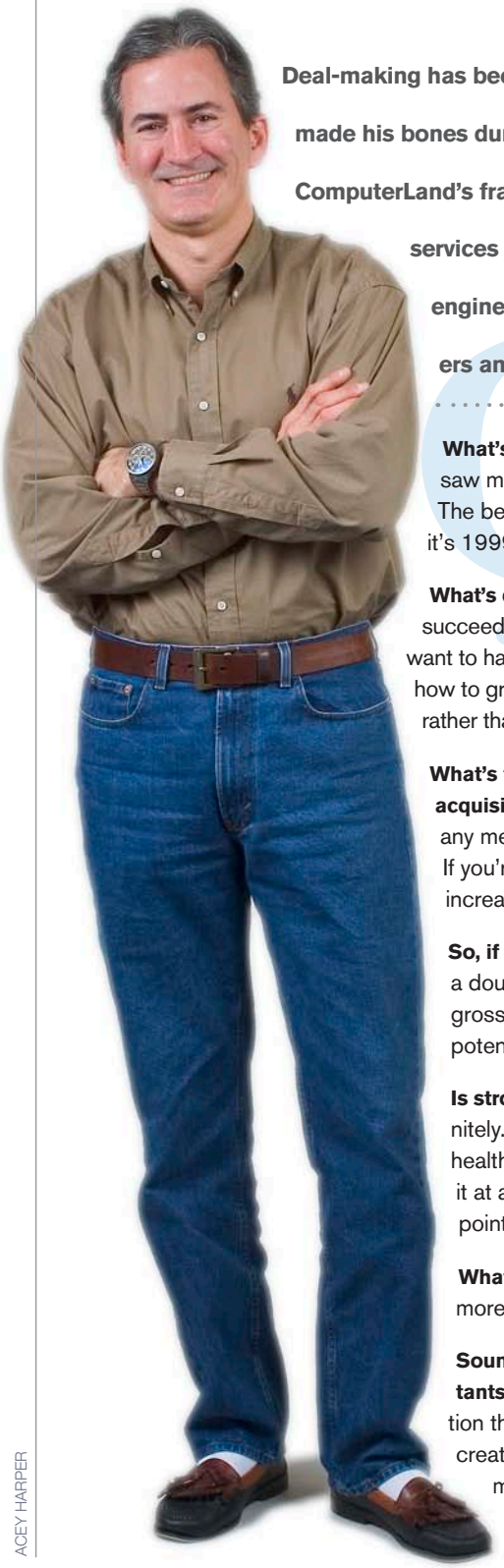
Q & A WITH

Marty Wolf

by Mike Perkowski



ACEY HARPER

Deal-making has been in Marty Wolf's blood since he left the University of Michigan in 1980. He made his bones during the industry's heyday in the late 1980s/early 1990s, first helping to build ComputerLand's franchise and distribution business, then becoming a matchmaker in the IT services space. Since starting Martin Wolf Securities nine years ago, Wolf has helped engineer more than 70 mergers and acquisitions among VARs, integrators, outsourcers and other IT services companies.

What's the state of today's market for IT mergers and acquisitions? It's really hot. In fact, we saw more transactions in the last 12 months than we saw in the past three or four years. The best way I can put it is that buyers no longer think it's 1929, and sellers no longer think it's 1999.

What's driving that increased volume of transactions? Two things. First, company owners have succeeded in growing their business to the point where they can get out successfully, and they want to have something meaningful to pass on to their kids. Second, more people are figuring out how to grow their businesses—organically through developing their own products and services, rather than just reselling more boxes—and thus increase their market valuation.

What's the best way for a company to make itself more valuable and command a better acquisition price? First and foremost, focus on earnings. Without earnings, you can't secure any meaningful investment. And you have to grow your company, especially the bottom line. If you're not growing your profits, you're just wasting your time. And, I don't think you can increase your valuation simply by selling more products in order to generate more profits.

So, if selling more products isn't the key to "smart" profit growth, what is? Services, without a doubt. With product margins declining every year, selling more products only drives your gross margin down. And gross margin management is extremely important in the eyes of potential buyers of your company. Without it, your balance sheet will deteriorate.

Is strong M&A activity a good or bad sign for the channel's health? It's a good sign, definitely. If there's no market for transactions, that's unhealthy. If I could quantify the market's health compared to what I think is its potential for absorbing "good" acquisitions, I'd measure it at about 70 percent. That means we still have a ways to go before we hit the saturation point of having too many deals.

What's ahead in the next year in this market for acquisition activity? I expect that we'll see more big deals in the next 12 months than we've seen at any time since 2000.

Sounds like some good opportunities lie ahead for smart VARs, integrators and consultants that can put together a well-thought-out exit strategy. Yes, but there's also no question that some companies are going to fail in their attempts. There's a very fine line between creating value and destroying it. The best way to do it is through organic growth—adding more services that let you deliver more value to your customers, or to bring in new customers. If you're pricing those services correctly, in line with their perceived customer value, you can improve your margins and, thus, your profitability.