

PE Firms Turning to Industry Vets for Board Seats

INVESTMENT: Market experience trumps M.B.A.s in company board picks.

By **MATT PRESSBERG** Staff Reporter

Traditionally, when a private equity firm bought into a company, it named at least one member of its management team – typically a former investment banker – to the company's board.

But now, that seat is less likely to be filled by a finance-minded Wharton M.B.A. and more likely by the former boss of a competitor or someone else with industry savvy. And that's what companies want.

"There's not been a deal I've done in the past two years where the chief executive of a company hasn't said to me, 'I want more than money. I want someone who can supplement my board and my management team,'" said **Andrew Apfelberg**, a partner in the mergers and acquisitions practice at Century City law firm **Greenberg Glusker**.

A recent example of this trend is a fund affiliated with West L.A. private equity firm **Corridor Capital**. **Craig Enenstein**, chief executive of Corridor formed a team with longtime private equity executive **Jeffrey Schwartz**. Late last year, they started **Corbel Structured Equity Partners**, which takes minority stakes in companies to drive value primarily by leveraging Corridor's team of experienced industry executives to tune up the core business of the companies the firm buys into. It will focus on investments in companies in specific industries – specialty manufacturing and business services – with revenue between about \$5 million and

\$500 million.

While private equity firms have increasingly installed experienced managers in target companies, Corbel is the first dedicated operations-focused fund that takes a minority interest in companies in the middle market.

However, it is part of a larger trend of private equity firms locking in on particular industries and getting more intimately involved with the inner workings of the companies they own.

Traditionally, private equity firms installed a finance-oriented director who focused on earnings metrics. But now, the director might work less with the chief financial officer and more with the operations and sales teams, and possibly even make introductions to potential vendors and clients.

Not only do target companies increasingly seek this type of involvement, but investors in private equity funds want to place their money with a team that they perceive will have an edge in the marketplace. The obvious way to gain such an advantage is by adding executives with industry-specific experience to the management team. The need to provide more than money and financial targets has forced many private equity firms to think outside of the M.B.A. box.

"It requires a different composition in your organization than just a bunch of guys off Wall Street," said Enenstein.

Corridor was an early adopter of the private equity management movement since the firm started in 2005. Now, more funds of all



Enenstein

sizes are finding it useful to bring sector-specific experts on board. That's led to the emergence of a new executive position in many private equity firms: the operating partner.

Creo Capital Partners is a West L.A. private equity firm that focuses exclusively on food companies. When it acquired British food service company **Atlantic Foods** in May, Creo added Atlantic Chief Executive **Russell Maddock** to its management team as an operating partner, making him the first member of its team not from a traditional finance background. **Hermosa Beach** private equity shop **Marlin Equity Partners**, which was founded by ex-**Gores Group** guys and which just raised a \$1.6 billion fund, lists 10 operating partners on its website. **Riordan Lewis & Haden**, a private equity firm in West Los Angeles that does mostly health care deals, has six, including **Joseph Sullivan**, chairman emeritus of **Rand Health**, a policy analysis division of **Rand Corp.** in Santa Monica.

Corridor's existing operations team played a decisive role in the company's purchase of **Innovative Office Products**, a flat-panel display mount manufacturer in Easton, Pa., last year. Enenstein said it was critical for the company to find a buyer who could steer the ship because its founder and his son, who had taken over the business, both died in the last two years.

The chief executive of Innovative said that he needed to bring professional management into what had been a family-run business. He said Corridor has provided valuable assistance, helping to develop the company's first budget and performing better customer analysis.

"Our company never had the benefit of a board to provide input and outside perspec-

tive," said **Joe Tosolt**. "It was my belief that we needed to accelerate our internal pace of change and development in order to build our business and stay competitive."

While companies of all sizes are focusing more on finding financial partners with operations capabilities, the middle market is particularly fertile ground for these types of relationships. It is home to companies that might have had success with a hot product or a lucrative niche but are not yet models of efficiency in the way they're run.

"It's where you can find businesses that are strategically well-positioned but are not at their full operational potential," said Enenstein.

No more buying low

With companies trading at greater and greater values in the years since the financial crisis, making money in private equity is no longer as easy as buying companies on the cheap, biding time and selling them. It's an increasingly common sentiment among private equity firms that most of the better values have already been scooped up, said Apfelberg.

"When the pond was overstocked, you just threw your line in the water and that was great," he said. "The lake may have a comparable amount of fish in it, but you've got a whole bunch more fishing boats now."

Not only are there more funds chasing the same companies, but the companies themselves have gotten smarter, he said. They've seen enough financial partnerships to be choosier in whom they accept as investors – and whom they do not.

"These chief executives don't necessarily want some M.B.A. on their board – they want an industry person," said Apfelberg. "They get a lot more out of that."



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