

01.2009 Difficult markets bear chances for solid investors

For 2009, the overall scenario is rather unpleasant for private equity companies. Many portfolio companies will have substantially reduced earnings, some will generate losses. Covenants will often be broken. In these cases, or when third-party-debt is up for refinancing, drastically worsened credit conditions will be inevitable, if the financing succeeds at all. A number of private equity companies will require its investors to reinject equity capital, others will even need to consider the insolvency of portfolio companies.

A growing lack of trust in our asset class seems inevitable. Both employees and investors will be hurt. Many previous owners (especially in the Mittelstand) will ask themselves whether they have selected the right buyers for their companies. Even if not faced with any immediate financial consequences: Who would not be affected by the potential demise of a family company created over many generations? Large corporations that have sold subsidiaries to private equity companies will also be faced with questions regarding their buyer selection. Banks have contributed to this development. For a long time, they have tried to outbid each other in ever increasing debt packages. Eager private equity companies were not only pushed to unrealistic purchase price levels but they also underestimated the consequences of overextended leverage.

All this will bear consequences for future transactions. The proven solidity and trust worthiness of the purchaser will be much more important to the seller than before. With what magnitudes of debt has the company burdened its portfolio companies? Has the financing left room for growth or has it rather increased the debt burden of the portfolio companies through distributions? Has the investor substantially created value and acted as a successful entrepreneur (via innovation, increasing market shares, internationalisation) or has he stifled future growth by maximising short-term cash flows? These and similar questions will need to be answered by the sellers. An even more careful screening of the potential buyers will be the result and direct negotiations with the adequate buyer will often make more sense than broad auctions.

The Lindsay Goldberg funds stand for reliability, strength and entrepreneurial success. None of the above negative criteria applies to them. As European arm of the fund, Lindsay Goldberg Vogel would be pleased to work together with you on a custom tailored solution of an equity participation in your company, be it a minority position or a complete disposal.