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Meet The Manager

In The Right Space at The Right Time

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It has been pretty hard for anyone in private equity to avoid feeling the credit crunch, but Peter Kubasek, a founding partner in the Malibu Group, and a manager for the firm's Midwest Opportunities Fund, managed to do just that as a result of focusing on the right part of the market. Kubasek talked with *PrivateEquityCentral.net* about the

approach he takes to partnering with young entrepreneurs. Rather than look for a quick turnaround, Malibu puts the time and energy into helping growing chief executive officers take their businesses to the next level of success.

PrivateEquityCentral.net: What does the Malibu Group do and how did it get started?

Peter Kubasek: It was started in 1990 by me and 12 classmates. We graduated from Pepperdine. We agreed to invest together and do deals together as we gathered our professional experience.

I went on to Arthur Andersen. Other guys from the group went onto Texaco, Lexis-Nexis and other big companies. After about seven years, I went to the guys and said we always talked about jumping off and forming our own group – I am ready to go, who is willing to join me? They said, "Go Peter, go!"

I started the Malibu Group full-time in 1998. The idea was to be a different kind of investment bank by helping lower middle-market businesses through the processes of growth and bringing in professional experience. There were very few people helping out the lower part of the market during the boom years.

PEC: What is the strategy behind the Midwest Opportunity Fund run by Malibu?

PK: This fund was founded back in 2003. The idea behind it was to focus on the lower end of the middle market with [businesses that had] EBITDA between \$500,000 and \$2 million. We focused on companies with CEOs in their late 30s to early 40s in the old-line Midwestern sectors of service and Rust Belt-type companies. We've acquired three companies. The first one: Apex Restoration; the CEO was 39-years-old, did a recap and retained 20% of the company. The company has grown three-fold since we did the deal. We added a part-time CFO and a chairman who helped the company to fulfill a lot of its dreams.

The second deal was the acquisition of Ad-Pro Signs. The CEO was in his early 40s and was looking to grow the company, but didn't want to take on additional debt or additional risk to do that. We helped him by supplying a part-time CFO and a chairman to move from being driven by one strong personality to having the other team management members be able to take a larger role. That company has had very good growth as well because it is allowing the CEO to do what he does best in a less stressful environment.

The last company we acquired was Direct Scaffolding and that company had a CEO who was also

39. We recapped it, he retained a little bit more than 20% of the company and has done a very good job of understanding what is needed to take that company to the next level. Results for 2008 are significantly above budget and it is performing well.

PEC: How has the credit crunch, particularly in the Midwest, affected your portfolio companies?

PK: Since we are at the lower end of the middle market, we never saw the covenant-lite documents, five-, six-, seven-times EBITDA leverage. It was always relatively conservative at about 2.5- to 3-times EBITDA leverage. We were in the right tranche at the right time.

PEC: What are the exit strategies that you have for your portfolio companies when you make an investment?

PK: Since we acquire businesses when their CEOs are so young, our commitment is a seven-year-plus hold. We continue to work with them and grow the companies. We have already been approached on a number of occasions to sell all three of our portfolio companies. Our view at this point is that we will continue to grow the company and honor the commitment that we will help these young guys grow their companies to that next level. These CEOs will most likely have one or two other partners since they are now in their early 40s. Even though we will hold them for seven years, these guys will still only be in their late 40s or early 50s and they understand that.

They are getting comfortable understanding what other partners would look like. At this point, however, we are planning to hold them and grow them, and then at the right time partner with a larger fund or a strategic to take them to the next level.

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