INSIDE

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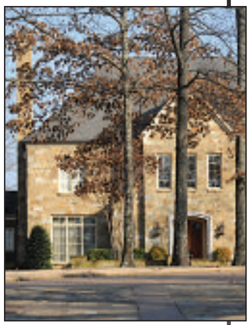
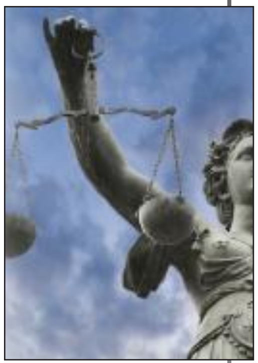
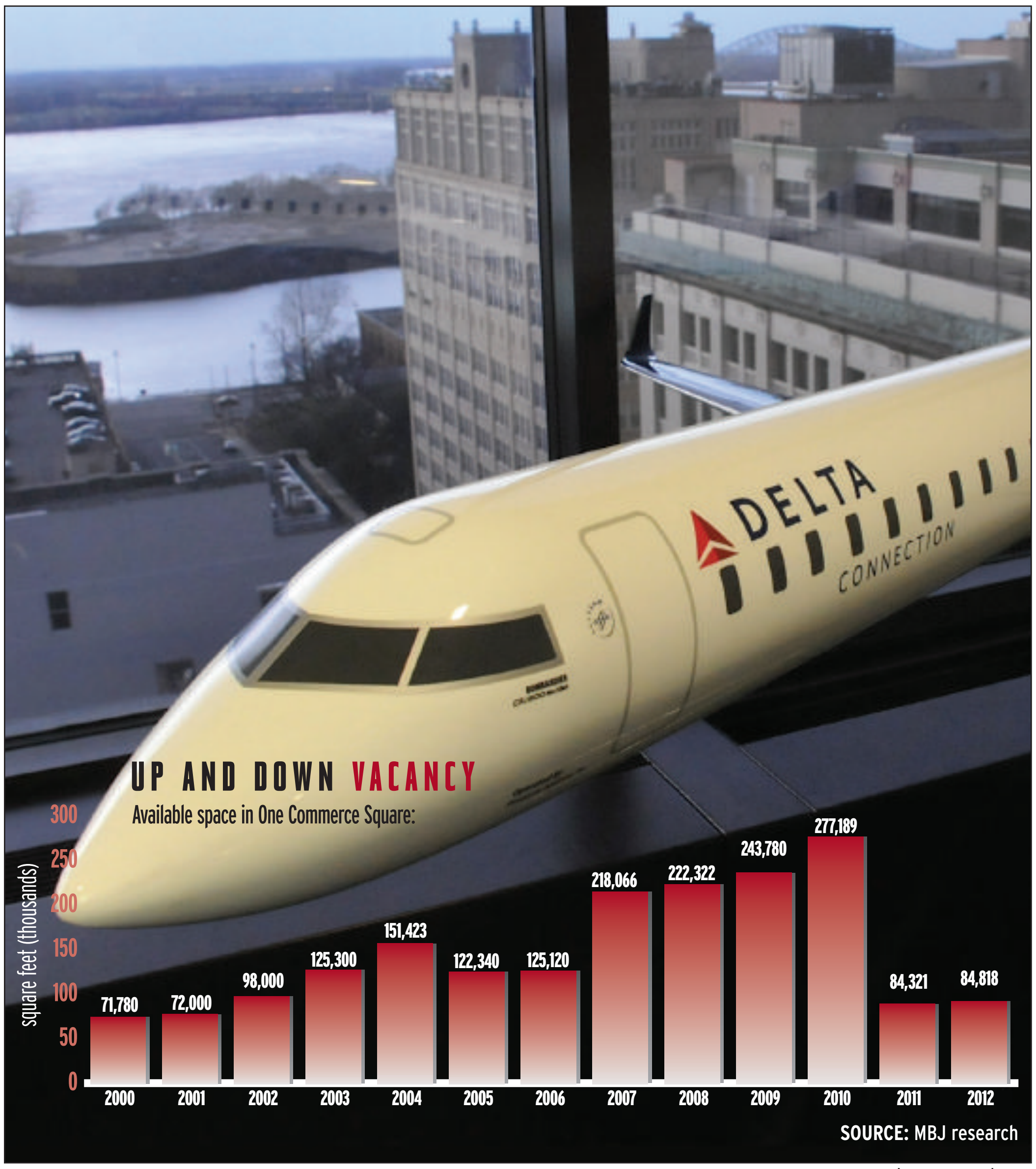


BIG MONEY
Top million-dollar property sales.
Page 5



LEGAL LADIES
Females account for one-third of lawyers.
Emphasis / Page 9

FACE TO FACE
Share One offers personal touch.
Strategies / Page 13



ALAN HOWELL | LEE SWETS | MBJ

View from Pinnacle Airlines' headquarters in One Commerce Square Downtown

2013 shaping up as year of acquisitions

High valuations, lots of cash spell plenty of opportunities

BY COLE EPLEY

Merger and acquisition activity in the U.S. improved by a modest 6.6 percent through 2012, according to investment firm William Blair & Co., but volume was up 52 percent over 2009, the slowest year for deals since 2002.

