

M&A Outlook 2007

By Charles K. Oppenheimer

The M&A market continues to float on a tide of private equity cash.



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From all indications, M&A activity will continue strong through the remainder of 2007. Much of this activity is being fueled

with the billions of dollars burning the pockets of private equity groups along with aggressive lending by banks.

Today, most corporations are on the lookout for acquisitions just because of the active market. The reasons may vary but the rationale remains the same: to create additional value for the corporation and its shareholders. Coveted proprietary acquisitions are few and far between, with most sizeable companies and even smaller ones choosing to take the company to market via an auction process in hopes of receiving a higher price.

Private equity ascendant

One of the biggest competitors for M & A transactions today is private equity (P/E) groups, who continue to raise larger and larger funds. These funds range in size from \$100 million on up to the mega-funds topping in excess of \$15 billion. There seems to be no end to investors willing to pony up dollars as private equity groups raise increasingly larger funds. First quarter P/E fund raising was up 67% over the first quarter of 2006.

Private equity groups have so much money available to them that some public companies have seen their

stock prices increase just on the speculation that they could be a target for a private equity group seeking to take a company private.

At an earlier time there was a noticeable spread between what multiples strategic buyers were willing to pay and what multiples private equity groups were willing to pay. This spread has narrowed considerably, to the point where in some industries, strategic buyers take the sidelines, unwilling to pay the higher multiple. Private equity groups are also frequently buying portfolio companies from other private equity groups.

Hot markets

Even with competition from private equity, strategic buyers have been busy acquiring, and I see no reason for them to stop making acquisitions other than on issues of price. In many circumstances, a strategic buyer can absorb a company and integrate it into an existing operation, eliminating significant standalone costs. In looking back, this has been particularly true in the food industry where many more strategic acquisitions have taken place than ones led by private equity groups. Strategic buyers typically have an existing operation to integrate the product line with, as well as into, an existing distribution channel to push acquired products through. With this in mind, many strategic buyers

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will continue to look for and acquire companies that are a strategic fit for their existing business or to move into related areas.

Areas that have seen increased acquisition activity include construction, contractors and engineering services as well as leisure and entertainment. Banking and finance transactions are also up over last year. Some industries showing a decline in acquisition activity include computer software and broadcasting.

Strategic buyers are always looking for synergistic opportunities that will benefit the company.

Financing

The ability to finance the transaction is as important as finding the right acquisition target. Banks and non-bank lending sources are all aggressively stepping up to the table to finance acquisitions by both strategic buyers and private equity groups. Lenders that are most active in financing transactions are often competing with others and winning or losing by fractions. With the stock market reaching new highs, the ability to raise both debt and equity is another good alternative.

With both private equity groups and strategic buyers, and now even hedge funds getting into the game,

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there looks to be no slowdown on the horizon for merger and acquisition transactions for 2007. We have all the components in place, including willing sellers at the right multiple, private equity groups with their massive funds, and strategic buyers seeking the right synergistic acquisitions, all with sufficient capital to make acquisitions.

Charles K. Oppenheimer is founder and chairman, CEO and president of Amvest Financial Group, Inc. an investment bank advising a wide variety of companies in mergers, acquisitions and corporate finance matters. He also serves as director, chairman and CEO of Amvest Capital Partners and other related affiliated companies. He also serves as co-vice chairman of Skyview Capital and is a director of Halkon Investments both private equity groups and serves on numerous corporate and advisory boards of privately held companies.

➤ **STRATEGIC ADVISORY**

What are the best options for the company? Sell, Merge, Acquire, Shed Non Core Businesses?

Corporate or financial restructuring? Other industry or unique options?

What is best for the shareholders?

➤ **SALE OF SMALLER BUSINESS UNITS**

Quietly or publicly sell smaller operations through a private sale process or public auctions

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Contact our CEO – Charles K. Oppenheimer, Directly



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