



## PE To Go Corporate?

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By [Kelly Holman](#)

While the buyout industry is wrestling with the credit crunch, some financial sponsors are exploring potential deal opportunities with corporate partners.

With debt tough to come by, some buyout groups have found that corporate owners can prove to be helpful in generating deal flow as evidenced by **Permira Advisers'** recently completed \$3.6 billion take-private of **NDS Group**. It arranged the deal last year with **News Corp.**, which held a majority stake in the UK software developer, after the media company sought to pare its 72% stake in NDS (Permira had identified NDS as a potential acquisition target). In addition, News Corp. also owned a large number of the company's class B shares.

As a result of News Corp.'s decision to reduce its interest in NDS, Permira was able to acquire a majority stake in NDS after the New York media company canceled its class B stock in exchange for \$63 per share, reducing its overall holdings to 49%. The transaction drew a syndicate of high-powered banks willing to lend to the purchase, including **JPMorgan**, **Morgan Stanley** and **BNP Paribas**, which gave Permira 51% of NDS.

"It's natural to think that private equity and corporations will be getting together in certain circumstances to do transactions," says **Richard Brail**, a managing director at **Peter J. Solomon Co.** and head of its media and communications group. "It's an effective deal strategy and technique for both sides," he adds.

If the debt capital markets remain depressed, finding deal opportunities by partnering with corporations could be "an effective strategy, especially if strategics are able to identify targets at attractive valuations," Brail says.

Sometimes transaction opportunities come directly from corporate investors as in the case of News Corp. and NDS. Dealmarket participants say they expect to see more tie ups between businesses and financial buyers as the former look to raise money from well heeled private equity firms.

"I think you'll see more corporations do joint ventures with a sponsor to buy an entire company or sell non-core assets to raise capital and where each will take a piece of the divested business," says **Mark Epley**, head of financial sponsors at **Deutsche Bank**.

That's what happened when **Northrop Grumman** sold its **TRW Automotive** unit to **Blackstone Group** for \$4.7 billion in 2003. Although it used proceeds from the sale of the auto-parts supplier to retire debt, Northrop retained a 19.6% equity stake in TRW. By teaming up with financial buyers corporations can reduce their exposure when acquiring a business,

according to Epley. "Corporates are hesitant in this environment to be overly aggressive, but one way they can reduce their risk is to partner with private equity firms," he says.

Blackstone, says Epley, is one of the private equity industry's "quintessential" corporate partners, having invested \$8 billion in 47 deals with strategics. For example, last July Blackstone teamed with **Bain Capital** and **NBC Universal** to acquire the **Weather Channel** from **Landmark Communications** in a deal sources valued at around \$3.5 billion.

Epley says one corporate handoff scenario being bandied about is the potential sale of a business unit to a financial sponsor in order to pay down debt on the condition that the seller can then repurchase the sold unit at a later time.

Brail, meanwhile, says that when buyout groups partner with corporate buyers it has the added benefit of producing a "halo effect," or enhanced perception, around the sponsor. Partnering with a well known corporate, for example, can help private equity firms secure future transaction opportunities. Buyout firms can also help strategic buyers fund acquisitions.

In 2003, for example, **Apax Partners** did just that when it supported **Phillips-Van Heusen's** \$430 million acquisition of **Calvin Klein**. Apax funded a good chunk of the purchase by investing \$375 million in Van Heusen, buying \$250 million of convertible preferred stock and providing \$125 million via a two-year secured note.

Although deals like that can help both parties attain certain objectives, the end game may be quite different for each investor. As **Debevoise & Plimpton** pointed out in December, private equity firms will often view a strategic investor as an acquirer of the [target] business, though corporate managers may have ideas that aren't exactly aligned with a sponsor's notion of value creation.

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