

Lone Star closes funds with \$10B

BY JEFF BOUNDS | STAFF WRITER

Lone Star Funds has landed a total of nearly \$10 billion for two new private equity funds, eclipsing its goal of \$6.5 billion for the pair by more than half.

That's according to recent Securities and Exchange Commission filings and a source familiar with the matter.

The source, who asked not to be identified because of the sensitivity of the matter, says investors have likely piled into the Dallas private equity firm's newest funds because of its solid historic performance.

The firm, which was founded by low-profile Chairman John Grayken, declined to comment.

Lone Star Fund VI (U.S.) LP, which will target general investment opportunities, wound up raising about \$7.5 billion, up from its original \$5 billion goal, the source says. And Lone Star Real Estate Fund (U.S.) LP, which targets unspecified real estate opportunities, landed nearly \$2.5 billion compared to its original \$1.5 billion target, the source says.

Lone Star's last fund, Lone Star V, closed in September 2004 with around \$5 billion in commitments. Aside from the latest two funds, the firm manages a total of six funds worth a combined \$13.3 billion.

As a closely held concern, Lone Star does not make public its investors or its targeted rate of return.

But in an investment pitch for the funds earlier this year, according to published accounts, Lone Star officials told the Oregon Investment Council that they expected returns of 20% or higher. The firm plans to target "distressed" commercial real estate and debt, along with the so-called "subprime" market of debtors with lousy or nonexistent credit, published accounts say.

Dallas Business Journal
August 1-7, 2008

Arthur Hollingsworth, managing partner at the Dallas private equity firm Lewis Hollingsworth LP, says large firms such as Lone Star face some challenges in getting deals done. Big transactions of the type Lone Star does may now require equity contributions of 50% rather than 25%, Hollingsworth says. That means more private equity firms can't use as much debt in deals, which presumably will cut into returns.

At the same time, Hollingsworth says, the multiples of earnings before interest, taxes, depreciation and amortization that private equity firms pay for companies have come down, enabling them to snap up companies at lower prices. "What you're losing on leverage, you make up on better pricing," he says.

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ROUNDING UP DOUGH

NAME: Lone Star Funds

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