



## Buying and Repairing Broken and Underperforming Businesses

*Most private equity financing firms retain the businesses they invest in only until enough improvements have been made for the firm to turn a respectable profit when the business is sold. Yet a handful of PE firms are opting for a different approach. In a trend being cultivated by a much smaller number of PE firms, distressed businesses purchased with the goal of restoration to profitability are being kept for significant periods of time – sometimes indefinitely – since a financial harvest different from the standard “return on sale” is sought by investors with rather long-term goals.*

Industrial Renaissance (IR) is one of these firms opting to keep, rather than sell, the struggling or underperforming businesses they acquire. Eric Hamburg, the firm’s president explains.

“It is difficult to build a significant business that is running well. This can take plenty of money and many years,” Hamburg said. “Once that has finally been done, it is our preference to continue to own that business and continue to work with it.”

In fact, Hamburg said that his goal is to make such a marked improvement in the working and profitability of a struggling business his firm acquires, that selling it just would not even be considered an option.

IR’s website provides an extensive list of characteristics sought in a potential purchase. Fifteen descriptions make up this list, ranging from the absence of a management leader, a liquidity-constrained balance sheet, little or no earnings, long lead times, slow revenue growth, and a high cost and overhead structure. Other characteristics include

fractured relationships with lenders, high inventory levels with low inventory turnovers and a documented need for operational improvements.

“Our list is a bit lengthy,” Hamburg admits. “Yet, the more of those check marks that a business hits, the more we tend to like them as a potential investment purchase. This makes us different from other investment firms that look at historical performance as a gauge to judge future performance. We tend to look forward with a business – and look toward what can be created with it.”

Perhaps the most important characteristic on that list is a quality product offering the ability – proven or unproven – to capture market share. If a firm has that, Hamburg’s interest is piqued. Add positioning in an industry with consolidation potential, and expect that Hamburg and IR are taking a good long look.

While he regularly approaches a potential investment as an interested buyer, at other times Hamburg approaches from the perspective of a CEO looking to take over and run

a business.

In industry terms, it is called a “CEO-driven acquisition.”

“Many times, we find a great CEO – or he or she finds us – and they have a vision for an industry with the potential to create substantial value,” Hamburg explains. “We conduct thorough research, develop, validate and document an investment strategy and contact companies because they fit our strategy and not necessarily because they are actually for sale at that time.”

Other strategies include seeking businesses that have a “disruptive technology” but are unable to effectively market it. IR’s definition of disruptive technology is a breakthrough invention or innovation that changes the rules of competition within a particular industry by being so forward-thinking that it displaces the rest of the competition by setting everyone else back to zero.

In this scenario, Hamburg said that velocity is the key to success.

Much of the time, the disruptive technology is owned by a small company lacking the experience or ability to harness explosive market growth.

“We come in and help small companies accelerate through that growth curve by creating velocity and the execution of their business plans before the window of opportunity closes on that breakthrough,” Hamburg said.

Seizing opportunities and fixing “broken” or underperforming companies are the hallmarks of Hamburg’s two-decades plus career buying companies.

From July 1985 to March 1993, Hamburg was a senior manager with New York-based Accenture, where he led the design and implementation of business turnarounds in the United States and Europe. In 1993, Hamburg became a partner with Kidd, Kamm & Company, a firm specializing in middle market leveraged buyouts.

“I wanted to put myself in the laboratory environment learning how to acquire businesses,” he said. “But I always wanted to work for myself. So, three years later, in 1996, Industrial Renaissance was formed by putting two worlds together – my operating background and the experience I had gained in purchasing businesses.”

“The name “Industrial Renaissance” was chosen,” Hamburg said, “because it symbolizes transformation, rebirth and rebuilding.” According to Hamburg, that’s what his firm and the work of its employees are about.

This is best evidenced in the firm’s real estate division.

Hamburg, a master cabinet maker who put himself through college running a commercial cabinet business, is also passionate about old brick buildings.

**Our mission is to buy and build successful businesses. We are buyers and builders of businesses, not buyers and sellers of businesses. We are focused on the acquisition of companies that are underperforming, or possess a disruptive technology, where value can be created by fundamentally transforming the companies we invest in or the industry segments in which they compete.**

“I am on the lookout for vacant, brick buildings with good “bones” that can be transformed into income producing, multi-family and multi-use properties,” he said with an upbeat voice. “I love working with my hands and building things. With the financing capabilities that Industrial Renaissance brings, we can put the entire project together.”

The fact that neither Hamburg, nor anyone working for IR has ever worked on Wall Street, he considers to be a major asset for his clients.

“We do not come across as purely financially oriented,” Hamburg said. “We are highly approachable, normal people. We come across as operators – and we communicate with the seller much like we are talking to a fellow team member.”

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