

Year of the Deal' breaks all records

M&A activity last year 37percent above '95; small deals grow faster

By ALDO SVALDI

Business Journal Staff Reporter

Unless this year beats it, and there is a good chance it might, 1996 will go down as the "Year of the Deal" for both the United States and Colorado.

Slow and stable economic growth made it more attractive for companies to buy rather than build market share. Low interest rates combined with strong stock values made capital affordable, almost cheap, for acquirers.

Throw in fields of consolidation-ripe industries, together with deregulation in telecommunications and utilities, and the deal-making harvest busted the silos open.



Ned Minor

"I don't think it has ever been this good," said Ned Minor, president of

the Denver law firm Minor & Brown, which worked on more than 40 deals last year.

Domestic mergers and acquisitions increased 37 percent last year over a record 1995, according to Mergerstat, a division of Houlihan Lokey Howard & Zukin, a Los Angeles company that tracks such activity.

U.S. companies announced 5,859 mergers and acquisitions last year, representing \$492 billion in disclosed value, compared with 3,500 deals worth \$360 billion in 1995, according to Mergerstat.

Although no merger in Colorado came near the \$2.16 billion acquisition of MCI Communications Corp. by British Telecommunications, the state set plenty of records of its own.

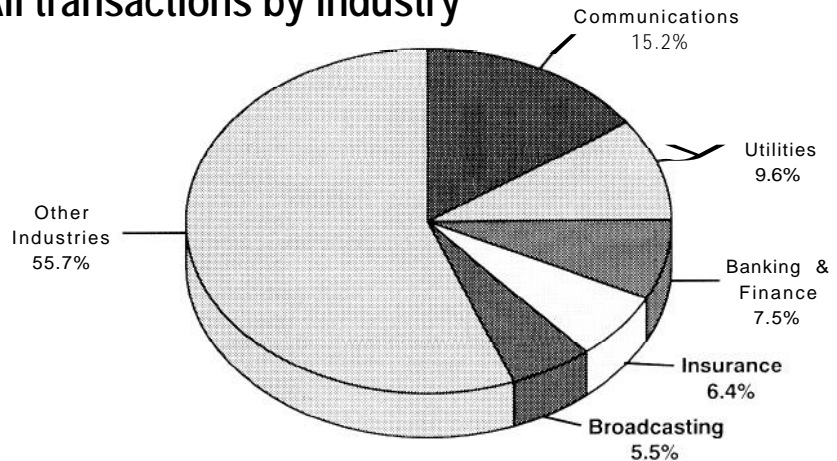
The number of small deals, those under \$50 million, increased 53 percent last year, and several Colorado entrepreneurs reaped the benefits.

"I honestly believe that Denver is the

largest 1996 U.S. transactions

Buyer	Seller	Transaction value (billions)
British Telecommunications PLC	MCI Communications Corp	\$21.6
Bell Atlantic Corp.	NYNEX Corp	\$19.5
SBC Communications	Pacific Telesis Group	\$16.7
WorldCom Inc.	MFS Communications Co	\$14.1
Boeing Co.	McDonnell Douglas Corp	\$13.3
Norfolk Southern Corp.	Conrail Inc	\$10.3
NationsBank Corp.	Boatmen's Bancshares Inc	\$8.7
Aetna Life & Casualty	U S Healthcare Inc	\$8.1
Duke Power Co.	PanEnergy Corp	\$7.6
Gillette Co.	Duracell International Inc	\$7.3
Lockheed Martin Corp.	Loral Corp	\$7.0
U S West Inc.	Continental Cablevision Inc	\$5.3

All transactions by industry



Source: Mergerstat, a division of Houlihan Lokey Howard & Zukin

hottest market in the nation," Minor said. About 88 percent of the businesses in the state are privately held with 50 or fewer employees, and the larger players among the private companies were prime targets.

Mergerstat recorded 284 Colorado transactions in 1996, with a reported value of \$13.1 billion. That's more than double the volume of 1995's 124 transactions worth \$10.72 billion. In 1994, the state completed 116 transactions worth \$5.67 billion.

Telecommunications, despite a horrible year in the stock market, led the way when it came to mergers and acquisitions, both locally and

nationally.

Some 123 telecommunication deals representing \$74.9 billion in value made the sector the most active industry, according to Mergerstat. The year before, telecommunications was the eighth most active sector for deals with \$10.2 billion.

