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# Private equity executives want deals



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As the economy slowly improves, more businesses are switching to growth mode and looking for investors to help them along. Top executives at several Twin Cities private equity firms discuss trends and what their firms are seeking. *Compiled by Assistant Managing Editor Kim Johnson*

## **Carleton Olmanson, managing principal, GMB Mezzanine Capital**

Are you actively scouting for new deals, or is your fund fully invested?

We are definitely scouting for new deals. Since the first closing of our current fund in December 2010, we have completed transactions with 10 companies. Our current fund is \$240 million, and to-date we have invested approximately \$60 million, so we have ample capital to invest. With the economy steadily strengthening, this is an attractive time to invest. We typically review about 250 deals per year, though over the past several quarters we have seen more attractive opportunities than a couple years ago.

*What industries and what size companies does your firm target?*

We invest in a variety of industries and favor developing a well-diversified investment portfolio. Our portfolio consists of service providers, fabricators, manufacturers and distributors. We invest in companies that typically have sales of between \$10 million and \$100 million and operating income of between \$3 million and \$20 million.

*What advice would you give to business owners who are looking for private-equity investment?*

We usually focus on situations where the business owner is looking to sell all or a portion of the company in order to diversify a personal financial position, or where the owner is looking to bring

in additional capital to finance growth initiatives. In these situations, my advice is to approach the market when the company has positive sales and earnings momentum and the owner can articulate why and how sales and earnings will continue to grow after a private-equity investment. Typically, business owners use some type of sell-side adviser or investment banker to reach the largest number of qualified investors.

*How would you describe the fundraising environment for private-equity firms that want to launch new funds?*

The fundraising environment during 2009 to 2011 was definitely more difficult than during 2003 to 2008. Many fewer funds were launched during this time frame. For even the best-performing funds, the fundraising process over the past two years often took longer and was more difficult than fund managers anticipated. For managers who want to launch brand new funds, the fundraising environment is still difficult. For experienced managers raising follow-on funds, the environment is improving.

*Do you see a lot of investment opportunities in Minnesota?*

Minnesota is home to many excellent private-equity firms that invest locally, so we see quite a few local opportunities. Several of our best investments have been made alongside and in support of Minnesota private-equity firms investing in Minnesota companies.

**— Lisa Kro, managing director, Mill City Capital**

*Are you actively scouting for new deals, or is your fund fully invested?*

Yes, we are actively looking for new deals. In our current fund, we have invested in four platform companies and would anticipate investing in two to three more in this fund.

*What industries and what size companies does your firm target?*

Mill City seeks control-oriented equity investments in middle-market businesses, which we generally define as companies with earnings before interest, taxes, depreciation and amortization (EBITDA) of at least \$7.5 million and generally less than \$25 million. Our target enterprise value for companies we invest in ranges from \$50 million to \$150 million. We will consider opportunities involving smaller companies as add-on acquisitions for existing portfolio companies. A key element of our investment strategy is our focus on investments in companies based in the Midwest, with a particular emphasis on businesses located in the five Upper Midwestern states of Minnesota, Wisconsin, Iowa, North Dakota and South Dakota. With respect to industries, our focus is on the industrial and consumer sectors.

*What advice would you give to business owners who are looking for private-equity investment?*

There are many advantages to partnering with private equity, some of them include:

- Medium to long-term investment horizon;

- Private-equity-backed companies have been shown to grow faster than other types of companies;
- The ability to continue to operate your business and remain an equity hold if you choose;
- Committed until exit;
- Provides a solid, flexible, capital base to meet your future growth and development plans;
- Good for cash flow, as capital repayment, dividend and interest costs (if relevant) are tailored to the company's needs and to what it can afford; and
- A true business partner, sharing in your risks and rewards, with practical advice and expertise (as required) to assist your business success.

The most important advice I would give is to find a partner that you can trust, one that fits well with the culture of your company and that can be a true value-add partner with you to grow your business. When business gets tough is when you find out the real type of partner you have.

*How would you describe the fundraising environment for private-equity firms that want to launch new funds?*

The fundraising environment is improving, but still remains a challenge. In 2007, private-equity buyout capital raised in the United States approximated \$434 billion. In 2011, total capital raised in the U.S. for private-equity buyouts was \$111 billion. While 2012 is expected to be better in terms of capital raised than 2011 was, firms must be able to distinguish themselves from the thousands of others out there in order to raise capital. However, the most important factor in a firm's ability to succeed in fundraising remains unchanged: superior investment returns.

*Do you see a lot of investment opportunities in Minnesota?*

We believe there are numerous investment opportunities in Minnesota, which is why it is a key attribute of our investment strategy. Minnesota has been and continues to be a very entrepreneurial and innovative state with respect to developing businesses, and we don't see this changing in the future. Our investment focus at Mill City will continue to weigh heavily at investing in Minnesota businesses.

