

Riverlake builds enviable private equity reputation

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It only took three years for Riverlake Partners LLC to become an Oregon private equity kingpin.

Riverlake, a leveraged buyout specialist led by former Pacific Crest Securities executive Erik Krieger, is riding high off three deals announced in the last month:

- It bought O'Curran Teleservices, a Salt Lake City-based telemarketing and sales outsourcing firm.
- It bought Genevac LTD, an Ipswich, England, maker of high-performance solvent evaporation systems for drug discovery, molecular biology and life science research markets.
- It invested in Pinnacle Exhibits, a Hillsboro outfit that designs and produces trade show exhibits and event displays.

While the deals' terms weren't announced, Riverlake typically makes modest investments, seeking companies that create innovative products and services but generate revenue that's typically less than \$100 million. Krieger expects Riverlake's second fund, which gets under way later this spring, to raise \$150 million. Riverlake will use the proceeds to invest in 13 to 15 companies.

"We focus on smaller company buyouts because we like them and we think we can be meaningful to them," said Krieger, whose first fund collected \$26 million. "When a company gets to be much bigger than \$100 million, it gets extremely competitive and the pricing can become very expensive."

The strategy has so far worked. One company that Riverlake has bought and sold, Stock Equipment Co., of Chagrin Falls, Ohio, generated returns four times its invested capital.

Private equity generally refers to investments made outside of the equity markets realm. Most often, it involves investments into specific companies.

Riverlake's success illustrates private equity's growing popularity both locally and nationwide. Oregon-based firms have announced four deals in 2007's first quarter. The pace exceeds results in 2004, when seven Oregon-based deals were announced; 2005, six transactions; and 2006, nine transactions, according to FactSet Mergerstat, a Santa Monica, Calif., researcher.

Riverlake could announce another deal soon.

Another local player, Aequitas Capital Management of Lake Oswego, hopes to unveil two private equity allotments this quarter, said CEO Bob Jesenik.

Local merger and acquisition attorneys say private equity drives their business. One legal industry observer said private equity funded two-thirds of all buyouts in 2005, up from 20 percent in 2000.

Nationally, private equity comprises between 10 percent and 15 percent of investors' portfolios, said Carl Thoma, managing partner of the San Francisco-based private equity specialist Thoma Cressa Bravo. Twenty years ago, the figure fell in the 3 percent to 5 percent range.

The number should rise as foundations and endowments, considered investment harbingers because of their boards' collective financial savvy, continue to favor private equity and other so-called alternative investments.

"Right now, our whole industry is doing very well," said Thoma, a former National Venture Capital Association president. "It's getting to be a much larger asset class now than it used to be."

The field is so hot that New York-based Blackstone Group LP, one of the world's largest private equity investors, is, ironically, going public.

Investors seem to be learning that private equity investments can deliver solid returns, introduce investors to exciting business realms and, when compared to public company investments, be executed swiftly.

Private equity also deftly diversifies portfolios, providing immunization to market trends.

Plus, as more companies seek liquidity, there's also a bevy of available deals. Firms like Riverlake explore takeovers through which they can effectively operate their vested companies; others may make significant investments, through equity funds, that land them board seats.

Private equity firms also frequently make lower-profile investments. Through a debt fund -- in which money is lent on a secured basis and investors receive interest returns -- Aequitas recently lent \$3.5 million to TSC Nurseries, a Vancouver, British Columbia, wholesale nursery.

It also lent \$500,000 to San Diego-based Telanetix, which will use it to match its telepresence products to various platforms.

Like Aequitas, Riverlake sees private equity as a way to build its chosen businesses. The Pinnacle investment will help the company's 100 specialists remain competitive as they design and engineer high-end exhibits. The company works with such lofty customers as Google, Sony, Microsoft Corp. and DaimlerChrysler AG.

Riverlake purchased O'Curran from its founder, Carla Meine, and a venture fund. The company, which Krieger believes is ripe for expansion, provides telemarketing, telesales and call center operations for clients.

Riverlake's 2005 investment in SP Industries dialed the firm into industry doings, which led to the Genevac deal.

SP, based in Warminster, Penn. makes and markets laboratory equipment.

Through SP, Krieger's firm learned that Thermo Fisher Scientific Inc., Genevac's Waltham, Mass.-based parent, needed to divest it to earn regulatory approval for a merger with Thermal Electron. Riverlake's leaders believed Genevac could work as a part of the SP Industries platform.

Having delivered three disparate companies, Riverlake's recent moves nicely display the firm's diversification strategy. Of Riverlake's six current investments, three are in the manufacturing sector; three make consumer products.

Riverlake plans to hire more people as it prepares to collect its second funding round. But while the firm will grow, it will continue to think small.

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