

Walter Energy to Buy Western Coal for \$3.3B

DEAL WATCH

by Felice Maranz and Beth Mallor

■ **M&A TODAY:** **Walter Energy Inc.** agreed to buy Canada's **Western Coal Corp.** for C\$3.3 billion (\$3.3 billion). **Amazon.com Inc.** invested \$175 million in **LivingSocial.com**, a coupon website, while **Lightspeed Venture Partners** invested \$8 million. **BAE Systems Plc** said the potential sale of its unit making components for aircraft and hybrid vehicles is generating "quite

a high level of interest" among suitors. Financier **J. Christopher Flowers** said he's planning purchases in Europe as he expects the sovereign debt crisis won't spread to Spain and Italy. **Legend International Holdings Inc.** will next week approach buyers for part of Australian phosphate project worth as much as \$1 billion.

■ **IN PLAY:** **Walter Energy Inc.** and **Western Coal Corp.** host a conference call at 11:30 a.m. New York time to discuss merger plans. **Snyder's of Hanover Inc.** shareholders vote today on the \$604.5 million merger with **Lance Inc.**, whose shareholders approved the deal yesterday. **Novell Inc.** yesterday reported fourth-quarter adjusted earnings per share of 7 cents, matching estimates, on sales of \$206.5 million. Its acquisition by **Attachmate Inc.** is expected to close in first quarter. **Thermadyne Holdings Corp.** shareholders yesterday approved sale to affiliates of **Irving Place Capital.**

■ **LEGAL & REGULATORY:** **Tyco Electronics Ltd.** received China antitrust approval in its acquisition of **ADC Telecommunications Inc.** Hart-Scott-Rodino review period expires today for **EMC Corp.**'s proposed acquisition of **Isilon Systems Inc.**

■ **DEAL SUMMARY:** In last seven days, 69 percent of deals were cross-border, 60 percent were paid for using cash, 98 percent were \$500 million or less in size, 100 percent were friendly bids, 89 percent were pending, 50 percent had an announced premium of 10 percent or less and 91 percent had a current premium of 10 percent or less.

Q&A

David de Weese, partner at San Francisco-based **Paul Capital**, spoke with **Alex Sherman** about the secondary investment market and how to value private companies.

Q: What's the advantage of buying private-equity assets in the secondary market?

A: The people who invest with us do it because there are certain characteristics when buying assets in the secondary market you don't get investing in private-equity funds. We allow clients to manage their private-equity portfolios and reallocate assets when investors think they have too much or too little private-equity exposure. Our holding period on an asset is going to be much shorter, often about two years. If you put money into private equity, it may take you a couple of years to get that money into the hands of managers that you like, because they don't come to market every year. It then takes the managers three to six years

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Weekly Data Comparisons

SUMMARY	TOTAL	52-WEEK AVG.	YEAR TO DATE
Number of Announced Deals	563	461	21,977
Volume (\$)	46.9 billion	40.2 billion	1.91 trillion
Avg Disclosed Deal Size (\$M)	145.2	162.9	164.7
Average Premium	11%	22%	22%

Deal Multiples

MEASUREMENT	NUMBER OF DEALS	MIN-MAX	MEDIAN
Free Cash Flow	15	3.23 - 283.82x	32.34x
Cash Flow from Operations	21	0.10 - 323.46x	16.01x
Net Income	25	0.19 - 330.41x	14.59x
Income Before Extraordinary Items	22	0.17 - 227.16x	12.61x
Net Income + Depreciation	28	0.07 - 330.41x	12.29x
EBIT	24	0.21 - 151.09x	9.04x
EBITDA	19	0.07 - 31.45x	6.58x
Stockholder Equity	35	0.02 - 34.34x	1.98x
Book Value	35	0.02 - 34.34x	1.98x
Enterprise Value	31	0.01 - 8.54x	1.22x
Market Capitalization	31	0.02 - 49.53x	1.19x
Revenue	36	0.01 - 1,315x	1.15x
Total Assets	38	0 - 9.73x	0.88x

Deal Type

DEAL TYPE SUMMARY	DEAL COUNT	VOLUME (\$)	PERCENT
Cross Border	234	32.19 bln	69
Company Takeover	236	31.8 bln	68
Additional Stake Purchase	68	14.91 bln	32
Majority purchase	57	8.54 bln	18
Tender Offer	13	8.49 bln	18
Asset sale	156	5.3 bln	11
Private Placement	21	3.38 bln	7
Minority purchase	68	2.82 bln	6
Related Party Transaction	15	2.69 bln	5.7
Private Equity	35	2.26 bln	4.8
Leveraged Buyout	2	517.57 mln	1.1
Management Buyout	4	257.83 mln	1

Top Regions

TARGET REGION	DEAL COUNT	VOLUME (\$)	PERCENT
Europe	136	17.2 bln	37
North America	165	11.2 bln	24
Asia Pacific	226	10.8 bln	23
Latin America & Caribbean	18	7.03 bln	15
Middle East & Africa	17	883.6 mln	1
Global	563	46.9 bln	100

Q & A

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to put that money to work. In the secondary market, we're buying a fund that's five to seven years old. It's already vested. We're choosing the quality of the assets, not the management. We're looking at when they'll be taken out in an M&A transaction. The cash flow characteristics are different. There's no long period when you're underwater. That appeals to people who are getting into the market for the first time, such as pension plans. What you don't get in the secondary market is the opportunity to hold an asset long enough for it to grow substantially. If our holding period is two years, we're buying it when a lot of the big changes of an asset have already been made.

Q: How do you find clients interested in selling private-equity assets?

