REDROCKS
Capital

TheStreet.com – Interview with Mark Sunderhuse

The following is the transcript of an interview with Mark Sunderhuse which aired on The Street.com on February 26, 2013.
To access the video version of this interview, please visit: http://www.thestreet.com/video/11852976/.

Gregg Greenberg, TheStreet.com Private equity (PE) stocks have surged in the past six months, and quite frankly, so has the deal flow. Joining me to talk about the spike in PE stocks and whether it can last is Mark Sunderhuse of the ALPS | Red Rocks Listed Private Equity Fund. Welcome, Mark. Now private equity stocks really got hammered during the 2008 downturn. Nice resurgence lately. Why is that?

Mark Sunderhuse, Red Rocks Capital: I think people have a better understanding of their business model. I also think that the days of covenant light, if you will, in high-leverage or financial engineering at least have passed us for now. Second, I think there is a much higher degree of humility in the private equity space, which may come as a surprise to some of your viewers and listeners. And last, deals are being done with a larger equity check, less debt that requires more operational improvement on behalf of the firm's underlying companies.

TheStreet.com: Before we get to the new deals, let us talk about some of the old ones. Are they completely out of those deals that they overpaid for back before 2008?

Mark Sunderhuse: No, not necessarily so. You maybe just do not hear about them quite as much because if firms are out trying to either raise a new fund or trying to resurrect some of their sins of days gone by, they are much more focused on trying to at least get them back to cost, maybe like a Texas Utilities or Clear Channel. But they are clearly not in the forefront of investors' minds.

TheStreet.com: And are they doing some smarter shopping this time? You hear about the Dell deal with Silver Lake. You hear about the Heinz deal with Warren Buffet. KKR is buying Gardner Denver. Are they overpaying this time or are they smartly shopping?

Mark Sunderhuse: I think it really depends on their metrics and you have to think about the timeframe involved with private equity. But for the most part, I think they are paying fair multiples, but they obviously see upside to growth and they must see some synergies on how they are going to grow globally.

To the second question, we hear about the headline deals. There is a lot of activity in emanating subsurface in more moderate-size companies. So I do not think they are overpaying. I think they are paying in a more wise capacity this time around.

TheStreet.com: The PE companies also got hammered politically and still LBOs it is not a very welcome term. It is not a very welcome acronym in any circle, whether it be in DC or anywhere else, except perhaps on Wall Street because of the job losses associated with it. Can PE get away from this? Can they rise above it somehow?

Mark Sunderhuse: I think they are beginning to. If you focus on a website as an example that is an industry website, Private Equity Growth Capital Council (pegcc.org), you read some of their stories, I think people are getting a more balanced view of private equity. At the same time, they serve a necessary purpose in our economy to moderate businesses that are not functioning that well. And last, I think as private equity does a better job both explaining their business model and how they add operational improvement and add net jobs, eventually people will come around. But no, I think they still have some work to do there. But slowly but surely they are getting there.

TheStreet.com: Now yours is a global fund. It is not just U.S. private equity players. Who are the standout performers in your portfolio?

Mark Sunderhuse: A firm that I would highlight—I will highlight a couple for you briefly—one would be someone like Onex in Canada. Not a household name, but they are the largest private equity firm based in Canada. They have partnered, as an example, with Carlyle on Allison Transmission that was spun out of GM during the darker days of GM. They have also partnered with the Canada Pension Plan Investment Board in Canada in buying a Denver-based company, where we are also based, called Tompkins. You would not know Tompkins, but they are the largest manufacturer of belts and hoses for autos. So there are some lesser companies that are very large in stature and assets that have done immensely well and just choose to play under the radar a little bit more.

A second example would be SVG Advisors, which is a feeder vehicle into Permira; Hugo Boss – the logo that you will see golfers and what not sporting their attire; Galaxy Gaming, the largest gaming casino in Macau; Igloo foods, purveyors of frozen peas we know them for. Deals like that have been immensely successful outside of the U.S. borders.

TheStreet.com: Frozen peas and Boss suits. Sounds good to me. Good luck with the fund. Thanks for coming on.

Mark Sunderhuse: Thank you for your time.

About Mark Sunderhuse:
Mark Sunderhuse is a Founder and Managing Director of Red Rocks Capital. Prior to forming Red Rocks Capital in 2003, he was a Partner and Portfolio Manager at Berger Financial Group (now Janus Capital Group). Prior to Berger, Mr. Sunderhuse co-founded Crestone Capital where he managed institutional small cap growth equity products and headed the investment committee at United Banks of Colorado (now Wells Fargo). Red Rocks Capital is first and largest domestic money manager to package listed private equity products and currently manages over $950M.

DEFINITIONS

Covenant Light - Loan agreements which do not contain the usual protective covenants for the benefit of the lending party.

Financial Engineering - Refers to restructuring the balance sheet and financial structure of a target firm, usually by adding significant debt, rather than by improving the firm's operations.

LBO (Leveraged Buy Out) - The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition.

IMPORTANT DISCLOSURES

While every effort has been taken in the preparation of this document, Red Rocks Capital makes no representation to the accuracy or completeness of this research nor any statements or forecasts within this document.

Listed Private Equity Companies are subject to various risks depending on their underlying investments, which could include, but are not limited to, additional liquidity risk, industry risk, non-U.S. security risk, currency risk, credit risk, managed portfolio risk and derivatives risk (derivatives risk is the risk that the value of the Listed Private Equity Companies derivative investments will fall because of pricing difficulties or lack of correlation with the underlying investment.

There are inherent risks in investing in private equity companies, which encompass financial institutions or vehicles whose principal business is to invest in and lend capital to privately held companies. Generally, little public information exists for private and thinly traded companies and there is a risk that investors may not be able to make a fully informed investment decision.

Listed Private Equity Companies may have relatively concentrated investment portfolios, consisting of a relatively small number of holdings. A consequence of this limited number of investments is that the aggregate returns realized may be adversely impacted by the poor performance of a small number of investments, or even a single investment, particularly if a company experiences the need to write down the value of an investment.

The information presented is for illustrative and educational purposes only. You should not assume that an investment in the securities mentioned was or would be profitable in the future.

This information is not a recommendation to buy or sell.

Past performance does not guarantee future results.

The statements and opinions expressed are those of the author. Any discussion of investments and investment strategies represent the author's views as of the date of this article, and are subject to change without notice.

For private equity companies mentioned in this document, as of January 31, 2013:

Red Rocks Capital holds positions with the following Private Equity firms:

- Blackstone (BX)
- Carlyle Group (CG)
- KKR (KKR)
- Onex Corp (OCX CN)
- SVG Capital (SVI LN)
- Through funds managed by Pantheon International Participation PLC (PIN LN)
    - Permira

Red Rocks Capital has no direct positions or affiliations with the following firms:

- Berkshire Hathaway
- Canada Pension Plan Investment Board
- Heinz
- Private Equity Growth Capital Council
- Silver Lake Partners