial lending groups here.

Wells Fargo's Morrison isn't surprised. Charlotte's growing economy is bringing new prospects to the table. And, she says, providers are seeing what her company has believed for a long time — that middle-market firms are a great source of referral business and lengthy relationships.

"This is a fantastic segment," she says. "It does not surprise me that we have others wanting to serve this segment. It's the core of the economy and a long-term strategy."

Adam O'Daniel covers banking, entrepreneurs and technology for the Charlotte Business Journal.