Last year was the third-straight year for increasing deal volume, and industry experts and data highlight two factors that make 2013 ripe for continued improvement in the M&A space: a glut of both public and private cash on the sidelines, and valuations that, in some cases, are above levels last seen in 2007.

"The top-notch companies are receiving premium valuations that are really the highest we've ever seen," says Randy Karchmer, managing partner at mergers and acquisitions advisory firm Metronome Partners LLC. "Companies have done about all the cost-cutting they can do and, in terms of earnings growth, acquisitions are certainly a very fertile growth area for those companies."

Karchmer

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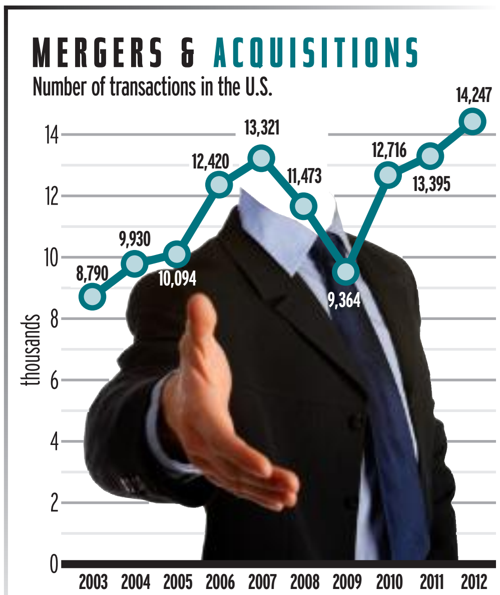
See ACQUISITIONS, Page 24



SOURCE: Dealogic, William Blair & Co. LLC Mergers and Acquisitions market analysis

LEE SWETS | MBJ

Life after Pinnacle

One Commerce Square fiscally sound despite loss

BY ANDY ASHBY

Pinnacle Airlines Corp.
Airline holding company
President: John Spanjers
Employees: 6,100
Annual revenue: $900 million
Address: 40 S. Main St.
Phone: (901) 348-4100
PINK: PNCLQ
Website: www.pncl.com

While no one believes backfilling Pinnacle Airlines Corp.'s 170,000-square-foot hole at One Commerce Square will be a simple task, the building retains financial stability, $20 million worth of improvements and a flexible local ownership.

That said, when Pinnacle moves its headquarters from Memphis to Minneapolis-St. Paul International Airport this spring, the regional airline will be leaving behind one of the largest contiguous office spaces in the Mid-South.

"There is no positive spin on that, but it doesn't change the fact that we now have this asset which is dramatically improved," Gary Prosterman, part of the building's local ownership, says. "Financially, this has no impact at all on the long-term viability of the asset. It's disappointing, certainly, but we're extremely stable."

Memphis Commerce Square Part-

Related story: Incentives were numerous to lure Pinnacle Airlines Downtown, but the company won't be leaving town with any benefits.
Page 24

On the web: Check out our website for a look inside the offices that Pinnacle Airlines Corp. is leaving behind at www.memphisbusinessjournal.com.

See PINNACLE, Page 25

Acquisitions: Year shaping up to be prime for middle-market deals

FROM PAGE 1

Importantly, liquidity is pervasive.

According to research service S&P Capital IQ, there is more than $2 trillion in cash and cash equivalents on the balance sheets of S&P 500 organizations. Karchmer, former co-head of the M&A group at Morgan Keegan & Co. Inc., adds that industry sources estimate as much as $500 billion in additional equity capital is available on the private side of the equation, where there exists a high demand for return on capital investments.

"Private equity firms are in the business of making acquisitions or they essentially have to give money back to limited partners," he says. "These guys have to put that money to work and they're willing to essentially overpay for high-quality companies."

But corporate balance sheets have held considerable cash stockpiles for "quite some time," notes Tim Lee, managing director of the corporate valuation group at Mercer Capital, and there are additional factors to consider before assuming that cash alone will drive deal volume in 2013.

