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### Strengthening Flow Of Deals Bodes Well For M&A Rebound

By KATE BERRY

Local mergers and acquisitions picked up substantially in the third quarter, as private equity firms stepped up their pace of deal-making in the improving economy. Public companies, meanwhile, remained cautious, limiting total deal value to a modest increase. Activity is still nowhere near the levels hit at the peak of the bull market in 1999 and 2000, but the July-September period marks the second straight sequential improvement, after transactions came to a virtual standstill in the first quarter of 2003. Against that backdrop, the third quarter's steady deal flow is the best augur so far of a solidifying turnaround.

"It has been a steady climb to the third quarter where you have to say the market has changed," said Scott Adelson, senior managing director at Los Angeles-based investment bank Houlihan Lokey Howard & Zukin.

While it's still a buyer's market, dealmakers pointed out that private equity firms, flush with cash, are competing more for deals, driving up prices on smaller transactions from depressed levels of a year ago. These firms are driven by the pressure to take their money off the sidelines or give it back to their investors.

"Sellers haven't quite realized how prices have moved," said Richard Haigh, principal at Mayfair Associates. "We're seeing historically high multiples and private equity groups are driving the bus."

In the third quarter, 116 deals were announced involving Los Angeles-based companies as either buyers or sellers, up from 99 in the previous three months and 86 in the year-ago third quarter, according to Factset/Mergerstat, which tracks M&A activity.

Total deal value rose 41 percent, to \$4.5 billion, compared with \$3.2 billion in the year-ago third quarter. In the second quarter, deal value totaled \$3.9 billion. While the deal values are sometimes misleading because not all privately held companies provide sale numbers, the aggregate total provides a rough snapshot of the quarter.

One trend that seemed clear, though: mega-mergers that were typical three and four years ago are still few and far between.

"The public market isn't tolerant of bad deals so no major strategic buyer is willing to bet the farm by making a big acquisition," said investment banker Lloyd Greif, president and chief executive of Greif & Co. in downtown Los Angeles.

Two large public-company deals accounted for more than half the L.A. total: Yahoo Inc.'s \$1.8 billion purchase of Pasadena-based Overture Services Inc., which was completed earlier this month, and Miami Beach homebuilder Lennar Corp.'s purchase of

Newhall Land and Farming Co. of Valencia for \$947 million. That deal was announced in July and is awaiting regulatory approval.

Beyond those two, there was no other deal for which prices were disclosed that topped \$250 million.

“Right now we’re seeing smaller bites because strategic buyers in a slow-moving economy need to make acquisitions to gain market share,” Greif said.

Indeed, worldwide merger and acquisition activity fell in the third quarter, to \$272.8 billion from \$294 billion in the like year-ago period, according to Factset/Mergerstat. Roughly 6,360 deals were announced in the third quarter versus 6,430 a year earlier.

One factor still weighing on M&A activity is the dearth of capital available from public markets, bank financing and high-yield debt. Conventional banks appear to be wading back into the lending arena, and rising stock prices have given public companies some more ammunition should they decide to re-enter the fray. However, private equity firms are ponying up a higher percentage of capital to get deals closed. Subordinated debt lenders are filling the gap to patch deals together.

### **Optimistic bankers**

Private equity funds were among the most active dealmakers during the quarter.

L.A.-based Oaktree Capital Management LLC’s sold the 54-house Landmark Theatre Corp., the nation’s largest art-house chain, to Dallas entrepreneur Todd Wagner and Dallas Mavericks owner Mark Cuban for an undisclosed sum.

Smaller deals ranged in price from \$200,000 to \$240 million. They included Capital Group Cos.’ acquisition of a 5 percent stake in Telecom Argentina, and Magic Johnson’s Johnson’s Burger Business LLC selling part of its 70 percent stake in Santa Monica-based Fatburger Corp. to a management group for \$6 million.

Last month, more than 70 private equity firms representing between \$25 billion to \$30 billion in assets attended a conference of the Association for Corporate Growth in Beverly Hills, a signal to some investment bankers that activity is on the rise.

Institutional money managers typically allocate 5 percent of their portfolios to “alternative asset classes,” or private equity, which many investment banks say have taken over the role once played by initial public offerings.

During the boom, entrepreneurs would start a company in hopes of cashing in with a stock offering within a few years. There have been roughly 70 initial public offerings this year – an improvement, but well below levels of the late 1990s when there were more than 6,400 mergers and acquisitions in the same period.

“The public markets are no longer the only vehicles,” said Eduard Bagdasarian, managing director at Barrington Associates.

In general, investment bankers were upbeat about the steady rise in deal activity and signs of optimism in an improving stock market.

Besides the Yahoo/Overture transaction, a few strategic Internet deals occurred in the third quarter, including Los Angeles based WENR Corp.’s purchase of Softorbit, which owns a film and television library with 1,500 titles. Also, Zeros & Ones Inc. acquired RocketStream Inc., a live video service and spin-off of Atlanta-based Breakthrough Technologies.

“We’re definitely starting to see life in the tech sector, which is significant,” Adelson said.