

A feeling of stability

Companies that had been sitting on cash are starting to spend

By **BEN MOOK**

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A buyer's market, greater confidence and more access to credit and financing helped drive up the number of mergers and acquisitions in Maryland for the third quarter of this year.

Following up on healthy second-quarter activity, the number and value of mergers and acquisitions in Maryland nearly doubled in the third quarter, rising to the second-highest level since early 2008.



"We saw the market uptick in the third quarter and since the beginning of the year," said Joseph Bradley, a principal with **SC&H Capital**, in Sparks. "There's a feeling of more stability."

Each quarter, Bloomberg Financial exclusively provides The Daily Record with mergers and acquisitions data to study trends in pending and completed deals in which Maryland companies were the buyers, sellers or targets.

The biggest deal of the quarter was the purchase of Intergraph Corp. by Hexagon AB, of Sweden, in July for \$2.12 billion. Intergraph, which pro-

Maryland Mergers & Acquisitions is an exclusive feature appearing in The Daily Record in partnership with Bloomberg Financial. Look for quarterly updates of this information.

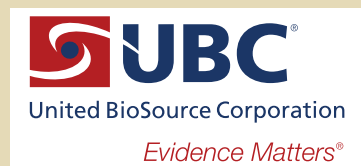
Deals of note



In a July deal, Sweden-based Hexagon AB purchased Intergraph Corp. for \$2.1 billion. Intergraph, which provides engineering and geospatial software, was partially owned by Maryland-based private equity firm JMI Equity.



Constellation Energy Group announced in August that it was the stalking-horse bidder for the Boston Generating fleet in New England. The \$1.1 billion deal would give the Baltimore-based utility four natural gas-fired plants and a fuel oil plant that, in total, can generate about 2,950 megawatts.



United BioSource Corp., a Bethesda-based post-approval drug and device research firm, was acquired by Medco Health Solutions Inc. in an all-cash transaction valued at approximately \$730 million.



Another big ticket deal in the third quarter was the sale of the Cottonwood Generating Station in Deweyville, Texas. The plant is owned by Columbia-based Kelson Energy Inc., which is selling it to NRG Energy Inc. for \$525 million.

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Power companies also played a large part in M&A activity for the quarter. **Constellation Energy Group** announced in August it was the stalking-horse bidder for a fleet of Boston Generating power plants in New England. The \$1.1 billion deal is for four natural gas-fired plants and a fuel oil plant that, in total, can generate about 2,950 megawatts. Constellation CEO Mayo A. Shattuck III said in October the deal would be completed using cash on hand as part of a plan to add 4,800 megawatts of gas-fired generation to the company's portfolio by year's end.

The fourth-largest deal of the quarter was for the sale of the Cottonwood Generating Station in Deweyville, Texas. The plant is owned by Columbia-based **Kelson Energy Inc.**, which is selling it to NRG Energy Inc. for \$525 million in a deal announced in August.

Increase in transactions

The biggest indicator of the strength of the quarter was in the number of deals, because in many cases financial terms were not disclosed. In the third quarter there were 79 transactions, up sharply from the 54 reported in the previous quarter. It was the highest count since the first quarter of 2008, which also had 79 deals.

For deals where the cost was reported, the total value was estimated to be \$6.39 billion, up drastically from earlier in the year, when first-quarter deals amounted to only \$778 million. The busy quarter was seen as an indicator that the mergers and acquisitions market was continuing to strengthen as the economy continued to improve.

"A lot of the predictions about a turnaround, made since the unpleasantness of 2008, have started coming true," said Charles Rice, a reporter with MergerMarket, a subsidiary of the Financial Times Group. "Companies with a lot of cash on their sheets have been deploying it."

Cash on hand

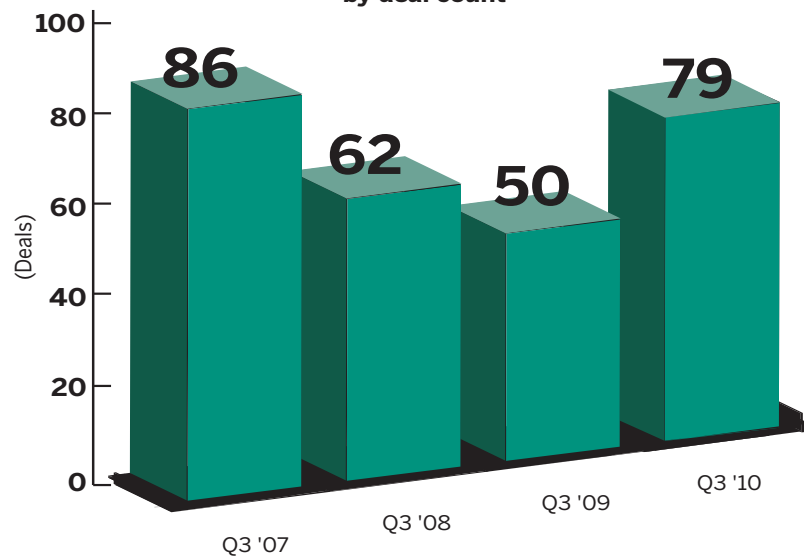
As evidenced by the Constellation deal for Boston Generating's assets, companies that had been stockpiling cash during the worst of the recession doled some out to make strategic acquisitions during the quarter.



