

**PRIVATE EQUITY: “BACK TO THE FUTURE” INVESTING**

As a media industry private equity principal for over 20 years, I've seen more than a few trends come and go. Remember when the words “highly confident” meant something? Or how about “your burn rate is too low?” And who can forget newspaper reporters following the limousine of Robert Maxwell through Manhattan and recording the amount of time he spent at the offices of various potential “targets.”

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One trend that seems to have the longest legs here however is transaction size migration. There's an old adage in the deal business which states that you pretty much have to do the same amount of work on small deals as large deals, so generally, do the bigger deal. The virtuous effects of the trend toward bigger include the acquisition of properties thought more solid and entrenched in their market position, the increased access to capital markets for an array of structured financing products and generally a lot more “more” to go around.

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Unfortunately, so many private equity firms have now hopped on this bandwagon that transactions focusing on properties of scale have become competitive shoving matches of the first order. This all but guarantees there will be more losers than winners when the deal dust settles. Some see no end of the trend in sight. I, however, suspect that the prophets of mega-world may have miscalculated or are at least guilty of a little irrational exuberance. Private equity is after all arbitrage and when everybody's doing it, real returns tend to disappear.

It's my view that the time is now ripe for some back-to-the-future investing. Remember please that the return histories of most of today's successful large private equity firms were created in an era when putting \$5M not \$100M into a deal was the norm. The success of these kinds of transactions then led to an increasing appetite by a growing group of investors for a piece of that kind of return action - leading in time to fund sizes inappropriate for initiating and nurturing these same small deals.

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The fact is that there remains a wide world of companies that operate successfully below what has now been termed the middle market. Many of these businesses have far lower operating risk profiles than their larger brethren and have built substantial customer relationships by focusing on consistently doing the important things right. Some may be immediate candidates for acquisition by a financial or strategic platform constructor, but others are frequently out of favor for the time being. These are the businesses we at Noson Lawen Partners like to see, because trends tend to reverse over time and success, no matter the scale, never seems to go out of style.

I always advise others in the private equity community to think along similar lines but, not surprisingly, few actually do. With so many investor and advisor business models now focusing on raw deal tonnage, it likely will come as an unpleasant surprise to the un-diversified when the cycle turns and the needles move backwards. Better I would say to begin thinking small. But before you do that please wait until my latest fund snaps up some goodies down here. I'm counting on your forbearance.

By Ted Carroll

Ted Carroll has been a media industry private equity principal since 1984. He co-founded New York-based BG Media Investors in 1997 and Noson Lawen Partners in 2004. He can be reached at [tedc@nosonlawenpartners.com](mailto:tedc@nosonlawenpartners.com) .

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