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CDT Roundup: 13 Deals, 13 Law Firms, 126 Texas Lawyers, $6.14B

By Claire Poole

(Oct. 24) – Get ready for even more mergers and acquisitions activity.

That's the main takeaway from Dykema's 14th annual M&A Outlook Survey, which was released last week.

The Detroit-based law firm said that nearly two-thirds of executives questioned believed mergers will get stronger in the next 12 months – the highest level of optimism in the survey's history. Those with negative sentiment dropped to 15 percent.

Last year only 39 percent of those surveyed were positive about the M&A market.

Three-quarters of respondents said they would be involved in an acquisition in the next 12 months, up from 68 percent in 2017.

The survey found that automotive, energy and consumer products were expected to be favored deal-making businesses with healthcare and technology falling in behind them.

Stephen Sayre, co-leader of Dykema's mergers and acquisitions sub-practice in Chicago, said dealmaking in automotive could be vigorous as the industry "hits a wave of disruption with the rise of connected and driverless cars."

Executives weren't as go-go on large transactions, with only 26 percent anticipating growth for deals worth more than $100 million. A plurality of respondents also believe that Democratic victories in Congress would be a favorable outcome for M&A activity.

In Texas, dealmaking involving Texas lawyers slowed a bit, but was still brisk. There were 13 transactions worth $6.14 billion last week, versus 18 transactions valued at $18.39 billion the previous week.

Thirteen law firms in Texas and 126 Texan lawyers were involved in dealmaking, versus 15 law firms and 131 lawyers the week before. There were 11 M&A transactions valued at $5.122 billion and 2 capital markets transactions worth $1.018 billion.

The highlights were a power transmission merger (that brought together several current and former Vinson & Elkins lawyers), another simplification transaction in the energy midstream industry and two large private equity exits. The oil and gas, telecommunications and healthcare sectors all saw action.

There were also three IPO updates: One that was resurrected and announced its hoped-for price range, one in the oil and gas industry that was postponed and one that scaled back and made it through.

M&A AND PRIVATE EQUITY INVESTMENTS

Jones Day, Winston advise on One Equity's Strike sale to Sentinel

Jones Day said Oct. 19 that Dallas partners Alain Dermarkar and Bobby Cardone are advising One Equity Partners and Strike Capital on the sale of a majority interest in Strike to blank check company Sentinel Energy Services Inc.

The transaction will launch Strike as a publicly traded company with an expected initial enterprise value of $854 million. It's expected to close in the first quarter.

Winston & Strawn counseled Sentinel, including Dallas partner **David Lange** along with **Andrew Betaque, Melissa Kalka, Matthew Olson, Danielle Marr, Lauren Lieberman** and **Basheer Ghorayeb.**

J.P. Morgan Securities was Strike's financial advisor. Citigroup Global Markets was Sentinel's private placement agent, financial advisor and capital markets advisor.

Strike owns and operates Strike LLC, a North America infrastructure and integrity services and projects business.

Strike equityholders, including One Equity, will continue to own a significant equity position in the company. Closing is expected in the first quarter.

As part of the deal, Sentinel affiliate CSL Energy Holdings III Corp. and Invacor Pipeline and Process Solutions will transfer all of the membership interests in Pipelogic Services before closing to Sentinel in exchange for an undisclosed amount of Sentinel common stock.

After closing, Sentinel will contribute the membership interests to a Strike unit in exchange for an undisclosed number of Strike units.

Strike claims it will be the largest pure-play pipeline and facilities infrastructure and integrity services provider across U.S. onshore energy markets and transmission corridors.

The company will be led by Strike's management team, including founder and CEO Steve Pate. Sentinel chairman Andrew Gould and CEO Krishna Shivram will be on its board, with Gould as chairman, along with Pate, Charles Leykum, Lee Gardner, Marc Zenner and Jon Marshall.

Strike secured a $150 million private-investment-in-public-equity, or PIPE, commitment at $10 per share, including $110 million from Fidelity Management and Research Co. and $40 million from CSL Capital Management.

The combination values Strike at a 5.4 times 2019 projected adjusted Ebitda implying a 32 percent discount to publicly traded peers, the companies said.

Cash proceeds from the combination, including the PIPE investment, is expected to be up to $477 million. They will be used to pay $124 million to existing shareholders with the rest used to pay off the existing term loan and revolver facilities.

The parties said the resulting strong balance sheet with net cash on hand and $200 million of available liquidity will allow Strike to take advantage of several growth opportunities in the robust pipeline infrastructure services market and provide working capital needs.

Before closing, Sentinel is expected to re-domesticate from the Cayman Islands to Delaware.

Between 2007 and 2017, Strike generated compound annual revenue growth of more than 35 percent with estimated 2018 revenues of $1.8 billion.

Sentinel was formed in late 2017 to enter into a combination with one or more businesses focused on the energy services and equipment sectors. It went public in November 2017.

Gould previously was chairman and CEO of Schlumberger and chairman of BG Group before its sale to Royal Dutch Shell. Shivram previously was vice president and treasurer of Schlumberger and also CFO and interim CEO of Weatherford.