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Focus on Private Equity

Equity firms target health care, energy

Premium content from **The Business Journal** by **Stacy Vogel Davis, Reporter**

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Some things don't change in Wisconsin.

Traditional Wisconsin industries such as agriculture, food ingredients and manufacturing continue to be popular targets for private equity.

But investors also are paying attention to changing industries, particularly those facing new government regulations, according to a group of private equity executives who gathered for a Business Journal roundtable Nov. 1. Those sectors, including health care and energy, offer opportunities for new, lucrative businesses that can take advantage of the new rules.

"We've tended to like businesses that are driven by the regulatory, environmental, legislative mandates of some sort," said [Steven Peterson](#), managing director of **Brass Ring Capital Inc.**, Milwaukee. "If you can understand the legal structure and what's going to drive a certain industry and hit it the right way, you can really see the floodgates open for business."

Private equity firms are looking at deals in dynamic industries as the sector struggles to rise above the recession, which significantly slowed deal-making in the last few years. Linger uncertainty over the election and the looming "fiscal cliff" could keep the deal-making environment sluggish into 2013, executives said, although some believe the sector is due for a breakthrough.

The environment for private equity deals improved somewhat this year, but not as much as some were expecting, said [Ron Miller](#), managing director of Cleary Gull Inc. in Milwaukee. But uncertainty with the tax environment is keeping business owners from selling and buyers from pulling the trigger.

"In our business, the biggest part of the recession was uncertainty," he said. "If we know where our company is going to go, whether it's down or up, we can do a deal."

The picture hasn't gotten much clearer when it comes to taxes and government action. Congress is headed for the so-called "fiscal cliff" Jan. 1, when a deal over the debt ceiling will trigger automatic spending cuts and tax increases unless politicians reach a new deal.

Some business owners were more willing to sell this year because they were worried the government might increase capital gains taxes next year, said [Kent Velde](#), president of Lakeview Equity Partners, Milwaukee. But if taxes do go up next year, that could discourage more deals.

"One of our fears is if taxes do jump significantly next year, we might have some entrepreneurs and business owners who just say well, 'I'm not going to pay that level of tax to sell my business. I'll wait,'" Velde said.

But [Cory Nettles](#), managing director of Generation Growth Capital Inc., Milwaukee, said sellers might be willing to overlook higher taxes if revenue is growing and they see increased valuations for their businesses.

"A lot of us feel that the economy has been holding back and just waiting, and something is going to happen that's going to break through this logjam," he said. "We could see some accelerated growth."

Health care interest

[John Beagle](#), managing director of Grace Matthews Inc. in Milwaukee, agreed that deals will increase moving forward.

"Big strategic buyers at the end of the day are paid to grow," he said. "They're paid to grow earnings. Their balance sheets are stronger than they've been in decades."

Grace Matthews, an investment banking firm, is particularly looking at deals in the health care, food and food ingredients, and oil and gas industries, he said. It also is looking at what it calls "green-green" companies, or firms that make money with environmentally friendly products.

"What we found is, you'll get public money racing into green ideas, but it has to work better than the non-green products," he said.

The best green products are superior products that just happen to be green, he said. For example, Grace Matthews and **Robert W. Baird & Co.** Inc., Milwaukee, backed ColorMatrix Corp., a manufacturer of colors and additives for plastics, in a sale in December. The company created technology for a lightweight plastic bottle that soda companies love.


"They didn't develop it to be green, they developed it because their customers wanted it," Beagle said.

More than half of Cleary Gull's recent transactions have had something to do with the changing energy industry, Miller said.

"There are so many industrial companies that are growing because of the 10-year trend in changing energy infrastructure in our country," he said. "Companies you would never imagine are playing the energy card."

Health care also is a big industry for Baird Capital Partners, said partner [Randy Mehl](#). The market is in a time of upheaval as it tries to figure out how the Patient Protection and Affordable Care Act will affect it.

Baird isn't looking at businesses that provide health care, but rather those that provide services to the health care industry. For example, it's working with a company now that will provide marketing, communications and advertising services to health care providers.

"Providers and payers, insurance companies, really haven't had to spend a lot of time communicating with patients, communicating with prospective patients (or) communicating with doctors," Mehl said. "The trends toward accountable care and consumerism are driving a need toward communication and marketing." 

Stacy Vogel Davis covers banking, financial services and retail for The Business Journal.