How Greenbriar Equity Keeps Its Investment Wheels Turning

By Lou Whiteman   Updated 03:17 PM, Mar-06-2015 ET

Greenbriar Equity Group LLC has carved out a niche as one of, if not the only, middle market private equity firm focused entirely on the transportation sector. The 15-year-old firm, with over $2.5 billion of committed capital, targets two to three deals annually typically investing between $75 and $150 million in equity each time.

Despite the firm's modest size relative to private equity giants it boasts an impressive stable of industry experts. Greenbriar was founded by one-time **United Airlines Inc.** chairman and CEO Gerald Greenwald and **Goldman Sachs** & Co. veterans Joel S. Beckman and Regg Jones, and has the former leaders of **Lockheed Martin Corp.**, **United Parcel Service Inc.**, **Rolls-Royce plc** and **Cummins Inc.** on its executive council.

The Rye, N.Y.-based firm has been in the news as both a buyer and seller in recent months, selling its **GENCO** unit to **FedEx Corp.** in December for an undisclosed sum while leading a $200 million equity commitment to aircraft lessor AirGen Aviation Finance Ltd. and acquiring a majority stake in yard management firm **Lazer Spot Inc.** for an undisclosed price.

Jones, one of seven managing partners at the firm, recently spoke with The Deal about the firm's investment philosophy and outlook for the transportation sector.

The Deal: Talk about Greenbriar's approach to investing.

Regg Jones: We spend a lot of time building relationships with market leaders and future market leaders in transportation. Our goal is to develop strong relationships with the people who might eventually need financial assistance. Half of the deals we do are privately negotiated and never come to market.

GENCO is a good example of what we are trying to do with an investment. When we bought into the company in 2010 we saw it as well positioned in a very important area for retail and industrial customers. We concluded the transaction with no banker, no sales process. We had known the CEO for 10 years. When he had a deal that he wanted to make and wanted to bring in some equity to do it he called us and we negotiated and came to terms within two weeks. That is the benefit of our strategy: We are out trying to identify strategic assets in their teen years, so to speak, so we are ready to help shepherd them into adulthood.

Transportation is a pretty broad category. Are there subsectors of particular interest right now, or subsectors that you think should be avoided right now?

Speaking generally we are cautious right now, because of how deep we are into the current business cycle, so we are shying away from more cyclical businesses and focusing on businesses with better structural growth prospects. When considering an investment we ask ourselves how we would feel if we have to hold this business through the next recession. Businesses we are buying right now are businesses we would feel comfortable with, that we think would be manageable through a downturn. We are trying to be very disciplined and only buy market leaders. We are deep enough into the cycle that prices are high, so we want to make sure we are buying quality at that price.

What are the biggest risk factors you need to consider when looking at your portfolio, and considering new investments?

The trickiest thing on a macro-basis is not getting caught short in a down cycle, and having enough peripheral vision to understand how a company fits into an industry's value chain and how it interacts with the overall economy.

On a micro level, we spend a lot of time assessing CEOs and management teams early in the process. The biggest thing we focus on is the people at these companies. We look for situations where we can work with, and augment the current management team with our expertise rather than make wholesale changes. Beyond that we want companies with structures that suggest barriers to competition. The world is always changing, but we want to find companies that are in businesses that are hard for people to enter and are well-positioned to grow rapidly.

Transport specific asset utilization is very important. This is an industry with big, expensive assets. If we have a product or service that can improve the utilization of those assets it is a huge benefit to a customer. Similar with information technology, we are looking to improve efficiency or customer service.

An example of a combination of some of these factors is **AmSafe Global Holdings Inc.** [which Greenbriar and **Berkshire Partners LLC** sold to **TransDigm Group Inc.** in 2012]. Airplane seatbelt buckles all look the same, no matter what airline or what kind of a plane. You might think that is because of some sort of regulatory standard, but actually almost all of them come from this one company. So they had a very formidable marketshare. We invested in improving the product, cutting the weight substantially so they could charge a higher price but airlines still saved money due to better fuel efficiency.

They also pioneered and rolled out an airbag seatbelt. This was a good example of finding a business that has a real franchise that is hard to compete with, and where there is also opportunity to bring in technology and improve the product to add value to customers.

I noticed you didn't mention oil as a major risk factor. Given your involvement in the transports, that is surprising.

We do watch oil very carefully, as it does impact the entire transport ecosystem. One of our limited partners recently asked all of their managers to report on the impact of oil price changes on their portfolios. What we found was there was very little impact on our companies, which is a reflection of the kind of companies we buy. Oil has a huge impact on the cost structure of the carriers, the airlines, trucking firms and railroads. It has less of an impact on the non-carriers we are focused on.

The most important question to ask with oil is what is the driver of the price change. If oil is going up because demand is rising, you probably don't worry too much because these industries are much more impacted by a stronger economy driving that demand. If oil is going up because of supply shock, and not because there is more demand, then a lot of these same companies are going to get hurt.

This latest move in oil I think is ultimately going to be positive for transports because it is likely to stimulate additional demand while lowering costs.