

# L.A. Merger and Acquisition Activity Remains Revved Up

**TRANSACTIONS:** The 88 deals in May match last year's but \$6.4 billion value is lower.

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Despite increased speculation that the merger and acquisition boom is reaching its peak, local activity remained steady in May compared to a year ago.

The Los Angeles area saw 88 deals in which either the target, a seller or buyer was based here, according to data compiled for the Business Journal by the Los Angeles office of Goldsmith Agio Helms, a Minneapolis-based investment bank. That's the same number as in May 2006.

The value of most transactions was not made public, but 23 deals in which values were released totaled \$6.43 billion, around half of what was identified in May 2006 when activity was dominated by Long Beach-based **Health Care Property Investors Inc.**'s \$5.2 billion acquisition of a Florida competitor.

In the largest announced deal of the month, **Fremont General Corp.** sold its commercial real estate lending unit to **iStar Financial Inc.** for \$1.9 billion as the troubled Santa Monica-based industrial bank attempts to recover from the collapse of its subprime mortgage business.

The second largest deal involved Florida-based **Primedia Inc.** agreeing to sell 70 of its enthusiast magazines – including Motor Trend and Hot Rod – to **Source Interlink Co.** for \$1.2 billion in cash. Source Interlink is controlled by Ron Burkle's Los Angeles-based **Yucaipa Cos.**

Los Angeles' M&A scene typically is characterized by relatively small to mid-cap deals, occasionally punctuated by large transactions such as last June's \$14 billion sale of **Univision Communications Inc.** to

a group lead by Los Angeles billionaire Haim Saban.

With the current M&A growth cycle that began in late 2004 considered at or near its peak, there has been increasing talk that valuations have gotten too rich, and the market is due for a correction. Local market observers such as Los Angeles investment banker Lloyd Greif and Orange County-based market expert Tom Taulli believe there is still a lot of play left in the market, particularly in Southern California.

Greif, president and chief executive of **Greif & Co.**, estimates that nationally there's still \$750 billion of "dry powder" available for private equity-backed deals alone, much of it raised in the last few years. And that doesn't even include strategic deals where public companies have access to other funding sources to acquire competitors.

"Private equity firms can't sit on this money, they have to put it to work," Greif said. "Even if we're at a peak, you can sail for a few years on top, just as you can bounce for a few years at the bottom. I think we're still going to cruise for a while."

Taulli, who operates an online subscription service that tracks M&A activity, said June is shaping up as a slow month, even for the start of the typical summer lull. But while valuations are getting tougher for the big deals, owners of smaller companies appear to still be able to negotiate a good profit for their investment.

"Rising financial costs and higher interest rates will have an impact and make deals more expensive," he said. "We're seeing some hiccups right now. If that turns into choking, then it's a problem, but so far it hasn't."

Unlike the last up-cycle in the late 1990s, dominated by Internet and other technology deals that often lacked solid fundamentals, a wider variety of industries are benefiting from M&A attention in this go-

## M&A Update

Announced mergers and acquisitions in L.A. County.

Month	Deals	Value
May	88	*\$11.8
June	84	20.0
July	81	4.7
August	67	4.4
September	71	5.0
October	63	4.3
November	53	6.1
December	62	21.4
January '07	59	2.9
February	64	7.1
March	66	9.3
April	63	4.7
May	88	6.4

\*in billions

Source: Goldsmith Agio Helms

around. That diversity is illustrated by May's deal list from Los Angeles-based **Oaktree Capital Management LP**, which has more than \$45 billion under management.

Oaktree helped to fund at least three acquisitions – including the third and fourth largest locally connected deals in May – and was involved as a seller in two transactions. The firm is a backer of New Zealand-based building materials maker **Fletcher Building Ltd.**'s \$700-million strategic acquisition of Cincinnati-based **Formica Corp.** to create the largest global manufacturer of decorative surfaces and high-pressure laminates in the world.

Investment funds managed by Oaktree are backing Taiwan's **Valient International Co. Ltd.**'s \$852 million tender offer to acquire **Fu Sheng Industrial Co. Ltd.**, the world's largest golf club head manufacturer. Also during the month, Oaktree acquired **Stock Plzen**, the Czech Republic's largest spirits producer, and sold stakes in an Illinois rail car maintenance company and a Texas-based national industrial cleaning services firm.