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Owners Lobby to Slow FAST Act

LABOR: Groups hope to force statewide vote on law.

By **MARK R. MADLER** *Staff Reporter*

Salisbury

Blair Salisbury is moving ahead with franchising **Daddy's Chicken Shack** locations in Southern California.

But the Pasadena restaurant owner doesn't think it will be easy to get franchisees on board, and he places the blame on a bill passed by California lawmakers in August and signed into law by Gov. **Gavin Newsom** last month that, among other things, creates a so-called food council with power to set wages and make new regulations for the fast-food industry.

Salisbury, who earlier told the Business Journal he may not proceed with Daddy's because of the new law, said he decided to go ahead with finding franchisees – he has five years to procure 19 of them – after the bill was amended to cap the minimum wage at $22 an hour, with cost-of-living increases allowed in the future.

"I think it will be much more of a challenge for me to find people who will want to

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Tetra Tech Bids For UK Firm

ENGINEERING: $691M move could start bidding war.

By **HOWARD FINE** *Staff Reporter*

Pasadena-based engineering and consulting firm **Tetra Tech Inc.** late last month announced its largest-ever acquisition: an agreement to buy a British environmental consulting company for $691 million.

But not so fast.

Tetra Tech faces a likely bidding war over

Please see ENGINEERING page 35

A MOVING EXPANSION

Rooftop Cinema Club set for post-Covid act.

The pandemic was devasting to movie houses. Even outdoor theaters – despite being relatively Covid-safe – got roughed up. But now, **Rooftop Cinema Club** of Marina del Rey is expanding again. And it's getting an assist from an unlikely host, one that needs new revenue: Parking garages.

*Please see **ENTERTAINMENT** page 6*

Showtime: Rooftop Cinema Club's Gerry Cottle at the company's outdoor theater atop a parking structure in El Segundo.

THOMAS WASPER

Sides Debate Truck Proposal

ENVIRONMENT: Ban on sale of emission vehicles by 2040?

By **STEVE CRIGHTON**

Supporters of a proposed ban on the sale of diesel trucks see an opportunity for California to seize in the face of an ever-worsening energy crisis. Others – particularly those involved in the transportation industry – are seeing another crisis.

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SPECIAL REPORT
LARGEST PRIVATE COMPANIES

Private companies looking for funding today are running smack up against investors and lenders who are suddenly stingy, thanks to sharply rising interest rates and fears of a looming recession.

"We're in a storm right now for raising capital and everybody is beginning to batten down the hatches," said **Lloyd Greif** of the **Greif & Co.** investment banking firm. Still, Greif and other said, private companies have a couple of possible ways to get money.

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LOS ANGELES BUSINESS JOURNAL THE LIST TOP RANKINGS 2022

LARGEST PRIVATE COMPANIES
L.A. County-based firms ranked by 2021 revenue
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Carbon Ridge Scores $6 Million
Santa Monica developer of onboard carbon-capture and storage systems raises $6 million. **Page 4**

BLT Enterprises Closes Seven Deals
Company purchased industrial and office properties, including one in El Segundo, right, for $130 million. **Page 12**

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Local Private Companies Face Tougher Road to Obtaining Capital for Continued Growth

By Howard Fine *Staff Reporter*

As Matt Danna set out to meet with investors late in the spring about a series C funding round for his West Hollywood software company, Boulevard, he thought that, as an old hand at fundraising, he knew the drill.

But this time, Danna was meeting with investors during the worst part of the spring market selloff triggered by rising interest rates, increasing fears of a recession and global uncertainty stemming from Russia's invasion of Ukraine.

Danna and his team at Boulevard soon found they were being shown the door more frequently than in the company's previous rounds. They had to meet with twice as many funds this time around before enough of them agreed to invest.

"The funds up front were saying they were still deploying capital, but we found that very few were actually writing checks," Danna said. "We would find out later in the process that some of these funds were being extra cautious and had not written any checks so far this year."

Lloyd Greif

In the end, Boulevard – which makes and distributes a software platform that helps hair salons and other personal care businesses manage their operations and finances – not only met its initial target of $50 million but obtained enough financing to close the round at $70 million. But it wasn't easy.

"This was definitely the most difficult financing round, even though we had a proven track record," he said.

Danna is not alone. All over Los Angeles County and throughout the nation, private companies are having a tougher time raising capital in an environment of rapidly rising interest rates, increased fears of recession, much higher inflation and continuing labor shortages and supply chain problems.

"Everybody is looking very closely at any company seeking to raise capital right now, either on the public equity markets or privately," said Lloyd Greif, co-founder and chief executive of downtown Los Angeles-based middle-market investment banking firm Greif & Co.

"We're in a storm right now for raising capital and everybody is beginning to batten down the hatches," added Greif, who is also active with the USC Marshall School of Business, having endowed a center for entrepreneurial studies there.

As a result, a lot of the traditional avenues for private companies to raise capital have either been closed off or are beginning to close.

"The IPO market is deader than a doornail, and so are SPACs," Greif said, referring to the once popular special-purpose acquisition companies that emerged as an alternative for private companies to enter the public markets.

"Traditional banks are getting more hesitant to lend, while private equity firms are being more cautious," he added.

Higher cost of capital

Companies can still get financing – as the experience with Boulevard shows – but they must work harder for it. Lenders and investors are being more selective in the companies they finance. And even if private companies are able to obtain financing, it comes at a higher cost.

