

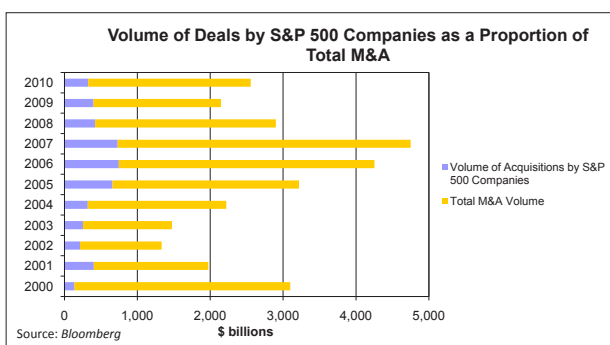
S&P 500's Share of M&A Tumbles to Low

BY TARA LACHAPPELLE

Deal volume of the biggest U.S. public companies was the lowest last year since 2004 as their share of global M&A tumbled to the smallest percentage in at least 10 years.

The proportion of acquisitions made by companies in the **Standard & Poor's 500 Index** fell to 15 percent, or \$324.8 billion of the \$2.23 trillion in global deal volume last year. That's less than the 23 percent market share S&P 500 companies had in 2009, or \$397.7 billion of \$1.75 trillion worldwide.

The volume of purchases made by companies in the benchmark index has fallen every year for four years as average deal size has dropped. Average disclosed deal size was \$753.5 million in 2010, down from \$1.1 billion the prior year and less than the 10-year average volume of \$924.5 million.



"Whenever you have a crisis in confidence, as we have had in the U.S., it's difficult for people to go to a board of directors and recommend a \$10 billion or \$20 billion deal," said **Keith Moore**, an event-driven strategist at **MKM Partners LP**. "Executives and boards are a lot more comfortable adding smaller types of operations as opposed to making bold moves."

Of transactions valued at \$1 billion or more,

continued on next page

M&A Announcements

TARGET NAME	ACQUIRER NAME	TOTAL VALUE (\$M)
Grupo Continental	Embotelladoras Arca	2,200
Terremark Worldwide	Verizon Communications	1,739
30 Properties	Prosperitas Invest	1,311
Snai SpA	Global Games	648
Telefonica SA	China Unicom	509
China Unicom	Telefonica SA	500
AZ & NM Water Co	EPCOR Utilities	470
Fingrid OYJ	Multiple acquirers	445
BioVex Group	Amgen Inc	425
Great Southern Plant	Alberta Invest / New Forest	412

Recent Completed Deals

DATE	TARGET	ACQUIRER	TOTAL VALUE
Jan 25	NBC Universal	General Electric	3,800
Jan 24	Iberia Lineas	Int'l Consolidated	4,386
Jan 24	BP Expl. Colombia	Ecopetrol/Talisman	1,750
Jan 24	Mantecorp Chem.	Hypermarcas	1,320
Jan 27	30 Properties	Prosperitas Invest	1,311
Jan 27	Great Southern	Alberta Invest	412
Jan 24	Titan Chemicals	Honam Petrochemical	374
Jan 24	Thomson Medical	Sasteria	227
Jan 26	Land Use Rights	Xiamen C & D	218

Weekly Data

Comparisons

SUMMARY	TOTAL	52-WEEK AVG.	YEAR TO DATE
Number of Announced Deals	472	481	1,805
Volume (\$)	24.6 bln	42.9 bln	130.3 bln
Avg Disclosed Deal Size (\$M)	104	167.7	151.7
Average Premium	16%	24%	50%

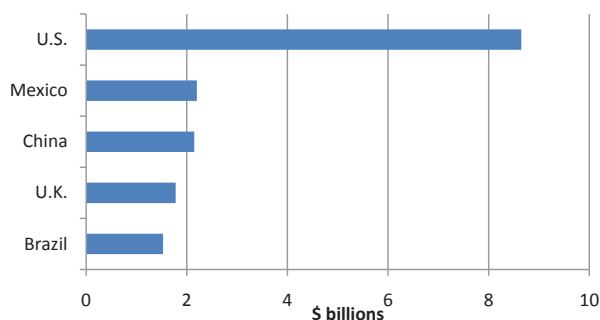
Deal Type

DEAL TYPE SUMMARY	DEAL COUNT	VOLUME (\$)	PERCENT
Company Takeover	194	14.03 bln	57
Cross Border	184	7.66 bln	31
Asset sale	106	5.4 bln	22
Tender Offer	7	2.99 bln	12
Additional Stake Purchase	54	2.24 bln	9.1
Minority purchase	59	2.02 bln	8.2
Private Equity	45	1.42 bln	5.8
Majority purchase	47	1.4 bln	5.7
Competing Bid	1	908.74 mln	3.7
Venture Capital	13	563.99 mln	2.3
Joint Venture	47	418.24 mln	1.7
Private Placement	9	284.78 mln	1.2

Top Regions

TARGET REGION	DEAL COUNT	VOLUME (\$)	PERCENT
North America	148	10.7 bln	44
Asia Pacific	181	5.82 bln	24
Latin America & Caribbean	13	3.74 bln	15
Europe	95	3.67 bln	15
Middle East & Africa	17	343.9 mln	1
Global	472	24.4 bln	100

Top Acquirers by Country



S&P 500's SHARE...

continued from page 1

companies in the benchmark index accounted for 18 percent, or \$241.4 billion of the \$1.33 trillion total, also the smallest proportion since 2000. The 41 percent average premium they paid last year was the highest on record for the group, compared with 35 percent in 2009.

"M&A didn't make much sense last year because valuations weren't as attractive," said **Christopher Matthaei**, managing director of event-driven trading at **Elevation LLC**. "They couldn't seek these larger and more expensive deals and justify it to their shareholders. As the economy weakened, companies were meeting estimates mostly through cost-cutting so they weren't seeking to do M&A."

Ten Largest

The average size of the 10 largest acquisitions made by an S&P 500 company last year was \$10.7 billion, versus \$23.8 billion in 2009 with pharmaceutical megadeals

like **Pfizer Inc.'s** \$64.2 billion purchase of **Wyeth** and **Merck & Co.'s** \$47.2 billion buyout of **Schering-Plough Corp.**

Exxon Mobil Corp. acquired **XTO Energy Inc.** for \$41.4 billion and **Kraft Foods Inc.** bought **Cadbury Plc** for \$21.4 billion.

"The marketplace was not conducive to be doing super-sized mergers last year," MKM's Moore said. "You can see the deals were extraordinarily large in 2009, but that was the tendency for a couple of years where we would have just a bunch of mega-deals out there."

Megadeals

The biggest deal by an S&P 500 company last year was **CenturyLink Inc.'s** acquisition of **Qwest Communications Inc.** for \$22.2 billion including assumed debt, which is pending approval from the New York Stock Exchange and several states.

Moore said deals of this size and greater should start reappearing as

a trend this year.

"I do feel very strongly, given the way confidence is building and the estimates of growth, that it's inevitable that corporations will return with large acquisitions and a higher number of them," he said. "I would have thought it would have already started as people turn the page on a new year, but we've had a slow start in M&A."

'Still Reluctant'

Matthaei said the larger U.S. public companies will eventually start making bigger deals because of the amount of cash on their balance sheets, but he doesn't think it will be this year.

"We'll see an appetite for these more regional, smaller, niche deals because it's easier for companies to diversify their risk and prove shareholder value," he said. "I wouldn't necessarily put a time frame on these megadeals in the next year. A lot of the large-cap companies are still reluctant to spend their cash reserves."

