

## Business

### Credit crisis led to big M&A decreases in 2008

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The credit crisis that seized the nation slowed activity in Maryland's mergers and acquisitions market in the last quarter of 2008, adding to a drastic decrease in both deal volume and value for the year.

The number of deals slipped from 335 in 2007 to 261 last year, a decline of 22 percent; the value plunged 45 percent to \$23.3 billion. The year had a promising first quarter, but once the tightening credit market reared its head in the second quarter, the mergers and acquisitions market never had a chance to fully recover.

"There were a lot of financially distressed businesses out there in this economy that either needed to raise new money or sell their businesses," said Ken Mann, president of Equity Partners Inc., a Maryland-based company that handles the sale of troubled firms.

"Through the first three quarters of the year, it was pretty much business as usual, but the fourth quarter was difficult," he said. "There were a lot of businesses out there who needed our help, but it was hard to get financing together or to find buyers."

Players in the mergers and acquisitions market had varying opinions about when the credit crunch took hold, but the numbers obtained by The Daily Record exclusively from Bloomberg Financial showed constriction beginning in the second quarter.

The Daily Record studies mergers and acquisitions each quarter to determine trends in the local and national market through Bloomberg data that reflects pending and completed merger and acquisition deals in which Maryland companies were the buyer, seller or target.

Based solely on the numbers, the fourth quarter may have looked like a bright spot, but the deals, valued at \$6.1 billion, came with a major boost from Electricite de France's \$4.5 billion offer for half of the nuclear assets held by Constellation Energy Group Inc.

That deal allowed Constellation to remain a publicly traded company headquartered in Baltimore, as opposed to the terminated MidAmerican Energy Holdings Co. deal to buy Constellation for \$9.5 billion — \$4.7 billion in equity and \$4.8 billion in assumed debt. Although shareholders seemed to appreciate Constellation's change of heart, the rushed deal with Warren Buffett's MidAmerican was constructed in the days after Lehman Brothers fell and it allowed the utility to avoid bankruptcy.

"Constellation was perceived as a risky entity with which to do business," said Anirban Basu, CEO of Baltimore's Sage Policy Group, an economic and policy consulting firm.

"There was a crisis of confidence and people did not want to do business together because they did not know who was involved in that liquidity crisis," he said. "Warren Buffett did not suffer that liquidity problem."

The Constellation story echoes the turmoil of 2008 as



credit ran dry and companies welcomed rescuers despite the bargain-basement prices offered. Buyers also ran into trouble trying to find money to cover the deals they made.

"I think the fourth quarter was a time when certain transactions got stuck in a transitional time," Mann said. "Buyers paid a certain price for a business and, by the time the deal closed, we were in a different world where the financing dynamics changed drastically. Now people are bidding appropriately and we can close deals."

Deal activity fell short nationwide in 2008 as the country dealt with a recession and a topsy-turvy stock market that led to companies bleeding out cash. In 2007, the United States produced 12,089 deals worth \$2 trillion, versus 9,516 deals worth \$1.1 trillion in 2008.

Bill Wiley, senior vice president of Wiley & Associates Inc., a Towson-based mergers and acquisitions firm, said it has been difficult to watch the government's Troubled Asset Relief Program funds get doled out to banks, only to see the money not made available to businesses.

"Hopefully the next issuance of the TARP funding will go toward business and housing rather than being used as acquisition capital for the banking industry," he said. "If it gets into the economy, things will loosen up."

Community banks that have received money from the government are eager to lend it out, but requests for business loans have all but disappeared. Wiley said community banks have been essential to many of the deals that have gone through, although part of the problem could be that small banks generally need to partner with a larger bank to loan more than \$2 million.

"Community banks traditionally are not the banks we go to when we're looking for money for acquisitions, but I know that the community banks have been steadfast in this time and without them I know that many sales would not have been completed," he said.

Baltimore lost two of its oldest financial institutions this year — Ferris, Baker Watts to the Royal Bank of Canada and Provident Bankshares to M&T Bank Corp. — while Montgomery County's Chevy Chase Bank was sold to Capital One Financial Corp.

