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Full value: Analysts say prices still high for midsize energy companies

By: D. Ray Tuttle The Journal Record September 16, 2014 0

David L. Perkins Jr., managing director of Tulsa-based Acquisition Advisors LLC. (Photo by Rip Stell)

TULSA – Purchase prices for private U.S. companies are as high as they have ever been, said David L. Perkins Jr., managing director of Tulsa-based Acquisition Advisors LLC.

Values have recovered from the recessionary lows of 2009 and 2010 in all markets, not just the energy sector, said Perkins, who consults on the purchase, sale and valuation of companies. There are several reasons. Equity is abundant, debt is available and cheap, there are plenty of aggressive buyers, and the number of sellers is surprisingly low, Perkins said.

In the oil and gas sector, purchase prices have bounced back, Perkins said.

"The values being paid for companies that manufacture or repair products used in drilling, production, transportation or processing have been very healthy for years now," Perkins said. "And, ditto for service providers in the sector."

Qian Zhang agreed.

"In the U.S., there are tremendous activities going on in oil and gas exploration because of fracking," said Zhan, who is a market analyst with Tulsa's Fredric E. Russell Investment Management Co.

While there is a market for minerals and production, those deals are different from transactions involving operating companies, Perkins said.

Perkins said he's seeing and working on oil and gas mergers in the $10 million to $250 million range.

"What we see in our deals, and in the data we look at, is that debt financing is abundant, available and cheap," Perkins said. "Keep in mind that the buyers of companies in the size range of $10 million to $250 million are probably the ones being courted by bankers. They are not the ones complaining in surveys about their lack of access to debt capital."

As the balance sheets of banks have improved and bank boards have moved beyond capital preservation to asset growth, banks have become much more willing and able to ease restrictions on lending, Perkins said.

The only warning sign in the markets is if oil prices continue to decline, Perkins said.

"Then, we'll see a slowdown in overall economic activity in our area of the country," Perkins said.

Investors can be sensitive, however, Zhang said. A large-scale terrorist attack or war could disrupt business.

Barring such an event, Perkins said he does not foresee a material or sustained decline in the prices being paid for good, profitable private businesses.

"Interest rates should remain very low as GDP (gross domestic product) growth remains anemic," Perkins said. "Equity capital competing for investments will continue to be plentiful."

Low interest rates have been a factor in the market turnaround, Zhang said.

Companies with above-average growth, profit margins, profit stability, management and financial statement quality sell for a little more, Perkins said.

"Companies that don't possess these desirable characteristics sell for less," Perkins said.

Values vary by industry.

"Companies in the technology and health care spaces are selling for prices a little above the average," Perkins said. "Service and nonproprietary manufacturing businesses tend to sell for a little less."

Overall, the higher prices being paid for businesses today are made possible by the availability of low-cost debt, he

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