Largest Deals by S&P 500 Companies in 2010

ANNOUNCED	TARGET	ACQUIRER	ANNOUNCED TOTAL VALUE (\$ MIL.)	PAYMENT TYPE	DEAL STATUS
Apr. 22	Qwest Communications International Inc.	CenturyLink Inc.	22,162	Stock	Pending
Mar. 8	American Life Insurance Co.	MetLife Inc.	12,586	Cash and Stock	Complete
Feb. 21	Smith International Inc.	Schlumberger Ltd.	12,342	Stock	Complete
Feb. 25	Coca-Cola Refreshments USA Inc.	Coca-Cola Co.	12,243	Stock	Complete
Feb. 11	Allegheny Energy Inc.	FirstEnergy Corp.	9,216	Stock	Pending
Nov. 15	Bucyrus International Inc.	Caterpillar Inc.	8,609	Cash	Pending
Mar. 9	Sanofi-Aventis SA	Merck & Co.	8,250	Cash	Pending
Apr. 29	LG&E and KU Energy LLC.	PPL Corp.	7,625	Cash	Complete
Feb. 5	Airgas Inc.	Air Products & Chemicals Inc.	7,497	Cash	Pending
Oct. 18	NSTAR	Northeast Utilities	6,842	Stock	Pending
Aug. 19	McAfee Inc.	Intel Corp.	6,594	Cash	Pending
Dec. 14	338 post-acute skilled nursing, assisted-living facilities	HCP Inc.	6,100	Cash and Stock	Pending
May. 18	QEP Resources Inc.	Shareholders	5,398		Complete
Nov. 9	Atlas Energy Inc.	Chevron Corp.	4,916	Cash	Pending

Source: Bloomberg

Bloomberg Brief Mergers

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THE WIRE BLOOMBERG NEWS

■ **Verizon Communications Inc.** agreed to buy **Terremark Worldwide Inc.** for \$1.4 billion. The cash deal, which values Terremark at \$19 a share, represents a 35 percent premium over the company's closing share price on Jan. 27. Terremark has agreed to a breakup fee of \$52.5 million if it backs out of the deal or takes a better offer from a competing bidder after Feb. 26, according to a regulatory filing. The company would have to pay \$37.5 million for terminating the acquisition before that date. The purchase price compared to Terremark's Ebitda, is a multiple of 23.26, in line with similar deals, according to Bloomberg data. This is the largest deal for an Internet-hosting company in the last 12 months, according to the data. The average premium during the period was 12 percent. **Goldman Sachs Group Inc.** advised Verizon and Terremark was represented by **Credit Suisse Securities LLC**.

■ **Benchmark Co.** raised its rating on **Rackspace Hosting Inc.** to "buy" from "hold," calling the company "a prime takeover candidate." Analyst **Clayton F. Moran** increased the price estimate for the company to \$40 from \$29, or 16 times 2012 projected Ebitda. "Its managed hosting and cloud product set appears

increasingly strategic to large, deep-pocketed telecom and IT companies," Moran wrote in a report on Jan. 28.

■ **Codelco** sold its stake in Chilean power company **E-CL SA** for \$1.04 billion. The state-owned copper company sold 424 million E-CL shares, or a 40 percent shareholding, at 1,200 pesos each after a book-building process led by **Larrain Vial SA**, it wrote in an e-mailed statement. E-CL, controlled by Paris-based **GDF Suez SA**, supplies power to northern Chile's mining region. The stock trades at 4.67 times trailing profit, making it the second-cheapest electricity company in Chile, according to data compiled by Bloomberg.

■ **ProLogis and AMB Property Corp.** announced talks to merge in a deal that would create a \$15 billion real estate investment trust. ProLogis has a market value of \$9.03 billion, while AMB is worth \$5.73 billion, based on closing share prices on Jan. 27. "While PLD is the larger of the two entities, it has been under pressure since the credit crisis to reduce leverage, cut overhead costs and rationalize its underproductive assets," **Dave Rodgers** and **Michael Carroll**, analysts at **RBC Capital Markets LLC**, wrote in a Jan. 27 report. "We expect that in this

merger, AMB would be the surviving entity." ProLogis' largest purchase was in 2005, when it bought **Catellus Development Corp.** for \$5.1 billion.

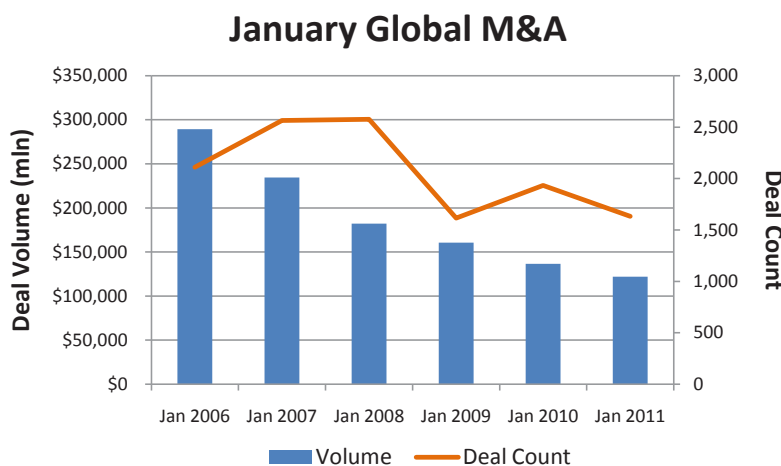
■ **Honeywell International Inc.** sold its automotive consumer products group to **Rank Group Ltd.** in a cash transaction valued at about \$950 million, according to a statement distributed by PRNewswire on Jan. 28. The group had sales of about \$1 billion in 2010.

■ **BB&T Corp.** is hunting for more acquisitions in Texas and the Midwest, Chief Executive Officer **Kelly King** told Bloomberg News. "If I want to have a diversified bank, which I do, then I need to have a diversified marketplace," King, 62, said. "Mergers are going to be an important part of our growth strategy going forward. We expect to be aggressive." BB&T is positioned to be an acquirer, not a target, said **Marty Mosby**, an analyst for **Guggenheim Securities LLC**. "They are one of the consolidators," Mosby said. "They have capital, they're a strong franchise, the management team is generally respected in the marketplace."

■ **DLA Piper** is merging with its Australian partner **DLA Phillips Fox**, adding about 600 lawyers to cre-

continued on next page

Snapshot



Source: Bloomberg; data through Jan. 26, 2011

Announced global deal volume in January fell to the lowest level in five years, as deal count and deal volume declined by 16% and 11%, respectively, compared with the same period in 2010. A rebounding stock market may help boost M&A activity in 2011.

— Pratik M. Patel, Data Analyst

THE WIRE

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ate the world's largest law firm with more than 4,000 attorneys. "The Asia Pacific region is expected to continue to be dominant," in global takeovers this year, **Alastair Da Costa, DLA Piper's** Asia Pacific managing director, said to Bloomberg News. Mergers and acquisitions in Australia more than doubled to \$108.5 billion last year. "M&A is the big driver," in luring foreign firms to Australia, said **Robert Milliner**, chief executive partner at **Mallesons Stephen Jaques**.

■ **Canadian Imperial Bank of Commerce** is the likeliest buyer of **CI Financial Corp.** should **Bank of Nova Scotia** sell its minority stake in the company, **CIBC World Markets** analyst **Robert Sedran** said. CIBC would have C\$122 billion (\$122 billion) in fund assets if it combined its money management unit with CI Financial to form the largest fund manager in the country, Sedran said.

ON THE MOVE

■ **Alexandra Oldroyd** joined **Moelis & Co.'s** London office as a managing director to focus on the food and beverage sector. She previously was a managing director at Barclays Capital. Before that, she worked at Morgan Stanley as a pan-European beverages analyst.

