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Banking & Finance

Return of the M&A deal

Investment bankers' advance review: 2004 no blockbuster, but a solid hit for tech

BY BRIAN HAMILTON
bhamilton@bdwbiz.com

Tech-related mergers and acquisitions should continue to increase this year as companies and investors put their cash to work and the economy and stock market improve.

That's the view of area investment bankers, investors and legal professionals who specialize in technology.

Merger and acquisition work — bread-and-butter work for investment bankers — retreated from a record \$1.3 trillion in 2000 to \$528 billion in 2003, according to FactSet Mergerstat LLC. But now there's money on the table, and companies seem more willing to sell.

Among the largest local deals of the past 12 months: Geac Computer Corp.'s [Toronto Stock Exchange:GAC] \$52 million purchase of Ann Arbor-based Comshare Inc. and Altiris Inc.'s [Nasdaq:ATRS] acquisition of Plymouth-based Wise Solutions for \$43 million. Then there was the deal that dwarfed them all — Pfizer Inc.'s [NYSE:PQE] announcement in December that it intends to buy Ann Arbor's Esperion Therapeutics Inc. [Nasdaq:ESPR] for \$1.3 billion.

Each deal earns investment bankers a commission based on the sale price, plus fees.

R. Peter Prokop, attorney for the technology industry group at Southfield-based law firm Raymond & Prokop PC, said recent M&A activity in the information technology sector nationally was spurred in part by software maker Oracle Corp.'s attempted hostile takeover of PeopleSoft Inc.

"That triggered acquisition thoughts in others as well," Prokop said.

Lindsay Aspegren, a partner at Ann Arbor venture firm North Coast Technology Investors, said consolidation in the software industry has been focused on cost reduction, integration and product consolidation.

"It seems like the overriding thesis is cost reduction and increased efficiency,"

Aspegren said.

But, just as importantly, there's money on the table. According to FactSet Mergerstat, a Santa Monica, Calif.-based firm that tracks M&A activity, some 315 M&A deals so far this year registered a value of \$62.8 billion; more deals were cobbled together during the same period last year, 388, but the value was less than \$14.4 billion.

That follows a flurry of fourth-quarter activity, according to FactSet Mergerstat, as dealmakers put together 1,990 transactions, or about 122 more than fourth-quarter 2002.

There's an overcapacity of capital in the market that's "eager to pursue transactions," according to a report, "Has the M&A Recovery Begun?" by Amherst Partners LLC, a Birmingham-based investment banking firm with offices in Ann Arbor.

Amherst Vice President Jonathan Martin said there's been a dearth of investment since the double-whammy of the bursting of the tech bubble and the Sept. 11 terrorist attacks. That left a lot of investor money on the sidelines over the last few years.

"(Those events) called into question the viability of all kinds of business models," he said.

The pent-up demand, the Amherst report said, has led to increased competition and higher valuations for sellers that have good cash flow and talented management.

"Many selling companies were staying out (of the market) because the value wasn't there," Martin said. "We're seeing more willingness to make more bets so companies are considering acquisition as a viable growth strategy again."

An improving stock market also bodes well for M&A activity, Aspegren said. Higher stock values let companies get more for their money when they use their stock to purchase companies.

"We're at a 12-month rally for the equity indexes and that makes for a great tailwind," Aspegren said, who noted that 2004 should be the first year since 2000 that investors see a year-over-year increase in M&A activity.

"That will continue to improve with the equity market improving," Aspegren said.

The initial public offering market remains in poor shape, and that may fuel more M&A activity in the short term because it will be the only viable exit strategy for investors, some investment bankers believe.

The reduction in the capital gains tax — from 25 percent to 15 percent — and the likelihood of a rise in interest rates are further inducements to sell soon, Prokop said.

But part of the merger activity is just the nature of the beast, said Steven Heintz, president of Ann Arbor-based Adia Information Management Corp., which sold its health software division to Netsmart Technologies Inc. [Nasdaq:NTST] for \$2 million last summer.

"One of the things that you have to deal with (in tech) is that whatever you're doing today is going to be obsolete in five years," Heintz said.

"You have to re-create the company every five years — which is hard to do after a while — or reach the critical mass to become part of a larger organization," Heintz said.

Where will the opportunities lie this year?

Aspegren likes software, semiconductors, biotech and networking, the latter of which has historically been a strong point of the Ann Arbor area.

Amherst's Martin said the deals he's



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Models were questioned, says Amherst Partners' Jonathan Martin.

working on have more to do with "strategic fit" rather than trying to sell to the highest bidder.

For the local community, which is dominated by small companies, any activity may have as much to do with a company's management as its products.

Heintz, who acknowledged he's been approached by a number of businesses seeking advice about being acquired, said it takes a lot of work to make a company attractive. A company owner, he said, must separate himself from the operations of the company so an acquirer can see the value of the company.

"A lot of small companies grow up around the entrepreneur," he said. "Those are the kind of companies that are not attractive to be acquired. (The purchasers) need demonstrable proof the business can grow without you there."

Brian Hamilton covers finance and technology for Business Direct Weekly. ■