

## Private equity's PR problem

**Just as buyout firms were starting to lose their 'corporate raider' image, a bigger issue is boiling to the surface.**

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NEW YORK (CNNMoney.com) -- With buyout firms raising record amounts of cash and taking companies private at a frenetic pace, the once clubby world of private equity is getting thrust into the public spotlight - and a backlash is brewing.

Fueled by favorable debt markets, private equity firms - which raised a whopping \$200 billion last year - have been on a buying binge. But the boom has also attracted the attention of a growing number of regulators and shareholders.

"Private equity has a host of PR challenges when it comes to the public, which is why regulatory and legislative interest in the industry is growing," said James Post, a professor at Boston University School of Management.

Private equity firms have a reputation for being the market's most discreet dealmakers, but they've raised their public profile in recent years by snapping up household names like Neiman Marcus, Toys R Us, and [Harrah's Entertainment](#) ([Charts](#)).

Private equity groups are also bidding for Clear Channel, the nation's biggest owner of radio stations, and [Equity Office Properties](#) ([Charts](#)), the country's largest manager of office buildings.

Despite the more public presence, the funds still haven't shaken off their image as being secretive, which has fueled the growing sense of public mistrust, Post said.

Late last month the Federal Trade Commission challenged the proposed \$22 billion buyout of [Kinder Morgan](#) ([Charts](#)) by Carlyle Group and Riverstone Holdings due to concerns about competition.

The industry is also buzzing with talk of the Department of Justice's investigation into the possibly anti-competitive behavior in so-called club deals, where groups of private equity firms pool their resources to pursue large targets.

As private equity moves further into the public spotlight, investors are also starting to express wariness over buyouts.

Shareholders of [Clear Channel](#) ([Charts](#)) are set to face off with the company's board next month over the proposed \$26.7 billion buyout of the radio station owner - one of the biggest buyout deals announced last year.

"Shareholders are more aware on a whole range of issues affecting the capital markets today than they have been in the past and the new force of private equity is one of them," said Eleanor

Bloxham, president of the Value Alliance, a group that advises companies on corporate governance.

Private equity players say the industry's negative reputation isn't justified and attribute it to a lack of public understanding. They argue that in many cases companies can execute better in private hands, when they don't have to focus on delivering quarterly results to Wall Street.

In addition, they say that shareholders benefit since they receive a premium on their stock when a deal closes. And unlike in the past - when private equity firms were viewed as corporate raiders intent on stripping firms - now more public companies are welcoming private equity.

"By and large, most of the private equity transactions have been friendly," said Mitchell Hollin, a partner at private equity firm LLR. "Public boards always have the ability to say 'no.' It's really their decision to say 'yes' that has allowed for these successful transactions."

While a poor public image may generate more heat and scrutiny from regulators, it isn't likely to dampen the flood of buyouts, with this year expected to be another [blowout year](#) for deals, both in terms of size and volume.

"Bad publicity isn't going to change the marketplace," said Emanuel Cherney, a New York-based partner at law firm Kaye Scholer LLP who represents private equity firms. "What's going to change the environment is when some of these deals turn bad and lenders become more cautious."

But the impact of a public backlash against private equity clearly has industry leaders worried. Some of the most notable private equity firms teamed up late last year to form the Private Equity Council, an association meant to help policymakers and others better understand the industry.

The association's membership reads like a who's who of private equity, with Blackstone Group, Carlyle Group, Kohlberg Kravis Roberts and Silver Lake Partners among the members.

The council said it is still getting off the ground and was not available to comment for this story.

Now the question is whether the players in private equity are doing too little, too late. "The more delays that occur in organizing and mounting a public understanding campaign, the more difficult it's going to be to reach large numbers of people and be persuasive," Post said.