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M&A Deals Not on Track to Match 2011 Level

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While the economy is not out of the woods, Arizona's merger and acquisition activity is up significantly compared with last year — a signal that buyers are taking advantage of ready access to credit and balance sheets flush with cash.

Deals for transactions valued at more than \$5 million from January through August increased by 81 percent, from \$3.1 billion last year to \$5.6 billion this year.

While the total deal value is up, surprisingly, the number of deals is down about 17 percent, from 195 disclosed and non-disclosed deals from January to August 2011 to 166 during the same period in 2012. The average size of each transaction has more than doubled, from \$16 million in 2011 to more than \$33 million in 2012.

Most Arizona transactions still are in the \$15 million to \$100 million range. There have been a handful of larger deals this year, such as Sunquest Information Systems Inc., valued at \$1.4 billion, and P.F. Chang's China Bistro, valued at \$1.1 billion.

For buyers, much of the activity is being driven by the increased availability of credit that many private equity firms need to finance transactions. Many private equity funds raised during the 2005-08 cycle still are sitting on cash.

With their investment mandate periods quickly coming to a close, funds are seeking to invest their remaining cash and begin new fundraising activities. While these vintage funds are being completed, newer funds will continue to fill the funding gap going forward.

Corporate buyers seeking growth continue to use excess cash that has been building up on their balance sheets. Arizona companies that continue to grow through mergers and acquisitions include familiar names from the past, such as Phoenix-based electronics and technology distributor Avnet Inc., with more than \$313 million in deal activity the past 12 months, and Tempe-based Insight Enterprises Inc., a global provider of information technology hardware and software.

For sellers, assumptions of future increases in capital gains taxes and an increasing cost burden with the new health care legislation have been driving many transactions. Many Arizona corporations are focused on their key competencies and selling assets that are not core or are growing too slowly for the parent company.

Total Arizona transaction value may be up, but it's still surprising that small corporations and larger family-owned businesses in Arizona don't consider purchasing other businesses as part of their growth strategy. Business owners can either build a company from the ground up or build through acquisitions.



Local businesses that are growing generally have the product and the management, and the money is available from multiple sources, but many times they don't know where to look for assistance in acquiring firms in other markets.

Phoenix historically has been a town of great builders, but we are just starting to think about becoming business buyers; those first- and second-generation businesses that grew organically along with the Phoenix metro area are starting to mature. As our companies become more sophisticated, so will their ability to pull off transactions.

Overall, the Arizona market has been holding up well this year, but it's important to note that 2011 merger and acquisition activity ended strong with a total of more than \$8.9 billion in transactions for the year. While this number includes the sale of Scottsdale-based rental equipment provider RSC Holdings Inc. for \$4.2 billion, the remainder of 2012 will need to strengthen to achieve 2011 levels by year-end.

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