

M&A Pros Show Their Creative Side

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By *Kelly Holman*

The bank lending market's senior debt vacuum may have ground the leveraged buyout business largely to a halt, but it has spurred some private-equity firms to pursue a more creative approach to structuring deals.

In another deal, a private-equity sponsor reached out to different financing sources and created a deal opposite that of the typical leveraged buyout.

ICV Capital Partners LLC announced its purchase of a majority stake in **PFM Group** last week. The New York buyout firm teamed up with the **Michigan Employees Retirement System** to invest in the Philadelphia company, which manages \$35 billion of cash, fixed income and multiasset class portfolios for municipal and state governments. ICV used senior debt financing from a pair of Pennsylvania community banks, **Susquehanna Bank** and **TriState Capital Bank**, rather than the traditional middle-market deal lending sources.

Tarrus Richardson, managing director of ICV, would not elaborate on the deal's enterprise value or financing figures. However, he said that by using community banks, his firm was able to get funding for its target company at around 525 basis points above the London interbank offered rate, compared with the 700 basis points over Libor that regular middle-market financing sources would provide.

The Philadelphia investment bank **Griffin Financial Group LLC** advised PFM on the transaction and pitched the notion that ICV turn to local funding sources, according to **Joseph Harenza**, the CEO of Griffin Financial.

"We've consistently been telling private-equity firms that they should look for loans from regional lenders," he says. "We helped them find a substitute for scarce and expensive lending."

The transaction, it turns out, was the inverse of the usual buyout, where private-equity firms fund their acquisitions with up to 70% senior debt and the remainder with equity capital or a combination of stock and mezzanine financing.

By contrast, ICV's purchase was structured with 70% equity and 30% senior debt, according to Richardson.

"In this market, we wanted more certainty to close, more operating flexibility and a ton of opportunity for growth through acquisitions. For a business in asset management, we think a safe and sound balance sheet is super important," he says.

Since PFM is left with less debt, the thinking goes, it will be better able to pursue future acquisitions.

Credit Suisse Group Inc., an investor in ICV's funds, also played a role in the deal by bringing the Michigan Employees' Strategic Opportunity Fund LP into the transaction, Richardson says.

The pension fund investment vehicle's contribution made up about 20% of the transaction's total equity contribution, which also included some preferred stock.

"If you're going to buy market-leading businesses, one way to do that is give up your upside return for some downside protection," says Richardson.

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