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## One-on-One / With

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More Minority Deals and Fewer Auctions for Middle Market Deals.



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SCHAYE IS BEST KNOWN AS A MASTER OF ATTENTIVE BUSINESS RELATIONSHIPS IN A DISPASSIONATE FINANCIAL WORLD. HE IS THE FOUNDER OF CHESTNUT HILL PARTNERS, AND HAS SPENT MORE THAN 25 YEARS IN FINANCIAL SERVICES. SCHAYE ASSISTS BUYERS AND SELLERS IN MERGERS, ACQUISITIONS, DIVESTITURES AND RECAPITALIZATIONS. AS A MERGER AND ACQUISITION ORIGINATOR, HE FACILITATES DEALS WITH SMALL TO MIDSIZE COMPANIES WITH SALES IN THE \$50 MILLION TO \$500 MILLION RANGE. TO DATE, SCHAYE HAS COMPLETED TRANSACTIONS TOTALING IN EXCESS OF \$1.5 BILLION. SCHAYE FOUNDED CHESTNUT HILL PARTNERS IN 1997.

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**Q:** Tell me about Chestnut Hill Partners.

**A:** We provide investment advisory services for M&A. The core of our business is assisting private equity firms find middle market companies. If you think of the hierarchy for transactions, we're at the beginning of the food chain to identify acquisition candidates. Our typical transaction size starts at \$50 million and go up to about a half a billion.

**Q:** How would you describe middle market M&A right now?

**A:** There's a tremendous amount of activity out there in the middle market. In some cases you can achieve better growth compared with large cap companies. Transactions are now being driven by strategy, not size or glamour.

Keep in mind also that while private equity investors have plenty of cash to buy, vigilance is still key to the equation. Actually, there's more due diligence today. That's because experience taught us that all that glitters might be more a lump of coal than gold. Remember the dotcom bust?

I'm seeing as much research going into a middle market transaction as would be done with a larger business deal. When I talk to private equity firms the number one question I hear 'Do we understand that business and will it be a tight coupling with our expertise?'

**Q:** Don't you think that's a sign of a leaner M&A market?

**A:** No, private equity has simply changed its strategy and they are going to ask a lot more questions before they buy.

**Q:** Do you think that multiples have plateaued?

**A:** First, it's a misconception to think that plateaued multiples mean something negative. It's quite the opposite. It's more of a 'market correction' where both the buyers and sellers are negotiating with more realistic numbers.

**Q:** That's a pretty optimistic view.

**A:** When there's more reality in the marketplace, there's less of a disconnect between buyers and sellers. We've actually had more deals go through this year, despite the multiples remaining constant. Look at Blackstone raising the largest amount of money for a PE fund in history. Recently, in one week alone, I met with four private equity funds to discuss retaining us to identify companies for acquisition.

**Q:** How would you compare what's happening now to last year?

**A:** It's almost identical. Private investors are plenty and fervent about finding transactions that fit their investment approach.

One difference this year is less of a herd mentality of doing whatever is necessary to cinch the transaction. Investment firms were much more likely to participate in auctions last year. This year the auction process has cooled off and there is more of a desire for proprietary transactions.

**Q:** Do you think companies are rushing to get to market now, while they can get higher prices?

**A:** Good companies are smart companies. They're not going to rush to the get to market because of current conditions. Ironically, many times the decision to sell is not just about the money or the state of the economy. It's also a lifestyle choice. What is it about selling that will improve the quality of life for the owners? Maybe they want to try a new business venture. Those options can seldom be timed with factors in the market.

**Q:** What's your take on investment bankers' relationships with private equity right now?

**A:** Today bankers are taking a long-term approach and spending more time on relationships. Sometimes that requires having patience to make a transaction happen. There is so much competition for investment clients. Therefore, investment bankers are drilling down further to gain more industry expertise. Today, investment bankers are more prone to not force a transaction if it's not an ideal fit for their client. That will not facilitate a long-term relationship with their client.

**Q:** What do you see happening in middle market segment in the next 6-12 months?

**A:** It won't be about the value of a company, it will be about its industry segment. For instance, if you're in home building, home construction, or anything in residential real estate, you're going to see some real softness there.

**Q:** What sectors look attractive right now?

**A:** I think we will see more investors going after the noncommoditized service industries. Healthcare device companies are also very appealing.

**Q:** Do you think there are corners being cut on due diligence with such high M&A volume?

**A:** No, with operating directors' liabilities and with the scrutiny private equity is using, you can't cut corners. Moreover, with all the publicity surrounding federal regulations for public companies, everyone needs to get it all on the table. I advise private companies to think and act as if they are public. Remember, the accounting and law firms involved in a transaction will go over everything to make sure nothing is likely to blow up as liability extends to them also.

**Q:** Any new trends in M&A you've noticed this year?

**A:** What's unique is that for a while everyone was doing winner-take-all deals and avoiding anything that resembled minority transactions. Now I see minority transactions coming into vogue. Private equity investors are willing to take a minority share in a company that has good growth potential and a solid management team.

The net result is that you have invested owners and management teams, partnering with private equity investors. Everyone wants to drive the business forward without putting an economic noose around the business. That's a win-win for everyone.

**Q:** What steps do you suggest to make a deal successful?

**A:** It's about maintaining communication before, during and after the business deal. Consistent communication is the grease that keeps things going. We completed a transaction in July and I talked to the manager of one of the businesses recently on his way to the other business.

It's making sure the integration plan includes a post-merger road map. Clearly defined benchmarks and checkpoints are essential in that road map. It's Management 101. However, sometimes people forget the basics and they get caught up in the glamour of it.

It's having a team to help you question everything. Executives who surround themselves with yes-men are missing out on opportunities. It's critical to have countervailing opinions to avoid costly errors. However, at the end day, there needs to be a buy in by everyone and all contention put aside.

**Q:** What's your take on hedge funds right now?

**A:** Hedge funds are the deal du jour. Fortunately, hedge funds are starting to employ the disciplines that private equity has employed for a long time, which is applying the fundamentals of investing in an operating business as opposed to picking stocks. One of those disciplines is employing operating executives that get in there and can roll up their sleeves and support the business.

There obviously will be a shake-out of hedge funds because there are a number of inexperienced players. After all, don't the new kids on the block get a little beaten up?

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