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News @ peHUB

VC Deals

Home Decor Products Scores \$65 Million

[Home Decor Products Inc., an Edison, N.J. based online retailer of kitchen and bath products, has raised \\$65 million in third-round funding. 3i Group led the deal, and was joined by Liberty Associated...](#)

Buyout Deals

Embarcadero Buyout Canceled

[Embarcadero Technologies Inc. \(Nasdaq: EMBT\), a San Francisco-based provider of strategic data management solutions, has canceled its proposed acquisition by Thoma Cressey Equity Partners. The deal ha...](#)

PE-Backed IPOs

ClearWire Files for \$400 Million IPO

[ClearWire Corp., a Kirkland, Wash.-based WiMax company, has filed for a \\$400 million IPO. This is the company second IPO filing this year, having originally filed for a \\$400 million offering back in J...](#)

PE-Backed M&A

M2M Acquires Knova Software

[M2M Holdings Inc. \(a.k.a. Made2Manage\), an Indianapolis based provider of enterprise customer management and process solutions, has agreed to acquire Knova Software Inc. \(OTC BB: KNVC\). The deal is va...](#)

PE Exits

ASML To Buy Brion Tech for \$270 Million

[ASML Holding NV \(Nasdaq: ASML\) has agreed to acquire Brion Technologies Inc., a Santa Clara, Calif.-based provider of semiconductor design and](#)

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Are LBO Firms Good For Companies?

Topics:

[Buyout Deals](#) This entry was posted on 12-18-2006

Debate continues to rage over whether buyout firms are somehow cheating on their deals. Are they stealing companies from hapless shareholders? Are they colluding on large transactions in a blatant violation of anti-trust laws? And if not, how else can the enormous profits so many buyout firms generate be explained?

All are interesting questions that will do doubt be answered in time. But to me, **the most important question related to the morality, if you will, of buyout firms is whether they are good for the companies that they own.** Buyout pros like to talk about the value that they add to their portfolio companies—the new management teams they recruit, the customer leads their advisory boards provide, the resources they provide to outsource operations to India, China or The Philippines. They're not as eager to talk about the pressures they place on companies because of all the money borrowed to buy them.

Cash flow that previously got plowed back into the company to make new hires, finance new product development, or provide a cash cushion to weather bad times, instead gets hauled off by the banks, finance companies and institutional investors that hold the company's debt securities. Having once worked at a publishing company owned by a buyout firm, I know the stress that's added to senior manager lives knowing that having a bad quarter or two could mean a distressed sale or even a bankruptcy filing. Sure, we learned to operate mean and lean; but what more could we have accomplished had we had more flexibility?

A recent study by ratings agency Moody's Investors Service, **Default and Migration Rates for Private Equity-Sponsored Issuers**, highlights the negative effects that leverage can have. No surprise, the ratings agencies often slap companies undergoing leveraged buyouts with downgrades as they grow nervous about the company's ability to pay off a heavier debt load.

Is the worry unjustified? Not according to the study, which found that companies whose debt was rated Ba (the least risky of the speculative-grade categories, as defined by Moody's) just prior to being acquired in an LBO have double the default risk of other Ba-rated issuers. Those whose debt was rated B (the next most risky category, after Ba) just prior to being bought in an LBO have a roughly 75% higher default risk than other B-rated issuers. The only silver lining for buyout firms: Companies whose debt is rated Caa to C—in other words, those most likely to default—prior to an LBO actually have a much lower risk of default than other Caa-C-rated companies. **That suggests that buyout firms that specialize in turnaround deals often end up resuscitating companies that might otherwise have gone under.**

Are buyout firms making great returns? Yes. But at what cost to the portfolio companies? That's what I want to know. For a copy of the report send me an email at david.toll@thomson.com.

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Paul Cap Raising Healthcare Fund III

[Paul Capital Partners of San Francisco is raising up to \\$650 million for its third healthcare fund, which will focus both on royalty and direct investment opportunities in the healthcare market. www.p...](#)

[Human Resources](#)

SLI Private Equity Chief Resigns

[Jonny Maxwell has resigned from Standard Life Investments \(SLI\), where he ran the firm's Gbp2.5 billion private equity fund-of-funds business. He also resigned from the main SLI board, following "...](#)



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