

Buyouts

The newsletter for
management buyouts,
leveraged acquisitions
and special situations

PUBLISHED BY VENTURE ECONOMICS, A THOMSON FINANCIAL COMPANY

Vol. 14, No. 15 • JULY 30, 2001

New Mountain Reaches New Peak

New York-based **New Mountain Capital**, a new private equity firm made up of old school professionals, wrapped up its debut fund this month \$220 million above its initial target – an achievement seen less and less in the current fund-raising market.

The firm and fund came to life in January 2000 at the hands of **Steven Klinsky**, formerly of **Forstmann Little & Co.**; **Robert Grusky**, the former president of **RSL Investments** (the primary investment vehicle of **Ronald S. Lauder**); and **J. David Wargo**, founder of investment company **Wargo & Co.**

Atlantic-Pacific Capital Inc. placed the New Mountain fund, which originally carried a target of \$500 million. However, due to the strong initial response to the fund, the managers raised the target to \$600 million, and it still surpassed its goal. The fund's first close last year drew in a couple hundred million dollars mainly from the California Public Employees' Retirement System and was followed by a second close early this year rounding up approximately \$430 million. The fund closed this month with a total of \$770 million.

Other investors in the fund include the Pennsylvania Public School Employees' Retirement System, **J.P. Morgan Fleming**, University of North Carolina and individuals such as **Gary Gensler**, the former Under Secretary for Domestic

Finance in the Clinton Administration, and **Edward Breen**, the former chairman and chief executive of **General Instrument**. Gensler and Breen are members of New Mountain's management advisory board.

New Mountain will focus on growth-oriented private equity, consisting principally of control stake transactions. "We're looking to do a fairly limited number of transactions, where we can be close to management and close to the events of the company," said Klinsky, chief executive officer at the firm. "We'll probably do about \$50 million to \$100 million positions primarily."

The fund is taking a generalist approach to industries, seeking high quality growth companies in the middle market. "We're a generalist fund, but then we choose sectors from the top down where we can give ourselves advantages and be pro-active," said Klinsky. "Some of the initial places we've been focusing are in the education sector, communications, health care, business services and power."

Staying with Strayer

New Mountain completed its first transaction in May (*Buyouts*, Dec., 18, 2000, p. 14). Partnering with **DB Capital Partners**, the firm took a control stake in **Strayer Education Inc.**, the holding company for Strayer University, which offers undergraduate and

graduate programs in business and information technology through campuses in the Greater Washington area and online. In March, the investors purchased in escrow \$150 million of convertible preferred shares from Strayer and completed the deal two months later. New Mountain contributed \$115 million to the transaction, while DB Capital contributed \$35 million.

Upon the completion of the Strayer deal, New Mountain launched a new growth strategy for the company and replaced the senior management. Strayer's former President and CEO **Ron Bailey** was replaced by **Robert Silberman**, former president and CEO of **CalEnergy Co.** and former assistant secretary of the Army. **Scott Steffey**, former vice chancellor of the State University of New York system, became executive vice president at Strayer; and Klinsky became non-executive chairman of the company's board. "The new growth strategy [which focuses on making the school's program more widely available by regularly opening new campuses and by selling its content to corporate and international markets] is already starting to show some positive growth and the P/E has moved closer to the other companies in the industry," said Klinsky. Strayer's stock price is up to \$53.10 from its 52-week low of \$17.50 last October. — C.F.