

LEADERS M&A COLUMN



by **Matthew L. Caras**

We are pleased to present the first edition of our new monthly column, The Leaders Merger and Acquisition (M&A) Column. Over the years, *CryoGas International* (CGI) has reported on important acquisition and sale transactions in the worldwide gas industry, such as its articles on the Airgas acquisition of Air Products' Packaged Gas Business (see January 2002 issue), followed by the Airgas acquisition of BOC's Packaged Gas Business (see May 2004 issue) and the Praxair acquisition of Air Liquide's German industrial gases assets (see November 2004 issue). In addition, over the past few years, CGI has published articles written by Leaders LLC on various merger and acquisition issues (see "Selling Your Business: How to Obtain the Highest Possible Purchase Price," February 2002 issue; and "2004 – A Good Year for those Who Sold and Bought Businesses," February 2005 issue).

The response from the industry's smaller and mid-sized businesses—from \$1 to \$100 million in sales—to the information provided by Leaders in its CGI articles has been extremely favorable. Simply put, it is clear that business owners in the industry have a strong interest in understanding the sale process, as well as current trends and valuation issues affecting their businesses. The purpose of this new M&A column series is to provide that information on a more regular basis. That being said, the purpose of this first Leaders M&A Column is simply to introduce Leaders LLC, and to let the readers of CGI know what they should expect from this column in future issues.

Leaders LLC is a merger and acquisition advisory firm, which, in close association with J.R. Campbell, specializes in the discreet sale of privately held businesses in the worldwide gas industry. Leaders has represented industrial, medical, chemical and specialty gas distributors, gas producers, and cryogenic and other equipment manufacturers in the sale of their businesses to strategic and financial buyers from within and outside the gas industry. As the industrial gas industry's leading M&A firm, at any given time Leaders represents several businesses within the industry, in some cases as seller and in other cases as buyer. The companies that Leaders has represented as exclusive M&A advisor in purchase and sale transactions have ranged in size from as small as \$1 million in revenue to as large as \$85 million in revenue.

Needless to say, Leaders LLC maintains the confidentiality of its client matters with the strictest of standards. For that reason, it should be noted that Leaders LLC will not comment in this column on matters that are confidential, or that would compromise the interests of its clients.

In addition to its merger and acquisition work in the worldwide gas industry, Leaders LLC represents manufacturers, distributors and service providers in many other industries. As a member of the International Network of M&A Partners (IMAP), an exclusive global organization of almost sixty leading merger and acquisition advisory firms located around the world, Leaders has access to significant data regarding small and middle market purchase and sale transactions, as well as merger and acquisition advisory firms worldwide. In 2004, IMAP firms closed over one hundred ninety transactions, with aggregate transaction value of approximately \$5.8 billion. One of the principals of Leaders, Peter Anania, is an IMAP board member. IMAP resources will add to the quality and depth of the M&A reporting that appears in this column.

For several reasons, the timing is right for this column. Acquisitions in the worldwide gas industry have accelerated. Gas distributors, in particular, have been active, with Airgas leading the way in its acquisition of twelve more distributors in 2004 - adding to its 300+ acquisitions since its founding in 1982. Private equity firms have successfully competed with industry buyers for good businesses in the manufacturing and service sectors of the industry. This activity has led to higher acquisition prices in the worldwide gas industry, which is consistent with activity in other industries. In fact, prices for private companies with annual sales of less than \$100 million are at their highest levels in the past five years. This increase in valuations is attributable to several factors, among them: (1) An improving domestic economy; (2) an abundance of capital; (3) continued low cost of debt financing; (4) an increase in the number of buyers, especially financial buyers such as private equity groups; (5) increased tolerance for use of leverage in acquisitions; and (6) favorable capital gains tax rates. According to a recent IMAP pricing survey, in 2004 pricing for manufacturing, distribution and service companies rose 9%, 26% and 22%, respectively, over 2003.

The merger and acquisition market is expected to remain strong throughout the remainder of 2005. Never before has there been so much capital searching for privately held companies; it is estimated that as much as \$50 billion in capital from private equity groups is earmarked for investment in private companies. At a major meeting of private equity firms in April in New York City, at which Leaders LLC was represented, the fervor of the activity and desire for acquisitions of strong mid-sized businesses was never more apparent. As was the case in 2004, the following factors will continue to be important to the value of a business: (1) Quality of earnings, *i.e.*, can they be sustained and will they grow; (2) distinctiveness of products or services, *i.e.*, is there a high barrier to entry; (3) growing market into which the business sells its products or services; (4) strong senior management group; and (5) solid information systems.

Many owners of privately held companies in the worldwide gas industry will sell their businesses, or at least consider and initiate the process, in 2005. While strategic industry buyers will likely continue to be the most active acquirers in certain sectors of the industry, such as the distributor segment, financial buyers will be active acquirers in other industry sectors including cryogenic and other equipment manufacturers and service providers. Therefore, access to the private equity markets has never been more important to the business owner seeking to obtain the highest possible price for his or her business. At the same time, the number of management buyouts will continue to increase. And where management buyout opportunities arise as a result of the divestiture by large companies of non-strategic assets, they will often be on terms and at prices that are extremely favorable to management. In short, the current market is exciting and active for both sellers and buyers.

We look forward to reporting on a regular basis to the readers of *CryoGas International* regarding U.S. and worldwide gas industry merger and acquisition activity. Finally, we would welcome information that may be appropriate for publication in this column. Therefore, we encourage the readers of *CryoGas International* to send an email to MCaras@Leaders-LLC.com, or call 207-318-1893. For more information on Leaders LLC, please visit our site, www.Leaders-LLC.com. ■