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As Florida M&A regains strength, pricing, opportunities grow

Premium content from Tampa Bay Business Journal - by Margie Manning, Senior Staff Writer

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Florida businesses are on the front end of a large wave of merger and acquisition activity.

Both the volume and the value of deals jumped in 2010 in Florida, especially in the fourth quarter after the November elections portended a more business-friendly government and Bush tax cuts were extended to 2012, said **John McDonald**, senior managing director of Hyde Park Capital Advisors LLC.

The M&A boom has continued into 2011, McDonald said.

Aging baby boomers who own the small businesses that make up most of the deals don't want to go through another economic roller coaster similar to the past few years so they are cashing out now. At the same time, corporations and private equity investors have lots of cash to spend.

"All these factors are converging, and over the next two years there will be a tremendous amount of M&A activity, and we're on the front end of a big wave," McDonald said.

While increased M&A activity gives sellers liquidity, it also can churn up established relationships and vendor agreements as acquired firms take on new owners and management. Integration issues can cause supply slowdowns, said **Mike Xenick**, managing partner of [LCG Capital](#), an investment banking and advisory firm in Tampa.

"The guy you've been dealing with for 20 years may go away," Xenick said.

New owners also could bring in new professional service firms, such as accountants, said **Will Dowden III**, vice president of [KLH Capital LP](#), a private investment firm in Tampa.

Bolt-on deals bring higher prices

There were 671 M&A deals in Florida in 2010, more than in either of the two preceding years and nearly as many as in 2007, before the economic downturn took hold. The value of the Florida deals was up 11 percent in 2010 compared with 2009, according to Hyde Park Capital.

A separate report from MergerMarket.com showed Florida deal count increased by 13.9 percent but dropped in value by 6.8 percent in 2010. Three of the five biggest deals in the state announced last year involved companies in the Tampa area, including [Walter Energy Inc.](#)'s (NYSE: WLT) \$3.1 billion acquisition of Western Coal Corp. (TSX: WTN), [The Carlyle Group LLC](#)'s \$2.5 billion purchase of Syniverse Technologies Inc. and Gerdau SA's move to take [Gerdau Ameristeel Corp.](#) private by paying \$1.8 billion for the stock it did not already own.

Most M&A deals are much smaller, under \$100 million in transaction value, McDonald said. They often involve private equity buyers, which as an industry have \$400 billion to \$500 billion in stockpiled cash to deploy.

Many recent deals also involve "bolt-on" acquisitions as a private equity firm's platform company buys a competing or complementary business so the private equity involvement isn't always apparent, said **Steven Schuetz**, managing director of [Valuation Research Corp.](#) in Tampa.

Schuetz cited World Triathlon Corp. in Tampa, purchased by private equity firm Providence Equity Securities in 2008. World Triathlon later acquired the U.S. race assets of its biggest licensee, North American Sports, and now produces Ironman races nationally.

QualaWash Holdings LLC, a Tampa firm that bought the tank washing operations of trucking firm [Quality Distribution Inc.](#) (Nasdaq: QLTQ) in 2009 with the help of KLH, its private equity backer, has since made two acquisitions, including the purchase in February of its largest competitor, PSC Container Services LLC.

That trend also could indicate deal values are on the rise.

"Private equity firms typically won't pay top dollar for a platform company. It's just not their model," Dowden said. "But when they are adding on to a portfolio company, they are a strategic buyer and their multiples will come up. Pricing goes up."

Uptick in hostile deals

More flexibility in deals also boosts pricing, said **John Connery Jr.**, a shareholder at Tampa law firm Hill Ward Henderson and incoming president of the Tampa Bay chapter of the Association for Corporate Growth.

"One or two years ago, deals had one path. Now there are more options," Connery said. A company may start off as a buyer and become a target, or may be trying to raise money and issue a term sheet and get more money than expected.

Because companies are sitting on cash they've been waiting to put to work, there's been an uptick in hostile deals, where aggressive potential buyers pursue reluctant sellers.

[Technology Research Corp.](#) (Nasdaq: TRCI), a Clearwater power management firm, rebuffed a \$36.4 million offer from [Coleman Cable Inc.](#) (Nasdaq: CCIX), a Waukegan, Ill., manufacturer of electrical wire and cable products. That move had its own fallout, leading to the resignation of **Owen Farren**, Technology Research's top executive.

In contrast, [Nicholas Financial Inc.](#) (Nasdaq: NICK), a Clearwater specialty finance company, hired Hyde Park Capital to help evaluate strategic alternatives, including a sale, after receiving an unsolicited indication of interest from an unidentified potential buyer.

While most of the local deals involve cash, Xenick expects to see less cash upfront to the seller and more reliance on the future earnings of the company being acquired.

"Earn-outs will be a bigger part of future deals," he said. "It's harder for buyers to determine where business will be in a couple of years so sellers have to put their money where their mouth is."

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