

CIVIC

PARTNERS

Investments

Industry
Interests

CEO
Program

In The News



access
creativity
connections

After an active year of new investments, **CIVC Partners** anticipates 2002 to be another robust year with **strategic investments** in **targeted industries** - and **innovative alliances** with some of the nation's savviest CEOs.

Investments

In 2001, despite challenging market conditions, CIVC Partners maintained its investment pace. \$115 million was invested in growing, middle market companies, providing CIVC Partners with 3 new platform investments and marking a dramatic new growth phase for an existing portfolio company. All are embarking upon disciplined, yet aggressive growth plans. We are pleased to share these new investment and exit highlights.

- **[Kellermeyer Building Services](#)**

Leading provider of contract janitorial cleaning services to retail stores

\$15 million investment

- * Buyout with significant management participation
- * 25 years of uninterrupted earnings growth

- **[LA Fitness International](#)**

Leading operator of full service fitness clubs

\$29 million investment

- * Growth equity to fund continued new club expansion
- * Rapidly expanding in new geographic markets
- * Outstanding operating model and club format

- **[TransWestern Publishing Company](#)**

Country's second largest independent telephone directory publisher

\$51 million investment

- * Acquisition of WorldPages.com, Inc. was TWP's 33rd acquisition and largest to date
- * Recapitalized company resulting in a 32% IRR on CIVC's 1997 investment

- **[PrimeCo Chicago PCS](#)**

#1 Chicago-area brand in wireless communications network

\$20 million investment

- * Investor in buyout of Verizon PCS divestiture
- * 2000 proposed transaction resurrected at a dramatically lower valuation

Visit us at www.civc.com for a comprehensive listing of portfolio companies and CIVC's investment criteria.

Industry Interests

CIVIC Partners is actively involved in the industry platforms identified below. We are always interested in reviewing compelling concepts that meet our investment criteria in these industries.

In 2002, target industry sectors for new platform investments and CEO partnerships are as follows:

CIVIC AFFINITY AREAS

TARGET SECTORS	Media/ Communications	Financial Services	Industrial Growth	Business Services	Other
Commercial Finance		■			
Small Ticket Leasing		■			
Specialty Line Insurance		■			
Transaction Processing		■			
Security Services			■	■	■
Outsourced Utility Services				■	
Facility-Related Services				■	
Logistics/Supply Chain Mgmt.				■	
Post-Secondary Education			■	■	■
Marketing Services	■			■	

CEO Program

In 2001, CIVC Partners launched a program to proactively develop relationships with some of the nation's most successful CEOs. Firmly rooted in the industry sectors of interest to CIVC, these high-caliber CEOs provide CIVC Partners with a deep bench of talent, available to add strategic value to investment decisions and opportunities. In addition to providing CIVC with much greater insight into our target industries, this talented group of CEOs also:

- channels proprietary investment opportunities to CIVC
- provides an interim or permanent resource for portfolio company leadership
- assists with due diligence efforts on proposed investments
- offers CIVC experienced outside board members
- represents an industry-knowledgeable sounding board for portfolio company management

CIVC also will provide financial backing for visionary CEOs interested in pursuing an acquisition program to create and build unique companies in dynamic industries. To learn more about this program, email us at civc_partners@bankofamerica.com.

In The News

CIVC Partners Roundtable on Managing Private Equity Investments in Turbulent Economic Times. In August 2001, the Journal of Applied Corporate Finance requested several partners from CIVC to assemble for a round table discussion concerning organizational strategy in the management of equity investments during turbulent times. Revealing some of CIVC Partners' strategic thought processes, this dialogue reacts to the current conditions of the market, evaluating due diligence and identifying specific investment strategies.

[Click here to read the complete discussion.](#)

CIVC Partners December 2001 - CIVC Deal eBulletin TransWestern Publishing, LLC - In June 2001, TransWestern Publishing Company, a CIVC portfolio company and independent telephone directory publisher, acquired Texas-based WorldPages.com, Inc., a leading print and Internet yellow pages publisher. The acquisition, which contributed over \$100 million in print revenues, catapulted TransWestern Publishing Company into a premier position within the telephone directory market. Now, with over 312 print directories in 22 states, the Company is the second-largest independent telephone directory publisher in the United States.

[Click here to read the details of the deal.](#)

CIVC Partners April 2001 - CIVC Deal eBulletin Kellermeyer Building Services -In April of 2001, CIVC Partners and management invested \$19 million and arranged senior debt financing to purchase the assets of Kellermeyer Building Services, a leading national provider of contract janitorial cleaning services, primarily to retail establishments. Management selected CIVC as a partner with industry experience to assist them in executing their growth strategy. All of the 18 members of management who had equity in the company previously, rolled over a portion of their investment into the new company.

[Click here to read the details of the deal.](#)



You will need Adobe Acrobat Reader to view files that are in PDF format.

