



**GROWTH CAPITAL PARTNERS**

# Newsletter

Fall 2004

Integrity • Teamwork • Client Focus

## Recent Transactions



**American Central Gas Technologies, Inc.** – Tulsa, Oklahoma – has sold its East Texas gas gathering and processing assets to MarkWest Energy Partners, L.P. for \$240.4 million. American Central provides gas gathering and processing services by constructing pipelines to gather gas from individual wells and then aggregating that gas for compression, dehydration and processing through centralized facilities. MarkWest, headquartered in Denver, Colorado, is a publicly traded master limited partnership with a solid core of midstream assets and a growing core of transmission assets. They are the largest processor of natural gas in the Northeast with assets that include processing facilities, liquids fractionation and transportation, and storage facilities.



**RTRON, Ltd.** – Stafford, Texas – has been acquired by Flextronics International USA, Inc., a division of Flextronics International, Ltd. (a NASDAQ-listed company). RTRON, Ltd. is a Contract Manufacturer (“CM”) that specializes in cable/harness assemblies, electromechanical subassemblies and systems integration. Flextronics International USA provides a complete spectrum of EMS offerings to original equipment manufacturers that include component manufacturing, assembly services and contract design manufactured products.



**The SCOOTER Store, Inc.** – New Braunfels, Texas – has obtained a \$30 million revolving credit facility from Healthcare Business Credit Corporation (“HBCC”). The Scooter Store, founded in 1991, is a sales, distribution and service business primarily focused on providing mobility equipment, primarily power wheelchairs and scooters, to Medicare dependent elderly and disabled patients throughout the United States. HBCC, headquartered in Philadelphia, Pennsylvania, is a full service healthcare financing company that is solely focused on creating and providing financing solutions to the healthcare services industry in the United States.



**RenewData Corporation** – Austin, Texas – has privately issued \$5 million of Preferred Stock. RenewData is a technology company that provides Electronic Evidence Services (“EES”) to fortune 2000 companies. This EES business extracts e-mails and user files from backup tapes to comply with criminal, civil and regulatory investigations. RenewData is currently developing Information Lifecycle Management (“ILM”) software for large corporations. This new capital positions RenewData to expand its sales and marketing efforts, to complete development of its ILM product line, and to ramp up its data processing infrastructure to facilitate growth.



**Incredible Pizza Company** – Springfield, Missouri – has issued \$11.8 million of Limited Partnership units to Rosewood Pizza, L.L.C., a subsidiary of The Rosewood Corporation, and a group of high-net worth individuals. The Incredible Pizza Company is a new family entertainment concept that merges family values with excellent food, fun, games and rides for all ages. IPC’s current location, a 42,000 square foot flagship store, generated over \$5 million in gross revenues for its first year. Its second location is currently being built in Tulsa, Oklahoma. This new capital will allow expansion into other markets.

**GCP acted as financial advisor to all of the companies listed above.**



## *M&A Activity Continues to be Strong in 2004*

**The M&A market** has continued to remain strong during 2004. This rebound, which began in mid-2003, has included both middle-market and mega-merger transactions. A number of factors have contributed to the improved activity. Private equity investors continue to look aggressively for opportunities to invest their capital. Strategic buyers have improved earnings and valuation multiples, and are more confident about pursuing acquisitions. Additionally, expanded debt multiples and better availability of debt financing have encouraged deal flow.

**Private equity investors** raised over \$350 billion in capital during the 1999 – 2001 time period. Due to the economic downturn in many industries and the tight debt markets, limited private equity investments were made during 2001 and 2002. This resulted in a significant build-up of uninvested capital or “overhang” which was estimated to be over \$150 billion at the beginning of the year. Private equity investors have been very active in 2004 putting this overhang to work. With the recent improvement in the debt capital markets, private equity investors are able to pay higher multiples for companies. This supply/demand imbalance is anticipated to remain for the next 12-18 months. Private equity investors have also been interested in majority and minority recapitalizations as well as buy-out transactions. Finally, there has been increased activity and acceptance of selling a private equity investor’s portfolio company to another private equity investor. Such sponsor-to-sponsor transactions were very rare as little as five years ago. As such, multiples paid by private equity investors have increased and are attractive relative to multiples paid by strategic buyers.

