MERGERS & ACQUISITIONS
MARCH 2011

## PE Firm of the Year

# Berkshire's Quiet Confidence

### Berkshire Partners won't say it, but the firm had a heck of a year in 2010

By Ken MacFadyen

Berkshire Partners isn't exactly the flashiest private equity firm around. Co-founder Richard Lubin's biography on Berkshire's website required a mere 62 words. The bios of fellow co-founders Carl Ferenbach and Brad Bloom came in at 46 and 32 words, respectively. By comparison, the bios of most deal pros will usually range from 150 to 200 words, while some have set the bar as high as four hundred and fifty. It's a far from scientific measure, but it seems to reflect the low-key, unassuming nature of the Boston shop.

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**Turnaround of Electro-Motive Diesel belongs on Berkshire's highlight reel.**

One limited partner, when asked what sticks out about Berkshire, stated plainly: "Their returns are spectacular." The source added that they've had a lot of stability within their general partnership and that they have a knack for dealsourcing, but came right back to Berkshire's ability to line up successive homeruns with apparent ease. "They just continue to perform year after year after year."

Two thousand and ten was no different. In a year that was supposed to represent a buyer's market, Berkshire largely took on the role of seller. The firm secured seven realizations, and complemented the heady pace of distributions with three new deals.

Its exits were impressive too. Berkshire kicked off the year with a $260 million windfall when Shiseido Co. acquired Bare Escentuals, a cosmetic company Berkshire took public four years earlier. LBO Wire estimated that the deal, since Berkshire's 2004 recap, produced in excess of $900 million of proceeds.

The sale of American Tire Distributors to TPG Capital, meanwhile, allowed the firm to reportedly triple its investment. The $1.3 billion deal was cinched alongside co-investors Investcorp and Greenbriar Private Equity. Berkshire followed that sale with the exit of Electro-Motive Diesel, another investment alongside Greenbriar. The pair sold the former General Motors locomotive maker to Caterpillar's Progress Rail Services for $820 million. A back-of-the-napkin calculation suggests a return of as much as 7x equity.

United BioSource was the next asset to go. A sale to Medco allowed Berkshire to nearly double its money in less than a year. Soon after, Advanced Drainage Systems was sold in September to American Securities. Berkshire had owned a stake in the company for 22 years through four funds. It actually secured two realizations, chalking up a 9x return on equity the first time around, and a still-impressive 5x return on last year's sale.

Additional realizations came through the sale energy services outfit BHI Energy to Harvest Partners, and secondary sales of publicly held cellphone tower company Crown Castle.

"The obvious thing that stands out is just how great their performance has been," the LP source reiterates.

HEC Paris professor Oliver Gottschalg has consistently ranked Berkshire Partners among his top 20 firms based on a formula that considers multiple metrics. He confirms, "They have been consistent across three funds of different sizes and vintages... They're one of the few larger firms among the outperformers."

So how does Berkshire do it? Its acquisitions from 2010 help tell the story.

Skillsoft, an e-learning company that employs a software-as-a-service business model, was acquired in a $1.2 billion deal with fellow Boston firms Advent International and Bain Capital. Berkshire was already familiar with the company and was an investor through its Stockbridge fund. Thanks in part to Irish securities law, the buyers were able to negotiate with Skillsoft outside of a formal process, resulting in a deal that before being revised slightly upward represented a discount to where the company's American Depository Shares were trading the previous month.

An investment in Carter's also reflected an opportunistic play in a company Berkshire knew well. It had formerly backed Carter's 2005 acquisition of Osh Kosh, and last November picked up a sizable stake in the children's clothing brand that has since grown to roughly 10 percent. In December, Berkshire acquired toymaker Melissa & Doug, and before the year ended had initiated its investment in cosmetics company Coty, which closed in January.

Regg Jones, III, the founder and a managing partner of Greenbriar, has worked with Berkshire for over 20 years, going back to his days as a banker at Goldman Sachs. Since launching Greenbriar in 1999, he has regularly invested alongside the firm.

"The culture at Berkshire, I think, would be their distinguishing feature," he says. "It's a fairly flat organization that encourages everyone to speak their views. It breeds a constructive dissent; it's a truth-seeking process."

Jones, whose brother Ross Jones is coincidentally a managing director at Berkshire, adds that the collaborative culture means they rarely miss an element of risk. "They're exceptionally good buyers of businesses," he says, adding that they don't ascribe to the thinking that anything can be acquired at the right price. "Before they make a commitment, they'll want to want to understand the structural dynamics of the industry and the business model."

Berkshire's familiarity with its assets can sometimes span decades.

Jones cites as an example the genesis behind Greenbriar's and Berkshire's investment in Electro-Motive-Diesel (EMD), which wends all the back to Berkshire's 1987 acquisition of Wisconsin Central. Berkshire later backed the same operating team in the 1996 purchase of British Rail's freight business, renamed English, Welsh & Scottish Railway. When it came time to upgrade its fleet of locomotives, the company took bids from both General Electric and GM's EMD. "GE was very aggressive, but EMD had a better product; they just weren't as strong commercially," Jones cites. "That first planted the seed that EMD didn't belong within GM."

From the late nineties, onward, intermittent conversations with GM would ensue. The firms first started gaining traction in 2003, but it wasn't until two years later -- after a union contract had been forged with the UAW -- that Greenbriar and Berkshire were able to complete a deal. The investment didn't include any third party debt, other than working capital support. Reuters reported at the time that they paid less than $500 million.

Meanwhile, the turnaround over the next five years was nothing less than remarkable. Under CEO John Hamilton, who was brought in as part of the carveout, EMD built out its after-market servicing business and became a player in international markets. The company also doubled its investment in engineering and capital expenditures, modernized its factory, and put in a new SAP enterprise resource planning system. The revenue base roughly doubled, reaching $1.8 billion in 2009. (Who says the domestic manufacturing sector is dead?)

"We were able to re-orient the business and add texture to the strategy," Jones describes. He declined to confirm the investors' return on equity. "We aren't the types that are going to do an endzone dance," Jones says, but adds, "What makes us most proud is that we were able to transform the business and re-establish an American icon."

Berkshire declined to talk to Mergers & Acquisitions for this story. The deals, however, tell a pretty compelling story.

> "They just continue to perform year after year."