[Click here to download Acrobat Reader.](#)

CIVC PARTNERS ROUNDTABLE ON MANAGING PRIVATE EQUITY INVESTMENTS IN TURBULENT ECONOMIC TIMES

August 30, 2001 ■ Chicago

Editor's Note: *The following roundtable discussion took place prior to the unprecedented terrorist attacks of September 11, 2001. The subject matter as originally discussed is now even more relevant in light of an increasingly challenging economic landscape.*

LORI BOLIN: Good afternoon, and welcome to CIVC Partners. As one of the seven private equity investment arms of Bank of America, CIVC Partners manages more than \$700 million in private equity capital provided exclusively by the bank, primarily for leveraged buyouts and growth equity investments in mid-size companies in North America. We are here today, in the financial district of downtown Chicago, for a discussion with four partners from CIVC.

The main subject of this discussion is the strategies that this leading private equity player is pursuing to manage investments in these unsettled economic times. The private equity market is experiencing considerable turbulence as a result of heightened competition, a changing economy, and volatile capital markets. There has been a dramatic increase in the number of private equity investors as well as in the size of their investments. A new report from Pricewaterhouse-Coopers and 3i Group PLC indicates that the total worldwide investment level for private equity and venture capital was \$177 billion in 2000, up 30% from 1999. Moreover, companies raised \$225 billion in new private investment funds in 2000, a staggering increase of 67% from the previous year. As a

result, an extraordinary amount of private equity capital is available for investment. According to *Buyouts*, the buyout fund segment of the private equity market where CIVC operates raised \$62 billion in 2000, up from \$3 billion in 1990. Total buyout funds under management have increased from \$55 billion to \$374 billion over the same period.

On a related front, it is evident to all of us that the banking industry has been consolidating at a rapid rate, and this consolidation is changing the rules for private equity investors. Today's commercial lending institutions prefer larger debt packages—a change that tends to squeeze out all but the most bulletproof middle market acquisitions. At the same time, the overall availability of debt capital has declined, as banks tighten their reins on risk in the midst of an unstable economy. These changes, along with change and instability in the public markets, have caused many businesses to turn to private equity investments as a means of raising capital. And this means that, in today's market, a majority of investment opportunities are under consideration by private equity investors.

So, in the midst of change in the private equity industry as well as in

the economy, we meet today with four partners of a successful, longstanding private equity investment firm. CIVC Partners, with 30 years of private equity investment experience, has offered to give us an "insider's view" of its investment management approach in today's environment. In our discussion, we will focus on four key points: First, we will look at the impact of the current market reality on CIVC. Second, we will discuss the reduced margin for error associated with today's private equity investments. Third, we will discuss CIVC's investment strategies and the impact of risk on those strategies. Last, we will focus our attention on CIVC's "continuous due diligence" approach—along with CIVC's advice on evaluating an investment partner.

Let me now introduce our panelists from CIVC:

To my left is **MARCUS WEDNER**. During the past decade, Marcus has developed an expertise in communications and media and has focused his efforts on opportunities in these areas. He also regularly evaluates investments in many other industries, and assists portfolio companies in developing long-range plans. Marcus shares overall strategic and operating responsibility for CIVC.

“In the midst of this challenging environment, the private equity market is now experiencing increased competition. That competition, and the pressure to invest large amounts of capital, has exposed the depth and quality of equity players’ strategies.”

—LORI CULP BOLIN—

He joined CIVC in 1988 and became a partner in 1992. He previously worked in sales and marketing with Pacific Telesis Group and as an associate with Goldman, Sachs & Co. Marcus received his MBA from Harvard and holds a BA from UCLA.

Next to Marcus is **GREGG WILSON**. Gregg leads CIVC’s CEO-focused investment strategy and is responsible for the firm’s marketing activities. Previously, he founded and managed Maxim Corporate Partners, a private equity investment firm that acquired niche manufacturing companies. Gregg’s buyout experience also includes stints in leveraged finance with both Citicorp Leveraged Capital and Continental Bank, and he has served as interim CEO of a CIVC portfolio company. He received his MBA and BS degrees from Indiana University.

To my right is **DAN HELLE**. Dan directs CIVC’s Financial Services investment strategy and shares overall strategic and operating responsibility for CIVC. He joined CIVC in 1990 and has been a partner since 1992. Dan spent many years in the Mezzanine Investments Group with Continental Bank and in Citicorp’s Leveraged Capital Division. He received an MS in Finance and Economics from the University of Illinois and a BS from Western Illinois University.

Also joining us is **CHRIS PERRY**. Chris shares overall strategic and operating responsibility for CIVC, and has led most of the firm’s Business Services investments. He joined the private equity business as a partner at CIVC in 1994, after running Continental Bank’s Mezzanine Investing and Structured Finance businesses. Previously, Chris served in the Corporate Finance Department of The Northern Trust Company. Chris received an MBA from Pepperdine University and is a certified public accountant. He earned a BS from the University of Illinois.

The Current Reality

BOLIN: When an individual survives a heart attack, he or she often reevaluates the roles and relationships of life. If the private equity market, with its portfolio values crashing, has had the equivalent of a heart attack, how has that prompted CIVC to reassess its role in the market and the relationships it participates in?