**Strategic buyers** continue to be active in the middle market and there has also been a recent pick-up in the larger mega-merger deals. The large strategic buyer is typically public and looking for revenues and earnings growth to meet Wall Street expectations. Improved earnings and valuation trading multiples have made these strategic buyers more confident about pursuing acquisitions. In addition, with low interest rates today, the cost of capital for these strategic buyers is near all time low levels. Given the low cost of capital, improving stock market valuations and competitive valuations from the private equity investors, strategic buyers remain active in the middle market at favorable valuation multiples to sellers.

**Debt capital markets** continue to improve as banks have cleaned up their loan portfolios over the past several years. Current charge-off rates are down and non-bank lenders have become very active in the marketplace. Leverage multiples (total debt divided by EBITDA) have continued to increase in 2004 with the average leverage multiple exceeding 4.2x for leveraged transactions – the highest average since 1999.

**In summary**, it is an opportunistic time for middle market companies to evaluate M&A and liquidity alternatives. Aggressive private equity investors, active strategic buyers and expanded debt markets have increased valuation multiples, which have been depressed for the past several years. While valuations can vary widely by industry and transaction, in general, multiples have increased approximately 15% - 40% over the past two years. If we can be of assistance in evaluating liquidity alternatives, please feel free to give us a call.

***GCP is a privately owned advisory firm that focuses exclusively on providing corporate finance and merchant banking services to middle market companies. Since 1992, we have completed in excess of 100 transactions, raised more than \$500 million of institutional capital through private placements, and completed in M&A transactions with an aggregate value in excess of \$1.5 billion. We have attracted an outstanding team of senior and junior professionals who are client-focused. Our professionals are creative, flexible and believe that our clients come first. We are committed to building long term, mutually beneficial relationships with our clients.***

## GCP Formalizes Private Equity Sponsor Group

**GCP has extensive experience** and long-term relationships with private equity sponsors through our M&A and capital raising activities. GCP's transactional skills and industry experience developed over the past 13 years is being expanded to provide further investment banking services to private equity sponsors as well. The recent formation of our Private Equity Sponsor Group ("PESG") will focus our capabilities on private equity sponsors to provide sell-side and buy-side advisory work for their portfolio companies. The PESG will be led by the following team members:

**Michael Crow** (*Dallas office*) – Michael joined GCP in December 2000 as Managing Director and has 16 years of investment banking experience. Prior to joining GCP, Michael spent 13 years at Donaldson, Lufkin & Jenrette Securities Corporation where he was responsible for capital raising (equity and debt in both the public and private markets), M&A advisory, merchant banking and recapitalizations primarily for middle-market companies. Michael's relevant industry experience includes consumer products and business services.

**Alan Blackburn** (*Houston office*) – Alan joined GCP in December 2003 as Managing Director after 18 years of investment banking experience. Prior to joining GCP, Alan spent 16 years at Merrill Lynch & Co. where he was responsible for originating and executing a wide range of corporate finance and M&A transactions including many with private equity investors. Alan's relevant industry experience includes energy/oilfield services, construction materials and construction services.

**Jason Wilcox** (*Dallas office*) – Jason joined GCP in April 2004 as Vice President after 8 years of investment banking experience. Prior to GCP, Jason was Vice President in the Corporate Finance Group at Southwest Securities, Inc. Prior to that he was with Bear, Stearns & Co., Inc. where he focused on M&A and public and private capital raising. Jason's relevant industry experience includes electronics, business services, consumer products and industrial.

If you have any questions regarding our Private Equity Sponsor Group or are considering the sale of a portfolio company, please do not hesitate to call any member of the GCP Private Equity Sponsor Group or the GCP team.

