

# Buyouts

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FROM  
THE  
EDITOR



## Wanted: Female Junior Investment Professionals

Dear Reader,

Last month I launched a personal probe into why more minorities and women haven't found their way into the lucrative world of private equity.

First step was to check in with **Willie Woods Jr.**, an African-American managing director of **ICV Capital Partners**, a New York-based mid-market buyout shop. In an interview with *Buyouts*, Woods attributed the industry's lack of diversity in part to its origins in investment banking, which until recently had been another enclave of non-diversity. As the buyout industry grew, those pioneers tended to bring in folks they already had relationships with. Outsiders had a difficult time breaking in.

Readers commenting on my transcript of the Woods interview tended to fall into two camps. In one camp were people who believe diversity remains lacking in private equity because women and minorities just aren't interested in the field. In the other camp were those who see the industry as an old boy's network to which only the well-connected have an invite. If buyout firms "reached out, and actually made it possible for highly intelligent, yet unconnected people to join, many more would," wrote one reader.

Last week I interviewed one of a handful of women to occupy senior deal-making positions at a U.S. buyout shop—**Raquel Palmer**, 34, a partner at turnaround investment shop **KPS Capital Partners**, New York. Her testimony on the subject was telling. For the past four years, Palmer has been trying to recruit a female junior professional to the firm, which hires one to two of them per year. But though based in one of the most populous cities in the country, KPS Capital has yet to hire one.

"It's because after business school, or after two years of the grind of investment banking, women are saying, 'I don't know if this is necessarily the track that I want to be on,'" said Palmer. Specifically, said Palmer, women hear about the travel involved in a private equity career, and the long hours they have to put in, and fear they won't be able to balance work with having kids. That said, Palmer, who has three young children, said she knows of a number of buyout firms that have hired female junior professionals. It's just a matter of time, she said, before more of them make it into senior deal-making positions. "Despite the belief that private equity is an old boy's club, there are a lot of firms that promote from within, and it's based upon" merit, she said.

Palmer's own career illustrates this. Just three months out of Stanford University, Palmer found herself out of work in 1994. Kidder, Peabody & Co., the firm that she had joined as a financial analyst, laid off most of its freshman class of financial analysts after getting sold to PaineWebber. Palmer had her pick of opportunities—"there's always work for grunts on Wall Street," she said—and took a job as an analyst at Keilin & Co., a restructuring advisory shop and the predecessor firm to KPS Capital. Having worked mainly to develop M&A proposals at Kidder Peabody, Palmer said she was thrilled to be helping to model and work through "complex operational problems" that would enable troubled companies to attract new capital. "I worked my way up the ranks by working endless hours and taking every opportunity to grab more responsibility," Palmer said.

Just how much more difficult that climb has been for Palmer because she's a woman is impossible to say. For one thing, Palmer is not just a woman, but a young, Hispanic woman. What's more, she works in what she calls the "very male-dominant, testosterone-flying environment" of manufacturing and industrial companies. Still, Palmer clearly overcame her share of obstacles that most buyout professionals never have to face, in addition to, admittedly, enjoying certain advantages. And she had the good fortune to work for KPS Capital, a meritocracy that recognizes the virtue in a diverse staff, and a place where her fellow partners reject any attempt by executives to bypass Palmer simply because she isn't a gray-haired white male.

For more on Palmer's experiences as a woman in private equity, check out the full transcript of my interview at PeHub.com.

Sincerely,

David M. Toll

*Transcript of interview with Raquel Palmer, Partner, KPS Capital Partners, edited for clarity.*

**Buyouts:** I really appreciate your taking some time, as one of the few women deal-makers in the business, to give me your perspective on why we don't see more women in private equity.

**Raquel:** I appreciate it. It's important to have articles like this out there, to make people more aware. Because I don't think that there is a general knowledge in the community that there are a lot of deal-makers that are women and, I mean, not a lot, but there's more than you'd think. I don't think many people know about me personally so the more I get out there helps junior people to understand that people have done it, and that there's not this incredibly thick glass ceiling. I'm also a Hispanic woman, so I am a minority woman in private equity, which is sort of a double whammy if you will.