WEDNER: I think we certainly have a greater sense of our own mortality at CIVC, both in terms of our place within the private equity community and at the portfolio company level. Some of our companies are in the midst of some real recessionary times, and the kind of performance they’re experiencing is not unlike a catastrophic illness. I’m not sure we would ever have dared to predict that it could really get this bad. The experience here the last year or so has been very humbling. It has forced us to think about the basics, about what we’re really here to do, and the kind of principles that have driven our business historically that probably got a bit out of whack in the last two or three years. We are working very hard both to return to the basics and to spend a lot more time thinking through how we will adjust to what could be a challenging environment for quite some time.

BOLIN: In the midst of this challenging environment, the private equity market is now experiencing increased competition. That competition, and the pressure to invest large amounts of capital, has exposed the depth and quality of equity players’ strategies. What have the last two years or so exposed within CIVC and your portfolio?

WEDNER: I guess the way I would answer that question is to say that even our very conservatively run group—a group that’s been around a long time and has been through some

cycles—even *we* were not totally immune to getting caught up in the situation that we’ve experienced the last couple of years. But we never got near the extremes that were evident in Internet or emerging telecom companies. Nor did we believe we could invest in foreign markets, or try to arbitrage public and private market values in quick flip plays. We never went that far; but I think we found ourselves in real dilemmas about paying higher prices for companies than we would ordinarily have felt comfortable paying, because we did feel the need to put money to work.

HELLE: While I agree with that, I would say it also exposed a strength in our fundamental strategy of focusing on value. In the last couple years, we couldn’t find good investment values. So, we focused on where we could find the best *relative* values. Especially in the lower middle market where we’ve been operating, our focus will remain on value and investing in growth. It may be a manufacturing company, it may be a service company, but it’s going to have to be a good relative value in terms of its growth potential.

BOLIN: Today’s environment is also springboarding a number of “specialty” investors in the private equity market. How do you differentiate a generalist from a specialist? How would you define yourselves?

HELLE: I think that there are a lot of specialty firms that could focus on healthcare, insurance or telecom, etc. It’s tough to focus on any particular industry; however, because each segment has its own cycles. If you focus your entire firm on, say, healthcare, you could find yourself with very few investment opportunities for a period of three or four years. It’s tough to build a firm with a narrow focus. We are a multispecialty firm, with expertise in media, communications, financial services, business

“We’ve never had a home-run orientation. And we’ve taken specific steps to deal with the lower margin of error...If you go back five years ago and compare yesterday’s management teams to the teams we have today, there is no question that we are absolutely more selective about the people we are willing to partner with.”

—MARCUS WEDNER—

services, and facility-based business services. We think this is a sustainable business model that gives us enough opportunity to build on.

WEDNER: We have certainly gravitated more toward our historical industry specialties—to the point that we are far more discriminating *within* those industry specialties. The best proof of this is that we are much more likely to turn down an investment opportunity if it doesn’t hit something we either know or are in the process of studying. We can identify a “fit” far sooner than we could five or ten years ago.

PERRY: And yet, we also better understand what types of business characteristics we’re looking for, so when an opportunity comes along that *doesn’t* necessarily fall neatly into a box, we’re still capable of responding. We recently did a deal with LA Fitness that didn’t fit our boundaries, but we loved the business model and it met our criteria for value and growth potential.

Reduced Margin for Error

BOLIN: When it comes to new deals, there is less margin for error in the private equity market today than a few years back. It’s as though equity players are trying to hit a home run every time they’re at bat—and at a time when you no longer get three strikes.

HELLE: I think you’re right, although CIVC Partners has historically chosen to pursue a lower-volatility investment strategy. That means we take fewer risks—and maybe sacrifice a few home runs in the process. There have been moments in the past when we’ve really regretted that strategy, but today it is paying off. I have no doubt there will be a time when we’ll regret it again, but we will continue to stick to what we know best, and continue to stick to lower-volatility

investments. As you said, there’s less margin for error and, over the long term, we know that strategy will pay off for us.

WEDNER: I agree. We’ve never had a home-run orientation. And we’ve taken specific steps to deal with the lower margin of error. First, we substantially raised the bar on the quality of the management teams we invest in. If you go back five years ago and compare yesterday’s management teams to the teams we have today, there is no question that we are absolutely more selective about the people we are willing to partner with. Second, we make better use of outside resources for corporate governance. At one time, we relied on ourselves to a large degree, and were only sporadic users of independent board members for the company boards we sit on. Today it is much more important for us to have outside board members who add value, who understand the business, and who can help out the management team by bringing in the perspective as well as the competence and credibility that companies with \$50-200 million in revenue really benefit from. So we’ve taken some specific steps to try to attack this margin of error problem.

PERRY: The private equity investment business has become a lower-return business in part because of the vast amount of capital that has been raised for private equity investments but also because of the reduced access to debt capital. We’re no longer able to put just 10% equity into companies. In most cases, we now have to put in 40%. While this clearly reduces downside risk, it puts more pressure on growth. To achieve the 50-60% returns we’ve become accustomed to, everything has to work right, including a premium exit valuation. And we absolutely have to stay close to our companies and proactively add value.

