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Mood to merge reappears

By Russell Grantham
The Atlanta Journal-Constitution

5:01 p.m. Sunday, August 8, 2010

When Eclipsys Corp.'s shareholders vote Friday on a proposed $1.2 billion deal to merge with a Chicago company, it will be the first step in the two medical software companies' efforts to cash in on President Barack Obama's plan to modernize patient record keeping.

The deal, announced last June, also puts the Atlanta-based company on a growing list of Georgia businesses that have been involved in mergers or acquisitions this year, after such deals slowed to a virtual standstill a year ago after the financial meltdown.

It's still unclear whether the revival in the volatile deal-making business will last.

Some experts believe most companies are too worried about the economy to do big strategic deals.

"The uncertainty in the economy is so high right now, people don't know if we're headed for a double-dip [recession]," said Campbell Harvey, a finance professor at Duke University in Durham, N.C. "This is not the time to bet the farm."

But some experts say companies are sitting on huge cash hoards that will send them bargain-hunting, especially if their target companies are cheap and offer strategic advantages.

The nation's largest non-financial companies — those in the Standard & Poor's 500 index — have amassed $837 billion in cash on their balance sheets, David Rosenberg, chief economist with Toronto money manager Gluskin Sheff and Associates, recently noted.

Former investment banker Michael Goldstein expects deal-making to continue rising this year because post-boom stock prices are still relatively low, companies have lots of cash, and cheap financing is available to buyers.

"CEOs are under pressure to grow revenues. The fastest way to grow revenues is to buy somebody," said Goldstein, a finance professor at Babson College in Wellesley, Mass.

Big deals in Georgia

At least in the early part of 2010, companies seemed to be in a buying mood in Georgia, reflecting national and global trends.

The overall value of mergers in Georgia skyrocketed in the first half of this year, to $27.6 billion from $1.4

billion the previous year, according to the Mergermarket Group, a merger data service based in London. That is the largest tally in Georgia in dollar terms since 2006.

The bulk of that jump was due to Coca-Cola's $12.3 billion agreement in February to buy the North American operations of Coca-Cola Enterprises, its major bottler.

But other $1 billion-plus buys or mergers, such as the Eclipsys deal, touched Georgia operations this year. They include:

● an $8.3 billion deal in March by Sanofi-Aventis and Merck to put together an animal pharmaceuticals joint venture of Intervet/Schering-Plough and Duluth-based veterinary drug and vaccine maker Merial, which has operations in Athens and Gainesville. The headquarters location is undecided.

● a $2.1 billion merger Atlanta's Mirant announced in April with RRI Energy of Houston to create an independent electricity producer in Texas.

●Swiss automation and power equipment manufacturer ABB Ltd.'s deal in May to pay $1 billion for Ventyx, an Atlanta company specializing in software for power generators and telecommunications companies.

The number of merger deals in Georgia likewise surged by 50 percent in the first half of this year, to 54. Many were relatively small acquisitions by bargain-hunters buying up the assets of failed community banks from the Federal Deposit Insurance Corp.

Signs of slowdown?

Deal-making also has heated up in the rest of the nation and globally, according to Mergermarket, although it still lags far behind the go-go days of three or four years ago, when rising stock prices and easy financing helped drive merger activity to record levels.

Worldwide, buyers announced more than 5,000 deals totaling $883 billion in the first half of 2010, Mergermarket said. That's an 8 percent increase in dollar terms over the same period in 2009, but less than half the total when merger activity peaked in the first half of 2007.

Still, there are some indications that merger activity in Georgia and around the globe could again be sputtering. The volume and dollar value of announced deals in the state dropped substantially from the first quarter to the second, from 34 transactions worth $22.3 billion to 20 deals worth $5.3 billion, according to Mergermarket's data.

While such swings may reflect the erratic nature of the M&A business, the drop could point to growing worries over a possible economic slowdown.

However, investment bankers and other financial players expect to be busier this year, according to a recent survey by Mergermarket. It said 78 percent expect more companies and private equity buyers to be shopping over the next year, even though they expect it to still be tough to find financing and to get deals done.

As long as conditions remain relatively stable, mergers and acquisitions will continue at a healthy clip this year because corporate earnings and business confidence are up, debt levels are down, and prices are cheap, said Erik Granade, chief investment officer of money manager Invesco's global equities unit in Atlanta. Some people, he said, "believe assets are cheap enough that they are near replacement costs."

Outcomes mixed

An increase in such deals would be a mixed bag for employees, customers, investors and communities.

The good news is a surge in corporate shopping often coincides with or even precedes economic growth, and the deals can eventually create more competitive companies and new jobs.

But mergers of competing companies also often bring immediate job losses and the closing of company headquarters and other redundant operations, and allow higher prices to customers.

Also, numerous academic studies have shown that companies often fail to wring the so-called "synergies" they expected from the mergers, saddling investors with lackluster stock performance.

While some deals such as Coca-Cola's acquisition of its domestic bottling operations make a lot of sense, most mergers or acquisitions don't usually pay off for investors or employees, said Goldstein, faculty director of Babson College's Cutler Center for Investments.

Corporate chief executives "tend to pay too much to get the deals done," he said. Later, "they're probably going to lay off a variety of white-collar staff" to meet cost-cut targets.

Some cost-cutting and a decision on which headquarters to keep are in the cards for Eclipsys, the 2,800-employee Atlanta software company, and its merger partner.

Chicago-based Allscripts and Eclipsys announced the $1.2 billion all-stock merger in June as a way to capture a bigger share of $30 billion in federal stimulus money the government is using to push hospitals and doctors toward converting to electronic medical records. Allscripts, with $705 million in revenue last year, produces record keeping and business software for doctors' offices and hospitals. Eclipsys, with $519 million in revenues last year, produces similar software for hospitals and clinics.

"We are at the beginning of what we believe will be the single fastest transformation of any industry in U.S. history," Allscripts Chief Executive Glen Tullman, who will be the combined companies' CEO, said in a press release when announcing the deal. Eclipsys did not return a reporter's calls.

However, in the joint press release, the companies said they expect to find $100 million in cost savings over the next three years after the deal is completed.

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