**Buyouts:** Tell me what prepared you to get into the buyout market in the first place.

**Raquel:** I started working with my current partners in 1994 at a predecessor firm, [Keilin & Co.], and we were doing turnaround buyout transactions without any committed capital using the identical investment strategy that we're using today. I really cut my teeth in buyouts as a financial analyst charged with modeling and working through pretty complex operational problems so that we could create a business that someone would be willing to invest in. I worked my way up the ranks by working endless hours, and taking every opportunity to grab more responsibility.

**Buyouts:** When did you first hear about the private equity business?

**Raquel:** My first real exposure to private equity was working as a financial advisor [at Keilin & Co.] and bootstrapping these transactions together—putting together a detailed operational business plan for troubled companies and trying to find investors to back up those business plans. That was my first real exposure to private equity and at the time there was a real void in the market for anyone willing to invest in underperforming and bankrupt companies. Even today, the press talks about all the liquidity in the market, but it's still not readily available for really challenged companies that are EBITDA-negative with no management team in place and without a business plan. We had difficulty attracting capital to our deals in the early 1990s, so we decided to go out and raise our own funds; 1998 was when we raised our first institutional fund, and after that point we no longer did advisory work.

**Buyouts:** How did you come to have the ability to advise a company on how to develop a turnaround or business plan?

**Raquel:** I really learned from the founding partners of KPS Capital Partners, Mike Psaros and David Shapiro, who had had extensive experience working with troubled industrial businesses. You can't take a course in college on how to fix a broken business, and even if you could it wouldn't really be applicable to any company that you see after that.

**Buyouts:** What were the biggest obstacles you had to overcome as a woman in private equity?

**Raquel:** I'm not the poster child for private equity. I'm a 34-year-old, 5'2" Hispanic woman. My perceived youth, even though I've been a turnaround professional for 13 years now, can lead to my initially being perceived as inexperienced. In addition, we primarily invest in manufacturing and industrial companies, so it's a very male-dominant, testosterone flying environment, and I've personally had to grow a thick skin and step out of my comfort zone. Finally, as a wife and mother of three really young children I have home pressure that my male partners simply don't have.

**Buyouts:** Is there an anecdote or example that could really help people understand what it's like to be a woman in a testosterone-flying environment?

**Raquel:** Well I think that it cuts both ways. First of all, I'm often in an environment where my firm is potentially acquiring a business where the men running it are almost always older than I am, and they're typically white males. I come through the door and tell them that I'm going to help them save their business and they look at me, and they say, 'Well, you're not exactly what I expected.' You have to really build credibility with these professionals, and help them understand that I know what I'm doing and that I've done this before. So that's an obstacle. But I also think that being a woman works for me in a lot of ways because these companies are at a crossroads, and they're faced with a lot of challenges. They have a lot of people coming through their doors to help or to try and buy them. Those people typically look the same. They're investment banking New York types who look at their Blackberries while these executives try and tell them their story. And I think being a woman who plays a little bit differently than some of the Wall Street types has absolutely helped us on many occasions win a deal.

**Buyouts:** You said it's important to build credibility with executives at target companies. What are some of the tricks that you've learned to establish that right away?

Raquel: It's the questions you ask. When I'm talking to someone about their business I don't focus on superficial issues, but I ask pretty pointed questions about capacity, about manning. I tell anecdotes about things I've seen at other manufacturing companies, and that really helps them understand that for the past 13 years I haven't been sitting filing my nails. I've actually been working, rolling up my sleeves with lots of management teams facing very similar issues, and we know how to fix them. That's the key to credibility. But I'd also say that what has been critical in my career in terms of building credibility, whether it's with a management team or with other professionals working on a transaction, is the support that I've received from my partners. You have to have their complete support in a transaction because there are a lot of ways that they could undermine your authority, and I think that's key to having a successful woman partner in a franchise. On occasion business professionals that I've been negotiating with actually call one of my male partners with the grey hair, and to my partners' credit they've always said, 'Look, if you have an issue with the deal or anything related to the transaction this is Raquel's show,' and they have put them back in touch with me. That kind of support really enforces the fact that I am a true partner here, and not just window dressing.

Buyouts: Why don't we see more women in deal-making positions at buyout shops?

