

Deal Days

M&A Was Already Off to a Hot Start in OC This Year— Then Came the Allergan Bid

JANE YU Monday, April 28, 2014

Orange County's diverse business landscape is "helping create the wave" that could make 2014 the biggest year for mergers and acquisitions here and nationally in more than a decade.

"Orange County clearly is one of the leading epicenters for M&A activities this year," says Cary Hyden, a partner at Latham & Watkins LLP and chair of the Costa Mesa office's corporate department. "Certainly 'pharma' is leading the wave, but there are other sectors that are extraordinarily hot."

Deals already on the books:

- Ireland-based drug company Mallinckrodt plc's pending \$5.6 billion acquisition of Questcor Pharmaceuticals Inc. in Anaheim.
- Menlo Park-based Facebook Inc.'s \$2 billion purchase of Oculus VR Inc., a startup in Irvine that makes virtual-reality goggles, primarily for video gamers.
- New York-based NeoStem Inc.'s agreement to buy Irvine-based stem cell therapy developer California Stem Cell Inc. in a deal that could be worth as much as \$124 million.

Others in the works or rumored to be:

- Irvine-based Allergan Inc. as the subject of a \$47 billion hostile takeover bid by Valeant Pharmaceuticals International Inc. in Canada (see related story, page 1).
- London-based private equity firm Apax Partners LLP reportedly shopping its Advantage Sales & Marketing LLC for \$3 billion to \$4 billion. It acquired the Irvine-based marketing firm in 2010 for an estimated \$1.8 billion.

Transaction values of the recent spate of deals—all in about the past month—come to about \$55 billion without counting the unconfirmed Advantage deal. The value of deals, even without Allergan—including ones that are done, in the works or said to be forthcoming—would come to about \$11 billion.

The Business Journal's recent tally for all of last year's OC deals whose terms were disclosed came to \$9 billion. That followed \$13 billion in M&A activity in 2012.

'OC-Centric' Spread

George Wall, a corporate practice attorney at Costa Mesa-based Rutan & Tucker LLP, said he recently wrapped up a "major transaction" involving a locally based healthcare company.

Healthcare deals aren't the only ones.

“We’re not at all dependent on a single sector,” Wall said. “This is happening in multiple industries. Most of the OC-centric deals that I see right now are in the aerospace, energy and consumer-product industries. There’s quite a bit of money in the marketplace with the private equity groups and the strategic buyers.”

The spread of transactions and capital market activity speaks to the strength of Orange County, said Bart Greenberg, a partner at the Orange County office of Dallas-based Haynes and Boone LLP.

“20 years ago, we were so dependent on defense contractors,” he said. “This county has done an amazingly good job in diversifying what was an overpopulation of defense contractors. Real estate, too. In the Great Recession, we had huge mortgage companies. There was so much built up over the real estate industry that it was a thorn. ... Now there’s a tremendous wealth of diversity. ... That makes Orange County strong.”

IPOs

Current market conditions helping to fuel M&A action are also deemed good soil for companies looking to go public, said Ethan Morgan, head of J.P. Morgan Private Bank in Orange County.

“The IPO market is driven by improved market sentiment,” Morgan said. “We believe the U.S. economy has entered a more self-sustaining phase of the cycle. ... Corporations and consumers are becoming more confident, and we are seeing that improvement play out in employment, consumer spending, capital expenditures and M&A activity. This is all positive for market optimism and therefore should support the IPO market.”

A few local businesses have taken steps to capitalize on the sentiment.

- Irvine-based Opus Bank last week completed its initial public offering, in which the company and shareholders sold about 5.1 million shares of common stock at \$30 apiece. The bank got \$76.3 million in net proceeds and had a recent market value of about \$1 billion.
- First Foundation Inc., an Irvine-based financial services firm, also announced plans for an IPO. It said last week that it filed paperwork with the Securities and Exchange Commission and that no details on pricing were available.
- Digital media and advertising firm Specific Media LLC in Irvine is rumored to be planning an IPO; the company has made no comments on the possibility.

The increase in appetite for public debuts has kept auditors plenty busy, said Steve Rapattoni, partner-in-charge in the Orange County office of Marcum LLP, an accounting and advisory firm headquartered in New York.

“The last seven to eight weeks, we’ve seen probably 15 to 20 IPO opportunities for our firm,” Rapattoni said. “It’s nothing like what I’ve seen in a long time.”

Down Stream

Rapattoni added that there’s a growing interest among investors in emerging companies, which is opening opportunities for smaller deals.

“But this [move toward IPOs] is not going to go on forever,” he said. “I think, and I hear from others, that the IPO window will be good through the summer. That’s also why so many are trying to do this right now.”