



# Leveraged Capital

*Issues Affecting Small to Mid Market Companies*

The Graham Group Of Companies  
Toronto • Atlanta • Savannah

## Quote Of The Month

**“Be not afraid of growing slowly, be afraid only of standing still.”**

Chinese Proverb

## Investment Hindsight

**“All these acquisitions were supposed to grow like crazy and create synergy. Synergy is like magic twinkle dust. If you have it, you can boost your profits 33% a year forever.”**

Margaret Wentz - Globe & Mail 25Apr01 “When smart men go so very wrong” on Jean Monty's retirement over BCE's ill-fated investment in Teleglobe \$7Bil acquisition.

## Welcome Back.

Thank you for your patience over the past couple of months while we redesigned the look of Leverage Capital. Let me know how you like the look and feel of this edition.

We've been on the move - the Savannah offices of Graham Capital Partners, LLC will be opening in the fall—watch for the announcement of our official opening. We continue to be bullish on privately held small to mid market companies. Demand for our advisory, and investment banking services have hit an all time high this month.

I am however perplexed at Google— these guys went public kicking and screaming, while becoming some of the wealthiest people on the planet. I can't recall this much pent up anticipation (ok a few stocks qualify from 1990 but that's like rubbing salt in the wounds of my portfolio) for a company to go public. Who else didn't buy a certain tech stock way back when with a certain young man named Bill Gates at the helm? Will you do the same with Google?

Much (long term) success to you.

Cheers, DPG.

## Inside Leveraged Capital This Month:

<b>M&amp;A Values Hit Three-year High.</b>	<b>2</b>
<b>Executive Views On IT.</b>	<b>3</b>
<b>Survey Discovers The 'Fatal Mistakes' New Execs Make.</b>	<b>4</b>
<b>Quick Stuff: World Investment Prospects 2004.</b>	<b>5</b>

## M&A Values Hit Three-year High 250 Deals Worth \$34.8 Billion in 2Q.

Mergers and acquisition values in Canada reached their highest level in three years in the second quarter of 2004, with 250 announced transactions totaling \$34.8 billion, Crosbie & Co. Inc. reported.

Crosbie attributed the jump — the total dollar value of transactions hit levels not seen since mid-2001 — to significant activity in the oil and gas sector, a resurgence of mega-deals (transactions valued at more than \$1 billion) and increased cross-border activity. In the first quarter of 2004, there were 203 transactions totaling \$23.5 billion.

There were 10 mega-deals announced in the quarter, the most since Q1 2000, valued at a total of \$16.7 billion, Crosbie reports. Oil and gas led the way, contributing four of the 10 mega-deals, including the largest transaction in the quarter, EnCana Corp.'s \$3.6-billion acquisition of Tom Brown Inc. Other top transactions included Jean Coutu Group's purchase of 1,549 Eckerd Drugstores from J.C. Penney Co. for \$3.3 billion, Hollinger's \$1.8-billion sale of the Telegraph Group Ltd. to the Britain's Barclay brothers, and Brascan Corp.'s \$1.3-billion purchase of hydroelectric power assets from Reliant Energy Inc.

In addition to the significant number of mega-deals, the balance of the M&A market continues to show steady improvement with deals of less than \$1 billion increasing for the third consecutive quarter, Crosbie says. Activity in this core segment of the market rose to 180 transactions valued at \$18.0 billion in the second quarter of the year vs 157 transactions totaling \$11.9 billion in the first quarter.

“The broad-based strength of the Canadian M&A market in the second quarter was particularly positive given that global M&A activity declined in the second quarter following a strong recovery in the first quarter,” said Ian Macdonell, managing director at Crosbie, in a release. “High commodity prices and continued strong demand for transactions from

private equity groups bode well for activity levels for the balance of the year. However, concerns over the staying power of the U.S. economic recovery could put a damper on transactions going forward.”

From an industry perspective, the market rally was relatively widespread, with 10 of the 13 TSX sub-sectors registering increased levels of transaction dollar volume in the quarter. The oil and gas sector led with 42 transactions valued at \$12.5 billion, representing 36% of the total transaction value, as energy companies flush with cash from record high oil prices chose to grow through acquisition. Other active sectors by dollar value included merchandising at \$4.3 billion and industrial products at \$3.8 billion.

