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Potomac Plans to Stick to Light Leverage After First Exit

Potomac Equity plans to stay with its formula of keeping leverage low at its portfolio companies as it searches for its next deal on the heels of a 7.5 times return on its investment in IT services firm Orion Systems.

By Steve Gelsi & Armie Margaret Lee

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Potomac Equity Partners LLC plans to continue its approach of light leverage and organic growth in its portfolio companies after realizing a 7.5 times return on the sale of its first platform company, an executive at the Washington, D.C. firm told The Deal.

The 7.5 times return on the sale of **Orion Systems Integrators LLC** to **One Equity Partners LLC** for an undisclosed sum included a refinancing that paid back a dividend to the firm during an add-on acquisition for **Orion**. The overall internal rate of return from Orion for Potomac was 74%. Potomac and One Equity announced the transaction on Monday.

Potomac used a "modest " amount of leverage on its Orion deal and bulked up the company through organic growth and two acquisitions, said John A. Bates, a partner at Potomac Equity Partners. He declined to provide more details on the firm's leverage limits. A person familiar with Potomac's deals said the firm typically uses debt multiples of no more than two or three times Ebitda,

Bates said the firm plans to continue its low-leverage approach.

"We don't like to burden companies by over-levering them, but instead achieve the returns through organic growth initiatives like new customer introductions and add-on acquisitions," Bates told The Deal.

Potomac Equity Partners, a private investment firm founded about five years ago, operates in partnership with a variety of family offices and other investors that contribute capital for deals, instead of running a traditional buyout fund.

For its buyout of Orion, the firm raised capital from its circle of family offices, which are looking to commit additional capital to Potomac Equity and its efforts, Bates said.

The Orion opportunity was oversubscribed by Potomac's investors when it raised the equity to buy the firm in October 2014. **Regions Bank** led a consortium that provided debt for the initial investment in Orion.

Potomac invests with capital from two to five family offices and other investers per deal. The firm's initial check is typically \$15 million to \$30 million, with additional capital available for add-on acquisitions and growth opportunities, but it may range as wide as \$5 million to \$50 million.

William Blair & Co. ran a limited sale process for Orion with targeted buyers. The bank's deal team included **Matt Conaty**, **Brandon Lower**, Bill Petty, **Greg South**, **Scott Stevens**, **James Suprenant**, and Christin Zindrick.

On top of the 7.5 times return on the investment, Potomac has retained an earnout opportunity based on future events at Orion.

Potomac Equity is in active discussions for other platform deals, and is evaluating a number of technology investments, as well as opportunities in other sectors where Potomac's principals have previously invested and had success.

"We'd love to continue with technology, software and IT services -- we like the sector and its growth opportunities, Bates said. "In particular, we are looking to establish partnerships with founders and management teams, and collaborate on growth opportunities."

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