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GP Profile: RLJ Equity Partners Finds Its Footing

RLJ Equity Partners is finally putting money to work, though probably not exactly in the way founder **Robert L. Johnson**, the billionaire media mogul, envisioned when he set out more than four years ago to invest in media, financial services and business services industries.

In its first platform investment, the mid-market buyout firm on Jan. 4 quietly paid about \$90 million for Fleischmann's Vinegar Co. Inc., the North American market-leading supplier of industrial-grade vinegar to H.J. Heinz Co. and other large food companies. RLJ Equity also made two minority investments the previous month, one of which the firm may build into a control stake.

The Bethesda, Md.-based firm's story illustrates the challenges new firms face when they set out to build a team, do deals and raise money at the same time, even with backing from an iconic businessman and a blue-chip global buyout firm. The Fleischmann's deal came more than four years after Johnson, who sold the company he founded, Black Entertainment Television, to Viacom Inc. in 2001, and **The Carlyle Group** announced the creation of the firm as a partnership to share co-investment opportunities.

One big reason for the long span from the team's founding to its first deal was the time needed to build out a senior management team.

Johnson and Carlyle announced the formation of the firm in late 2005, and by the end of January 2006 Johnson had made his first two senior hires. One was **Daphne Dufresne**, a former venture partner at funds-of-funds **Parish Capital Advisors**, where she managed the direct investment and co-investment program. Dufresne had previously been a principal at **Weston Presidio**, a growth capital firm where she developed an expertise in the consumer industry as well as gained experience with deals in the business services, industrial and technology sectors.

The other was **Alan Nichols**, who was formerly the CFO of BET and CFO of Chronicle Publishing Co., the owner of the *San Francisco Chronicle*. In early 2007, RLJ Equity added financing expertise to the firm by hiring **Rufus Rivers** from Carlyle Group, where he co-founded **Carlyle Mezzanine Partners**, a \$436 million fund. While at Carlyle Group, Rivers worked on deals in a variety of industries, including consumer, industrial and business services.

A setback came in June 2007 when, just as RLJ Equity was launching its debut fundraising effort, Nichols left the firm. He was living in San Francisco with his family and both he and other executives found the distance from the firm's base in Maryland too straining as they sought deals and started fundraising. "We tried to have a satellite office but when you are just starting out as a new firm that is really hard," Dufresne said in an e-mail. "It required that he was on a plane to the East Coast a lot. For family reasons, a move to Maryland was not feasible for him."

In March 2008, the firm rounded out the senior management team by hiring **Kenneth Bryant**, a former vice president at **The Wicks Group of Companies**. While at Wicks, primarily known as a mid-market media firm, Bryant focused on investments in education, publishing and business services.

Altogether RLJ Equity has seven investment professionals, including Johnson, who also holds a majority interest in RLJ Development, a hotel real estate company, and two real estate investment funds. The firm has three vice presidents: **Nigel Howard**, a former vice president at **TA Associates**, the growth-oriented private equity firm, where he focused on investments in business services, financial services and consumer sectors; **Jerry Johnson** (no relation to Robert Johnson), a former vice president of corporate development at **American Capital**; and **Otey Smith**, a former senior associate and founding member of **Reliant Equity Investors**, a lower mid-market private equity firm that invests in manufacturing, business-to-business services and consumer products, according to CapitalIQ.

Inevitably, the different backgrounds these managers brought to RLJ Equity led to refinements in the firm's investment strategy. Given Johnson's background, media was expected to be RLJ Equity's bread-and-butter, but the firm has yet to do a deal in the industry. "We have reviewed a number of traditional media deals but many are plagued by extreme pressure on their advertising model and new media forms continually taking share so they haven't been compelling investment opportunities," Dufresne wrote in an e-mail. In light of Dufresne's background, the firm added consumer products to its target sectors when she joined, while it dropped financial services about the same time. According to Dufresne, the firm wanted to avoid any conflicts of interest that might have arisen from RLJ Equity's parent company, RLJ Companies, buying a bank in March 2006. Besides, Dufresne and Nichols had little experience investing in financial services.

The firm, which aims to make equity investments of \$20 million to \$45 million, continues to target media, consumer products and business services. But since early 2007 it has also targeted general industrial and transportation and logistics to capitalize on the experience of Dufresne and Rivers. These sectors, as well as aerospace and defense, also overlap with Carlyle Group's expertise.

Just how much the changes in management and strategy had on raising money isn't exactly clear. Dufresne said Nichols's departure had no impact on the fundraising, launched in mid-2007. Most firms typically take 24 months to raise a first-time fund, she said, adding that, thanks to financial backing from Carlyle Group and Johnson, RLJ Equity could take its time building its team. "We were more concerned with building a firm than raising a fund," she wrote in an e-mail. "While prospective LPs wanted to know why he left the firm, they got very comfortable with our explanation of wanting the entire team in one office."

