

Reeling Economy Still Offers Attractive Acquisitions for Buyers

BY JAMES DORNBROOK | STAFF WRITER

The economy may be staggering around unpredictably, but companies flush with cash still can find several hot sectors for investment.

Kansas City-area business brokers and investment bankers point to service businesses in a wide variety of markets as attractive acquisition targets.

Many corporations that have made it through the worst of the economic downturn have cash and are interested in growing, said Terry Christenberry, managing partner at Kansas City-based Country Club Capital Advisors. Unfortunately for the economy, they aren't very interested in adding employees.

"They would rather expand their business by buying another business, instead of trying to hire employees and grow on their own," Christenberry said. "They are looking for ways to invest and create synergies and efficiencies."

Business buyers are especially interested in companies in the health care industry, he said. Again, it's the service-related companies — every-

thing from rehabilitation services to software — that are the most highly sought targets.

Mike O'Malley, president of Overland Park-based O'Keeffe & O'Malley, said he gets phone calls and emails every day from private equity groups looking for health care products and services.

"I think it's just a continued long-term vision related to our aging population," O'Malley said. "Everyone is going to need more and more health care of some sort."

If there is any hesitation, it's related to uncertainty about what will happen with health care reform. Still, he said, "there are just too many opportunities with the aging population for investors to stay away."

Agriculture-related companies, of which there are plenty in the Kansas City area, are hot for the same reason - a continuing need for their products, said Tim Skarda, president of Overland Park-based Allied Business Group.

"I hear a lot of people searching for companies that produce food



*Tim Skarda
President, Allied Business Group*

products," Skarda said. "It's obviously obviously recession-resistant. I won't say recession-proof because you can always substitute grits and potatoes for more expensive food items. But it's pretty recession-resistant and provides some stability."

Also pushing interest is growing demand in emerging markets such

as China and India. As their economies grow, eating habits change, and those nations buy more commodities from the United States, he said.

Skarda said branded food products are especially hot. That's because they've already broken into a competitive market in which companies fight one another for super-market shelf space.

The energy sector is another in-demand area with business buyers. Of particular interest are software companies, systems integrators, green products or services that help oil and gas companies perform more efficiently.

"During the crash, that market dropped quite a bit," O'Malley said. "But now there is opportunity because people see it rebounding again. Revenues are definitely picking up, but some of these companies have earnings that are a third of what they were three years ago. Investors see that if they can buy it with the earnings being really low

now, they know it will head right back up to where it was in 2008, or at least somewhere near that.

"We all know the demand for energy is going to be around forever."

Marshall Parker, president of Kansas Venture Capital Inc., said the company was forced to change its investment philosophy to give more consideration to service businesses in a variety of markets.

"I look back at what we did in the 1990s versus what we're doing in more recent years, and clearly you can see what's happening with the economy," Parker said. "We're less and less dependent on manufacturing that is done in the United States. So we've recognized that we need to be more nimble now, and funding manufacturing can't be as much of our business as it once was.

"We've always been used to having a tangible product you could hold in your hand. Now, we're moving into other areas of innovation

and product creation and services."

That said, Skarda thinks attractive investments still can be found in basic manufacturing and distribution. The weaker dollar makes exporting U.S. products a stronger business. Also, the economy is testing the view that manufacturing in China and Mexico always will cost less. Higher shipping costs, shorter lead times for production and a need for engineering support are bringing some of overseas business back to the United States, he said. "There are also all sorts of problems down in Mexico with drugs and getting through customs," Skarda said. "Many people don't want to travel to Mexico for business anymore. It's harder to get an engineering manager or executive to head to Mexico and risk getting shot. It's just not worth it to them."

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