

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."



Clark Wilson LLP partner Don Sihota says he's increasingly seeing private businesses putting their succession plans in place

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



Tricor Pacific Capital managing director David Rowntree: unlike with most recessions, the recent economic downturn didn't produce the usual distressed deals private equity looks for

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

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Casinos: Entire industry suffering from debt

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provide a capital infusion of \$100 million and a \$500 million term loan. In exchange, they got 98% of the company and were free to start racking up some new debt of their own.

“What was interesting for me was to see how these private equity investment firms go out and purchase the public debt with an eye to becoming management, basically becoming equity, and then going out and raising new debt for the enterprise,” said Lawson Lundell LLP partner Mandeep Dhaliwal.

His firm represented Catalyst on some aspects of the Gateway acquisition. He stressed that the lead lawyers on the case were at Toronto-based Bennett Jones LLP.

“The debt-holders’ purpose was to take over the company and then go out and leverage the company again with new debt over time,” Dhaliwal said.

Once in control of Gateway, the Catalyst consortium hired Jefferies and Co. to raise hundreds of millions of dollars of debt in the bond market.

Troubles in the gaming sector are also hitting Vancouver’s Great Canadian Gaming Corp. (TSX:GC) which has hinted that it may close Hastings Park casino and race track if negotiations with the City of Vancouver on a lease renewal do not improve.

The city wants Great Canadian to spend millions of dollars to build a parkade and refurbish its back stretch.

“We’re a public company. We have to disclose to our shareholders the fact

that the worst case scenario is that negotiations will not go anywhere and that we are forced to cease operations,” spokesman Howard Blank told media in March.

Trouble also struck Edgewater Casino Inc. in 2006, when it embarked on a different kind of restructuring than Gateway did.

Edgewater was losing \$157,000 a week, according to documents filed as part of its 2006 Companies’ Creditors Arrangement Act proceeding. It had racked up \$29 million in debts after opening in February 2005 and the result was being plunged into creditor protection.

The Supreme Court of British Columbia approved a \$42 million deal in 2006 that saw Paragon, as the new owners of the eventually profitable casino, make payments to creditors.

Vancouver Whitecaps co-owner Greg Kerfoot was the largest of those creditors given that he lent Edgewater \$12 million and also provided a \$5.4 million letter of credit for money owed to the British Columbia Lottery Corp.

Companies controlled by Edgewater’s previous owners, Leonard Libin and Gary Jackson, also received an undisclosed sum after creditors and legal fees were paid.

Much recent media attention has focused on how Paragon’s only Las Vegas gaming establishment is a neighbourhood sports bar with 15 slot machines called the Creek Bar and Grill. It is so far off the main Las Vegas strip tumbleweeds pass nearby.

But even the largest casino operators in the world suffer from massive debt and have come close to folding. ■ gkorstrom@biv.com

Succession: Retirement plans back on

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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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