

Middle Market Private Equity Conference Roundtable with Hasit Vibhakar

Hedge Fund Investment Roundtable with Hasit Vibhakar

Hasit Vibhakar stated the subprime housing debacle and subsequent pullback in the credit markets have created uncertainty in the broader market, as investors wonder how long and how deep the economic slowdown and likely recession will continue. The angst has left many wondering if deal activity and financing will dry up in 2008.

During a roundtable discussion last month in Dallas, Texas, prominent private equity players and investment bankers talked about deal prospects and valuations, the expected rise in loan defaults and the need for quality. We interviewed Hasit Vibhakar, managing member of a private equity firm focused in the small cap and lower middle market opportunities.

What is the status of middle market M&A deal activity?

Hasit Vibhakar: For larger transactions, the market is pretty shut down. But in middle market where deals are valued between \$ 25 million to \$ 1 billion on the high end “ activity is very vibrant. Our backlog is up 16% from last year. Deal quality is better now than last year.

What is your take on the economy?

Hasit Vibhakar: When we discuss opportunities with lenders across the country, I sense increasing weakness over the last 3 months. Defaults are going up over the course of the year. All cycles converge very quickly, for the middle market I believe it will be short and not as ruthless as it will be for other markets.

Do you think EBITDA multiples are going to come down or stay put?

Hasit Vibhakar: Such times can be excellent opportunities for great returns. The market’s a pretty tough place to make your returns on multiple arbitrage. But if you can fundamentally change a company, through the management team, or building a better diversified business, then you can create value, produce track record of this value creation and receive good returns in any market. As far as pricing and multiples, if you take any company that’s in any industry that is subject to recessionary pressures then that multiple is going to come down more than a business in a high growth industry.

Are Private Equity firms under pressure to invest?

Hasit Vibhakar: Yes there is considerable pressure to put money to work. In times like now I see a lot more creativeness in deal making. We have seen more equity being put in to a deal, warrants, junior debt, self financing until debt is taken out. In the end you have to be

very cautious, everything is extended including your investment period which has been 5 year investment 5 year harvest cycles.

Too many other players in the Private Equity space, what's your opinion?

Hasit Vibhakar: We have many other players like hedge funds stepping up. My theory is simple in that Private Equity firms that are the best ones are really business builders or business engineers. We really get into the operating details. I don't think a hedge fund is cut out to be a business builder. Hedge funds are good at distressed paper, and now trading in public equities which at times allows them to be financially creative. They have been active in larger transactions than in middle market. I would like to partner up with a hedge fund to find some quality companies and co-invest.

Last Question, Is there opportunity in this uncertain and turmoil for those with cash?

Hasit Vibhakar: I believe that this is a very fragmented market so yes there is opportunity abound especially industry specific. Capital is tight right now, so anytime you can put it to work in a quality deal/opportunity you take advantage of that. There are a lot of people in our space with capital wishing to put it to work in this time period we are in but they can't. Deal quality is everything.

Source: Republic Research Institute (RRI)