



Playing New York Hold 'em By David Willson

Adam Benowitz of Vision Capital Advisors LLC likes betting on quality companies.

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Vision is located in a low-key office on the 12th floor at 317 Madison Avenue in New York City. Benowitz and his team of 12 staff members plus some contract analysts specialize in helping micro-cap and small-cap public companies raise capital through PIPE investments.

Benowitz started Vision Capital Advisors, LLC with his childhood friend Randolph Cohen as an advisor. Despite their early friendship, Benowitz and Cohen took very different paths to Wall Street.

After receiving his degree at the University of California at Berkeley, Benowitz wasn't quite sure what he wanted to do, so he focused on something he was very good at and became a professional poker player. Eventually, someone he met playing poker offered him a job at Susquehanna Investment Group, one of the largest specialist firms in the country, as a derivatives and bonds trader on the floor of the Philadelphia Stock Exchange.

He later moved on to the American Stock Exchange, as a specialist in biotech and other equity stock options for Susquehanna. More recently, he has been a head trader for three major investors, including Rose Glen Capital, one of the world's largest Regulation D (PIPE) investment companies, which at its height controlled over \$600 million in capital.

Cohen, on the other hand, took the academic route, first earning his Ph.D. in finance from the University of Chicago and then landing a job teaching at Harvard Business School, where he teaches the Investment Management course in the Elective Curriculum of the MBA program. Professor Cohen is an expert in the investment management industry, especially equity markets and PIPEs in particular.

The two came together to run Vision Capital Advisors, specializing in PIPEs, because they realized in 2003 that this niche in the market lacked long-term and, more importantly, long-only investors willing to take companies under their wing and help them succeed with financing.

The childhood friends function as left and right sides of the brain at the firm, holding separate roles and responsibilities. Benowitz is responsible for the day-to-day operations overseeing the deal team, while Cohen tends toward long-term thinking — that is, strategic planning, valuation and risk management.

Cohen is known for his academic rigor, turbo-fast talking and dedication to strong analytics and research. He brings a note of conservatism to the company, although appearance-wise, he's lucky if he chooses a jacket and pants from the same suit.

Sporting jeans and T-shirts more often than pinstripes, the affable and boisterous Benowitz seems to thrive on chaos, dealing with a dozen things at once. Staff members pop in and out of his office nonstop. He'll interrupt his own sentence to take a phone call, answer a question, render judgment on an issue, and then finish the sentence. He inhabits the room completely. He is doing difficult work, where a lapse in judgment could cost millions, and he clearly enjoys every minute of it.

And then there is his right eye. Benowitz lost the use of it in a camp accident as a kid. It's a bit disconcerting when you first meet him because the eye looks off in another direction. With only one good eye to see through, he makes broad head motions and has to peer closely at his cell phone to read the display. He doesn't seem self-conscious, however. In fact, he even jokes about it. "Randy and I named the company Vision Capital because I'm blind in one eye and he's got the world's worst eyesight," he laughs.

And there it is. Two sight-challenged but insightful friends from the suburbs of Philly united by a common belief that small companies are where the real opportunities lie. Vision Capital specializes in micro-cap and small-cap strategies. These strategies span a range of options: common stock or a derivative security convertible into common stock, or even a combination of equity and debt.

Because companies receive money prior to filing a registration statement with regulators, PIPEs can be a more efficient way to raise money. In a PIPE transaction, companies can bank the proceeds within a matter of weeks, as opposed to months or years in a public offering. This prompt funding is probably the main reason why, in 2005, the PIPEs market grew to \$25.8 billion, up from \$18.7 billion a year earlier (PrivateRaise.com).

Knowing When to Hold Them

Vision Capital Advisors differs radically from other PIPE investors, which have been known to bet against a company and make money on "shorting," or wagering that the company's stock price goes down.

"We earn more by betting on the upside, and everyone wins, not just the investor. If the stock doubles, we can make, for instance, 10 times our money, and the CEO and other shareholders might make multiples of that. Even retail investors win," Benowitz says. "That makes us different from everyone else, because we're helping companies navigate Wall Street, providing market support and helping the company find additional business and investors."

Micro-cap and small-cap companies fascinate Benowitz because on Wall Street they are the classic underdogs. "If the company is IBM, everyone on Wall Street is on the company's side," he says. "A big investment bank can make \$500 million on a \$10 billion IBM bond offering. Those bankers won't be bothering with this niche. So, what we do is help small companies by allying ourselves with them."

What's the potential downside? Vision bets with the company, and because they do not short, "We could lose all our money alongside of the company, so we're very motivated for them to succeed. We're revolutionizing the space by not being predators."

Vision Capital also boasts a longer holding period than most investors in PIPEs. Vision generally holds its companies for one to two years, and often will re-up for additional financings.

Shuffle Up and Deal

Due to the length of time it takes to file a public offering through the SEC, PIPEs have become the preferred popular source of funding for small public companies. There were a total of 1,657 PIPEs deals in 2005. These transactions have changed the industry. David Skriloff, one of Vision's team leaders, explains, "There used to be this road show circuit, a multi-city tour that public companies would take to fund a public offering. Today, everyone comes to New York and has meetings with one PIPE investor after another."

The process may be quicker through a PIPE, but that doesn't mean that it is less intensive. Companies that show up on Vision Capital Advisors' horizon are thoroughly vetted by Vision's crack analyst teams.

All applicant companies go through initial pre-qualifying research. Vision takes a pass on most of them. However, companies that are presented by certain known sources, who have earned a reputation for doing a thorough job packaging the company's data and information, will frequently be moved to the head of the line for a more serious look.

