

INDUSTRY FOCUS

Most private equity markets see activity

BY TONYA LAYMAN
Contributing Writer

As the economy rebounds, some private equity experts are seeing an uptick interest and opportunities. "It is a good time for private equity," said Ed Sims, principal at **Nancy Creek Capital LLC**, a private mezzanine debt and equity investment firm. Sims works with a variety of investing partners, including family offices, nonprofit foundations and wealthy individuals.

Sims attributes growth to a number of factors, including equity capital that grew during the recession, banks returning to more reasonable levels of lending that will allow for acquisitions and pent-up demand from business owners wanting to sell. This is having great impact in the small to mid-sized market – those companies with revenues ranging from \$5 million to \$100 million.

"These deals are clearly on the upswing," Sims said. "Senior lenders, or banks, have finally begun to lend on terms that will allow these transactions to take place. For a long while, banks simply were so restrictive in the terms of their loans there was effectively very little senior lending done in this \$5 million to \$100 million area."



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Meanwhile, there are businesses for sale.

"There are sellers who are now beginning to feel comfortable putting their companies on the market," he said. "You take a guy that built a manufacturing or distribution business. He had been successful, taken a good amount out of business each year and put it in the bank. He now has a home in Florida where he is spending more time and he is ready to exit the business. He reached the age of 65 in 2008 but knew if he tried to sell in 2008 or 2009 he wouldn't get half what he could have in previous years. So he battened down the hatches and waited it out. He has been conservative for all these years so when the downturn hit,

he was prepared for it. Now M&A activity and multiples are up and he is out there trying to sell his company."

There are also a number of businesses for sale by private equity firms who bought throughout the 2000s and are just now seeing a good time to sell.

"Typically, a private equity firm doesn't buy a company to hold it forever because their investors want their money back," he said. "If you made an investment in 2002 as a private equity firm with a plan to sell in 2007 to 2009, you looked at the market and saw a) there were few people buying deals and b) the company was probably struggling a bit because of the recession. So there is pent up demand not just from the individual or families

▶ CLOSER LOOK

According to a Middle-Market M&A Update recently published by BNY Mellon Wealth Management, there is a pick-up in middle-market mergers and acquisitions activity.

▶ During the first half of 2014, there was a 10 percent increase in the number of deal transactions and a similar increase in deal value, as compared to the first half of 2013. At this pace, the market is on track to surpass 2013, in terms of volume and value of transactions.

▶ The percentage of deals involving financial buyers during the first half of 2014 increased 22 percent over the same period 2013.

who built a business and want to sell but also from hundreds of private equity firms who made investments and built up companies and didn't sell when they would have."

Mit Shah, CEO of **Noble Investment Group**, which through its private equity real estate funds invests in the lodging and hospitality real estate sector, said it is a great time for lodging investments.



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"It is probably the strongest it has ever been," he said. "There are nearly 100 million hotel room nights sold on a monthly basis. Yet, the 44-month supply growth has been less than 1 percent and next year we are expected to see the highest occupancy the industry will ever be at and room rates will significantly be trending up. That is why there is so much enthusiasm about lodging."

Because of both the industry's success and Noble's ability to capitalize on that, Shah expects to see a number of return investors when Noble begins raising its next fund later this year.

"Our existing investors have already told us they are committed to our next vehicle," he said, adding sticking with what and who you know is a trend in the investing world.

"We have some big name investors in our funds and for a majority of them, we are the only lodging dedicated fund they have invested in," he said. "What we have found with a majority of institutional investors is they are cutting the amount of managers they deal with and allocating more to fewer. When they have an allocation they are going to go with the folks they know and trust and already have a relationship with."

Sims said he is seeing great growth in IT services and in oil and gas investments, although his group doesn't invest in this sector. It does, however, invest in trucking, health care, software, information technology, manufacturing, distribution and business services sectors.

In addition to buying controlling interest in companies, Sims' firm invests when management wants to take over ownership of a company but needs capital

to do so, and when a company wants to expand because there are opportunities for growth but needs capital to accommodate.

"You may need to add to your building, equipment, staff, trucks and raw materials – that can cost an enormous amount of capital. The bank can only lend you a portion of those things but you still have a big hole. We will fill that hole by making an additional equity investment into an existing business that will undergo significant expansion," Sims said.

For George Pfeil, partner at **Clear Creek Private Investors**, the picture is a little different, but he admittedly is in a different position than many in the private equity scene.

"I work with a few families that invest on a deal-by-deal basis, so I don't have a pool of funds that we have to put to work. We are seeking good investments and unfortunately we are realizing the market is pricey and over shopped now," he said, adding his group has looked at over 200 opportunities with a primary focus on industrial products and services in the past year and not jumped at any of them.

"Of the ones we looked at and considered, once you peeled back a layer or two of the onion, the quality of the business wasn't there or we were priced out of these opportunities," he said.

So he believes that finding an investment opportunity at a reasonable price is a challenge for anyone looking to invest

today, but still he sees that deals are getting done. That keeps Pfeil optimistic that his clients will soon get in on the action.

"There are a few good opportunities and, in general, if you talk to most guys in private investing they are finding good candidates to invest in," he said, adding those deals just don't fit what his investors are looking for.

"There is a low supply of opportunities being chased by an oversupply of capital which leads to higher prices," he said. "But my clients can be more patient. We don't have a gun to our head or anyone saying 'you have to put this money to work.' We have a substantial amount of money we want to put to work."



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