

# Bloomberg BRIEF

# Mergers

NEWS, ANALYSIS AND COMMENTARY

FRIDAY  
10.19.12  
www.bloombergbriefs.

## M&A Watch

**DEALS.** Richard Li agreed to pay \$2.14 billion for ING's Asian insurance units. Cencosud agreed to buy Carrefour's Colombian unit for \$2.6 billion. Page 3.

**IN PLAY.** Archer Daniel Midlands is seeking talks with Australia's GrainCorp after buying a stake in the company. Overseas Union Enterprise said it's considering a bid for Fraser & Neave, posing a threat to Thai billionaire Charoen Sirivadhanabhakdi's offer for the company. Page 3.

**MARKET CALLS.** BCE's failure to win approval for its \$3.1 billion Astral Media takeover may herald the end of its deal-led expansion, say analysts. Page 3.

**BUYERS AND SELLERS.** What PPG, Safran, Hillenbrand and Brown & Brown have been saying about acquisitions and disposals. Page 5.

**Q&A.** Duff & Phelps managing director Brooks Dexter said he sees growth in health-care deals following the U.S. Supreme Court's ruling on the Affordable Healthcare Act. Page 6.



Brooks Dexter

**DEAL ARBITRAGE.** Page 7.

## H&R Block Seen Inviting Buyout in Bank Removal

BY BROOKE SUTHERLAND

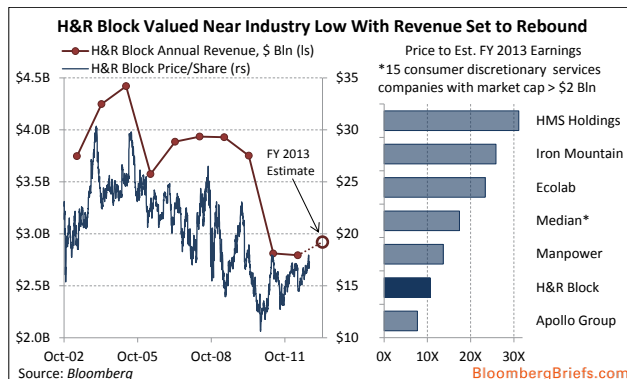
Removing the bank embedded in H&R Block Inc. would turn the biggest U.S. tax preparer into a potential takeover target.

H&R Block said last week that it hired Goldman Sachs Group Inc. to evaluate options for its six-year-old banking unit amid new Federal Reserve rules requiring savings and loans to hoard more capital. Jettisoning the bank would simplify the business and may boost the odds of a deal, shareholders Yacktman Asset Management LP and Kempner Capital Management Inc. said.

The company is mulling alternatives after a decade-long malaise in its share price. At \$17.29, H&R Block trades at a price first reached in 2001 and 43 percent below the record high from 2004. H&R Block's price-earnings ratio using this year's estimates is less than 93 percent of U.S. consumer discretionary services companies, and analysts foresee the end to a four-year decline in sales, according to data compiled by Bloomberg. While Schwartz Investment Counsel Inc. said its cash flow generation may lure private-equity buyers, Foxhall Capital Management Inc. said mortgage lenders may see value in combining with H&R Block.

"This company has all the characteristics of a potential takeover target," said Sandy Mehta, chief executive officer of Value Investment Principals Ltd. Eliminating the bank removes an obstacle that may deter buyers who don't want the increased regulation such a business brings, he added.

H&R Block handled 16 percent of all tax returns in 2011, according to U.S. Internal Revenue Service data cited in a report by



## TODAY'S DEALS (includes announced and amended deals to 6:30 a.m. New York time)

TARGET	TICKER	SECTOR	ACQUIRER	TICKER	VALUE (\$M)	EV/LTM EBITDA
Retail operations in Colombia	-	Consumer, Non-cyclical	Cencosud SA	CENCOSUD CI	2614	-
ING Insurance Units	-	Financial	Pacific Century Group	PCGZ HK	2140	-
Junction Unit Trust/The	-	REITs	Hammerson Plc	HMSO LN	408	-
HICOM Power Sdn Bhd	2244702Z MK	Consumer, Cyclical	MMC Corp Bhd	MMC MK	189	-
STX Heavy Industries Co Ltd.	STXHIZ KS	Industrial	STX Metal Co Ltd.	071970 KS	83	-
Sichuan Changhong Electric Group Co Ltd.	SCCHEZ CH	Diversified	Sichuan Changhong Electric Co Ltd.	600839 CH	80	-
Hojiblanca brand & industrial assets	-	Consumer, Non-cyclical	Deoleo SA	OLE SM	46	-
Kun Wha Pharmaceutical Co Ltd.	002250 KS	Consumer, Non-cyclical	Alvogon Inc.	2853540Z US	21	4.1
Opus Group Holdings Ltd.	0618059D LN	Consumer, Non-cyclical	Alliance Pharma Plc	APH LN	15	-
Nice Claup Co Ltd.	7598 JP	Consumer, Cyclical	Shareholders	7598 JP	9	-

