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Privaty equity firms offer needed cash, but can mean an uncertain future

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Private equity firms have become lucrative and effective investment vehicles in both the United Kingdom and the U.S. for those who bankroll them -- namely, wealthy individual investors and institutional groups.

These firms often pump needed cash and new leadership into troubled companies. But there are questions about whether they will be good in the long term for the businesses they acquire, those companies' workers, consumers and the overall economy.

Private equity firms and partnerships have gobbled up such notable names as Toys "R" Us Inc., **Dunkin' Donuts**, **Domino's Pizza**, **J. Crew**, **Michaels Stores Inc.** and **Chrysler LLC.** And experts say more acquisitions could occur in Arizona and other U.S. markets -- especially by British and other European investment groups taking advantage of the weak dollar.

One U.S. dollar is worth half a British pound and 71 percent of a euro, according to **X-rates.com**. That means British and continental European money goes a lot further in the U.S., making business and real estate acquisitions here attractive.

"Private equity has raised record levels of capital, and the need for PE firms to deploy that capital will continue to drive the M&A and investment activity in the U.S. and Arizona," said Michael Kaplan, a corporate securities attorney with the Phoenix law office of **Greenberg Traurig LLP**.

Kaplan said private equity firms, whether they are based in the U.S., the U.K. or elsewhere, "are interested in buying growing companies with a predictable stream of cash flow."

A number of private equity investors and firms operating in Arizona and California could team with European counterparts.

Many of the most active and cash-flush private equity outfits are centered around the financial capitals of London and New York. Many U.K.

outfits have been active both in the U.S. and Europe, acquiring a host of companies. Major U.S. equity outfits also tend to have their European bases in London for their continental investments.

Private equity Goliaths Bain Capital Partners Ltd., Blackstone Group International Ltd., Goldman Sachs Capital Partners, **Kohlberg Kravis Roberts & Co.** Ltd., Carlyle Group and others also have offices in London and are part of the British Private Equity & Venture Capital Association.

The U.K. private equity sector represents 51 percent of PE investments coming out of Europe and is second only to the U.S. worldwide, according to the BPEVCA.

In addition to individuals, private equity ventures sometimes include pension funds. The California Public Employees' Retirement System, Arizona State Retirement System, and state pension funds in Florida, Massachusetts and other states have invested in PE firms.

Some question the long-term impact private investments will have on global business.

The Service Employees International Union and other critics worry about what will happen down the road to companies acquired by equity firms, and whether the ventures will strip those businesses of their assets and sell them off.

Equity firms in the U.K. and U.S. also face scrutiny over their ability to take advantage of loopholes and other mechanisms to avoid some taxes.

"There are concerns in regard to risk, length of investment and liquidity involved in venture investing," said Susan Boedy, director of the Thunderbird Global Private Equity Center at the Thunderbird School of Global Management in Glendale.

Boedy contends the media in both the U.S. and the U.K. paint private equity in an unfair light.

"The media focuses on the downside of private equity, when in fact venture capitalists and private equity professionals have actually boosted productivity and growth of privately held firm in many cases," Boedy said. She also said pension funds have reaped rewards from investing in private equity firms.

The Thunderbird PE center holds investment conferences, creates networking systems and offers classes to private equity investors and venture capitalists.

Greenberg's Kaplan said there are some worries that private equity firms overpay for companies -- and, if the sector suffers from loan defaults or debt problems, it could spark tighter credit markets and higher interest rates similar to what's happening with home mortgages.

Kaplan is not concerned about the tax and oversight issues involving private equity firms.

Measures are afoot in Congress and the British Parliament to shore up tax codes so that private equity firms are not reaping huge breaks or avoiding tax payments altogether, though some business interests are concerned that such changes could discourage equity efforts.

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