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M&A activity 'not out of the woods yet,' say experts at ACG conference

By Tom Henderson

Don't expect merger and acquisition activity to return to normal levels any time soon, was the message Tuesday morning at an annual conference put on by the Detroit chapter of the **Association for Corporate Growth**.

While members of two panels were in agreement that the worst of the current downturn seems behind us, and that national economy could see modest growth by the third of fourth quarter, M&A activity will remain slow for at least two years.

"I see at least another three years of consolidation and restructuring," said Steve Hilfinger, a partner in the Detroit office of **Foley & Lardner L.L.P.**, who focuses on the auto supply chain. "And a year from now I might be saying `three more years.' "

Gerald Timmis, senior managing director of Birmingham-based **ValStone Partners L.L.C.**, a private equity firm that buys distressed debt and real estate, said that the economy will be hit hard over the next three years by interest-only commercial real estate loans coming due, with borrowers having an inability to get them refinanced.

"It's going to impact all of us. It'll take time to work through, at least three years," he said.

Kevin Prokop, a principal in Livonia-based **RockBridge Growth Equity L.L.C.**, said it could be as long as four years before M&A activity returns to normal levels, while DemianKircher, managing director of Chicago-based **Maranon Capital L.P.**, said tight credit would keep activity depressed for at least two years.

One interesting sign of the times was that the second of the morning's panels was scheduled to be on completing transactions in hot sectors. That seemed like a likely topic when the annual conference was being organized earlier this year. But without any obvious hot sectors and with deals not getting done, panel moderator David Reynolds, CFO of Detroit-based **Huron Capital Partners L.L.C.**, said they would have a general discussion, instead.

"I'm not sure any hot sectors come to mind," said panelist SamualStahl, head of the private equity and venture capital practice for Detroit-based **Honigman Miller Schwartz & Cohn L.L.P.**

Philip Gilbert, president and managing director for Southfield-based **P&M Corporate Finance L.L.C.**, named three sectors where activity could be fairly strong — life sciences, outsourcing of business processes and defense and aerospace.

"Defense and aerospace have gotten a lot of play locally as going to be the saviors of the auto suppliers, and I think that's a bit overrated, but I think there are opportunities there," he said.

Kircher agreed there were no hot sectors but said health care, which is perceived as being relatively recession proof, remains strong.

“Although what Obama may do and what changes are coming regarding government reimbursement make it a challenge to figure evaluations,” he said.

He said other sectors to watch include IT, particularly companies in IT security, and education, as large segments of a laid-off workforce look to retrain.

Panelists agreed that while it is a bad time to be selling a business — “if you don’t have to sell right now, you shouldn’t,” said Kircher — it’s a great time for buyers, particularly private equity firms who recently raised funds and have money to spend.

“If you have resources, these are the best of times,” said Stahl. “You don’t have buyers out there offering ridiculous prices.”

“From the buyer side, it’s a good time to buy. From the lender side, it’s a phenomenal time. When we come out of this, you’ll be happy you bought today. You just need to be careful,” said Kircher.

William Campbell, the founder of **W.Y. Campbell & Co.**, a Detroit-based investment banking firm, and the recent winner of the *Crain’s*-ACG lifetime achievement award in mergers and acquisitions and a founding partner of Huron Capital, Detroit-based **Peninsula Capital L.L.C.** and Detroit-based **Superior Capital L.L.C.**, began the morning with a humorous keynote speech giving the history of the local investment-banking industry.

He was followed by John Fiore, executive director in the Chicago office of **J.P. Morgan Securities Inc.**, who gave a slide show updating the 165 in attendance on the current state of the debt market.

“Being asked to speak on the debt market now is like being asked to speak about the luxury cruise industry a week after the Titanic went down,” he said.

Fiore said he was hopeful the **General Motors**’ bankruptcy filing on Monday was the second bookend that marks the last big piece of news of the current recession. The first bookend, he said, was to the collapse of **Lehman Brothers** last year.

“It feels like we hit bottom in February or March, though we’re not out of the woods, yet,” he said. “Credit markets are starting to thaw and deals are possible, again.”

He predicted that GDP would have 1 percent growth in the third quarter and 2 percent in the fourth quarter, but advised that “it’s going to take a long time to recover.”

He said **J.P. Morgan** predicts national unemployment hitting at least 9.5 percent and likely going past 10 percent. Based on something called Okun’s Law, he said that even if you had annual GDP growth of 4.5 percent, it would take five years to go from national unemployment of 10 percent to 6 percent.

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