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Deals Signal Merger Revival

'Forces come together' to produce a flurry of takeover offers. Some analysts are cautious.

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Something else appears to be rebounding with the stock market: corporate executives' urge to merge.

A flurry of big takeover offers was announced Tuesday, including **EMC** Corp.'s $1.2-billion bid for **Legato Systems** Inc. in the tech arena, **ArvinMeritor** Inc.'s $2.2-billion overture for **Dana** Corp. in the auto-parts sector and **Yellow** Corp.'s $966-million proposal for **Roadway** Corp. in the trucking industry.

The hostile takeover attempt also may be in the early stages of making a comeback reminiscent of the bull-market era, analysts said. ArvinMeritor's unsolicited bid followed hostile offers by software giant **Oracle** Corp. for **PeopleSoft** Inc. last month and by aluminum maker **Alcan** Inc. for rival **Pechiney** earlier this week.

"You're seeing several forces come together," said Lloyd Greif, president of Los Angeles-based investment banking firm Greif & Co. "Banks are beginning to loosen the purse strings on credit. Low interest rates are making leveraged deals relatively easy to finance. And in a soft economy, strategic buyers see acquisitions as the surest way to grow earnings."

Tuesday marked the first time since Dec. 14, 2001, that there were three U.S. merger deals valued at about $1 billion or more announced on the same day, according to Richard Peterson, chief market strategist at data tracker Thomson Financial in New York.

Still, Peterson cautioned that merger data have yet to confirm that a major wave of deal making has begun.

Announced merger-and-acquisition volume totaled $162.3 billion in the first half of this year, down 17% from the first half of 2002 and far off the mark of $885 billion reached in the first half of 2000.

"For the M&A market, this was a nice 'transaction Tuesday,' but let's see what the next few weeks bring," Peterson said.

Indeed, a return to the unprecedented bull-market deal boom is unlikely, Peterson predicted. "No one thinks we're going back to the trillion-dollar-plus years of the late 1990s," he said.

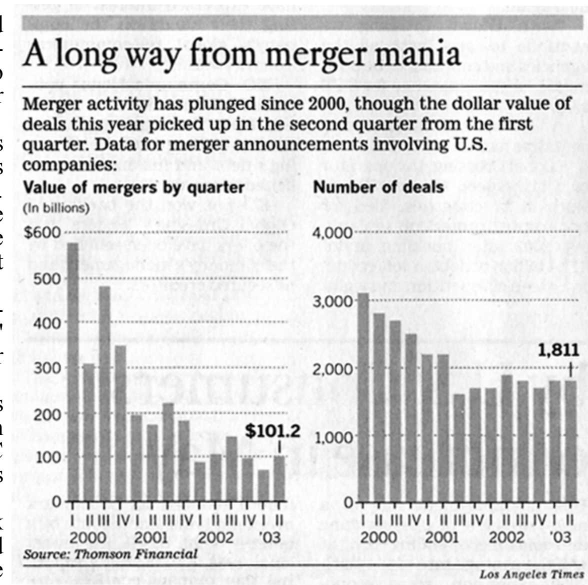
Still, with interest rates low and stock prices surging, corporate executives may be sensing that there's no reason to wait to make takeover plays, analysts say.

Wall Street's recent rally has lifted the blue-chip Standard & Poor's 500 index 25.9% since mid-March. As stocks get more expensive, the risk for would-be acquirers is that the prices of their targets will climb out of reach.

But the market rally also is raising the value of would-be acquirers' shares, giving them a stronger "currency" to offer targets.

Some potential acquirers, such as EMC, have seen sharp increases in their share prices recently. EMC stock is up 63% since the market's low March 11.

"The sustained rally in the stock market gives corporations, CEOs and their boards the backbone to pursue acquisitions," said Brooks Dexter, senior managing director at USBX Advisory Services, a Los Angeles-based investment banking firm.



What's more, analysts say targeted firms may be sensing that the stock market has gotten ahead of corporate fundamentals. This could motivate them to accept an offer now that's at a decent premium to their share price.

The pickup in deal-making also could signal rising optimism about the economy in the second half of this year and in 2004, as executives appear more willing to take on major risks.

"There is a greater expectation of economic improvement," said Dennis McCarthy, managing director at Seidler Cos., a Los Angeles investment banking firm. "Maybe not through-the-roof improvement, but an environment that can bring higher revenue and profit."

The revived merger itch also reflects many executives' continuing desire to boost market share for their businesses while creating more efficient operations, analysts say. Standard procedure after any takeover is sharp cost cutting.

"One of the main drivers is the notion that consolidation creates value," said Scott Adelson, senior managing director at L.A.-based Houlihan Lokey Howard & Zukin. "That as a premise has not changed. What happened was a market crash, a terrorist attack and other shocks."

Tellingly, the chief executives of ArvinMeritor and Yellow used the bull market buzzword "synergies" in the statements they issued Tuesday, while EMC highlighted the data storage firms' "complementary visions."

Despite the weak nationwide merger volume through June 30, several Los Angeles investment banks — including Greif, USBX, Seidler and Houlihan Lokey — say their business has picked up this year and their pipeline of potential deals is strong.

"The pendulum is swinging back to the sellers' side," said Greif, who usually represents firms looking to unload assets. "In recent years, buyers have been tending to their own wounds first, and last year they were coming to terms" with new corporate reporting requirements.

"Now," Greif added, "they are looking outside again."

Of course, an M&A rebound may remind some investors of the huge deals of the late 1990s and earlier this decade, such as the merger of America Online and Time Warner Inc., that turned out to be bombs.

"It's a risky way to achieve growth," Dexter said. "Execution is very difficult."

Wall Street clearly did not react with glee to any of Tuesday's news — at least when it came to the prospective acquirers.

Shares of EMC declined 50 cents to $11.24, and ArvinMeritor lost 71 cents to $20.29 — both on the New York Stock Exchange. Yellow dropped $1.24 to $23.25 on Nasdaq.