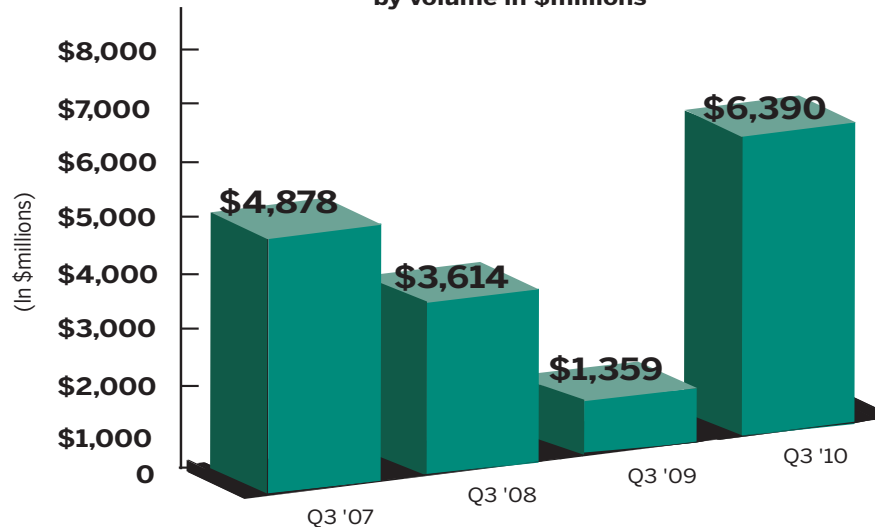
When times are flush, people make deals left and right. That might be one of the advantages of a down economy – it sobers people up and makes them think clearly about what they're doing. The deals are very carefully thought out.

CHRISTOPHER KREEGER
Owner, Kreeger Consulting and president, of the Association for Corporate Growth Maryland

Maryland mergers and acquisitions Q3 (2007 - 2010) by deal count



Maryland mergers and acquisitions Q3 (2007 - 2010) by volume in \$millions



“By and large, you’re seeing people that have been sitting on cash that are now spending it,” Bradley said.

In Maryland during the third quarter, one private equity firm that was active was Chevy Chase-based **Blackstreet Capital Advisors LLC**, which has about \$200 million under management. Blackstreet had two acquisitions during the quarter, including Swisher Mower and Machine Co., which manufactures lawn and garden power equipment. The company also acquired Park Seed Co., which owns the Jackson & Perkins rose brand, for \$13 million.

In another deal, Apax Partners LLP, a private equity firm based in London, purchased **Tela Sourcing Inc.** for an undisclosed amount in August. Tela, headquartered in Baltimore, processes about 24 million health care claims annually.

Credit available ... sometimes

Availability of credit to companies small to large continued to prove challenging in the third quarter. Bradley said deals often fall through because of restrictions placed on the sale and a lack of available credit.

“It’s a mixed bag still,” Bradley said. “The credit markets are freed up a little, but not to the levels we’ve seen in previous cycles.”

With credit still limited, Bill Wiley, owner of Towson-based **Wiley & Associates Inc.**, said businesses have had to get creative to fund acquisitions.

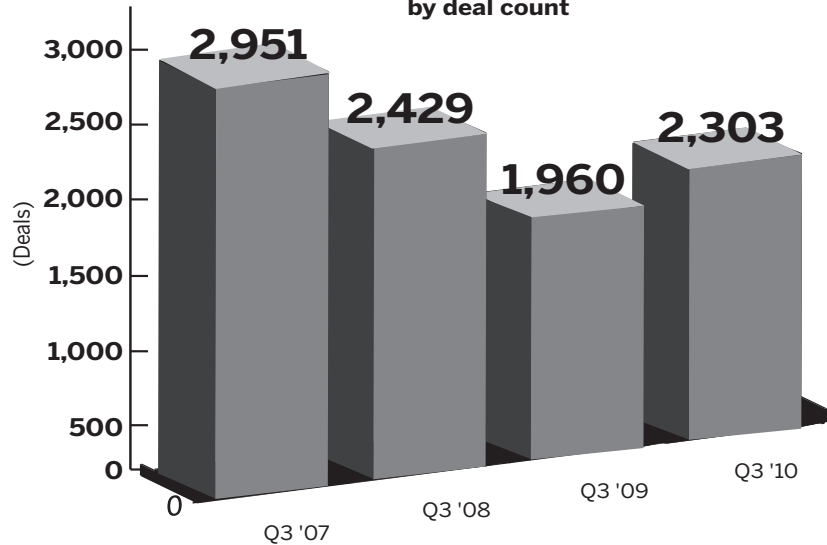
“Small businesses run mainly on credit,” Wiley said. “So, it’s really difficult for them since they haven’t accumulated large cash reserves. They’re looking for working capital and having a hard time finding it.”

