

## Riverside thrives on smaller pickings

### INVESTMENT COMPANIES

By Martin Arnold in London

Small is beautiful again in private equity. At least that is the message from the Riverside Company, a US-based specialist in small buy-outs, which will today announce it has raised \$1.17bn for its new fund.

The flow of money from investors has slowed to a trickle for the mega buy-out funds that were most popular in the credit boom, and several of the biggest – such as Blackstone – have struggled to reach their fundraising targets. But Riverside's new fund, half of which was raised after the collapse of Lehman Brothers in September, shows that limited partner investors, such as pension funds, endowments and insurers, are still committing money for smaller buy-outs.

"If you look at the decreases in value on mega funds, they have been substantial," said Béla Szigethy, co-chief executive of Riverside.

"But none of our funds are below cost and some have actually gone up in the last year."

Riverside specialises in buying majority stakes of companies with \$5m to \$15m of earnings. Its new Riverside Capital Appreciation Fund V is focused on the US, but it also has separate funds in Europe and Asia.

"This is the worst fundraising environment since dinosaurs roamed the Earth," said Stewart Kohl, co-chief executive.

"We had the chance a few years ago to move up into bigger deals, but we stuck to our knitting and investors have rewarded that."

Since it was founded in 1988, the group has generated annual returns of more than 50 per cent on all exited deals.

The new fund is 50 per cent bigger than its previous one and takes its assets under management above \$3bn. Investors in the new fund include IAM National Pension Fund, State of Oregon,

and Sentry Insurance.

Mr Szigethy admitted it was likely to target slightly bigger deals, but this would be partly offset by needing more equity for each deal as debt markets have dried up.

He added that small-cap buy-outs allowed investors to diversify away from stock markets.

"There is a disconnect between public market valuations and our world as, unlike the mega funds, we are paying six or seven times earnings for companies, whatever public markets are doing."

Exits have dried up for Riverside recently. But this week it sold Nordco, a provider of rail infrastructure services, to rival private equity group Omers, for a five-times profit.

There have been only nine buy-out funds of more than \$1bn raised this year, down from 26 in the same period of 2008, according to research house Prequin. Overall buy-out fundraising has fallen 58 per cent to \$49.4bn in the year to date.