

## Liquidity, Capital, Mergers, and Acquisitions – a Blockbuster Year for ARC!

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2013 has been a stellar year for American Realty Capital (ARC) and its affiliates. The company has made a number of noteworthy acquisitions through its various offerings and reached many milestones, including significant capital raises across many funds and liquidity events for others, as well as multiple new hires. Even though the year is not yet over and ARC may still have some tricks up its sleeve, their numerous accomplishments and newsworthy stories provide plenty of material for an action-packed examination. Before we look at its many endeavors, let's discuss ARC's corporate structure and various entities.

American Realty Capital, who changed its name to AR Capital (ARC) in 2012, is a full service investment advisory firm and sponsor that focuses on publicly registered, non-traded real estate offerings, of which it has many. These include the following:

American Realty Capital Healthcare Trust – income-producing healthcare facilities located throughout the United



## States

American Realty Capital New York Recovery REIT – institutional quality office and retail properties in New York City  
American Realty Capital-Retail Centers of America – lifestyle centers, power centers, and large needs-based shopping centers

American Realty Capital Trust III – freestanding, single-tenant properties, net leased long-term to investment-grade and other creditworthy tenants

Phillips Edison-ARC Shopping Center REIT – grocery anchored shopping centers

American Realty Capital Global Trust, which is a global sale-leaseback focused REIT that seeks to purchase commercial properties in the U.S., Europe and internationally

American Realty Capital Daily Net Asset Value Trust, Inc., a publicly registered non-traded real estate investment program that intends to acquire a diversified portfolio of properties net leased long term to high credit quality tenants;

ARC Realty Finance Trust, Inc. is a REIT which seeks to acquire, originate and manage a diversified portfolio of CRE debt investment secured by income-producing properties located primarily within the United States;

American Realty Capital Healthcare Trust II, Inc. is a REIT which seeks to acquire a diversified portfolio of real estate properties, focusing primarily on healthcare-related assets including medical office buildings, seniors housing and other healthcare-related facilities;

American Realty Capital Trust V, Inc. is a Maryland corporation that intends to qualify as a public non-traded REIT and will seek to acquire primarily single-tenant properties that are net leased.

ARC also offers a Business Development Company (BDC) called Business Development Corporation of America, which invests in the debt and equity of private U.S. middle-market companies.

RCS Capital Corporation (RCS Capital) is a public holding company that owns the wholesale broker-dealer, an investment banking and capital markets business, a transaction management services provider and a transfer agent. It focuses exclusively on the alternative investment industry. ARC's wholesale broker-dealer is known as Realty Capital Securities (RCS) and it concentrates on the distribution of direct investments.

No discussion of ARC's corporate structure would be complete without mention of Nicholas Schorsch. Mr. Schorsch, along with William M. Kahane, co-founded ARC and he serves as its CEO and chairman. He is also Executive Chairman of the board of directors of RCS Capital. Mr. Schorsch holds CEO and board positions for all of the publicly registered non-traded investments sponsored by ARC and also occupies leadership positions on the exchange-traded side of his company. Mr. Schorsch has established a vast and important empire, not only in the investment industry but in the finance world at large.

With that sorted out, what has ARC done this year? To put it simply; a lot. The company has been very busy making purchases and expanding its business, making the news on the regular. So let's take a look at ARC's year in review!

For starters, ARC has led the charge in a blockbuster year for the Direct Investments Industry at large. The industry, on pace to raise close to \$20 billion in assets, benefited from ARC's record year of raising close to \$7.3



billion through November, across several offerings.

#### Liquidity

In addition to bringing in new money, ARC has delivered on providing liquidity for its stakeholders. In July, American Realty Capital Properties (ARCP) and American Realty Capital Trust IV (ARCT IV) announced a merger agreement where publicly traded ARCP would acquire all outstanding shares of ARCT IV in stock and cash. The transaction was valued at \$3.1 billion and made ARCP's projected pro forma enterprise value approximately \$10 billion.

Notably, they formed RCS Capital Corporation, a holding company that went public, June 5th, with plans to raise \$55 million by offering 2.8 million shares at a \$20 per share. As of December 18th, RCAP was trading at \$16.38, with about 2.6 million shares outstanding for a market cap of over \$43.5 million.

Most recently in December, American Realty Capital Healthcare Trust (ARC Healthcare) the public, non-traded REIT announced its intent to file an application to list its common stock under the symbol "HTC". The company hopes to make this happen in the first quarter of 2014.

#### Mergers & Acquisitions

Several of ARC's REITs have made some very valuable purchases this year with the company itself snagging some major acquisitions. In May, American Realty Capital Properties (ARCP REIT) announced its intent to merge with CapLease, another leading REIT that primarily owned single tenant commercial real estate properties. The transaction was valued at approximately \$2.2 billion and made ARCP REIT one of the largest net lease REITs in the country.

In June, RCAP Holdings entered into a merger agreement with First Allied Holdings, acquiring First Allied's outstanding equity and completing the transaction in September. First Allied has 1,500 registered representatives and advisors who oversee \$32 billion in client assets. The company has allowed First Allied to remain autonomous and continue operating under its own management structure as part of the RCAP Holdings family.