BOLIN: Word on the street is that there are very few *really good* private equity deals today. So it’s not just finding a needle in a haystack—it’s finding the *right* needle in the *right* haystack. How does the performance of your portfolio validate your strategies for pinpointing the right deals?

HELLE: Let me give you an example: In the financial services area, we zero in on segments that we think combine growth with some sustainability and long-term strategic buyer appeal. For instance, when we look at insurance, there are lots of segments within the insurance industry that we just generally wouldn’t find appealing. But our own research showed that long-term-care insurance made good investment sense—so we *actively* sought out a *specific* long-term-care insurance company. We liked the company, we liked the management team, and we made a proposal for an investment that would provide capital for statutory purposes and support growth, as well as buy out some shareholders. They didn’t like our valuation at the time and passed on our offer. In the meantime, we looked at a number of other long-term-care companies and, even though it is a good segment in terms of pricing and returns, we did not find any other good, well-rounded companies that fit our criteria. So when the original company came back to us we were prepared to move. But in the meantime we did not feel that it was necessary to get into that segment just to be in that segment.

WEDNER: We have also been a lot more active in terms of investing additional capital into our portfolio companies and being able to operate as a strategic buyer. That means in each instance, we have a haystack and a needle we already know. And rather than go and try to find another haystack or another needle in the same haystack, we have said, “Let’s

“In the financial services area, we zero in on segments that we think combine growth with some sustainability and long-term strategic buyer appeal. For instance, when we look at insurance there are lots of segments within the insurance industry that we just generally wouldn’t find appealing. But our own research showed that long-term care insurance made good investment sense—so we actively sought out a *specific* long-term care insurance company.”

—DAN HELLE—

work this one very, very hard.” Although we have been fortunate in finding new opportunities, the best opportunities for us have been the ones that we have already created.

Investment Strategies: New Platforms or Portfolio Reinvestment?

BOLIN: We’ve been talking quite a bit about industry specialization. Marcus, you’ve just said that you see more value in the strategy of investing through your current portfolio companies. How would you respond to industry critics that might say you’re being short-sighted, and that you’re really just pulling in the horns during an economic downturn?

WEDNER: Frankly, I think that maybe a year ago, some people might have had those criticisms. But I would be quite surprised if someone were now criticizing us for sticking to our knitting. During a period when prices were high and leverage was difficult, competition for transactions was intense. It was really those factors that led us to work with our existing portfolio companies, rather than a feeling that “we’re frightened of the environment, let’s pull in our horns.” By the same token, acquisition prices are down, so this year has been a pretty active year for us even though it has been fairly slow in the business generally. We expect next year to be an even more active year as well. So we expect to be criticized for taking risks in a very uncertain economic environment—but that kind of criticism I think we can live with.

WILSON: By the way, investing in existing portfolio companies and building existing portfolio companies through add-on acquisitions is an excellent way to create value and to generate growth—and to earn above-average returns in the business. Fundamentally, it doesn’t matter whether

we’re investing in an existing portfolio company or in a new company as long as we’re investing profitably. Ultimately, what we’re looking to do is maximize capital gains on the dollars that our limited partners are giving us to invest. That’s the real test.

WEDNER: I think that’s right. The private equity business, as it has grown, has attracted a lot more press coverage—both general press and trade press coverage. It can be a colorful business; it includes colorful personalities. It’s highly competitive—and there’s been a much greater focus on public relations, although it’s true that the new deals tend to get the press. You don’t get as much publicity by saying, “Transwestern Publishing, the independent yellow pages company, just did a \$200 million acquisition for a fantastic price.” So we don’t see our names in lights as much. But that’s not a focus for us. Frankly, if we had enough strong companies with strong management teams that we didn’t have to do another *new* deal for two or three years, nothing would make us happier. It’s a very efficient investment model. Doing deals for the sake of doing deals has proven, time and time again, to be a disastrous approach to the business. We simply have a more patient approach to investing.

BOLIN: Why does patience matter?
WEDNER: Well, I’ve always thought that middle market companies, which are the companies we get involved with, are rather fragile entities by nature. They tend to rely on a small number of managers, on the chemistry those managers have together, and on the relationships they’ve got with their customers and suppliers. If a culture changes or a business environment changes, then the fragility of this structure is exposed. So the idea that you’re going to take a terrific little car and try to drop a big monster engine in it and say “Go!” is just

unrealistic. The best businesses are those that are built over time, because those are the ones that are by definition sustainable and have developed a competitive advantage and a place in the market. There’s just no substitute for time to really get there. If you want to build a great business, if you want to create the kind of business that you can develop through acquisitions, then you should get involved in a business that’s got the kind of return on capital potential to enable you to stay with it for a long time so that you do not have to turn the portfolio just for the sake of turning the portfolio. For that, you simply must have patience.

BOLIN: Has your patience sometimes frustrated other partners?