### NEW MEMBERS OF OUR GCP TEAM

**Steven Cowan** (*Houston Office*) – Steven joined GCP in August 2004 as Vice President with 11 years of investment banking experience. Prior to joining GCP, Steven was Vice President with Deutsche Bank's Global Energy Group where he was responsible for executing a wide range of corporate finance and M&A transactions, primarily in the oilfield service and refining sectors.

**Randy McMullen** (*Houston Office*) – Randy joined GCP in June 2004 as Associate. Randy's primary responsibilities include financial statement analysis, financial modeling, company valuations and research, due diligence, and drafting presentations. Prior to joining GCP, Randy was employed by The GulfStar Group and prior to that, Credit Suisse First Boston.

### GCP SENIOR LEVEL TEAM

#### Houston 281/445-6611

John McNabb	Chairman	jmac@growth-capital.com	Energy/Manufacturing/Strategic Sales
David Sargent	President/CEO	sarge@growth-capital.com	Business Services/Private Equity
James Rebello	Managing Director	jrebello@growth-capital.com	Mezzanine Fund Manager/Manufacturing/Distribution
Alan Blackburn	Managing Director	ablackburn@growth-capital.com	Oilfield Services/Private Equity/Construction Materials
Jed DiPaolo	Energy Partner	jdipaolo@growth-capital.com	Oilfield Services
James Forrester	Executive Vice President	jforrester@growth-capital.com	Mezzanine Fund Manager/Financial Services
Su-Min Lim	Vice President	slim@growth-capital.com	Engineering/Industrial Services/Oilfield Services
Steven Cowan	Vice President	scowan@growth-capital.com	Oilfield Services/E&P/Manufacturing/Distribution

#### Dallas 214/303-1177

Michael Crow	Managing Director	mcrow@growth-capital.com	Consumer Products/Business Services/Private Equity
John Grimes Jr	Managing Director	jgrimes@growth-capital.com	Manufacturing/Distribution/Consumer/Industrial
Jason Wilcox	Vice President	jwilcox@growth-capital.com	Information Technology/Business Services/Private Equity

#### Austin 512/492-9778

Gene Lowenthal	Executive Vice President	gene@growth-capital.com	Technology
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#### Greenwich 203/622-3916

George Khouri	Managing Director	gkhouri@growth-capital.com	Consumer Products/Business Services
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## Subordinated Debt Fund for Middle Market Companies

Southwest Mezzanine Investments is pleased to announce the successful closings of three subordinated debt with warrants transactions. All three financings were completed to support growth for each business.



**\$2,500,000**

Subordinated Debt with Warrants

*Growth Capital*

*SMI was the sole lender for this financing*



**\$2,500,000**

Subordinated Debt with Warrants

*Growth Capital*

*SMI was the sole lender for this financing*



Austin Consolidated Holdings, Inc. ("Austin-Tetra"), founded in 1993, is an Irving, Texas-based provider of supply chain management solutions to Fortune 500 companies. Austin-Tetra's solutions assist its customers with streamlining supplier management and spend control across the entire organization, enabling leveraged buying power, managing supplier diversity and ultimately reducing costs.

Noble Logistic Services, based in Houston, Texas, is a leading provider of niche local and regional logistic/delivery services from large wholesale automotive dealerships and parts distributors to other wholesalers, smaller dealerships and repair shops.



**\$700,000**

Subordinated Debt with Warrants

*Growth Capital*

*SMI was the lead investor on this transaction*



G & H Manufacturing, based in Arlington, Texas, is manufacturing / assembly firm serving the material handling needs for the waste collection industry. G&H engineers, assembles and services a complete line of mechanical and hydraulic systems for use in heavy truck and trailer chassis and large construction / industrial equipment.

**Southwest Mezzanine Investments is actively seeking subordinated debt investments in middle-market companies in the Southwest region of the U.S. SMI makes \$1 to \$5 million loans to companies seeking mezzanine capital funding for expansion, acquisitions and refinancing.**

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