

Chicago Tribune

2 private equity execs see turnaround

Madison Dearborn chairman sees improved results

By Becky Yerak, Tribune reporter

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The head of one of Chicago's biggest private equity firms sees evidence of a turnaround in the economy.

Madison Dearborn Partners Chairman John Canning told the Illinois Venture Capital Association on Monday that his firm, which has 32 companies in its portfolio, has begun seeing improved results on a monthly basis, but also up from the same period a year ago.

"It's gradual," he said. "It's not gigantic, but it's consistent."

Canning is also heartened by a rebound in the credit market that has enabled his firm to refinance debt taken on doing deals in 2006 and 2007. Now, 80 percent of Madison's debt isn't due until at least 2014, giving the firm and its investors more breathing room.

"We were looking at a cliff six months ago," he said. "I was going to go into a witness protection program."

Thoma Bravo LLC Managing Partner Carl Thoma agrees that 2010 is likely to be a pleasant surprise. But he said the economy in 2011 might suffer a setback as the stimulus plays out and taxes are likely to rise.

About a year ago, Canning said it was unlikely that the private equity industry would ever see \$10 billion-plus deals again. Recently, however, he has begun noticing some loans with less-restrictive covenants.

"Memories have been shorter for the people who got burned," he said. However, Canning is uncertain whether there will be a rash of big deals.

Echoing recent comments by GTCR Golder Rauner, another Chicago buyout firm, Canning said the potential deal flow has picked up, including good companies running out of steam in depressed industries. He said Madison finds building products and retail companies particularly tempting.

But still cautious, Madison has raised its hurdle rate, or the annual rate of return expected on an investment, from the low 20s to 30 percent.