■ **Joel Harris** was named vice president of corporate development at **TeleHealth Services**. He previously was senior director of bio-device engineering manufacturing at Pfizer Inc. after working at TeleHealth from 2000 to 2008. He also was a management consultant at Ernst & Young LLP, specializing in post-merger integration, transportation and technology.

■ **Phil Wright** was named senior vice president of corporate development for **Williams Cos.** and **Williams Partners LP**, reporting to Chief Executive Officer Alan Armstrong. Prior to joining Williams in 1989, he worked at Conoco for 13 years.

■ **Michael Fernhoff** joined **Proskauer Rose LLP** as a partner in the firm's Los Angeles office. He

previously was a partner at Kaye Scholer LLP. His practice involves all areas of federal taxation with a focus on mergers and acquisitions.

■ **Debra Alligood White** joined **Manatt, Phelps & Phillips LLP** as partner in the law firm's health-care division. She previously was a partner at Millbank, Tweed, Hadley & McCloy LLP, where she focused on mergers and acquisitions and corporate transactions.

■ **Carter D. Mack** was appointed president of **JMP Group Inc.**, where he was previously director of investment banking and co-president of broker-dealer subsidiary JMP Securities LLC. **Mark L. Lehmann** was named president of JMP Securities after being director of equities and co-president of JMP Securities. **Craig R. Johnson** was named vice chairman of JMP Group and chairman of asset management subsidiary Harvest Capital Strategies LLC. **Kent Ledbetter** was appointed director of investment banking and named to JMP Group's executive committee.

■ **Ted Segal** joined **Stradley Ronon Stevens & Young LLP** as chairman of its M&A practice group. He previously worked for DLA Piper, where he was a member of the corporate, M&A and health care practice groups and was a member of the firm's policy committee. He also is an adjunct professor at the Georgetown University Law Center.

■ **Thibault Delorme** was appointed deputy group general counsel at **Lagardere**, overseeing M&A and regulatory affairs.

■ **Michael Howard** was named a senior adviser at **Hawkpoint Partners Ltd.** Howard was leader of the U.K. Conservative party between 2003 and 2005. He replaces Douglas Hurd.

■ **Rishad Premji**, son of **Wipro Ltd.** Chairman **Azim Premji**, will lead the mergers and acquisition strategy of the company, the Economic Times reported, citing an official it didn't identify.

Carlyle, KKR Getting Covenant-Lite Loans

Carlyle Group and **KKR & Co.** are getting leveraged loans for buyouts at terms similar to those before the credit crisis, driving prices to a three-year high.

The private-equity firms are obtaining covenant lite loans to back their leveraged buyouts of **CommScope Inc.** and **Del Monte Foods Co.**, according to people familiar with the deals. **AlliedBarton Security Services**, owned by **Blackstone Group LP**, is seeking to reduce the interest margin on its loan.

"With a rally in the loan market, there is no question that management teams and sponsors ask themselves" whether they can reduce borrowing costs or amend loan terms, said **Jonathan DeSimone**, managing director at **Sankaty Advisors LLC**. "It's a natural market response."

Interest rates on leveraged loans fell to 391 basis points more than the London interbank offered rate as of Dec. 27 from 1,028 basis points, or 10.28 percentage points, at the end of 2009, according to S&P's LCD. This year \$3.69 billion of covenant-lite debt has been sold, equal to almost 40 percent of issuance for 2010, S&P LCD data show. In 2007, \$96.6 billion of covenant-lite loans were issued.

There have been \$6.7 billion of leveraged loans issued in the U.S. this year as of Jan. 25, while \$2.5 billion flowed into loan funds, according to Lipper FMI and Bloomberg data.

"With the strong demand in the asset class, we should see the envelope being pushed for refinancings of the 2009- and 2010-vintage issues," said **Jason Rosiak**, head of portfolio management at **Pacific Asset Management**.

The first two LBO financings of the year, Washington-based Carlyle's purchase of CommScope and KKR, Vestar Capital Partners and Centerview Partners' purchase of Del Monte, are covenant-lite.

— Kristen Haunss

Private Equity

Rubenstein Says Mega-LBO Funds Not Realistic

Carlyle Group co-founder David Rubenstein said leveraged buyout funds aren't likely to raise as much as \$20 billion as investors are still reluctant to commit new money. "I think probably something around \$10 billion, maybe \$12 billion is more realistic at this time," Rubenstein said in an interview with Bloomberg at the World Economic Forum meeting in Davos, Switzerland. "I don't think a \$15 billion to \$20 billion fund is likely right now."

— Erik Schatzker and Anne-Sylvaine Chassany

Treasury Hires Perella for Ally Financial Sale

The U.S. Treasury Department hired Perella Weinberg Partners LP to assist in the sale of the government's stake in Ally Financial Inc., according to a contract posted on the agency's website. The agreement between Perella and Treasury became

effective on Jan. 18 and will last 12 months, during which Perella will be paid \$500,000 a month, according to the contract. The deal can be extended for another six months, according to the contract. Treasury is the majority stakeholder in Ally, with 73.8 percent of the common shares.

— Dakin Campbell

Oregon Puts \$525 Million in KKR Buyout Fund

The Oregon Investment Council approved a \$525 million commitment to KKR's new buyout fund, helping the New York-based firm toward a target of raising between \$8 billion and \$10 billion. Oregon's fees in the new KKR North American XI Fund will be the lowest the state has paid for any KKR fund it has invested in, said James Sinks, a spokesman for the Oregon State Treasury, in an interview. Sinks couldn't immediately provide details of the fees. "It's a good time to invest," George Roberts, KKR co-founder, told the Oregon Investment Council during his fund-raising pitch today in

Tigard, Oregon. "You can make reasonable investments in companies with good financing at not cheap prices, but at fair prices."

— Hui-yong Yu

Blackstone Says M&A May Reach 2007 Levels

John Studzinski, senior managing director of Blackstone Group LP, said mergers and acquisitions this year may reach 2007 levels, partly driven by emerging markets including Brazil and India. "It will be up closer to the 2007 level," Studzinski said in a Bloomberg Television interview at the World Economic Forum. "The biggest emerging-market outbound M&A country is going to be India." There were \$4.02 trillion of deals in 2007 compared with \$2.23 trillion in 2010, according to data compiled by Bloomberg. Brazil, Russia, India and China will fuel growth this year, according to the International Monetary Fund, which estimates emerging markets may grow 6.5 percent in 2011.

— Francine Lacqua and Ambereen Choudhury

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Deal Roster

Barry Ridings, vice chairman of investment banking at **Lazard Ltd.**, is advising **Smurfit-Stone Container Corp.** on its \$3.5 billion sale to **Rock-Tenn Co.**, announced on Jan. 21. Ridings also advised **Lehman Brothers Holdings Inc.** when it sold its brokerage to **Barclays Plc** for \$1.75 billion in a deal that closed one week after Lehman's Sept. 15, 2008, bankruptcy.

Steven A. Rosenblum, co-chairman of the corporate group at law firm **Wachtell**,

Lipton, Rosen & Katz, and restructuring and finance partner **Eric M. Rosof**, are among the team representing Smurfit-Stone. The two are currently advising **Duke Energy Corp.** on its \$13.7 billion acquisition of **Progress Energy Inc.**, announced on Jan. 10.

Rob Engel is advising Rock-Tenn on the transaction. He became co-head of investment banking at **Wells Fargo Securities LLC** after parent firm **Wells Fargo & Co.**

purchased **Wachovia Corp.** for \$12.7 billion in 2009 and expanded into investment banking. Engel's team advised **Lance Inc.** and **Snyder's of Hanover Inc.** on their \$827.37 million merger last year.

