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Meet The Manager

Turning That Frown Upside Down

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For investors worried about the private equity space these days, you should have a talk with Lucantonio Salvi, a partner with law firm Sheppard Mullin who specializes in the asset class and M&A deals. He has seen a lot in more than the last decade and knows that what comes around goes around. Salvi talked with *PrivateEquityCentral.net* about how the asset class may be experiencing a slowdown now, but he is confident the good times will be back relatively soon.

PrivateEquityCentral.net: Can you tell me a little bit about your involvement with private equity?

Lucantonio Salvi: I've been working for private equity firms in various capacities for almost 15 years. For most of my career before I joined Sheppard Mullin I was based in New York and Europe and I was focused on both domestic and cross-border deals on behalf of both U.S. and foreign private equity firms. That gave me a lot of exposure to different approaches that are used by private equity firms.

PEC: What is your overall take on the current conditions of the private equity space right now?

LS: I view private equity as being cyclical. Over the last 25 years private equity has obviously had a huge impact not just in the U.S., but globally. I think that trend is going to continue, not withstanding that today there has been a slowdown in the market due in large part to the credit crisis. Still, I think there is a lot of interest and focus in the private equity community in continuing to do lucrative deals. That includes the U.S. as well as the BRIC countries. There is a lot of work being done today in Brazil and Russia, for example, as well as Mexico.

[Overall], I think the slowdown is going to continue for a lot of this year on the acquisition side, but what I do see is a lot of private equity firms are starting to change their focus to divestitures. I don't think deals will stop; they will continue to get done.

PEC: Do you think the mega-deals and mega-funds will come back?

LS: Sure. Absolutely. The mega-deals are here to stay. Today, we don't see many of them getting done primarily due to the credit markets, but 10 years ago we didn't see any of them. I think we will see this where it makes sense. For instance, the large private equity firms, such as the Carlyles and the Blackstones will continue to look for good deals to do on the mega-deal basis.

We will also continue to see a lot of the smaller deals get done. We'll see a lot of the middle market private equity firms continuing to do deals where there is more liquidity and available credit.

PEC: Which sectors are experiencing the most success in today's market?

LS: Since coming here to Sheppard Mullin, my partners and I have been spending a lot of time in expanding our private equity team. We have people all over the world and we regularly talk about new developments and cutting edge approaches on behalf of our clients. Where I see most of work for clients continuing are in industries that are less affected by the general economic slowdown, for instance, in aerospace and defense. That is an area in which we have a very successful practice. I think it is fair to say that even though we aren't seeing the same volume of deals in that space [today], we do continue to see consolidation and M&A activity.

PEC: Do you think the asset class will return to the heyday of 2006 anytime soon?

LS: Absolutely. There is no doubt in my mind. There is obviously a lot of concern right now about deal flow that has slowed down. I think most people think it will continue to be slow for a good portion of this year, but deals will continue to get done. We have to take a broad view of the market and the world. There is no doubt things will pick up and the economy will rebound, the credit markets will become more attractive or people will psychologically learn to adapt to the credit markets. We may not go back to the days of free money, but deals will continue to get done.

PEC: You have done private equity M&A work on both sides of the equation – the firm and the strategic buyer – what are the biggest differences?

LS: Right now, I am doing four deals in which in two of them I represent the strategics and I represent the private equity firms in the other two deals. There are characteristics of dealing with a private equity firm given their business model such as their views on how to deal with financial risk. Private equity firms are going to be much less willing to assume financial risk compared to strategic acquirers. As a result, I have to be aware of their limits and consider creative solutions. When we represent strategics, that kind of knowledge and experience in the private equity market is key to being able to getting the deals done. That is where I think we are able to bring added value to our clients.