

# Skittish market slows Denver's merger pace

*Online, SkyConnect union among casualties*

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Online System Services Inc. had high hopes surrounding its acquisition of Louisville-based SkyConnect Inc. this June.

The Denver company helps cable providers offer Internet services to their customers and SkyConnect's mastery of software that allows cable programmers to control scheduling of local ads and programs seemed a natural fit.

But Online's shares tumbled from the mid-teens when the deal was announced to \$3.25 by late October. The two companies called off the mostly stock acquisition Nov. 6, blaming market conditions.

Online System Services is not alone. Unsettled stock and credit markets have spawned broken engagements and a greatly reduced libido for mergers and acquisitions.

By June, merger and acquisition activity had broken the marks set in a record 1997. By September, activity dropped dramatically, and has crawled back slightly in October.

Two of the hardest hit areas are mega-merger deals worth \$1 billion or more and all stock purchases of companies, according to Mergerstat, a division of investment bank Houlihan Lokey Howard & Zuckin.

Eight of the 10 largest merger deals in U.S. history were announced in the second quarter of this year. By September, the average M&A deal size had fallen to \$318 million, an 85 percent drop from the average deal size in July and August.

In October, the average deal size dropped even more to \$284.7 million, but there were 10 \$1 billion plus deals compared to only two in September.

The numbers, and reports from area investment bankers, show a noticeable drop off locally as well.

In August, about \$581 million worth of Colorado-related merger and acquisitions deals were disclosed, according to Mergerstat. In October, the figure had dropped to \$117.2 million.

Bill Clark, chief operating officer at Mergerstat, said companies are turning increasingly to cash deals. A lot of deals are still getting done, but they are smaller.

Joe Dumford, an investment banker with JD Ford & Co. in Denver, said sellers remain inter-

ested in selling, but buyer appetites have diminished, resulting in a decline in prices.

As important as the financial markets are, the perceptions of CEOs and investors matter just as much. And they aren't as confident as they once were that a deal will pay off, Dumford said.

Banks and investors have also tightened their standards as to what they will lend.

Consolidators, rolling up mom and pop private businesses in everything from office products to scrap metal recyclers, had driven up prices. They used richly valued stock, buying for strategic reasons.

Now, sellers aren't as interested in what they have to offer and many consolidators don't want to buy with a battered stock.

The downturn has allowed financial buyers working with cash to step back into the market, which Dumford said has moved from a premium value to fair value.

Dumford predicted that "middle market" deals between \$5 million to \$50 million will remain strong, which should

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benefit Colorado.

"I would expect in the overall M&A market we will see a good year, maybe not as good as the last two," Dumford said of 1999.

The future for the mega-deals and consolidators, who tend to buy in the \$5 million and under range, isn't as certain.

Gone for awhile, at least, are the days Jonathan Ledecy, founder of U.S. Office Products, described to the Denver chapter of the Association for Corporate Growth.

After getting laid off in 1994, Ledecy took \$250,000 in credit card debt and with the backing of mutual fund giants Fidelity and Putnam, created a multi-billion dollar office supply conglomerate.

The explosive growth of U.S. Office was symbolic of the consolidation craze that fueled much of the merger activity of the second half of the 1990s.

But its demise is also symbolic. From a high of \$92 a share, the company now trades in the \$5 to \$6 range after spinning off four of its business lines, including

Englewood-based Navigant International Inc. Ledecy

*The Denver*  
**Business Journal** resigned from the company.