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BUNKER HILL CAPITAL

acquires Specialty Coating Systems

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ON THE COVER

Bunker Hill Capital: value investors in the lower middle market

BUNKER HILL CAPITAL

BOSTON-BASED BUNKER HILL CAPITAL, LP IS A PRIVATE EQUITY INVESTMENT FIRM WITH AN ENDURING AND SINGULAR FOCUS ON LOWER MID-MARKET COMPANIES. WITH A COLLABORATIVE HISTORY OF SOME 17 YEARS, THE PARTNERS ARE WELL-VERSED IN THE WORLD OF PRIVATE EQUITY AND APPEAR TO BE SINGING FROM THE SAME HYMN SHEET. MORAG DICKSON REPORTS.

Bunker Hill Capital, LP is a private equity firm with a national acquisition strategy focused solely on the lower middle market. The firm, with offices in Boston, MA and San Diego, CA, was founded in 2003 by partners Mark DeBlois, Rufus Clark, Theresa Nibi, Brian Kinsman and Jason Hurd.

“We have been investing as a team for over 17 years now,” says Mark DeBlois, a managing partner of the firm. “Rufus, Theresa, Jason and I worked together for our entire private equity careers prior to forming Bunker Hill.”

The fund’s core investment strategy is to seek out lower middle market companies experiencing growth related needs that can benefit from the principals’ financial, strategic and operational expertise.

BUNKER HILL CAPITAL: AN APPROACH THAT HAS STOOD THE TEST OF TIME

“We are generalist investors,” says DeBlois. “We intentionally balance our portfolio investments across four broad sectors, namely industrial products, business services, specialty retail and consumer products. This diversification strategy minimises the negative financial impact of sector-specific cyclical downturns.”

“The investment strategy and origination process we have built over

almost two decades has enabled us to source over half of our deals directly through what we call an ‘Executive Network,’” adds Rufus Clark, another of the firm’s managing partners. “This group comprises senior executives with experience in deal origination, due diligence and board representation. Thus, we pursue investments in sectors where we have achieved historical success and have cultivated strong relationships with seasoned operating executives.”

“Our approach is very much hands-on,” says partner Jason Hurd. “We keep open the channels of communication between ourselves and our portfolio companies. Frequent meetings with our management teams have always proved helpful in enabling us to benchmark the progress of our investments.”

The principals have acquired 27 companies over their careers working together and have deployed over \$380m of equity capital. In fact, Bunker Hill’s past investments have all involved successful lower middle market companies. I asked why.

“We are well-known in the sub-\$100m transaction size space. This is based on the repute of an outstanding track record and our brand recognition, both of which continue to serve us well,” says Theresa Nibi, a managing partner.

“Also, we have not deviated from our



core strategy over almost two decades. We know what we do well, and we just keep doing it. Consistency in our strategy and approach to sourcing and hands-on management of our portfolio companies has been a key factor in our success,” added Clark. “We didn’t get distracted by the dot.com craze, nor have we chased the big deals. We have stayed focused on the lower middle market, and that has served us well.”

FUND I AND THE EXPERT DEPLOYMENT OF CAPITAL

Bunker Hill kick-started the raising of their maiden fund in 2004. A closing took place in at the end of 2005, and the team currently has \$125m of equity capital under management.

According to managing partner Brian Kinsman: “Our first fund attracted the backing of a number of high-quality limited partners including institutional limited partners, endowments and several fund-of-funds. Our investor base includes The Hartford, Northwestern Mutual, Parish Capital, The Duke Endowment and Thrivent, to name a few.”

Since closing the fund, Bunker Hill has been on an acquisition spree that has resulted in the purchase of Papa Gino’s

in March 2005, Specialty Coating Systems in January 2006, and California Family Fitness in July 2006, and the partners have an active pipeline ahead of them.

PAPA GINO'S / D'ANGELO: GETTING THE BALL ROLLING

Following the first closing of their fund, Bunker Hill’s principals got right to work, acquiring in March 2005 Papa Gino’s / D’Angelo, a dominant quick-service restaurant operator in New England. The company owns two dominant New England quick-service restaurant concepts: the *Papa Gino’s* brand which operates in the pizza/Italian segment and the *D’Angelo* brand operating in the sandwich segment.