A: We have created an extremely deep database. We track the private-equity holdings of about 25,000 investors around the world today. Most investors do not get up in the morning and say, 'I have to do a secondary transaction today.' If you make outbound cold calls, you find out they're not interested. On the other hand, if you say, 'I know you have these six funds and we'd be willing to pay you, say, \$50 million for it,' you get a meeting and an opportunity. We get a lot of our business from new CEOs taking a different strategy or companies right after a merger. Maybe the acquirer doesn't like private equity, or does, but the new company now has double exposure to Blackstone or KKR, so we make our own luck by tracking this.

Q: Where are the best opportunities for return on investment in buying private-equity funds?

A: Certainly far and away the largest is in banks. That's in part driven by the recent regulatory developments. Dodd-Frank, Basel III, and the huge liquidity problems that are facing banks in North America and Western Europe have all played a factor in this. It's probably unlikely that any Irish bank wants a call from a private-

equity fund. If you're holding those kind of assets, the best thing you can do is get out of them.

They have a strong, immediate incentive to begin the divestiture process, even without the regulatory hurdles. We've been following financial services for quite some time because it's been such a consolidating industry. There are opportunities for us because no bank ever wants another bank to get its private-equity portfolio. We think banks constitute more than half the opportunity in the secondary market and will continue to for the next three to five years. Pension funds and university endowments are similarly stressed today and utilize our services.

Q: Was the financial crisis a boon for the secondary investment industry because banks and investors desperately needed cash?

A: Actually, not much happened in 2009 in the private-equity space for a lot of reasons. Big institutions that merged didn't know what the strategies were going to be or who the CEO would be, in some cases. That took a lot of 2009, and it's still not done. It's really just beginning. It started in the second half of this year, and I would expect it will continue through the next five years for the banks to deal with their issues. They haven't yet coped with loans and real estate, which constitute a bigger problem for them than private equity. It's not core to their business, and many of them got into it because they were doing a lot of leveraged lending to finance buyout transactions. Back in 2006 and 2007, the buyout funds said to the banks, 'If you put \$100 million or \$200 million into us, we'd consider lending from you on our next deal,' and the firms were doing so much borrowing, the banks said, 'Yes.' That's not the case today. So we haven't seen a tidal wave of activity yet, but the banks are going to soon turn their attention to private equity and we'll see a significant and steady growth of investments.

Q: How do you properly value private-equity funds and assets?

A: We probably value 2,000 companies a year. We have a lot of models. We have more than 7,000 companies in our portfolio that we own, and we obviously value a lot more. We keep all that data. We keep it by sector, by stage: venture, buyout, growth, etc. We rely heavily on investors in those assets. In the buyout space, it's typically one or two investors. In the venture space, it wouldn't be unusual to speak with three or four or five investors in the company. We talk to boards, bankers, management teams. You look if the debt is trading on the market. We scour every source we can get our hands on. If you look at a fund, there may be some companies in the fund that have most of the capital deployed, so you can just look at those. In the buyout space, there's usually less growth volatility, so you can spend your time on a select few assets. In the venture space, you have to model everything, because a small company could be the next Google.

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THE WIRE BLOOMBERG NEWS

■ **Walter Energy Inc.** agreed to buy Canada's **Western Coal Corp.** for C\$3.3 billion (\$3.3 billion). Walter Energy offered C\$11.50 a share in cash or 0.114 of a Walter Energy share. The price is a 56 percent premium to Western Coal's closing share price on Nov. 17, the day before the two companies announced they were in exclusive talks.

■ **BAE Systems Plc** said the potential sale of its unit making components for aircraft and hybrid vehicles is generating "quite a high level of interest" among suitors, said investor relations director **Andy Wrathall** said at a conference in London. **General Electric Co.**, **Eaton Corp.** and **Honeywell International Inc.** are among the bidders for platform solutions, as are several private equity firms, Reuters reported Nov. 8. The business is expected to fetch \$2 billion, Reuters said.

■ Financier **J. Christopher Flowers** said he's planning purchases in Europe as he expects the sovereign debt crisis won't spread to Spain and Italy. "I think Spanish and European authorities will avoid this turning into a sovereign debt crisis for Spain," he said in an interview in London today. "My own guess is that this crisis will be contained, that Spain will get through this okay and Italy as well." He is looking at Irish banking assets and sees "potentially interesting deals" in the U.K, he said.

■ **Premier Foods Plc** is in advanced negotiations to sell its meat-substitute unit, which it may divest to reduce debt. Premier Foods has received several bids from food companies and private-equity firms. **Nestle** has bid for Premier's Quorn meat-free brand in a deal that may be worth 230 million pounds (\$359 million), Sky News reported. Nestle hired **JPMorgan Chase & Co.** as an adviser and made the offer through **Osem Investments Ltd.**

■ **Legend International Holdings Inc.** will next week approach buyers for part of its Australian phosphate project that's worth as much as \$1 billion. The company will ask for preliminary bids in early January. Legend International hired **Nomura Holdings Inc.** to advise on strategic transactions for the deposits in the Georgina Basin in Queensland state.

■ **Amazon.com Inc.** invested \$175 million in **LivingSocial.com**, a daily coupon website. Venture capital firm **Lightspeed Venture Partners** invested \$8 million in the site, which will use the funds to expand globally, Washington-based LivingSocial said today in a statement. LivingSocial is likely to generate sales of more than \$500 million next year, CEO **Tim O'Shaughnessy** said last month. Groupon, also closely held, may surpass that milestone this year.

■ **Lance Inc.'s** shareholders yesterday voted in favor of a merger with closely held

pretzel maker **Snyder's of Hanover Inc.** The companies will become the second-biggest U.S. maker of salty snacks behind **PepsiCo Inc.'s** Frito-Lay unit, after posting combined sales of \$1.6 billion in the year ended June 26. Snyder's shareholders vote today on the merger, which has an announced value of \$604.5 million, Bloomberg data show.

■ **EBay Inc.** bought shopping engine **Milo.com** to help it reach more consumers looking for products in nearby stores and browsing for bargains with mobile phones. Milo.com helps consumers find items in stock at local stores and EBay will weave the technology into its existing marketplace and mobile applications. EBay didn't disclose deal terms.

