Rating agency downgrades private equity-owned companies

In November 2007, rating agency Standard & Poor's wrote about leveraged buyouts in a report, The Good, The Bad, and The Ugly. The picture has worsened. Last month, S&P said two private equity-owned companies had been upgraded compared with eight downgraded out of the 15 largest US rated LBOs.

The downgrades include computer chip manufacturer Freescale Semiconductor and Spanish language media company Univision Communications.

Last month, rating agency Moody's included these companies on its bottom rung of US companies with a high default risk and weak liquidity, alongside portfolio company Allison Transmission, which makes truck transmission systems.

The worsening economy has affected these deals conceived in the buyout boom. One year ago, Moody's had 157 bottom-rung companies compared with 283 today.

In the latest annual survey by Financial News’ sister publication Private Equity News, half of respondents said a growing exit option was re-capitalizing businesses to de-gear them, provide fresh equity or cover covenants.

Vikrant Raina, managing partner at Boston Ventures, said: "There are good companies who have bad balance sheets, so either private equity companies will put in more equity, assets will be sold or there will be bank restructurings, which will wipe out the equity.”

A research paper by Spain’s IESE Business School and management consultancy Boston Consulting Group, predicted half of portfolio companies acquired between 2003 and 2007 will default on their debt and only one third of buyout firms will survive.