WEDNER: In situations where we’re in control, people have sometimes thought we should be doing things that we felt were too expedient and so we disagreed with them, but it hasn’t really affected our approach. Even in situations where we *share* control of a company with other private equity firms, there have never really been any times when we’ve said either “Let’s stay the course,” or “Let’s keep the investment longer,” and our investment partner didn’t think it was a good idea.

HELLE: That’s certainly true. On the other hand, I think our patience has sometimes frustrated other constituents from the standpoint of our not investing private equity capital at a huge rate, so that a year goes by and we find we’ve only done a couple of deals. Then maybe our limited partner has gotten a little impatient with us, and maybe our junior staff has gotten a little impatient with us because the pace of activity has been slow. But, again, there are times when it *should* be slow.

WEDNER: As entrepreneurial as *we* may seem to many of our banking community friends, the entrepreneurs

who own growing companies are often very impatient with us and think that we're far too conservative in our approach to things. Their feeling will be, "Gee, we really ought to be running down the road on this one," and we'll be saying, "Where does that road lead? Build the business plan. Forecast the outcomes. We don't mean just stick your finger in the air and feel which way the wind is blowing. Measure things." And when we do that, it often frustrates people. But in the end, these strategies lead to greater and greater risk-adjusted IRRs.

BOLIN: How do you measure the risk-adjusted IRR?

WEDNER: People in our industry tend to talk about internal rates of return or IRRs in general terms, although individuals managing institutional funds certainly can appreciate the *concept* of a risk-adjusted IRR. And they know the difference between a 100% IRR that has resulted in a doubling of the investment, versus a 30% IRR that has resulted in seven times the investment. Unfortunately, there's no standard by which to distinguish between a general and a risk-adjusted IRR. So you're left with more of a qualitative approach if you're trying to compare the track record of one private equity group with another. You need to look past the IRRs and ask what kinds of businesses they are investing in and the inherent risk—technology, financial, or balance sheet risk—of those sorts of investments. You need to look at how they've made their money. Has the business appreciated in value because cash flow has grown? Because multiples have gone up? We're fortunate in that we've got very high risk-adjusted IRRs, and good absolute IRRs too. But when you add in some of these qualitative factors, you get a better picture of the risks associated with the investment.

BOLIN: So are you saying, in more turbulent times, you have to adjust your IRR expectations based on expected risk?

PERRY: Absolutely. And while there's no "formula," if in our judgment a company has low earnings volatility and a valuable liquid asset base, then the return we should expect from investing in it is going to be lower. From a risk-adjusted standpoint, of course, it can still be very good. For example, several years ago we invested in a reinsurance company, not because we thought we were going to make a 35 or 40% rate of return on it—in fact, our projection showed we'd make considerably below this norm—but because on a risk-adjusted basis, we were confident of a very good return. For an inherently low-risk business, we are willing to accept a lower absolute return.

HELLE: As another good example of that, seven years ago we looked at a plastic injection molding company. It was supplying a global communication company's cellular phone division with plastic parts for the housing of the phone itself as well as for the battery. Somebody else swooped in and bought them for a multiple that was about two multiple points of cash flow higher than what our analysis suggested. They rationalized that price to their limited partners by saying that it was based on the growth of the cellular phone business. If you bought Motorola, for example, it would sell for 40 times earnings but they had only paid *eight* times earnings for that same growth. But there were some specific risks there, too, and two years later the global client company had entirely shifted its strategy for the procurement of the battery housing, so this company lost one-third of its business. We had determined that we would only pay about *five* times cash flow because of the risk inherent in the customer concentra-

tion. Somebody else was willing to pay eight times—but the lenders weren't willing to lend more money, so they just put in more equity to do the deal. If we had done the deal, and everything had worked out, we would have achieved a 30% rate of return on our investment. But we knew, due to the customer concentration risk, that we needed at least a 40-45% rate of return to do the transaction. People will have different judgments about the relative risk. A 30% IRR might be okay in some cases—and it might underprice the risk in the company in other cases.

Continuous Due Diligence

BOLIN: Evaluating those risks is part of the due diligence process. How has your approach to due diligence changed over the last few years?

WILSON: We've always been very due diligence intensive—but we now perceive it to be much more of a continual activity, and we are much more formal and proactive in analyzing industry and industry segment data. We seek out corporate leaders with specific industry expertise to independently advise us as to the nuances of the industries we are involved in or are considering getting involved in. We have always sought to understand the underlying economics of any industry in which we invest. Today we are simply doing a more thorough job of analyzing our information.

PERRY: If you were to ask people we've done deals with, they would say we've been consistently demanding over the years, and probably very frustrating, in our due diligence process. If we've made any changes, they've been at the margin. We've always focused on understanding historical financial performance, basic business economics, the competitive landscape, strategic pluses and

“We’ve always been very due diligence intensive—but we now perceive it to be much more of a continual activity, and we are much more formal and proactive in analyzing industry and industry segment data. We seek out corporate leaders with specific industry expertise to independently advise us as to the nuances of the industries we are involved in or are considering getting involved in.”