■ **Malaysia** is the fastest-growing market for mergers and acquisitions in the Asia-Pacific region as companies seize on record valuations and relaxed takeover rules. Acquisitions of Malaysian companies almost tripled so far this year compared with all of 2009 to \$21.3 billion, the highest in three years, according to data compiled by Bloomberg. In November, Malaysian real estate developers announced three mergers with a combined value of \$3 billion.

■ **Barclays Capital** is preparing to eliminate hundreds of jobs in the next two months following a decline in investment-banking revenue. The cuts will follow a review of its capital uses that review will be

continued on next page

Snapshot



Source: Bloomberg

Chinese companies have announced a record number of acquisitions this year. Furthermore, announced volume this year is the second-highest after 2008's. Although the overall volume of acquisitions by Chinese firms has increased by 8% from last year, the value of foreign acquisitions has jumped 24% from \$43 billion to \$54 billion, reflecting an increased willingness to diversify outside of domestic markets.

-- Pratik M. Patel, Data Analyst

THE WIRE

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completed in January. Barclays will continue to hire employees in its equities and mergers advisory teams in Asia. A spokesman for Barclays in London declined to comment.

PRIVATE EQUITY

■ **Morgan Stanley** is selling its 34.3 percent stake in **China International Capital Corp.** to **Kohlberg Kravis Roberts & Co.**, **TPG Capital**, Singapore's **Great Eastern Holdings Ltd.** and the Government of Singapore Investment Corp. The 34.3 percent stake is valued at about \$1 billion.

■ **3i Group Plc** plans to start a \$1.5 billion infrastructure fund for India next year, Reuters reported yesterday. 3i has invested 80 percent of a \$1.2 billion fund started in 2008 for investment in infrastructure companies in India, Chief Executive Officer **Michael Queen** said to the news service.

■ Private-equity companies may struggle to recoup almost \$565 million in investments in India's micro-finance industry since 2006 after a regulatory backlash led at least two firms to delay initial public offerings, Bloomberg Businessweek reported in its Dec. 6 issue. **Temasek Holdings Pte**, billionaire **George Soros** and **Sequoia Capital** are among investors who've put money into the world's largest market for micro-loans as lending and profits swelled. The risks associated with the industry were highlighted in October, when India's southern Andhra Pradesh state capped loan rates and cracked down on recovery tactics.

LEVERAGED LOANS

■ **Syniverse Holdings Inc.** offered initial pricing guidance on \$1.175 billion of loans it's seeking to finance its buyout by **Carlyle Group**. The company proposes to pay an interest rate 4.25 percentage points more than the London interbank

offered rate, which will have a 1.5 percent floor. **Barclays Plc**, **Credit Suisse Group AG** and **Goldman Sachs Group Inc.** agreed to arrange the financing, which also includes \$475 million in senior unsecured notes.

■ **ConvaTec Healthcare** plans to sell \$1.87 billion of bonds to refinance debt used to fund its leveraged buyout. The company, owned by **Nordic Capital AB** and **Avista Capital Partners**, will issue \$1.18 billion of senior unsecured notes denominated in dollars and euros and the equivalent of \$690 million of senior secured notes in euros. It hired **Goldman Sachs Group Inc.** and **JPMorgan Chase & Co.** to arrange \$1.1 billion of loans, a person involved in the deal said yesterday.

ON THE MOVE

■ **Timothy Main**, who has run the **JPMorgan Chase & Co.** investment-banking unit for financial institutions in North America for nine years, plans to take a "senior" role elsewhere in the firm, the bank said in a memo. Main will take a new job when he returns from a sabbatical in January. Two bankers from Main's group, **Fernando Rivas** and **John Simmons**, were promoted to jointly lead the unit.

■ **Robert Cummings Jr.**, a retired Goldman Sachs Group Inc. partner was hired by **JPMorgan Chase & Co.** as a vice chairman in its investment bank. He previously worked at GSC Capital Group as a senior managing director, and sits on the boards of Corning Inc. and Viasystems Group Inc.

■ **Thomas O'Neill**, co-founder of **Sandler O'Neill & Partners LP**, is stepping down to become chairman of **Ranieri Partners Financial Services Group**. He'll be joining Lewis Ranieri, who is credited with pioneering the mortgage-backed securities market. Sandler O'Neill will retain its current management, led by **James J. Dunne** and **Jonathan Doyle**.

■ **Thomas Hassen** was named chairman of oil and gas banking at **Macquarie Group Ltd.** He worked at Morgan Stanley for 20 years, rising to co-head of the energy investment-banking group. He left in 1998 for Credit Suisse and joined Bear Stearns in 2005. He moved to Irving Place Capital Management LP after the sale of Bear Stearns to JPMorgan Chase & Co. in 2008.

■ **Paul Deninger** joined **Evercore Partners Inc.** as a senior managing director, advising companies in the technology sector. He previously was vice chairman at Jefferies & Co.

■ **Marc Spilker** was named president of **Apollo Global Management LLC**. He previously worked at Goldman Sachs Group Inc. He will oversee private-equity firm's day-to-day operations and sit on the company's executive committee.

■ **Ronald Pillar** joined **Sagent Advisors Inc.** as a managing director. He was formerly head of technology investment banking at JPMorgan Chase & Co. and most recently at Ladenburg Thalmann as a vice chairman and co-head of investment banking.

■ **Mike Ramsay** was hired by **Generation Investment Management LLP**, founded by former U.S. Vice President Al Gore and former Goldman Sachs Group Inc. executive David Blood. Ramsay was previously global head of leveraged finance at private-equity firm Carlyle Group in London where he helped raise more than 5 billion euros (\$6.6 billion) for various funds.

