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Deal Development

U.S. Eastern Regional Dealmaking On the Move

Dealmakers in the U.S. eastern region of the country are busy helping to keep the U.S. economy moving in the upward direction. For a quick snapshot of deals that have closed in just this calendar year, take a look at our Metrics Meter below.

To celebrate the work of these and other dealmakers, nominees or winners, please join us at our M&A Advisor 40 Under 40 Awards and the Second Annual ACG New York Champions Awards.

To get a sense of the buzz in the eastern region of the country, we reached out to a few active deal-makers for their thoughts on M&A going forward, foreseeable challenges and opportunities, and their own practice concentrations.

Advisory Services Predicted to Increase

Paul Aversano, Managing Director and Global Practice Leader at the transaction advisory firm Alvarez & Marsal, says there is "significant activity in the areas of buy-side due diligence, divestiture services (both sell-side advisory and IPO readiness) and operational performance improvement." He predicts a continued upswing for advisory services throughout 2012. "Given the current market for dealmaking, the PE capital overhang that still exists and the significant level of cash on the balance sheets of corporate acquirers, as well as the record amount of time sponsor groups have been holding onto current portfolio investments they will need to exit, there will be a steady uptick in M&A activity through the rest of the year. This will be driven further by the fact that this is an election year in the U.S. and the anticipated tax law changes relative to carried interest." Aversano's own focus is transaction advisory for middle market and large cap private equity funds, which his firm defines as funds with between $500M-$5B of committed capital in a current fund.

Also anticipating continual M&A advisory work as a result of likely 2012 politics is **Jim Abbott**, Co-Leader of the venerable Wall Street firm of Seward & Kissel LLP. Abbott says, "M&A activity in our primary sector of investment management businesses is holding steady at a fairly active level in 2012. I expect middle-market M&A activity in some other sectors to be positively influenced in 2012 by sellers' concerns with expected increases in the U.S. capital gains tax rate."

In just the last six months, Abbott's successfully-closed transactions include: a secondary buyout of a barbeque restaurant chain; Arden Asset Management's acquisition of the Robeco Sage fund of hedge funds business of Dutch-based Robeco Group; and the merger of shipping companies OceanFreight and DryShips. And just before that, says Abbott, "(W)e closed the merger of our German-based ecommerce software client hybris AG with Canada-based iCongo Inc. in a buyout sponsored by HuntsmanGay Global Capital and also the acquisition by our UK-based client Silvergate Media of the literary works of Beatrix Potter and The Octonauts."

Michael Grossman, Principal and East Region Practice Leader-Transaction Advisory Services at McGladrey & Pullen, LLP, says, “The consumer products and healthcare space is extremely hot. We’ve been working on several deals in these industries, along with government contracting, business services and software/technology. The majority of our projects are buy-side, but we have seen a significant uptick in sell-side engagements and expect that to continue, given the large number of exits anticipated this year.”

McGladrey & Pullen’s successful deals in the last six months include: Rosser Capital Partners’ (RCP) investment in Barteca Holdings, LLC (“Barteca” or the “Company”), an operator of the restaurant concepts, Barcelona Wine Bar and Bartaco. RCP is a private investment firm focused on investing in restaurant, consumer and retail companies; along with Trilantic Capital Partners’ acquisition of Implus; and Alexis Bittar’s—the award winning designer, manufacturer and marketer of premium fashion jewelry—partnership with TSG Consumer Partners LLC.

Not surprisingly, Grossman is optimistic when it comes to transaction activity levels. He predicts the M&A markets over the next six months to be “(v)ery active. We will continue to see an increase in quality deal flow coupled with a good market, fair multiples and a willingness-to-sell.”

Dealmakers Express Cautious Optimism

Highly active himself is **Kenneth A. Gerasimovich**, Shareholder at Greenberg Traurig, LLP. Gerasimovich is currently working on two public company mergers which are anticipated to close in Q2 of this year. His firm is also representing Indianapolis Downs (raceway and racino) in connection with its Chapter 11 bankruptcy case.

Even with his deep bench of knowledge and deal acumen, Gerasimovich is more cautious when it comes to M&A activity levels going forward: “While I would like to say that activity will pick up, I am not so optimistic. I think M&A activity will, unfortunately, continue to be fairly flat. Sure, there will be a few large deal announcements, but the economy and economic activity in general have not picked up and there is still a lot of uncertainty out there. There is still a lot of cash to deploy, but that deployment is going to go slowly.”

That view is also shared **Jay Jacquin**, Director at investment bank Morgan Joseph TriArtisan. Jacquin gauges M&A activity levels from a restructuring perspective. “In the restructuring world, what you see right now is that there are essentially two markets. The first involves the larger, financially-recovered borrower that is able to take advantage of the high-yield market and the leveraged loan market now that some of the problems in the Euro zone have receded. Larger businesses are able to tap the more public and liquid markets to get the additional capital that they need. As a result, there have been less defaults for larger companies, and I think this is borne out in the data produced by S&P concerning the published default rate.”

For the middle market, Jacquin makes clear the financing landscape distinction. “The second market really covers out-of-favor, still-recovering, and middle-market borrowers. There the story is a little different. Those businesses tend to be accessing a more private, club market driven by hedge funds and finance companies. Those businesses aren’t in a position to get that extra turn or half-turn of leverage that remains available to larger, healthier companies that demonstrate strong performance or near investment grade ratings. As a result, there is more restructuring activity occurring in the mid-market and in out-of-favor sectors; I think pockets of that will continue in the coming months,” expresses Jacquin.

“It’s really a function of who the borrowers are turning to in order to get capital. Mid-market borrowers, generally speaking, are not large enough to get a syndicated cash flow deal where they can attract CLOs and other investment vehicles to buy into their debt because they are not going to be issuing $200M (or more) of debt. The borrowings of mid-market companies are usually less. Since that is a less liquid, private market, it is somewhat more difficult for those companies to access capital in today’s environment.”

Still, deal volume is on the rise, and as Jacquin points out, “Assuming the economy continues its modest recovery, middle-market borrowers should start to see more attractive options, especially options involving cash flow-driven financing.”