

SMALL MARKET DEAL OF THE YEAR Bunker Hill Capital LP

Early Deal For Bunker Hill Gets Coated With Green

With the help of a relatively unknown gaseous compound, **Bunker Hill Capital** turned its two-and-a-half-year investment in **Specialty Coating Systems Inc.** into a realization of more than 6x its invested capital.

Few people were interested in the business when it was put up for sale in 2005. Specialty Coating Systems was a non-core asset held in the electronics division at Cookson plc, a global materials science company. Cookson put Specialty Coating Systems on the auction block as part of a debt reduction scheme it had implemented earlier that year.

As its name suggests, the company had developed a specialized coating process using a little-known, high-quality polymer called Parylene. The polymer can be converted into a vapor and then applied in a thin, even coating to protect sensitive instruments from heat and liquids. Parylene is often used to protect medical equipment and electronics where the cost of failure would be very high or catastrophic. Typically, customers send their products to one of Specialty Coating Systems's 10 world-wide locations; the company coats them and then returns them.

At the time Specialty Coating Systems had trailing 12-month revenues of \$36.4 million and trailing 12-month EBITDA of \$9.69 million. By the end of Bunker Hill's investment in the company, those figures would grow by more than 50 percent and 80 percent, respectively.

The auction drew only a handful of letters of interest, however, due to the complexity of the proposed carve-out, which included the need to completely recreate the systems and services being provided to Specialty Coating Systems by Cookson within the first 12 months of closing.

But Boston-based Bunker Hill was up for the challenge. The firm bought Specialty Coating Systems for \$53.5 million on Dec. 31, 2005, using an equity investment from its first fund of approximately \$20 million. The complicated nature of the carve-out allowed Bunker Hill to acquire the specialty coater for the attractive multiple of 5.5x. For comparison, the average purchase price multiple at that time for companies with EBITDA of less than \$50 million was about 8.5x, according to Standard & Poor's Leveraged Commentary and Data.

Prior to its investment, Bunker Hill enlisted the help of Bain & Co. to launch an in-depth strategic review of the business, which was completed about 90 days after the deal closed. The review laid out a roadmap of initiatives that Bunker Hill followed to success.

A strategy evolved early on to focus Specialty Coating Systems on four industry verticals weighted heavily toward the health care sector, as opposed to the shotgun approach the company had traditionally taken. The verticals included stents, surgical tools, electro stimulation devices and auto sensors.

SNAPSHOT:

Firm: Bunker Hill Capital
Target: Specialty Coating Systems Inc.
Return Multiple: 6.1x
IRR: 109 percent
Hold Period: 30 months
Buyer: Berwind Corp.

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WHY THE FIRM WON

- Acquired Specialty Coating Systems for an attractive 5.5x multiple in a difficult corporate carve-out.
- Focused sales strategy on four industry verticals, doubled the sales force, and implemented an opportunity tracking system that led to robust growth.
- The exit of Specialty Coating Systems returned 115 percent of all invested capital in Bunker Hill's first fund back to limited partners.

With the end markets targeted, Bunker Hill ramped up Specialty Coating Systems's sales force. In addition to doubling the size of the sales force from three to six regional sales managers, the firm also hired a number of product specialists to work in tandem with the sales force to educate potential customers about the benefits of Parylene.

Most Specialty Coating Systems sales involved a customer that was trying to solve a problem on an application where a coating superior to silicone or Teflon was needed. Specialty Coating Systems would then form a team made up of a product specialist and



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sales person—sometimes even including the in-house PhD who ran the company's R&D department—to help the customer (usually a degreed engineer or PhD at a medical or electronics company) identify a solution.

“These were highly technical sales that could take anywhere from three to six months, depending on the complexity of the problem,” said **Mark DeBlois**, a managing partner at Bunker Hill.

With a bolstered sales force in place, Bunker Hill implemented an opportunity tracking system that allowed the company to make decisions on where its priorities and focus should be based on both the profitability of the opportunities that they were tracking and the market segment it was in.

“We fundamentally changed their sales approach from reactionary to deeply proactive,” DeBlois said. And the results were quick to come. “Within the first year, we doubled the number of opportunities that Specialty Coating Systems had historically been working on,” he added. When Bunker Hill sold Specialty Coating Systems, the company was tracking 106 discrete opportunities worth \$28 million.

“The ability to identify new verticals and quickly execute the sales plan was core to such rapid new business sales closure,” said **Bob Leech**, who served as an interim CEO

at Specialty Coating Systems. Leech is a member of Bunker Hill's executive network and was tapped to lead Specialty Coating Systems after it became apparent toward the end of the strategic planning period that the inherited CEO lacked the vision for the business shared by the company's management team and Bunker Hill. Leech also mentored **Terry Bush**, then vice president of operations, to ultimately take the CEO post when the time was right. Leech transitioned out of Specialty Coating Systems in October 2007.

Other moves to enhance the business included opening a facility in Costa Rica, increasing the capacity of the one in Clear Lake, Wis., and opening a new facility in Singapore to replace a smaller one. And in September 2007, Specialty Coating Systems acquired the 50 percent stake in Parylene Japan that it did not already own in order to implement its more aggressive growth model. It was a deal that Bunker Hill had been negotiating for from the beginning, DeBlois said, noting that Specialty Coating Systems was able to make the acquisition at a multiple well under 5.5x. “Nine months later we sold Specialty Coating Systems, and were able to realize a significant multiple increase in arbitrage on the purchase of the other half of [Parylene Japan] and the EBITDA associated with it.”

Unlike the sparsely populated auction Bunker Hill competed in to acquire Specialty Coating Systems, the Stifel Nicolaus & Co.-led process to sell the company in the first half of 2008 was packed with interested parties. Managing Director **Jon Tebol**, who was on the Stifel Nicolaus team representing Specialty Coating Systems, wrote in a note sent to *Buyouts* that he had “never seen such an impressive hit rate from prospective buyers.” Approximately 70 percent of the 100-plus parties that were contacted signed a non-disclosure agreement and received an information memorandum. Sixty percent of those buyers submitted initial purchase proposals. In the end, the value of the final proposals received had increased by more than a full turn of EBITDA from the initial bid levels, Tebol wrote.

Specialty Coating Systems was ultimately sold to Berwind Corp, a family-owned investment company, in a deal that included no debt financing, allowing the deal to close in just 22 days. The sale in June 2008 generated a 6.1x return and a 109 percent IRR.

Specialty Coating Systems was a portfolio company in the \$125 million Bunker Hill Capital LP, vintage 2005. The profits from that single exit were substantial enough to return 115 percent of that fund's invested capital back to limited partners, DeBlois said. —A.N.

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