E. William Bates II, corporate partner at law firm **King & Spalding LLP**, is representing Rock-Tenn. He advised **Sprint Corp.** on its \$36 billion purchase of **Nex-tel Communications Inc.** to create **Sprint Nextel Corp.** in 2005.

— By Tara Lachapelle

Target:

Smurfit-Stone Container Corp.

Investment bank

Lazard Ltd.

Lewis advised Maytag when Whirlpool bought the company in 2006 for \$2.6 billion.

Bill Lewis

Barry Ridings

Maxence de Gennaro

Law firm

Wachtell, Lipton, Rosen & Katz

Steven A. Rosenblum (corporate)

James Cole, Jr. (corporate)

Ilene K. Gotts (antitrust)

Adam J. Shapiro (executive compensation & benefits)

William Savitt (litigation)

Eric M. Rosof (restructuring & finance)

Joshua M. Holmes (tax)

Savitt is representing Lions Gate Entertainment in its lawsuit against Carl Icahn, accusing the financier of "secretly plotting" to merge the company with Metro-Goldwyn-Mayer "for his own benefit" after telling shareholders he would block such a deal.

Buyer:

Rock-Tenn Co.

Investment bank

Wells Fargo Securities LLC

Rob Engel

John Church

Jay Harris

Jeff Foley

Charles Spiggle

Law firm

King & Spalding LLP

E. William Bates II (corporate)

Anne M. Cox (corporate)

Peter J. Genz (tax)

John K. Sweet (tax)

Eleanor Banister (benefits)

Jeffrey S. Spigel (antitrust)

Les A. Oakes (environmental)

Harold M. Shaw III (environmental)

Albert H. Conrad (finance)

Paul K. Ferdinands (financial restructuring)

Cox, Spigel and Banister advised Eclipsys on its \$1.3 billion merger with Allscripts Healthcare Solutions, which completed on Aug. 25.

Sweet, Bates and Conrad represented Sprint Nextel when it combined its high-speed wireless business with Clearwire in 2008.

ARB ANALYSIS

TOM BURNETT, GUEST COLUMNIST

Chevron to Pay Premium for Atlas Assets That Exceeds Past Range

Chevron Corp. is paying a relatively high price to acquire **Atlas Energy Inc.'s** assets.

Chevron said the primary goal of buying Atlas was the company's natural gas reserves and undeveloped net acreage.

As part of the transaction, announced Nov. 9, Atlas will sell its interests in non-production affiliates and will purchase a 49 percent interest in the Laurel Mountain gas gathering and transportation assets in the eastern United States.

Chevron will acquire 850 billion cubic feet of proved natural gas reserves and daily production of 80 million cubic feet of the fuel. Chevron will also obtain 486,000 net acres in the Marcellus shale basin and 623,000 net acres in the Utica shale basin. The 49 percent interest in Laurel Mountain will give Chevron exposure to a system of more than 1,000 miles of gas services lines in the Marcellus area.

The Atlas merger proxy statement for its special shareholder meeting

on Feb. 16 to vote on the merger outlines in detail the price that Chevron is willing to pay for his acquisition. The comparison is derived from work by **Deutsche Bank**, Atlas's financial adviser. The Deutsche Bank analysis is based on information from 11 separate transactions completed between 2001 and 2010.

While Chevron is paying a premium to the prior day's close that is within the range of the previous deals, it is also paying a much higher multiple of Ebitda, reserves and daily production. Those multiples indicate Chevron sees tremendous upside value in the Atlas assets covering the Utica and Marcellus shale formations.

As an additional, more recent comparison, we looked at the **Exxon Mobil Corp.** purchase of **XTO Energy Inc.**, which closed on June 28.

Interestingly, Chevron will be paying a price for Atlas that is close to or surpasses the high end of the implied range paid by ExxonMobil in the XTO transaction. Investors looking at companies with domestic acreage and natural gas reserves should draw comfort from the price that Chevron is willing to pay for the Atlas asset base.

It is particularly noteworthy that Chevron, an extremely knowledgeable and experienced energy company, is willing to pay a high price for natural gas, which at the time of the announcement was selling at less than \$4 per 1,000 cubic feet.

The Oct. 25 closing price for Henry Hub spot was \$3.18 a mere two weeks before the Chevron-Atlas transaction was announced. Large energy companies like Chevron often operate with long lead times, but the Atlas transaction appears to be a big (\$4.3 billion) bet that U.S. natural gas prices will be moving much higher in the future.

Tom Burnett, CFA, is director of research at Wall Street Access, an NYSE firm.

Atlas Valuation Using Chevron Merger Consideration

	RANGE FOR PRIOR DEALS 2001-2010*	ATLAS VALUATION USING CHEVRON MERGER CONSIDERATION
EV-to-EBITDA**	5.1x to 10.2x	15.2x
Reserve Value**-to-Current Production (\$ per 1,000 CFE/day)	\$3,123 to \$19,769	\$30,631
Reserve Value**-to-Proved Reserves (\$ per 1,000 CFE/day)	\$0.96 to \$2.93	\$3.24
Merger Premium to Closing Price Prior to Announcement	10.7% to 60.7%	36.60%

*Compiled by Deutsche Bank, Atlas's financial adviser

**Ebitda for the first year of combined operations

***Reserve Value is equal to EV, less non-production assets

Source: Atlas merger proxy, page 55

Note: The Atlas-Chevron merger is followed by Wall Street Access Merger Research

Comparing Takeovers of Atlas, XTO

	EXXON MOBIL PURCHASE OF XTO (JUNE 2010)	CVX-ATLS PROPOSAL
EV-to-EBITDA	6.6x	15.2x
Reserve Value-to-Current Production (\$ per 1,000 CFE/day)	\$12,500 to \$17,500	\$30,631
Reserve Value-to-Proved Reserves (\$ per 1,000 CFE/day)	\$2.75 to \$3.75	\$3.24
Merger Premium to Closing Price Prior to Announcement	24.60%	36.60%

Source: Bloomberg LP, company documents

Note: The Atlas-Chevron merger is followed by Wall Street Access Merger Research

M&A LAW

NANCY BELTON, BLOOMBERG LAW ANALYST

Hammons Hotels Merger Ruled as Fair to Minority Shareholders

Following a trial on minority shareholder claims arising from a sale of **John Q. Hammons Hotels Inc.**, the Delaware Chancery Court on Jan. 14 ruled in favor of the company's board of directors and controlling shareholder **John Q. Hammons**.

The court concluded that the directors didn't breach their fiduciary duties because the deal resulted from a fair process and price.

Hammons in 2004 informed the board that he had entered into discussions with third parties regarding a sale of the company or his majority stake. He was the company's chairman, CEO and controlling shareholder, owning 5% of Class A common stock and all Class B common stock.

The board formed a special committee to represent the interests of minority shareholders in the event of a sale. The committee retained its own legal and financial advisers and held 36 meetings during a nine-month period as it negotiated with two bidders, **Barceló Crestline Corp.** and **Jonathan Eilian**.

The board and a majority of minority shareholders approved a merger agreement with Eilian. Holders of Class A common stock received \$24 a share in cash, an 85% increase from Barceló's initial offer of \$13. Hammons, in exchange for his Class B common stock and interest in a limited partnership controlled by the company, received a 2% equity interest in the preferred stock of the surviving entity and other contractual rights.

Holders of Class A common stock filed suit, alleging that the price was inadequate and the company's directors breached their fiduciary duties by allowing the merger to be negotiated through a deficient process and by voting to approve the merger.

They also alleged Hammons breached his fiduciary duties as controlling shareholder by using his control to get benefits not shared with minority owners, and that the proxy statement issued before the shareholder vote had material omissions.