"Certainly, high levels of liquidity do not hurt M&A prospects, but many of our clients have accumulated cash for lack of faith in the quality of organic or strategic opportunities," he says.

Lee points to availability of financing and visibility of opportunity as just two considerations required "to make a real difference" in deal volume. While tax uncertainty prompted an influx of corresponding work during 2012, Lee anticipates firms working exclusively in business valuations will be hard-pressed to replicate the work load seen in 2012.

To combat this, Mercer and some of its counterparts have moved toward more specialized services for specific industries, for example, to maintain sufficient work loads.

"I believe the (valuation) profession will continue toward enhanced specialization in order to serve clients with value-added advisory perspective," he says.

'There's just *a lot more volume of activity in the less-than $1 billion transactions.'*

Randy Karchner
Metronome Partners LLC

Still, this year should present good opportunities for healthy companies — and for the firms brokering deals and performing valuations.

"There seems to be a stronger outreach from private equity as well as a willingness to examine the waters for strategic acquisitions," Lee adds.

The lure of private equity is likely to soon be evident at Metronome. David Edelson, an associate in the firm's Memphis office, says the private side will get a lot of attention in 2013.

"Whether we're selling to (private equity firms) or for them, that's where we're spending a lot of our prospecting," Edelson says.

Karchmer, meanwhile, remains hopeful that private equity players could carry Metronome to its next milestone.

The firm closed around $750 million in deal volume in 2012, and the $1 billion range is a good target for this year, especially since the firm's "sweet spot" is the middle market, where as many as half of all U.S. M&A transactions have occurred in recent years.

Though the definition ranges, valuations of middle-market companies range from $25 million up to $500 million, or even $1 billion in some cases.

"There's just a lot more volume of activity in the less-than $1 billion transactions," Karchmer says.

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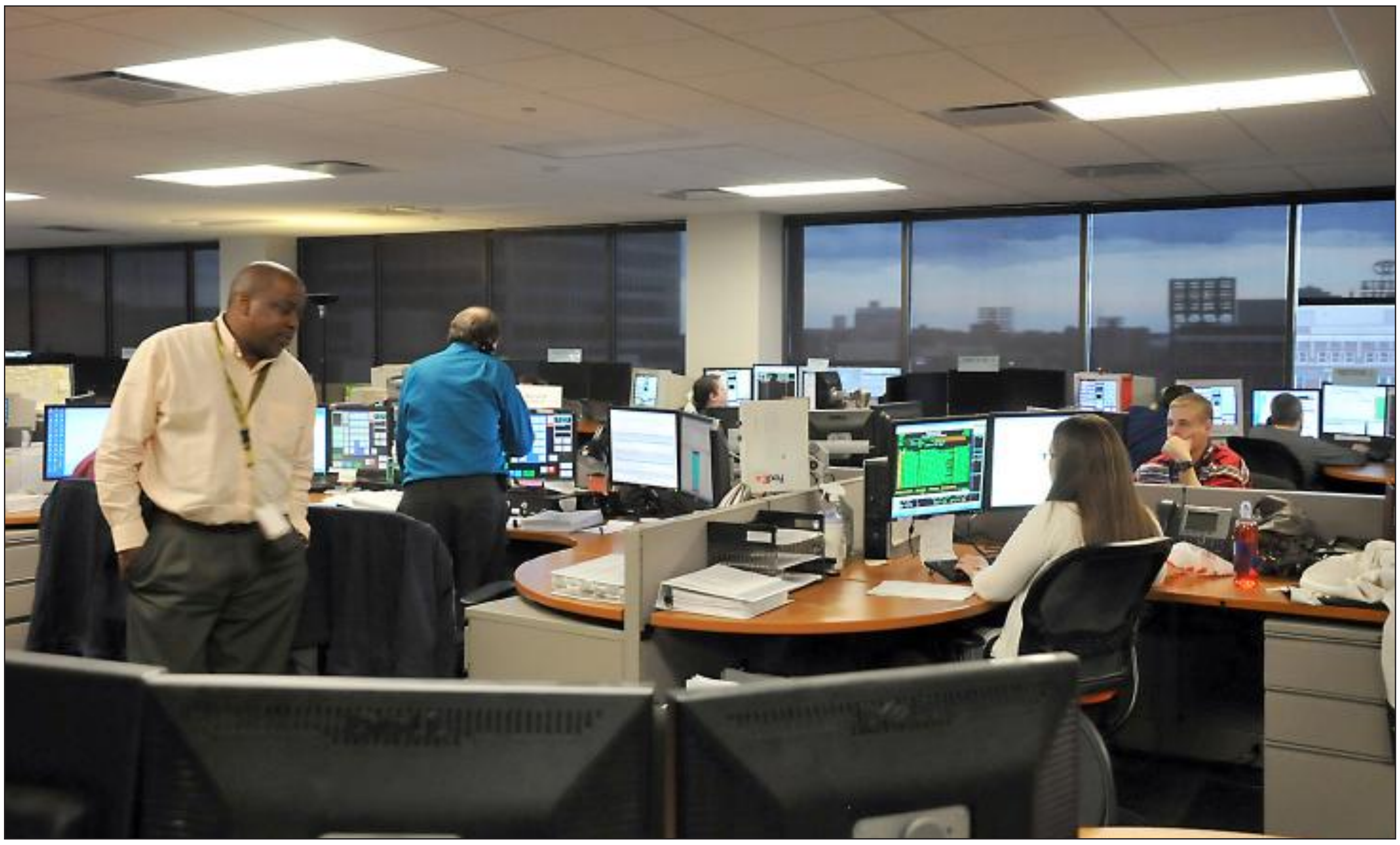
Incentives to lure Pinnacle Downtown paid dividend in securing building ownership

