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SOMETHING VENTURED: Not All Cos Attractive To PE Firms

NEW YORK (Dow Jones)--This year might be shaping up to be a record year for mergers and acquisitions, but that doesn't mean every company on the block will find a buyer.

Jones Apparel Group Inc. (JNY), Bally Total Fitness Holding Corp. (BFT), Pep Boys - Manny, Moe & Jack (PBY) and Imclone Systems Inc. (IMCL) all halted their auctions last month after not getting the bids they wanted.

But that isn't a sign that the private equity-driven buyout frenzy is burning out, industry experts say. To date, global M&A volumes have totaled \$2.4 billion, up some 34% from this time last year, according to industry research firm Dealogic. Experts say these companies probably just had unrealistic expectations when they went to market given the high multiples buyouts have drawn this year.

"There is a great deal of greed that takes place on the sell side," said Gene Sartin, executive vice president of Dallas investment bank GW Equity. "When a seller says 'I didn't get value,' all they're saying is they had a number in their head [that they wanted], but that doesn't make the number right."

Multiples for companies with \$50 million or more in annual earnings before interest, taxes, depreciation and amortization, or Ebitda, hit 8.6 during the first half of the year, the highest level ever recorded by Standard & Poor's Leveraged Commentary and Data Group.

That is in part a result of the creative financing packages buyers are putting together, said Louis Bevilacqua, chairman of the M&A group of Cadwalader Wickersham & Taft LLP.

Some of the bigger deals - like the \$2.43 billion buyout of Dunkin' Brands Inc. - have been financed as securitizations, or by pooling various assets and liabilities in such a way that they can be traded as securities. These types of financings tend to get lower interest rates, driving up bid prices.

Prices are also soaring because of the record amounts of cash PE firms have raised and need to put to work. **Matthew Polsky, director of New York boutique adviser Net Worth Solutions Inc., said he is advising an auction for a retailer right now in which one suitor is driving up the price by bidding two multiples higher than its rivals.**

The companies that told their bankers to pull them from the auction block have deep financial and operating problems, and have an asset mix that doesn't warrant a securitized financing, Bevilacqua said.

"I don't see a crack in the M&A market," Bevilacqua said, adding that he expects the M&A market to stay hot at least for another year and a half. "There are several companies in that grouping that probably should have fixed their internal issues before they had gone out [and put themselves on the block]."

Clothing maker Jones Apparel, of Bristol, Pa., has seen its mid-tier brands like Jones New York and Nine West struggle under competition from fashion houses that can churn out cheap products faster. Bally Total Fitness restated earnings last year back to 2000 after improper accounting for memberships overstated revenue and downplayed expenses. The Chicago gym chain also recently lowered its cash flow projections due to weak membership.

"If there is anything wrong with the company you can end up with a broken auction," said William G. Connors, a principal with White Plains, N.Y., buyout shop Stonebridge Partners.

That does not always have to be the case, though. Struggling retailers Sports Authority Inc. and Linens 'n Things Inc. (LIN) found buyers earlier this year despite their problems. Leonard Green & Partners, which paid \$1.4 billion for Sports Authority in February, is banking on its deep experience in the sporting goods space to revive the company's sliding market share and same-store sales. Linens 'n Things had to meet year-end earnings targets before lenders put up the financing for Apollo Management LP's \$1.3 billion buyout of it this year.

In each case, the companies found the right buyers willing to pay a premium for the business. The fact that Jones Apparel and Pep Boys couldn't find a buyer might indicate that private equity is losing its appetite for big-name retailers, Polsky said.

"The retail environment out there is not so robust right now," he said.