On cross-motions for summary judgment, the court concluded that *Kahn v. Lynch Communication Systems Inc.* didn't mandate application of the

entire fairness standard, since Hammons didn't stand on both sides of the transaction, but that entire fairness was applicable due to the allegation that Hammons used his control position to divert merger consideration disproportionately to himself.

The burden shifted to the plaintiffs to show the transaction was unfair after the defendants established the fairness of the deal by showing that it was approved by an independent and disinterested committee of directors.

The court concluded that plaintiffs failed to show that the merger resulted from an unfair process, because the special committee negotiated at arm's length with Barceló and Eilian, and committee members were aware of their duty to minority shareholders.

The court wasn't persuaded by plaintiffs' argument that the special committee was coerced into accepting Eilian's offer by the specter of Hammons remaining in control and refusing to sell his shares in any other deal, dismissing the possibility that maintaining the status quo was a coercive threat, and found no credible evidence of improper self-dealing or threats by Hammons.

The court next concluded that plaintiffs failed to show that the merger price received by minority shareholders was unfair. The experts for each party relied on a discounted cash flow analysis to value Hammons Hotels.

The court found the analysis performed by plaintiffs' expert problematic because he relied on management projections that were based on overly optimistic assumptions and not created in the ordinary course of business. The court noted that he compounded this problem by extrapolating from these assumptions to calculate an unrealistically high terminal value, and further erred by assuming an improvement beyond the forecast period that was inconsistent with the Gordon Growth Model, which assumes a constant level of growth.

The court found the DCF analysis performed by the defendants' expert more convincing because he used the "convergence model" to calculate terminal value and used a capital cash flow approach, which the court

found appropriate for valuing companies with leverage ratios that were expected to change over time.

The defendants' expert eschewed a comparable companies analysis, contending that Hammons Hotels lacked comparables. The court largely agreed, rejecting the comparable companies analysis of plaintiffs' expert after finding that the companies selected as comparables differed significantly from the Hammons. It also rejected his comparable transactions analysis, finding that the transactions weren't comparable to the Hammons Hotels merger and that the sample set was too small to be meaningful.

Class A shares were worth \$14.97 each at the time of the merger, according to the defendants' expert. The court accepted his conclusion that the value of the consideration Hammons received for his majority interest was less than the \$24 received by minority shareholders for their Class A shares, noting that the plaintiffs didn't offer credible contrary evidence.

The court also rejected plaintiffs' argument that the minority shareholders weren't fully informed when they approved the transaction because the proxy statement omitted material facts. Plaintiffs asserted that omitted facts showed that the special committee's financial and legal advisers were conflicted. However, plaintiffs offered no evidence that conflicts affected the advice provided to the special committee or its recommendation.

The court also rejected plaintiffs' argument that the directors should have disclosed the substance of a presentation by Eilian to the committee, finding that the presentation was immaterial because it was premised on a hypothetical scenario. The court concluded that the alleged omissions were not material to minority shareholders, who overwhelmingly approved the merger.

Case: *Re John Q. Hammons Hotels Inc. Shareholder Litig.*, C.A. No. 758-CC, 2011 BL 10944 (Del. Ch. Jan. 14, 2011).

This report was edited and condensed. The complete version is available at [MALR <GO>] or www.bloomberglaw.com.

DEAL ANALYSIS BY SCOTT KELLER, GUEST COLUMNIST

Aggregate Acquisition Multiples Rise as LBOs Increase Debt

The resurgent capital markets have led to greater risk appetite by institutional investors. Combined with low interest rates, this demand has fueled a rebound in the high-yield debt market, which has resulted in a return of the leveraged funding sector for both definitive and unsolicited deals.

One potentially troubling aspect of this trend is the increasing amount of leverage being used to fund LBOs. Although bank lenders are demanding more equity in recent deals, the aggregate acquisition multiples are inching higher.

The pending buyout of **Jo-Ann Stores Inc.** by **Leonard Green & Partners LP** is priced at 7.5x trailing 12-month Ebitda, well above our estimated 6.7x average Ebitda multiple for LBOs in 2010. By comparison, one of the worst LBOs from 2005 to 2008 — **Apollo Global Management LLC's** takeover of **Linens 'n Things Inc.** — was priced at 8.5x trailing 12-month Ebitda.

Private Placement

While most transactions are being financed with senior secured debt, many LBOs have been successfully accessing the high-yield private placement market to issue senior subordinated and unsecured debt. Combined with the amount of private-equity capital raised in the past six months, these factors have led directly to numerous high-quality buyouts since mid-2010.

Of the 60 pending public North American transactions greater than \$100 million, seven are LBOs and nine are hostile deals. The LBOs are sizable transactions and have been pursued relatively aggressively by the private-equity market, which in turn has resulted in deals with both blue-chip buyers as well as LBO shops teaming up to make an acquisition.

Carlyle Group this month completed two major LBOs. Its takeover of **CommScope Inc.** had senior fund-

ing priced at Libor plus 350 basis points in a \$1.5 billion senior notes offering, while the buyout of **Syniverse Holdings Inc.** had senior term funding priced at Libor plus 375 basis points with \$475 million in senior unsecured notes.

The equity portions of two large pending buyouts are being funded by private-equity groups: **Del Monte Foods Co.** with \$4.0 billion from **KKR & Co.**, **Vestar Capital Partners** and **Centerview Partners**, and **J. Crew Inc.** with \$3.0 billion from **Texas Pacific Group** and **Leonard Green & Partners.**

Notably, investor demand has led to an unusual arbitrage trading phenomenon. Most LBOs are now structured with so-called "go shop" periods.

'Go Shop' to Cut Legal Risk

Although the stated purpose of these periods is to allow a board to solicit indications of interest from other third-party bidders, the real reason is to eliminate litigation risk. Shareholder class actions are proliferating with increased LBO deal flow, and each one alleges typical breach of fiduciary duties. The "go shop" windows negate these assertions.

From a trading perspective, however, the markets are will to pay premiums for deal stocks that are in the midst of their respective "go shops."

J. Crew's initial "go shop" period ran from Nov. 23 to Jan. 15, before being extended. During that period, its average price equaled \$43.66 per share, equating to a -\$0.16 gross spread, or 0.4% premium to its \$43.50 LBO price per share.

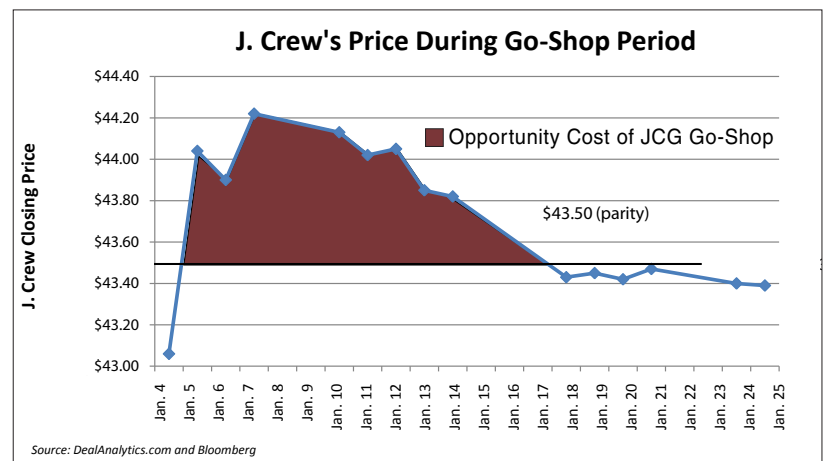
Excluding **Dynegey Inc.**, **Attachmate Corp.** is the only recent company to receive a formal competing bid to a leveraged buyout. Despite indications of interest by both **Urban Outfitters Inc.** and **Sears Holdings Corp.**, J. Crew has yet to receive any third-party offers.

