

People in Business

A CLOSER LOOK AT METRO MOVERS AND SHAKERS

Private equity firm makes acquisitions in Southeast

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Flush with cash from investors seeking double-digit returns, private-equity funds are snapping up businesses, resulting in record levels of deal-making.

Among them is Atlanta-based SouthPointe Ventures, a private-equity firm that seeks to buy existing businesses in the Southeast with revenue of \$5 million to \$30 million. The businesses must have an established product or service in a growing market.

In metro Atlanta, the firm last month acquired Southern Parts & Engineering, a distributor and servicer of industrial air compressors and parts. It also owns Tucker Architectural Millworks, a maker of handcrafted doors, windows and molding for luxury homes, commercial construction and historic renovation and preservation.

SouthPointe Ventures, founded in April 2003 by Edmond G. Fisher III and John B. Maier II, typically acquires majority control of a business. But managements often invest some of their own capital alongside as well.

Q: How long can this seller's market last?

A: The record levels of private equity capital that have been raised in the last two years — in excess of \$400 billion — will allow the market to remain healthy for the foreseeable future as long as interest rates stay reasonably where they are, and there are no significant external shocks to the economy, such as another terrorist attack or a severe spike in oil prices.

Q: What would happen if those events occurred?

A: Based on how the markets have behaved historically in similar periods, general economic confidence will decline, lenders will become more conservative, and growth will slow. As a result, buyers will become less aggressive and sellers may determine that it is not as favorable a time to sell and deal volume would drop.

Q: In this seller's market, how much have prices escalated? And are prices showing any signs of moderating?

A: Our assessment is that prices still remain high. For example, five years ago a business with \$5 million of EBITDA [earnings before interest, taxes, depreciation and amortization, a close representation of the cash flow of the business] may have sold for five times its earnings, or \$25 million. Today it will likely be sold for seven times its EBITDA, or \$35 million.

But the banks financing the deal are very focused on a prudent capital structure that will allow the [acquired] company to succeed after the closing. So instead of a 20 percent equity contribution by the private-equity groups involved in the transaction, the deal would require a 35 to 40 percent equity contribution to support the higher price.

Q: What kinds of returns can private equity funds offer?

A: The returns are generally tiered by size of transaction and size of the private equity fund. As a general rule, the larger the transaction, and the larger the private

equity fund, the lower the investment returns.

Q: So what is the range of potential returns?

A: Since the market has become so robust in the last five years, returns have trended downward to where the expected range of investment return is probably in the high teens to the high 20s. Back in the 1980s, most private equity investors were expecting returns in the 30 percent-plus range.

Q: What kinds of businesses are you interested in buying?

A: We focus on acquiring Southeast-based manufacturing, distribution and business services companies. Additionally, we focus on smaller companies that tend to be overlooked as the private equity world has gotten larger. As a result, we believe we can bring operational expertise to help grow a smaller business to become a larger business and thus attract a larger buyer at a higher price when we are ready to sell our investments.

Q: What was your rationale in acquiring Tucker Architectural Millworks?

A: It had an excellent product and capable management, but it needed some more management depth and more liquidity. It had a very leveraged balance sheet, and we were able to invest our equity and arrange for more favorable debt financing to relieve some of the cash flow pressures and to provide more available cash for growing and improving the business.

Q: In what specific ways?

A: We brought in a very qualified controller, which the predecessor company was unable to afford. And in the first six months of our ownership, we purchased \$150,000 of new production equipment to lower the cost of our products and improve the production flow in our plant. That helped to increase volume and thereby sales.

Q: Did margins improve?

A: Gross profit margins improved by 5 percentage points and revenue year-to-date is up over 20 percent from the comparable period a year ago.

Q: Who are your investors?

A: Mostly high net worth individuals. They generally put in several hundred thousand dollars each. A lot of our investors are former or current business owners who understand how to build a business and are extremely helpful in identifying key success factors in the businesses we pursue.

Q: What's your track record?

A: We've had one company that has provided a significant return thus far. But all of the other portfolio companies are still being built.

Q: What return did you get with that one company?

A: We got back three times our initial investment over a 13-month period with Aerial Access Equipment, a provider of high-reach manlifts and aerial work platforms. The company repurchased a significant portion of our investment. We still own a small minority position in the company. We previously owned half of it with another private-equity investor. It was our first deal.



SEAN DRAKES / Special

Edmond G. Fisher says SouthPointe Ventures was able to use its management expertise to help Tucker Architectural Millworks, a company that it acquired.

THE ED FISHER FILE

► **Born:** July 10, 1961, Los Angeles

► **Lives:** Buckhead

► **Education:** University of Notre Dame, bachelor of business administration, 1983

► **Family:** Wife, Lori, international banker with Bank of America

► **What most people don't know:** He was a junior welterweight boxer in college, winning 13 of 16 bouts. "Boxing taught me discipline and self-reliance. It's a singular sport that takes a lot of physical commitment. So you rise early to work out. Then, when you're in the ring, there's no one else to help you."

► **In his office:** Turtle figurines. "It's the unofficial mascot of the firm. Turtles can survive either on land or in water. Having that kind of flexibility and adaptability is a real advantage in our business. Turtles are slow and steady. We think a patient and long-term approach to our investments serves us well. Turtles also have a hard shell. Many times in our business you need to be tough. Lastly, turtles don't get anywhere without taking some risk and sticking their necks out."

► **Drives:** Silver 2003 Mercedes-Benz S430

► **Wisdom:** "To whom much is given, much is expected. We strive to leave the world a better place than we found it." He is a director of the Study Hall, an after-school academic enrichment program in Atlanta.