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Investor behavior

Private equity often suffers from an image problem -- a situation that hasn't been helped by some recent high-profile events. But does a tarnished image affect the way this

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Even in the best of times, private equity firms are sometimes seen as vultures that descend on weak companies and pick them to pieces.

Events in the past year haven't enhanced that tarnished reputation. Take for starters the over-the-top birthday party thrown by Blackstone Group chairman Stephen Schwarzman -- for himself. Another was a high-profile union protest at this year's Wharton Private Equity Conference, a protest that delayed a speech by Carlyle Group co-founder David Rubenstein, who said -- ironically -- that the private equity business is in purgatory and needs to shore up its public image.

But does public opinion really matter when a deal is on the table?

The micro and the macro

In a micro sense, probably not much.

"I think when it comes time for an individual company to deal with a private equity firm, they are much less concerned with the reputation of the industry than with the individual firm," said Den White, vice chairman of the Association for Corporate Growth and a partner at law firm McDermott Will & Emery in Boston.

If anything, he said, dealmakers are realizing that private equity firms are not interchangeable, and a particular firm's talent and past performance are now apt to come under more scrutiny.

In fact, "many private equity firms have taken steps to hone their messages and communicate in ways that help them stand apart from their peers," said Bill Haynes, president of BackBay Communications, a Boston-based public relations firm that focuses on financial services.

In a macro sense, though, a bad reputation can hurt everyone.

Take Schwarzman's 60th birthday party last February, reported to cost \$3 million. The headline-grabbing bash took place at the Park Avenue Armory in New York City and included performances by Rod Stewart and Patti LaBelle.

"I think in the wake of that particular episode there was talk in Washington about imposing an extra tax on private equity firms," White said.

Congress last year proposed doubling the rate private equity investors are taxed on their earnings. The House of Representatives passed the measure, but it didn't get through the Senate. The event prompted an unprecedented rallying of players in the private equity and venture capital industries to lobby against the measure.

"For the moment it seems to have abated, but there always is a risk when people view a segment as being overcompensated and treating others unfairly," White said.

Greater visibility

It's not news that private equity firms make changes in their portfolio companies. That's the nature of a business based on turning a profit for investors. What has changed is their visibility.

"It has become a much larger asset class and more mainstream, and it does have a broader and deeper base of constituencies -- customers, employees, politicians, pension funds -- and probably overall warrants a higher level of transparency," said Bill Winterer, partner with Parthenon Capital in Boston, which reports to have more than \$1.8 billion under management. "I think you want to have a good reputation with all constituencies involved."

Carlyle Group's Rubenstein addressed that at the Wharton conference after his speech was delayed by a protest by the Service Employees International Union. According to press reports at the time, he said the industry needed to do more to explain how it creates value and makes economies more efficient.

Winterer cited the example of Cerberus Capital Management buying an 80 percent stake in Chrysler Corp. in a deal that took the auto manufacturer private and has raised a host of speculation about Cerberus' long-term plans for the company. Cerberus has said little about its plans so far for Chrysler, but that hasn't stopped the speculation.

"Are they saving the company or hurting the company? They will argue that they are saving the company, and the alternative is that Chrysler goes away," he said.

Large and small

It's also important to distinguish between huge private equity firms and the smaller players, Winterer said. The largest firms are the ones whose deals tend to have political ramifications, he said.

"There are many more that are much smaller and much more under the radar screen and have relatively basic strategies and investment approaches," Winterer said.

Even up to a few years ago, there weren't enough private equity firms to attract attention at all, let alone different levels, said Calvin Hackeman, managing partner of Grant Thornton's private equity practice.

"To some extent I think private equity is still getting used to the fact that everybody is aware of them and paying attention to what they are doing," he said.

The public eye

Now that the attention is on them, private equity firms would do well to emulate public companies in how they publicize their accomplishments, Hackeman said.

"Public companies go to great extremes to make sure the word gets out about what they are doing and how well they are doing it, within the rules of disclosure," Hackeman said. Such behavior has even caught on in the legal and accounting professions, which used to shun public relations, he said.

"We all have to remember we have to talk about all the good things we do," he said. "One of the things I don't think gets enough attention is the fact that when private equity comes in, particularly in a distressed company, ultimately in most cases they keep the company in business. If you maintain 90 percent or 80 percent of the jobs, it seems to me the glass is more than half full."