



South Carolina M&A Market Report

PART III: THE PALMETTO STATE AS A NET-SELLER

Net Seller vs Net Buyer in M&A

States' roles as net sellers or net buyers in Mergers and Acquisitions are crucial in shaping economic landscapes. A "net seller" state, characterized by more sell-side than buy-side M&A activity, contrasts with a "net buyer" state, where buy-side activity predominates. Understanding these roles offers valuable insights into the economic impact on South Carolina as a net seller and the broader implications for other jurisdictions. This report explores the multifaceted implications of states being net sellers and net buyers within the M&A landscape.

Regional M&A Activity Focusing on Net Buyers and Sellers

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Of the 50 states, in addition to Washington D.C., 23 are net sellers, and 28 are net buyers. For reference, *Appendix A* spotlights the national outlook, detailing the regions of the United States and their respective classifications as net buyers or net sellers. Each region in the United States contains both net sellers and net buyers, signifying the diverse patchwork of M&A activity across the country. We observed states where significant capital markets activity originates, combined with large companies headquartered there, tend to be net buyers. In contrast, neighboring states can often be net sellers. Within the net seller list, South Carolina holds a moderate standing.

M&A Net Seller's/Net Buyer's in the Southeast (2003-2024)

Southeast			
State	Sold	Acquired	Net
Georgia	5,714	7,331	1,617
Florida	12,010	13,564	1,554
Virginia	4,725	5,729	1,004
North Carolina	4,760	5,456	696
Tennessee	3,481	3,980	499
Alabama	1,750	1,546	-204
South Carolina	1,769	1,501	-268

Source: S&P Cap IQ

Within the Southeast region, according to CapIQ, South Carolina and Alabama are the only net seller's states. South Carolina ranks the lowest with a net number of -268 transactions,

while Alabama is slightly above with -204. In contrast, Georgia stands out as the highest net buyer in the region, with a net positive balance of 1,617 transactions, reflecting the critical role that strong capital markets and corporate headquarters play in determining a state's M&A status.

Economic Implications of a Net Seller

Being a net seller state, like South Carolina, has economic implications. The emigration of the headquarters can diminish the state's influence and decision-making power, reducing its' role in shaping regional business strategies. Managers are often moved to the acquirer's headquarters. This may result in fewer executive decision-makers located within the state, who are often civil leaders and active community participants, although civic leaders obviously also come from other professions.

Acquirers usually integrate targets into preexisting distribution/supply networks. This can hurt local businesses that once supplied the target. Over time, there is a shift within supply channels, moving business away from the local ecosystem.

Net seller states can also see adverse effects regarding employment data. Acquisitions often result in restructuring, which can lead to job losses or relocation of jobs to other states or countries. The loss of employment can reduce household incomes and increase local unemployment rates. Furthermore, a highly skilled worker may move out of state if laid off from their prior job.

Areas with a higher concentration of corporate offices require large, international airports to accommodate business travel demands. Its' limited airport infrastructure hinders South Carolina, as SC's airports are not international and often serve as locations for connecting flights rather than direct destinations. This frequent need for connecting flights, even for travelers from major metropolitan areas across the nation, discourages the migration of corporate headquarters to the area. Additionally, the lack of direct international flights further exacerbates these challenges, making it difficult for global business partners and executives to travel efficiently to and from the state. The inconvenience and additional travel time associated with connecting flights can significantly deter businesses from considering relocation or expansion. As a

South Carolina's limited airports, often requiring connecting flights even for major metropolitan travelers, hinder corporate migration and investment.

result, the state attracts fewer corporate headquarters, contributing to its status as a net seller in the M&A market.

Corporations are subject to many taxes and fees imposed by state and local governments, reflecting the various dimensions of business operations—from income and property to sales and payroll taxes. These taxes are designed to ensure that corporations contribute to the public finances in exchange for the infrastructure, services, and regulatory environment that support their business activities. Tax income might decrease over time for many reasons in states that are net sellers.

Tax apportionment is a critical process for companies operating in multiple jurisdictions, involving the division of taxable income among different locations with varying tax laws. In the context of an acquisition, changes in the acquired company's operations, such as customer, employee, or asset locations, can impact how income, payroll, and property are apportioned for tax purposes. Interestingly, the acquiring company may reduce its tax burden through strategic tax apportionment, especially if it already operates in jurisdictions with lower tax rates. Not only this, but a state's total tax base may be reduced due to being a net seller. Acquired companies are likely funneling much of the profits generated from their home state to the state in which the acquiring company is based. This outflow of capital reduces investment in the seller's state, thereby lowering overall taxable income attributable to the state through increased employment and business revenue.

Other M&A-based tax implications include potential vacancy liabilities, where some jurisdictions levy an additional tax on properties left without a tenant, or higher unemployment tax obligations. For example, state unemployment tax rates may increase because of consistent layoffs associated with business sales. Clearly, the characterization of a state as a net seller or net buyer matters in the context of overall economic vitality. Sustained selling activity in excess of buying presents legitimate challenges for states competing for a finite amount of tax revenue.

How does South Carolina Become a Net Buyer?

As mentioned above, the negative implications of a state being a net seller are prevalent. South Carolina should strive to being a net buyer of companies, but how? Our answer may surprise you. While there are many systems and factors that

Strategic tax apportionment in acquisitions can help reduce a company's tax burden, but consistent net negative transaction balances can challenge state economies by reducing taxable income.

