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American Capital spreading the wealth

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With \$1 billion in new equity, **American Capital Strategies Ltd.** believes it can make money for its shareholders without ever putting their own investments at risk.

Last week, the Bethesda-based investment firm announced \$1 billion in new funding for its growing asset management business through the company's private equity fund, American Capital Equity LLC. About \$670 million will immediately go toward purchasing a 30 percent stake in all of the fund's current investments, said Tom McHale, the company's senior vice president for finance.

The remainder will go toward 30 percent stakes in future purchases. For example, if American Capital were to invest \$30 million in a project, the investor team would pick up \$9 million of the tab, he said.

The investors were **HarbourVest Partners LLC** of Boston, **Lexington Partners** of New York and **Partners Group** of Switzerland. The company would not disclose exactly how much each group contributed.

The deal means American Capital's shareholders will gain from the returns of other people's money. The company will profit from the deal by charging the three firms investor fees and by taking a percentage of the profits, McHale said.

This is the single largest infusion of capital in the company's 20-year history.



The Bethesda-based investment group was founded in 1986 but went public in 1997. With more than 400 employees in 10 offices in the United States and Europe, American Capital and its subsidiaries manage approximately \$8.6 billion in investments.

American Capital focuses specifically on companies that have experienced sustained success and will likely continue along that financial path.

"We take a long-term approach to our investments," McHale said. "We're

not looking to come in and slash — we're looking to come in and grow."

The average company that American Capital invests in has been in business for 32 years and sees about \$108 million in annual revenue. And if you're looking for what the investment targets have in common, look no farther than those steady bottom lines — because that's the only link.

American Capital's approximately 160 investment companies do business

in dozens of industries — from **Aamco** and its automobile transmission services to **Gibson** and its guitars to **Piper Aircraft Inc.** and its airplanes.

With Piper, American Capital purchased \$57 million in debt and set up a loan program. Like the rest of the aviation industry, Piper was struggling in the wake of the terrorist attacks of Sept. 11 and the overall economic recession, said Piper spokesman Mark S. Miller. He said American Capital's intervention allowed the aircraft company "not only to survive, but prosper."

Before the 2003 investment, Piper was laying off employees. Now it is widely expected to announce a new light jet at the annual **National Business Aviation Association** conference next week in Orlando, Fla.

"It helped that we were owned by a group that understood long-term needs," Miller said. "They understood what it meant to make a company strong."

General analyst reaction to the new investment seemed optimistic. Of the eight financial investment firms that adjusted or renewed their recommendations on Bloomberg after the announcement, seven were either neutral or positive.

Ivan Feinseth, an analyst with MatrixUSA, said moving farther into equity investments and asset management was a good way for American Capital's shareholders to benefit with minimal risk. He called the announcement "very positive" and said while his firm does not set official price targets, investors buying in now would likely be getting their shares on the cheap.

Also, Feinseth said the nature of the U.S. economy is that each day more and more companies are looking to restructure themselves or to pull themselves out of the publicly traded arena. That's American Capital's "bread and butter," and should keep it going strong, he said.

"There's a lot of opportunity in cor-

porate America for them," Feinseth said.

Carl Drake, an analyst with SunTrust Robinson Humphrey, agreed with Feinseth's take on the deal and even upgraded his dividend estimates for American Capital's financial future.

The Maryland company's overall future also looks bright, according to an investor note Drake released after the recent announcement. For fiscal year 2005, American Capital reported total revenue of \$554.5 million, according to documents filed with the Securities and Exchange Commission. Drake estimates that the company's total revenue will climb to \$898.4 million in 2006 and to \$1.2 billion in 2007.

Shares of American Capital closed down 0.1 percent, to \$41.52, on yesterday's Nasdaq trading.

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