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Buyout Market in California a Well-Oiled Machine in 2005

The dollar volume of deals jumps 86% as public companies seek to expand and investment firms put piles of cash to work.

By JOSH FRIEDMAN
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Rick Teasta and Mike Dobson met as bouncers at a Redondo Beach singles bar in the 1980s, where their friendship led to a partnership in the oil-change business.

Today, the two entrepreneurs are among those benefiting from the open taps of capital that are changing the business landscape in California. Teasta and Dobson received $90 million in financing and an undisclosed payment to expand their fleet of EZ Lube shops, surrendering some of their ownership stake in return.

Business sales like theirs — complete or partial — surged in the Golden State last year, mirroring a national trend, as public companies scrambled to grow and buyout firms put piles of money to work.

The number of announced deals involving California-based companies, as either buyer or seller, rose 9% to 2,246, according to data from FactSet Mergerstat compiled for the Los Angeles Times.

The dollar volume zoomed 86%, to $186.3 billion. That's the highest since 2000, although still well below the record $319.7 billion announced that year.

CHRISTINE COTTER *Los Angeles Times*

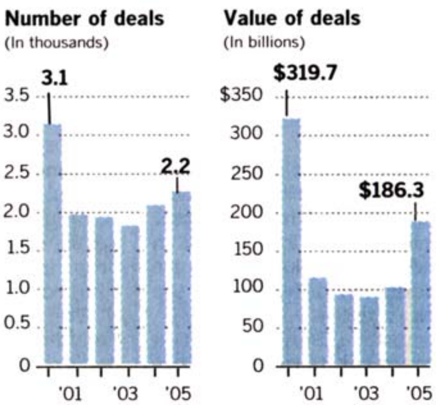
CASH FLOW: ***EZ Lube plans to expand with $90 million in new financing. Above, co-founder Rick Teasta at a Costa Mesa shop.***

Major deals included San Ramon, Calif.-based Chevron Corp.'s $17.7-billion purchase of El Segundo's Unocal Corp., UnitedHealth Group Inc.'s $8-billion buyout of Santa Ana-based PacifiCare Health Systems, and San Jose-based Cisco Systems Inc.'s $6.6-billion acquisition of Scientific-Atlanta Inc., according to FactSet Mergerstat, a global deal-tracking firm.

(Over)

Upswing in deals

Buyouts involving California companies went up in 2005, and the dollar amount nearly doubled from 2004.



Source: FactSet Mergerstat

Los Angeles Times

Two factors are driving the upswing in deals, investment bankers say.

Against the backdrop of a solid but unspectacular economy, companies are chasing "strategic" purchases, hoping to ramp up their revenue growth rates through deals that quickly bring them new products or access to new markets.

And buyout firms are deploying some of the tens of billions in dollars they have raised in recent years from pension funds and other institutions, making investment-oriented purchases in hopes of eventually reselling companies at a profit. Through the third quarter of last year, buyout firms nationwide raised $54.1 billion in new cash, according to Thomson Venture Economics and the National Venture Capital Association.

Deal makers have benefited from easier access to capital. Banks have gotten looser in their lending as the economy has recovered from the 2000 technology crash and the Sept. 11, 2001, terrorist attacks. And hedge funds, the loosely regulated investment pools for wealthy individuals, pension plans and the like, have huge cash hoards they are looking to deploy.

Fierce bidding is pushing prices higher, as evidenced by the average deal value of $83 million, a 71% increase from 2004.

"It's a seller's paradise," said Lloyd Greif, head of investment banking firm Greif & Co. in Los Angeles. "When you have these rootin'-tootin' gunfights, the target companies benefit."

On a smaller scale, entrepreneurs seizing on the trend include Teasta and Dobson, the duo behind Santa Ana-based EZ Lube. They sold a "significant" stake in December to New York-based buyout firm Bruckmann, Rosser, Sherrill & Co. for an undisclosed sum in what's known as a leveraged recapitalization, giving up some of their equity in exchange for an infusion of capital that will allow them to grow more rapidly.

"The plan allows them to stay with the company, take profits off the table and finance expansion," said Greif Managing Director Jourdi de Werd.

Teasta, 44, and Dobson, 43, met while working nights at a Red Onion in Redondo Beach. They co-founded the oil-change business in 1988, using $16,000 in credit card debt as a down payment on a Lawndale "tin shack" with one service bay.

EZ Lube now has 71 shops, all in Southern California, but plans to grow to more than 300 nationwide in the next few years, Teasta said.

As part of the recapitalization, two investment firms, Goldman Sachs Specialty Lending Group and hedge fund GSO Capital Partners, are providing a total of $90 million in financing to EZ Lube, which plans to build on its recent series of small acquisitions and eventually go public through an initial stock offering.

Noting the deep pockets of GSO and Goldman Sachs, Teasta said, "We finally have some ammo."

In this climate, even being "in play" won't necessarily stop a strategic buyer from pursuing prey. Albertsons Inc., which has talked to various suitors in recent months but has yet to be sold, bought Greif client Lazy Acres Market Inc., a natural foods chain in Santa Barbara, in November for an undisclosed sum, aiming to beef up its Bristol Farms unit that caters to affluent shoppers.

In contrast to the buyout market that cooled sharply in 2001 with the tech-stock bust, analysts say buyers have remained levelheaded this time around.

In the Internet sector, for example, companies such as LowerMyBills.com of Santa Monica and PriceGrabber.com of Culver City were sold after surviving the tech bubble and generating positive cash flow in recent years, said David Hernand, a partner specializing in mergers at law firm Latham & Watkins in Los Angeles.

"The environment is very different from 1999," Hernand said. "Nobody is buying eyeballs — they're buying cash flow. It's an active M&A market, not an irrational one."

Experian, the Costa Mesa-based credit information firm, paid $380 million for LowerMyBills.com, which markets home loans, and $485 million for PriceGrabber.com, which runs a comparison-shopping website.

Kurt Kunert, publisher of FactSet Mergerstat, cautioned that if buyers become too eager, big mistakes could be made.

Deals are closing at a faster pace, he said, indicating that some acquirers could be taking shortcuts in researching their targets. The average time from deal announcement to closing shrunk to 67 days in 2005 from 83 days in 2004.

"It's not a problem yet," Kunert said, "but we might be starting to see cracks in the due diligence process."

Top deals

Here are the biggest acquisition deals involving California companies as either buyers or sellers last year.

Company sold	Buyer	Date announced	Amount (In billions
Unocal	Chevron	April 4	$17.7
PacifiCare Health Systems	UnitedHealth Group	July 6	8.0
Scientific-Atlanta	Cisco Systems	Nov. 18	6.6
Hilton International	Hilton Hotels	Dec. 29	5.7
Siebel Systems	Oracle	Sept. 12	5.6
Providian Financial	Washington Mutual	June 6	5.2
Chiron	Novartis	Sept. 1	4.9
American BioScience	American Pharm.	Nov. 28	4.1
StorageTek	Sun Microsystems	June 2	4.0
Catellus Development	Prologis	June 6	3.8

Source: FactSet Mergerstat

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