

Country Club Capital Advisors: M&A activity should pick up in 2012

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Premium content from Kansas City Business Journal by James Dornbrook, Reporter

Date: Friday, January 13, 2012, 5:00am CST

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James Dornbrook
Reporter - *Kansas City Business Journal*
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The future of merger-and-acquisition activity in the Kansas City area looks strong despite a slight dip in 2011, according to **Country Club Capital Advisors**.

The Kansas City investment bank reported a preliminary total of 152 deals in 2011, compared with 160 in 2010. Deals peaked in 2007, with 181.

Three of 2011's biggest deals included: **Leucadia National Corp.** acquiring a majority stake in Kansas City-based

National Beef Packing Co. LLC for \$867.9 million; **JPMorgan Chase & Co.** selling its interest in Kansas City-based **American Century Investments** for \$848 million; and Kansas City-based **H&R Block Inc.** selling **RSM McGladrey** to McGladrey & Pullen LLP for \$610 million.

Some of the more active Kansas City-area acquirers were **Ferrellgas Partners LP**, with eight deals; **DST Systems Inc.**, with five; **Euronet Worldwide Inc.**, with four; and **Garmin Ltd.**, with four.

Economic factors will determine how strong M&A activity will be this year, said **John Hense**, managing director of Country Club Capital Advisors.

"If we see a little more stability in the stock market and less of these wild swings that we saw in the third quarter, that will provide a bit more certainty in the economy, which drives confidence," Hense said. "If there is any prevailing benchmark to watch in 2012, it will be corporate confidence. I think if corporate confidence comes back, we could see an explosion in M&A because there have been so many companies on the sidelines waiting."

Corporate cash remains at an all-time high, Hense said, and with interest rates and inflation at all-time lows, it's a hard environment for organic growth. Many companies are looking to put their cash to work through a strategic acquisition that can add to the bottom line.

Marshall Parker, president of **Kansas Venture Capital Inc.**, said many companies that the private equity firm owns became more efficient in 2011, and now they're looking to fill that excess capacity. The companies either can boost sales and marketing efforts or buy a competitor and add market share.

Parker said that financing in the upper-middle market is healthy again, which assists the completion of deals. But in the lower-middle market, where his firm operates, financing still can be a challenge because many of the banks supporting that type of M&A activity still are working on problem loans. However, Parker expects the situation to improve in 2012 and spark activity.

"We've been chasing more transitional deals, where a person has been running a business for 30 or 40 years and is looking to transition it to a new owner but keep it local," Parker said. "Our antenna is always up for those types of deals, and we're expecting a strong year in 2012. Folks that wanted to do it in 2008, 2009 and 2010 hesitated because of the economy. They still want to transition, but economic uncertainty just bubbled up. However, now things look a bit more clear."

Pat Trysla, managing partner of Kansas City-based Frontier Investment Banking Corp., said his potential deal pipeline is as robust as it was in the heydays of 2006 and 2007. But they look much saner.

"I don't think we're going to get back to the stupid M&A times with valuations that caused people to scratch their heads," Trysla said.

But nice, solid offers can be found from strong companies flush with cash and looking to make strategic purchases, he said.

"If they find a target that has a synergistic fit with their company, they'll go after them with aggressive valuations on the table," Trysla said. "So they go out and make a compelling offer, and people are willing to listen because those larger strategic acquirers can pay that eye-opening price. But there is nothing crazy about it. The strategic buyers out there aren't going to go on some sort of mad buying spree."

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John Hense, managing director of Country Club Capital Advisors, says more corporate confidence could pull money off the sidelines and into M&A.

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