The Journal Record http://journalrecord.com

M&A data points to improvement, problems

by Kirby Lee Davis

Published: February 11th, 2010

In 2009 Holly Corp. purchased the Sunoco refinery, seen in this file photo, and the Sinclair refinery in Tulsa for approximately $194 million. (Rip Stell)

TULSA – Mergers and acquisitions involving Oklahoma's public companies rose 6 percent in numbers last year, but the value of those recession-era deals plunged 58.8 percent, according to a report from Mergermarket.com.

On the other end of the spectrum, the small business marketplace BizBuySell reported only eight sales from those listed last year in Oklahoma City, and none in Tulsa. Those eight sold for an average price of $107,500, 90 percent of the asking price. They recorded median revenue of $431,532 and median cash flow of $67,500.

Analyst Matthew J. Bristow said the reports paint a somewhat limited picture of business transactions below $1 million and above $100 million, but leave out that in-between segment comprising a great many Oklahoma companies.

"The challenge is to determine what goes on between tiny and huge," said Bristow, managing director of ClearRidge Capital in Tulsa. "There's not really any data for that."

The reports illustrate some recession realities and some misnomers.

While Mergermarket.com recorded 35 transactions in 2009, two more than 2008, last year's results remained far below the 46 seen in 2007, the 48 transactions in 2006, and the 40 completed in 2005.

Putting a price on the total transactions proved somewhat confounding because 14 of last year's deals revealed no values. But that mostly paralleled no-shows in other years – 13 in 2008, 16 in 2007, 11 in 2006, five in 2005.

Of those reporting values, Mergermarket.com said 2009 deals totaled $1.96 billion, far below the $4.78 billion recorded in 2008, the $12.8 billion reported in 2007, the $24.87 billion of 2006, and 2005's $7.59 billion.

Mergermarket included not only firms based in Oklahoma, but those buying or selling large assets in the Sooner State. That's how Dallas-based Holly Corp. made the top Oklahoma transactions list three times – for buying Tulsa's Sunoco refinery and Sinclair refinery, as well as for selling several related midstream assets to Plains All American Pipeline.

Bristow said huge deals may skew some annual numbers, such as Oneok's formation of, and sale of assets to, Oneok Partners in 2006. Last month's $12 billion restructuring between Williams and Williams Partners could have a similar impact on 2010 data.

In a similar vein, the 2009 results would have doubled if United Refining Energy had completed its proposed $1.8 billion takeover of Chaparral Energy. That effort collapsed on Dec. 11.

The 2009 breakdown by value demonstrates another misnomer, with the energy, mining and utilities sector comprising 91.1 percent of all activity. Bristow said the volume data presents a more accurate picture of overall Oklahoma M&A business. The energy industries still lead, but with only 45.7 percent of the total. Industrial and chemical firms made up 25.7 percent of transactions, followed by two sectors tied at 5.7 percent: the business services and technology, media, telecommunications.

"I think this is pretty reasonable," he said of the results. "I think this does reflect what's going on."

From his front-row seat, Bristow sees two trends shaping 2010 M&A activity. Anticipating lower valuations, Bristow expects more buyers with cash to come off the sidelines for potential deals.

"We are seeing an increasing demand from buyers, both company buyers and financial buyers, because they've been sitting on cash and they've been continuing to do this for a year or two and they want to get that cash working," he said. "The acquisition price now a lot lower."

The BizBuySell data may demonstrate some of that. Quarterly Oklahoma City business listings ranged from 99 to 109 last year, yet only eight produced actual sales. Tulsa listings slipped from 36 in the first quarter to 27 in the fourth, with no sales.

Mike Handelsman, general manager of BizBuySell, downplayed the sales results, noting the cities provided not enough results to indicate trends. But he saw some significance in the 9.6-percent decline in the median asking price for Oklahoma City firms from the end of 2008 to the close of 2009.

"As we're seeing on the national level, prices for businesses for sale are declining," Handelsman said Thursday. "To some degree that's reflecting a greater urgency to sell."

Fourth-quarter median cash flow followed that, dropping 10.4 percent from the prior year.

"That's just an indication that the businesses that are selling are slightly smaller," Handelsman said.

Handelsman expects a slightly improved transaction market in 2010, reflecting building supplies and increased motivation by laid-off workers to enter business for themselves.

"We also expect that capital will become more available than it has been in 2009," Handelsman said. "We think that is a key to recovery."

For healthy companies, Bristow said finding capital is no longer a problem.

"In fact, there's a lot of competition among banks to lend to them," Bristow said. "That's now the minority of companies that are in a position to do that."

But Bristow also foresees lingering low seller willingness, fueled not only by those reduced valuations in this recessionary climate but also continued slower growth. Survivor instincts may also dim sale desires.

"Some people have the ability to ride it out, knowing they have the ability to pick up market share from weaker competitors," Bristow said.

Bristow said that helps create a "valuation gap" between buyers and sellers, one that could continue through 2011.

"There's a big gap between the two and until that gap narrows, there are going to be fewer owners of private businesses who are in a health position wanting to sell," Bristow said.

Data from PitchBook Platform points to one interesting alternative. According to PitchBook Platform, private equity firms have invested in 70 bankrupt firms since the start of 2008, with 36 of those in 2009 and four this year.

The need to avoid bankruptcy or liquidation may also drive more equity investments.

"Diluting your equity is better than potential failure of your business," Bristow said. "Generally, a lot of those deals aren't reported."