

## *Highlights from the November 11, 2010 meeting*

### **ACG Panel Discusses 2010's Remarkable Turnaround in Dealmaking**

As we prepare to leave 2010 behind and begin our third year post-Great recession, Pat Quick of Foley & Lardner led a panel discussion concerning the state of the capital markets.

In what has become a reliably interesting and well-attended annual session, Quick led a panel of four professionals who shared insights on a wide range of topics. The 90-minute discussion centered on three main questions:

1. Is the deal environment improved from a year ago and why?
2. Has this severe economic crisis permanently changed the structure of deals?
3. What is your approach to pricing of new deals given the choppy nature of recent historical performance of target companies?

The panelists were Kelly Cornelis, Managing Director, LaSalle Capital Group; John Fiore, Executive Director, JP Morgan Securities; Jordan Diab, Director, Midwest region, UBS Investment Bank; and Tom Smith, Senior Managing Director, Mason Wells.

Panelists observed that the 2010 deal environment began to pick up significantly during late spring/early summer. The number as well as the quality of deals improved, and the panel predicted that these attributes will continue into 2011.

However, there was a consensus that deal flow may temporarily cool down during the latter part of 2010, as the capacity to support deal transactions becomes absorbed by those participants that wanted to get the deal done prior to a more uncertain tax situation going into 2011. Pricing multiples have been improving, but some panelists questioned whether there is justification for some sellers' requested pricing.

Several panelists said they were surprised at how quickly the deal environment and pricing has rebounded, especially in light of the severity of the economic downturn. Many were unsure what's driving this significantly improved environment. There is potential that a more volatile market will be the norm, with potential new shocks coming from European sovereign debt, municipal and state deficits, and China/inflation concerns.

The panel was unanimous that buyers and advisors should modify their deal pricing mechanics. Including and/or excluding unfavorable earnings generated during the recession will not get you to a properly priced transaction. Rather, 12-month trailing results, closer analyses of free cash flow, and letting go of the pre-recession "happy days" were recommended practices. Overall, the consensus was that the use of historical numbers inside a historical spreadsheet program is no longer sufficient.