■ **Jaclyn Cohen** and **Shayla Harlev** were named partners at **Weil, Gotshal & Manges LLP**. Cohen is currently an associate in the firm's mergers and acquisitions practice. Harlev is an associate in the corporate department.

■ **Elizabeth Cooper**, **Igor Fert**, **Melissa Hutson**, **Jonathan Karen** and **Alvaro Gomez de Membrillera** were named partners at **Simpson Thacher & Bartlett LLP**.

Deal Sheet

Target Del Monte Foods Co.

Acquirer KKR & Co, Centerview Partners and Vestar Capital Partners

Deal Terms \$19 a share cash

Total Value \$5.1 billion

Target Net Debt \$1.3 billion

Announced Premium 25.68%

Multiples

EBITDA 8.43x (11.43x industry median)

Revenue 1.37x (1.77x industry median)

Cash Flow / Ops 13.35x (24.12x industry median)

Enterprise Value 1.27x (1.15x industry median)

Analysis

- » Biggest takeover of canned-food company.
- » Largest PE buyout of the year followed by Tomkins PLC acquisition by Pinafore for \$4.7 billion announced in July and 3G Capital's \$3.9 billion bid for Burger King in September.
- » Largest deal by KKR this year: KKR has executed 25 deals year to date, exceeding deal activity of past five years. KKR has done about \$10 billion of deals, more than double volume of 2009.

Target Wimm-Bill-Dann Dairy & Juice Co. (66% stake)

Acquirer PepsiCo Inc.

Total Value \$4.15 billion

Equity Value \$3.83 billion

Net Debt \$319.42 million

Multiples

EBITDA 19.75x (9.66x industry median)

Revenue 2.59x (1.49x industry median)

Cash Flow / Ops 30.54x (13.72x industry median)

Analysis

- » Largest transaction for PepsiCo in 2010. Other deals include purchase of Pepsi-Cola Bottling Co. of Yuba City Inc. and joint venture with Tata Global Beverages.
- » Largest cross-border investment in a dairy company, followed by Nestle's acquisition of Dreyer's Grand Ice Cream in 2002. Cross-border transactions with dairy companies as targets total \$7.89 billion in 2010, highest in 10 years.
- » If entire company is acquired, it will be eighth-largest cross-border deal in food industry. Cross-border transactions in segment are rising, with 254 deals announced year to date for volume of \$45 billion, highest since 2008. Remaining purchase of 34% in Wimm-Bill-Dann is subject to completion of 66% purchase and government approval.

Mergers Bloomberg BRIEF NEWSLETTERS

Bloomberg BRIEF Mergers 09.10.10 FRIDAY

Deal Premiums Hit Highest Since 1st Qtr 2009

BY CAROL CHANGING, DEAN ANASTYT

The price of acquisitions in public companies has once again rebounded, with the average premium for public companies last quarter rising 26.09 percent in the third quarter, the highest since 31.58 percent in the first quarter of 2009.

Many of the top deals this quarter are high premiums. Goldman's \$3.1 billion cash bid for American Resources Ltd. had a 25.5 percent premium and Intel Corp. agreed to pay a premium of 22.9 percent for the \$5.59 billion acquisition of McAfee Inc.

One reason for the higher premiums is there has been an increase in hostile and unsolicited deals. There were 44 such deals this quarter, almost triple the amount in the same quarter last year. Hostile deals paid premiums of 38 percent on average this quarter. Hostile deals paid 27.90 percent.

There was also a \$27 billion increase in basic material deals versus the prior quarter. The average premium on basic material deals is 23 percent, it is 11.46 percent for industrial take-overs.

The proportion of all-cash deals is also rising. Sixty-eight percent of deals have all-cash payments, a 7 percent increase from the prior quarter. Over the last five years, the average premium for all-cash transactions has been 24 percent compared with 18 percent for stock deals.

DEAL BY DEAL

Gold Mining M&A Reaches 10-Year High

BY FRANK R. MITCHELL, DEAN ANASTYT

Gold mining company takeovers have reached their highest annual volume in 10 years. There have been \$27.6 billion worth of transactions for the year, with the average premium on the deals reaching 39.2%.

Barbara Resources received a \$3.2 billion offer from Goldcorp and six more deals worth about \$1 billion were announced.

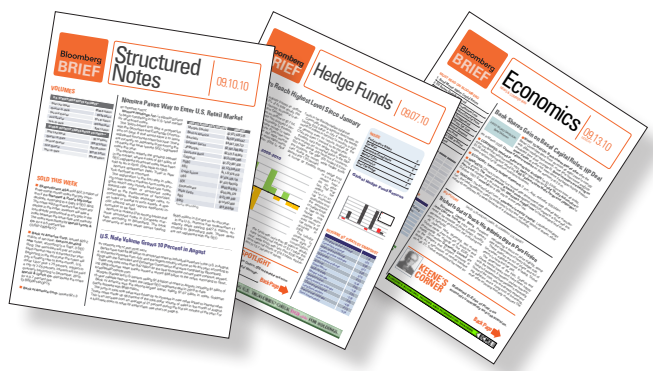
There were 297 transactions worth \$34.35 billion announced this week, a 23.4 percent decrease in deal count and a 4.8 percent decrease in dollar volume over the prior week.

SPOTLIGHT

Enterprise Products Partners' \$21 billion all-stock offer for Enterprise GP Holdings was the largest. So far this year there have been 35 takeovers in the pipeline industry for a total value of \$47.78 billion.

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COMMENTARY BY RAY MURPHY, GUEST COLUMNIST

Axcan Holdings Inc. this week announced a definitive agreement to acquire its pharmaceutical rival **Eurand NV** for \$12 a share in a cash tender offer. Axcan is privately held after being acquired by **TPG Capital** in 2008.

Typically, acquisitions carried out via cash tender offers proceed to completion on a prompt timeline of approximately one month.

