CRAIN'S CLEVELAND BUSINESS

$1.50/SEPTEMBER 8 - 14, 2008

WWW.CRAINSCLEVELAND.COM

Smaller deals find favor with investors

Private equity firms adjust to tight credit

By ARIELLE KASS
akass@crain.com

Private equity firms still have money they're willing to spend. But those dollars are tending to find their way into smaller deals as a tight credit market makes big transactions that require a lot of bank financing harder to pull off.

Hahn, Loeser & Parks partner Ronald O'Keefe, head of the law firm's corporate and securities practice, said as available financing has shrunk, deals have become more expensive for buyers. That's because banks are asking for more collateral for loans, and because it costs more to get the same amount of money as it would have a year ago.

Kirtland Capital managing partner Tom Littman said that, so far, the middle market has not been affected as much as upper markets by the credit squeeze, though some companies are holding off on selling themselves until the market begins to improve.

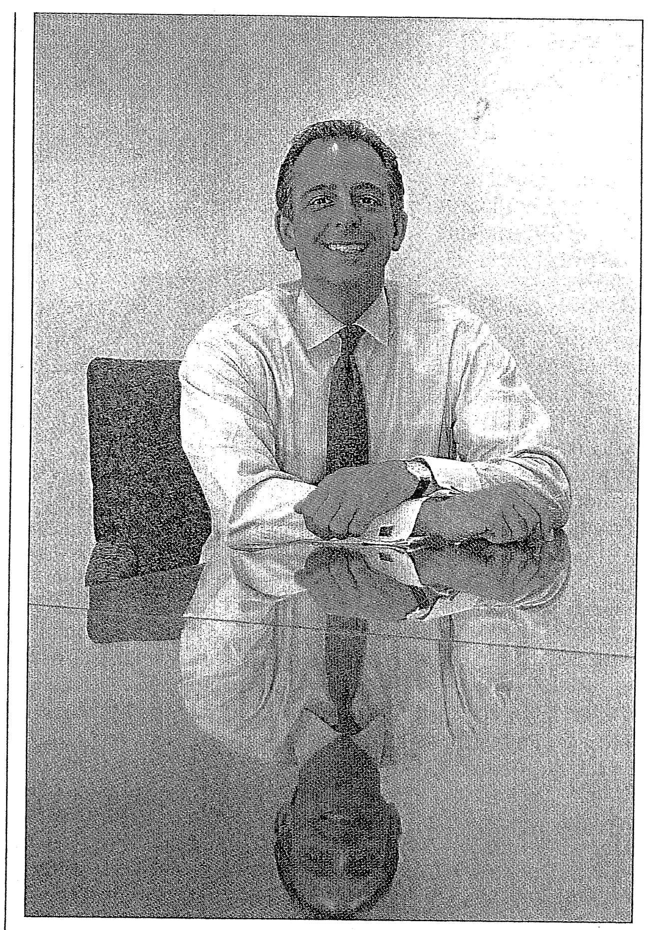
To pull off so-called "mega-deals," private equity firms often must cobble together the support of several banks, said Stewart Kohl, co-CEO of private equity firm The Riverside Co. In smaller deals, one to three banks are enough to finance a transaction.

As it becomes harder to get banks on board, Mr. Kohl said, some private equity firms that normally pursue big transactions are moving what he called "down-market," trying to make smaller deals.

Mr. Kohl said firms such as Riverside, which have strong operating partners and many opportunities, are not hard hit by the infiltration of larger firms on their turf. Indeed, Riverside is enjoying a record year—it had made 20 deals already this year as of Aug. 11 — and expects to make more deals before 2008 is through.

Mr. Kohl attributed his firm's steady business to the relationships it builds with companies it is interested in

See DEALS Page 29



Paul Cascio, general partner at Brantley Partners, says it's natural that merger and acquisition activity would be slow now on the heels of robust business. He says activity eventually will return to normal levels.
RUGGERO FATICA

Deals: High-quality firms yield heavy competition

continued from PAGE 1

acquiring. Other firms expressed the same sentiment, saying people who made the effort to build networks over the years are rewarded in lean times.

While there are fewer deal opportunities in the market this year, Mr. Littman said, those that are receiving interest tend to command a great deal of buzz.

"There's a very strong M&A market for good companies right now," he said. "There are more storied deals, companies that have a story you have to understand and buy into."

Hahn Loeser's Mr. O'Keefe also sees no slacking off on the buy side, regardless of available financing.

There even have been bidding wars for good, niche companies, he said.

Stephen Perry, senior managing director of Linsalata Capital Partners, supports that view. Though there are fewer businesses for sale, Mr. Perry said, prices haven't changed very much from a year ago for the good ones.

"A high-quality business is well-received in the marketplace right now," Mr. Perry said. "It's as competitive, if not more competitive. There's just as many people fighting over fewer companies."

Paul Cascio, general partner at Brantley Partners, said it's only reasonable that the volume of deals would slow because the private equity business was doing so well for such a long time. He said many business owners are sitting out this period as they wait for better circumstances to sell their companies.

But Mr. Cascio said the cyclical nature of the business cycle is evening out what may have been overpayment for some desired companies in years past.

"It needs to come back and find that middle ground again, and it will," he said.