

# Mergers soar past all the records

*\$1 million deals were almost a daily occurrence in Colorado throughout year*

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Considering how busy they were in 1996, it seemed hard to imagine deal makers topping themselves in 1997.

But last year shattered all records for merger and acquisition activity in Colorado and the U.S. and provided a strong year, at least the first half, for initial stock offerings.

Colorado had 333 \$1 million plus deals last year, almost one for every day of the year, according to Houlihan Lokey's Mergerstat, a California company tracking such activity. The disclosed values of those deals topped \$17.65 billion, up from \$13.1 billion in 284 transactions in 1996.

Thirteen Colorado companies going public last year raised \$967 million from investors, according to Securities Data Corp. in Newark, N.J. All but three went public in the first half of the year, before a choppy stock market caused investors to pull their boats in.

Three Colorado offerings proved especially enticing to Wall Street last year — a \$213 million offering from Vail Resorts on Feb. 3, a \$253 million offering from Qwest Communications June 23 and a \$292 million offering from J.D. Edwards on Sept. 23 that made millionaires of several of its loyal employees.

## Deal of the Year

The most exciting story and this year's Deal Maker of the Year winner was Qwest. From an initial public offering price of \$22 per share, the stock has risen to more than \$60. Plans for an advanced telecommunication network could send it even higher.

But success stories like Qwest are not easy to pull off. Many private companies are finding it easier to "go public" by merging with a public company or tapping investors in a buyout fund.

Colorado contributed its fair share to a record \$635.5 billion in 7,772 transactions that Mergerstat recorded in the U.S. in 1997. The year before, in what once

seemed a remarkable event, the country had 5,859 mergers and acquisitions representing \$492 billion in disclosed value.

To put this in perspective, the value of 1997 deals are greater than the gross national product of all but eight countries on the planet. Translated into time, each minute of 1997 represented \$1.2 million in deals.

And that doesn't even count billions of dollars worth of smaller private company deals where prices were kept hush-hush.

Some of the state's biggest companies continued to do the biggest deals.

US West sold its domestic wireless operations to AirTouch Communications in San Francisco for \$4.3 billion, the largest deal of last year. KN Energy Inc. paid \$3.5 billion to Occidental Petroleum Corp. of Los Angeles for Mid-Con Corp., an acquisition that made it the second-largest natural gas pipeline operator in the U.S.

Colorado's third largest deal came when Laidlaw Inc., a Canadian company, bought American Medical Response Inc. in Aurora for \$1.1 billion. Tele-communications Inc.'s foray into the publishing business, its \$800 million purchase of Keams-Tribune Corp., was the fourth largest deal.

Corporate Express, last year's Dealmaker of the Year, remained an active acquirer but a slumping stock price kept it from repeating its 1996 performance. Its difficulties, along with those of Boston Chicken, pointed out the dangers of too much growth.

Professional Travel Corp. assumed the mantle of "roll up" master, buying its way from \$200 million in revenues to a \$1.5 billion a year giant, the fifth largest travel agency in the country.

Republic Industries Inc., a Florida consolidator rolling up the new and used car business, made its way into the state, signing deals to buy the Chesrown,

Emich and Elway automotive groups.

But the hottest action nationally came in the financial services industry, where seven of the 10 largest deals last year in the United States took place.

## Financial services targeted

Wall Street investment banks, best known for cooking up deals, found themselves on the menu. So did mutual fund families, insurance companies and banks.

Morgan Stanley Group Inc., Salomon Inc., Alex Brown Inc., Dillon Read & Co., Robertson Stephens & Co. Oppenheimer Group Inc., Furman Selz Inc., Montgomery Securities and Wheat First Butcher Singer all were bought.

Closer to home, Hanifen Imhoff Holdings Inc. found its clearing services hotly sought after by Fiserve Inc., a Wisconsin company.

Mellon, which a few years earlier had acquired the Dreyfus mutual fund family, decided it wanted Founders Asset Management Inc. to round out its choices on the growth equity fund side.

First Community Bankshares out of Fargo, N.D., and Zions Bancorp. of Salt Lake City were also active acquirers in the state, rolling up rural banks before coming into Denver.

The other top industries for mergers and acquisitions included communications, utilities, leisure & entertainment.

But is all the deal making frenzy a temporary blip in economic history or does it reflect a fundamental shift in the economy? Can it continue?

If the sentiment found at the Buyout Symposium in New York last week points to anything, deals will continue to get bigger, hotter, and more frequent.

"All indications are that yes it can continue. What is driving the merger and acquisitions markets has not changed," said Joe Durnford, a partner at J.D. Ford in Denver and attendee at the symposium.

Low and stable interest rates, a strong stock market, continued industry consolidations and deregulation should all keep activity on track, just as they did last year.

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As the buy out industry has matured, institutional investors have increasingly accepted buy out funds as viable investments. Successful funds are rolling their money back into new acquisitions, creating a massive compounding of capital.

There is an estimated \$300 billion of capital in the private equity markets searching for investments, Durnford said, and that has put upward pressure on prices.

The multiples paid for companies have jumped from 4 to 6 times cash flow a few years ago to 6 to 8 times cash flow, Durnford said.

## **Trend toward smaller deals**

With so much competition, buyout funds are not waiting for companies to put up the for sale sign. Rather, they are targeting industries in an effort to get in first.

"There is a desire to avoid finding themselves in an auction," Durnford said.

Another trend that should be of interest to many Denver companies is that more funds are forming to target the "middle market," he added.

Instead of \$1 billion, a middle market fund may have \$250 million. As a group, the middle markets have spun off annual

returns of 24.7 percent from 1969 to 1996 compared to 21 percent for buy out funds as a group.

Although deals are costing more, they are not as leveraged, a big problem in the 1980s. Equity still runs at 30 percent to 35 percent and is actually increasing.

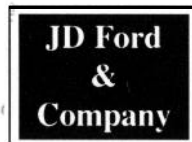
Lenders are willing to be creative, but they are also trying to be disciplined he said.

As long as the buyout funds can continue to provide investment returns beating other investments, expect the buying spree to continue, Durnford said.

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