



**GROWTH CAPITAL PARTNERS**

# Newsletter

Summer 2005

Integrity • Teamwork • Client Focus

## Recent Transactions



**FoodSource, Inc., FoodSource Procurement, LLC and Epic Roots, Inc.** – Monterrey, California – have sold their operations and certain assets to C.H. Robinson Worldwide, Inc. The FoodSource entities provide a variety of produce sourcing and distribution services including produce procurement, contract management, private label brand management, new item development, merchandising, packaging and transportation of produce. Epic Roots, Inc. is a key partner to the FoodSource entities and provides produce sales and product development services. C.H. Robinson Worldwide, Inc., headquartered in Eden Prairie, Minnesota, is a global provider of multimodal transportation services, logistics solutions and fresh produce sourcing with a network of offices in North America, South America, Asia and Europe. C.H. Robinson is a publicly traded NASDAQ company with a market capitalization exceeding \$4.5 billion.



**RockBit International, L.P.** – Fort Worth, Texas – has executed a majority recapitalization with Cherington Capital. RockBit International is a leading designer and manufacturer of a wide range of drill bits and measurement-while-drilling tools and systems primarily used in the oil and gas industry. Cherington Capital, headquartered in Cambridge, Massachusetts, is a private equity firm focused on buyouts and recapitalizations of middle market companies.



**MGM Well Service, Inc.** – Corpus Christi, Texas – has been acquired by Integrated Production Services, Inc., an SCF Partners portfolio company. MGM Well Service is a provider of traditional oilfield swabbing and wire line services. Additionally, MGM manufactures and markets the Pacemaker Plunger, a patented artificial lift plunger system which enhances well production. Integrated Production Services, Inc., headquartered in Houston, Texas, is a leading provider of production enhancement solutions to the North American oil and gas market.



**Albrecht and Associates, Inc.** – Houston, Texas – has been acquired by Morgan Keegan, Inc., a division of Regions Financial Corporation. Albrecht & Associates, Inc. provides specialized divestment and advisory services to the upstream oil and gas industry. Albrecht and Associates was founded in 1987 and has represented sellers in asset sale transactions ranging from \$2 million to over \$500 million in size. Albrecht and Associates was a wholly-owned subsidiary of Compass Bank since late 1998.



**FSV Payment Systems, Ltd** – Houston, Texas – has privately issued \$10,000,000 of Series A Convertible Preferred Stock to Berkley Capital Investors, L.P. FSV Payment Systems is a leading provider of stored-value solutions, including payroll cards, healthcare cards, incentive cards and check cashing cards, all designed to meet complex funds delivery requirements for companies and organizations.

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



## Liquidity Alternatives – A Recap Provides for Two “Pay Days”

At some point every business owner who has labored to build a successful enterprise faces the ultimate question: *How can I obtain liquidity for the value I have created?*

**Company Sale.** For owners who wish to completely exit the business, a sale provides immediate liquidity. However, this option limits the owner’s opportunity for future wealth creation associated with ownership and the continued growth of the business.

**Initial Public Offering.** Only a select few companies with a stellar record are able to “go public.” Further, the liquidity event is usually a process that spans a number of years with sales of shares in small increments over time.

### A RECAPITALIZATION MAY BE A MORE APPROPRIATE OPTION

**Desire to take some money off the table today while providing for an additional liquidity event in the future.** If an IPO is not a reality and the owner is not ready for a company sale, one possible solution is a recapitalization. A recap offers immediate liquidity for a portion of the company, while allowing the owner to maintain a significant financial interest in future value creation. A recap is a change in the company’s capitalization structure using both assets and cash flow and typically involves bringing in another source of capital in the form of either debt, equity or a combination of these sources. Recaps are appropriate when any of the following needs must be addressed:

**Need to diversify holdings.** The majority of a business owner’s wealth is usually concentrated in the company. A recap allows the owner to cash out a portion of his/her net worth and invest it in other vehicles, thus diversifying the owner’s holdings.

**Lower level of personal risk tolerance.** The company may have reached a crossroads where additional capital is needed to further the company’s growth. However, as an owner’s wealth increases, the owner’s risk tolerance and appetite for additional debt may decline. A recap with a financial sponsor provides the owner a release from personal guarantees and offers freedom to focus on business execution.

**Desire to stay involved in the operations of the business.** The owner usually has spent a substantial portion of his/her life building the company and may not be ready to relinquish operating responsibilities. As part of the recap, the financial sponsor will often want the owner to remain involved in the business to ensure the enterprise’s continued success.

