

INVESTMENT BANKING FEATURE

## Niche Firms Target Hispanic Population

The burgeoning population has created an investment opportunity for nimble, growth-oriented firms

By Sandra Lea Abrams

When Wall Streeters speak of the “emerging domestic market,” they are referring to all minorities, including the fast-growing Hispanic population and the many opportunities that abound in Hispanic businesses. That opportunity has lured a small but growing universe of Hispanic-focused private equity firms to take advantage of booming Latino economic growth.

Hispanics are now the largest minority group in the US, totaling almost 42 million, or 14% of the total US population at the end of 2004, according to the US Census Bureau. There are approximately two million Hispanic-owned businesses in the country generating close to \$300 billion in revenue, and by 2010, Hispanic companies will number 3.2 million and deliver \$465 billion in revenue to the economy, according to data compiled by the US Hispanic Chamber of Commerce.

US Hispanic businesses have a strong need for capital beyond what commercial banks can lend but not quite enough to tap the public markets by way of Wall Street.

“When you look at Hispanic population growth, this demographic wave is the largest since the baby boom,” says **Marcos Rodriguez**, a managing director and the founder of **Palladium Equity Partners** in New York. “It certainly is getting Wall Street’s attention.”

Firms such as **Palladium**, **Nogales Investors** and **ACON-Bastion Partners**, both in Los Angeles, **Hispania Capital Partners** in Chicago and **Rustic Canyon/Fontis**



Palladium's Rodriguez: 'This is the largest demographic wave since the baby boom.'

**Partners** of Pasadena, Calif., are playing a critical role by providing capital to this group of small and middle-market companies that could eventually move to the next level of play, such as an IPO or a sale.

“Almost 85% of the deals in the Hispanic business market are on the low end of the spectrum,” says **Sam Ramirez, Jr.**, managing director of **Ramirez & Co.**, which is based in New York and is the oldest Hispanic investment bank in the US. His father, **Sam Ramirez, Sr.**, founded the firm in 1971 and is chairman. Ramirez Jr. says these businesses are not quite large enough to get debt financing and need capital from elsewhere

to grow.

Palladium and its peers are looking to fill that capital gap. The firm, which has \$750 million available for investments in Hispanic-related businesses, employs 30 people and is considering opening a second office, with Southern California as the logical choice based on demographic trends, but there are no set plans. Palladium seeks to invest in businesses with at least \$5 million and as much as \$500 million in annual revenue.

Its most recent deal was announced three weeks ago, when it invested in **Promerica Bank** of Los Angeles, the first Latino-owned commercial bank created in California in more than 30 years. The deal germinated in June 2005 during the annual Wall Street summit given by New

America Alliance, a Dallas-based American-Latino business organization, when a last-minute meeting was arranged between Palladium's partners and the head of the bank. One year later, at NAA's 2006 Wall Street Summit, the parties announced the deal.

Another firm riding the Hispanic wave is Hispania Capital Partners. The firm was founded in 2003 by **Victor Maruri** and **Carlos Signoret** and has raised \$100 million so far from pension funds and such banks as **Citigroup** and **Wells Fargo**. Signoret says his firm has a conservative approach to investing and prefers not to go to the debt market.

"The moment you try to structure a transaction with lots of debt, you put a damper on the growth," Signoret says, "because a lot of the cash flow will have to go to service the debt." His firm has considered transactions with large private equity firms, but so far nothing has come to fruition. HCP focuses on companies with up to \$100 million in revenue.

"There is a big stable of Hispanic executives who have gone through the ranks of major Fortune 500 companies and have amassed a good deal of experience managing divisions of major companies," says Signoret. "With corporate America downsizing, they are taking this opportunity to launch themselves as entrepreneurs or are looking for a company to buy."

Luis Nogales heads Nogales Investors, another specialty private equity firm. He has a lengthy track record in consumer businesses. After stints as chairman of United Press International and president of Spanish language media giant Univision, he started his Los Angeles-based firm in 2001. He

now has nine employees and \$300 million under management. The firm targets companies with weak balance sheets, small management teams and \$20 million to \$200 million in revenue. These companies are not necessarily Hispanic-owned. "More significant than who owns the company is who are the targeted clients," says Nogales.

**Guillermo Bron** is the elder statesman in this niche. Currently head of **ACON-Bastion Capital**, which has \$1 billion under management, he co-founded Bastion Capital in 1994, after earning his stripes at Drexel Burnham Lambert. At the end of 2003, Bron joined forces with ACON Investments, and the venture now has offices in Los Angeles and Washington, DC.

ACON-Bastion has worked on deals with the **Carlyle Group**, **Madison Dearborn** and **Clarity Partners**. Bron

**Nogales: 'More significant than who owns the company is who are the targeted clients'**

declined to say what his firm was working on now, but he did say that his firm likes to invest in the range of \$20 million to \$50 million per company. A major criterion is that a company have at least \$25 million in Ebitda. He says the private equity landscape in general is competitive because a lot of money and a lot of people are chasing the same deals. In the end, he says, "It all boils down to relationships."

The other Bastion co-founder is **Daniel Villanueva**, who helped start Univision. He also co-founded Fontis, which means fountain in Spanish, and then merged the private equity firm with Rustic

Canyon in 2005 to form RC/Fontis. Rustic Canyon is the firm that invests for Los Angeles' Chandler family.

### Finding the Right Managers

While getting a deal ahead of your competitor is one challenge, another in this growing and lucrative market is recruitment. Finding talented individuals who have dual experience is raising the bar.

"We are actively looking for experienced individuals who understand private equity, LBO models and M&A comps but who also know the Hispanic market and the differences within that market," says Palladium's Rodriguez, who is a graduate of the Wharton School of Business. "It is an ongoing challenge because not enough talented Latinos and Latinas are applying to business school."

Another group pushing into private equity territory are hedge funds. "The hedge fund encroachment into traditional private equity is very significant, but it's on larger deals, not the US Hispanic sector," says Rodriguez. "It will come in time."

**Goldman Sachs** is one bulge-bracket firm that is already funding minority businesses. Five years ago, the firm started the Urban Investment Group, and so far, UIG has doled out \$250 million to various companies.

"There are a lot of talented entrepreneurs and a lot of attractive businesses," says **Kevin Jordan**, managing director at Goldman's UIG. "You can pick any number of reasons why they have not had access to capital." He says that deal flow in the minority-business area is strong, however, and his team hopes to announce another deal by the end of the year.