Three of Colorado's five largest deals last year came in telecommunications, including U S West Inc.'s \$5.3 billion purchase of Continental Cablevision Inc.; TCI's sale of the Home Shopping Network for \$1.6 billion, and its \$1.2 billion purchase of TKR Cable Co. from Knight-Ridder Inc.

Small deal is king

But the real story for Colorado came in hundreds of smaller deals.

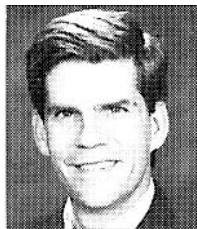
Not every company records the value

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of its deal with Mergerstat, especially smaller private companies buying other private companies for cash.

Of those that were recorded, however, only 3 percent topped \$1 billion, about 19 percent came in between \$100 million and \$1 billion and 78 percent went for under \$100 million.

"Within Colorado in general, you have a terrific environment for entrepreneurialism," said Chris Jensen, director of health-care corporate finance at Hanifen Imhoff Inc., the state's largest independent investment bank.



Chris Jensen

Sometimes that entrepreneurialism converts into going public with a stock offering. Technology, health care and energy were hot areas for initial and secondary stock offerings, Jensen said. Colorado, rich in all three areas, had its fair share.

But the hottest action came in the acquisition of private companies by quickly growing public companies doing industry "rollups."

Colorado boasted the country's top player in terms of the number of deals done: Corporate Express, which has quickly grown into one of the country's largest office-supply companies.

A large number of the mergers represented a pooling of interest. A quickly growing acquirer uses its stock, say, trading at a price 35 times expected earnings, and buys a company at a premium of six to 10 times earnings.

The acquiring company then rolls the balance sheet and income statement of the target company into its own, boosting its earning potential and sending its stock price higher.

The business owner, who usually can sell the stock within 90 days, gets the chance to hitch a ride on a company that can provide a greater rate of return

than possible going it alone.

"Mergers and acquisitions have become a more readily accepted weapon in a CEO's arsenal," said Joe Durnford, an investment banker with J.D. Ford & Co. "It has come down from Wall Street to Main Street."

Durnford also points to significant money coming into leveraged buyout funds, about \$26 billion last year, that helped fuel other industry rollups.

No end in sight

What kind of encore could 1997 provide after such a hot deal-making market?

"Things look healthy. There is obviously extraordinary growth, but I don't see it as being out-of-control growth," said Nancy Dick, president of Dick & Associates Inc., a Denver business brokerage.

Dick, who expects this year to top last, predicts a more even split between buyers and sellers in Colorado. But she said the state also will see some huge divestitures by TCI and U S West.

"Their debt load is so enormous, and the market isn't enthused about that," she said.

Minor predicts 1997 will remain strong, unless inflation kicks in and interest rates rise. Stock values would go down, slowing acquisitions.

Even in that scenario, he said Denver could still prove a good market, although sellers won't get the same premiums.

Durnford said it would take a substantial shock to turn the market around. A 10 percent to 15 percent correction in the stock market alone won't be enough to reverse the trend.

Among the industries ripe for continued consolidation, according to the experts, are office-supply companies, travel agencies, lumber yards, funeral homes, employee leasing firms, used-

car lots, quick printers, the trucking industry, bus-coach lines, home heating-oil providers, rural electric cooperatives and niche publishers.

"There are almost no industries where there is not some level of M&A activity," Durnford said.

"I think health care will continue to be hot," Jensen predicted, especially medical device and service companies.

Colorado for sale?

But the fury of activity, especially on the sell side, raises another question. Does the "Year of the Deal" mean that Colorado becomes the "State of the Subsidiary"?

Not necessarily. Sellers, once they have set aside money for financial security, are becoming "angel investors," offering capital and their hard-earned expertise to the next crop of entrepreneurs.

"I don't see that as a bad thing," Durnford said. "I see it as a tangible demonstration of how positive the economy is here and how other people view the future of Colorado."

Nor is every company selling. Slow-growth, low profit-margin service firms that must compete nationally stand out as the most likely candidates for mergers.

Fast-growing companies, like technology providers, may do better if they grow on their own and eventually go public, although finding an exit is tougher.

"The hard part is identifying the good companies that want to sell," Minor said. "Finding buyers is no problem. Finding business owners is tougher."

Minor said that the floor on the smallest size of deals continues to fall. He has seen large companies, when they see a strategic fit, acquire private companies for as little as \$2 million to \$3 million.

NED A. MINOR

MINOR & BROWN, P.C.

ATTORNEYS AT LAW

650 South Cherry Street, Suite 1100
Denver, Colorado 80222
303/320-1053