

More Executives Are Cold Calling Buyout Firms

BY MATTHEW MONKS

FOOD & BEVERAGE

NEW YORK (Dow Jones)--John Campbell spent 22 years in sales and marketing with aluminum producer Alcoa Inc. (AA) before retiring amid a management shuffle in late 2003. Tired of working for other people, he set out to buy his own company. But then economic reality set in.

"I wanted to be a little bit more in control of my destiny," said Campbell, 47 years old. "But I couldn't afford to buy the things that interested me. My ambitions exceeded my budget." Campbell reached out to private-equity investors, eventually connecting with a midmarket buyout shop in Indianapolis called Monument Advisors Inc. The firm liked Campbell's deep industrial-marketing experience and took him on as a partner in the July 2005 buyout of centrifuge equipment maker Separators Inc. Campbell is now co-owner and chief executive of the company.

Executives such as Campbell always have played a role in the private-equity industry, with a number of firms employing business models that rely on backing talented operating partners. But the sector's newly glittering profile is making it more attractive than ever for wannabe entrepreneurs. Industry experts say that is in no way a bad thing; in an increasingly competitive environment, every lead counts.

"The holy grail of private equity is the proprietary deal, and these guys are a good source of these sort of one-off deals that nobody else is looking at," said Michael Smiggen, a principal with Tonka Bay Equity Partners LLC, Minnetonka, Minn. His firm regularly fields calls from ambitious people with corporate backgrounds looking to strike out on their own. It currently is scoping out a Midwest manufacturer brought to its attention by one of them. For every talk that leads to a solid deal lead, however, firms like Smiggen's get dozens of dead-end inquiries. Monument Advisors Managing Director Larry Wechter said he has had a number of fruitless chats with recent retirees. They are flush with retirement packages and hungry to barrel on to their next venture. Problem is, they don't understand how private equity works. "Lots of them want to run their own show," said Wechter, whose firm has relied on executive partners to source and close two recent deals. "They want to just use our money like a bank's money."

That strategy won't work with most buyout firms, who want a say in how a business is run and a solid profit from selling their stake a few years down the road. Wechter and others said that someone is worth listening to if they have a specific target in mind and years of deep operational experience in a field such as manufacturing, distribution or luxury goods. The person also has to be open to working with other people and wealthy enough to make a sizable co-investment.

"Assessing operating executives is a real art," said Circle Peak Capital LLC Managing Partner R. Adam Smith, adding that it takes a lot of time and effort to find the right candidate. New York-based Circle Peak's latest deal came together through talks with veteran luxury goods executive Pierre Keyser, who recently left Richemont Group after helping launch its Cartier eyewear and Lancel leather brands in the U.S.

Keyser had the idea of consolidating the fragmented luxury eyewear market. An associate at Circle Peak that he knew recommended that he reach out to the buyout firm with the scheme. Keyser fit Circle Peak's criteria for someone worth working with, as he came highly recommended with a number of potential targets in mind, Smith said. With Circle Peak's backing, Keyser tapped industry connections to find and purchase three small eyewear chains: Davante LLC, Morgenthal Frederics Opticians Inc. and Optical Fashion Center Inc. The three have been merged into a 25-store chain called Luxury Optical Holdings Co., which Keyser is now running as CEO.