**H&R BLOCK BANK UNIT...**

Los Angeles-based industry researcher **IBISWorld**. In 2006, the company formed H&R Block Bank to offer loans, savings accounts and other products.

Sales at H&R Block have fallen four straight years, while net income slumped for three, as it fights for tax-return market share versus **Intuit Inc.**'s do-it-yourself TurboTax service. Earnings have also been hurt by the end of refund-anticipation loans amid regulatory pressure and complaints from consumer groups that interest rates were too high.

"For the last few years, revenue growth has generally come in below expectations," said **Mike Turner**, an analyst at **Compass Point Research & Trading LLC**.

The company has been forced to set aside money, reducing net income, in anticipation of losses on loans offered by its shuttered **Option One Mortgage Corp.** unit. Also, the Securities and Exchange Commission ordered the tax preparer this year to pay more than \$28 million to resolve claims it sold investors subprime mortgage-backed securities without disclosing risks.

H&R Block shares peaked at \$30.36 in 2004 and have fallen from a 2008 high of \$26.50. The decline has left H&R Block trading at 10.7 times analysts' average projection for the company's earnings this year, Bloomberg data show. Only **Apollo Group Inc.** has a lower ratio among U.S. consumer discretionary services companies valued at more than \$2 billion.

Given the low valuation and analysts' projection for revenue to increase 4.5 percent this fiscal year, which ends in April, H&R Block may turn into a takeover target, Value Investment Principal's Mehta

said. The company's growth prospects are also bright because of its expansion into overseas markets such as India, he said.

Exiting the bank business would help streamline H&R Block, making it more attractive to potential acquirers, said **Shawn Gault**, a money manager at **Kempner Capital Management**. While getting rid of H&R Block Bank may cause a "near-term hiccup" in earnings, the company would also be able to relieve itself of regulatory obligations and could end up saving money, Compass Point's Turner said. Removing the regulatory requirements that come with bank ownership would make H&R Block a "more attractive takeover target" for private-equity firms that don't want to deal with such scrutiny, said **Tim Schwartz**, a money manager at Schwartz Investment Counsel.

H&R Block generated \$298.7 million in free cash flow in the last 12 months, almost double the median \$158.2 million among similar-sized peers in the U.S. consumer discretionary services industry, according to Bloomberg data. The company had \$1 billion in total debt and \$939.9 million in cash as of July 31, the data show.

Financial institutions including mortgage lenders may be tempted by H&R Block and its almost 11,000 retail locations across the country, said **Paul Dietrich**, CEO and co-chief investment officer of **Foxhall Capital Management**.

While Schwartz estimates H&R Block could fetch between \$20 and \$25 a share in a takeover, Value Investment Principal's Mehta said the company could attract bids of \$30. That might undervalue the company and may not be the best option for shareholders, Mehta said.

**Bloomberg Brief Mergers**

**Newsletter** *Ted Merz*  
**Executive Editor** *tmerz@bloomberg.net*  
212-617-2309

**Bloomberg News** *Katherine Snyder*  
**Managing Editor** *ksnyder@bloomberg.net*  
212-617-5212

**Mergers Editors** *John E. Morris*  
*jmorris89@bloomberg.net*  
212-617-0628

*John Manley*  
*jmanley5@bloomberg.net*  
+44-(0) 20-3525-8762

*Scott Johnson*  
*sjohnson166@bloomberg.net*  
+852-2977-4678

*Rob Williams*  
*rwilliams80@bloomberg.net*  
212-617-8844

**Reporter** *Will Robinson*  
*wrobinson11@bloomberg.net*  
212-617-5327

**Contributing** *Carol Chuang*  
**Data Editors** *cchuang2@bloomberg.net*  
212-617-3642

*Uvarshanie Nandram*  
*unandram1@bloomberg.net*  
212-617-7743

**Newsletter** *Nick Ferris*  
**Business Manager** *nferris2@bloomberg.net*  
212-617-6975

**Advertising** *bbrief@bloomberg.net*  
212-617-6975

**Reprints &** *Lori Husted*  
**Permissions** *lori.husted@theygsgroup.com*  
717-505-9701

To subscribe via the Bloomberg terminal type **BRIEF <GO>** or on the web at [www.bloombergbriefs.com](http://www.bloombergbriefs.com)

© 2012 Bloomberg LP. All rights reserved.

