

# Buyouts

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## PERSONALITY PROFILE: MALON WILKUS, PRIVATE EQUITY POPULIST

By Matthew Sheahan



Malon Wilkus

**Education:** University of Illinois

**Career:** Founder American Capital Strategies, 1986-present; Vice President and Director of Marketing, Calvert Securities, 1982-1986

**Other activities:** Former Chairman, National Center for Employee Ownership; past member of Board of Governors, ESOP Association

**Hobbies:** Mountain biking

**M**alon Wilkus has certainly done his part to ensure that retail investors have an opportunity to invest in private equity. But the president and CEO of **American Capital Strategies** isn't above forming a private limited partnership now and then—especially if it can help return money to those same investors.

Earlier this month, the company created a \$1 billion fund, American Capital Equity I, to purchase equity stakes in 96 American Capital portfolio companies. Three secondary buyers, **HarbourVest Partners**, **Lexington Partners** and **Partners Group**, bought interests in the fund; \$670 million went to buying the equity stakes, and another \$330 million is dry powder for buying additional positions. American Capital (Nasdaq: ACAS) will manage the partnership.

“We didn't do it the conventional way, we did it our way,” says Wilkus, whose firm has raised billions of dollars from retail and institutional investors through a publicly-traded business development company (BDC). “The fact that we're not traditional is our virtue and that is what's changing this industry.”

Since its inception in 1986, the Bethesda, Md.-based firm has been aggressively doing deals using a range of structures and across a range of industries. It has a base of permanent capital through its publicly-traded vehicle, which re-invests some distributions,

but also pays dividends to shareholders. American Capital trades on the Nasdaq exchange and can raise additional capital by releasing more shares on the market. Recently, as with American Capital Equity I, the company has begun raising funds through structures that resemble more traditional private equity funds.

American Capital has invested \$11 billion in more than 250 portfolio companies since the 1997 IPO of its BDC, including more than \$6 billion in the past year. It invests between \$10 million and \$400 million per portfolio company in the United States, and between \$12.5 million (€10 million) and \$156 million (€125 million) in European companies. The firm employs almost 500 employees in ten offices in the United States and Europe. While the firm has been able to raise significant capital, its status as a publicly-traded entity has kept the BDC off the radar of many in the industry, says Wilkus. “One of the reasons why the industry really hasn't recognized much of what we've done is partly because they think we're smaller than we are,” says Wilkus.

For Wilkus, a self-made multimillionaire who never finished college, the private equity industry is going about launching public vehicles the wrong way and in the process denying the general public in the United States the chance to invest in a valuable asset class. True, other private equity firms have launched public vehicles. But they have done so on exchanges outside the

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United States, Wilkus says, adding that the bulk of their shareholders are the same large institutions that already invest in private equity through limited partnerships.

Publicly-traded BDCs first gained in popularity in 1980, and re-emerged again two years ago as buyout firms sought to diversify their sources of capital. However, institutional investors continued to shower firms with money, and the resurgence of fundraising to record-breaking levels has somewhat

that Americans who want to invest in these Euronext private equity vehicles must have investment assets of at least \$5 million, putting the opportunity out of reach of most people. Funds making equity investments in the United States must be structured as a mutual fund, real estate investment trust (REIT) or a BDC if it is to be sold on the public market. "We think there could be a variety of publicly-traded buyout and mezzanine funds," says Wilkus. "We think there's

best way to motivate people to perform at highest level," says Wilkus. "I thought you could extend that further to all the employees through employee ownership. ESOPs [Employee Stock Ownership Programs] were the most interesting way to do it at the time. Now stock option programs are a far more simple way to do the same things." ESOPs act as a kind of benefit plan that allows employees to purchase company stock.

In 1982, seeking more experience in finance, Wilkus joined mutual fund group Calvert Securities Corp., where he was a vice president and the director of marketing. It was the only time, he says, that he worked for someone else.

He founded American Capital in 1986 in his condominium and started doing ESOP transactions for groups of corporate employees. These often took the form of spin-offs from troubled companies since owners can make tax-free contributions of stock to an ESOP trust to create a market for their shares. For the first 12 years of American Capital's life, before it launched a BDC, it did not have a fund, but rather focused on mezzanine lending and on helping employees take over companies. The firm launched its BDC in 1997, raising \$150 million.

American Capital still invests mainly in the mezzanine market, financing middle-market buyouts. It is increasingly offering "one-stop shopping" by providing both equity and debt for buyout deals. Critics complain that American Capital has an overly-aggressive style that equals deal poaching, but the firm has performed consistently for its investors. The BDC has generated an annualized return of 22% since 1997, and paid more than \$1.2 billion in dividends. Its stock has paid \$21.56 per share in dividends since its 1997 IPO at \$15 per share. As *Buyouts* went to press, American Capital's stock was trading at \$41.98 per share.

Wilkus sees the buyout industry as an important catalyst in spreading the use of employee stock incentives. "The buyout industry has pioneered the concept of making employees, starting with management, owners of companies and getting from them the very best that they can deliver for their shareholders. The buyout industry is helping to make us the most competitive and dynamic economy in the world." ♦

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turned attention away from the BDC model. In addition, Sarbanes-Oxley regulations here in the United States have pushed those private equity firms still interested in raising money through public markets away from the BDC model and towards foreign exchanges—with mixed success.

New York-based **Kohlberg Kravis Roberts & Co.** (KKR), for example, launched KKR Private Equity Investors on the Euronext this past May. While it raised \$5 billion in its IPO, its stock price fell significantly and now trades at a 15% discount. New York's **Apollo Management** raised \$2 billion with its public market vehicle, AP Alternative Investments, which trades on the Euronext exchange in Amsterdam (see *Buyouts*, Aug. 15, 2006). The offering fell short of its initial \$2.5 billion goal.

The most recent setback came courtesy of London's **Doughty Hanson**, which called off plans to hold an IPO on Amsterdam's Euronext market earlier this month. The firm had intended its public vehicle, Doughty Hanson & Co. Investments LP, to begin trading with a \$1.27 billion (€1 billion) IPO. The mothballed offering puts a damper on expectations of further private equity public market vehicles (see *Buyouts*, Oct. 9, 2006).

"It's very sad because they are going about it the wrong way and as a result it's really hurting a market which the average retail investor around the world should have a shot at," Wilkus says. He points out

a way to do it and we've made it clear."

Wilkus hails from the town of Coffeyville in Southeastern Kansas. He moved around a lot when he was growing up, and has lived in Syracuse and Long Island, New York and as a teenager found himself in a suburb South of Chicago. He left the University of Illinois after a few years to travel through Central and South America.

Running out of money for his trip in Costa Rica, Wilkus started a business raising fresh water shrimp, the only business of his that has failed, he says. The venture did provide him with enough money to complete his travels, and he was able to visit Argentina, Bolivia, Brazil and Peru. This was in the early 1970s, and Chile under Augusto Pinochet was too dangerous to travel through. "It was a fascinating experience for me," says Wilkus. "I learned a tremendous amount and made a tremendous number of memories."

Returning to the United States, Wilkus went back to the University of Illinois but quickly left and started three employee-owned businesses that are still running today. One is a furniture-making company, one a shoe and footwear company, and the other a company that makes peanut butter and other kinds of nut butter. It was through running these businesses that he became interested in employee stock ownership and a believer in the public markets as an incentive tool. "The idea of giving more people access to ownership was the