Energy trusts, income funds and real estate investment trusts remain a major factor in the Canadian M&A market, Crosbie notes, saying these vehicles were the acquiring party in 20% of all transactions in excess of \$250 million in value for the quarter.

Cross-border transactions continue to represent a considerable portion of the Canadian M&A landscape, it reports. There were 112 cross-border transactions in the second quarter of 2004 with a total value of \$27.2 billion, representing 78% of the overall activity by dollar value. Eight of the 10 mega-deals in the quarter were cross-border transactions including the six largest.

Canadian companies continued to have a strong appetite for foreign acquisitions, making 81 purchases worth \$17.6 billion vs 31 acquisitions by foreign interests of Canadian companies totaling \$9.6 billion.

*James Langton—Investment Executive 19Aug04*

*www.investmentexecutive.com*

## Executive Views On IT.

A recent report prepared by consulting firm Bain & Co. found the following:

- 70% of senior executives at large corporations agree that information technology is relevant to growth, but 60% say IT is actually inhibiting their growth efforts, which in turn affects IT spending.
- Many companies are simply not aligned in a way that makes it possible to use IT as a growth driver.
- Companies fail to coordinate their business and IT goals. Two-thirds of respondents said their existing technologies either didn't deliver as promised or were underexploited. Others said so-called "legacy" technology (jargon for old stuff that's been built in-house) lacks the flexibility to keep up with current business and tech trends.
- Some companies, such as Wal-Mart, are a prime example of large companies using technology to advance operations and forecasting. In Wal-Mart's case, they automatically track inventory and ordering more in real time in their own warehouses as well as outsourced warehousing.
- Technology decisions are business decisions, and need to be made by executives that understand technology and how it can drive growth. Bain's study found that business executives are not getting enough literacy about technology.
- 203 of the 359 executives surveyed said that the lack of information was a key reason they felt that IT was a growth inhibitor and resulted directly in decreased tech spending. Bad news for enterprise software companies, who are trying to convince customers to spend millions on systems that promise greater efficiencies, speed and customer responsiveness.
- But connecting the dots between business and IT could be boon for consulting firms who are paid to do just that. IBM's whole e-business on demand campaign is predicated on the notion that technology is about business.
- Companies spend 7.4% of revenue on IT when executives view IT as an enabler to growth, but companies spend only 4.7% of revenue on technology when it is perceived as an inhibitor.
- When companies believe in technology as an enabler, they spend 42% of budgets on new systems, but that figure drops to 30% when companies don't believe in IT as a growth engine.

---

*"The root of the "broken dialogue" between IT and business executives goes back several decades, when companies used technology to report and analyze what had already happened."  
— David Shpilberg,  
head of Bain's global IT practice.,*

So what should companies do to align their interests? "People have to share responsibility in a very overt way," says Shpilberg. "They have to take responsibility for their success."

Of course, that's easier said than done. And big tech companies will likely bear some of the burden for educating customers on how to do it. The problem is that not many tech companies have that expertise. This creates some unique opportunities for small to mid market consultants who can balance business strategy with technology.

## Survey Discovers the 'Fatal Mistakes' New Execs Make.

*There is tremendous pressure for new CEOs and other senior-level executives to sift through a multitude of issues, agendas and opinions," says Joe Griesedieck, vice chairman of Korn/Ferry. "The most successful executives cut through the clutter, isolate their strategic priorities early and plot a course of action to set them in motion. This is critical because the first 100 days present a unique opportunity to disturb the status quo."*

Failing to establish strategic priorities is the most common mistake senior executives make in their first 100 days, according to nearly a quarter (24 percent) of recruiters who completed the fifth edition of the quarterly Executive Recruiter Index, released Monday by Korn/Ferry International, of Los Angeles, an executive search firms.

Other missteps identified by recruiters were committing cultural gaffes and/or political suicide (16 percent), waiting too long to implement change (16 percent), not spending enough face time with subordinates (14 percent), getting sidetracked by "fire drills" (11 percent) and hesitating to make tough personnel decisions (10 percent).

