

## Investment banking heats up locally

Major firms take the leap into a lucrative market

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A planned \$17.3-million initial public offering by Fort Lauderdale-based BabyUniverse Inc. represents GunnAllen Financial Inc.'s baby steps in its new investment banking initiative.

GunnAllen is the sole underwriter for the offering, the first IPO it is handling and one of 11 ongoing transactions for the Tampa-based firm's newly established capital markets group.

The timing is right for GunnAllen and other firms, including Orlando-based PCE Investment Bank, to join the ranks of more established investment banking operations in the Bay area as the number of initial public offerings and mergers and acquisitions has been on the increase.

Nationally, 250 companies went public in 2004, raising a total of \$48.4 billion, more than triple the number in 2003 and the strongest year for IPOs since 2000. The number of merger and acquisition announcements rose 15 percent compared to 2003, to 9,816 deals, while spending on deals climbed 44 percent to \$761 billion. Last year was the best overall merger and acquisition market in the United States since 2000 and the second most active year on record.

In Florida, there were 527 mergers and acquisitions last year, a 186-percent increase from 2003, and there were 127 deals in Florida in the first three months of 2005.

Below the radar screen

Raymond James Financial's (NYSE: RJF) investment banking group is the leader among Bay area firms in underwriting IPOs. The company was the lead or co-manager on 120 public offerings in its 2004 fiscal year, nearly double the number in 2003.

GunnAllen aims for deals that are smaller than those handled by Raymond James, said Dean Tanella, executive VP, capital markets.

In addition to BabyUniverse, GunnAllen is working on two as-yet-unannounced IPOs and has been invited to be the co-manager of a secondary offering with a larger firm, Tanella said. It's also looking at several deals in which private equity firms want to invest up to \$25 million.

Most of GunnAllen's deals have come to it through its network of 1,000 brokers in 32 states.

"We're willing to raise \$5 million to \$50 million for companies that have achieved positive cash flow and have annual revenue of \$25 million to \$30 million," he said. "These are smaller

transactions, they are less lucrative but below the radar screen of most firms, so there's less competition and therefore a better margin. ... but you have to do more transactions to make up for that."

Within three or four years, Tanella said investment banking should account for 25 percent to 30 percent of GunnAllen's revenue.

Underbanked

While GunnAllen's deals are nationwide, Hyde Park Capital and Atlantic American Capital Advisors aim instead for mergers and acquisitions and capital placements with a more narrow geographic focus, concentrating on Florida and nearby states.

The southeast United States is a particularly lucrative market, with lots of opportunities for investment bankers, said Robert Moreyra, senior managing director at Atlantic America. Many of the investment banks that serviced small- and mid-cap companies shut down after the Internet bubble burst in 2000, but now, with the economy bouncing back, Moreyra said "there is so much business in the southeast U.S., and those companies end up underbanked. We focus on those markets."

In 2004, Atlantic American and its affiliates completed more than \$500 million in capital market transactions, including more than \$300 million in mergers and acquisitions, \$130 million in corporate and mortgage debt placements and \$70 million in equity placements. Moreyra said the current investment banking climate is one of the better climates he's seen.

But John Hill Jr., senior managing partner at Hyde Park Capital Partners, is not certain the pace will keep up with 2004.

"The biggest driver of mergers and acquisitions is business confidence. The market was strong and people had a lot of confidence (last year)," Hill said. "This year the market is down overall. ... and I'm wondering if it will start to have an effect on public buyers."

Pricing is going up

While deals by strategic buyers -- companies that acquire complementary firms to grow their business -- remain strong, Hill and other investment bankers also are seeing an uptick in deals by financial buyers, such as state pension funds or corporate retirement funds with money to invest.

Pricing also is going up, with the average purchase price in a deal by a financial buyer about 7.1 times EBITDA (earnings before taxes, interest, depreciation and amortization) in the fourth quarter of 2004, compared to 6.4 times EBITDA in the same period a year earlier.

In addition, deals increasingly are "leveraged" -- that is, buyers are borrowing some of the money they need to do the deals, and bankers are willing to lend the funding.

One trend Moreyra is seeing is a change in investment philosophy by some private equity firms, which are flush with cash right now. Typically, those firms have acquired a "platform"

company in one industry, then done "add-on" acquisitions, buying similar companies in the industry.

"Now they are providing capital to the platform company so they do acquisitions on their own. That gives them critical mass," Moreyra said. It also allows them to have one rapidly growing investment, versus three slower growth firms in their portfolio.

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