—GREGG WILSON—

minuses, etc. But today we are far more *analytical* about the operation of the business within its industry, about its management team—and its agility. We want to know if this horse we’re about to ride can really run.

BOLIN: How do you assess a management team—particularly in tough economic times?

HELLE: We’ve been through good times and bad with many different companies, so we’ve learned to be able to judge when a CEO is sales and marketing oriented to the exclusion of good cost containment, especially when the market is turning. Those two abilities won’t always exist within the same individual. The question then becomes whether another senior member of the team has the ability to contain costs and to react to a downturn—and whether the CEO will permit that. And if not, at what point is a change in management necessary to avoid a crisis? I think we try to do as good a job as we can to find agile CEOs, but they are not always the right people for all of the circumstances one can envision.

WEDNER: It may sound simplistic, but the quickest way to identify whether or not somebody can manage during a downturn is to look back at who first raised the issue of continuing with the existing strategy versus changing the strategy given the current environment. If you took our portfolio and asked who approached whom in a downturn—did they approach us or did we have to go to them?—you would have a very neat division between those managers who have the right mindset and those who perhaps aren’t quite as agile. They may not have the tools necessary to manage through, but it all starts with the mindset.

WILSON: Another way to address that issue is to accept that inevitably management teams *are* tough to judge and it’s rare that the past is an

accurate predictor of future performance. So, frankly, we look for industries with limited volatility—which puts less pressure on management. Brickman, one of our very well-run portfolio companies, is a commercial landscape services company with a recurring revenue business model. Transwestern, our yellow pages company, has a terrific management team, and yet it really doesn’t experience the impact of economic downturns the way many other companies do.

WEDNER: There are other aspects of the business model that we are probably a lot more sensitive to than we might have been in the past. One is customer concentration. Particularly during the real robust economic growth days, there were people who built small companies into medium-size companies on the back of very strong sales and marketing. They call it “grabbing the tiger by the tail.” Then, when it came time for an additional equity investment, they recognized that they hadn’t really built up the discipline or the internal know-how to manage for growth or to manage their costs down again. They were in a highly vulnerable position. I think we’re a lot more sensitive to that problem, having learned the hard way what it’s like to be at the end of that whip.

HELLE: I agree completely. It’s what companies saw in the ’60s with Sears. Sears was a great customer to have and they rode it up high. Then they all got whacked in the ’70s. And in the ’70s, different people were making the same mistake with IBM. And in the ’80s they were making it all over again with Hewlett Packard, and in the ’90s with Home Depot or Wal-Mart. You can play that game, but don’t kid yourself about the risk entailed.

WEDNER: Another area of the business model we’re more sensitive to is the distribution strategy. Sometimes there’s one obvious low-cost channel

of distribution and it doesn’t really make sense to try to change it. But in a lot of businesses, whether they operate in industrial products or services, there are multiple ways to deliver to the customer. There’s a direct method; there’s an indirect method; there’s a higher-touch, higher-service method; and there’s a lower-touch, lower-service, lower-cost method. One of the things that the information revolution has enabled people to do is to open and explore different channels of distribution that *used* to be cost *ineffective*. We closely monitor how dependent our portfolio companies are, or could be, on direct versus indirect distribution channels. Do we have higher fixed costs through a direct distribution model, or lower costs through an indirect model that we don’t control? Are there other players out there that are trying to attack the distribution channel differently? We’re far more aware of this today than we were five years ago.

BOLIN: Given today’s fast-moving environment, has your intensive due diligence been a help or a hindrance?

WEDNER: It has certainly slowed us down in some cases. But, on balance, it has been a big positive for us because it has prevented us from doing things that we shouldn’t have done far more times than it has prevented us from doing things we should have done.

PERRY: I can think of two recent examples where we were in highly competitive situations that we wanted to pursue—but lost or passed on the deal because the process set up by the sellers wouldn’t allow a thorough due diligence process. One of them has since had trouble, for exactly the reasons we identified in our due diligence. Would we have walked away from the deal? Not necessarily, but we would have taken a different approach than the strategy they wanted to pursue.

“We’re no longer able to put just 10% equity into companies. In most cases, we now have to put in 40%. While this clearly reduces downside risk, it puts more pressure on growth. To achieve the 50-60% returns we’ve become accustomed to, everything has to work right, including a premium exit valuation. And we absolutely have to stay close to our companies and proactively add value.”

—CHRIS PERRY—

HELLE: Another good example is our investment in First Franklin. That’s a case where we were able to see value in a segment that other people didn’t see. We first got involved with the company in May of 1996 and closed it that November. There were many times along the way when we didn’t know whether or not the deal would close. Each step of the way, new information would be revealed, and we would insist on an adjustment in valuation—so the negotiations stretched on and were very challenging. A couple of years later we might not have been given the opportunity to be as thorough as we were—we would have lost the deal to someone who was willing to move more quickly. But it turned out to be a great value for us. And having been through that exercise, we were then able to respond very quickly on many other transactions in that segment—although we walked away from most of them, and in hindsight, we’re glad we did. But I think that our experiences in multiple sectors have allowed us to become faster judges, although we’ve had to go through a lot of arduous education to get there.

