BIGGEST *deals of the year...*

Los Angeles saw $439 billion in M&A activity in 2015 – the most in 8 years. 'It's a go-go market,' expert says.

By **MARNI USHEROFF** *Staff Reporter*

It was a banner year for deals in Los Angeles County.

The area saw $439 billion in mergers and acquisitions – the biggest value since 2007 – according to S&P Capital IQ.

Here are some of the highlights: Woodland Hills managed care provider **Health Net Inc.** was scooped up by St. Louis health insurer **Centene Corp.** for $6.8 billion; Santa Monica video-game publisher **Activision Blizzard Inc.** bought Dublin, Ireland, mobile-game maker **King Digital Entertainment** for $5.9 billion; and homebuilders Ryland Group Inc. of Westlake Village and Irvine's Standard Pacific Corp. merged their $5.1 billion in combined revenue to form **CalAtlantic Group Inc.**

"We're at the top of a cycle; I don't think it gets any better than it is right now if I'm a seller," said **Lloyd Greif**, chief executive of downtown L.A. investment bank **Greif & Co.** "It may continue for a while, but the market has only one place to go: down."

The story was the same worldwide, as global M&A pushed past $5 trillion for the first time in history, cresting for the first time since the beginning of the great recession, according to data from Dealogic.

"It's a go-go M&A market," said Greif, whose firm worked on the ninth-biggest local deal of the year, advising Vernon glass products supplier **C.R. Laurence Co.** on its $1.3 billion sale this summer to Oldcastle BuildingEnvelope, a subsidiary of Dublin, Ireland, building supply giant **CRH Group**. "What's been leading the charge, which is different than previous markets, is strategic buyers."

Industry consolidation drove activity, Greif explained, and the majority of shoppers in the top strategic L.A. deals were public companies, likely focused on growing earnings, cutting costs – or both – in a sluggish economic recovery.

(A list of the county's biggest M&A deals of 2015 begins on page 25, the biggest transactions by institutional investors begin on page 27 and the biggest real estate purchases begin on page 29.)

Larger footprint

The seller involved in the county's biggest strategic deal last year, Health Net, had been struggling to achieve scale for a long time, said Jennifer Lynch, an analyst with BMO Capital Markets Corp. in New York. She said this need for broader reach, felt throughout the industry, partly stems from the Affordable Care Act's mandate that insurers spend a certain number of premium dollars on medical expenses.

"It places an emphasis on the ability of a company to save money in other places," Lynch said. "Whenever they can do more services in a geographic area, they get to spread overhead over more lives. On a per-member basis that's cheaper."

Health Net had originally engaged financial advisers to vet potential partners for a business combination back in fall 2013, according to regu-

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latory filings. The Woodland Hills firm entered into negotiations with a couple of unnamed groups and preliminary talks with a third over the next year and a half, but those never panned out.

Meanwhile, filings show that Centene Chief Executive **Michael Neidorff** reached out to Health Net Chief Executive **Jay Gellert** in late 2014. The two met in Los Angeles that November to chat about the business environment, complementary aspects of their companies and whether there was a way to work together.

Among other services, Centene provides health plan coverage nationwide through government-subsidized programs such as Medicaid. But it has a relatively small footprint in California, where Health Net has a strong presence and a thriving Medicare Advantage business. This increasingly popular type of Medicare health plan is set to see material growth as more baby boomers age, Lynch said.

Feeding frenzy

Filings show that the two chief executives continued to visit and talk on the phone, with Neidorff declaring his interest in combining the two insurers during a West Coast visit in early June.

Gellert spoke with Health Net's directors that weekend, telling them that Centene wanted to begin an expedited due-diligence process that week, partly due to public speculation about merger activity in the health insurance industry.

Sure enough, only days after that phone call, the Wall Street Journal reported that the country's two largest health insurers by revenue, **UnitedHealth Group Inc.** and **Anthem Inc.**, wanted to snap up smaller competitors. The paper reported that Anthem had been talking with **Cigna Corp.**, and UnitedHealth had approached **Aetna Inc.**, which had been looking at **Humana Inc.**

A flurry of musical chair-style talks and rumors engulfed the insurance industry, while filings show Health Net and Centene were hammering out a deal, hurtling toward a July 1 deadline to avoid potential leaks.

Complicating matters for Health Net was the imminent implementation of a long-term technology, consulting and administrative outsourcing agreement with **Cognizant Healthcare Services**. If Health Net canceled that deal because it wouldn't be necessary after the merger, Health Net would face a stiff penalty. Health Net quickly renegotiated that deal to avoid the penalty.

Centene's lawyers sent an initial draft of the merger agreement to Health Net's counsel June 24, and both companies' boards approved a final deal the evening of July 1. They announced the $6.8 billion cash-and-stock transaction before markets opened the following morning.

The next day, industry rumors turned into press releases as Aetna announced it had agreed to buy Humana. Anthem revealed at the end of the month that it would indeed snap up Cigna.

"Centene is an ideal strategic partner for Health Net – with its robust nationwide, government-focused business, but relatively small footprint in California," wrote Health Net Chief Operating Officer and Chief Financial Officer **Jim Woys** in a statement to the Business Journal. "The combination provides the benefit of economies of scale and allows the combined entity to be more competitive."

Greif, the investment banker, observed that health insurers across the board got a growth spurt from Obamacare, which brought a new class of insured into the marketplace.

"But now that wave has passed and put insurers in a position of looking to the next way of fueling growth and put them right where everybody else is with M&A," he added.

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Care Package: Woodland Hills office of Health Net, which was bought by Centene.

Level up

Greif said that Activision Blizzard had also sought to pick up a rival with a complementary business line: mobile gaming.

"If you can't beat 'em, buy 'em," said Greif.

The Santa Monica publisher of console and desktop hits such as "Call of Duty" and "World of Warcraft" bought Candy Crush maker King, recognizing that mobile is a huge opportunity, said analyst **Michael Pachter** of downtown L.A.'s **Wedbush Securities**.

"Activision watched **Electronic Arts** struggle to build a big mobile business," Pachter said. As a comparison, Redwood City's Electronic Arts saw mobile revenue of $524 million last year while King generated $480 million in revenue in the most recent quarter alone.

Meanwhile, entry-level homebuilder Ryland sought to expedite its growth through a merger of equals with high-end homebuilder Standard Pacific. Former Ryland Chief Executive **Larry Nicholson** said the deal let his company take advantage of all the benefits that come with a significant national footprint as the nation's fourth-largest homebuilder.

"The homebuilding industry is a tight-knit group," Nicholson, chief executive of the newly formed CalAtlantic, wrote in a statement to the Business Journal. Nicholson added that he's had a close relationship with former Standard Pacific Chief Executive **Scott Stowell**, who's now chairman of the new entity, for a long time. "We felt we had the rare opportunity to bring two healthy companies together at the right time in the housing cycle to expedite our growth strategies."