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Buying during uncertainty

Terpsma

Pollock

By Karen Gentry | MiBiz
kgentry@mibiz.com

GRAND RAPIDS — Although 2009 will be a challenging year economically, West Michigan companies still have opportunities to grow. That was one of the main points at the West Michigan chapter of the **Turnaround Management Association** panel discussion in Grand Rapids.

"I think there are plenty of opportunities to grow your business — potentially opportunities to acquire companies and other assets at values that haven't been seen in decades," said Jonathan LaBarre, a turnaround consultant from **O'Keefe & Associates**, which has offices in Grand Rapids and Bloomfield Hills.

LaBarre along with **Hartwick Capital** Principal Remos Lenio, **Barnes & Thornburg** Managing Partner Tracy Larsen, and **Bank of America** Market Executive for Michigan Dan Terpsma were part of the panel moderated by **LV2 Equity Partners LLC** Managing Director John Pollock.

The Turnaround Management Association West Michigan chapter was founded about two years ago, which has proven to be good timing because of the poor economy. Pollock said there is more need for the crisis and turnaround managers, business consultants, bankruptcy attorneys and lenders who make up the group.

Businesses have to face the reality that there is substantially less bank debt available. "That's the new reality we face, at least in the immediate future," Pollock told *MiBiz*.

LaBarre said the opportunities to sell companies in 2009 are primarily limited to distressed businesses that are losing too much money or have too much debt.

"If you're a healthy company and you've thought about selling, you're not going to want to sell today," LaBarre said, noting the price willing buyers will pay is a fraction of what they would pay 12-18 months ago.

"It's a very good time to be a buyer, but a very disciplined buyer," LaBarre said. O'Keefe & Associates does a lot of "out-of-the-box transactions" and there are opportunities for healthy companies to acquire a competitor, although bank financing may not provide enough money to complete that transaction.

LaBarre noted that a lot of middle-market companies, those with $10-$500 million in annual revenues, often don't know where to go for non-bank financing. He said that depending on the transaction, there are a lot of investment vehicles to choose, including a debt investment fund, which is part of a larger hedge fund, or a private equity fund. LaBarre said businesses may be required to bring in a financial partner or investors that could be individuals or investment funds.

Larsen said retiring business owners were lucky to have sold a year ago because the selling prices of a year ago don't compare to today's prices. He advises buyers who have the heart for it to take advantage of deals that are out there, although banks are more carefully scrutinizing deals and requiring more collateral.

Lenio said the current times are comparable to the mid-1980s because of the existing bad assets that are out there. With all the uncertainty in the market, he believes it will be two years before any significant loans are made.

Terpsma advised to plan for the worst and hope for something better.

"Good businesses can still access capital to acquire or to grow. However, all businesses have to be very prepared for more careful scrutiny on cash flow and expected cash flow given the challenging times," Terpsma told *MiBiz*.

Because of the changing economy, the cash flow in the last three months of 2008 is looked at separately compared to the rest of the year.

While in the past money was easy and cheap and all that was asked by the borrower was how much and what's the price, today it's all about getting the necessary capital to get the deal done, Terpsma said. Banks today are not in a hurry to lend and are more reluctant to take on significant term debt.

Banks typically provide senior debt and there may also be some mezzanine debt as a layer to reduce the amount of equity from the purchaser. Terpsma said the mezzanine debt is not absolutely necessary, but may provide a more favorable return.

Terpsma advises businesses to get commitment for capital for as long of a term as possible because of the uncertainty of the credit market.

"They should not assume that the credit markets will be getting better," he said.

The good news is there's plenty of capital that needs to be invested. LaBarre said between 2005 and mid-2008 about $825 billion was raised for private equity and mezzanine investment funds. Most of that money raised is still sitting on the sidelines.

He said there was probably too much capital raised during that boom time, nearly 10 times more than in the previous 3.5 years. Investors are typically high net worth individual, families and investment funds.

"They have a number of years depending on the way they're structured to make investments or they actually have to give the money back to the investors — use it or lose it," LaBarre said.

They're motivated to make investments, but at the same time they don't want to make a bad investment, he added. MiBiz