

# GULF COAST Business Review

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## Private Practice

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Trends by Janet Leiser | Senior Editor

It was a sellers' market for companies that wanted to sell in 2006. And one analyst says next year could be as good as more companies go private.

There was far more than a trillion dollars spent globally on mergers and acquisitions in 2006 — the best year for that market since 2000, says John Hill Jr., senior managing director of Hyde Park Capital LLC, in Tampa.

And the United States fared well, with the Southeast representing as much as 13% of all deals in the nation. And 48% of all deals in the Southeast were in Florida, according to Thomson Financial. The top 10 deals in the Southeast (see chart) in 2006 totaled \$140.2 billion.

"It has been a record year in regards to dollar volume," says Hill, who recently spoke at the Nov. 9 meeting of the CEO Council of Tampa Bay. "It's a sellers' market. There are more buyers than sellers." Hyde Park Capital, which specializes in deals of \$500 million or less, completed three big deals and is working on another eight transactions that Hill couldn't discuss because of confidentiality requirements. In 2006, the firm handled the sale of Clearwater-based TransContinental Title Co., one of the nation's largest mortgage processors, to First American Title Co. out of California. Hill declined to disclose the amount of the deal, but TransContinental reported revenue of \$61 million in 2004.

In addition, Hill's firm oversaw the sale of New Homes Realty, Clearwater, to Alta Communications of Boston. And the firm helped the Tampa-based Sam Seltzer's Steakhouse chain obtain \$11 million for growth.

Hill expects 2007 to be comparable to this year, he says, adding: "It should be a good year. I don't know if it will be another record year."

He cited the continued trend of companies going private, such as the Outback Steakhouse founders buying back that chain for \$3.2 billion in a deal expected to close next spring.

The federal Sarbanes-Oxley Act is proving too onerous and expensive for some public companies, Hill says. "A number of managers and directors of public companies are saying the costs and potential liabilities of being public are too expensive right now relative to being private where we can operate without these pressures and risks," he adds.

In addition, the pressure of meeting quarterly earnings' expectations detracts from a company's ability to focus on the long-term financial health rather than the short-term, he says.

By going private, a company avoids the glare of public scrutiny and keeps its inner workings private. It doesn't have to disclose the CEO's pay or its profit margins, good or bad.

Hill says the economy does appear to be slowing down, but that's not all bad. That might mean the Feds will lower interest rates, which should spur more business investment.

The stock market is doing well, another good sign for mergers and acquisitions, Hill says, adding, "When

businesses are making money and growing and performing well, there's a lot of business confidence. And larger companies look to grow, not just organically, but by acquisitions."

Scott Miller, a principal in Lovett Miller & Co., which manages \$175 million, agrees it's a "sellers' market." (See sidebar for Miller's tips on building valuation.)

One of the most important things a company can do to add to its value is increase its size, Hill says, adding, "Once you get to be big enough, buyers look at growth rates and revenue and profit margins. If you have good margins and good dollar value profits and you're growing at a good rate, then you'll get a premium valuation."

Company leaders should focus on building a well-run and well-managed business, he says, adding, "Have the infrastructure in place that's needed to grow, as well as the systems and management. Well-run companies will impress buyers."

Another factor that influences the value of a company is the diversity of its customer base, including a number of Blue Chip companies, and a large percentage of recurring revenue from contracts.

#### **LARGEST SOUTHEAST MERGER AND ACQUISITION DEALS**

(2006, in billions)

Company Sector State Transaction Value EBITDA Multiple

1. BellSouth Corp. Telecommunications Georgia \$72,671 8.7x
2. HCA Inc. Health services Tenn. \$32,919 8.5x
3. AmSouth Bancorp Commercial bank Alabama \$10,021 8.5x
4. CNL Retirement Properties Investment/commodity firms Florida \$5,154 16.1x
5. Highwoods Properties Investment/commodity firms N.C. \$4,010 30.4x
6. Fidelity National Title Group Insurance Florida \$3,882 n/a
7. Conwood Co. Tobacco products Tenn. \$3,500 n/a
8. Hughes Supply Wholesale trade Florida \$3,475 11.9x
9. ABC Radio Networks Radio/television Florida \$2,700 n/a
10. Andrx Corp. Drugs Florida \$1,864 28.7x

*Source: Hyde Park Capital Partners Inc.*

#### **HOW TO BUILD VALUATION**

Investment analyst Scott Miller of Lovett Miller & Co. offers four tips that he says have a clear and positive impact on the value of a company to would-be suitors.

- Build a high percentage of recurring revenue.
- Make sure the company serves a large market opportunity.
- Ensure depth of management.
- Have high or premium pretax margins.