

DEALS

institutional fund, has settled on its first deal, acquiring a majority stake in **Great Western Products**, a supplier of concession foods to movie theaters.

"We participated in a lot of auctions and it was frustrating at times," said **Peter Weinbach**, who co-founded the firm along with his father **Lawrence Weinbach**, of the long wait. "But we stuck to the belief that buying price does matter and [we] just weren't coming out winners."

Yankee Hill Capital is assuming a 77 percent stake in the company, while the Great Western Products management group, including its president **Ralph Ferber**, gets the remaining 23 percent. The capital structure of the transaction includes warrants for Cleveland, Ohio-based lender **South Franklin Street Partners**, which is providing mezzanine debt in the deal that would dilute the holdings of both Yankee Hill Capital and the management team upon exercise. The seller was not disclosed.

PNC Financial Services Group is the senior lender for the deal, which has a debt-to-equity ratio of roughly 2 to 1. Yankee Hill Capital has yet to raise a formal fund, a move that the firm would like to make in the "not too distant" future. At present, it's backed by a number of high net-worth individuals and funds contributed by the Weinbachs. The deal came to the firm through a relationship with a mezzanine lender that ultimately didn't participate in the transaction.

Great Western Products had revenue of about \$50 million for its fiscal 2008, which ended in September, and its current run rate is tracking toward revenue of \$70 million in fiscal 2009, Peter Weinbach told *Buyouts*. In general, Yankee Hill Capital targets companies generating annual revenue of \$50 million to \$200 million and EBITDA of \$5 million to \$15 million. Beyond the financials, Yankee Hill Capital liked Great Western Products because it believes the company's customers, mainly movie theaters, should do well despite the recession.

"Historically, that's been the case," Weinbach said, citing previous downturns such as the savings and loan crisis in the late eighties and the bursting of the Internet bubble in 2000. The firm also analyzed the upcoming slate of movies to be released over the next few years and found the pipeline strong with films that appeal to small children and teenagers, the groups that drive concession sales. He noted:

"Consumables are very attractive in this kind of [economic] environment."

Based in Hollywood, Ala., Great Western Products provides both food concessions such as popcorn, cotton candy, and nachos as well as cleaning, paper and plastic product supplies. In addition to movie theaters, which make up more than 80 percent of its customer base, the company also sells to sports stadiums and amusement parks. It has about 100 employees.

Peter Weinbach, the son, provides the bulk of the experience in private equity for Yankee Hill Capital. He previously served as a managing director of AIG Horizon Partners, a \$340 million buyout fund that was a wholly-owned unit of AIG. His father, Lawrence Weinbach, is the former CEO and chairman of information technology services provider Unisys Corp. He retired from that company in early 2006. He also served as CEO of professional services firm Andersen Worldwide from 1989 through 1997, and is on the boards of Avon Products, UBS AG and Discover Financial Services.

The firm's investment strategy never wavered during its first two years despite the empty portfolio. Yankee Hill Capital set out to buy middle-market companies with strong free cash flow, recurring revenue and a sustainable competitive edge, and those qualifications remain central to its evaluation process. Valuations, however, had to come down before what the firm saw as an attractive deal could be struck.

Audax Takes Bet On Consumers Repaying Debt

SNAPSHOT

Target: United Recovery Systems LP
 Price: Undisclosed
 Sponsor: Audax Group
 Seller: Doug Schultz
 Financial Adviser: Seller, Kaulkin Ginsberg Company
 Legal Adviser: Sponsor, Kirkland & Ellis

By **Bernard Vaughan**

Audax Group has bought **United Recovery Systems LP**, a Houston-based

company that provides debt collection services for the credit card, retail, and car loan industries and that several years ago got into hot water for overly aggressive collection techniques.

The firm bought the company from **Doug Schultz**, its founder and CEO, **Geoffrey Rehnert**, Audax's co-CEO, told *Buyouts*. Audax will review add-on acquisition possibilities, but primarily plans to expand the company organically. CIT Group and SunTrust Bank provided senior financing for the deal, which closed Dec. 22 and whose terms were not disclosed. United Recovery Systems represents Audax's first investment in the debt collection market.

Founded in 1997, United Recovery Systems has more than 1,000 employees working in Houston and Bryan, Texas, Tulsa, Okla., Phoenix and Monterrey, Mexico. Clients include large credit card companies and retailers, and Rehnert expects rising consumer credit card debt to drive the continued growth of the business.

Audax Group heard about the deal through **Mark Russell**, a director at Kaulkin Ginsberg Company, a Bethesda, Md.-based deal advisory firm that Schultz hired to shop the company. Kaulkin Ginsberg also coordinated a Feb. 2007 deal in which United Recovery Systems bought a Phoenix, Ariz. Call center—with 15,000 square feet and capacity for up to 150 call stations—from Merchants' Credit Guide Company.

United Recovery Systems ran into legal trouble in 2002, agreeing to pay \$240,000 to settle allegations that it lied and used other unlawful methods to collect debts, including speaking with the children of debtors and warning that failure to pay could lead to their arrest, according to press reports at the time. "URS settled these claims back in 2002, many years before we were introduced to the company," Rehnert said in a statement concerning the lawsuit. "We are confident that URS conducts its business in accordance with the highest compliance standards."

For Audax, the deal comes out of Audax Private Equity Fund III LP, a \$1 billion pool the Boston-based firm closed in May 2007. The fund is now about 50 percent invested. Established in 1999, Audax's Private Equity Group has about 110 people, including 80 investment professionals.