

INDUSTRY'S THIRST FOR M&A ON DISPLAY AT INFOCOMM 2017

With all the mergers and acquisitions (M&A) afoot in the AV integration industry, how can integrators make sense of their own potential?

By Ari Fuchs

DURING MY TWO DAYS at InfoComm, I had the pleasure of meeting with several industry rock stars representing a wide cross-section of the AV hardware, software and integration markets. While the discussions were wide-ranging, the question that was raised most frequently was "what is behind the incredible level of mergers and acquisitions (M&A) lately?"

Most industry participants I spoke to were considering some sort of strategic transaction — either a sale or exploring acquisition opportunities. The energy building from M&A chatter was palpable.

Overall M&A activity is driven by the vast amounts of cash sitting on the sidelines. Corporate balance sheets sit on \$1.9 trillion of cash just waiting to be deployed in a way which generates shareholder growth. The private equity industry has over \$800 billion of capital for quality investment opportunities, aimed at investor returns. Private equity buyers and corporate purchasers continue to drive M&A activity to new heights.

Why Are Buyers Flocking to the AV Industry?

The AV integration industry has certainly seen its fair share of M&A activity with a pronounced surge of deals in the last 24 months. According to DAK estimates, there



have been over 25 disclosed transactions in the industry in the last 12 months alone. The last 45 days (at press time) have seen a spike in activity with the announcements of Diversified's acquisition of CompView and Ford AV's acquisition of Audio Video Resources in addition to Legrand's recent acquisition of Milestone AV. Clearly, both integrators and manufacturers are in play.

What's Driving the M&A Activity in the AV Integration Industry?

Private Equity

Private equity (PE) buyers are drawn to the AV integration industry for several reasons. First, the fragmented nature of the space lends itself to consolidation, an attractive characteristic for PE buyers. In addition, growth in recurring service revenue among integrators provides increased

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revenue visibility balancing the risk of choppy, project-oriented revenue, creating a comfort level for PE sponsors. And thirdly, the shortening of IT refresh cycles among enterprise clients has created new opportunities for growth.

Strategic Buyers (Internal)

Strategic buyers from within the integration sector continue to use acquisitions to fill geographic holes, expand market share, expand service capabilities and add exposure to new and growing end-markets.

Strategic Buyers (External)

Most interesting among the recent trends is M&A activity driven by strategic buyers in adjacent industries, such as low-voltage electrical, HVAC and mechanical, IT services, and hospitality. Their interest is primarily driven by a desire to enhance their relationships with enterprise customers by offering highly complementary AV integration services, while cross-selling their services to a new AV client base.

Have You Received M&A Inquiries from Prospective Buyers?

In addition to fielding questions about M&A drivers, a high number of integrators reported to me that they had received calls from prospective buyers, some genuine and some fishing for information. While it may be tempting to explore a buyer's interest in your business, unless you understand the full value of your integration business from a buyer's perspective, you may leave money on the table.

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quality workmanship of your integration services to be your company's greatest strength, and therefore, its greatest value. A potential buyer, however, may be more interested in acquiring your geographic footprint, presence in a unique end-market, or your highly-trained workforce — and could be willing to pay a significant premium to acquire it.

Buyers are often willing to pay higher prices based on their economics, synergies, specific goals, or even the reputation of your business. It is important to understand all of your company's value drivers to

avoid leaving money on the table.

It was impossible to walk away from InfoComm 2017 without realizing that AV-over-IP is gaining tremendous steam.

Key Takeaways

After spending time at InfoComm, it seems that macroeconomic conditions and overall AV integration industry momentum are supportive of an extended period of M&A activity in the sector. While no one knows how long these conditions will last, now is undoubtedly a great time for those considering a strategic transaction, whether it may be a divestiture to take some chips off the table or an acquisition to drive future growth. 

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