

Land a Private Placement to Fund Critical Investments

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published on BNET.com 11/20/2008

The scenario: A public company in need of serious capital can't raise the funds it needs through a secondary offering.

The tactic: Seeking out private investors with deep industry expertise doesn't just promise more control over the process, but often bigger payouts.

Even in a deep recession, smart companies need capital to support investments that lay the foundation for future growth. Public companies can always try a [secondary offering](#), but relatively few players these days are in a position to do so. (And some that are — such as hotel and casino operator Wynn Resorts, which announced a secondary offering in November to raise more than \$200 million — are using the funds to pay down debt.)

A smarter option for many public companies right now is to pursue a [private placement](#): the sale of securities that aren't registered with the Securities and Exchange Commission to a small number of private investors, such as banks, mutual funds, insurance companies, and pension funds. Not surprisingly, the number of private placements in the United States has dropped significantly this year — from 764 in 2007 to just 277 this year, through mid-November. But the market is still active, and even after the dramatic market plunge in October, a number of large banks, including [Montgomery & Co.](#), [Needham & Co.](#), and [Mitsubishi UFJ Securities](#), have beefed up their private-placement teams.

What advantages do private placements hold over the public markets? First, companies get to control the process and work directly with veteran investors who have deep expertise in the company, its industry, and in understanding growth potential. That allows the management team to stay focused on core business objectives instead of managing a volatile public offering to jittery investors.

Second, private placements can often raise more than public markets are able to. Case in point: In February, [Mako Surgical](#), a Fort Lauderdale, Florida-based orthopedic medical-device maker, raised \$55 million in its IPO. But according to Maurice R. Ferre, Mako's CEO, that was \$25 million shy of his expectations. "We wanted to raise about \$80 million," Ferre says, "but the market conditions were tough, and many medical-device companies had to back out of IPO plans." So in October, while the public markets gyrated almost daily, Ferre raised another \$60 million in private placements from three leading health-care investment firms — funds that Ferre plans to use to create and market more robotic surgical devices and fund ongoing R&D.

But public companies viable enough to secure such funds, like Mako, aren't the only ones who stand to gain. Well-positioned investors are jumping in where public markets can't, and at substantial discounts. In September, Warren Buffett brought Goldman Sachs Group to life when he announced [Berkshire Hathaway](#) would invest \$5 billion in the investment-banking titan. Investors also find this form of investing in small and medium-size public companies more attractive because of the SEC's changes to Rule 144 at the end of 2007, which reduced the lockdown period (from one year to six

months) for outside investors to hold on to their shares in companies with annual revenues of less than \$700 million.

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