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Q&A

Company Carving Out A New Role As A 'Venture' Buyout Firm

BY NICK TURNER
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Buyout firms often have a bad reputation. They're known to swoop into a business, snatch the assets and squeeze out the cash — without regard for the long-term health of the company.

Garnett & Helfrich Capital takes a different tack. Calling itself a "venture" buyout firm, the company mixes private-equity buyout tactics with venture capitalism. Its mission: look within large public companies for neglected business units or product lines that it can acquire and spin off as separate entities.

It's seeking tech growth opportunities — not companies it can milk for cash, says David Helfrich, the firm's managing director. He and Terry Garnett joined forces in 2003, securing funds of $250 million last March.

Now the company is getting ready to announce its first deal. It's reportedly paying $35 million for a stake in Wyse Technology, a maker of computer terminals that is majority owned by the Koos Group of Taiwan. As Garnett & Helfrich gets rolling, it expects to do two or three deals a year — investing up to $50 million in each.

Helfrich recently spoke with IBD about the company's approach.

IBD: *What kind of assets are you looking to acquire?*

Helfrich: The target for us is a business inside of a public technology company that is doing $40 million to $140 million in annual revenue. Typically the parent company has $500 million to $1 billion or more in total revenue.

The key is to find a business or product line we can spin out that may have been neglected but that has significant revenue — and that has a sticky loyal customer base that we can serve and invest in.

It turns out that in today's environment, one of the most difficult things to achieve is a sale — especially the initial sale. Beyond that, building up sufficient revenue to afford a distribution channel is prohibitively expensive and very difficult to do.

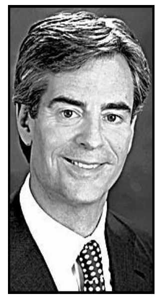
So we believe with the venture buyout model, we have the ability to acquire the products, people and technology, and we have the relationships with the customers that we can leverage.

IBD: *Are you looking for businesses just in high-growth areas, or in sunset industries as well?*

Helfrich: It's all IT (information technology). If you look at an IT sunset product line, whether it's being sunsetted or is a legacy product or older technology, it's going to be replaced by something. And what we recognize is customers now are not looking for new relationships and new vendors.

They prefer to deal with the large incumbent vendors that are established in the marketplace. All else being equal, what the customer would rather do is buy the new product from the vendor they're buying the old product from.

David Helfrich



- Garnett & Helfrich Capital
- Managing Director
- 48 years old
- B.S., business administration, California State University, Chico; MBA, UCLA

IBD: *How do you persuade a company to give up a business unit that still has value?*

Helfrich: This is arguably the most difficult aspect of what we're doing. Identifying the opportunities is relatively straightforward. Doing the upfront analysis is relatively straightforward. But in the end, you're dealing with people. It's usually a broad number of people — all of whom have opinions as to whether the business belongs inside the company or outside, and why.

IBD: *Are people within those businesses enthusiastic or hostile?*

Helfrich: We've seen both. In some cases what we've found is there is a competent management team eager to spin out because they are being neglected and because they aren't getting sufficient resources within the company.

In many cases, however, there is no management team with the business or the product line that we're interested in. And that may be why the business is floundering or is not getting the resources it needs.

In those cases, what we do is recruit a top-notch management team that can help redirect the company, implement a new strategy, develop new products and drive mergers and acquisitions that help grow the business.

IBD: *Are we talking about business units that might have been closed otherwise?*

Helfrich: In a lot of cases what happens is the business is closed or it's sold at a further discount, because one of the hardest things for managers to do is recognize when they should be selling a business.

It takes tremendous discipline and maturity for a manager to recognize that they have a business or a product line that is not competitive or is losing its competitive edge. Managers don't like to recognize that and they don't like to admit it, and therefore they don't like to act on it. In many cases our role is of a change agent.