WILSON: And responding quickly in a transaction is less about how much due diligence you do, but how quickly you can organize the information—how quickly you can assimilate your findings and understand them and process those results. It’s not just the amount of ground you cover. If you know an industry well, you can cover a lot of ground a lot faster than somebody without that industry expertise.

Concluding Advice

BOLIN: Well, *we* have certainly covered a lot of ground today. I’d like to conclude with this question: What advice would you give about evaluating a potential investment partner’s due diligence process and their ability to effectively identify an appropriate investment—particularly in today’s changing environment?

WEDNER: Certainly if you *know* the group already, it makes things a lot easier. There are certain groups we have worked with multiple times whom we understand and who generally think like we do and who have led us to, if not always profitable relationships, at least consistent thinking during the course of the investment. When you’re evaluating a new investment partner, you need to spend a lot of time really figuring out how decisions are made in that partner’s firm. For one thing, the person you’re talking to—even if they appear to be calling the shots—may not be the decision-maker at all. Without a clear understanding of the decision-making process, you’re going to get inconsistency with an investment partner both on the front end and throughout the investment. You also need to look at how the potential partner approaches the corporate governance process as well as its exit strategies. You have to be compatible on those fronts. It’s not at all hard to find out how people tend to exit their investments—through an IPO, through a recap, through a sale to a strategic buyer, etc.

It’s not hard to find out how long their hold periods are, and it’s certainly not hard to find out where in the course of the life of their fund they are. Compatibility is important in all of these areas. We have had situations, even with people we know well, where on the front end of a transaction we agreed on a hold period of three to seven years, and then 18 months into it the partner wanted out because “their circumstances have changed.” Particularly if things are going well, that is a potential source for tension.

HELLE: I would also advise making sure that your investment partner thoroughly understands the fundamentals. They need to be able to articulate the macro trends affecting the business as well as the basic unit economics of providing the service or the product. As Marcus mentioned earlier, they need to understand each of the channels through which they deliver that service or product. If they can’t talk about the cost of delivering that product or service and the value available through each of the channels, as well as the macro factors that will affect demand over the next several years, and the *competitive* situation over the next several years, then I would really question their span of control over that particular opportunity.

BOLIN: Good advice. Thanks to everyone here at CIVC Partners for a lively discussion. I appreciate your willingness to speak so candidly about your strategies for managing private equity investments in these turbulent economic times.

■ LORI BOLIN

is President and Owner of Corporate Creations, Inc. and a strategy consultant to the financial services industry.

Media and Communications

CIVIC Partners, LLC
231 South LaSalle Street
Chicago, Illinois 60697
312 828 8021 tel
civc_partners@bankofamerica.com

CIVIC Partners is a \$500 million private equity fund whose sole limited partner is Bank of America. CIVIC Partners, with 30 years of experience in private equity investing, provides growth capital to middle-market companies with a focus on business services, financial services and insurance, media and communications, and industrial growth. The latest information on CIVIC Partners and its portfolio companies can be found at www.civc.com.

www.civc.com

THE DEAL

In June 2001, TransWestern Publishing Company, a CIVC portfolio company and independent telephone directory publisher, acquired Texas-based WorldPages.com, Inc., a leading print and Internet yellow pages publisher. The acquisition, which contributed over \$100 million in print revenues, catapulted TransWestern Publishing Company into a premier position within the telephone directory market. Now, with over 312 print directories in 22 states, the Company is the second-largest independent telephone directory publisher in the United States.

THE HISTORY

CIVC and management originally acquired California-based TransWestern Publishing Company in 1993. Over the past eight years, the Company's exceptional management team and extraordinary growth has enabled numerous recapitalization transactions – each entailing a larger capital investment from CIVC and underscoring CIVC's long-term commitment to its outstanding portfolio companies. In conjunction with the WorldPages acquisition, TransWestern was once again recapitalized with CIVC providing \$50 million of new capital to the Company from CIVC's latest fund.

THE GROWTH PLAN

TransWestern Publishing Company has a strong track record of successful acquisitions and internal growth. Since 1995, the Company has purchased 33 companies. The WorldPages acquisition is the largest to date, increasing revenue by approximately 50 percent. The Company intends to continue growing aggressively through additional acquisitions throughout North America.

CIVC is actively seeking acquisition opportunities for TransWestern Publishing Company. For more information, please contact Marcus Wedner, Chris Perry or Gregg Wilson at CIVC.