This newsletter and its contents may not be forwarded or redistributed without the prior consent of Bloomberg. Please contact our reprints and permissions group listed above for more information.

**YESTERDAY'S DEALS**

TARGET	TICKER	SECTOR	ACQUIRER	TICKER	VALUE (\$M)	EV/LTM EBITDA
Orient-Express Hotels Ltd.	OEH US	Consumer, Cyclical	Indian Hotels Co Ltd., others	-	1,573	18.3
Fisher & Paykel Appliances	FPA NZ	Consumer, Cyclical	Haier Electronics Group Co Ltd.	1169 HK	1,039	8.2
ABA Seguros SA de CV	1304Z MM	Financial	ACE Ltd.	ACE US	865	-
Zalando GmbH	9812377Z GR	Consumer, Cyclical	Investment AB Kinnevik	KINVB SS	376	-
Epsilon AB	EPSIB SS	Technology	AF AB	AFB SS	262	-
Lotte Midopa Co Ltd.	004010 KS	Consumer, Cyclical	Lotte Shopping Co Ltd.	023530 KS	151	12.0
Sonic Saviion Actcional, DataXtend	-	-	Trilogy Enterprises Inc.	3272527Z US	114	-
Union Bank of Nigeria PLC	UBN NL	Financial	Richard Chandler Corp.	9839253Z SP	112	-
Presidio Pharmaceuticals Inc.	3668389Z US	Consumer, Non-cyclical	BioCryst Pharmaceuticals Inc.	BCRX US	101	-
Eko Holding SA	EKO PW	Consumer, Non-cyclical	Advent International Corp.	13620Z US	101	8.4

## THE WIRE

### Richard Li to Buy ING's Hong Kong, Other Units for \$2.14 Bln

Richard Li agreed to pay 1.64 billion euros (\$2.14 billion) for **ING Groep NV's** insurance units in Hong Kong, Macau and Thailand, as Asian buyers seek to profit from the dismantling of Europe's largest financial companies.

**Pacific Century Group**, controlled by Li, will buy the insurance and pension units in the three locations in a sale that values the life businesses at 24.3 times estimated 2012 earnings and a 1.9 times estimated 2012 book value of 865 million euros, the statement said. ING is expecting a net gain of about 1 billion euros from the sale, it said.

Li's father, Li Ka-shing, Asia's richest man, has pledged financial support for his younger son's ambitions to build his own businesses.

The purchase by Li, who sold his stake in a Hong Kong insurer in 2007, is the biggest insurance deal in Asia since **Chow Tai Fook Nominee Ltd.**, controlled by billionaire **Cheng Yu Tung**, bought a \$2.5 billion stake in **Ping An Insurance Group Co.** in March last year.

The deal follows Richard Li's purchase of **PineBridge Investments LLC**, a \$68 billion investment manager, from **American International Group Inc.** in 2010. Li's Pacific Century Group completed the \$500 million purchase as AIG sold assets to repay a \$182.3 billion U.S. government bailout.

Richard Li sold his stake in Hong Kong insurer **Pacific Century Insurance Holdings Ltd.** to **Fortis**, the Belgian-Dutch financial-services company now called **Ageas**, in 2007.

ING is required to sell its insurance and investment-management businesses before the end of 2013 after getting 10 billion euros of state aid during the financial crisis.

While executing the imposed divestment program, ING is also selling banking assets to help speed up repayment of a remaining 3 billion euros in aid and 1.5 billion euros in additional payments.

Li is advised by **HSBC Holdings Plc.** **Goldman Sachs Group Inc.** and **JPMorgan** are advising ING.

— Cathy Chan and Maud van Gaal

## MARKET CALLS

■ **BCE Inc.'s** failure to win approval for its C\$3 billion (\$3.1 billion) **Astral Media Inc.** takeover may herald the end of an era of deal-led expansion for Canada's largest telecommunications company, say analysts.

**Jean-Pierre Blais**, head of the Canadian Radio-television and Telecommunications Commission, rejected BCE's proposed purchase of the Quebec specialty channel provider yesterday, calling it a bad deal for Canadians that "would have placed significant market power in the hands of one of the country's largest media companies."

