Sidelined strategic buyers back on the Mid-Atlantic M&A field in 2014, industry sources say – Analysis
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Corporations flush with cash are poised to drive M&A activity in the Mid-Atlantic region, according to several industry sources, with healthcare, technology and energy among sectors leading the charge.

The strong IPO market is also driving the deal process, with more sellers running dual-track processes and able to choose the best exit – a public offering or sale to a strategic or financial buyer, the sources said.

Strategics are "back in the game in a big way", noted Brian Miner, a partner in the Philadelphia office of law firm Reed Smith. High levels of corporate cash and readily available debt have given buyers a lot of ammunition, said Robert Dickey, a partner in the New York office of law firm Morgan Lewis. Many corporate buyers are looking at acquisitions to effectively deploy accumulated capital, while activist investors have also been encouraging M&A activity, added Stephanie Evans, the Washington DC-based vice-chair of law firm WilmerHale's Corporate Group.

Financial sponsors remain active, and are increasingly interested in exiting investments they've held for years, several sources said. The difference in 2014, according to Dickey, is the absence of macro factors that may have depressed activity in the past, ie, there is no government shutdown on the immediate horizon, the federal government is behaving predictably, and the Eurozone is relatively quiet.

The volume of deals in the Mid-Atlantic is actually down, though the market has been very active on a dollar value basis, due to several "megadeals", including Philadelphia-based **Comcast**'s USD 45bn purchase of **Time Warner Cable**, the sources said.

Evans pointed to a few large deals in New York, including the sale of **Forest Laboratories** to **Actavis**, as evidence of increasing activity in the region. She noted that businesses in Maryland, Virginia and DC that are more government-focused are also beginning to see more activity after recovering somewhat from sequestration, particularly in growth areas like cyber, cloud computing and ISR (intelligence, surveillance and reconnaissance).

The Mid-Atlantic region will continue to see activity, especially in healthcare/pharma/biotech, energy, media, technology and financial services, the sources said. Energy will be particularly robust in the Marcellus shale region of western Pennsylvania, added Miner, who cited **Chesapeake Energy**, **Shell** and **Range Resources** as big players in that area.

More payment processing deals are anticipated, because like software, the sector has little overhead and capex, and a "huge amount of scale," according to Oliver Brahmst, a partner in the New York office of law firm White & Case.

Deals are being aggressively pursued by both private equity and strategic buyers, all sources maintained. Cash as a percentage of market cap for S&P 500 companies was nearly 9%, or USD 1.1trn, at the end of 2013, high by historic standards, noted Baltimore-based Jon Mahan, a managing director of Stifel's investment banking group. Private equity will continue to give strategics a run for their money, he said, noting unfunded commitments for financial sponsors stood at USD 466bn to start the year.

Dickey did say that sellers' pricing expectations this year have made it somewhat more difficult for PE to bridge the pricing gap and that strategic buyers have been more successful in reaching deals. Miner pointed to increased activity with strategics divesting noncore or underperforming assets and using the proceeds to invest in their core businesses. Within the past six months, for example, **Merck** has sold ophthalmology, microbial process and consumer care assets.

The 2014 IPO market started out very strong as a result of pent-up demand and the strong recent performance of the stock market, according to Jonathan Morris, a partner in the New York office of law firm Morgan Lewis. Several sources said they expect the Mid-Atlantic IPO climate to remain relatively stable for the remainder of year. There are a significant number of IPOs in the pipeline, said Morris, who noted smaller Mid-Atlantic technology companies may decide to pursue IPOs for further growth.

Morris did caution, however, that there is some concern the market may slow down in 2H14 as a result of general economic uncertainty and midterm elections.

The Mid-Atlantic region is attracting foreign buyers partly due to a deep talent pool in the greater New York and DC areas that can address technological developments and tackle difficult regulatory and compliance issues, Evans said. That type of target is attractive overseas, particularly in regulated industries that require a highly educated work force, she explained. Additionally, there is a wide range of companies – including finance, venture capital, pharma and government contracting – located in the principal cities on the northeast corridor between Boston and Washington, added Dickey.

Stephen Gurgovits Jr, managing partner of Pennsylvania-based FNB Capital Partners, said tax inversion strategies – in which US companies seek to lower their corporate tax rate by acquiring overseas partners – will continue to generate cross-border activity, especially in healthcare. Pharmaceutical giants Pfizer **and** Mylan **have both made unsuccessful bids this year to acquire offshore competitors.**

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