

MORE DEALS IN THE CARDS

LI is fertile ground
for M&A activity

By **KRISTEN D'ANDREA**

Just as a homeowner might delay putting an addition onto his house without job security, businesses are often hesitant to make capital improvements, extend their workforce or pursue acquisitions without confidence in the economy.

A recent KPMG survey, which predicts merger and acquisition activity will rise nationwide in 2014, indicates some confidence has returned to the business community. Among the 145 C-level executives surveyed, nearly three-quarters anticipate their company will make an acquisition in 2014, compared with approximately half last year.

On Long Island, industry insiders questioned whether M&A activity would be as high as 75 percent, but they do anticipate increased opportunities for interested companies.

Last year, Long Island experienced a decrease in M&A activity compared to 2012, which saw tremendous activity driven by concerns about changing tax laws, according to Neil M. Kaufman, partner and chairman of the corporate department at New Hyde Park law firm Abrams Fensterman. Concerned their net proceeds would be depressed, sellers rushed to unload their businesses before year-end in 2012, Kaufman said, noting valuations were edging up because of the



ROBERT CREIGHTON: More deals are expected in the pharmaceutical and nutritional supplement industries.

increased cash in the coffers of many strategic industry buyers.

“There was no way 2013 could keep the pace [with 2012],” Kaufman said.

Still, activity did continue in certain industries, such as healthcare and manufacturing, areas that remain under pressure from technological and governmental changes.

“Those trends continue to pick up speed as we move farther along in an economic recovery,” Kaufman said, adding he’s optimistic that Long Island is fertile ground for deal-making.

“I do see activity, deals coming together, some tortured sellers with struggling companies coming to grips with what their companies are really worth and owners of thriving companies ready to cash in,” he said. “They are existing side-by-side.”

But the Long Island market is lagging the national market in M&A activity, according to Robert Creighton, a partner in the corporate and finance group in the Hauppauge office of law firm Farrell Fritz. While Creighton would not describe Long Island’s overall marketplace as “vibrant” just yet, “we are starting to gain some steam now,” he said.

Creighton anticipates growth in the pharmaceutical and nutritional supplement space, both growing industries ripe with opportunity for acquisitions.

Perhaps the greatest potentially negative effect on M&A activity would be if the government reaches crisis mode again, shaking confidence, he said. If the business community begins to fear another government shutdown, for instance, or if interest rates climb or banks tighten credit, M&A activity may stall.

Respondents to the KPMG survey cited a lack of suitable opportunities, recessionary fears, the slow growth environment and regulatory considerations as factors that could adversely impact deal activity in 2014.

For now, Fred Skolnik, a partner in the corporate/securities group at East Meadow law firm Certilman Balin Adler



& Hyman, said a lot of companies are doing well and accumulating cash, which could ignite activity.

“Employment growth hasn’t kept up with how well companies are doing,” Skolnik said, noting entities experiencing more profit and more cash tend to become interested in deal-making.

In some cases, volatility in Washington may positively impact M&A activity; for instance, defense-related businesses funded by the government could look to be acquired in the event of budget cuts. But, generally speaking, businesses do not like uncertainty, such as the impending debt ceiling and the recent drop in the financial markets, Skolnik said.

Further market declines could deter public-company buyers from using their stock as currency, he added, though public-company sellers might find an opportunity to pick up a company while its value is down.

One factor that could boost M&A activity is potential sellers’ adjustment to and acceptance of the new economic reality, Creighton noted. Business owners had inflated ideas as to their companies’ worth five or six years ago, but those values plummeted along with the economy.

“Now, people have more realistic expectations, which makes it more likely deals will get done,” Creighton said.

Kaufman disagrees.

“I think sellers’ valuation expectations are substantial, sometimes creating a valuation gap,” he said, though buyers have been willing to step up.

“In 2008 and 2009, you were not seeing multiples of eight, nine, 10 and 11 on cash flow,” Kaufman said, though since 2010 such numbers aren’t unusual in acquisitions of healthy, growing companies

Still, Creighton is concerned about the number of sell-side transactions – in which closely held businesses on Long Island are sold to buyers from outside Long Island – his firm has been handling.

“The vast majority of M&A deals involving manufacturing on Long Island are sell-side engagements,” he said. “More often than not, we represent sellers, rather than buyers.”

Concerned for the economic health of the region, Creighton noted he would like to see local companies acquiring companies off-Island.

“Hopefully, we will bear fruit and build a vibrant economy that can sustain us,” he said.