While BCE's appetite to buy broadcasters remains unchanged, it will have to get used to making "smaller, more bite-size" deals, said **Barry Schwartz**, a fund manager with **Baskin Financial Services Inc.** This is a "black mark for Bell Canada in terms of its ability to close deals," he said. "The ramifications are deep and wide."

The rejection is a victory for competitors of BCE, particularly **Quebecor Inc.** of Montreal, which would have faced intensified competition for its Videotron cable service and TVA television network. The transaction was also opposed by the country's second- and third-largest telecommunications businesses, **Rogers Communications Inc.** of Toronto and Vancouver-based **Telus Corp.**

Blais was appointed regulator in June, and said he wants to refocus the regulator on consumer issues. The old rules don't apply," said **Iain Grant**, president of **The SeaBoard Group**, a Toronto-based telecommunications research firm. "I think they're looking at the facts of the case and deciding they're bad."

The deal would have given BCE a 42.7 percent share of the Canadian English-language television market and 33.1 percent of the French-language market, CRTC said.

■ **Archer Daniel Midlands Co.'s** stakebuilding in **GrainCorp Ltd.** could spark a bidding war for Australia's last remaining publicly-traded grain company.

"Anyone that wants a significant presence in Australia would have to look at it," said **Belinda Moore**, an analyst at **RBS Morgans Ltd.** "We expect a number of parties could be interested in GrainCorp and a bidding war may emerge."

"Any of the Asian trading companies could perhaps have an interest," Moore said, naming **Wilmar International Ltd.**, the world's biggest palm oil processor, Singaporean raw materials trader **Olam International Ltd.**, **Bunge Ltd.**, **Noble** and Japan's **Marubeni Corp.**

"Rural assets in Australia have been of interest to quite a variance of people," **Jamie Spiteri**, head dealer at **Shaw Stockbroking Ltd.**, said by phone from Sydney. "You've had interest out of the Arab states, out of India, you've had interest out of China and out of North America at different stages."

A takeover of GrainCorp, which operates seven of the eight ports that ship grain in bulk from Australia's east coast, was "inevitable," **Citigroup Inc.** said in March. The company could lure a bid of A\$2.2 billion, RBS Morgans said at the time.

■ "It certainly looks like we could be heading for a bidding war" for **Fraser & Neave Ltd.**, said **Jason Hughes**, head of premium client management at **IG Markets** in Singapore. Hughes commented after **Lippo's Overseas Union Enterprise Ltd.** said it's considering options including a bid for the drinks group to rival the \$7.3 billion offer from Thai billionaire **Charoen Sirivadhanabhakdi's TCC.** "The value put forward by TCC is significantly missing the mark. OUE is probably looking at F&N's properties and the potential synergies they can derive."

"The fact is that OUE can't do a partial bid for the assets given the takeover bid out there now," said **Goh Han Peng**, analyst at **DMG & Partners Research Pte.** "So OUE is looking at it with other parties because food and beverage is sought after by F&B players, so if they can tie up for a joint offer, and it could be a complimentary approach."

— Andrew Mayeda, Hugo Miller, Elisabeth Behrmann, Phoebe Sedgman, Linus Chua and Jonathan Burgos



THE WIRE...

### Cencosud to Buy Carrefour's Colombia Unit in \$2.6 Bln Deal

**Cencosud SA**, Chile's biggest retailer by sales, agreed to buy **Carrefour SA's** Colombian unit for 2 billion euros (\$2.6 billion) including debt, as it seeks to tap rising consumer spending across Latin America.

The retailer, based in Santiago and controlled by billionaire **Horst Paulmann**, announced the deal in a statement posted on the Chilean securities regulator's website yesterday.

Cencosud signed a \$2.5 billion credit contract with **JPMorgan Chase & Co.** to finance the transaction, which is scheduled to be completed by the end of the year, according to the statement.

Carrefour, the world's second-largest retailer, operates 72 hypermarkets, 16 convenience stores and four cash-and-carry stores in Colombia.

The company, combating weak spending in Europe, is cutting jobs and exiting overseas markets to generate cash and cut debt as part of a three-year turnaround plan formulated by Chief Executive Officer **Georges Plassat**.

The Colombia unit, which posted net sales excluding gasoline of 1.5 billion euros in the 12 months through June 30, will add to Cencosud's home-improvement stores in the country.

