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Meet The Manager

A Little Something Extra

February 27, 2009

With the credit markets dryer than the Sahara desert these days, portfolio companies are looking to private equity firms to quench their thirst for capital. Andrew Lowinger, the president and chief executive officer of DMC Capital Funding, talked with *PrivateEquityCentral.net* about how his firm has what he thinks is the winning combination of capital and value added services to make private equity investments work in the current recession.

PrivateEquityCentral.net: Can you please tell us a little bit about DMC and what your fund does?

Andrew Lowinger: DMC Capital Funding was formed by a group that has significant experience in business in the last 30 to 40 years. Looking at the environment in the last year, perhaps more from a business perspective than from a financial perspective, there are a lot of opportunities being lost by small- to medium-sized growth companies that actually have a growing product or technology yet are unable to move to that second stage of growth because capital and private equity have dried up completely.

We look at it from our own experiences of having been able to grow businesses. We understand that it is in this growth stage when businesses are in the greatest need for this capital. When your company has sales in the $40 million range, you have opportunities under normal conditions to grow that business in significant double-digit percentages. However, to do that, you need significant capital. We envisioned as early as 12 months ago that would be impossible. That meant many good companies would fall by the wayside.

Most of the focus these days has been on failing companies, but there is a whole other arena where there are small- to mid-sized companies within their realm are doing reasonably well. The question is “what happens to these companies during these [tough] times?” We focus our attention on trying to come up with an approach to private equity that we believe will be effective during this time.

PEC: What does that look like?

AL: In the past, private equity approached deals from a purely financial standpoint to look at how the insertion of capital in the coampny would enable them increase the real or perceived value of the company and plan an exit at the earliest time. That may be an oversimplification, but that was the basic approach. The real question is, how do you increase the real value of that company so they can do things more effectively, efficiently and grow to become a company with truly more intrinsic value. We focus on areas where we can provide capital and additional in-kind services.

PEC: Does that include operational expertise?
AL: Not just operational expertise. One of the areas in which we focus is consumer products. In that space, we provide through an affiliated company, complete supply chain management. That includes distribution, marketing and sales.

You take a company that has a nice amount of sales. In good times they would have to get capital to grow. That is the challenge in good times. In these times, that is an impossibility. In our scenario, if the company would need $10 million for example, we believe that using the infrastructure capabilities that we have, we can probably reduce that capital investment. Instead of having to make those investments, which takes time, we provide those services almost on an a la carte basis and put it into the variable cost. As a result, we can bring the company to its goal much more quickly, we can do it will much less fixed investments, and this reduces the costs. That is the combination that we're providing at DMC Capital.

PEC: What are the effects of this kind of business model for portfolio companies?
AL: It opens up markets for these companies. It makes their production more efficient. It reduces their investment of real cash. It helps them reach their goals quicker.

PEC: What size deals are you looking at?
AL: The company sizes are typically in the range of $20 million to $200 million. The business is not losing money and in most cases it is breaking even or profitable. This fund has $100 million in initial capital and we expect the average investment we will be making will be in the range of $6 million to $15 million depending on the size of the deal. We are focused on companies that are at the point where they could grow, and at the expense of their competitors. Private equity is going to have to find a way to make the dollar work more effectively in this environment.

If a deal looks good at $10 million and we can make that deal work with only $7 million of hard cash because we are able to provide those in-kind services, then that is a nice hedge on an investment. Considering the environment that we are in right now, we believe this is the winning formula for private equity investments.