On The Left

AmericanSecurities

We continue our series on how top PE sponsors are managing in this environment. In the first of a two-part Q&A, we ask Michael G. Fisch, President & CEO of American Securities about his strategy:

Actually, our goals and values haven't changed in this environment. Our objective is to generate and preserve wealth for our investors and for management teams. We target market-leading companies in stable demand industries, financed conservatively with only senior debt and equity. Finding management teams with whom we can be a value-added partner, is key.

We're now investing American Securities Partners V, a $2.3B fund with an unprecedented 25-year investment time horizon. Our final investment from Fund IV was Liberty Tire, which we closed last November. While our preferred equity investment per deal is $100-500MM, we'll go lower than $100MM for special situations.

OTL: How are you sourcing deals in the current environment?

The same way we always have. By creating a distinctive relationship with private company owners, corporate sellers, CEOs and management teams, lenders and other investors. We meet with these folks regularly and research industries diligently. It's true that deal flow has been off this year, but conversations we've had with management teams and owners have been more "real" and detailed. We have a lot of activity going on in our firm right now.

OTL: Are you looking at different types of investment opportunities/structures?

We're looking at structured equity investments in public and private companies that need capital but no longer have the range of debt options they once had. Selectively, we've also bought businesses with all equity. Among other things, this means no financing contingencies for sellers to worry about.

OTL: Are there debt opportunities that you are looking at?

Yes, we're looking at debt opportunities regularly and have made a few investments in the debt of middle-market companies. Our interest in these situations has been to support existing management teams, particularly ones we've known for years.

OTL: How are your portfolio companies doing?

Last year, we were pleased our prior funds portfolio companies had double digit sales increases and high single digit EBITDA growth. Given our strategy of using only senior bank debt and equity in our capital structures, our management teams have the luxury of solving critical strategic, marketing and operational issues they're facing in this economic climate, rather than worrying about debt covenants.

OTL: What is your outlook regarding add-ons? Has the flow of add-on acquisitions slowed as well?

We're reviewing a number of potential add-ons and we've closed a few. Add-ons are very positive strategically and organizationally for our management teams, and we've got the capital to support them. We haven't seen a decrease in opportunities, but we've had to be more creative on the financing side. Amending a credit agreement today, even for an accretive deal, remains a challenge.

OTL: What's been your biggest surprise in this environment?

Two things. On the big picture side, that so little consensus exists in Washington on the details of a path ahead. Small picture? That the SEC has not reinstated the up-tick rule.