Carrefour and Cencosud didn't disclose how much of the deal comprises debt.

— James Attwood and Matthew Bristow

### ADM Buys Stake in GrainCorp, Seeks Talks on Potential Deal

**Archer Daniel Midlands Co.**, the world's biggest corn processor, is seeking talks with **GrainCorp Ltd.** after buying a stake in the company.

Eastern Australia's largest grain handler would review any proposal from ADM to maximize value for shareholders, it said.

GrainCorp, which has a market value of A\$2 billion (\$2.07 billion), halted its shares from trade in Sydney.

The purchase underscores a push by companies including **Glencore Interna-**

**tional Plc** and Hong Kong-based commodity trading company **Noble Group Ltd.** to target agricultural assets, betting on rising demand from Asia as living standards rise and diets improve.

GrainCorp is trading at a multiple of 8.12 times to earnings, the lowest among 11 comparable companies, according to data compiled by Bloomberg. **RBS Morgans Ltd.** analyst **Belinda Moore**, valuing the company at A\$9.77 a share, said the usual takeover premium of 20 percent to 30 percent implied a takeover price of A\$11.73 to A\$12.70 a share.

GrainCorp is the only major publicly traded crop handler still in Australian hands since Canada's **Agrium Inc.** bought **AWB Ltd.**, Australia's former monopoly wheat trader, for A\$1.8 billion, in 2010. **Wilmar** bought Australia's biggest sugar company, **Sucrogen Ltd.**, for A\$1.75 billion the same year.

Wilmar in February also took a 10 percent stake in **Goodman Fielder Ltd.**, the nation's largest baker. **Glencore** in March offered C\$6.1 billion (\$6.2 billion) for **Viterra Inc.**'s grain assets in Canada and Australia.

— Elisabeth Behrmann and Phoebe Sedgman

### Lippo's OUE Mulls F&N Offer in Threat to Charoen's Takeover

**Overseas Union Enterprise Ltd.**, part of **Lippo Group**, said it's considering options that include a bid for **Fraser & Neave Ltd.** shares, posing a threat to Thai billionaire **Charoen Sirivadhanabhakdi's** offer for the company. The announcement today came more than a week after OUE Chairman **Stephen Riady** said it made a \$1.1 billion bid for Fraser & Neave's serviced apartment business.

Riady said in August the company is seeking acquisitions to almost double its assets to S\$10 billion (\$8.2 billion) in as early as three years.

A bid from OUE, a property affiliate of Indonesia-based Lippo Group, would be a setback for Charoen's \$7.3 billion offer to buy F&N as he seeks to expand his Thai real-estate and beverage businesses in Asia. The billionaire agreed to buy a stake

in F&N in July, setting off a fight for the 129-year-old conglomerate and assets spanning from soft-drinks to property.

— Linus Chua and Jonathan Burgos

### China May Be Issue for U.S. in Softbank Bid for Sprint

**Softbank Corp.** buys mobile-phone network gear from Chinese companies viewed as security threats by U.S. lawmakers, and the relationship may become an issue as regulators review its bid for **Sprint Nextel Corp.**

Softbank's connections with **Huawei Technologies Co.** and **ZTE Corp.**, China's two largest makers of phone-network equipment, probably won't kill its \$20.1 billion offer for 70 percent of Sprint, said **Stewart Baker**, a former U.S. Homeland Security Department official. It's likely, though, that U.S. officials will address those links when they scrutinize the deal, he said.

The House Intelligence Committee in a report last month urged U.S. companies to steer clear of Huawei and ZTE, citing concerns that the Chinese government could install malicious hardware or software in U.S. telecommunications networks.

"The flap over Huawei and ZTE means that at a minimum, the extent to which equipment from Huawei and ZTE would be introduced into the U.S. infrastructure will be an issue," said Baker, a partner with **Steptoe & Johnson LLP**. "This deal will probably end up getting approved but with a very detailed national security agreement."

About 10 percent of capital expenditure by Tokyo-based Softbank goes to Huawei and ZTE for equipment, according to data compiled by Bloomberg.

"I am aware in the U.S., the government is sensitively looking at it, and we understand national security," Softbank President **Masayoshi Son** said in an interview yesterday. "So if the U.S. government decides, don't do it, we would comply."

It's only one of our group subsidiary companies using Huawei and ZTE," Son said. "It's never our main investment."