**— William Grindell, principal, Brass Ring Capital Inc.**

*Are you actively scouting for new deals, or is your fund fully invested?*

We recently closed our second fund and are actively seeking investments.

*What industries and what size companies does your firm target?*

Brass Ring is dedicated to working with small, niche companies that have the capacity to generate above-average profit margins through their proprietary products, special capabilities or market position. We target business services and manufacturing companies with a stable customer base and a 5-plus-year operating history. The minimum size requirement for a platform investment is revenue of \$5 million to \$50 million and earnings before interest, taxes, depreciation and amortization (EBITDA) of \$1 million to \$5 million.

*What advice would you give to business owners who are looking for private-equity investment?*

We believe it's critical for sellers to choose a buyer they trust. The decision can impact how, when and on what terms the transaction closes, as well as what happens with employees and the business post-closing.

*How would you describe the fundraising environment for private-equity firms that want to launch new funds?*

The current fundraising environment is difficult, especially for first-time fund managers. That being said, the opportunity to raise new funds exists, especially for fund managers with a successful track record.

*Do you see a lot of investment opportunities in Minnesota?*

We definitely see significant investment opportunities in Minnesota and the Upper Midwest. In fact, we have the stated investment strategy of preferring investments in Minnesota, Wisconsin and contiguous states.

**— Jason Brass, managing director, Goldner Hawn Johnson & Morrison Inc.**

*Are you actively scouting for new deals, or is your fund fully invested?*

Yes, in addition to managing six portfolio companies, we are actively looking for new investment opportunities.

*What industries and what size companies does your firm target?*

We have a strong regional focus on companies headquartered in the Midwest, with particular interest in the Upper Midwest (Minnesota, Wisconsin, Iowa, South Dakota and North Dakota). Industries of interest to us include food manufacturers and distributors, precision manufacturers, and business-service providers. We target companies with enterprise values ranging between \$30 million and \$100 million. Our investment size typically ranges from \$10 million to \$25 million; however, with our institutional partners, we have the ability to invest substantially more.

*What advice would you give to business owners who are looking for private-equity investment?*

Pick your partners well. As the private-equity industry has matured, the number of private-equity firms in all segments of the market has increased significantly. Often, business owners focus exclusively on the initial indications of value for their businesses. They frequently overlook the importance of certainty of close, not being re-traded during a sale process and most importantly the partnership post-close. Owners should consider the prior experience and culture of the private-equity firm they are partnering with and how that experience and culture could bring value to their company.

*How would you describe the fundraising environment for private-equity firms that want to launch new funds?*

Since the financial crisis of 2008, there continues to be less capital available for new private-equity funds. According to PitchBook Data Inc., there were approximately 300 U.S. private-equity funds raised in 2007 for a total of \$312 billion. By 2011, that number declined to 135 U.S. funds totaling \$95 billion, PitchBook said.

*Do you see a lot of investment opportunities in Minnesota?*

Yes. Minnesota has a large number of attractive middle-market companies within the industries that we target. Over our firm's 22-year history, 40 percent of our investments have been in Minnesota. The state enjoys a well-educated work force, strong work ethic and easy access to markets throughout the United States. Our shared Midwestern culture is also a valuable asset when competing against other out-of-state private-equity firms.

**— Ben Ault, vice president, Grey Mountain Partners**

*Are you actively scouting for new deals, or is your fund fully invested?*

Our latest fund, Grey Mountain Partners Fund II, is a relatively recent vintage (2010), so we are still actively seeking new investment opportunities.

*What industries and what size companies does your firm target?*

In the past year alone we have invested in a wide variety of industries — from a business that develops enterprise-level mobile solutions and software for Fortune 100 companies to one of the largest glass-installation businesses in the country. So we are open to investing in a wide variety of industries, and we typically target companies with between \$30 million and \$200 million of revenue.

*What advice would you give to business owners who are looking for private-equity investment?*

Take the time to conduct appropriate due diligence on your potential private-equity partners/investors. Check references, work with people you trust and hold them to high standards in terms of transparency. Tension between management teams and outside investors can be a real bottleneck to creating long-term value.

*How would you describe the fundraising environment for private-equity firms that want to launch new funds?*

The bar is much higher today than it was just a few years ago, which is great for private-equity limited partners such as endowments, foundations, pensions and family offices. For the strongest private-equity firms, there seems to have been a shift in attitude towards fundraising: It is no longer an activity that you undertake every couple of years with the goal of raising a fund as quickly as possible and getting back to business, but rather an on-going activity that involves building long-term relationships with your investors.

*Do you see a lot of investment opportunities in Minnesota?*

We are seeing more and more every year. We opened an office here almost two years ago and the increased visibility in the community has resulted in a lot of new opportunities that we would not have seen just a few years ago.

Mark Reilly manages daily and weekly coverage at the Business Journal newsroom.