Geoffrey Faux Featured in *Plastics News*

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Management may be best – or worst – feature in acquisition

Financials are not the only measure when considering a potential merger or acquisition in the plastics market, or really an acquisition in any business.

By: Jim Johnson

ATLANTA — Financials are not the only measure when considering a potential merger or acquisition in the plastics market, or really an acquisition in any business.

Existing management of a potential takeover candidate can help determine whether a deal goes through, or potential investors decide to walk away, according to a trio of money men who spoke at The Packaging Conference in Atlanta.

"From my perspective and the investments that we make, if we find an impediment to change, it is generally management," said Geoffrey L. Faux, managing partner with Caymus Equity Partners LLC of Atlanta. "We really cannot acquire a business if we don't have a management team to partner with.

"Developing a relationship with a management team is part of the experience of being a financial investor, but also can be a challenge.

"The types of businesses that we invest in, they are typically businesses that are five, 10, 20 years old. Management has been there for a while, tend to get set in their ways. And sometimes it's hard to get management to change if we challenge them in certain ways," he said.

"Other times, we see management who is trying to do too much," Faux said, and is unwilling to bring in additional help, such as financial, sales or manufacturing leaders, to help manage the business.

Brett A. Snyder is president of Nicolet Capital Partners LLC of Chicago. He sees two situations that commonly are impediments to change from management: an unwillingness to both take risks and to establish priorities on initiatives to improve their businesses.

"Often, there's a lot of good ideas that both senior management and people in the organization have. There's usually no shortage of ideas, sometimes we can debate whether they are good or not. But there usually are good ideas," Snyder said.

"What we see a lot is people, for whatever reason, hedging their bets, being unwilling to do the work to analyze different opportunities and then make a decision on a manageable number of initiatives that you can then actually execute," he said. "You can't execute 10 or 15 things. That's just not realistic.

"Those are the two areas that we've seen holding a lot of companies back," Snyder said.

Jack Knott is CEO of investment firm Arion Partners LLC of New York City and former CEO of Coveris, a plastics packaging company.

"Absolutely management is the one impediment that would cause us to walk away from a potential turnaround or acquisition. The other one would be cash flow. If the burn rate was just such that the balance sheet was weak enough that we just could not see our way to support the changes necessary," he said.

The investors also provided some insight about how they view the current mergers and acquisition market.

"It continues to be a very good market environment for businesses," Faux said, to "bring in private equity partners like ourselves when management and owners have the opportunity to take some cash out of the business, yet continue run the business in partner with a private equity firm.

"There's a significant amount of capital in the marketplace today with folks like the three of us looking for attractive investment opportunities," he said. "I think, from our perspective, it will continue to be a very strong market."

Not only are financial investors interested mergers and acquisitions these days, Knott said there is an increasing number of family run companies looking to make deals to expand their businesses.

"We're not going to go back to the way it was in terms of less competition M&A," Snyder said. "The long arm of history is going to continue to be up and to the right in terms of the competitive environment.

"Sure, there will be cycles," he said, but that means the market will just pull back. "When that happens, it really means the deal market grinds to a halt. It doesn't mean there's great opportunities to buy things at lower prices. Just everything sits still for a while and we all decide to go back to our hijinks again.

"Our answer to that is to be specialized, and we're increasingly focusing our efforts around plastics and converting packaging businesses under the assumption that if you are going to have to pay a lot and pay more than you would want to pay, presumably at least you would like to know what you are doing or think you know what you are doing," Snyder said.

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Caymus Equity, with offices in Atlanta, New York and Phoenix, invests in profitable companies focused on business services, healthcare services, consumer and niche manufacturing with strong growth potential operating in the lower middle market. The professionals of Caymus Equity have over 100 years of investing and operating experience, including over 40 years in starting, acquiring, operating, growing and successfully exiting a variety of lower middle market businesses. The cornerstone of Caymus Equity's investment philosophy is to partner with talented management teams to invest in companies that have reached an inflection point and provide value add operational support and capital to maximize growth opportunities.