— Sara Forden and Todd Shields

Find Warrants and Certificates with our new **CERT GO**

## BUYERS AND SELLERS

What companies are saying about acquisitions and divestitures

### PPG Industries

**PPG Industries Inc.** announced in July it would sell its commodity chemicals company to **Georgia Gulf Corp.** for \$2.1 billion. The chemical maker's Chief Executive Officer **Charles Bunch** said on an Oct. 18 conference call that talks between potential buyers and sellers were improving.

**Duffy Fischer**, Barclays Plc analyst:

When I read through the press release on your use of cash, the sentence "primary means of deploying our strong cash position" is going to acquisitions, seems like a more aggressive way you guys are talking about acquisitions now than three or four years ago. Is that true? If it is, what are you seeing differently now that you'd be more aggressive with acquisitions?

**Bunch:** If you go back three or four years ago, you're talking about 2009 or the end of 2008, and we were just starting the Great Recession. We were focused on pretty much hunkering down and getting through this. Since that time, probably as we've come out in 2010 and beyond, we've been more optimistic about acquisitions. We haven't made as many. In the fourth quarter of 2010, we bought Byron in China. We closed on two earlier this year, Dyrup and Colpisa. Now, we've announced this acquisition at Spraylat. It's a more challenging environment. If you're well positioned, you can do well, as we're doing. But there's a little more realism on the part of many coatings companies, or maybe companies more broadly, that this reality may be with us for another year or two where it's not so easy to be successful. We've seen a little more realism in terms of what their expectations are on the selling prices.

### Safran SA

**Jean-Pierre Cojan**, executive vice president of strategy and development at **Safran SA**, the French maker of aerospace components and jet engines, spoke on a conference call Oct. 16 about the company's \$400 million acquisition of a power systems unit from **United Technologies Corp.** **Christophe Menard**, an analyst at **Kepler Capital Markets**, asked **Cojan** to explain what he meant when he said **Safran** would be able to "achieve sufficiency and independence in terms of power distributions systems" through the transaction.

**Menard:** You mentioned self-sufficiency. Do you mean that there are no other acquisitions planned in the area of electrical power systems in the future?

**Cojan:** We said what we said, which is that we always had the ambition to become a comprehensive solutions provider for aircraft electrical systems, which so far only one player had, which is UTC Hamilton Sundstrand. We have now acquired all these bricks. We have achieved the level of independence and autonomy that we need for each and every of these bricks, including electrical distributions. There are two aspects of electrical distributions. One is distribution systems, and we have what we need. The other is the distribution hardware, and for that you can be adequately served by competition because there are at least three or four providers of such components.

### Hillenbrand Inc.

**Hillenbrand Inc.'s** Chief Executive Officer **Kenneth Camp** said on a conference call Oct. 16 that the idea for the industrial

manufacturer's \$532 million takeover of Germany's **Coperion GmbH** first started to take shape when he met his counterpart **Gunter Bachmann** at an industry event.

**Camp:** I'd like to tell you a bit about how the strategic link between Coperion and Hillenbrand came about. I first met **Gunter Bachmann**, the chief executive officer of Coperion, at a plastics industry show in Dusseldorf, Germany. It was clear that we shared a common vision of the future of the process equipment industry. As I later thought more about our future strategy, it seemed almost certain that we would meet again in the future, either as adversaries competing for many of the same potential acquisitions, or together, with Coperion and Hillenbrand bringing unique capabilities as part of the same company. That led us to about a year of discussions, which have now brought us to this day.

### Brown & Brown Inc.

**J. Powell Brown**, chief executive officer of family-run insurance broker **Brown & Brown Inc.** said on a conference call Oct. 16 that the Daytona Beach, Florida-based firm is still looking for acquisition possibilities after completing a \$395 million takeover of **Arrowhead General Insurance Agency Inc.** early this year.

**Brown:** I would tell you, someone will ask, as I always like to say, our acquisition pipeline is good and it's a little bit like fishing. Somedays the fish are biting and somedays they aren't, but we're always fishing. Having said that, the election process seems to be piquing a lot of people's interest in combining with a larger firm like ours.

