The M&A gurus who play things by the book

Best-selling authors Joshua Rosenbaum and Joshua Pearl on the risky – and rewarding – business of mergers and acquisitions in 2013

By Joanne Frearson

EVER FANCIED being an investment banker and wanted to understand how to negotiate billion-dollar merger and acquisition deals? Joshua Rosenbaum and Joshua Pearl, authors of bestselling handbook *Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions*, are the men that can teach you this.

With 60,000 copies already sold worldwide, *Investment Banking* is the number-one ranked M&A book on Amazon.com. It's a go-to guide for anyone wishing to break into the investment banking industry on both the buying and selling sides. They have recently released the second edition, which includes testimonials from the world's leading financiers, including Josh Harris, co-founder of Apollo Management, David Rubenstein, co-founder of The Carlyle Group, and "Ace" Greenberg, chairman of Bear Stearns.

"We both studied either economics or finance at the undergraduate and MBA level," explains Pearl. "However, in investment banking, when it comes to the interview, employers expect you to be not only well prepared, but also capable of doing the job on day one.

"So how do you prepare for the interview if you do not yet have any experience? We saw this dynamic when we were seeking jobs and found there was a lack of a truly comprehensive practical guide that could help you ace the interview.

"We wondered all along why no one had ever written the ultimate guide to investment banking. We realised, after writing it for several years, that the primary reason why no one had ever done this was because everyone was working these 100-hour-plus work weeks, and that there was simply no time to do anything else."

Patrick James Miller

Above: *Investment Banking* authors Joshua Pearl and Joshua Rosenbaum in their New York HQ

The pair are both passionate about M&A and, as they speak to me over the phone from New York, the excitement of big deals in their voices is evident. Overall, Pearl and Rosenbaum expect there to be an increase in M&A activity, although they both think there is still some uncertainty from both buyers and sellers.

There are some signs of companies returning to M&A though. "In Q3 we saw more of the $10billion-plus deals," says Pearl. "In fact, we saw as many $10billion-plus deals in Q3 as we saw in Q1 and Q2 combined. We have also seen private equity firms start to creep up in a larger percentage of global deal volumes."

When it comes to M&A, both agree that horizontal mergers, or an acquisition of a company on the same level of the value chain, are more likely to have a higher degree of success. "The acquirer management team often know the companies in their sector extremely well and know where the synergies are," Pearl explains. "Those transactions tend to have a much higher success of integration versus vertical when you are expanding upstream in the supply change or going downstream and acquiring a customer."

Another element to look out for is a CEO's track record. If a CEO has prior experience integrating companies and extracting synergies, the deal has a higher probability of success. If it is the first time the CEO is undertaking an M&A transaction, the strategic logic isn't immediately apparent, or the buyer/seller cultures are very different, then those situations are less likely to succeed.

A lot looks favourable at the moment for M&A activity, according to Rosenbaum. He says: "For public companies, the stock prices are at, or near, post-crisis highs, which provides a little more confidence to do things.

"Many companies have historically high cash balances, and debt financing is still inexpensive. Additionally, we are in an environment where most companies are hesitant to rely purely on strong organic growth to drive outsized returns. Many companies are looking for synergistic opportunities to improve earnings."

But it is not just all about looking for a company which has synergies and strong cash flow generation. Shareholder activism has been keeping companies in check and become a proliferating force behind M&A.

Pearl says: "You have seen that predominantly in the first half of 2013. There has been a big jump in shareholder activism compared to what you have seen over the past 10 years. In many cases the management team is either not executing well, not utilising their balance sheet efficiently, and not maximising shareholder value."

The technology sector is one area where shareholder activism has been a reason behind M&A deals. Rosenbaum says: "A couple of the largest names in the sector have had activists come along and advocate for change, whether it be new management, stock buybacks or asset sales."

Although this all sounds positive, M&A is still not at a level where it could be, and uncertainty about global economics is still weighing on some investors.

"While there are clear positive indicators for M&A activity, some buyers are not yet ready to reach for the stars in terms of paying full premiums for companies," Rosenbaum says. "They may be showing restraint due to lingering concerns about what is lurking around the corner, whether there could be another hiccup, such as a domestic political event, geopolitical situation, or something in the Eurozone or emerging markets."

Rosenbaum explains that for some buyers, they are likely waiting to see greater job creation and more visibility and stability before they commit to larger M&A deals. When it does start to improve more rapidly, he expects it to be across all sectors.