

# ORANGE COUNTY BUSINESS JOURNAL

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## Top Minority-Owned Businesses Reach \$12.8B in Revenue

**ECONOMY:** 5.5% increase in sales; 2.2% gain on OC jobs

■ By JANE YU

The biggest minority-owned businesses based in Orange County combined for \$12.8 billion in revenue last year, a 5.5% increase from a year earlier.

This week's Business Journal list uses annual revenue as the ranking criterion for 59 local com-



panies that are at least 51% owned by minorities, including Latino-Americans, African-Americans and Asian-Americans. The designations of minority status are according to federal guidelines.

The list includes other categories, such as OC and companywide employee counts, though they don't figure into the

ranking.

The annual list has been growing in recent years, a byproduct of improved research and a strengthening economy. This year's list includes 31% more companies than last year's total of 45, and 78% more than two years ago. The revenue cutoff for inclusion on the list was \$7 million last year.

A lower bar this year—companies needed \$5 million in annual revenue to qualify—accounted

► *Minority-Owned 47*

## Convention-al Wisdom: Size Matters



■ By KARI HAMANAKA

Convention centers throughout Southern California and the nation battle in a never-ending contest to win the business of everyone from comic book geeks to medical device makers.

Their weapons: marketing campaigns, sales

presentations, cold calls, and facility expansions and renovations that can cost tens of millions of dollars.

The spoils for the victors: visitors and the money they spend at hotels, restaurants, shops, theme parks and other attractions.

Officials of the city-owned Anaheim Con-

vention Center and their counterparts at the Anaheim/Orange County Visitor & Convention Bureau will have those stakes in mind this week when a proposed \$180 million facility expansion is expected to go before the City Council on March 11.

► *Convention Center 54*

# **An *Orange County* Business Journal Special Report**



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# Volume Here Bucks Nat'l Trend for 3% Jump on 310 Deals

Number of Deals Down 11% in U.S.; Total Value Up

By JANE YU

The pace of merger-and-acquisition activity by Orange County businesses rose by about 3% in 2013, capping the year at 310 deals.

This week's Special Report includes lists of the largest transactions involving local companies based on data compiled by Los Angeles-based investment bank **B. Riley & Co.**

The tally came to about a 55%-45% split between local buyers and sellers.

The uptick in deals could be explained in part by a general improvement in the U.S. economy, said **Rory McKinney**, a managing director of the OC office of **D.A. Davidson & Co.**, a Great Falls, Mont.-based financial services firm. It consolidated its Southern California offices last year, bringing its L.A. group to OC and setting up an office in Costa Mesa.

"I think that corporations and small businesses are fundamentally improving as the economy is improving," McKinney said.

"That's naturally a driver for more M&A activity. Also, the stock market performance in 2013 was very impressive. So if you look at valuations from a public company's perspective, most industries had a healthy year last year when it came to the stock price. That intrinsically increases the value of the respective companies within those industries. That's a result of improving fundamentals, improving corporate balance sheets."

Orange County deals bucked the national trend, which was off volume-wise despite the overall economy and the healthy stock market.

The number of transactions in the U.S. fell about 11% to 9,263, according to **FactSet Research Systems Inc.**, a Norwalk, Conn.-based financial data company. The total deal value was up, though, by 7% to \$958 billion.

That's the best possible comparison in terms of dollar values, considering prices are available for roughly 30% of the deals in the FactSet research. That's about the same level of disclosure for the companies featured on the Business Journal's lists.

"A lot of the deal information is not reported because they're privately held," McKinney said. "That's just the nature of the beast."

## OC Buyers

Orange County companies accounted for 172 purchases, up from 164 in 2012. Target businesses ranged from healthcare technology and security services to banking and homebuilding. About 10%—the largest group—were in the Internet software and services sector.

Transaction values, disclosed for 44 purchases, totaled \$6.4 billion. Individual deal prices ranged from \$35,000 to the more than \$2.7 billion proposed acquisition of **Weyerhaeuser Real Estate Co.** by Irvine-based homebuilder **TRI Pointe Homes Inc.**

Deals averaged about \$146 million.

That's more than double the \$61 million average price paid by OC buyers in 2012, when about the same level of term disclosures was available.

The average deal without **TRI Pointe's** acquisition was about \$86 million.

Other larger acquisitions included Irvine-based drug maker **Allergan Inc.'s** buy of **Map Pharmaceuticals Inc.** for \$962.3 million.

The two next biggest deals were notched by Irvine-based disk drive maker **Western Digital Corp.** through its **Hitachi Global Storage Technologies Ltd.** subsidiary. The company acquired Milpitas-based **Virident Systems Inc.** for \$685 million and **STEC Inc.** in Santa Ana for about \$341 million.