— compiled by Will Robinson

SECTOR	DATE	COMPANY	WHAT IT SAID
Medical Devices	Oct. 18	Boston Scientific Corp.	President Mike Mahoney said on a conference call that the maker of cardiovascular devices plans to use about half of its cash for acquisitions "that make strategic sense for the company."
Medical Equipment	Oct. 18	Danaher Corp.	CFO Daniel Comas said the company's "bias is on the M&A side" rather than buying back its own stock on a Oct. 18 conference call.
Banks	Oct. 18	Sandy Spring Bancorp Inc.	Organic growth is the commercial banking company's first priority, though "M&A is up there given our capital position and given what we think may be some opportunities coming," CEO Daniel Schrider said on a conference call on Oct. 18.
Rentals	Oct. 17	United Rentals Inc.	Setting a lower target for the equipment rental company's leverage gives it a "firmer foundation for driving the strategy" and may help it position itself for further acquisitions, CFO William Plummer said on a conference call. United Rentals bought RSC Holdings Inc. for \$1.9 billion in May.

# Q&A

## Duff & Phelps's Dexter Sees Growth in Healthcare M&A After Court Ruling on ACA

The outlook for health-care services deals was made clearer after the U.S. Supreme Court upheld the Patient Protection and Affordable Care Act in June, says **Brooks Dexter**, a managing director at **Duff & Phelps Corp.** DaVita Inc.'s \$4.4 billion agreement in May to buy HealthCare Partners may be representative of future deals, he said. Dexter spoke with Will Robinson.

### Q: What does M&A look like now for health-care services companies?

**A:** We have seen an uptick in health-care services M&A activity in the second half, at least in the middle market. We attribute a lot of that to the veil of uncertainty that was lifted after the Supreme Court ruled on the Affordable Care Act. There's probably another shoe to drop with regard to the November election, more importantly in Congress than in the White House. We'll see whether there will actually be funding to support a number of the initiatives in the Act.

### Q: What kind of uncertainty was lifted and how has it affected your clients?

**A:** For middle-market companies that are providing services either into health-care providers or payers, the uncertainty was whether some of the initiatives in the Affordable Care Act would actually play out. Things like funding for information-technology initiatives were part of the ACA, funding for the transition to the new coding format and continued funding and support for electronic medical records. Had the Act itself been overturned, it would've at a minimum delayed some of the funding there and perhaps cut funding off entirely.

### Q: Which deals have stood out?

**A:** DaVita-HealthCare Partners. That's the one that I don't think too many M&A professionals would've predicted would happen. On announcement, it was greeted with a little bit of skepticism and head-scratching, but now it has become clear that managed care is going to be part of the solution.

### Q: What's the balance between private equity and strategic buyer interest?

**A:** We've seen a high level of interest from

private equity groups, but we've seen pricing in many cases get away from them. The winners in more of our processes have been strategic buyers, with private equity playing a cover bid role.

### Q: Which deal would be most representative of your work in the past year?

**A:** A company called Anthelio Healthcare, it's about a \$300 million company IP services company providing services to hospitals. We represented the buyer there. The buyer was a private equity-backed management team that came out of India's WiPro. The management team spun out of there was looking for an acquisition where they could bring business process outsourcing into an organization and lower its cost-structure. We bought this company called Anthelio which has hospitals as its client. The company has been able to reduce the cost of IT spending with the outsourcing model.

### Q: What should we watch for next?

**A:** There are a number of processes going on right that are going to produce jaw-dropping valuations, not necessarily large companies but smaller technology tuck-ins that are going to produce very high revenue multiples. There are going to be a slew of announcements between now and year-end that are going to really bring attention to the sector.

### Q: Bloomberg has been reporting on a possible buyout of Allscripts. What would be the significance of that deal?

**A:** Allscripts will be a big one. That won't be necessarily a high-multiple deal be-

cause the stock has been beaten up and they've had management problems, but fundamentally it's a very good company and there will be a number of strategic buyers and financial buyers who will line up for that process.

### Q: What's driving the higher multiples then? Are there fewer targets?

**A:** There are fewer targets available and the multiples are being applied to companies that have technologies that enable a solution that a strategic buyer is looking to solve. You've seen people like UnitedHealthCare and McKesson that have been very strategic about picking up niche technologies that help them round out their service offering. For them it's a buy-or-build decision. It's not so much, "Am I paying the right multiple?" It's, "If I don't buy this now, it might take me two years to develop it and by then someone else might have beaten me to it."

### Q: What's attractive about this space to private equity outside of the usual metrics that are appealing to financial buyers?

**A:** It's a very high-growth area so the private equity groups that play successfully here are more of the large-growth equity type players. People like Hellman & Friedman or Thoma Bravo – people who are comfortable buying growth and paying a growth multiple. There's a lot of government funding going into the sector so visibility on revenues is very good. It's a relatively low-risk way to play health care and to achieve fairly high growth.

