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OUT OF SYNC

THE GLOBAL MELTDOWN AT THE
SAME TIME UNDERSCORES AND UPSETS THE
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THE M&A TOY CHEST
LEVERAGED FINANCE ROUNDTABLE
Q&A WITH GREENHILL'S SCOTT BOK

Are You Being Watched?

Private equity firms have discovered that at the same time they're investigating a possible target, the target is performing its own due diligence on them

By Danielle Fugazy

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”

Oh, how the tables have turned. There was a time not so long ago when a private equity firm could win a deal simply by paying up. Of course the investment banker would rattle off a number of things the private equity firm had going for it, but ultimately the deal hinged on the highest multiple. Today, not only is the top bid not always the winner, but private equity firms and their lenders are being put through the wringer before a company is willing to sell. According to a few deal pros, there's almost a reverse due diligence process going on today in which the investment banks and the sellers are placing more scrutiny than ever before on the potential buyers.

“Valuations still matter, they have to be close, but now sellers want to be certain that the private equity firms can get to the finish line,” says **Chrisanne Corbett**, a managing director with **KPMG**. “Sellers are doing more due diligence around the private equity firm and their lenders. There is pressure for private equity firms to bring their best relationships to the table.”

This reverse due diligence becomes even more important when a management team is going to stay on. In October 2007, River Associates acquired Boxercraft, a supplier of specialty apparel including sportswear and licensed collegiate apparel. Patriot Capital Funding provided \$21 million in financing.

Looking to take some capital out of the business he had built and work toward future growth, **Jon Carroll**, the CEO of Boxercraft, hired **VRA Partners** to explore sales options. VRA in turn sent out 1,000 books and Carroll wound up in conversations with 13 different groups that were interested in buying his 23 year-old company. Carroll admitted it was nice to have so much interest, but he was worried, especially in today's environment, about two things: getting the deal to the finish line and still being happy about going to work every day.

“Off the bat there were differences in the 13 groups, but the way I really made my decision was by calling the CEOs of all their portfolio companies,” says Car-

roll. “CEOs are very forthcoming with other CEOs. River was 10 for 10... Their ethics were never questioned and everyone said they are strict, but fair.”

Carroll went on to say to that many of the other CEOs he interviewed complained that their private equity owners were too meddlesome and spent too much time second-guessing management's decisions. The other factor that Carroll looked into was where the private equity professionals had worked prior to landing at their current firms.

“I wanted to know if there was anything scandalous, or if there were bad circumstances; we wanted to make sure the group we chose was stable,” says Carroll, adding that in the end, River Associates won the deal.

What Carroll, or more pointedly the suitors for Carroll's company, went through isn't totally uncommon — portfolio companies have been spying on their possible acquirers for years. It's just that today, deal pros say, the practice has become more intense.

“Of course the seller wants to know who they are going to be working with and we want to make sure that we get them the best deal, but first and foremost we have to make sure a deal is going to close,” says one investment banker. “There is no certainty of that today.”

The banker adds that things are getting tripped up because of the financing, so it's up to the sell-side advisers to make sure their mandates aren't put off by an aborted process. “Valuation may suffer a tiny bit,” the source adds, “but it's worth it if you can get the deal to close.”

It also doesn't help that after years of rebuilding an image, the asset class, thanks to everything that has happened on Wall Street, now has to work around a stereotype that paints investors more avaricious than altruistic.

“We are business people, and some private equity firms just come off a little too slick and make you feel like they are only about making quick money,” Carroll says. “That wasn't what I was looking for after spending 20 years building this business.” **MA**