South Carolina business owners should prioritize strategic thinking and leverage expert guidance to enhance competitive positioning.

need support (infrastructure, airports, tax incentives, continued development of industry clusters) Watermark has also observed as an M&A advisor within the state for over two decades another issue. Many private companies within the state lack robust discipline around strategy. Strategy, at its' best, is a 1x a year endeavor to evaluate your company's **vision, roadmap and resources**, as noted by Dr. David Furse, Co-Founder of Executive Aura, a strategy consulting firm based in Nashville, TN. Additionally, Dr. Furse emphasizes the goal of strategy is to improve the organization's competitive position in a way that will cause its' value to increase.

Strategy is not something you revisit every 3-5 years. You execute and revise it everyday. As we work with sellers we have discovered that despite being very successful companies, they have not created a discipline around strategy and business model evolution. As a result, some degree of shareholder value has been lost. We believe if greater resources and attention were paid to business strategy and business model disciplines, SC would see a shift over time to even more impressive economic growth and even see itself become a meaningful net buyer of companies.

Conclusion

In conclusion, states' roles as net sellers or net buyers are pivotal in shaping economic landscapes, influencing market strategies, and driving regional growth. South Carolina, currently a net seller, faces economic impacts and broader implications as a result. Net-selling states often are impacted by cost-cutting strategies resulting in payroll reductions. However, with a recommitment to business strategy and with a recruitment of strategy expertise to private companies of all sizes, South Carolina will see a shift towards becoming a net buyer. Watermark believes that if companies in South Carolina can adopt strategic thinking and integrate M&A into their growth plans, the state can transform into a thriving net buyer, enhancing its economic landscape and regional influence.

Watermark Advisors

Watermark Advisors, a 22-year-old FINRA member M&A advisory firm, serves clients in all three phases of M&A: Preparation Phase, Transaction Phase, & Integration Phase through a unique approach called “The M&A Bridge.” If you are contemplating an M&A transaction, please contact Hagen Rogers, Executive Managing Director at 864-527-5960 to learn more about Watermark’s unique collaborative, comprehensive approach to M&A services.



Hagen H. Rogers

Hagen Rogers is the Founder of Watermark Advisors, an investment banking firm he launched at age 31. Born in Greenville, SC, his education and subsequent career took him to Dallas, Houston, Nashville, Charlotte, and Atlanta. Hagen has facilitated over 30 investment banking transactions throughout his career, including sell-side and buy-side M&As and private capital raises. He has provided over 50 valuations for corporate clients. His career includes positions with NationsBank, Chase Securities and Wachovia Securities before founding Watermark Advisors in 2002. Rogers holds a bachelor’s in finance and real estate from Southern Methodist University and an MBA from the Owen Graduate School of Business at Vanderbilt University.

Appendix A: M&A Net Seller's/Net Buyer's National Rankings (2004-2023)

Southeast				
State	Rank	Sold	Acquired	Net
Georgia	8	5,714	7,331	1,617
Florida	9	12,010	13,564	1,554
Virginia	14	4,725	5,729	1,004
North Carolina	18	4,760	5,456	696
Tennessee	19	3,481	3,980	499
Alabama	39	1,750	1,546	-204
South Carolina	43	1,769	1,501	-268

Northeast				
State	Rank	Sold	Acquired	Net
Indiana	27	7,724	14,368	6,644
Ohio	12	6,351	7,656	1,305
Michigan	20	4,467	4,831	364
Wisconsin	22	3,414	3,714	300
Illinois	3	2,942	2,979	37
Kentucky	30	1,850	1,824	-26

Middle Atlantic				
State	Rank	Sold	Acquired	Net
Pennsylvania	7	7,474	29,025	21,551
New York	1	13,269	29,025	15,756
New Jersey	10	5,421	6,961	1,540
Washington DC	11	807	2,286	1,479
Maryland	17	3,252	4,003	751
Delaware	21	657	1,005	348
West Virginia	36	513	359	-154

Pacific				
State	Rank	Sold	Acquired	Net
California	4	28,440	33,859	5,419
Hawaii	45	593	297	-296
Washington	46	4,378	4,006	-372
Oregon	49	2,239	1,701	-538
Alaska	50	852	208	-644

Southwest				
State	Rank	Sold	Acquired	Net
Texas	2	16,710	24,084	7,374
Arkansas	28	806	809	3
Mississippi	38	676	480	-196
Oklahoma	40	1,995	1,777	-218
Louisiana	47	1,828	1,383	-445

Northwest				
State	Rank	Sold	Acquired	Net
Minnesota	13	4,263	5,312	1,049
Missouri	16	3,008	3,858	850
Nebraska	23	884	1,159	275
Iowa	25	1,304	1,453	149
Kansas	26	1,943	2,016	73
South Dakota	29	372	356	-16
North Dakota	31	549	496	-53

New England				
State	Rank	Sold	Acquired	Net
Massachusetts	5	7,001	10,702	3,701
Connecticut	6	2,723	5,353	2,630
Rhode Island	24	568	786	218
Vermont	35	385	237	-148
Maine	41	763	527	-236
New Hampshire	42	1,012	744	-268

Mountain				
State	Rank	Sold	Acquired	Net
Colorado	15	5,311	6,245	934
Nevada	32	2,418	2,322	-96
Idaho	33	713	592	-121
Utah	34	2,260	2,116	-144
Wyoming	37	491	303	-188
Montana	44	597	316	-281
New Mexico	48	783	333	-450
Arizona	51	3,581	2,699	-882

Source: S&P Cap IQ, Rank = Net Numbers Sorted Descending Order, Net Buyer Being Positive