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## **You Can't Beat Barbarians, So Why Not Join the Invasion?**

*A money manager assesses valuations to predict targets*

By Dale Jackson

Forget about the gate. The barbarians have already invaded.

In the first three months of 2007 the number of private equity deals involving Canadian buyers or sellers hit "record territory."

Ed Giacomelli of Crosbie & Co. counts 13 bids valued at over \$1-billion each. That's more than double the number three years ago. He adds that the M&A frenzy is being led by deep-pocketed private equity funds -- and it's not just a blip. "For the past seven quarters we've been reporting activity of between 400 and 550 deals per quarter in Canada," he says.

Crosbie & Co. expects to have a clearer picture of the extent of private equity involvement during the first quarter by next month when it releases its quarterly Canadian M&A report. The more high-profile deals include a \$2.3-billion team bid by Goldman Sachs private equity and CanWest for Alliance Atlantis, and a \$1.2-billion joint effort by Ontario Teachers Pension Plan and the Richardson family for Agricore.

Canada is not the only country being urged to merge. M&A activity in the United States surged 21 per cent in the first quarter. Kohlberg Kravis Roberts & Co. has been stunning the markets with its involvement in potential big buyouts including Dow Chemical Co. and a \$27-billion (U.S.) bid for First Data Corp. KKR is even reported to have its sights on our very own BCE.

All around the globe giant private equity funds with no real home are buying up lost and unloved public companies. Mr. Giacomelli says the buying spree is fuelled by a mix of cheap, easy credit and a steady, robust economy.

"The earnings performance of these companies allows them to support a significant amount of debt and that's great for M&A activity," Mr. Giacomelli says. "It almost seems no deal is too large for private equity in this market."

As the ancient Romans discovered, resistance against the Barbarian horde is futile. One money manager says the best way for investors to profit from the trend is to go with the flow. "We've been favourably hit by these buyouts and I hope the trend continues," says money manager Brian

Acker. His firm, Acker Finley, managed to fetch premium prices when private equity funds raided its portfolio -- snapping up names like Phelps Dodge, Toys "R" Us, Reebok and Maytag.

Acker Finley actually watches for potential private equity targets through its model price valuation method. Managers assess the value of a company from the ground up, looking for relevant details in the company's financial statement. The model price determined is compared with its current trading price and if it is well below the market price, there may be a private equity fund in the bushes.

Mr. Acker says it's not hard to see the appeal of going private in the current market and regulatory climate. "A lot of these S&P-type companies are not really growing their business. They're making business decisions because of governance -- because of Sarbanes-Oxley. Executives aren't paid to take business risk any more, they're paid to be good corporate citizens and that doesn't necessarily go along with profit."

One big-name public company that he says is ripe for a private equity takeover is Home Depot Inc. The home improvement chain is valued at roughly \$100-billion and according to Acker Finley is trading well below its true value. "This is a company that maybe should go behind the curtain, get its business model, make the hard decisions to make this business successful, then -- down the road -- IPO it or monetize it," he says.

The money manager says he's finding a lot of private equity takeover targets among the rocks and trees of Canada. He expects private equity to turn more of its attention to the resource sector. One specific Canadian company where he sees a bull's eye is LionOre Mining International Ltd. LionOre shareholders have been balking at a \$4.6-billion (Canadian) friendly takeover offer by Xstrata PLC of Switzerland. "We're seeing a lot of these second-tier miners certainly having substantial upside to model price just kind of sitting there," he says.

While retail investors may be feeling a little left out, the old saying "what comes around, goes around," certainly applies. Last Thursday Apollo Management, one of the biggest U.S. private equity firms, was reported to be working with Wall Street investment banks on the possibility of going public as soon as this fall. Companies that return from private life often come back leaner and meaner.