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Strategic buyers, private equity eye B.C. deals

More and better M&A deals are becoming available as baby boomers revisit succession plans they had put on hold

By Jenny Wagler

The buyers are back and eyeing B.C.'s small and medium-sized businesses.

"The buyer activity is tremendous," said Chris Larmer, a partner and co-owner of Vancouver-based Sequoia Business Brokers, which handles sales of small to mid-market companies.

Both strategic buyers and private equity, he said, are back and looking for deals – private equity with a "double overhang" of funds, given the scarcity of deals available during the worst of the recession.

"There wasn't a lot of purchasing going on over the last two years and [private equity] has a pent-up demand; they either have to use those funds or they'll lose them," said Larmer. On the strategic-buyers front, he said, Americans are also looking for Canadian M&A deals.

"There are a lot of U.S. companies that are expanding into Canada right now or looking to do so," said Larmer. "They come with quite a bit of cash on their balance sheets; they're taking some leverage on, but they're certainly capable and have the capacity to make those acquisitions."

Banks, he said, are driving this activity with a renewed interest in lending.

"We're seeing that there's a lot more money available to leverage buy-outs of businesses, and I think there's a lot more growth capital that's available as well to existing company owners."

David Rowntree, a managing director with Vancouver-based private-equity firm Tricor Pacific Capital, Inc., commented that the lenders have been actively looking to get loans on their books for about six months now.

"We've seen the banks come back in a very aggressive way," he said, noting that he's seeing the phenomenon on both sides of the border, though it happened slightly faster in Canada. "We're seeing availability of debt on terms, conditions and pricing that is approaching pre-financial crisis levels, 2007 levels."

Larmer added that lenders are back – to the extent that they're starting to compete for financing deals – something, he said, that he hasn't seen happen since about 2007.

"In the past six to seven months, we've been invited to lunch by bankers for the first time in two years," he quipped.

Deals are also speeding up, Larmer said. Since last October, he said, he's seen multiple buyers present for nearly all deals the brokerage handles. For one deal, he said, Sequoia saw seven buyers come forward.

"Nothing drives the terms and the speed of a deal [like] having someone else who's interested in it," he said.

Like Larmer, Rowntree characterizes the current situation as a seller's market, but he said that the deals are starting to come back.

"There's no question that the number of deals that are available for us to look at has increased, and it seems like it's a continuing trend," Rowntree said. "We've just been watching it edge up month after month here for the last several months."

And more than just quantities improving, he said, Tricor has seen the quality of possible deals rise to "significantly better" than a year ago.

Rowntree attributes the better quality of the deals to the fact that strategic sellers didn't want to sell based on grim 2009 numbers, and have worked to turn their results around.

"I think it was a mentality of, "Let's not sell at the bottom; let's wait for the performance to come back."

Rowntree said that one odd thing with this recession relative to previous recessions, from a private equity perspective, was that there weren't the usual distressed deals.

"We just kind of skipped right over that," he said. "People didn't come to market, the banks didn't force things to be sold, so largely we skipped over the traditional ability to pick over troubled companies. It just didn't happen."

Rowntree speculated that banks may have caused the phenomenon by being more forgiving with their customers, possibly in acknowledgement of how broad-based the recession was.

Having weathered the recession, however, sellers are gradually starting to emerge – a number of them having delayed their succession plans when the downturn hit.

"Succession plans that were in place prior to the downturn have now come back to

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the forefront of people's minds," Larmer said. "A lot of people are considering retirement and succession."

Don Sihota, a partner with Clark Wilson LLP who specializes in mergers, acquisitions and business succession planning, said that he's increasingly seeing owners of private businesses starting to look at succession.

Some, he said, having weathered the recession, are looking to expedite succession plans so they can retire earlier than planned.

"When all of a sudden there's a major recession, a crisis, you start to question whether you want to take that chance again, once you get through it," he said.

Rowntree said that, going forward into 2011, he expects to see deals continue to build in volume and quality.

"I think it will give [private equity] a chance to get our money well invested," he said. "It's always easy to buy something, but the hard thing is to buy something well and pay fair value for it but put yourself in a spot where you can create value going forward." •

jwagler@biv.com

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