Dead Capital

Although such premiums above the actual parity value of a deal may represent a relatively cheap imbedded call option on the possibility of a better bid by another buyer, recent experience suggests that most of these positions result in dead capital and a loss of investment opportunity in other deals.

In other words, chasing opportunities gains appears like a waste of time and money. Merger arbitrage returns should be less speculative and based more on positive net returns given the recent abundance of higher quality M&A transactions.

Scott Keller is founder and president of DealAnalytics.com. Reach him at research@dealanalytics.com.



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
Airgas Inc.	Air Prods & Chemicals	7,496.88	02/05/10	02/04/11	70	48.32	62.1	12.72	7.9	1.45
Alcon Inc.	Novartis AG	11,742.65	12/15/10	06/30/11	168	4.45	163.08	3.02	4.92	-0.18
Talecris Biotherapeutics	Grifols SA	3,901.90	06/07/10	-	28.98	53.94	24.11	20.18	4.87	-0.03
Ltx-Credence Corp.	Verigy Ltd.	320.21	11/18/10	06/30/11	12.73	39.23	8.85	43.84	3.88	-0.14
Progress Energy	Duke Energy Corp.	25,531.04	01/10/11	12/31/11	47.57	6.13	45.67	4.17	1.9	-0.34
Verigy Ltd.	Advantest Corp.	606.7	12/06/10	-	15	68.26	13.26	13.12	1.74	-0.53
Nicor Inc.	Agl Resources	3,138.10	12/07/10	06/30/11	51.66	17.61	50.13	3.05	1.53	0.09
Bucyrus International	Caterpillar Inc.	8,608.90	11/15/10	06/30/11	92	31.29	90.78	1.34	1.22	-0.43
Penn Virginia GP	Penn Virginia RE	1,525.05	09/21/10	-	27.47	11.73	26.49	3.7	0.98	-0.37
Citadel Broadcasting	Cumulus Media	2,318.73	12/17/10	-	31	13.24	30.05	3.16	0.95	-0.05
Exco Resources	Private Investor	5,183.24	11/01/10	-	20.5	37.71	19.85	3.27	0.65	-0.38
Jo-Ann Stores	Private	1,618.33	12/23/10	06/30/11	61	31.92	60.46	0.89	0.54	-0.13
Danvers Bancorp	People's United	479.62	01/20/11	06/30/11	22.26	30.6	21.74	2.38	0.52	-5.04
Atheros Communications	Qualcomm Inc.	2,917.42	01/05/11	06/30/11	45	26.55	44.57	0.96	0.43	0.03
Dionex Corp.	Thermo Fisher	2,068.14	12/13/10	02/16/11	118.5	27.6	118.11	0.33	0.39	-0.11
Whitney Holding Corp.	Hancock Hldg Co.	1,377.74	12/22/10	06/30/11	13.92	41.37	13.57	2.62	0.36	-0.1
Marshall & Ilsley	Bank Of Montreal	4,020.85	12/17/10	07/31/11	7.52	43.71	7.17	4.85	0.35	0
Allegheny Energy	Firstenergy Corp.	9,216.11	02/11/10	04/30/11	26.34	36.15	26.02	1.23	0.32	-0.02
Hypercom Corp.	Verifone Systems	444.4	09/29/10	06/30/11	9.61	70.37	9.3	3.3	0.31	-0.14
Airtran Holdings	Southwest Airlines Co.	1,014.63	09/27/10	06/30/11	7.75	67.51	7.46	3.89	0.29	0.01

League Tables

Global Financial Advisers

FINANCIAL FIRM	2011 Year-to-Date			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
JP Morgan	1	36.34	45,499	7
Lazard LLC	2	30.79	38,556	6
Bank of America Merrill Lynch	3	26.20	32,807	16
Barclays Capital	4	22.97	28,767	4
UBS	5	9.16	11,465	11
Credit Suisse	6	7.75	9,700	9
Deutsche Bank AG	7	7.22	9,045	6
Perella Weinberg Partners	8	6.45	8,075	1
Rothschild	9	6.30	7,894	9
Citi	10	4.49	5,619	8
Morgan Stanley	11	4.15	5,194	12
Goldman Sachs & Co	12	3.83	4,791	16
BMO Capital Markets	13	3.58	4,478	2
Scotia Capital Inc	14	3.33	4,165	2
CIBC	15	3.31	4,149	1
Haywood Securities	15	3.31	4,149	1
Dundee Capital Markets	15	3.31	4,149	1
Wells Fargo & Co	18	3.30	4,135	3
Banco Itau BBA SA	19	2.73	3,415	10
Qatalyst Group	20	2.33	2,917	1

Source: Bloomberg
Excludes terminated deals.

As of: 1/27/2011

LEGAL FIRM	2011 Year-to-Date			
	RANK	MKT SHARE	VOLUME USD (Mln)	DEAL COUNT
Skadden Arps Slate Meagher & Flom	1	27.95	34,999	9
Wachtell Lipton Rosen & Katz	2	24.32	30,453	3
Latham & Watkins LLP	3	21.21	26,565	8
Hunton & Williams	4	20.39	25,531	1
Sullivan & Cromwell	5	9.40	11,769	15
Cravath Swaine & Moore	6	8.78	10,992	2
Simpson Thacher & Bartlett	7	6.96	8,714	4
Fried Frank Harris Shriver & Jacobson	8	6.45	8,075	2
Loeb & Loeb LLP	8	6.45	8,075	1
White & Case LLP	10	5.45	6,823	2
Jones Day	11	5.15	6,455	20
Blake Cassels & Graydon LLP	12	5.03	6,304	3
Osler Hoskin & Harcourt LLP	13	3.67	4,598	3
Davis Polk & Wardwell	14	3.58	4,478	1
Blackwell Sanders Peper Martin LLP	15	3.31	4,149	1
Cassels Brock & Blackwell LLP	15	3.31	4,149	1
King & Spalding	17	3.25	4,074	3
Clifford Chance LLP	18	2.72	3,409	3
Pillsbury Winthrop Shaw Pittman LLP	19	2.33	2,917	1
Souza Cescon Barrieu & Flesch Advogados20	1.92	2,400	1	

Source: Bloomberg
Excludes terminated deals.

As of: 1/27/2011

Deal Data

Embotelladoras Arca to Buy Grupo Continental for 6.4% Premium

Embotelladoras Arca SAB de CV plans to buy **Grupo Continental SAB de CV** for a 6.4 percent premium, compared with the 40 percent average premium paid for non-alcoholic beverage companies during the last two years, according to data compiled by Bloomberg.

Arca is paying 12 times earnings before interest, taxes, depreciation and amortization, compared with the median of 5 times for companies in the non-alcoholic beverages industry.

The company in 2001 bought **Embotelladora Argos**, another Coca-Cola bot-

tlar based in Mexico, for \$582 million at an Ebitda multiple of 5.4 times and enterprise value multiple of 1. Arca bought 75 percent of **Ecuador Bottling Co.** in September for \$345 million cash, Bloomberg data show.

The combined company will have \$80 million of cost savings in the third year after the merger, Arca Chief Executive Officer **Francisco Garza** said on a conference call.

"It's extremely positive from the structure of the transaction and the strategic sense," said **Alan Alanis**, an analyst with **JPMorgan Chase & Co.** in New York. "The compa-

ny is debt-free after the transaction. That's pretty impressive."

The four Mexican families that will own the company will form a voting trust that locks up at least 51 percent of shares for three years, Garza said. Continental shareholders will have 37 percent of the new company, he said.