CIVIC PARTNERS' PORTFOLIO COMPANIES

sector

Business Services

[**THE BRICKMAN GROUP, LTD.**](#)
Landscape Maintenance

[**GENERAL ROOFING SERVICES, INC.**](#)
Commercial Roofing

[**KELLERMEYER BUILDING SERVICES, LLC**](#)
Contract Cleaning Services

[**LA FITNESS INTERNATIONAL, LLC**](#)
Full Service Fitness Clubs

sector

Financial Services/ Insurance

[**AMERICAN FIDELITY & LIBERTY, INC.**](#)
Long-term Care Insurance

[**FACTUAL DATA CORP.**](#)
Credit Information Services

RAM REINSURANCE COMPANY
Municipal and Asset-backed Bond Reinsurer

[**WINTRUST FINANCIAL CORPORATION**](#)
Community Banking Services

sector

Media/ Communications

[**GOCOM HOLDINGS, LLC**](#)
Television Stations

[**PRIMECO CHICAGO PCS**](#)
Wireless Communications

[**TRANSWESTERN HOLDINGS, LP**](#)
Yellow Pages Directories

sector

Industrial Growth

[**HOLLINEE, LLC**](#)
HVAC Filtration Media

[**K & K SCREW PRODUCTS, LLC**](#)
Precision Screw Machining

[**NORCROSS SAFETY PRODUCTS, LP**](#)
Industrial Safety Products

[**PRECISION TUBE TECHNOLOGY, INC.**](#)
Coiled Steel Tubing

[**WASTEQUIP, INC.**](#)
Waste Handling Equipment

CIVC Contacts

[**John Compall, Mike Miller, Gregg Wilson, Dan Helle, Chris Perry, Keith Yamada, David Miller, Marcus Wedner**](#)

Business Services

CIVC Partners, LLC
231 South LaSalle Street
Chicago, Illinois 60697
312 828 8021 tel
civc_partners@bankofamerica.com

CIVC Partners is a \$500 million private equity fund whose sole limited partner is Bank of America. CIVC Partners, with 30 years of experience in private equity investing, provides growth capital to middle-market companies with a focus on business services, financial services and insurance, media and communications, and industrial growth. The latest

information on CIVC Partners and its portfolio companies can be found at www.civc.com.

THE DEAL

In April of 2001, CIVC Partners and management invested \$19 million and arranged senior debt financing to purchase the assets of Kellermeyer Building Services, a leading national provider of contract janitorial cleaning services, primarily to retail establishments. Management selected CIVC as a partner with industry experience to assist them in executing their growth strategy. All of the 18 members of management who had equity in the company previously, rolled over a portion of their investment into the new company.

THE HISTORY

Kellermeyer, based in Maumee, Ohio, has nearly 7,000 employees providing maintenance services to over 1,700 retail locations in 45 states. The Company had revenues in excess of \$100 million in year 2000. Historically, Kellermeyer has targeted mall-based department store customers, including Sears, Federated and Saks, but has recently made inroads into other building formats including big box retailers such as Target and PETsMART, grocery stores such as Albertson's and commercial buildings. Kellermeyer has had 26 consecutive years of revenue growth and has benefited greatly from the trend in recent years for department stores to outsource non-core services, on a national basis where possible. Kellermeyer is three times the size of its largest competitor, and thus has a significant scale advantage that is difficult for others to replicate.

THE GROWTH PLAN

Kellermeyer plans to continue to grow through further penetration of its existing customer base, as well as by expanding its customer base, both within the department store channel and through additional building formats. The company's new opportunity pipeline remains strong as the sophisticated national stores focus on minimizing costs through outsourcing. Although the internal growth rate of Kellermeyer remains strong, the company would consider strategic acquisitions to achieve immediate geographic or channel penetration.

If you have questions or thoughts on this investment, feel free to contact Keith Yamada, Chris Perry or Gregg Wilson at CIVC.

CIVC PARTNERS' PORTFOLIO COMPANIES

sector

Business Services

[**THE BRICKMAN GROUP, LTD.**](#)

Landscape Maintenance

[**GENERAL ROOFING SERVICES, INC.**](#)

Commercial Roofing

[**KELLERMEYER BUILDING SERVICES, LLC**](#)

Contract Cleaning Services

[**LA FITNESS INTERNATIONAL, LLC**](#)

Full Service Fitness Clubs

sector

Financial Services/ Insurance

[**AMERICAN FIDELITY & LIBERTY, INC.**](#)

Long-term Care Insurance

[**FACTUAL DATA CORP.**](#)

Credit Information Services

RAM REINSURANCE COMPANY

Municipal and Asset-backed Bond Reinsurer

[**WINTRUST FINANCIAL CORPORATION**](#)

Community Banking Services

sector

Media/ Communications

[**GOCOM HOLDINGS, LLC**](#)

Television Stations

[**PRIMECO CHICAGO PCS**](#)

Wireless Communications

[**TRANSWESTERN HOLDINGS, LP**](#)

Yellow Pages Directories

sector

Industrial Growth

[**HOLLINEE, LLC**](#)

HVAC Filtration Media

[**K & K SCREW PRODUCTS, LLC**](#)

Precision Screw Machining

[**NORCROSS SAFETY PRODUCTS, LP**](#)

Industrial Safety Products

[**PRECISION TUBE TECHNOLOGY, INC.**](#)

Coiled Steel Tubing

[**WASTEQUIP, INC.**](#)

Waste Handling Equipment

CIVC Contacts

[**John Compall, Mike Miller, Gregg Wilson, Dan Helle, Chris Perry, Keith Yamada, David Miller, Marcus Wedner**](#)