## AT A GLANCE



**Based:** Los Angeles

**Hometown:** Manhattan Beach, California

**Education:** University of Chicago, AB and MBA

**Current Reading:** The Great Influenza by John M. Barry

**Favorite Restaurant:** La Petite Folie in Chicago

**Hobbies:** Running, swimming, golf



## DEAL ARBITRAGE

TARGET	ACQUIRER	DEAL SIZE (\$M)	ANNOUNCED DATE	EXPECTED COMPLETION DATE	OFFER PER SHARE	ANNOUNCED PREMIUM IN %	LAST TARGET PRICE	CURRENT PREMIUM %	SPREAD	LAST SPREAD MOVE
American Realty Capital Trust Inc	Realty Income Corp	2,804	09/06/12	03/31/13	11.88	2.76	11.89	-0.10	-0.01	0.01
AMERIGROUP Corp	WellPoint Inc	4,556	07/09/12	03/31/13	92.00	47.43	91.70	0.33	0.30	0.01
Astral Media Inc	BCE Inc	3,729	03/16/12	12/31/12	50.00	37.22	46.65	7.18	3.35	1.79
Best Buy Co Inc	Richard Schulze	7,594	08/06/12	-	26.00	39.92	17.49	48.66	8.51	0.10
Celtic Exploration Ltd	Exxon Mobil Corp	2,896	10/17/12	-	24.50	32.87	26.27	-6.74	-1.77	0.02
Cooper Industries PLC	Eaton Corp	12,827	05/21/12	12/31/12	75.19	22.68	74.73	0.61	0.46	0.04
Coventry Health Care Inc	Aetna Inc	5,591	08/20/12	06/30/13	44.51	27.87	43.90	1.39	0.61	0.01
Cymer Inc	ASML Holding NV	2,346	10/17/12	06/30/13	79.29	63.54	74.13	6.96	5.16	-2.46
Dollar Thrifty Automotive Group Inc	Hertz Global Holdings Inc	2,514	08/26/12	10/22/12	87.50	14.64	85.11	2.81	2.39	1.70
GenOn Energy Inc	NRG Energy Inc	4,075	07/23/12	03/31/13	2.83	22.31	2.77	2.15	0.06	0.01
Hudson City Bancorp Inc	M&T Bank Corp	3,838	08/27/12	06/30/13	8.81	12.27	8.75	0.72	0.06	-0.04
Medicis Pharmaceutical Corp	Valeant Pharmaceuticals Int'l.	2,440	09/03/12	06/30/13	44.00	35.55	43.36	1.48	0.64	0.06
Nexen Inc	CNOOC Ltd	17,432	07/23/12	12/31/12	27.50	65.09	25.77	6.71	1.73	0.03
Oshkosh Corp	Icahn Associates	3,245	10/11/12	12/03/12	32.50	16.32	29.93	8.59	2.57	0.10
Pacific Capital Bancorp	Mitsubishi UFJ Financial Group Inc	1,514	03/12/12	12/31/12	46.00	61.08	45.78	0.48	0.22	0.14
Progress Energy Resources Corp	Petronas	5,590	06/28/12	-	22.00	96.52	21.84	0.73	0.16	0.07
Robbins & Myers Inc	National Oilwell Varco Inc	2,408	08/09/12	12/31/12	60.00	34.43	59.74	0.44	0.26	0.06
Shaw Group Inc/The	Chicago Bridge & Iron Co NV	3,180	07/30/12	03/31/13	46.08	73.39	44.36	3.88	1.72	-0.16
SuperMedia Inc	Dex One Corp	1,474	08/21/12	12/31/12	2.74	5.48	2.86	-4.19	-0.12	-0.12
Viterra Inc	Glencore International PLC	7,432	03/20/12	11/15/12	16.25	33.41	16.03	1.37	0.22	0.02

# MAKE AN IMPACT WITH BLOOMBERG BRIEF CONTENT

Bloomberg Briefs provide dedicated licenses to reuse our content to help your business. We offer a full suite of products and services ranging from hardcopy and electronic reprints to plaques, permissions/licensing and photocopies.

### MAXIMIZE YOUR MARKETING WITH CUSTOM REPRINTS FOR:

- Direct Mail
- Online enhancements, branding and client awareness
- Literature for sales or marketing
- Conference, trade show and corporate handouts
- Professional, educational training & recruitment materials

To find the solution that is right for you, contact us today at: 800 290 5460 x 100, email: [bloombergbriefreprints@theygsgroup.com](mailto:bloombergbriefreprints@theygsgroup.com)