CRAIN'S CLEVELAND BUSINESS
WWW.CRAINSCLEVELAND.COM

M&A deals steady as credit, bottom lines improve

By ARIELLE KASS

4:30 am, May 24, 2010

Mark Filippell, managing director of investment banking firm Western Reserve Partners, likened the increased activity he sees in the mergers and acquisitions market to the baby boom following World War II.

"The numbers are going to pop. M&A deals are happening," he said. "It's like in 1946, when the soldiers are back for six months and someone says, 'No babies are being born.' Well, look down the street; you see a lot of pregnant women."

Mr. Filippell and others who spend their days looking at deals say that as credit has loosened and bad quarters start to roll off companies' books, the appetite of both buyers and sellers in M&A deals has risen dramatically.

While that pickup still doesn't translate into a pre-recession flow of transactions, it does mean buyers and sellers are pushing forward on deals they could not or would not entertain for the past year and a half or more.

Mr. Filippell said he has seen a number of letters of intent and that Western Reserve Partners "is running flat out" working on transactions, as are a number of M&A attorneys to whom he has spoken.

Stewart Kohl, co-CEO of private equity firm The Riverside Co., said the momentum really picked up in March, after incrementally improving for most of the second half of 2009. Both the number of companies for sale and the quality of those companies have been on the rise.

"What's beginning as a spring thaw is becoming a summer and fall avalanche," said Mr. Kohl, whose own firm has made seven acquisition so far in 2010. "We're going to see more and more."

Investment firm William Blair and Co., in Chicago, also noted that activity seemed to increase in March. In an April commentary, the firm said there had been 982 transactions announced in the United States for that month, a nearly 32% increase from March 2009.

Indeed, March marked the fifth consecutive month that the number of transactions increased as compared to the prior year. And the disclosed dollar volume of the announced transactions in March, $140.1 billion, was 72% higher than it was a year ago, according to William Blair.

The reasons for the increase, Mr. Kohl said, include the need for other private equity firms to make exits so they can reinvest their capital; small business owners who are getting older, sicker or simply want to retire to spend more time on the beach; a pending increase in capital gains tax rates that would reward owners who sold before year's end; and increased bank lending that make deals easier to complete.

Tire kickers abound

The deal flow is still "choppy," said Doug Neary, corporate group chair at Cleveland law firm Calfee, Halter & Griswold, but it's increasing at a steady pace.

Mr. Neary, who also co-chairs Calfee's M&A practice, said earnings are getting better, increasing companies' worth, and proving to potential acquirers that the businesses are strong enough to ride out a bad economy.

The general consensus, he said, is that there will continue to be an increase in activity throughout 2010; Mr. Neary said he expects a "frenzy" by the end of the year.

Nonetheless, he said buyers remain cautious and are "kicking the tires more diligently, now that they see what a downturn can do."

Linsalata Capital Partners vice president and partner Michael Moran said the increased appetite is coming from all matter of sources.

"After a long time in a very quiet market, we're starting to see some re-emergence of deal activity over the past month," Mr. Moran said.

A 'rising tide'

Gordon Kaiser, a partner and former head of the corporate practice group at the law firm Squire, Sanders & Dempsey, said strategic buyers with capital on hand are looking for ways to spend it, and banks are more willing to lend for private equity deals.

Mr. Filippell, at Western Reserve Partners, said private equity firms also are willing to put increasing amounts of equity into deals, fearful that they will not find sufficient opportunities before they need to return capital to investors.

Stan Gorom, business practice chair at law firm Hahn Loeser & Parks, said he continues to see particular interest in distressed companies and has seen asset purchase agreements and letters of intent on the rise. However, he said people remain conservative, even as they seek to deploy unused capital.

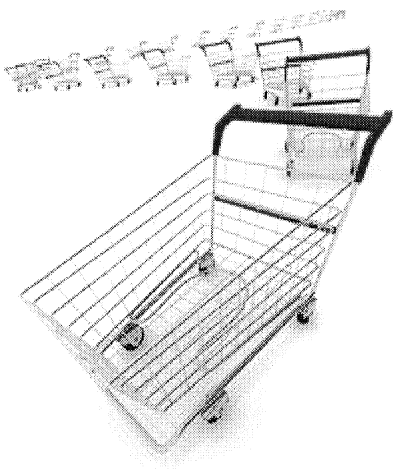
"It's nascent, it's just beginning," Mr. Gorom said. "I've seen a few deals, which gives hope."

Likewise, Megan Mehalko, chair of the corporate and securities practice group at Benesch Friedlander Coplan & Aronoff, said she is "reasonably optimistic" that M&A activity will continue to rise as companies that have a "strong desire to invest and grow and capitalize" take advantage of the improved economic climate.

For most of 2009, Ms. Mehalko said, she was struggling on a monthly basis. From the start of 2010, though, she could see the pipeline of deals going as far as three quarters in the future.

James Dougherty, mergers and acquisitions partner at Jones Day, said increased confidence is a large reason for the change. When a global financial meltdown was a "legitimate concern," he said, companies did not have a rosy picture of the future and were loath to make acquisitions.

"Although now, it's not 2006, 2007, deals make sense and financing is available," he said. "There's a marked improvement from last year at this time."



M&A shoppers, it's your lucky day!

PRINTED FROM: http://www.crainscleveland.com/apps/pbcs.dll/article?AID=/20100524/SUB1/100529950/1006&Profile=1006&template=printart