Next, Vision analysts, and sometimes Benowitz himself, will visit the company at its location. Benowitz feels that this is a very important step that allows Vision to get a true sense of the culture and potential of a company.

If they still like what they see, Vision then asks the company to come to New York for a substantive meeting with an analyst team. The teams are mixed and matched for each deal, based on the individual team members' specialties and talents. The company officers will run a gauntlet of questions on virtually every subject the team brings to the table.

The team then produces a report recommending the terms of the deal, which is determined by a number of factors but is a direct reflection of how the team has assessed the company. At this point Benowitz and the team members debate the deal as recommended.

"I believe you surround yourself with the very best and most talented people," says Benowitz. "And then you create an environment where everyone is encouraged to speak up. Our meetings are often very dramatic. Everyone says their piece."

Benowitz will then set the terms of the deal that is offered to the company. "It's not always the same as my team's report recommended," says Benowitz. "I'm the negotiator here."

Companies are thrilled, because in the process Vision has identified all of the strengths and weaknesses and usually suggested or even provided the means for businesses to improve. "We take care of a company," says Benowitz. "The stock goes up because we take care of their capital needs. We breed champions."

Benowitz has a healthy distrust for technology companies, feeling that what is in today will be out tomorrow, a passing phase. "Maybe my attitude is because, with my eye, I don't really use the computer at all," he quips. Instead, he likes established companies that make an actual product or that offer unique content.

One such company is Edgewater, Inc. The Company farms, processes and markets high-quality, high-value marine species, primarily scallops, with a small sablefish (black cod) hatchery still in its infancy. Edgewater has successfully operated the scallop farming and marine hatchery business for 15 years. Its scallop farms are situated on Vancouver Island, and it is the largest private marine research hatchery as well as the first fully integrated shellfish producer in Canada.

Benowitz is also very interested, although extremely cautious, in China and the rest of Asia. "In China, practically every company is a growth company," he says. "Their infrastructure has been neglected for so long, and now the whole country is exploding with growth. Just about any company — even one that makes water purifiers — is a value stock that can be too attractive to ignore."

Vision invested early in China. One of its most successful investments was American Oriental Bioengineering Inc. (AOB), a leading Chinese manufacturer of products in the fields of nutraceuticals and pharmaceuticals. AOB uses proprietary processes to produce soybean protein peptide more efficiently than with traditional extracting techniques. Soybean peptides are used widely in general foods, health foods and medicines, among other applications.

Vision recently sent a deal team leader, John Finley, and analysts on yet another of several weeks-long due diligence trips to China to examine companies.

“The way we invest, the downside is somewhat mitigated,” Benowitz says. “I mean, if a company earns a certain amount of money, the stock can only go down so much. We’re not hedging. That’s not what we do. We’re old-fashioned investors. That really is what we are. We hedge the market, but we don’t hedge any stocks.”

That doesn’t mean the Vision overpays for growth. Benowitz and Cohen strive to emulate Warren Buffett’s investment philosophy. Although the billionaire investor is famous for value investing, less well known is the fact that some of his best investments have been made through PIPE deals. While Buffett plays in mega-giants like Gillette, Vision Capital is focusing on the micro-cap and small-cap arenas.

Playing Position

It’s 5 o’clock p.m. and we’re walking down Madison Avenue to The Core Club, a very chi-chi new club that has a reputation of inviting the most influential members from a wide variety of backgrounds — especially entertainment movers and shakers. Benowitz, a member, has reserved a spot in a Texas Hold ’em tournament being held in the club’s library.

“I haven’t the slightest idea how I came to be invited to join this club,” says Benowitz with a slight smile. My guess is that was just a bit of self-deprecating humor. He probably knows exactly how his name was proposed, because networking is everything in the fund business. Meetings begin with a round of the “I know So-and-so — Hey, so do I” game — a little something like Six Degrees of Kevin Bacon. Accompanying us is Vision analyst Christopher Wall, who has thrown on a jacket and brought plenty of business cards.

As we walk into The Core Club, it’s obvious that Benowitz is well known. The club is very hip and sophisticated. Its Ian Schrager–like interior design features a well-curated collection of contemporary art. I could spend several days just perusing the artsy coffee table books lining the library, where the tournament is being held.

Benowitz finds his table and is seated across from the dealer before most of the other participants have finished socializing. The tournament begins. There are five elimination tables. The winner of each will progress to the final table.

I watch enough poker on TV to know that Benowitz is not getting very many good hands, but he is patiently playing his position very well against the rest of the table. He emerges the victor at his table and progresses to the final table, despite the fact that I’ve seen him draw only one really good hand.

At the final table, he’s once again getting poor cards, but he manages to make it to the final two players before his opponent wins the tournament. Still, he really seemed to enjoy himself. I commiserate with him on the loss and comment about his luck. “I guess you noticed I only got one good hand,” he says. When I said I thought it was remarkable that he made it to number two considering, Benowitz says, “The tournament ended right. The guy who beat me was the best player here tonight.”

Maybe. The other guy seemed to get plenty of strong hands. I got the impression that all Benowitz would have needed was one more good hand to take the tournament. Which gets me to thinking about comparisons between playing poker and what Benowitz does for emerging companies as a registered investment advisor.

You are rarely ever dealt strong hole cards in the micro-cap arena. You’d really have to know the strategy of the game extremely well, know when to fold, play aggressively when your position allows for it, and hold the cards long enough to see them play out. You’d have to stick to your game. If you can do all that consistently, you’ll be at the final table a lot. **VR**