Early press reports on the firm suggested the firm would try to raise as much as \$500 million for its debut fund, but in recent interviews with *Buyouts*, executives said they in fact planned to target \$400 million. As they refined their strategy, they scaled back the target to \$300 million by the time they launched fundraising. After about two years, in June 2009, RLJ Equity closed the fund short of its target, at \$230 million, with support from Parish Capital and the **New York State Common Retirement Fund**, among other investors. "We feel pretty good about raising \$230 million in a difficult environment," Rivers said.

Johnson committed \$15 million to \$25 million of his own money to the fund, while Carlyle Group invested some \$3 million to \$5 million in equity for 20 percent of the firm's general partnership. "Robert Johnson is very successful, and we like to associate with accomplished individuals and firms with whom we can partner on transactions, share deal flow with and benefit from each other's success," **Chris Ullman**, a managing director at Carlyle Group, told *Buyouts* in an interview for this article.

Deal Time

Although the firm had been looking for deals since 2006, Dufresne said it didn't make any platform acquisitions until the Fleischmann's deal this year in part because it had limited manpower to concentrate both on fundraising and deals.

The firm had one deal near closing in 2008, but it fell apart when the credit markets collapsed. Dufresne said the firm also was unwilling to pay what its executives saw as inflated prices during those years. "Obviously you

want to see things close, but in general when you look at a business and you think it's worth 6x and it traded for 8x, no one's feeling bad now having not done that transaction," she said. In Fleischmann's, RLJ Equity has landed a company with a 90-year heritage and a dominant position in the U.S. industrial-grade vinegar market: Fleischmann's produces 55 percent of the vinegar that's used in American food products, including such popular consumer brands as Heinz ketchup, French's mustard and Ken's salad dressings. The Cerritos, Calif.-based company also has a growing retail line of organic vinegars, including the standard red and white vinegars as well as apple cider vinegar and brown rice vinegar. The deal, which closed Jan. 4, was financed by Fleischmann's existing lender, GE Antares Capital, at 4x EBITDA.

Dufresne's and Rivers's longstanding relationships with the lead bankers at GE Antares—**Katie Hockman**, senior vice president, and **David Brackett**, senior managing director—helped the firm get the deal. Rivers worked with Brackett from 1988 through 1995 in the corporate finance group of Heller Financial, while over the two years leading up to the Fleischmann's deal, Hockman had looked at 25 to 30 deals with Dufresne. "This is a group we've been targeting to try to do deals with," Brackett told *Buyouts*. "When you have an industry name like Robert L. Johnson come into the private equity field, that's an individual we want to partner with."

Brackett said he was impressed with the team's discipline, adding that the time it took RLJ Equity to land its first platform investment is to be expected. "Looking at opportunities with them over the last two years, you get to see that they know what they're doing, they know what their strike zone is," Brackett said. "If instead you find with a new sponsor relationship that you're constantly struggling about whether the sponsor wants to do the deal, or if we feel that we're being dragged by a sponsor over the finish line, then it becomes clear you're not on the same page regarding the type of deals you want to pursue. That certainly has not been the case with RLJ."

The firm's relationship with Carlyle also paid off in the two minority investments it made in December. Carlyle invited RLJ Equity as a minority investor in its buyout of CVC Brasil Operadora e Agência de Viagens S.A., a Santo Andre, Brazil-based company that runs tours in Latin America. And **Spell Capital Partners**, a Minneapolis, Minn.-based private equity firm that targets small businesses, invited RLJ Equity as a minority investor in LAI International Inc., a Westminster, Md.-based company that makes components used in aircraft engines, power generators and defense systems. Spell Capital, which bought the company in 2005, wanted to generate some liquidity for its investors, but still wanted to pursue growth initiatives to push LAI's products into new industries, such as medical devices.

RLJ Equity's relationship with Carlyle, a longtime investor in aerospace and defense and health care, helped close the deal, **Dobson West**, a senior managing director at Spell Capital, told *Buyouts*. Spell Capital will fully exit the company in the next few years, likely through another deal with RLJ Equity. "Since they're already there and know the company they would seem to be a logical buyer," West said.

RLJ Equity began life at the top of the buyout market, when institutional investors were scrambling to increase their investments in private equity and financing for deals was cheap and easy. But not having a complete team or final strategy in place from the start seems to have lengthened the firm's path to its first two deals this December—not to mention a challenging market in which to raise a fund and do deals.

That said, RLJ Equity executives feel they're well positioned considering they didn't overpay for companies during the buyout boom of 2006 to 2007. "I think our timing is quite good," Dufresne said. "Had we had a Fund I or II and were on Fund III, we'd probably have some portfolio issues. We're un-encumbered, and we have fresh capital and a hungry team."

By Bernard Vaughan

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