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## Dead in 2009, mergers and acquisitions expected to be more active during 2010

Memphis Business Journal - by [Christopher Sheffield](#)

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**Morgan Keegan & Co., Inc.**, investment banker Randy Karchmer says 2009 “was as challenging a year as anyone could imagine” in the world of mergers and acquisitions.

**Thompson & Dunavant PLC** managing member Steve Dunavant says one investment banker related that he essentially made 2009 a year-long vacation. Thompson & Dunavant’s M&A business was off 75% in 2009 from highs in 2007 and early 2008.

Principal Owen Johnson says **Southard Financial’s** M&A practice completed just one deal in early 2009; normally, it averages three to four a year.

“We’re glad 2009 is behind us,” Johnson says.

And so is the entire industry: 2009 will go down as the worst in the decade and among the worst ever in the U.S. both in terms of private equity fund-raising and total number of deals closed.

Citing Dow Jones LP Source, Private Equity Professional Digest reported that 331 funds raised \$95.8 billion last year, down 68% from the almost \$300 billion raised by 508 funds in 2008.

In terms of the total number of deals, the 3,048 last year was an almost 18% drop from 2008, according to Dealogic.

But there’s cautious optimism that 2010 will be better. In its year-end survey, the Association for Corporate Growth and Thomson Reuters found that 82% of those surveyed expected to see an increase in merger activity over the next six months versus 52% from the previous six months.

Morgan Keegan’s Karchmer says technology and health care-related firms are expected to

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see the most activity, although any company that came through the recession in good shape may be a prime target.

“The A-plus companies are seeing a premium getting paid for them versus everything else,” he says.

The days of multiples of eight to 10 times EBITDA (earnings before interest, taxes, depreciation and amortization) are gone as pressures on banks have all but killed the highly leveraged deals, Dunavant says.

In 2006 and 2007, values were skewed by how little acquirers actually had to put into a deal — maybe 10% — rather than the true value of the asset, Dunavant says.

Now they’re looking at contributing 40%-50% with some even opting to go all cash but at multiples of 3%-4% with the hope they can refinance later when the credit markets loosen, he says.

Will sellers be willing? Dunavant thinks they are.

“The sellers have been reset,” he says. “If not, then I don’t know what else you could do more than this catastrophe to reset them.”

Another factor: Banks are expected to be more amenable to wheeling and dealing, says Kenneth Koleyni, director of **LEDIC Management Group**’s special asset management division and a former M&A attorney with New York-based **Skadden, Arps, Slate, Meagher & Fom**.

The pressure from pending commercial mortgage debt, which is expected to reach historic highs in the next couple of years, could drive banks to want to move any commercial debt off the books. Up until now it’s mostly been a matter of holding out for the best deals. But a fear of getting stuck with that debt — the commercial version of the residential mortgage crisis last year — may be in M&As’ favor.

“Banks will reach a capitulation point to where they have to dump stuff,” Koleyni says.

Johnson says if banks are not able to unload commercial debt and defaults start piling up, it could be another 2009.

“If there’s another blood bath in the commercial real estate business, that could be a setback,” he says.

### Morgan Keegan & Co., Inc.

Brokerage and investment banking  
CEO: John Carson  
Address: 50 North Front Street  
Web site: www.morgankeegan.com

[csheffield@bizjournals.com](mailto:csheffield@bizjournals.com) | 259-1726

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