BY ANDY ASHBY



ALAN HOWELL | MBJ

Operations area at Pinnacle Airlines' offices at One Commerce Square, where employees handled air traffic control

While numerous incentives were part of the overall strategy for luring Pinnacle Airlines Corp.'s headquarters Downtown, the airline holding company won't be taking those benefits when it heads north this spring.

Many of the incentives were geared toward keeping One Commerce Square from going dark, according to Paul Morris, president of the Downtown Memphis Commission. Before Memphis Commerce Square Partners LLC purchased the 29-story office tower in 2010, it was owned by an out-of-town bank with no interest in investing in the property.

"Best case, it would have been like 100 N. Main. Worst case, it would be like the Sterick (Building)," Morris says, referring to the long-vacant Downtown tower. "It needed major investments and the bank wasn't willing to make those."

Downtown Memphis Commission
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Meanwhile, the national economy collapsed and there weren't many buyers lining up for the property.

Pitt Hyde, founder of AutoZone Inc., stepped in as one of the major investors in Memphis Commerce Square Partners.

"Using his money with leverage and incentives from us and the city, we put together a real estate deal that is impenetrable from (One Commerce Square) going dark again for at least the near term," Morris says. "As bad as Pinnacle leaving is, we anticipated that might happen and built a fire wall to mitigate the damage."

Part of that fire wall is that the city and Downtown Memphis Commission structured incentives so that Pinnacle couldn't fly away with them.

In 2008, Pinnacle was looking at headquarters options. The Memphis-Shelby County Industrial Development Board, the predecessor of the Memphis-Shelby County Economic Development Growth Engine, approved a payment-in-lieu-of-taxes in the form of tax freezes for Pinnacle. The regional airline could either take a 13-year PILOT for Downtown or a 12-year PILOT for a building on Nonconnah Boulevard in Southeast Memphis, its headquarters at the time. Pinnacle never closed on those PILOTs.

The building's new ownership got some PILOT benefits as well.

In October 2010, the Downtown Memphis Commission's Center City Revenue Finance Corp. extended the building's tax freeze from 15 to 20 years. It provided additional tax savings to the building owners after the Shelby County Board of Equalization reassessed the property from $17 million to $6 million, which lowers the property taxes going forward.

That PILOT was necessary for getting the deal done, making the building economically viable and allowing ownership to offer inexpensive rent to Pinnacle.

"Pinnacle played the role of anchor tenant," Morris says. "Drawing Pinnacle here was part of the overall package."

Pinnacle's lease rate was such that the building owners are not profiting from the company, but it does help sustain the overhead costs of running such a large building.

Utilities are more than $1 million a year for One Commerce Square and Pinnacle's large lease helped absorb costs like those.

The Downtown Memphis Commission also approved a $195,000 office grant for Pinnacle to entice the company Downtown.

"They never met the conditions for that so we still have that money," Morris says.

Finally, the Center City Revenue Finance Corp. transferred $2 million to the Downtown Parking Authority to help in the purchase and renovation of the parking garage attached to One Commerce Square. Paired with $3 million from the city's economic development fund, the parking authority bought the garage, made improvements to it and leased it to the One Commerce Square ownership. Pinnacle received 150 discounted-rate parking spots and additional employee parking at the 250 Peabody Place garage.

"The only incentive I know of that the city gave to Pinnacle Airlines was free parking," Morris says.

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