Instead, Axcan has indicated that it does not expect to close the Eurand transaction until the second quarter of 2011. The explanation for the projected delay in closing is the Hart-Scott-Rodino antitrust review, upon which

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The explanation for the projected delay in closing is the Hart-Scott-Rodino antitrust review.

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the merger arbitrage community is now intensely focused.

The most significant product overlap is in pancreatic enzyme products. In that area, Eurand offers Zenpep for sale in the U.S. for the treatment of exocrine pancreatic insufficiency due to cystic fibrosis or other conditions, including gastrointestinal surgery, chronic pancreatitis and pancreatic cancer. Eurand historically has viewed Axcan as one of its principal competitors in this product market. Axcan's products in this space are Viokase and Ultrase, which it licenses from Eurand.

Recent actions by the U.S. Food and Drug Administration will likely complicate the HSR review. On Dec. 1, the same day that the merger agreement with Eurand was announced, Axcan

disclosed that its two pancreatic products remain suspended from the market because of "unresolved deficiencies" identified by the FDA.

In its disclosure, Axcan stated: "On November 28, 2010, the FDA issued complete response letters regarding the new drug applications for Ultrase MT and Viokase. The letters require that unresolved deficiencies raised with respect to the manufacturing and control processes at the manufacturer of the active ingredient for both Ultrase MT and Viokase be addressed before approval can be granted. The letters also require that deficiencies identified in an FDA inspection of such manufacturer must be resolved before the new drug applications can be approved. We are in ongoing discussions with the FDA and continue to work with the manufacturer of the active pharmaceutical ingredient to address the remaining open issues identified by the FDA, as soon as possible."

Based on previous FDA actions, Axcan stopped distributing both of its pancreatic products on April 28. The company noted, "As previously disclosed, because we did not receive FDA approval of the new drug applications we submitted for both Ultrase MT and Viokase by FDA's April 28, 2010 deadline, we took steps to cease the distribution of both these product lines, effective April 28, 2010."

In the merger-arbitrage community, the timing of the merger agreement announcement was considered interesting because it suggests that Axcan may be attempting to trade the existing FDA concerns about its products for the established position and improving prospects of Eurand's product.

As a result of the removal of Axcan's products from distribution, Eurand's Zenpep has seen its market share position improve significantly.

In its most recent earnings report, Eurand said, "Market share for the Zenpep franchise grew substantially during the third quarter of 2010, with its share of total prescriptions in the pancreatic enzyme market expanding from 12 percent to 19 percent. Beginning with the week ended April 23, 2010 (prior to the FDA's enforcement of its April 28, 2010 Stop Distribution

Date for certain unapproved PEPs) through the week ended October 22, 2010, Zenpep's market share has more than tripled, from 6% to 20%."

Other competitors in the pancreatic insufficiency market are **Abbott Laboratories** (with its Creon product) and **Johnson & Johnson** (with Pancreaze). There is also a generic product called Panclipase. Abbott's product has approximately 50% market share. Eurand's share has risen to 20% as noted above. With Axcan's products sidelined by the FDA, Johnson & Johnson and the generic account for the remainder of the market.

The fully diluted equity value of the Axcan and Eurand transaction is approximately \$583 million.

For such a strategic-oriented acquisition, the \$12-a-share price represents a mild premium of 9.4% to the closing price of Eurand the day before the announcement of \$10.97 a share.

The price is also shy of Eurand's 52-week high of \$13.70 a share.

Ray Murphy is the owner and editor of ArbJournal, an online research service for merger arbitrage and event-driven investment funds. Reach him at raymurphy@arbjournal.com.

Merck Agrees to Purchase Insulin Maker SmartCells

Merck & Co. agreed to pay as much as \$500 million for closely held **SmartCells Inc.**, maker of an experimental diabetes treatment designed to better regulate insulin in the blood. SmartCells will receive upfront cash plus additional payments if products developed from the treatment meet clinical and regulatory goals. Investors in SmartCells may get more money depending on future sales.

Merck's diabetes drugs generated \$2.58 billion in revenue last year, almost 10 percent of sales. SmartCells fits Merck's strategy of augmenting existing products with deals. Merck has announced 14 pending or completed acquisitions in the past five years, with an average premium of 73 percent. The largest was its 2009 purchase of **Schering-Plough** for \$51 billion.

— Alex Nussbaum

Deal Roster

Joseph Perella and **Peter Weinberg**, co-founders of **Perella Weinberg Partners**, advised **J. Crew Group Inc.** in its \$2.6 billion sale to **TPG Capital** and **Leonard Green & Partners**. Perella Weinberg has advised 21 deals this year, including providing a fairness opinion for the \$5.3 billion acquisition of Del Monte Foods Co. announced Nov. 25.

David Russell of **Bank of America Corp.** represented TPG Capital and Leonard Green

& Partners. Russell joined Banc of America Securities in 2004 as head of its retail team. Russell previously worked at Credit Suisse First Boston for 17 years. Lisa Stein teamed with Russell and also joined Banc of America Securities in 2004 after 17 years at Salomon Smith Barney.

Scott Barshay led J. Crew's legal advisory team at **Cravath, Swaine & Moore LLP**. Barshay has represented United Airlines in its

merger with Continental Airlines Inc., Burlington Northern Sante Fe in its sale to Berkshire Hathaway Inc. and Chevron Corp. in its 2005 \$17.8 billion deal for Unocal Corp.

Matthew Salerno is part of the **Cleary Gottlieb Steen & Hamilton LLP** team that advised J. Crew. He recently represented Dollar Thrifty Automotive Group Inc. in its proposed acquisition by Hertz Global Holdings Inc. and Avis Budget Group Inc.

— Alex Sherman

Target:

Investment bank

Prior to joining Perella Weinberg, Bednar was head of the U.S. mergers & acquisitions group at Bank of America. He began his career as a lawyer at Cravath, Swaine & Moore.

