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In N.J., mergers roar back after a quiet '09

More deals completed as economy shows stability

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By **Martin C. Daks**

Mergers and acquisitions of New Jersey companies are on the upswing this year, but one South Jersey entrepreneur said the price he's getting for his manufacturing company reflects lower valuations in the M&A market caused by the recession.

When **John Paz** inked a deal to sell his Bridgeport-based **Godwin Pumps of America Inc.** to **ITT Corp.** for \$585 million, he found market multiples had dropped since early 2008, when he first started searching for a buyer.



John Paz inked a deal to sell Bridgeport-based Godwin Pumps of America, of which he is president, but the recession ravaged the valuation, creating a lower-than-expected sale price. [Christina Mazza]

"Back then, industry [price-earnings] multiples averaged about 12 or so," said Paz, who launched the Gloucester County company with his father in late 1976. "Now, they're significantly lower."

Garden State firms were involved in 290 transactions, worth a total of about \$13.8 billion, during the first half of 2010, according to data from **FactSet Research Systems Inc.** and **Thomson Reuters**. During the same period in 2009, there were 248 New Jersey deals valued at about \$114.3 billion — but that total drops to just \$5.3 billion after backing out two outsized deals worth a total of \$109 billion: **Merck & Co Inc.**'s \$41.1 billion acquisition of **Schering Plough Corp.** and **Pfizer Inc.**'s \$68 billion acquisition of **Wyeth**.

Nationally, U.S. companies completed 1,434 M&As, worth a total of \$324.4 billion, in the first half of 2010; for that same period last year, 1,224 deals, worth \$392.1 billion, were completed, according to **The Mergermarket Group**. Some companies did not disclose the value of their M&As.

"In 2009, activity clammed up, but the fear seemed to ebb away this year," said **Stephen Goldberg**, managing partner of Hasbrouck Heights-based **Sun Mergers & Acquisitions**. "We're seeing more buyers come off the fence to engage in M&As."

Goldberg said his firm is finalizing the sale of a privately held school-bus operator to a larger company that's

expanding its portfolio of similar firms; he's also working on the sale of a security guard service to a private equity group.

Based on national activity, Mergermarket said the value of individual deals was down from 2009 valuations, but Goldberg and some other industry insiders weren't so sure.

"Price-earnings multiples can vary wildly, depending on the individual deal," he said, referring to the way a purchase price may be computed based on earnings per share or other factors. "You have to take all the factors into account."

One M&A adviser said more companies seem to be backing away from using high debt levels to fund an acquisition.

"I'm seeing some firms using up to 40 percent of their cash to finance a deal," said **Achim Neumann**, president of the Atlantic Highlands business brokerage firm **A. Neumann & Associates LLC**. "The remainder may be financed by a combination of bank debt and seller financing."



The Godwin Pumps of America warehouse, in Bridgeport, where the company stores the pumps and parts. [Christina Mazza]

When it comes to volume, Neumann is seeing mixed results.

"Larger-company deals tend to build up a degree of momentum, so they're less likely to get derailed by changes in the marketplace," he said. "But when you're looking at smaller deals, especially in the sub-\$5 million range, you're basically talking about the owner using his or her own capital to fund the deal — and a sharp pullback in stock prices could kill their capital base and knock a deal off course."

"People we work with are using more of their own war chest to fund deals," said **Curt A. Cyliax**, a founder of **Strategic Exit Advisors**, in Hopewell and Doylestown, Pa.

"Private-equity funds, in particular, are sitting on boatloads of cash as they search for investments. We're also seeing more interest in smaller deals, as low as \$1 million to \$2 million" of earnings before interest, taxes, depreciation and amortization, he added. "Today, even the bigger acquirers are looking at smaller deals."

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