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Olympus: Firm of steady habits

—CHRISTINE IDZELIS

There's a time to take risks and a time to be more conservative. Robert S. Morris took a chance 17 years ago when he left General Electric Corp.—his last assignment was managing GE Pension Trust's \$1.6 billion private equity portfolio—and leaped into a far less certain future by starting a private equity shop. Since then, however, stability seems the operative word for Morris and the middle-market firm he founded and still runs, Olympus Partners.

Add in meticulousness, patience and discipline, and you have a thumbnail sketch of the Stamford, Conn.-based firm.

Even its staff, which now numbers 18, speaks to its steadfastness. Olympus has had no turnover since 1993—and just one departure since managing partner Morris founded the firm in 1989.

"We've gotten to the point where we can finish each other's sentences," he says.

The steady habits have paid off. Morris says that since 1994 Olympus has generated a gross internal rate of return of 44.8%, and that its gross IRR since its founding has been 32.1%.

John Alouf, director of private equity for Virginia Retirement System, describes Olympus as a very conservative investor. The firm's approach is well-suited to the pension plan, which has put up capital for Olympus since its inception, Alouf says, including investing \$65 million in its latest fund.

Olympus has kept to its course through passing trends that could spell trouble down the road.

"They didn't jump on the tech-bubble wagon," Alouf says. "They maintained discipline."

He adds that Olympus only dabbled in communication and technology investments that were so popular during the 1990s. And Alouf, for one, appreciates such judiciousness.

"One thing I won't ever fault a general partner for is missing an investment," he says. "I don't mind missing a good deal—but I don't want to do a bad deal."

Olympus has focused since the beginning on such sectors as business services, healthcare manufacturing and services, financial services, consumer products and services, software

and information-technology services. But while it specializes in the middle market, it doesn't have hard and fast size parameters for its deals; it will consider a transaction in which it invests \$25 million, but it's also prepared to write a check for \$150 million if it feels the opportunity is right, Morris says.

The important thing is generating healthy internal rates of return, says Morris, who earned an M.B.A. at Dartmouth College's Tuck School of Business and now guest-lectures on private equity there and at the Stanford University Graduate School of Business.

So far this year Olympus has seen a couple of exits, both involving sales.

At the beginning of April, it sold Client Distribution Services to Perseus Books Group. The price was not disclosed, but Morris says the deal returned more than 4 times the firm's original investment. Olympus had bought the book distribution business in November 1999 when it was little more than an empty warehouse in Jackson, Tenn.

The firm doesn't shy from situations involving a lot of hands-on work, and this deal was a good example of that, Morris says. Olympus' partners stepped into senior management roles to help jump-start Client's operations. And Olympus didn't use any debt to help finance the purchase, knowing that initially it was going to lose a lot of money.

The deal paid off in the end. Over the next five years, Olympus built the company into a multi-warehouse operation generating more than \$200 million of annual revenue from the wholesale book distribution.

More recently, the firm sold landscape and irrigation products supplier United Green Mark Inc. to farm equipment giant Deere & Co. The terms of the deal, which closed this month, were not disclosed, but Morris says the firm made 2.5 times its original money.

Olympus' next most recent exit hit the market at the end of last year, when it took precision surgical devices maker Symmetry Medical Inc. public. The offering priced at the top of its targeted range, but only after a false start and a slight

drop in initial expectations.

The firm originally filed to take Symmetry public in May 2004, but then postponed the offering because of “the hibernation of the IPO market,” Morris says. Olympus didn’t want to see Symmetry price lower than what it believed it merited, and so held off.

In early December Symmetry made its market debut, raising \$120 million through the offering. The IPO was successful even though Olympus had lowered its price range to \$13 to \$15 a share from the originally hoped-for \$14 to \$16 level. Still, Morris points out that the stock value has since increased about 33%.

As for recent acquisitions, Olympus added a few new investments to its portfolio in 2004.

“We do a handful [of deals] a year at the most,” Morris says.

At the end of 2004, it bought a majority stake in K-Mac Enterprises Inc., a Fort Smith, Ark., operator of Taco Bell and KFC restaurants, investing \$30 million in the transaction.

That deal followed the November purchase of rail-car services company Meridian Rail Acquisition Corp. from Cerberus Capital Management and Three Cities Research Inc. Olympus backed the acquisition with a \$50 million check.

Both of those deals were complicated and demanded an exhausting amount of work, Morris says. Meridian was a division of a company that had been in bankruptcy, while the K-Mac transaction involved 150 restaurants, each owned by a separate real estate holding company.

“People gave up and went away,” Morris says of rival bidders. “We’re happy to keep doing the grunt work to get there.”

Olympus invested more than \$100 million in equity in February 2004 in specialty home products maker Homax Products Inc. Sources at the time pegged the Bellingham, Wash.-based company as having a \$200 million enterprise value.

Currently, Olympus—whose competitors include TA Associates, Advent International Corp., Willis Stein & Partners and Berkshire Partners LLC—is investing with its fourth fund, a \$757.5 million growth and buyout vehicle that closed in June 2003.

“It was probably the worst market for fundraising since the ‘80s,” Morris says—but the firm put the fund together in 90 days.

Olympus also decided to seek more international capital, looking to boost its offshore investing. It brought Alpinvest Partners NV in on the fund. The Dutch asset manager has a big appetite for co-investment, he says. Olympus also added some South African money.

Morris says Olympus aims to make about 20% of its investments abroad. “At the moment we’re 13% offshore,” he adds, citing Talbot Underwriting, a Bermuda-based specialty insurance group, as an example.

Fund IV also includes such existing investors as the Massachusetts Pension Investment Trust, the New York State Teachers’ Retirement System and Virginia Retirement.

Morris says the No. 1 challenge in today’s marketplace centers on “the huge amount of capital chasing” by private equity firms. Over the last 18 months aggressive bank and mezzanine lending have pushed price multiples up dramatically, making it more difficult to generate high IRRs. Olympus has seen several deals go for over 9 times, Morris says.

“It’s looking to us an awful like 1999,” he adds, a year in which Olympus bought next to nothing. “You should still be clear that there have been cycles like this before.”

Indeed, Olympus has yet to make an acquisition this year. “It’s a good time to be seller,” he says, adding it’s possible the firm will make \$400 million worth of exits in 2005.

Olympus’ funds have consistently earned their way to the top of the performance charts, according to Cambridge Associates Benchmark Statistics. As of the end of 2004, Cambridge places Olympus’ first three funds in the top quartile of their vintage year classes. Indeed, the first two each ranked No. 1.

Olympus’ 1998 private equity fund has a gross IRR of 19.2% and a net return of 13.3% to the investors; Cambridge Associates puts the industry mean for 1998 PE funds at 7.65% gross and 6.11% net to investors, Morris says.

Olympus funds tend to rise in the charts as they age due to the way the firm values its investments.

“We tend to keep our valuations extremely conservative until there’s a liquid market event,” Morris says. 🐾



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