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Private-equity M&A parade continues

By Steve Gelsi, MarketWatch
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NEW YORK (MarketWatch) -- A recent flood of leveraged buyouts continued Tuesday as management-led groups and their backers, flush with record levels of cash from pension funds and other institutions, splashed out more than \$10 billion on three deals.

'Firms have raised some very sizable funds and are able to go after companies they wouldn't have been able to go after in the past.'

— David Barry, Private Equity Analyst

An \$8.3 billion planned purchase of industrial food-services firm Aramark by management and a supporting group including Goldman Sachs and J.P. Morgan funds highlighted the day's action. Substantial going-private deals from Reynolds & Reynolds (REY : 38.77, -0.17, -0.4%) and Aleris (ARS : 51.99, -0.86, -1.6%) rounded out the news.

David Barry, editor at Private Equity Analyst, said the rash of private-equity deals comes after the firms have raised funds well into the tens of billions of dollars.

"They're deploying them and taking advantage of companies that are up for sale in a somewhat favorable financing market," he said. "Firms have raised some very sizable funds and are able to go after companies they wouldn't have been able to go after in the past."

Another factor fueling the going-private trend is the ongoing difficulty of being a public company in the face of flat to lower equity prices, as well as regulatory challenges posed by new stock-options-accounting and Sarbanes-Oxley Act requirements.

Traditionally, the deals would likely result in restructurings and initial public offerings down the road for the firms, although staying private or selling to another company or private-equity firm are all possible scenarios.

The deals continue even as experts predict that rising interest rates and slowing growth in corporate profits could put a damper on any record-breaking deals on the scale of the biggest-ever \$33 billion leverage buyout, announced three weeks ago, of HCA (HCA : 49.19, +0.03, +0.1%) . See archived story.

Fighting for deals

So far, a reported rival offer for HCA has yet to publicly materialize after reports of bids in the works from rival private-equity firms.

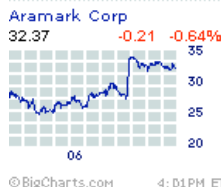
Blackstone certainly has the capital to be a partner in a rival offer. Last month, the firm said it had assembled the biggest private-equity fund on record, the \$15.6 billion Blackstone Capital Partners V Fund.

Though the biggest, the fund is not the only one its range. Permira, a London-based private-equity firm, raised \$12.8 billion for a new fund last week.

But those funds are nearly double the biggest funds raised historically.

The industry is expected to raise a record \$300 billion this year and already have raised \$167 billion, according to Private Equity Intelligence. The most recent deal from the private-equity world was the \$10 billion purchase of the chip unit of Philips Electronics NV. Kohlberg Kravis Roberts & Co. and Silver Lake Partners won an auction for that tech concern late last week. See full story.

Aramark shares (RMK : 32.37, -0.21, -0.6%) fell 25 cents to \$32.80 after it agreed to a sweetened acquisition offer by an investor group led by its chief executive officer and financed by GS Capital Partners, CCMP Capital Advisors and J.P. Morgan Partners, Thomas H. Lee Partners and Warburg Pincus LLC. See full story.



Automotive retailing software and service firm Reynolds & Reynolds Co. (REY : 38.77, -0.17, -0.4%) rallied 11% to \$30.07 after it agreed Tuesday to go private in a \$2.8 billion acquisition with Universal Computer Systems Inc., a supplier of computer systems to auto dealerships. The deal will be financed by Goldman Sachs Capital Partners, Vista Equity Partners, Deutsche Bank and Credit Suisse. See full story.

Also, Texas Pacific Group agreed to buy aluminum-recycling firm Aleris International (ARS : 51.99, -0.86, -1.6%) for about \$1.7 billion in cash, sending shares of the company up 25% to \$51.59. See full story.

The deal flurry comes as private-equity firms cut a big swath through the merger-and-acquisitions market, with several belly-busting deals announced this year, including the \$30 billion deal for BAA PLC by a consortium called Airport Development and Kinder Morgan's (KMI : 100.89, -0.05, 0.0%) \$22 billion buyout offer, which ranks as the largest management buyout ever.

Also this year, Albertson's OK'd a buyout deal worth about \$17.4 billion, Univision set plans to be sold for \$12.3 billion, and VNU was snatched up for \$9.8 billion.

The only LBO deal in the top seven that hasn't taken place in 2006 was the 1988 buyout of RJR Nabisco for \$30 billion, the record holder for many years.

Steve Gelsi is a reporter for MarketWatch in New York.

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