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Private Equity Firms Buy More Companies

By JOE BEL BRUNO AP Business Writer © 2006 The Associated Press

NEW YORK — Financier Henry Kravis and his company set a record almost two decades ago with the staggering \$25 billion leveraged buyout of RJR Nabisco Corp., and Wall Street has been salivating to break it ever since.

Buyout shops and investment banks _ flush with cash from eager investors and strong equity markets _ are now primed to have one of their biggest years ever in the LBO market. Private equity firms are becoming bolder, the size and scope of deals are escalating, and that's all good news for their investors.

In fact, Kohlberg Kravis Roberts & Co. is involved in a deal whose total value would top RJR Nabisco. Hospital-management company HCA Inc.'s move to again go private could be the start of a new trend in mega-deals, analysts said.

"Private equity fundraising has gotten bigger and bigger over the years," said John O'Neill, head of consulting firm Ernst & Young's private equity practice. "They are looking for quality companies to buy, they are looking for ones that meet their criteria, and I think almost any industry is ripe for acquisition."

The nation's largest hospital operator announced July 20 the \$21.3 billion leveraged buyout _ which balloons to \$33 billion including the assumption of debt _ from an investor group made up of Bain Capital, KKR, and Merrill Lynch Global Private Equity. HCA shares _ which have steadily lost about 14 percent since December _ bounced back more than 10 percent after the deal was announced.

Experts that follow the private equity market say more deals are expected in what continues to be a white-hot private equity market. They also say there are ways to identify companies likely to go private, and cash in on the deal.

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Private equity firms originally began targeting middle market companies, focusing on financings of under \$2 million and dominated by a single investor. Now, these firms are banding together _ forming what is known as "clubbing" in the industry _ and taking on bigger fish such as companies like HCA, Burger King, SunGard Data Systems, and Univision Communications in recent years.

So far this year, 80 companies have gone public in transactions valued at \$161.2 billion, according to Dealogic Analytics. There were 79 deals worth \$82.7 billion in 2005 and 49 deals worth \$49.6 billion in 2004.

The size and scope of the deals have increased significantly just in the past five years. For example, in 2001, there were 33 deals worth \$12.6 billion and 43 deals worth \$15.9 billion the following year, according to Dealogic.

Walter Zweifler, chief executive of Zweifler Financial Research, said trying to identify companies ready to be taken private isn't as much of an inexact science as one would think. First, he said look for companies within the same industry as one that has already been taken private.

"They are usually successful companies that don't have much debt or borrowing needs," he said. "In most cases, private equity firms are looking for stable cash cows to go in and milk."

He also said "targets are also once good companies that are now perceived to be poorly run" with "lethargic management teams." Among those that fall into this category are Burger King, which was recently taken public again, and grocery chain Albertsons.

In years past, private equity firms were known for bringing companies private but not really having an action plan to run them. Nowadays, he said, private equity firms have entire management teams on staff with specialties across numerous industries.

Another tip-off is a relatively low debt, and strong net liquid assets. Private equity firms are especially looking for companies that have assets that are bigger than the company's entire market value, Zweifler said.

Finally, Zweifler suggests scanning for companies with market caps under \$100 million and relatively low daily trading volume. While bigger deals are gaining in popularity, he suggests smaller, middle market companies might be easier to find.

"If you're smart enough to figure it out, you'll get a bit of action on the takeover," he said. "Otherwise, you might want to invest in some private equity funds that trade. You won't get as much as some of the guys that put the transaction together, but you could make a good profit."

Besides investing in publicly traded funds run by firms such as KKR or Apollo Investment Corp., Zweifler points out many people are already participating in private equity deals without knowing it. Many of the nation's biggest pension funds are among private equity firm's largest investors.

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