Law firms

Woolery is representing Air Products in its pending tender offer for Airgas.

Sternberg advised Hellman & Friedman LLC in its failed joint acquisition with Bain Capital of Lehman Brothers' investment business (Neuberger Berman).

J. Crew Group Inc.

Perella Weinberg Partners LP

- Joseph Perella
- Peter Weinberg
- Andrew Bednar
- Yezan Haddadin

Cravath, Swaine & Moore LLP

- Scott Barshay
- Thomas Dunn
- James Woolery
- William Fogg (securities and debt)
- Tatiana Lapushchik (securities and debt)
- Lauren Angelilli (tax)
- Eric Hilfers (executive compensation and benefits)

Cleary Gottlieb Steen & Hamilton LLP

- Daniel Sternberg
- Jeffrey Karpf
- Matthew Salerno

Buyers:

Investment banks

Ingrassia advised KKR & Co. on its 2007 \$7.3 billion acquisition of Dollar General and Home Depot on its 2007 \$8.5 billion sale of HD Supply to Bain Capital, Carlyle Group and Clayton, Dubilier & Rice LLC.

Jones represented private-equity firm Bain Capital on the tender offer structure for Gymboree Corp., a deal completed on Nov. 23.

Silvera represented Leonard Green in its acquisition of The Brickman Group Ltd. in 2006 and Scitor Corp. in 2007.

TPG Capital, Leonard Green & Partners

Goldman Sachs & Co.

- Tim Ingrassia
- Bank of America Corp.**
- David Russell
- Kevin Morrison
- Lisa Stein
- Aaron Peyton

Ropes & Gray LLP
(for TPG)

- Julie Jones
- Byung Choi (finance)
- Al Rose (private equity)

Latham & Watkins (for Leonard Green)

- Howard Sobel
- Jason Silvera

ARB ANALYSIS

TOM BURNETT, GUEST COLUMNIST

Storage Firms Could Still Be Targets After Seagate's Canceled Buyout

The second half of 2010 has been a busy period for acquisition activity in the storage technology arena.

3Par Inc. was acquired by **Hewlett-Packard Co.** for \$2.1 billion at the end of September after a competitive bidding process with Dell Inc. International Business Machines Corp. completed its purchase of Netezza Corp. for \$1.66 billion in mid November. **EMC Corp.'s** acquisition of **Isilon Systems Inc.**, with an announced

value of \$2.23 billion, should close by year end.

Most recently, **Seagate Technology Plc.'s** termination of discussions with potential buyers and its announcement of a \$2 billion share repurchase program has some investors questioning whether we've seen the last near-term mergers and acquisitions activity in the storage space.

To consider whether potential U.S. storage acquisition candidates present attractive investment opportuni-

ties, we evaluated nine companies in that sector with an enterprise value of less than \$10 billion, as shown in the first table.

Year to date performance of this group has been highly variable, with hard-disk drive companies posting particularly weak performance. On average, the stocks have returned 1.5% with a standard deviation of 7.8% in 2010, trailing index results in every case except for **Sandisk Corp.**, a maker of flash data-storage products.

Like equity returns, valuations within the broadly defined technology storage space vary widely. Of particular interest are the generators of strong free cash flow, as shown in the second table.

Imation Corp., Western Digital Corp., Seagate and Sandisk have free-cash-flow yields greater than 15%. Despite posting the best year to date return of this group, Sandisk is also trading at attractive multiples to earnings and sales.

With the exception of **Quantum Corp.**, a maker of backup and archival programs for computers, every company in this group of potential targets is trading in a net cash position.

Small-cap company Imation, maker of Memorex brand DVDs and videotapes, leads with 69.6% of its market capitalization in net cash. One third of Western Digital's market cap is represented by net cash. **STEC Inc.**, a maker of solid-state drives, and **QLogic Corp.**, the biggest seller of add-in boards that connect computers with storage machines, follow with 20.0% and 15.8% respectively.

We expect Seagate's cash position (6.4% of market capitalization) to reverse in the future based on this week's buyback announcement. Other companies – particularly Western Digital – could follow suit with large buyback announcements, decreasing their attractiveness as acquisition targets.

Tom Burnett, CFA, is director of research with Wall Street Access, an NYSE firm. Analyst Daniel Daniel contributed to this report. Disclosure: Daniel owns shares of Western Digital Corp. and Seagate Technology PLC.

Storage-Technology Companies (Table 1)

COMPANY		STORAGE EMPHASIS	ENTERPRISE VALUE (MILLIONS)	YEAR-TO-DATE RETURN
Sandisk	SNDK	Flash	9,321.7	16.3%
Seagate Technology	STX	Hard drives	6,571.6	-4.9%
Teradata	TDC	Data warehousing	6,126.5	9.7%
Western Digital	WDC	Hard drives	5,275.0	-10.5%
QLogic	QLGC	Storage networking	1,620.5	-0.9%
Quantum	QTM	Backup systems	1,036.1	0.8%
Compellent Technologies	CML	Data warehousing	774.7	2.7%
STEC	STEC	Flash	641.7	-0.2%
Imation	IMN	Backup systems	112.0	0.8%
Nasdaq 100				14.1%
Nasdaq Composite				10.3%

Source: Bloomberg

Storage-Technology Company Valuation Metrics (Table 2)

COMPANY		P/E	P/E 5-YR AVERAGE	P/S	P/S 5-YR AVERAGE	FCF YIELD
Sandisk	SNDK	9.2x	-	2.2x	1.9x	16.4%
Seagate Technology	STX	4.5x	-	0.6x	0.7x	17.0%
Teradata	TDC	23.4x	19.7x	3.7x	3.0x	4.9%
Western Digital	WDC	6.0x	8.0x	0.8x	0.9x	17.6%
QLogic	QLGC	18.4x	22.1x	3.5x	3.8x	7.8%
Quantum	QTM	na	na	1.2x	0.7x	7.2%
Compellent Technologies	CML	229.6x	152.8x	5.4x	4.3x	2.9%
STEC	STEC	22.9x	16.0x	2.7x	2.6x	3.6%
Imation	IMN	33.7x	-	0.2x	0.2x	39.2%