**Need to address estate planning and succession issues.** A recap provides an owner time to address succession and transition issues and allows for planning of the owner’s estate needs.

### EXAMPLE TRANSACTION STRUCTURE AND HOW THE NUMBERS WORK

In order to get an idea of how the economics of a recap work, the following assumes a hypothetical private company with the following characteristics: Company sustains growth rate of 10% - 12%; current EBITDA of \$6.7 million; and no debt. Assuming a recap implying a \$40 million valuation, (6x EBITDA), the financial outcome is as follows: Owner receives \$34 million in cash today and remaining equity of \$6 million is rolled over on a tax-deferred basis; Owner continues to own approximately 35% of the company and runs the business; and in year five, owner receives an additional \$23-\$25 million pre-tax upon exit event at a 6x EBITDA.

### WHO DOES A RECAPITALIZATION?

There is a tremendous amount of private capital available for deals such as a recapitalization. Currently, private equity firms are searching for middle market deals in order to put over \$100 billion (not million) to work. Also, due to debt capital availability, lenders are more aggressive than they have been since 1998, and importantly, valuations are healthy.

### CONCLUSION

A recap can be a win/win situation for an owner who desires to obtain partial liquidity today, while still maintaining the ability to capture additional wealth creation in the future, a “second pay day”. The owner still remains in control of operations, yet has access to growth capital and additional business resources that a financial sponsor provides. Given capital availability, now is a very good time to evaluate liquidity alternatives, including a recapitalization.

## GCP Forms Staffing Industry / IT Services Specialty Practice

GCP continues to demonstrate its commitment to building a strong national Staffing and IT Services practice with the addition of staffing industry veteran, John Niehaus. Mr. Niehaus has joined GCP as Director of Staffing Services and Human Capital Management and brings nine years of mergers and acquisitions expertise in the Staffing and IT Services industries to the firm.

Mr. Niehaus has been actively involved in the management of staffing-related M&A transactions in all areas of staffing, including light industrial, administrative, information technology, healthcare, legal and accounting/finance staffing services. His experience in the IT Services sector includes advising firms providing IT staff augmentation, IT solutions and ERP services. In addition to his transaction experience, Mr. Niehaus has coordinated research activity which included the tracking and analyzing of merger and acquisition activity across the staffing industry.

### CURRENT STAFFING M&A ACTIVITY

Merger and acquisition activity is expected to accelerate over the next few years as the staffing industry is fragmented and ripe for consolidation. Strategic buyers are becoming active again as the low cost of capital, improved earnings and tighter employment conditions have made these buyers more confident about pursuing acquisitions. These buyers will seek acquisitions to gain new geographies, add services, or diversify their customer bases. Additionally, financial buyers are increasingly looking for solid staffing platforms where an infusion of new capital or management will create value.

150 transactions were completed involving staffing-related companies in 2004, with an additional 32 transactions completed in the first quarter of 2005. Activity within the professional sectors of the industry including IT, healthcare, legal and financial staffing remains strong. Our conversations with both buyers and sellers suggest that an increasing number of staffing companies are currently exploring M&A opportunities or are on the verge of doing so.

For more information regarding our services for Staffing and IT Services companies, or to receive our newsletter regarding staffing industry M&A activity, please contact John Niehaus or any member of the GCP team.

### GCP SENIOR LEVEL TEAM

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*Subordinated Debt Fund for Middle Market Companies*

Southwest Mezzanine Investment's recent history of successful closings of subordinated debt with warrants transactions. These financings were completed to support growth for each company.



\$3,500,000

Subordinated Debt with Warrants

*Growth Capital*

*SMI was the sole lender for this financing*



\$3,000,000

Subordinated Debt with Warrants

*Growth Capital*

*SMI was the sole lender for this financing*



\$2,500,000

Subordinated Debt with Warrants

*Recapitalization Financing*

*SMI was the lead investor on this transaction*



\$4,350,000

Subordinated Debt with Warrants

*Acquisition Financing*

*SMI was the lead investor on this transaction*



\$4,500,000

Subordinated Debt with Warrants

*Acquisition Financing*

*SMI was the lead investor in this transaction*



\$4,000,000

Subordinated Debt with Warrants

*Expansion Capital*

*SMI was the sole lender for this financing*



Southwest Mezzanine Investments ("SMI") 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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