With higher interest rates, the cost of bank loans and credit facilities have jumped. And on the private equity side, today's higher-risk environment has lowered company valuations, according to Dean Kim, head of research product for Playa Vista-based William O'Neil and Co.

Lower company valuations put private equity funds more in the driver's seat, able to demand higher stakes in the companies in which they invest, Kim explained.

"It's a more difficult decision for private companies that need capital to grow," Kim said.

"Not only figuring out where they can go (to raise capital), but also they now have to weigh the higher cost of borrowing with the ability to use that capital to grow their business."

But even before private companies get to this stage, they now more than ever must make sure their own financial houses are in order: having strong balance sheets, demonstrating they can limit cost increases, and even making sure that their customers or clients are in strong financial positions.

"Companies seeking capital have to make stronger cases and be better prepared to answer questions on the risk side, including stability of their supply chains, reducing their reliance on discretionary consumer spending, and the like," said Paul Hayama, partner with Sawtelle-based Avante Capital Partners.

More questions

Boulevard's Danna said he experienced this firsthand. "A lot of the funds that we spoke with brought more people to the calls," Danna said. "They are trying to de-risk and analyze everything as much as possible upfront, and that means coming prepared with a lot more questions than we saw in previous rounds."

He said that with several investor funds in its justconcluded C round, it took six to eight meetings before a term sheet was drawn up, about twice the number of meetings that were required in previous rounds.

"We knew it would be tougher, so this didn't catch us totally by surprise," he said. For companies that don't have the strongest track records or balance sheets – or are more susceptible to downturns in the business cycle – their options are more limited now.

"There is more bifurcation in the market between those companies that are more recession-resilient and those that are more prone to business cycles and discretionary consumer spending trends," said Avante Capital Partners' Hayama. "For that latter group of companies: it's going to cost you significantly more to get capital."

And that, in turn, may impact how much capital companies may be able to obtain, either from lenders or investors.

"If the cost of capital increases substantially, companies may not get as large loans or investments or may have to scale back their plans a bit," he said.

Of course, that's the stated goal behind the benchmark rate increases that the Federal Reserve Board has been implementing since the spring to try to tamp down inflation: to make the cost of capital more expensive and slow the rate at which money flows through the economy.

Funding still available

That said, there's still plenty of money out there for private companies to access. Hayama said that nationwide, private equity funds have roughly $1.2 trillion in what's called "dry powder" that they are able to draw upon for investments. While that's down a bit from $1.5 trillion two years ago, "$1.2 trillion is still a lot of money."

And unlike in 2007-2008, bank balance sheets remain strong. According to the website Trading Economics.com, balance sheets for U.S. banks reached an all-time high in early August of just under $23 trillion.

"It's not that banks don't have the money to lend, it's that they are now being more selective on whom they make loans to," Hayama said.

This, of course, poses challenges for private companies that don't have strong track records or balance sheets. For these companies, Hayama, Kim and Greif agreed that if the companies want to remain independent yet still obtain capital to grow, they may have to seek nontraditional financing, such as nonbank lenders or the private credit market.

"The private credit markets are doing quite well right now," Greif said. "Many of the big private equity firms – KKR (Kohlberg Kravis Roberts & Co.) in New York and, out here, (Century City-based) Ares Management – have launched private credit funds."

These funds are lightly regulated and can charge higher interest rates, he added.

M&A strong

For those companies that want to grow and are willing to consider a merger or acquisition partner, Greif said that is an attractive option at the moment.

"Strategic mergers and acquisitions are still solid right now," he said. "Those deals are getting done. It's a more resilient market than the capital markets."

Last month, for example, Greif's company advised on a deal in which Vernon-based Jobbers Meat Packing Co., doing business as WilMar, agreed

The Jobbers Meat Packing warehouse and facility in Vernon.

to be bought by Vernon-based Randall Foods. Both are portfolio companies of Brentwood-based Highview Capital.

Greif said one reason these deals are still getting done is that the financial picture of the company seeking a growth capital opportunity is not the sole factor. “In a merger like this, the acquiring company is also thinking, ‘What can I do with this company as it becomes part of our operations?’

Also, with a possible looming recession, Greif said consumers may be buying less, so maintaining organic growth may become more difficult, making a decision to sell all or part of the company a more attractive option.

For Jobbers Meat, two major factors weighed into the decision to sell: the need for additional capital to fund a move into a larger facility and the desire of co-founder and company president Marty Evanson to retire.

“We had run out of space in our Vernon facility,” Evanson said. “We needed to build a building or find a larger building to convert. But when I faced that decision four or five years ago, I was in my late 70s and was a bit too old to deal with getting all the permits and working with the contractors.”

Evanson decided that keeping the company in the family was not the most viable option and was leaning toward selling it. The final push for him to move to sell came more recently, as the cost of borrowing started to increase.

“Money is much tighter now,” he said. “And we were looking at borrowing to either build a new building or convert an existing one, which was going to cost us a lot more than it would have three or four years ago.”

Finding a strategic partner to sell the company to would eliminate much of that additional expense, he said.

Randall Foods was the perfect partner, Greif noted. “Some of WilMar’s production will shift over to one of the Randall facilities where they have room to grow,” he said. “That will facilitate WilMar growing much more rapidly than otherwise would have been the case.”