Source: Bloomberg

Deal Arbitrage

Spreads for select M&A deals with U.S.-listed targets

TARGET	ACQUIRER	DEAL SIZE (\$M)	ANNOUNCED DATE	EXPECTED COMPLETION DATE	OFFER PER SHARE	ANNOUNCED PREMIUM IN %	LAST TARGET PRICE	CURRENT PREMIUM %	SPREAD	LAST SPREAD MOVE
TALECRIS BIOTHER	GRIFOLS SA	3,901.90	06/07/10	12/31/10	27.02	53.94	21.64	24.86	5.38	0.36
BUCYRUS INTERNAT	CATERPILLAR INC	8,608.90	11/15/10	06/30/11	92	31.29	89.04	3.32	2.96	-0.02
EXCO RESOURCES I	PRIVATE INVESTOR	5,183.24	11/01/10		20.5	37.71	18.54	10.57	1.96	-0.52
AIRGAS INC	AIR PRODS & CHEM	7,111.83	02/05/10	12/17/10	65.5	38.78	63.71	2.81	1.79	-1.71
PENN VIRGINIA GP	PENN VIRGINIA RE	1,525.05	09/21/10		27.32	11.73	26.18	4.36	1.14	-0.78
MCAFFEE INC	INTEL CORP	6,593.67	08/19/10		48	52.32	46.89	2.37	1.11	-0.16
LADISH CO INC	ALLEGHENY TECH	801.67	11/17/10		48.83	49.75	48.15	1.4	0.68	0
HYPERCOM CORP	VERIFONE SYSTEMS	444.4	09/29/10	06/30/11	8.45	70.37	7.92	6.75	0.53	-0.03
ALLEGHENY ENERGY	FIRSTENERGY CORP	9,216.11	02/11/10	04/30/11	23.79	36.15	23.28	2.17	0.51	-0.03
NEWALLIANCE BANC	FIRST NIAGARA FI	1,522.73	08/19/10	06/30/11	14.29	23.83	13.92	2.64	0.37	-0.05
LTX-CREDENCE COR	VERIGY LTD	320.21	11/18/10	06/30/11	8.77	39.23	8.42	4.21	0.35	0.09
AIRTRAN HOLDINGS	SOUTHWEST AIR	1,014.63	09/27/10	06/30/11	7.75	67.51	7.46	3.89	0.29	-0.03
SYNERSE HOLDIN	Private	2,561.15	10/28/10	03/31/11	31	34.06	30.73	0.88	0.27	-0.13
QWEST COMMUNICAT	CENTURYLINK INC	22,161.55	04/22/10	06/30/11	7.32	12.49	7.08	3.37	0.24	0.02
DEL MONTE FOODS	Multiple	5,098.61	11/25/10	03/31/11	19	25.68	18.77	1.23	0.23	-
CPI INTERNATIONAL	Private	517.57	11/26/10		19.5	35.87	19.29	1.09	0.21	-
BALDOR ELECTRIC	ABB LTD-REG	4,146.40	11/30/10	03/31/11	63.5	43.66	63.3	0.32	0.2	-
LIONS GATE	ICAHN ENTERPRISE	904.03	07/20/10	12/10/10	7.5	10.42	7.31	2.6	0.19	0.04
L-1 IDENTITY SOL	SAFRAN SA	1,582.23	09/20/10	03/31/11	12	31.13	11.83	1.44	0.17	-0.02
ALBERTO-CULVER	UNILEVER NV	3,701.34	09/27/10		37.5	20.63	37.34	0.43	0.16	-0.15

League Tables

Global Financial Advisers

FINANCIAL FIRM	2010 Year-to-Date			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Morgan Stanley	1	21.58	411,434	283
Goldman Sachs & Co	2	19.30	367,865	265
JP Morgan	3	17.70	337,326	233
Credit Suisse	4	16.32	311,009	174
Barclays Capital	5	13.83	263,665	133
Deutsche Bank AG	6	13.60	259,220	190
UBS	7	12.51	238,400	185
Bank of America Merrill Lynch	8	11.62	221,493	197
Citi	9	11.22	213,788	145
Lazard LLC	10	9.29	177,131	146
Rothschild	11	8.49	161,785	173
BNP Paribas Group	12	5.91	112,671	80
Nomura Holdings Inc	13	5.17	98,570	156
Societe Generale	14	3.71	70,647	25
Evercore Partners Inc	15	3.40	64,820	32
Perella Weinberg Partners	16	3.34	63,691	20
HSBC Bank PLC	17	3.11	59,322	58
Blackstone Group	18	3.07	58,591	27
RBC Capital Markets	19	2.93	55,944	113
Banco Santander SA	20	2.68	51,057	36

Source: Bloomberg
Excludes terminated deals.

As of: 12/02/2010

Global Legal Advisers

LEGAL FIRM	2010 Year-to-Date			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Skadden Arps Slate Meagher & Flom	1	11.81	225,074	184
Sullivan & Cromwell	2	10.12	192,981	136
Simpson Thacher & Bartlett	3	8.46	161,306	135
Latham & Watkins LLP	4	8.14	155,117	208
Cleary Gottlieb Steen & Hamilton	5	7.23	137,886	91
Wachtell Lipton Rosen & Katz	6	6.93	132,061	50
Dewey & LeBoeuf LLP	7	6.42	122,474	91
Linklaters LLP	8	6.30	120,142	138
Shearman & Sterling LLP	9	5.72	109,084	118
Allen & Overy LLP	10	5.70	108,743	148
Davis Polk & Wardwell	11	5.53	105,325	86
Freshfields Bruckhaus Deringer	12	5.23	99,642	167
Stikeman Elliott	13	5.21	99,355	95
Weil Gotshal & Manges LLP	14	4.21	80,194	111
Clifford Chance LLP	15	4.03	76,875	92
Gibson Dunn & Crutcher	16	3.97	75,727	101
Blake Cassels & Graydon LLP	17	3.83	72,969	106
Vinson & Elkins LLP	18	3.60	68,601	61
Cravath Swaine & Moore	19	3.23	61,515	52
Mallesons Stephen Jaques	20	3.16	60,315	6240

Source: Bloomberg
Excludes terminated deals.