Raquel: The point at which most people really break into private equity is after two years of investment banking experience or after business school. I personally have found that there are many fewer women candidates at this point, and I believe that it is probably due to lifestyle and family planning choices. Having said that, I believe there are a lot of women who have entered into these junior investment professional roles, and it's just a matter of time for them to be promoted to deal-making positions. And despite the belief that private equity is an old boys' club, there are a lot of firms that promote from within, and it's based upon merit.

Buyouts: How are you able to balance work and family?

Raquel: There's a lot of travel involved, and there are a lot of hours that you have to put in and those two components don't necessarily work for people who want to balance work and kids. But I don't want to overstate it. I work, I have kids, I also face the same challenges that a lot of other working women face. But I also make a hell of a lot more money than most working women do, so I can afford great child care and really have enough control over my schedule so that I can be there for the really important things. I always tell this story. My grandmother is 87 years old and she had nine children

and worked her whole life as a maid so I don't think that I have the right to complain about balancing work and kids.

Buyouts: So it sounds like there just aren't that many female candidates for junior professional positions at buyout shops.

Raquel: No, and that's the problem. I think it's because after business school or after two years of the grind of investment banking women are saying, 'I don't know if this is necessarily the track that I want to be on,' and I've been quite disappointed by the lack of qualified candidates that we get at that level. Every year I try to hire a junior professional that's female and we have not been very successful in it, but I'm going to keep trying.

Buyouts: Every year how many junior professionals do you hire?

Raquel: We typically bring one or two junior professionals in. We've actually hired more in the past year because we grown the size of our firm.

Buyouts: And of those, how many women have you been able to bring in?

Raquel: This year zero, and I'm the only other woman working in our firm right now in an investment professional capacity and that's with somebody at a partner level actively trying to bring a woman onboard.

Buyouts: Every year KPS will typically bring on one or two junior professionals and you simply haven't been able to find a woman to bring on?

Raquel: That's right.

Buyouts: How many years running?

Raquel: I would say the past four years now it's been very difficult to find a good candidate. We do interview women. I'm not trying to give you the impression that we don't see any women candidates. It's just that we haven't found one that's been a good fit here in terms of experience versus the male counterparts that we've met.

Buyouts: Is the lack of women in private equity something that the industry as a whole should try to address in an organized fashion?

Raquel: I'm not sure how you can achieve an organized effort to get women in the business. Many private equity firms are small partnerships and have relatively few employees. I think the best thing that can happen is that cur-

rent managing partners recognize the benefits of having a diverse investment team and really support female professionals and give them a fair shake. But on the other hand, these junior professionals need to take it upon themselves to step up to get out of their comfort zone if they want to succeed in this business. No one is going to hand over carried interest just for the sake of diversity.

Buyouts: Are there firms out there that don't recognize the benefits of diversity, and just wouldn't consider bringing on women in junior positions with the idea that they would make it to the partner ranks?

Raquel: From our perspective, we like diversity on our investment team. We really think that having different experiences and perspectives is great when you're trying to make critical investment decisions, so we really benefit from that. I can't believe that we're the only private equity firm out there who sees the benefit of that. I'm sure there are places that want to keep the sort of homogenous people they have in their firm, but I couldn't really point to one firm and say that they are like that.

Buyouts: What advantages do you feel like you have had in the buyouts business as a woman, and what, if any, disadvantages?

Raquel: As I said before, my being different has helped us, especially when we're dealing with a challenged company. Executives there get to see someone who is not your typical Wall Street guy with the slicked-back hair coming in to buy a business. I think that has absolutely helped. On the flip side, people have their biases in the business world, and that has not necessarily helped, and has been an obstacle that I have had to do a lot to get over with certain companies. In the past five years, I've been pregnant three times and had to work through transactions as a pregnant person and, interestingly enough, that has actually helped us in our negotiations. I think people are much more interested in getting to a deal and cutting through the chest-pounding testosterone stuff in a negotiation when they're sitting across from a woman who is carrying a baby.

Buyouts: What would you point to as your main accomplishment at KPS in the 13 years that you've been there?

Raquel: Since I've been here from the very beginning, I think what I'm most proud of is the franchise that we've built. It's not about the successful transactions that I've worked on and led, it's being part of the totality of the franchise. I'm not sure if you know, but our last fund was raised in three months and was four times over subscribed. That's really a validation of the unique investment strategy that we've developed and our track record.