With a Recovering Economy, the Day of the Big Deal Is Back

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By his own admission, William B. Harrison would have been vilified for negotiating a merger a year ago.

Not only was Mr. Harrison, chief executive of J. P. Morgan Chase, still trying to justify the deal that brought J. P. Morgan and Chase Manhattan together, he was under fire for missteps that linked the bank to corporate scandals and what he described as "the populist backlash against corporate America."

So it was something of a surprise that J. P. Morgan made another big acquisition last month, agreeing to buy Bank One for $58 billion in stock. More surprising still was the reaction: investors cheered.

With the economy improving and memories fading of the disastrous deals during the last stock market boom — combinations like America Online and Time Warner and Vivendi and Seagram — big-time Wall Street deal making is back.

The successful 11th-hour offer last week by Cingular Wireless to buy AT&T Wireless for $41 billion in cash was the largest all-cash deal in history, eclipsing the acquisition of RJR Nabisco by the buyout firm of Kohlberg, Kravis Roberts for more than $25 billion in 1988, when corporate raiders were financing deals with the aggressive use of junk bonds.

Likewise, the Comcast Corporation's audacious $54 billion hostile bid for the Walt Disney Company seems to signal the beginning of a new cycle of merger mania. Though the investment banking and law firms are not hiring in droves yet and the celebratory closing dinners are more Ruby Foo's than Nobu, there is a palpable sense that heady days are here. And that feeling has given a lift to stocks and generated speculation about all kinds of deals that would not have been possible a year ago.

"People are looking at expansion again," said Brian L. Roberts, chairman and chief executive of Comcast, explaining that a year ago he was hamstrung by his focus on integrating AT&T's cable business and by a lagging Comcast stock price.

So what has changed?

Executives and bankers cite an improving economy, the stock market recovery in recent months and a little more certainty in the world.

"There's a one-word answer: confidence," said Roger C. Altman, chairman of the investment banking boutique Evercore Partners and a former deputy Treasury secretary in the Clinton administration. "If your own business is flat or worse," he said, referring to the difficult economy in recent years, "it's difficult to say to shareholders that the right thing to do is this big combination."

Of course, business history is littered with failed mergers, and academic studies have long suggested that fewer than half of all deals work. Some experts argue that the current confidence in the boardroom may be misplaced.

"You would think that they would do these deals when the markets are down and things are cheap," said Bruce Greenwald, a professor of finance at Columbia Business School. "It's crazy. It's countercyclical. As soon as the markets start to perform, all of a sudden they can get away with this."

Still, for better or worse, confidence seems to have returned with abundance. Some companies, with their share prices up, are now willing to use stock to make acquisitions. Since the beginning of the year, corporate marriages worth more than $370 billion have been made — or at least proposed — worldwide, outpacing the volume of deals in 1999, according to Thomson Financial, a firm that tracks mergers.

Even the usually cautious French, still dismayed about the fate of Vivendi, are jumping into the deal-making fray and employing decidedly Anglo-Saxon tactics. The French pharmaceutical company Sanofi-Synthélabo made a $63 billion hostile bid last month for its national rival, Aventis — with the French government's blessing. Officials' support for the deal was particular fascinating because it meant that the government was willing to incur job layoffs in the interest of fashioning a French titan.

Indeed, the arguments for most mergers are the cost savings that will result from job cuts. But many companies have already cut jobs and costs to survive the downturn so the loss of more jobs, just as the economy is improving, may seem a bit at odds.

And despite the wave of deals and offers, Wall Street firms have yet to engage in the kind of hiring of investment bankers that characterized the booming merger market of the late 1990's. While the banks went on a job-cutting spree in the last couple of years, they never pared enough to require a large number of new hires. In addition, many of the recent deals have either yet to be completed or, as was the case with Bank One and J. P. Morgan, were negotiated with at least some in-house bankers.

Nevertheless, with their coffers full of bond-trading profits and their staffs at lean levels, analysts expect hiring for top investment bankers to pick up in coming quarters especially by those banks like Goldman Sachs, Morgan Stanley and Citigroup that have been in the thick of the recent activity.

"You will see that the banks that dominate the league tables will be the ones in a better position to justify hiring," said Richard Strauss, a securities analyst with Deutsche Bank. "But I think people want to see some of these deals close first."

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