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PE: Things are tough all over

Private equity investors gathered in Philadelphia last week for a two-day meeting of the Association for Corporate Growth, under the cloud of the financial crisis.

PE firms still have piles of money, thanks to the hard-pressed pension funds and foundations that backed them earlier this decade. But it's gotten tougher to borrow from banks, and PEs don't like doing deals all alone, reports Thomas Bonney, managing director at accounting consultants CMF Associates, Philadelphia, a host of the ACG confab.

"Deals that are getting done are priced lower" than in 2007, and private equity funds are having to put up roughly a third of the purchase price, compared to a quarter or less in past years, Bonney said.

That math only works if investors are willing to bet they can refinance when lenders "come back to life" in a year or two. "The heydays of easy debt are over, but (it's) also clear the pendelum has swung too far the other way."

Also, sellers can't forecast operating results because of deteriorating overall business conditions, Bonney said. That means "additional anxiety" and falling prices.

By contrast, strategic buyers -- which means actual operating companies, who compete against private equity for deals -- typically have deep pockets and ready credit, so they "are not wanting for deal flow." See, for example, the recent Ashland-Hercules and Dow Chemical-Rohm & Haas combinations. Distressed-company funds (Versa Capital Partners of Philadelphia, or National City Corp.'s Special Situations Group in West Conshohocken) are also busy.

What's a PE practicioner to do? They're spending more time working with companies they already own. They're looking to cut costs -- except in the finance office: PEs are "upgrading" controllers and CFOs at companies they own, the better to control other spending.

Bonney also said investors are looking to China, which doesn't seem directly affected by the U.S. slowdown.

Posted by Joseph N. DiStefano @ 1:39 PM