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Opalesque Exclusive: The ambivalence towards TALF has investors in the PIPE space seeing continued opportunity and joining forces with a soon-to-be launched trade group

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PIPE investing is one of the strategies used by Roslyn, New York-based firm NIR Group (www.nirgroup.com). 2009 marks the 10th anniversary of the firm, which launched its first direct investment fund in 1999. From this point of reference, Managing Member and Head Portfolio Manager, Corey Ribotsky recently spoke with Opalesque about the current environment for PIPE investing ("the best I've seen in 15 years of being in this space"), as well as the need for a central representative body for firms active in all aspects of PIPE investing.

Does NIR Group have a "sweet spot" in the current market that it is looking to for PIPE investments?

We are really sector agnostic, investing in the spectrum of companies across the whole S&P. Even now we are seeing great opportunities in every industry across the board. We are definitely seeing an uptick in interest in clean-tech (green) company transactions. That is one area we are watching closely because we really believe that those technologies will become the forefront of a new tech boom. So we are keeping a close watch on that sector and taking our time to closely review those deals. But our sweet spot is really in two different points of investment. We have one focus on small, micro-cap and then we've also launched into the midcap sector.

Has the current market had any effect on your investment approach?

We always view the markets with a macro perspective, and obviously in a credit crunch more companies need financing. Unfortunately, nothing that has happened in the past is reminiscent of what is going on now. Obviously this is more pronounced than previous credit crunches and therefore it is more important now to be cautious with target companies. This is really where our team comes in and focuses on: diversification, deep research and credit analysis and due diligence -- which is a paramount piece of this strategy. All these things lead finally into optimal portfolio construction. We typically invest on a time horizon of several years. Obviously, that is a little bit elongated right now in the current market paradigm. But, we are seeing deals with better terms, with better liquidity, and have actually seen some NYSE companies now looking for capital and these deals could have a slightly shorter time horizon. Typically, we are a several-year-partner in each transaction: infusing capital and then looking at an exit strategy.

The initial, tepid reaction to the government's attempt to increase the flow of credit has appeared to slightly pick up pace with several firms launching TALF vehicles over the past few weeks. Have you seen any sort of impact of this in the markets yet?

We have not seen any easing of credit trickle down into the sector yet. In normal market environments a good portion of these companies, especially those in the small and micro cap sector, are overlooked by Wall Street. The great thing for us, and other firms in this space, is that in the current paradigm these companies are significantly overlooked and this is the best environment for investing that I have seen in 15 years. Credit has been turned off and companies that are not big enough or haven't "turned the corner" enough in a normal market do not have too many places to go.

Going back to "green" industries, it seems as though quite a few firms are keeping a close eye on this space but that actual investing in this area hasn't gained momentum. How are you approaching investing in this area?

There are a couple of ways of looking at the green space. Either one has to be "green focused" or pick and choose green technology (hardware and software) or one can look at green infrastructure where you are investing in actual products and services (involving everything from energy to automobiles to almost anything under the sun). We have seen a lot of people with a lot of different transactions and we have also seen people with many different focuses. A lot of these deals are from other investment banks and other private equity firms so there is a lot of partnering going on in those deals. The co-generation of ideas has been one of the really great things that have come out of this market. It is a little bit like investing in the distressed space, everybody is waiting to see who does it first. And, although it is difficult to say if it will happen today or tomorrow, we believe that there will be a new influx of technology and services on the green bent and we are definitely looking to be a part of that.

We have learned that NIR Group is a key contributor to the formation of a PIPE space trade group. Could you tell us a little bit more about this?

We've been instrumental in igniting the spark for starting a trade group for the PIPE investment space. It is something that we have talked about quite a bit over the years with other players in this strategy but it never really transpired. The group, which we plan on launching in the near future will be comprised of a membership of those involved in the PIPEs space, from investors to service providers such as lawyers, accountants, etc. NIR Group is focused on the micro cap or small cap market, but the group will likely also involve those in the mid to larger cap markets such as placement agents, broker dealers, investment banks, etc. In addition to the education aspect of this group we intend to be involved to some extent, in lobbying. The group looks to be involved in providing information and resources on PIPE investing and providing education for investors and for those who are looking into securing this type of financing. Fortunately, now that the government is using these structures on a daily basis it throws information out into the public arena more, but unfortunately sometimes this happens in a distorted fashion. There is not currently a central repository for this information and it is very important that all sides of the strategy understand exactly how PIPE transactions work.

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