"There is tremendous pressure for new CEOs and other senior-level executives to sift through a multitude of issues, agendas and opinions," says Joe Griesedieck, vice chairman of Korn/Ferry. "The most successful executives cut through the clutter, isolate their strategic priorities early and plot a course of action to set them in motion. This is critical because the first 100 days present a unique opportunity to disturb the status quo."

The survey also looked at which qualities recruiters feel are most important to a senior executive's success in a new position. Topping the list were people skills (44 percent) and values and behaviors that match the organization's (38 percent). Other responses were a well-matched skill set (9 percent), the ability to act quickly (6 percent), functional experience (2 percent) and industry experience (1 percent).

A quarter (25 percent) of Korn/Ferry recruiters said the one thing, above all else, that senior executives must do in their first 100 days in order to succeed is assemble and solidify a team.



*The Executive Recruiter Index was based on a quarterly survey of 183 Korn/Ferry International consultants. The survey was conducted online within the Americas, Europe and Asia/Pacific Aug. 4 - Aug. 17.*

## Quick Stuff: World Investment Prospects 2004.

The fourth edition of The World Investment Prospects 2004, a publication of the Economist Intelligence Unit, predicts that global foreign direct investment (FDI) will rebound after years of decline. Expectations are for FDI flows to reach US\$1.2 trillion by 2008. According to the report, Asian countries will strengthen their position as the principal emerging market destinations for FDI and that China, Mexico, Brazil, Russia and India will account for the largest share of FDI flows.

To download a free executive summary, please go to:

[http://www.eiu.com/site\\_info.asp?info\\_name=eiu\\_world\\_investment\\_prospects](http://www.eiu.com/site_info.asp?info_name=eiu_world_investment_prospects)

---

## Leveraged Capital.

Leveraged Capital, is a free monthly newsletter that presents growth and strategy issues affecting entrepreneurs and owners of small to medium size enterprises (SME's).

Leveraged Capital is published electronically and delivered electronically to subscribers. Subscriber privacy is strictly respected and we do not share or sell subscriber email addresses to anyone outside of The Graham Group Of Companies.

**Please forward a copy of Leveraged Capital to clients and associates.**

**They can subscribe to Leveraged Capital, by clicking on this link:**

**[www.GrahamFinancial.com/newsLetter.htm](http://www.GrahamFinancial.com/newsLetter.htm) and filling out the quick form.**

To submit article ideas or suggestions, please email: [editor@grahamfinancial.com](mailto:editor@grahamfinancial.com)

To Unsubscribe from Leveraged Capital: If you wish to removed from our mailing list, send an email to us at: [ezine@GrahamFinancial.com](mailto:ezine@GrahamFinancial.com) with the word "Unsubscribe" in the subject field.

**© 1997 - 2004 Graham Financial Corporation, All Rights Reserved.**

---



## THE GRAHAM GROUP OF COMPANIES

Toronto • Atlanta • Savannah

### **Graham Financial Corporation**

120 Adelaide Street West, Suite 2500  
Toronto, On Canada M5H 1T1  
(416) 368-0088  
[www.GrahamFinancial.com](http://www.GrahamFinancial.com)

### **Graham Corporate Growth, LLC**

1201 Peachtree Street NE  
400 Colony Square, Suite 200  
Atlanta, GA 30361  
(678) 938-5040  
[www.GrahamCorporateGrowth.com](http://www.GrahamCorporateGrowth.com)

### **Graham Capital Partners, LLC**

Savannah, GA  
Opening Fall 2004

---

The Graham Group of Companies provide advisory, merchant banking and investment banking services to the small to mid market.

With offices in Toronto, Atlanta, and Savannah, the Graham Group focuses on manufacturing, transportation, distribution and logistics, and business services. Our clients are privately held, and growth orientated with revenues between \$10 million to \$100 million.

#### **Some of our typical transactions include:**

Ownership Recapitalization  
Financial (Re) Engineering with Debt and Equity  
Management Buyouts  
Orphan or Distressed Divisions or Companies  
Ownership / Management Succession  
Mergers and Acquisitions

**We welcome the opportunity to discuss your business with you.**