Schwartz Communications, Inc.

BusinessWeek

November 20, 2006

DEALS

ALL THAT MONEY HAS TO GO SOMEWHERE

Cheap rates and buyout firms awash in cash are fueling a boom in mergers

BY ROBEN FARZAD

NOTHING STIRS THE STOCK market's animal spirits like a mergers-and-acquisitions boom. On Nov. 6 the Dow Jones industrial average rose 120 points as investors cheered buyouts valued at more than $20 billion, all priced at a premium.

The excitement actually began on Nov. 4, when it was revealed that buyout firm Kohlberg Kravis Roberts & Co. had approached entertainment giant Vivendi with a $50 billion bid—a deal that would have dwarfed all leveraged buyouts in history. With the buzz lingering, 10 major deals popped up two days later, including the buyouts of Four Seasons Hotel, Outback Steakhouse parent OSI, and a German forklift manufacturer. The flurry was a continuation of a trend: In the first week of November, deals totaling $99 billion were announced, up from a first-week average of $66 billion during the previous 10 months.

Why the uptick? Start with interest rates. The yield on the 10-year Treasury note has dropped to 4.65 from 5.25 since June, giving LBO firms, already flush with cash, even more buying power. "Deals have become a lot more interesting from a leverage perspective," says Jeffrey N. Kleintop, chief investment strategist of PNC Wealth Management. Glover H. Lawrence, managing director of Boston M&A advisory firm McNamee Lawrence & Co., says private-equity buyers are constantly asking him what he's working on—and reminding him to "keep them on the radar." "They're eager to spend all the billions they've raised," he says. "They get paid to put money to work."

Falling rates spur corporations to go shopping, too. That's because they signal expectations of an economic slowdown and make managers worry about earnings. The easiest way to generate growth in a slowing economy is to buy it. Kleintop notes that the average 25% premium on recent deals, vs. premiums of 40% to 60% seen in earlier M&A booms, shows that near-term earnings are more of a priority for suitors than big, audacious deals made in the name of long-term strategic goals.

The stock market is also a factor. The Standard & Poor's 500-stock index surged 3.2% in October, usually a dreadful month for equities. Higher share prices give companies more shopping money. The only question investors seem to be asking now is who might be bought next.

THE STAT

Data: Thomson Financial

$99 BILLION Total global value of announced mergers and acquisitions, Nov. 1-7.