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LI sizzles with $7 billion in mergers

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Long Island notched major merger and acquisition transactions together worth more than $7 billion in 2014 as dealmakers described a sizzling market that could stretch into next year.

Last year's marquee transactions included three billion-dollar deals: a British company's buyout of Plainview defense contractor Aeroflex Holding Corp.; Lake Success-based Dealertrack Technologies Inc.'s pickup of an auto-dealer software designer; and the sale of Hauppauge-based payment processing company TransFirst Inc. from one private equity firm to another.

Among the deals tracked by Newsday in which financial terms were disclosed, Long Island public companies spent almost $2.7 billion on 19 deals, while five companies and one private equity firm from out of the region snatched up six Long Island public companies for almost $3 billion.

LI firms very active

Experts agreed that 2014 was a banner year for Long Island mergers and acquisitions across the board, among public companies, private companies and not-for-profits.

Steve Lebowitz, a managing partner at Topspin Partners, a Roslyn Heights private equity firm, said that low interest rates and the availability of stock and debt to finance deals made for a "robust, frothy environment."

Executives of public companies felt compelled to keep earnings per share rising to keep pace with the stock market, said Alon Kapen, a partner at the Uniondale law firm Farrell Fritz.

"There's pressure on them . . . to justify their stock prices," he said. "Earnings haven't risen commensurate with [stock] prices."

Their choices: grow the company organically, increase per-share value by buying back stock, or make acquisitions in an effort to increase earnings.

Many public companies are choosing the last method and using richly priced stock to finance the deals, Kapen said. "They're using stock as their acquisition currency."

M&A involving U.S. targets, acquirers and divestors totaled $1.8 trillion through Dec. 9, according to financial data provider Dealogic (which itself was scooped up by investors led by private equity firm Carlyle Group LP in November for about $700 million). That was the highest total since 2007, according to data provided to Newsday.

Health care a hot sector

Among the hottest sectors was health care, Kapen said.

"The phenomenon there is health care providers merging and seeking savings, scale and security," he said.

In one high-profile deal, Owens & Minor Inc. announced in June that it was buying Brentwood-based Medical Action Industries for about $207 million. In a transaction involving private companies, Axela-Care Health Solutions, a Lenexa, Kansas-based provider of home infusion services, acquired Farmingdale-based Advanced Care of New York for an undisclosed amount.

Bruce Newman, president, mergers & acquisitions at Ronkonkoma-based consultancy Protegrity Advisors, said demographics are one factor at work among Long Island middle-market companies with revenues of $5 million to $100 million as baby boomer business owners seek an exit strategy.

"About half of our customers are in that category," he said. "They've run the company for 30 to 40 years and they need a buyer."

A report by Protegrity counted 14 middle-market M&A deals on Long Island through September, versus 19 for all of 2013.

A little noticed corner of the M&A landscape involves not-for-profit companies, said Kenneth Cerini, owner of Bohemia accounting firm Cerini & Associates.

He said that 13 percent of not-for-profits responding to his company's survey in 2014 said they were going through a merger or acquisition, versus 5 percent in 2012.

Driving the boom in mergers and acquisitions is increasing competition for private donations and a reduced flow of government funds, he said.

"I think you're going to see a lot more M&A going forward," Cerini said. "The economy is very difficult, especially for the nonprofit sector. If you can increase the size of the organization and cut out some of the layers, it creates more value. You're going to see more and more larger organizations formed."

Paradoxically, the company that is arguably Long Island's most prolific global M&A shop also operates in the shadows. Henry Schein Inc. is Long Island's largest company based on revenue, but its policy of not disclosing financial terms on mergers and acquisitions keeps publicity to a minimum.

Mark Mlotek, Henry Schein's executive vice president and chief strategic officer, runs a team of about 10 people who comb the world for deals that will open new markets and extend current businesses for the distributor of supplies to the office-based practices of doctors, dentists and veterinarians.

"It's safe to assume that we . . . will do a transaction a month," he said. "Put us down for 10 to 15 transactions a year."

Seeking solid partners

Schein seeks established partners to help it push further into international markets, and that's reflected in its M&A efforts.

In 2014, "it was Brazil and Japan," Mlotek said. In 2013, "South Africa and Poland. The year before, Thailand. Every year we enter one or two new countries. Always with a partner."

For Henry Schein, acquisitions are an essential ingredient of growth, Mlotek said, contributing 3 percentage points of 2013's overall revenue growth of 7 percent.

Kapen said that the tail winds driving deals last year likely would persist into early 2015.

"All the conditions that created a strong M&A market in 2014 should continue in 2015," he said. "It bodes well for the first quarter and first half."

Still, he cautioned that once the economic landscape shifts, all bets are off.

"Even six months is an eternity," he said. "Interest rates could start climbing. We could see deflation in the stock market. Both of those would have a negative impact on M&A."

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