As of: 12/02/2010

Calendars

To submit an event email mergerbrief@bloomberg.net

Anticipated Approvals

DATE	TARGET	ACQUIRER	DEAL VALUE	TYPE
12/3	Snyder's of Hanover	Lance Inc.	605	Target shareholders
12/5	CommScope Inc.	Carlyle Group	3788	"Go-shop" expires
12/6	Clariant Inc.	GE Healthcare	447	Tender offer expires
12/6	ADC Telecommunications Inc.	Tyco Electronics Ltd.	1332	EU provisional deadline
12/7	NU Horizon Electronics Corp.	Arrow Electronics Inc.	171	Target shareholders
12/8	First Chester County Corp.	Tower Bancorp Inc.	62	Target and acquirer shareholders
12/8	Virgin Media Television Ltd.	British Sky Broadcasting	232	U.K. Office of Communications investigation
12/10	Genzyme Corp.	Sanofi-Aventis SA		Tender offer expires
12/13	Alberto Culver Co	Unilever NV	3699	Target shareholders
12/16	Monroe Bancorp	Old National Bancorp	82	Target shareholders
12/17	American Oil & Gas Inc	Hess Corp	367	Target shareholders
12/20	NewAlliance Bancshares Inc	First Niagara National	1523	Target and acquirer shareholders
12/22	Sumitomo Trust & Banking Co. Ltd	Chuo Mitsui Trust Holdings	9200	Target and acquirer shareholders

Calls and Meetings

DATE	TIME	COMPANY	EVENT	RELEVANCE
12/6	8 a.m.	MetLife Inc.	Investor Day	Reportedly submitted letter of intent to bid in stake for Woori Finance Holdings on Nov. 27.
12/6	12 p.m.	Polycom Inc.	Analyst and Investor Meeting	Completed Morgan Stanley-led review in April, decided to stay independent.
12/6	5 p.m. EST	Transgenomic Inc.	Conference call	Management discusses purchase of Clinical Data Inc.'s diagnostic business for \$15.4 million.
12/6	8am	MetLife Inc.	Investor Day	Reportedly submitted letter of intent to bid in stake for Woori Finance Holdings on Nov. 27.
12/6	12pm	Polycom Inc.	Analyst and Investor Meeting	Completed Morgan Stanley-led review in April, decided to stay independent.
12/7	8am	3M Co	Investor Meeting	Completed \$10.50 per share cash acquisition of Cogent Inc. on Dec. 1.
12/7	8:30am	AGCO Corp	Analyst Briefing	Announced joint venture, two acquisitions last month. Competitors Deere Company and Exelon Corp. have been divesting businesses.
12/7		Genworth Financial	Investor Day	December call options reportedly active on renewed takeover chatter.

Conferences

DATE & TIME	EVENT	FEATURING	LOCATION	CONTACT/REGISTRATION
Dec. 6-8	UBS' 38th Annual Global Media & Communications Conference	"Panel discussions by senior management from more than 90 leading companies."	Grand Hyatt, New York	Allison Chin-Leong, 212-882-5693
Dec. 8-9	Barclays Capital 2010 Global Communications, Media and Technology Conference	About 50 companies	Palace Hotel, San Francisco	events.barcap.com
Dec. 8	ACG New York	Monthly Luncheon Meeting	Union League Club, New York	acg.org/nyc
Dec. 9-10	Golden Networking's 2nd Private Equity Leaders Forum	"Setting the Stage for Radical Transformation in 2011 and Beyond."	New York	privateequityleadersforum.com
Dec. 9-10	Identifying and Structuring M&A Deals in Southeast Asia 2010	Exclusive Interview with Shankar Athreya, head of Strategic Investment for Olam International.	Rendezvous Hotel, Singapore	iqbc.com
Dec. 10	Latin Lawyer M&A Conference	"Bringing together the best legal minds from international and local private practice, the banking and finance community, the in-house world, and regulatory bodies."	Sao Paulo	latinlawyer.com/events/ma
Dec. 10	ACG New York	LBO Sponsors Roundtable Luncheon	Harvard Club of New York	acg.org/nyc
Dec. 13, 12:30pm	Bloomberg's 1st Annual Healthcare Conference	Two panel discussions focusing on trends in biotech, specialty pharma.	Bloomberg Headquarters, New York	Sachin Roopani, 212-617-5964, sroopani@bloomberg.net
Dec. 13	M&A Connects International Summit	Explosive growth in BRIC countries.	New York	maadvisor.com/events
Dec. 13-15	M&A Valuation for CFOs	"find out from a panel of CFOs and seasoned deal-makers what is making the M&A market tick"	Metropolitan Hotel, Toronto	Danielle Delannoy, danielle_delannoy@federatedpress.com, 1-800-363-0722 ext. 221
Dec. 17	ACG New York	Private Equity Update	Tappan Hill Mansion, Tarrytown, N.Y.	acg.org/nyc or call 914-631-3030
Jan. 6	ACG New York	LBO Sponsors Roundtable Luncheon	Harvard Club of New York	acg.org/nyc
Jan. 11-13	AM&AA Winter Conference	"Back in the Game - The New Winning Strategies."	Hilton New Orleans Riverside	amaaonline.com