The sale of Provident, which was the state's largest independently owned bank, seemed like a chain reaction to Richard Clinch, director of economic research for the Jacob France Institute at the University of Baltimore.

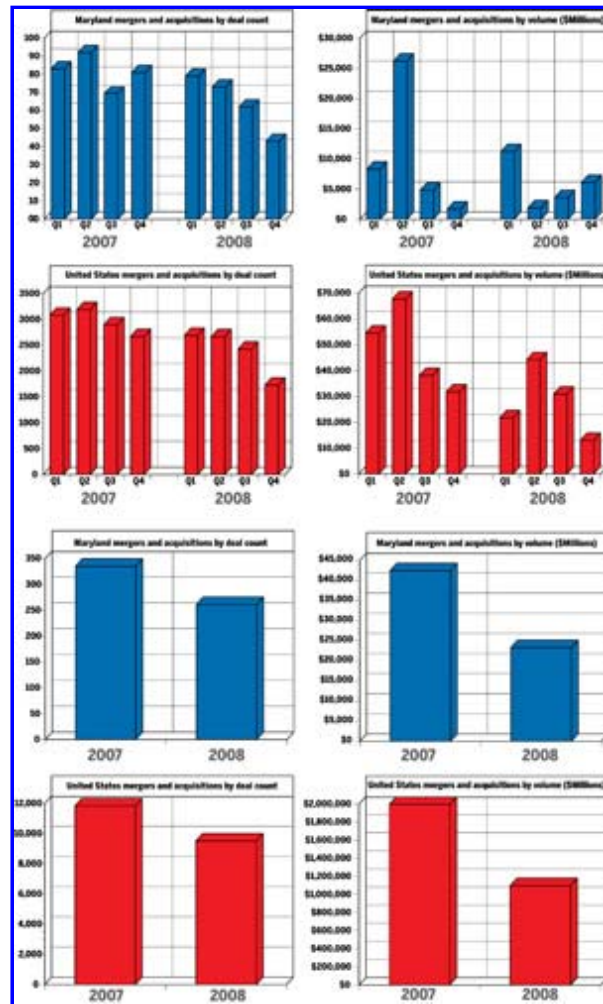
"Provident Bank was a strategic acquisition," he said. "M&T bought them after Chevy Chase Bank got sold. That was a defensive move because they don't want Capital One to move into their market."

But Basu disagreed with that assessment and said M&T is "wedded" to Baltimore because of its presence here and its name on the football stadium.

"The decision was to build on strength rather than worry about encroachment on its territory," Basu said. "PNC, Bank of America and others represent more significant competition. The real motivation was that if M&T didn't acquire Provident, someone else would."

The loss of locally owned businesses will weaken Maryland's corporate voice and dilute business interests, but the shift could be potentially better for those that remain here, Basu said.

"In a town with few headquarters, for those companies that are headquartered there, those corporations enjoy a



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certain prestige," he said. "It's nice to be a big fish in a small pond, not that Baltimore is a small pond, but it's not New York, North Carolina or Chicago."

For Maryland's biotechnology companies, North Carolina is more of a direct competitor, but interest in the state's firms could come from overseas, Clinch said.

"The American technology market has been hammered by the stock market, so there is some value to be found there," he said. "I would look for some biotech acquisitions in 2009. North Carolina is kicking our pants in getting the manufacturing facilities biotechnology companies, but we're still ahead in startup activity."

Despite a difficult year and an even more trying fourth quarter, merger and acquisition players said there are still deals to be made.

"There's going to still be deal activity that's going to happen in whatever industry you're in, but there's going to be less value," said Michael Lamm, an associate with Kaulkin Ginsberg, a Rockville firm that orchestrates mergers and acquisitions for outsourced businesses.

"You're going to see a lot more small transactions," he said. "Cash is going to be king."

Another likely trend for 2009 is continued reliance on the government for help, either in the form of money for banks or in a stimulus package.

"My sense is that TARP monies will be disproportionately important in 2009 in driving acquisitions forward," Basu said. "The TARP monies are making winners and losers. Banks that are left out of the TARP calculus are made losers and may be acquisition targets."