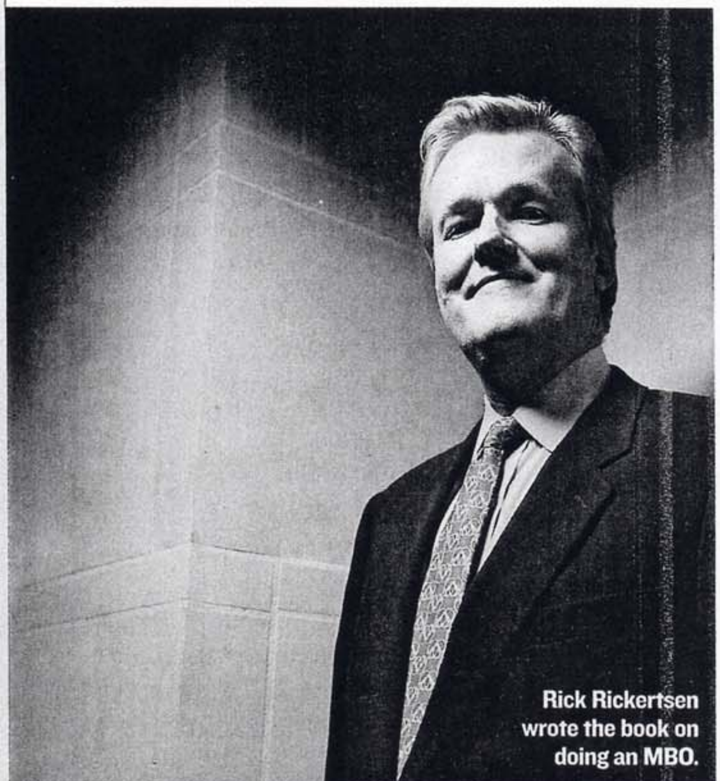
Boffo Time For Buyouts

If you're a manager, why not take over your own company? An expert tells how.


Rick Rickertsen wrote the book on doing an MBO.

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BY DYAN MACHAN

TO CARL J. (RICK) RICKERTSEN, these are golden times for managers who want to borrow money and take a public company private. Rickertsen, 41, ought to know: He has led 50 management buyouts in his career. His buyout firm, Thayer Capital in Washington D.C., raises the capital and takes controlling stakes in companies.

The number two person at Thayer under founder Frederic Malek, Rick Rickertsen says plenty of buyout money is available for the right managers—$100 billion from 500 buyout firms. "It's management talent, not capital, that is the limiting fact in today's market," says Rickertsen, who has just written a how-to book called *Buyout* (Amacom).

If you're a buyout-minded manager, there's further good news: Deals are more affordable with so many stock valuations in the cellar. You have little choice other than to make equity-heavy deals these days, he notes, because banks are stingy about lending. But that's okay: You won't be burdened by a highly leveraged balance sheet.

The real payday for buyout firms and their management partners comes, of course, after they've made the company a roaring success and take it public again. Rickertsen says Thayer has averaged 29% annual returns for the last seven years.

How do you, as a manager, look the part of someone a firm like Thayer would want to invest in? Rickertsen has an aversion to managers who wear pinkie rings. In the late 1980s he invested in a company whose pinkie-ring-wearing chief had a taste for dating female employees, for deluxe offices—and for cooking the books. Rickertsen ignored his gut feel early on that something was amiss. The business ended up in bankruptcy.

Here are steps managers should take to make the buyout a reality:

Get the board on board. Sounds pretty elementary, right? But it's amazing how often managers overlook this step. "Thousands of hours and tens of millions of dollars have been squandered working diligently on transactions where there really isn't a willing seller," Rickertsen says.

And the more committed the board is to a sale, the stronger hand the managers have in bargaining for more equity with the buyout firm. Usually, Rickertsen says, a management is awarded 12%–15% of the company's stock. If managers secure a solid letter of commitment from the board to sell to them, they can work with their equity partners to snare a 25% stake.

Don't oversell. "Credibility is everything. Never say 'We have little or no competition.'" To Rickertsen that means the would-be owner hasn't done his homework.

Another tip: "Leave the hockey stick home," he says, referring to the practice of prospective owners coming to see him with projections for a sudden burst of revenue growth. "They think it will make investors excited. In fact, it's a turnoff. It's too rare to be able to predict that level of performance."

Vet several buyout firms. Rickertsen dishes out advice that won't thrill his competitors: He suggests managers on the hunt meet with three to five firms to get the right deal fit. "I tell managers to play buyout firms against each other. I'm happy to compete."

Make things social and schmooze them up, he says. "Drink wine and play golf with the investment professionals to explore their characters." And perform your own due diligence, no matter how gilded their reputation: "Call a manager they fired. If they don't want to give you references openly, you probably don't want to be partners with them."

Get incentive equity. Another trade secret: Ask for home-run warrants, or options, which reward you with a larger equity stake if you do well. Says Rickertsen, "Buyout firms generally target a rate of return of 30% to 35%. Management teams should say they would like 5% more equity if they generate a 40% return. Buyout firms can't say no."

Don't be afraid to pull out. Finally: "Never be blinded by love for the deal," Rickertsen says, recalling the pinkie-ring fiasco. F

BUYOUT FIRMS ARE AWASH IN CAPITAL, BUT YOU HAVE TO KNOW HOW TO GET THEM ON YOUR SIDE.