“The company has a 40-plus year history with two extremely recognisable brands in its markets,” says Nibi. “With over 360 system-wide locations, the company’s scale, market dominance, prime real-estate locations, and commitment to provide high-quality products and a premium value for every guest greatly appealed to us,” she adds.

“This deal represented a classic opportunity for Bunker Hill. The company had a strong incumbent management team looking for a partner



with industry experience to take it to the next level," adds DeBlois. "With robust brands in two attractive segments of the quick-service restaurant business, we believed the company has excellent growth potential. And we were right. The company's performance has exceeded our expectations."

SCS: AN ACQUISITION WITH GLOBAL REACH

For their next transaction, the partners went in a different direction in their quest for portfolio diversification, acquiring Specialty Coating Systems (SCS), the world leader in Parylene conformal coatings for the medical, electronics, automotive and military industries.

"SCS was a corporate divestiture," explains DeBlois. "We have a history of transitioning management teams out of corporate situations as well as engineering new strategic plans. That resonated with former owners, Cookson Group plc, who disposed of the SCS business unit with a view to channelling their resources into core business areas, which SCS was not."

The deal was concluded in January 2006 after a six-month period. The timeframe may have eclipsed most auction processes, but DeBlois reassures

me that the necessity for extensive accounting and strategic due diligence was of paramount importance considering the number of overseas facilities under the SCS umbrella.

SCS currently cites 9 locations across Europe, Asia and the Americas.

"Our Costa Rica facility opened for business in the first quarter of 2006," states Hurd. "Plans are in place to introduce a tenth operational plant by 2008, with Central Europe being a likely location."

According to Nibi: "SCS is a particularly accommodating fit for us with a number of key strengths that spoke to us at the very outset. First, the company is a dominant worldwide leader in the application of Parylene conformal coating to critical components. Second, with a market share in excess of 60%, SCS leads its next largest competitor by a significant margin. Finally, SCS has a certain amount of intellectual property for proprietary equipment development and process application."

Bunker Hill and SCS management, led by CEO Bob Leach, plan to further penetrate SCS's existing core customer base and increase the company's revenue base by a strong double-digit annual growth rate.

"There is no topping out, no visible ceiling with SCS," says an up-beat DeBlois. "By educating the market as to the advantageous benefits of a conformal Parylene coating as compared to inferior coatings, potential customers recognise the superior performance characteristics of the SCS product in high end applications."

So, where is the investment heading?

According to Kinsman: "We see the US and Europe as key growth markets, especially in light of the market potential available from our existing base of operations there."

"We are looking to achieve 15% to 20% organic growth, most of which will come from the further penetration of existing customer networks as well as proactively marketing new customer and industry channels," he continues.

CALIFORNIA FAMILY FITNESS: A COMPANY PROFILE THAT FITS THE BILL

Later in the year, Bunker Hill led a majority recapitalisation of California Family Fitness, a leading family-oriented leisure and fitness business located in the greater Sacramento area of California.

"California Family Fitness was one of several concepts we looked at - the difference between this one and the others being the management team's unfaltering commitment to value and the consistent provision of high-quality amenities, services and equipment. It was a much broader product offering," according to Tim Sheehy, a Vice President at Bunker Hill.

"In the few months we have owned the business, our team has already analysed and upgraded the company's information systems and has hired a CFO. The near-term business plan

involves building-out California's concept across a number of new sites. The subsequent analysis of the company's membership base will jump-start a whole series of marketing and advertising opportunities - something we are keen to explore," adds Clark.

So what's on the horizon for Bunker Hill?

"We expect to begin raising our next fund during the second half of 2007 and are hoping to add a consumer products and a business services company to balance out the weighting of our investment portfolio," concludes DeBlois.

With an increasingly even footing in correlating market sectors, the partners at Bunker Hill continue to hedge their bets, sowing their investment capital across the middle market landscape and harvesting the fruits of their labour. ACQ

details...

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SCS products are used in a wide variety of applications