Aliso Viejo-based chipmaker **Microsemi Corp.** paid \$304 million for **Symmetricon Inc.**, a San Jose-based company that specializes in time-keeping technology.

Serial buyers included **Universal Services of America Inc.**, a Santa Ana-based security services provider. It had eight announced deals, according to the B. Riley research. The transaction price was disclosed for one: Universal Services paid

\$21.3 million to acquire **IPC International Corp.** in Illinois in April.

Irvine-based food manufacturer and distributor **Golden State Foods Corp.** closed three deals, including the buy of Wichita, Kan.-based **KanPak LLC**, a desserts and beverages maker. It also bought a 51% stake in KanPak's China operations in 2012. Terms of privately held Golden State Foods' deals are typically undisclosed.

Irvine-based **Advantage Sales & Marketing LLC** acquired three East Coast businesses, in Massachusetts, North Carolina and Florida.

Deal pace was slower for OC buyers in the first quarter, when 35 buys were announced or closed. The other three quarters averaged 45 deals each.

"2013 started out slow, because whatever was going to get done got done in 2012," said **Wayne Pinnell**, managing partner of Irvine-based accounting firm **Haskell & White LLP**.

He pointed to a general year-end rush in 2012 for sellers to close deals to avoid capital-gains tax rate increases that took effect in 2013.

"But if [sellers] weren't tax-motivated in 2012, the issue really is a continued focus on growing the company and growing the profits for a higher value in an exit," Pinnell said. "It still goes back to the Great Recession, when companies lost a lot of value. There's a continued focus of the workforce on working longer. People are working past normal retirement age, and owners are trying to rebuild lost value before they look at options to sell."

## OC Sellers

OC-based companies accounted for 138 sales, with deals spread about evenly across quarters. The fourth quarter had the fewest: 31.

Transaction values, available for 40 deals, totaled \$2.5 billion. Sale prices ranged from \$75,000 to \$765 million, with nearly half of the bunch going for less than \$10 million.

OC companies on average fetched \$62 million, versus \$181 million in 2012, which was pushed up by the \$2.4 billion sale of **Quest Software Inc.** to **Dell Inc.**

Last year's priciest sale was for Seal Beach-based **Custom Building Products Inc.**, which drew \$765 million from **Quikrete Holdings Inc.** in Atlanta.

Custom Building Products makes tile-in-

10 Biggest Sales, Buys Page 20



McKinney: rising economy fueled deals

# Deals

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stallation systems and flooring preparation products.

It's been part of the investment portfolio of New York-based private equity firm **Kelso & Co.** since 2005.

■ Newport Beach-based chipmaker **Mindspeed Technologies Inc.** was acquired by **M/A-Com Technology Solutions Holdings Inc.** for \$277 million. Mindspeed's wireless infrastructure business unit was recently sold to **Intel Corp.** on undisclosed terms.

■ A few local banks were in the mix, including Fountain Valley-based **Centennial Bank**, which merged into Phoenix-based **Western Alliance Bank** in a \$57.5 million transaction.

■ **Commerce National Bank** in Newport Beach was sold to Spokane, Wash.-based **Sterling Financial Corp.** for \$45 million.

■ Buena Park-based **Los Angeles National Bank** sold to **Royal Business Bank** in L.A. for an undisclosed amount.

D.A. Davidson's McKinney, who specializes in advising financial institutions, said more M&A activity in the banking sector is likely.

"That's because revenue growth is a challenge," he said. "The low-interest-rate environment is causing margins to get squeezed. I think scale in the banking sector is very, very important today. Naturally, if you're a smaller company, you don't have the same operating leverage as you would as a larger organization. We'll see the [deal pace] continue, along with the economy incrementally improving."



**Pinnell: year started slow after late 2012 surge**



**Lubeck: private equity will spur M&A this year**

Private equity investors are also a reason to expect a robust M&A scene this year, said **Dan Lubeck**, founder and managing director of Newport Beach-based investment firm **Solis Capital Partners LLC**.

"The private equity activity cycle is closely correlated with the availability of debt,"

Lubeck said. "When the economy crashed in 2008, the debt market crashed, and it was hard to follow money for acquisitions. But it's slowly coming back. We're seeing lenders

being more aggressive and more competitive. That's actually been the case already for a year-plus in some of the bigger deals. Now it's even visible in the smaller deals."

Solis focuses on companies with \$15 million to \$100 million in revenue. It's currently investing out of its second fund, **Solis II**, which closed last year with \$61 million.

Lubeck also pointed to the population of baby boomer business owners as a potential driver of a continued increase in mergers and acquisitions.

"Particularly in California, you have a number of business owners that are baby boomers that are looking for what the next step is for them," he said. "A good number of them will be selling part or all of their companies." ■

## Need Funding?

► See Biz Cash on Page 48