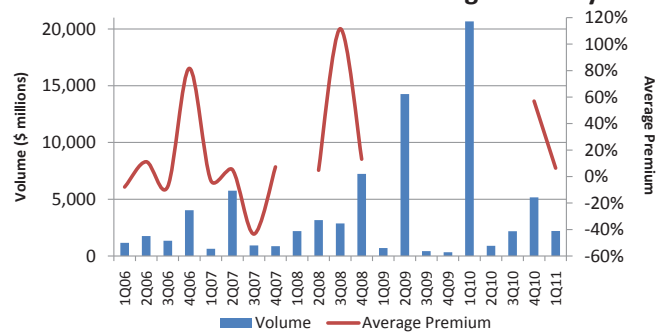
The companies said they expected the merger will be completed in the second quarter, pending regulatory approval.

Estructura Partners was financial adviser to Arca, while **HSBC** advised Continental.

— Thomas Black and Carlos Manuel Rodriguez

Target	Grupo Continental SAB de CV
Acquirer	Embotelladoras Arca SAB de CV
Announced Date	Jan. 24
Expected Completion Date	June 30
Nature of Bid	Friendly
Payment Type	Stock
Stock terms (Acq. sh/Tgt. sh.)	0.625
Announced Value	\$2.2 billion
Announced Premium	6.4%
Equity Value Multiples	
Enterprise Value	1.1x
Total Assets	2.6x
Book Value	3.3x
Stockholder Equity	3.3x

Deals in Non-Alcoholic Beverage Industry



Source: Bloomberg, global data as of Jan. 26

Target Name	Announced Date	Announced Value (\$ millions)	Deal Multiples (times)							
			EBITDA	EBIT	Revenue	Net Income	Net Income + Depreciation	Income before XO	Cash Flow from Operations	Free Cash Flow
Grupo Continental SAB de CV	01/24/11	26,478.42	11.88	14.41	2.04	18.55	14.56	18.54	19.12	158.11
Comp Deals Median			5.11	9.39	0.9	21.35	8.34	21.17	10.86	29.03
PepsiCo Inc/DE	04/20/09	10,053.47	4.07	6.59	0.52	36.93	8.24	28.33	5.25	
PepsiAmericas Inc	04/20/09	3,921.29	5.11	7.15	0.72	15.68	8.34	14.45	10.86	
Panamerican Beverages Inc	12/23/02	3,648.30	6.22	15.39	1.11	66.38	9.03	60.24	14.84	
Coca-Cola Femsa SAB de CV	10/31/06	1,936.72	4.8	6.13	1.03	11.84	7.7	11.39	6.91	29.03
Lebedyansky JSC	03/20/08	1,605.28	11.88	14.9	1.96	23.48	16.77	23.36	30.02	
Pepsi-Gemex SA de CV	05/07/02	1,256.78	4.89	7.49	0.77	12.68	6.69	12.68	12.19	36.45
Fruco Beverages Group Ltd	10/23/08	769.02	41.83	51.51	7.24	136.01	84.42	136.01	122.61	
Kirin Beverage Corp	05/11/06	630.03	5.63	9.39	0.48	21.35	8.47	20.47	8.89	15.87
Kinki Coca-Cola Bottling Co Ltd	02/22/06	628.85	3.81	11.94	0.4	21.32	4.43	21.17	2.96	6.8
China Water & Drinks Inc	05/20/08	587.94			8.49					418.01
Comp Deals Min			3.81	6.13	0.4	11.84	4.43	11.39	2.96	6.8
Comp Deals Avg			9.8	14.5	2.27	38.41	17.12	36.46	23.84	101.23
Comp Deals Max			41.83	51.51	8.49	136.01	84.42	136.01	122.61	418.01

Source: Bloomberg

Calendars

To submit an event email mergerbrief@bloomberg.net

Anticipated Approvals

DATE	TARGET	ACQUIRER	DEAL VALUE	TYPE
1/31	Ssangyong Motor Co.	Mahindra & Mahindra Ltd	788	Bankruptcy Court
1/31	Avoca Resources Ltd.	Anatolia Minerals	877	Acquirer shareholders
2/2	Applied Signal Technology Inc	Raytheon Co	524	HSR expected expiration
2/3	L-1 Identity Solutions Inc.	Safran SA	1582	Target shareholders
2/4	Silvinit OJSC	Uralkali	5202	Acquirer, target shareholders
2/16	Penn Virginia GP Holdings LP	Penn Virginia Resource Partners LP	902	Acquirer, target shareholders
2/23	Allis-Chalmers Energy Inc.	Seawell Ltd/ Bermuda	308	Target shareholders
3/4	NSTAR	Northeast Utilities	6842	Acquirer, target shareholders
N/A	Terremark Worldwide Inc.	Verizon Communications Inc.	1277	HSR
N/A	Buckeye GP Holdings LP	Buckeye Partners LP	2721	Hart-Scott-Rodino expiration

Calls and Meetings

DATE	TIME	COMPANY	EVENT	RELEVANCE
2/4	11am	Rockwell Collins Inc.	Annual General Meeting	Could be interested in bid for Integral Systems, which is exploring a possible sale, Reuters reported on Jan. 7.
2/4	11am	Tyson Foods Inc.	Shareholders Meeting	Identified as potential buyer of Sara Lee Corp.'s North American retail meat unit, according to Deutsche Bank AG.

Conferences

DATE	EVENT	FEATURING	LOCATION	CONTACT/REGISTRATION
Feb. 2	Bloomberg China Investment Strategies	Key topics to be provided by Bloomberg Greater China news team.	New York Public Library	Caroline Richenberg, 646-834-5018, crichenberg@bloomberg.net
Feb. 2-4	Private Equity World Australia	Keynotes include John Brakey, KKR Australia.	Park Hyatt Melbourne	terrapin.com
Feb. 7-11	AM&AA's Certified Merger & Acquisition Advisor Credentialing Program	"Course objectives taught by seasoned M&A professionals are designed to improve leadership competencies to a new 'gold standard' level of excellence."	Graziadio Executive Conference Center, Malibu, Calif.	amaaonline.com
Feb. 8-9	Institutional Investor's 2nd Annual Global Real Assets Investment Forum	Participation by invitation only. Apply for an invitation. No fee to attend.	Union League Club, New York	iiconferences.com
Feb. 8-9	M&A Leadership Council's Art of M&A Integration	"A practical guide to achieving success in business integration."	Institute of Directors, London	macouncil.org
Feb. 10	ACG 2011 West Coast Capital Conference	"The power of capital: Strategies for 2011"	The Palace Hotel, San Francisco	acg.org/sanfrancisco
Feb. 17-18	IQPC's Global Private Equity Summit	Andrew Kandel, Cerberus Capital Management; Ziad Abdellour, Blackhawk Partners	TBD, New York	summitforprivateequity.com
Feb. 23-25	Oil & Gas Outlook Brazil 2011	Keynotes include Luis Carlos Alfonso, Petros - Fundação Petrobrás de Seguridade Social.	Sheraton Barra Hotel, Rio de Janeiro	terrapin.com/2011/brasiloil
Feb. 24, 6pm	M&A Atlas Awards Gala, Global Major Markets	"The only program in the industry to exclusively honor top deals, dealmaker teams and firms for completed transactions valued above \$1 billion in size."	New York	globalmanetwork.com/globalmarkets.php
March 10	Risk Conference 2011: Global Mergers and Acquisitions	"Quest of the east."	Martiniplaza, Groningen, Netherlands	riskconference.nl
March 21	Distressed Investing Summit and Turnaround Awards	"Assembles the distressed investing, restructuring and turnaround deal-making professionals to share insights and honor excellence."	Palm Beach, Fla.	maadvisor.com/events

Q&A

Rob Engel, co-head of investment banking at Wells Fargo Securities LLC, and John Laughlin, head of M&A at the firm, spoke with Tara Lachapelle and Zachary Mider about their goals for the investment bank.

