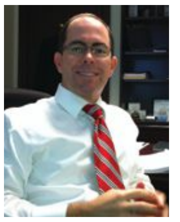
By: GEORGE PFEIL, Managing Director
G.L. Ohrstrom & Co.



Private equity, part 2: Finding the best partner

In last month's article [August, pg. 134], "Debunking the myths of private equity," I cleared up a few myths about private equity (PE) firms. This month I will outline useful criteria to consider when evaluating a PE firm as a potential partner.

If a business owner is walking away from his company, its legacy and the employees with no care for their future then valuation is the sole criteria. However, in most cases, the owner and/or key employees (maybe family or friends) desire to remain involved with the business and work with the new partner. As such, while the valuation of the business is very important, a business owner should focus his efforts to find the best PE firm for the company in its next stage of life.

To state the obvious, the only goal of a PE firm is to make money for its investors and its partners. This is not necessarily a bad goal *provided* the PE firm and the business owner share the same principles. As such, a business owner should thoroughly investigate any potential partner. Let's consider some basic criteria:

• Knowledge — A PE firm should understand your industry and your company's position within the industry. Has the PE firm had experience in providing products or services to your customers? Does it appreciate the demand drivers in your industry and how your business positions itself? How does the company perform, or not perform, during economic cycles? How does the PE firm intend to "add value," and does it have tangible industry connections?

• Expectations — A PE firm should have realistic expectations or the relationship will sour quickly after closing. What are the achievable growth rates and profitability of the company? Can the business grow into adjacent markets? Will the business be forced to work within unreasonable constraints or produce results that are not realistic? Before the investment is made, the PE firm and business owner should have agreement on the "go forward" business strategy, including aspects such as key personnel, target growth rates, capital investment, re-investment of profits vs. dividends to the PE firm and the exit strategy.

• Change — A PE firm will affect some amount of change, guaranteed. However, the amount of change will vary greatly depending on the PE firm. What changes to personnel are required? Will your business be merged or forced to work with another portfolio company? Will the company be required to change its banker, legal counsel, etc.? Will the business need to create endless reports to satisfy the PE firm? Will they fire my friend, spouse or sibling who works in the shipping department? Prior to closing, a business owner should review the PE firm's "post-closing action items" to ensure there are no surprises.

• Exit strategy — most PE firms have an exit strategy defined before the investment is completed. Who are the target buyers and why? Does it plan to sell your business to your direct competitor and "rationalize" your entire work force? If the PE firm plans to be in the investment for only two years, is this the right partner? How will extraneous issues such as PE fund life or fundraising affect the company?

A business owner should interview the PE firm and its partners as if they were applying for a job. Are they passionate about the company and industry? Is there a good fit with the culture of the company and do the partners interact well with the management team? Can they really add value to the company? One suggestion is for the business owner to contact current and past presidents of the PE firm's investments to gain insight into the PE firm's operating style.

Finally, I recommend business owners enlist legal counsel, close advisers or members of their board of directors to assist in the review of any potential partner. A business owner who performs a thorough investigation of the PE firm and its personnel will be properly prepared to identify the best PE partner.

George Pfeil is a partner with G.L. Ohrstrom & Co. (GLO). GLO invests in businesses that manufacture engineered products or provide value-added services to industrial and energy end-markets.

For more information, contact Pfeil at gpfeil@glohrstrom.com.

NEWS **UPDATE**

OSHA mobile app protects workers from heat-related illnesses

SANDY, Utah — As part of continuing educational efforts by OSHA about the dangers of extreme heat, Secretary of Labor Hilda L. Solis announced a free application for mobile devices that will enable workers and supervisors to monitor the heat index at their worksites in order to prevent heat-related illnesses.

"Summer heat presents a serious issue that affects some of the most vulnerable workers in our country, and education is crucial to keeping them safe," said Solis. "Heat-related illnesses are preventable. This new app is just one way the Labor Department is getting that message out."

The app, available in English and Spanish, combines heat index data from the U.S. National Oceanic and Atmospheric Administration with the user's location to determine necessary protective measures. Based on the risk level of the heat index, the app provides users with information about precautions they may take such as drinking fluids, taking rest breaks and adjusting work operations. Users also can review the signs and symptoms of heat stroke, heat exhaustion and other heat-related illnesses, and learn about first aid steps to take in an emergency. Information for supervisors is also available through the app on how to gradually build up the workload for new workers as well as how to train employees on heat illness signs and symptoms. Additionally, users can contact OSHA directly through the app.

The app is designed for devices using an Android platform, and versions for BlackBerry and iPhone users will be released shortly. To download it, visit www.go.usa.gov/KFE.

Information for employers about using the heat index to calculate and address risks posed to workers also is available through OSHA's new Web-based tool "Using the Heat Index: Employer Guidance," which is accessible at www.osha.gov/SLTC/heatillness/heat_index/index.html.

For more information, visit www.osha.gov or call (202) 272-0167.