

Credit crisis shapes deals in Bay area and beyond

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The value and volume of merger and acquisition deals in 2007 topped that of 2006, despite a tough second half of the year.

There was \$1.5 trillion in m&a activity in the United States last year, up 2 percent from the prior year, according to Standard & Poor's Capital IQ. Last year nearly 12.4 million deals were completed, a 5 percent increase from 2006.

"Through the spring and summer, I'd describe it as a very strong m&a market, and it's still strong, but we're definitely seeing some tempering in buyers' enthusiasms," said David Felman, a shareholder at Hill Ward Henderson with a mergers and acquisitions practice at the Tampa law firm.

A subprime mortgage crisis that led to a meltdown in capital markets "had an impact in the tail end of 2007, and we'll see that lag continue in 2008," said Scott Feuer, CEO of Skyway Capital Partners, a Tampa-based boutique investment bank.

Deals are still getting done but at a slower pace, Feuer said, and "the way they're getting done is changing and the cast of characters is changing."

PARTNERSHIPS, SPACS ARE HOT

After a record year in 2007 with investment banking revenue up 20 percent from 2006, the first quarter of 2008 has been "extremely slow" for investment banking at Raymond James Financial Inc. (NYSE: RJF), said Jim McDaniel, senior managing director and co-head of investment banking.

"The markets are very uncertain," McDaniel said. "They're waiting to see if there will be a recession."

Although there's been a significant decline in public offering activity, McDaniel said Raymond James has diversified so it's not so dependent on equity markets being ebullient all the time. For instance, the company has added staff to its New York-based restructuring group, which McDaniel expects will see a lot of activity this year.

"I also think we'll see more consolidations, acquisitions of weaker companies by more well-capitalized companies," he said.

There will be a continued movement for public companies to go private, such as OSI Restaurant Partners Inc. in Tampa did last year, he said. Closely tied to that is an increase in PIPE deals, or private investment in public equity.

Raymond James last year was one of five underwriters for the initial public offering of limited partner interests in OSG America LP (NYSE: OSP), a Tampa-based operator of ships transporting petroleum products, and McDaniel expects this year to see more public offerings of limited partnerships for the energy industry.

Another strength in the public markets will be the continued initial public offerings of special purpose acquisition companies, said Dean Tanella, CEO of HarborLight Capital Management at GunnAllen Financial Inc. in Tampa. SPACs, sometimes called blank-check companies, are publicly traded companies with no operations of their own that raise money to pursue the acquisition of existing companies. Tanella's firm has been involved in underwriting 93 of the 140 SPAC deals over the past four years, including 34 deals last year, and he expects the trend to continue in 2008 because of built-in investor protections in the way the deals are structured.



Tanella

TIGHTER TERMS

Smaller deals, such as those involving large private and smaller public companies, typically with revenue below \$500 million, are steady and relatively strong, said John Hill Jr., senior managing partner of Hyde Park Capital Partners LLC, an investment banking firm in Tampa. "That's because financing a \$50 million or \$100 million deal requires a lot less capital than financing a \$1 billion deal."

But terms have tightened considerably, Hill said. Bank loan covenants are tighter and oversight is stricter.

Buyers will have to pump more equity into deals and



Hill



Hulbert

Venture capital fills needs

Unlike mergers and acquisitions, venture capital transactions with investors taking a minority stake — rather than buying an entire company — largely have escaped the impact of the credit crisis, said attorney David Felman of Hill Ward Henderson.

"I think people in that area are looking forward to making deals on more advantageous terms because companies need money now," Felman said.

The Florida Venture Forum, a group for venture capitalists and entrepreneurs, had a record year in 2007, said Chairman John Hill Jr., senior managing partner of Hyde Park Capital Partners LLC.

"Venture money here (in Florida) tends to be later stage, for companies that already have revenue but are looking to raise growth capital," Hill said. "That will be good in 2008."

—Margie Manning



KATHLEEN CABLE

Skyway Capital Partners' Bryan Crino, president and co-founder, and Scott Feuer, CEO and co-founder, in the Tampa office.

rely less on debt, Feuer said.

"There's smart money out there," said Penny Hulbert, president of Links Financial LLC in Tampa. She works with businesspeople looking for debt to do deals, acting as the intermediary between the borrower and the bank or other funders. "If you are a known operator in a known niche there's money for opportunities."

Banks, especially community banks, are particularly interested in making loans for operating lines of credit for business because they're trying to diversify away from real estate loans and operating loans, have a much lower default rate, Hulbert said.

There are certain sectors that are particularly strong for deal-making in 2008, such as senior housing, alternative energy, and media and technology, Skyway's Feuer said. He's also looking at excess inventory in the real estate sector as well as core real estate assets, such retail, multifamily, office and industrial projects.

The weak dollar has bolstered interest from foreign investors, Hulbert said, citing as an example the December purchase of PODS Inc. in Clearwater by Arcapita, a global private equity investment firm and subsidiary of Arcapita Bank in Bahrain.

M&A deals by volume (U.S. deals)

Sector	# of deals in 2007	Change from 2006
Consumer	3,058	6.3%
Energy/utilities	1,071	2.8%
Financial	1,318	2.8%
Health care	1,070	6%
Industrial/materials	3,433	9.4%
IT/Telecom	2,446	1.5%

M&A deals by value (U.S. deals)

Sector	# of deals in 2007 (in billions)	Change from 2006
Consumer	\$285	-2.8%
Energy/utilities	\$241	13.6%
Financial	\$236	-24.2%
Healthcare	\$146	-6.3%
Industrial/materials	\$318	22.7%
IT/Telecom	\$294	14.5%

SOURCE: Standard & Poor's Capital IQ

ABDIEL RIOS

"I think that's one of the exciting things about the vibrancy of the U.S. market and in particular the Tampa market. It's still attractive to so many investors," Hulbert said.

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