

## PS Capital seeks companies for 10-year investments

By Paul Schwab

After years of choreographing buyout deals at their old firm, Paul Sweeney and Paul Stewart have set out on their own to form a venture capital group with a longer-term "hold" strategy than most.

Sweeney and Stewart, who until recently were partners at Horizon Partners Ltd., opened the doors on PS Capital Partners in early May. As they get settled into their new offices in the Iron Block building on the corner of Wisconsin Avenue and Water Street in downtown Milwaukee, the two men are combing through prospective deals seeking companies worth buying and holding.

The partners are interested in businesses that have between \$10 million and \$50 million in annual revenue and an annual growth rate of 1 percent to 4 percent.

Unlike other venture capital firms that buy businesses with the intention of building them up and reselling them within three years, Sweeney and Stewart anticipate remaining involved as part owners of a business for 10 or more years.

"The way we're structuring it, in terms of our capital going into the deals and bringing other individual investors, there's not going to be a real time horizon on the company where we need to get liquidity," Sweeney said.

PS Capital will be able to use its buy-and-hold strategy because of the way it will structure acquisitions, the partners said. Instead of establishing a blind fund that people invest in for a set period of time, PS Capital will assemble a group of investors for each acquisition.

"It doesn't put that artificial need to create that liquidity," Sweeney said.

The twosome believes allowing investors to pick and choose among potential acquisitions might help them attract people who want the control that a blind fund doesn't provide.

Stewart and Sweeney say their way of recruiting a group of investors instead of creating a fund will also open investment opportunities to those who may not have enough money otherwise to get involved in corporate buyouts.

The partners will call on investors they know from their years in the venture capital industry to help finance the acquisitions.

Many venture funds require investors to contribute a minimum of \$1 million. The deals PS Capital envisions will require individual investments of between \$100,000 and \$1 million with the majority falling between \$100,000 and \$500,000.

The partners plan to work with a group of about 25 investors with no more than 10 or 15 involved in any one deal.

"It's going to have to be people who know us," Stewart said. By focusing on companies with slower growth rates and by offering management of those companies a longer time frame of commitment, Stewart and Sweeney believe they will be able to unearth some otherwise overlooked buyout gems.

"A lot of these companies can grow but for some of them it's going to take four, five, six, 10 years to be able to grow," he said.

The partners plan to focus primarily in Wisconsin and the rest of the Midwest when seeking out acquisition targets.



*Paul Stewart and Paul Sweeney*

Sweeney and Stewart's business model might offer some competitive advantages when PS Capital is pursuing some sellers, said Peter Sommerhauser, an attorney at the Milwaukee law firm Godfrey & Kahn. However, PS will have to fight for acquisitions even among slow-growth companies, Sommerhauser said.

"Their investors are going to be more patient and the people who are selling the business might find that comforting," he said. "It's pretty competitive out there for good companies."

Sommerhauser believes that if PS Capital is to be successful, it will come more from the strengths of Stewart and Sweeney as deal makers than the details of how the acquisitions are structured.

"I think they are quality people and they have a lot of good relationships," he said. "At the end of the day, a lot of it is price and people."

Although PS Capital has already identified roughly eight companies that might be attractive buyout targets, Stewart and Sweeney plan on following their own slow-growth strategy and buying into five businesses during the next three or four years with the first deal coming by the beginning of 2002.