

FINANCE

M&As luring investment banks here

BY NICOLE GARRISON-SPRENGER
STAFF WRITER

In the past nine months, at least three investment banks, which act as middlemen in mergers and acquisitions, have come to the state looking for business.

While Minnesota doesn't see the volume of deals that states like New York and California do, it's been a steady source of transactions -- hovering around 80 to 100 M&A deals per year, according to FactSet Mergerstat.

The coasts, on the other hand, have been volatile. California dipped from about 1,500 deals in 2002 to about 600 in 2005 and New York dropped from almost 1,000 to 400 during the same period.

Insiders say some of these investment banks are realizing that the Midwestern economy is simply more stable, offering a more predictable flow of deals.

Others say the bustling private-equity business in Minnesota is attracting the new players.

Private-equity firms raise money from investors so that they can acquire companies. A growing number of the mergers and acquisitions across the country involve private-equity firms.

"The level of M&A activity is very high. That coupled with the private-equity funds we have here has generated a lot of interest in the Twin Cities," said Bruce Engler, chair of the mergers & acquisitions practice at Minneapolis law firm Faegre & Benson.

While Minnesota is already home to some well-known investment banks, including Piper Jaffray, Greene Holcomb & Fisher and Dougherty & Co., executives at the outside firms say they're going after deals that are too small to be of interest to the bigger local guys.

"In our opinion, it's an underserved market for smaller middle-market M&A shops like us," said Mike Kent, a vice president at Covington Associates in Boston. For the past year, Kent has spent several days a month in the Twin Cities scouting for opportunities.

After less than a year in the market, Covington snagged two deals: the sale in May of a minority interest in Eden Prairie-based

BUT CAN THEY FISH?

Out-of-state investment banks in Minnesota

Firm	Headquarters
Harris Williams & Co.	Richmond, Va.
Covington Associates	Boston
Stifel Nicolaus & Co.	St. Louis
Lincoln International	Chicago
Jefferies & Co. Inc.	New York

*This is not a complete list

GraftCath Inc. to Boston Scientific Corp.; and the arrangement of senior and subordinate debt with Fifth Third Bank for Golden Valley-based ExpressPoint Technology Services Inc. in January.

Investment banks also have industry specializations. Covington, for example, does a number of health care and technology deals, making Minnesota a particularly attractive market for the firm.

In March, Richmond, Va.-based Harris Williams & Co. hired Glenn Gurtcheff, co-head of Minneapolis-based Pier Jaffray & Co.'s bustling Middle Market Mergers & Acquisitions group, to open a Twin Cities office.

Executives at Harris Williams say they chose Minneapolis simply because this is where Gurtcheff lived, but they admit that the Twin Cities is an attractive new market.

The firm recently helped sell Golden Valley-based Cannon Technologies Inc. to Cooper Power Systems Inc. in Houston.

"We're not geographically focused, but there's plenty of opportunity in Minnesota," Gurtcheff said. He expects his five-person office to grow to about 15 or 20 people in the next few years.

Executives at St. Louis-based Stifel Nicolaus & Co. also have pegged the Twin Cities as a top priority for the company's investment banking group. The firm hasn't announced any local deals, but executives have said they are close.

In an August interview with the Minneapolis/St. Paul Business Journal, John Honovich, managing director of Stifel's investment banking group, said the firm should do well here and could open a Twin Cities investment-banking office sometime in the future.

Lincoln International in Chicago and New York-based Jefferies & Co. Inc. landed some deals in 2006, too.

Paul Grangaard, managing director at Minneapolis-based private-equity firm Goldner Hawn Johnson & Morrison, said investment banks from both coasts have done business here for years.

Others, including William Spell at Spell Capital Partners, another Minneapolis private-equity firm, say there seems to be more outside firms taking an interest than ever before.

Deep pockets

Local private-equity firms are driving much of the interest in Minnesota.

Minneapolis is home to large private-equity firms such as Minneapolis-based Norwest Equity Partners, which boasts \$3 billion in capital under management. Norwest is now investing NEP VIII, an \$800 million fund. Goldner Hawn, meanwhile, has invested about 40 percent of its \$255 million Marathon Fund V.

But there are smaller Twin Cities players starting new funds, too.

In February, Minnetonka-based Tonka Bay Equity Partners launched Bayview Capital Partners II, a \$125 million fund.

Spell Capital Partners will close on the final round of fundraising for its latest, Spell Capital Partners Fund III, this month. The fund is expected to be more than \$50 million.

Large private-equity firms search for deals nationwide, but some of the smaller ones carve out a regional focus and invest primarily in local or Midwest companies.

Though many firms don't care where their investment bank is based, others do.

"There are a lot of private-equity principals here who like to work with people who have a local presence," said William Spell, president of Spell Capital Partners. "Private equity is a very relationship-driven business."

Recognizing the increasing importance that private-equity firms are playing in mergers and acquisitions, Faegre and the University of St. Thomas College of Business will host the first "Private Equity M&A Conference" on Oct. 26 and 27.

ngarrison@bizjournals.com | (612) 288-2112