

New acronym, new bubble?



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Thinking about going private? It's no secret that private equity groups are the biggest trend happening in business today

By Jeremy C. Garlington

Whenever an acronym gets coined in business, you have to stop and rub your eyes – if for no other reason – to make sure you know what the letters stand for. The newest, PEGs, is short for private equity groups, a mystical force that represents the biggest business trend going today.

According to Dealogic, 1,010 companies were taken private last year nationwide through mid-December. Total dollars spent: \$371.4 billion. Last year's largest deal, not counting debt, was Columbia/HCA in Memphis, which went private for the second time in the company's history.

This year has started with an even bigger bang or what's turning into a bidding war for Equity Office, which used to be the biggest real estate landlord in the ATL until pulling out last year. Some larger institutions, such as Goldman Sachs and Merrill Lynch, have formidable local presence. But because their PEGs don't stand-alone, it's difficult to assess what they're doing.

Most PEG activity with an Atlanta component occurs at the lower to middle market level. Compared to giant buyout shops such as The Carlyle Group and Blackstone, the local field resembles an Atlanta Braves farm team. Firms such as Brighton Partners and Roark Capital are a fraction

of the size of the larger players. Even combined they don't match up. The local firms are quick to tell you that their niche is what makes them special. Size doesn't matter; only solid investment returns.

OK, we get it.

What's far more revealing is how executives – both ones still running large public companies and former ones with generous severance packages – now flock to the private equity sector. They perceive a playing field with high earnings potential that doesn't require meeting rigors of running a public company. "Why should I work 24-7 when I can invest in other companies and watch my money grow with a fraction of the work?" Not everyone has this luxury, but for an elite few, private equity has rapidly become a fast track career.

PEGs

Word of caution

Before everyone chases a direct line between running a public company to buyout firms, they should examine the merits. First, a conventional company job does not automatically lead into a PEG, nor can the jobs be swapped out for premium positions. Just because you've "had it" running a public company doesn't mean that private equity waits with open hand and fist.

There are far fewer opportunities to join a reputable private equity firm – and even fewer bona-fide investment opportunities. That wasn't as true 18 months ago when the stock market was producing flat returns and investors were looking for alternatives. Insert hedge funds in the same scenario.

Then there's the career change and transformation lag that too few are willing to acknowledge. Operating environments in private equity firms are far different than corporations. Most firms have long

histories and partnership ties that don't always welcome newcomers. There's a senior statesman class, too, which means younger executives often get wedged in between the "gray hair" and research associates.

"I want to get into private equity," when measured against this backdrop, tends to ring a bit hollow. And that's the rub. It's difficult to determine many specifics. The sector has historically been tight lipped, but that, too, is changing. Following is a recent quote from David Rubenstein who heads The Carlyle Group: "American capitalism used to be General Motors and Ford and IBM... Now it's Blackstone and Texas Pacific Group and KKR and Carlyle because we're doing so many things to move the economy." (*Fortune*, January 22, 2007)

Yes, you read that right. We're not talking about small egos. The big buyout boys (BBB) mean business and are subject to little scrutiny. Either they make a deal work and generate handsome returns, or

they don't and walk away – often after loading the balance sheet with debt (Note: contrary to what you may think, percentage of debt to equity is much lower than the previous cycle when KKR bought out RJR Nabisco.)

Bottom line: No middle ground exists unlike in corporations where managers and executives alike can hang out for years before anyone notices.

Perhaps the biggest indicator showing how much influence private equity has gained is the commentary circuit. "He can always go into private equity" has become a real life New Yorker cartoon. When CEO Bob Nardelli left The Home Depot, *The Wall Street Journal* said that it might be time for him to enter private equity.

Yes, the new hot field. For anyone kicking the tires, here's some advice: Take a long hard look and make sure your appetite for risk and unclear job description fit your temperament. Otherwise you may be in for a few surprises. **BTB**

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