How do you view the M&A landscape this year as it relates to your business?

Laughlin: Our pipeline is strong right now, following an improving third and fourth quarter. Looking forward in 2011, our backlog for the first two quarters of this year is greater than our entire closed revenue from 2010. We're bullish on the trends we see in the market in 2011. You've got all this cash out there that is starting to be deployed, you have equity valuations that are underpinning reasonable deal valuations, and you have boards that are more comfortable and confident in pursuing deals. There is plenty of liquidity both in terms of cash on balance sheets and availability of financing at very cost-effective levels to fund transactions. You still have a lot of consolidation opportunities in a variety of sectors. However, while we're seeing top-line growth and earnings announcements that have been generally positive so far, those growth trends are still fairly anemic. As executives and boards think about where they want to take their business, inorganic growth is in the center of the radar for many.

Engel: The macro look is also much more stable than it has been both from an economic and regulatory perspective. There has also been a sea change in Washington. The pro-business tone, talk of a reduction in corporate taxes all provide boards of directors a more stable environment which provides more confidence to aggressively grow the business organically or through acquisition. Corporates went through tremendous traumas in 2008 and 2009 – reducing headcount and cost structures, deleveraging the balance sheet, hunkering down, and now they are beginning to put their heads above the parapet. With cash on

their balance sheets, very attractive financing markets, corporates are starting to focus on some of these consolidating opportunities that can really drive both top-line growth, cost synergies and ultimately drive earnings and cash flow. It's a powerful confluence of both the macro and corporate environment that has people feeling a lot better.

Laughlin: Also, we're seeing the return of larger buyouts. Not at the leverage points we saw in 2007 and early 2008, but the financing markets are there to support smart transactions. That's providing some competition for the strategic buyers as they look at the targets that they have long coveted. The corporate players are now worried that it's not just a strategic game anymore, but that reasonably aggressive sponsors with foresight are pretty good competitors.

How interested are you in getting into the sponsor business and financing sponsors?

Engel: We have very strong relationships across the sponsor universe and will continue to work with these clients to provide good ideas and attractive financing that works for us as lenders and for the sponsors. On the financing side, you saw us leading aggressively in **Bumble Bee**, a **Lion Capital** deal, **Intermedix** for **Thomas Lee** among others. We're hoping the market doesn't go back to an environment that doesn't make a lot of sense relative to pricing, structure and terms, but there are a lot of good sponsors that we do a lot of good work with.

Laughlin: We're less about chasing deals than we are about supporting the sponsor relationships that are important to us.

What are your goals for this year?

Engel: We have a host of great long-term banking relationships. Our goal is to continue to up-tier our investment banking dialogue and provide thought leadership to our clients across industry, our loan product, capital markets and M&A to enhance value for them. I think one of the things that is a true differentiator about our platform is it's part of one of the largest, most stable and profitable financial institutions in the country and we want to lend money. At both the middle-market level and the large corporate level, we touch an amazing number of the companies in the United States. Our real challenge is up-tiering our relationships and roles with existing investment banking clients while continuing to develop investment banking dialogue with Wells Fargo clients that we have not historically called on.

Laughlin: While this merger [of Wells Fargo and Wachovia] is two years old now, we are really just scratching the surface in terms of understanding how best to get our investment banking capabilities out to clients who may not have had that kind of relationship with Wells Fargo. Or maybe they're former Wachovia clients, but we just haven't had the ability to present them with our current ideas. Our mission, in particular on the M&A side, is to make sure we tell our story to our clients better in 2011, touch more of them, and show them our ability to advise not only in terms of what's going on in the M&A market but also within industry context. All of our senior M&A bankers are focused by industry and work with our industry-based corporate finance teams to deliver and execute strategic ideas. One of our key objectives is to earn an increasing share of the growing M&A market. However, longer term, we want to make sure we're

Q&A CONTINUED*continued from page 13*

bringing our best ideas to more clients, helping them grow their businesses, and growing our relationships as a result.

Do you have any goals in terms of market share that you're targeting in M&A? Do you want to be number something on the league tables?

Engel: We always think about it in terms of gaining mindshare with the client. I think a situation like **Rock-Tenn** is a perfect example of how a very strong long-term relationship and consistent calling effort with good ideas led to us being in a position to provide top-flight tactical and strategic M&A advice and finance the \$5 billion acquisition of **Smurfit Stone**. From a client perspective, it's a powerful capability set we can offer. There are always league tables out there. We think about it more in terms of how we can touch more clients, and how we can grow that mindshare with them as they work through strategic issues, capital structure issues, et cetera.

Laughlin: If you look at our M&A business, yes, we'll have a **Rock-Tenn** deal that's in the \$5 billion enterprise value range, but if you look at what we did in the fourth quarter of 2010, our average deal size was about \$600 million. That's more of an indicator of the scope of business we have. Those kinds of deal sizes are very important to our clients, and therefore, very important to us. Also, I think you'll find that we focus equally on our sell-side opportunities and building our buy-side idea flow to help support our clients in their growth. We are fairly evenly balanced sell side, buy side, general strategic advice. The buy-side opportunities allow us to interact with our clients on the advisory side, on the financing side, and with other products as well. Additionally, on buy sides, you still have a client and usually a larger client. We're very interested in supporting our clients that way, but also in helping them monetize investments or find homes for their business that might

be more valuable to others through sale or spinoff and deliver value to their shareholders that way. We're really about fostering long-term relationships as opposed to posting a glossy number in the league tables. If we get there as a result, that's great, but that's more of a by-product than an objective.

Are there certain sectors that you're trying to target?

Laughlin: We are a fairly balanced business. If you look over time, you'd find that we have strong results in sectors where the market has been particularly active.

Engel: Another advantage to our

“
Rock-Tenn would be a perfect example of a long-term relationship where we have become a trusted adviser.
”

M&A business is it's a diverse and balanced client base across sectors and size. We advise private and smaller public companies as well as some larger public companies who rely on us for strategic advice as they think about long-term opportunities to enhance shareholder value.

Based on the deals you've worked on, who do you see as your main competitor?

Laughlin: Just given the breadth of our overall client base, we really see everybody in the market. On the larger or more complex transactions, we'll be competing against the larger advisory firms; then you always have industry-focused bou-

tiques that have specific relationships or a specific set of deals that they have closed that are relevant to the situation. You tend to see this barbell competitive market. There aren't many firms that have the size and breadth of Wells Fargo, but also the focus on the upper part of the middle market, on the companies that have the \$1 billion to \$10 billion market caps, and that's where we want to be from an M&A perspective. That's where we compete best in identifying those companies that we can be important to, that we can add value to over time from an advisory perspective, and from a broader investment banking perspective. The Wells Fargo Securities business card is a great business card, but it doesn't answer all of the questions a potential client has when you walk into a room. You really have to sell your ideas, your energy and your experiences as a team. We pick the opportunities to do that where we feel like we can add value and nourish the relationship over time as a result. On the M&A side, half of our business is repeat or referral business and that's the base from which we grow year over year.

Engel: Rock-Tenn would be a perfect example of a long-term relationship where we have become a trusted adviser and advised on a number of important acquisitions and critical financings for the company.

Laughlin: We've advised them on transactions, provided informal advisory services to the board over time, and we've been there for them from a financing perspective for years. When it was time for them to really think about this strategic move, we were there as part of the brain trust and we had the horsepower from a financing perspective to do the whole deal, so they could keep the team small, agile and quiet. There is potential competition for any deal, so moving fast and moving quietly is always the order of the day and our clients trust us to perform.