**Private-Equity Portfolios Become Hot Spots to Shop for Acquisitions**

By

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[LKQ](http://quotes.wsj.com/LKQ) Corp. fuels its growth by buying other companies—lots of them.

The Chicago-based distributor of used auto parts has bought over three dozen related businesses in the past two years and some 225 since 1998. Many were mom-and-pop shops, but in recent years LKQ has struck five of its largest deals with a different kind of owner: private-equity firms.

“You’re dealing with a pretty sophisticated seller, which in some ways makes the process easier, because it takes the emotion out of it,” said Nick Zarcone, LKQ’s finance chief.

According to Dealogic, U.S. companies spent a record $142 billion last year to buy 252 businesses from private-equity investors, whose portfolios have become an increasingly important source of corporate acquisitions in recent years.

Among the biggest such deals were [Endo International](http://quotes.wsj.com/ENDP) PLC’s $8 billion purchase of Par Pharmaceutical Holdings Inc. from TPG and [J.M. Smucker](http://quotes.wsj.com/SJM) Co.’s roughly $6 billion acquisition of Big Heart Pet Brands from private-equity firms including KKR & Co., Vestar Capital Partners and Centerview Capital.

Endo and Smucker declined to comment.

[B&G Foods](http://quotes.wsj.com/BGS) Inc., the Parsippany, N.J.-based owner of brands such as Cream of Wheat and Mrs. Dash, is acquiring the Green Giant and Le Sueur brands from [General Mills](http://quotes.wsj.com/GIS) Inc. But its previous five deals involved a private-equity firm looking to divest.

“You typically get brands that have had more attention paid to them,” said Robert Cantwell, B&G’s chief executive and former finance chief, of the companies in private-equity portfolios.

The value and volume of such deals have ticked up, with corporate buyers acquiring over 200 private-equity-backed firms in each of the past five years, Dealogic says.

Private-equity firms buy companies, often using lots of debt, seeking to fix them up and selling them at a profit. Selling to a corporate buyer “is one of the most mutually beneficial exit ramps” a private-equity investor can take, said Nizar Tarhuni, an analyst for data provider PitchBook.

While initial public offerings typically yield the biggest payouts, getting a company ready for one can be very costly and fraught with uncertainty. The sum raised by IPOs on North American exchanges fell 65% in 2015, to $27.3 billion, according to research firm Renaissance Capital.

Companies seeking ready sources of growth through acquisitions find private-equity-backed businesses attractive because their owners typically take a hands-on approach to managing their assets.

“We have great respect for the work they do with their portfolio companies to groom them and get them to the next phase of growth; usually they’re already profitable,” saidNicola Morris, head of corporate development at [Wex](http://quotes.wsj.com/WEX) Inc., a maker of payment technology for businesses. Four of its five acquisitions in the past two years have had some degree of private-equity ownership.

By contrast, “corporate sellers kind of dress up the bride, but they don’t have much incentive to invest in a business unit after deciding it doesn’t fit into their portfolio,” said Thomas Sauermilch, an attorney at McDermott Will & Emery who has helped broker many deals between private-equity firms and corporate buyers.

Still, there are drawbacks to private-equity sellers. The deals often involve buying an entire company, forgoing the tax savings associated with buying a single business unit, and can create an administrative surplus. “We have to lay people off,” said B&G’s Mr. Cantwell.

There are also concerns that private-equity firms might cut the companies they own too much or push growth too fast. And buyers have no natural recourse if things go wrong, beyond a standard 5% set aside, since a private-equity firm typically distributes sale proceeds to its limited partners.

But experienced deal makers say their due-diligence processes and negotiating skills mitigate these challenges, in some cases along with so-called reps and warranties insurance to cover any post-sale problems.

“Deals are part of who we are,” said Mr. Cantwell. “But we’re also willing to not do a deal if it doesn’t make sense; we’re not going to overpay.”