When August arrived, so did another opportunity for ARC. The company announced that it had forged a net-lease deal with Inland American Real Estate Trust worth \$2.3 billion. Inland's 247 properties would be sold and divided between three ARC REITs; American Realty Capital Properties Inc., American Realty Capital Trust V Inc., and American Realty Capital Healthcare Trust Inc. The deal will require multiple closings and will hopefully be completed in the first half of 2014.

RCAP announced on October 1st its intent to purchase Hatteras Funds, a boutique alternative investment firm. The agreement provided Hatteras with resources to the tune of \$30 million at closing with \$10 million payable over the next 3 years. With six funds under its belt, Hatteras became RCAP's 5th primary line of business as it generates recurring fee revenue on assets under management. At the time of purchase, Hatteras's offerings included five mutual funds with daily liquidity and an interval fund for qualified investors.



Just one day after the Hatteras Funds announcement, RCAP delivered another big report; its acquisition of Investor Capital Holdings (ICH). The acquisition had a purchase price of \$52.5 million and is expected to close sometime in the first quarter of 2014. ICH is better known for its wholly-owned independent broker dealer (IBD) and registered investment advisor, Investors Capital Corporation, which is home to approximately 550 registered representatives scattered throughout the United States. ICH continues to operate autonomously under the leadership of Tim Murphy, President and CEO. With this acquisition, RCAP significantly expanded its influence in the broker-dealer sector of the industry.

In keeping with this shopping spree, ARCP made headlines everywhere when it purchased Cole Real Estate Investments (Cole) on October 23, 2013 for approximately \$11.2 billion. ARCP had attempted to purchase Cole Credit Property Trust REIT III back in March of this year, in what has been dubbed a hostile takeover attempt. ARCP gave an unsolicited offer of \$12 per share. Cole rejected the offer and ARC raised its bid to \$12.50 per share, only to have that offer rejected too. The negotiations were somewhat contentious and very public. In June, Cole III went public and began trading on the New York Stock Exchange.

Eventually, ARCP offered to purchase Cole Real Estate at \$13.82 per share and an agreement was reached before the end October. The completion of the merger, scheduled for the first half of next year, will make ARCP the largest U.S. owner of single-tenant buildings and the largest net-lease REIT in the country with an enterprise value of \$21.5 billion. This acquisition ends ARC's long pursuit of Cole and creates a colossal REIT with 3,732 properties in 49 states and Puerto Rico.

Most recently on November 16, RCAP acquired Summit Financial Services Group (Summit) in a \$49 million deal. As with the other purchases of the year, Summit continues to operate under its own management and brand and is expected to close early in 2014. Located in Florida, Summit provides a range of investment services as an independent broker-dealer with 305 financial advisors in 230 offices around the country.

In summary, the Schorsch empire acquired three independent broker dealers (First Allied, Investors Capital Corp, Summit) totaling 2,355 representatives, one alternative investment fund shop (Hatteras), another REIT (CapLease), significant assets of a major REIT sponsor (Inland) and a major competitor and REIT sponsor in Cole. These represent over \$17.1 billion in acquisitions in less than a 12 month period, not including the undisclosed sum for First Allied.

#### New Hires

In addition to its many acquisitions ARC has also made some important employee hires this year. One of the most notable is Larry Roth who comes to RCS Securities from Advisor Group where he served as President and CEO. A recognized industry leader, Mr. Roth now serves as RCS Securities' Chief Executive Officer.

In October, American Realty Capital Properties made way for Lisa Beeson, its new Chief Operating Officer. Ms. Beeson joins the ARC family from Barclay's where she held the position of Managing Director and Head of Global Real Estate M&A. Ms. Beeson will ensure a fluid integration of ARC's new assets, CapLease, Cole, and ARCT IV.

In late November, David Kay was announced as the new President of American Realty Capital Properties, Inc. Prior



to joining the ARCP team, Mr. Kay, served as Chief Investment Officer and Chief Financial Officer of Capital Automotive Real Estate Services, Inc. Mr. Kay's appointment signifies the completion of ARCP's self-management initiative. He takes over for Michael Weil, who will remain a director of the company.

Most recently, on December 2nd, Joe Colavito joined the RCS Capital team as Vice President of Communication and Innovation. Mr. Colavito will focus on improving RCS's training and education programs. He is also fronting a series of projects designed to optimize RCS's external events. Mr. Colavito previously served as CEO of Corevu, LLC, which is a business consulting firm that he founded.

With all of its success, ARC still doesn't rest. On December 13, the newly formed American Energy Capital Partners, LP, filed its intent to raise up to \$2 billion for an oil and gas blind pool. The company will be partnering with Aubrey McClendon, a known name in the industry and co-founder of Chesapeake Energy Corp. Although this is a large undertaking, both parties are proven in their respective fields and it could largely expand ARC's horizons.

So there we have a brief summary of ARC's major events from 2013. This past year's success is bound to flow into the coming year when ARC will close many of the deals it has established in 2013. The investment industry watches as ARC and its family continue to grow and thrive. Has ARC reached the peak of its success? Or will 2014 bring another year filled with as much prosperity and activity?

