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## Energy engine drives M&A world

**BY GREG BARR**  
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A storm of global merger and acquisition activity swirls around Houston's energy sector.

Worldwide M&A transactions reached a record \$2.7 trillion through the first six months of 2007, according to an new international survey. Even more significant is the staggering amount of money chasing energy deals and the rise in cross-border transactions.

Numbers tell the tale at GulfStar Group, a Houston investment banking firm.

F.W. "Colt" Luedde, president and managing director, says during the past 12 months energy deals have crept up to account for nearly 50 percent of GulfStar's M&A business, compared typically to about a third.



**Galpin**

Through the first six months of 2007, the firm corralled 60 deals totaling \$2.5 billion compared to 36 deals totaling \$1.5 billion for the same period in 2006.

Most people picture exploration and production when they think about energy deals, Luedde says, but that isn't the case in the current market.

"Within energy these days, refinery services are red-hot," he says. "The prices at the gas pump are exacerbated by the limited refining capacity, and now (the refiners) are trying like crazy to try to keep up. There's lots of M&A activity around it."

A major deal struck last week reflects the impact both energy and cross-border transactions are having on M&A activity.

The \$19 billion takeover of Houston's Lyondell Chemical Co. by Dutch chemicals



MICHAEL STRAVATO/HBJ

**Colt Luedde of GulfStar Group: 'America is for sale. Those European buyers can simply pay more because of the euro.'**

company Basell Holdings BV will likely be followed by similar deals.

U.S. business may have to face some tough economic facts, says Tim Galpin, associate professor at the University of Dallas graduate school of management and senior fellow with Katzenbach Partners LLC.

"American companies will have to get their heads around the idea of being owned by foreign corporations," Galpin says. "You saw what happened with Lyondell. Energy-related companies especially have all this cash on the balance sheet and they have to put it to work or become takeover targets themselves."

### EURO POWER

Europe is a growing hub of global M&A activity.

Deals involving European firms increased 77 percent to \$1.04 trillion in the first half of 2007, while U.S. transactions rose by only 52 percent, according to the survey conducted by the Association for Corporate Growth (ACG) and Thomson Financial.

Part of the attraction for U.S. firms as takeover targets is due to shrinking corporate taxes in Europe compared to the United States. A more timely factor is the strengthening euro, now worth about \$1.38

# ENERGY: M&A activity on track to set new record in seller's market this year

versus the U.S. dollar.

GulfStar's Luedde says the difference in currency value played a role in two large deals he recently closed where European firms outdueled U.S. bidders — including one publicly traded Houston firm — to acquire other U.S. companies.



**Henningsen**

Says Luedde: "America is for sale. Those European buyers can simply pay more because of the euro."

Overall, cross-border transactions accounted for more than 47 percent of worldwide M&A activity so far this year.

Through June, total M&A activity worldwide is 67 percent higher than the same period a year earlier, and surpassed the previous first-half record of \$1.93 trillion set in 2000, according to the survey of more than 1,000 ACG members and Thomson Financial customers which included executives from 26 countries.

Jeffrey Henningsen, president of ACG Houston and a partner with Lockton Cos., expects a banner year due to the rapid increase in global acquisitions by growth-driven corporations, with deal makers of all types doing more cross-border transactions.

"I'm confident we'll shatter all M&A records this year," says Henningsen. "It's a seller's market right now."

## MORE DISTRESSED DEALS

In Texas, more than 44 percent of ACG deal makers surveyed expect to be involved in international M&A transactions in the second half, mainly in Western Europe, Latin America and Canada.

And 32 percent predict energy will lead the way for M&A, followed by technology and consumer products and services.

In Houston, the downturn in the national housing market is also playing into the mix. Jay Krasoff, managing director of Chiron Financial Group Inc., has noticed another trend.

The firm, which handles small to medium-size M&A deals between \$25 million and \$75 million, has seen an increased number of so-called distressed M&A deals on the table.

Distressed deals can involve companies that are mismanaged and overwhelmed by debt, or locked in litigation between business partners.

Says Krasoff: "We're doing more deals with building supply companies related to the collapse in the housing market in Florida, Phoenix, California and Las Vegas. And we're even starting to see some small oil and gas E&P bankruptcies this year, when we didn't see them at all in 2005-06."

The muscle of private equity is also being flexed in M&A deals. Private equity-



**Heeson**

backed buyouts accounted for 36 percent of total U.S.-based M&A volume during the first half of 2007, compared to 24 percent a year earlier.

According to a separate National Venture Capital Association/Thomson Financial poll, 26 venture capital-backed companies raised \$4.27 billion through initial public offerings on U.S. exchanges in the second quarter of 2007, a 112 percent dollar volume increase from the same period a year earlier.

Still, the National Venture Capital Association survey waves one caution flag in the race to record M&A volume. Amid a backdrop of sharply increased global M&A activity, the number of M&A deals backed by venture capital in the United States slipped in the second quarter.

Association President Mark Heeson says the dip could be a temporary condition caused by smarter buyers in a softer market.

Says Heeson: "Buyers are getting smarter and a little more selective, and are letting (target) companies sit for a little while. The softness may reflect some digestion issues on behalf of the large acquirers. Once some larger deals move through, we hope to see the volume rebound in the second half."

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