He said the good news is that the slow return of credit markets has not seemed to diminish activity in mergers and acquisitions. Instead, he said businesses are reaching out to venture capitalists and private equity to fund deals.

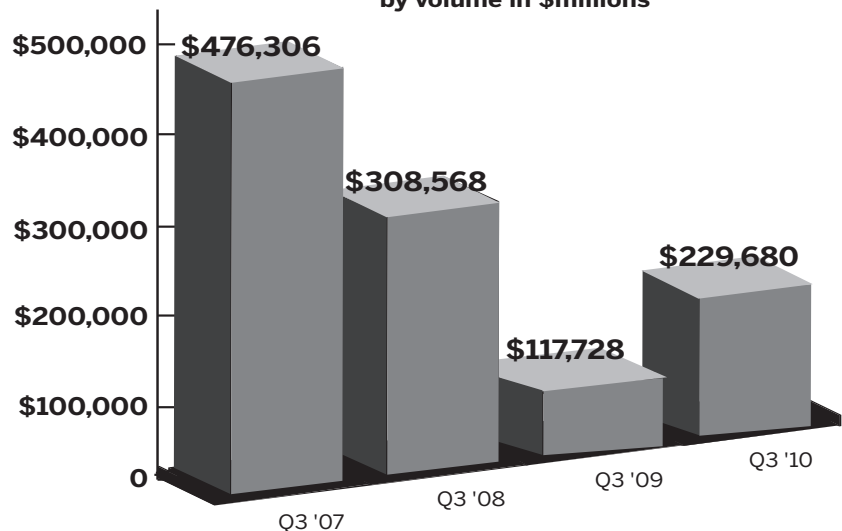
“There are a lot of deals going on, so it’s not all doom and gloom,” Wiley said. “But, it’s difficult to fund deals through the traditional lending institutions. They have to establish and nurture new sources of financing.”

According to Bloomberg, the number of deals involving private equity was up slightly from the second quarter. The six deals in the quarter, compared to four in the second quarter, were for far less though than at any

United States mergers and acquisitions Q3 (2007 - 2010) by deal count



United States mergers and acquisitions Q3 (2007 - 2010) by volume in \$millions



quarter in the last four years. Private equity involvement was estimated at \$13 million for the quarter, not including deals whose terms were not reported. Private equity involvement was estimated to be \$1.45 billion in the second quarter and \$46 million in the first quarter.

Smart deals

Wiley said businesses looking to make an acquisition took advantage of favorable prices to make smart deals in what he described as a buyers’ market.

Christopher Kreeger, owner of Baltimore-based **Kreeger Consulting** and president of the **Association for Corporate Growth Maryland**, said strategic acquisitions have been a hall-

mark of the deals in Maryland in 2010. One example happened in the first quarter when omega-3 DHA nutritional supplement maker **Martek Bioscience Corp.**, of Columbia, bought Amerifit Brands Inc. for \$200 million. Amerifit makes consumer health and wellness products focused on women and digestive health. The acquisition, which garnered the association’s top manufacturing and distribution deal award for 2010, gives Martek a platform for its supplements.

“When times are flush, people make deals left and right,” Kreeger said. “That might be one of the advantages of a down economy — it sobers people up and makes them think clearly about what they’re doing. The deals are very carefully thought out.”

Real estate

The downturn in real estate values again sparked a number of deals in the third quarter, particularly in the hotel sector. Companies buying real estate factored into about 20 percent of the transactions over the three-month period.

Host Hotels & Resorts Inc. purchased the Westin Chicago River North Hotel for \$165 million, while **LaSalle Hotel Properties** acquired the Westin Philadelphia for \$145 million. Both

deals were cash, and were completed during the quarter. Overseas, Host Hotels & Resorts picked up the Le Méridien Piccadilly Hotel in London for \$97.66 million.

Other Maryland hotel operators, including **Pebblebrook Hotel Trust** and **DiamondRock Hospitality** Co., also made acquisitions during the quarter. Pebblebrook bought the Grand Hotel Minneapolis for \$33 million. DiamondRock's purchases included the Hilton Garden Inn Chelsea, in

New York, for \$68.4 million.

Looking ahead to the fourth quarter and 2011, experts say they hope conditions will continue to improve and the number and value of deals will continue to increase.

"We're having a robust year so far and we have a good amount in the pipeline moving into 2011," Bradley said. "There's been a significant uptick in productivity and I think that's going to carry through into next year."

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