

Private partners

In search of growth capital, small and mid-sized Canadian companies are teaming up with private equity firms such as Halifax-based SeaFort Capital

By Joel Kranc

For Cooper Equipment Rentals Ltd., it was a chance to build something bigger. The family-owned and operated company, which serves the construction industry in the Greater Toronto Area, was founded in 1972 by Gordon Cooper. Chief Executive Officer Darryl Cooper, Gordon's son, purchased his father's shares in 2003; six years later, he brought in Doug Dougherty, a former private equity (PE) veteran, as President and an equal partner to grow the business.

As Dougherty recalls, Toronto-headquartered Cooper Equipment wanted to expand but didn't think "shareholder loans or leasing of equipment was the best way to optimize [its] capital structure." The company engaged an investment bank to help it find a strategic ally. That move led to talks with Halifax-based private equity firm SeaFort Capital, which bought a majority stake in Cooper Equipment in mid-2013. The rental company is now

on track to more than triple its annual revenue, partly thanks to two acquisitions.

Cooper Equipment is one of a growing number of smaller Canadian businesses that are joining forces with private equity firms to harness their capital and expertise. For entrepreneurs keen to retain some ownership or to exit the company they built, private equity can be a viable option.

"You had two principals in this company with energy and knowledge," says Rob Normandeau, President of SeaFort, whose founding investors, board of directors and shareholders include members of Atlantic Canada's McCain and Sobey families. "They knew there was an opportunity to grow it but needed a capital partner that would give them not only access to money but support, direction and specialized services. It was based on those needs and goals that we became involved."

The price is right

In 2014, the nation's private equity firms invested a record total of \$41.2-billion in 296 deals, the Canadian Venture Capital & Private Equity Association (CVCA) reports. About 40 per cent of those transactions were valued at less than \$25-million, according to Seattle-based research firm PitchBook Data, Inc. Deals in the \$25-million to \$500-million range made up almost 48 per cent. "The proliferation of small, family-owned businesses in the country offers plenty of opportunities for local PE firms to cut deals in the lower middle market," PitchBook states in its *Canada PE Breakdown* report for the first half of 2015.

As the baby boomers look for opportunities to exit their businesses, expect more entrepreneurs to seek out private equity. In the Canadian portion of PwC's 2014 *Family Business Survey*, 27 per cent of respondents said they were planning to sell to another company, private equity investors or the management team.

"A lot of quality, established businesses are going to change hands in the next 10 to 15 years," reckons SeaFort's Normandeau. "We thought the pricing would be fair, and the quality of the businesses is high."

SeaFort and its peers are a discerning group. "These funds tend to do a huge amount of due diligence before they invest, and they get actively involved in the companies they invest in," says Douglas Cumming, Professor of Finance and Entrepreneurship at York University's Schulich School of Business. Their strategic administrative advice and their ability to provide networks for businesses are crucial, Cumming adds.

"[Private equity firms] drastically improve a company's chances for success," he says. "It is often the case that backing from a private equity firm will increase things like research and development spending, getting patents, growth and the creation of jobs."

For Michael Woollatt, Chief Executive Officer of the Toronto-based CVCA, which has 55 private equity members, it comes down to knowledge and experience: "Private equity firms bring smart money, intelligence and history that management doesn't necessarily have or at least can complement what management does have."

A platform for growth

Launched in 2012, SeaFort specializes in what it calls "old economy" Canadian businesses such as manufacturers and equipment services providers. The firm targets companies with annual earnings before interest, taxes, depreciation and amortization (EBITDA) in the \$4-million to \$10-million range.

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SeaFort, which has closed four major deals, likes to turn its acquisitions into industry-specific platforms. For example, besides Cooper Equipment, the firm owns Dartmouth-based A.W. Leil Cranes & Equipment, Nova Scotia's largest crane operator; it's growing this business through mergers with smaller players.

President Normandeau, a lawyer who previously served as Chief Executive Officer of Halifax-based value investment firm Clarke Inc., explains that SeaFort will often shore up areas that aren't part of a company's core business but are vital to its growth plans. That includes helping with financial reporting and cash management, as well as establishing relationships with banks. "We often find that small and medium-sized businesses don't have good reporting systems, so we'll sit down and agree what the key performance indicators are and give them a good IT platform," Normandeau says.

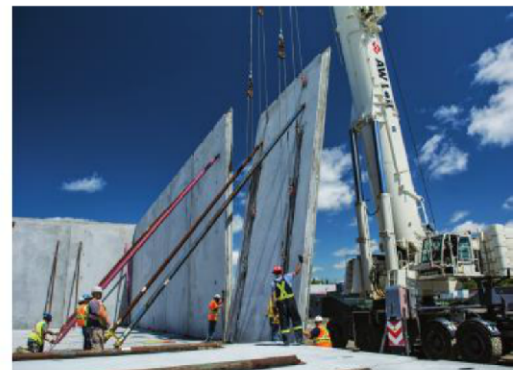
Capital gains

Cooper Equipment was so well run when SeaFort arrived on the scene that the best thing to do was provide capital and get out of its way, remembers Normandeau. SeaFort also granted access to its information technology and finance resources and offered support at the board level. The 2013 deal left CEO Darryl Cooper and President Doug Dougherty with a significant minority stake in Cooper Equipment. Cooper and Dougherty also serve as directors, though SeaFort owners and management make up most of the board.

The results have been impressive. Between 2012 and 2014, Cooper Equipment's annual revenue climbed from \$10.9-million to \$25-million; the company now employs 110 people, versus 45 before the deal. The purchase of two other rental businesses helped drive this rapid growth, Dougherty says. For 2015, Cooper Equipment expects to post \$35-million in revenue.

When it comes to working with family-run companies, SeaFort has an ace up its sleeve. The fact that the firm's backers include two prominent East Coast families resonated with Cooper, Normandeau says: "It was a strategic advantage for us to point to the culture and history of [the] shareholder group."

Atlantic Canada has its unique character, but as Nikki Robar, PwC's Atlantic Deals Leader, is quick to note, investment decisions made by the region's venture capital firms and founding families aren't confined by local loyalty. "To be clear, these investors



Left: Halifax, home base of private equity firm SeaFort Capital. Above: SeaFort's portfolio companies include A.W. Leil Cranes & Equipment, Nova Scotia's largest crane operator.

are looking for deals that make good business sense and align with their strategy, wherever they may find them," she says. "If they can find them in their own backyard, well, that's just a bonus to the investors and most certainly to the region."

Although SeaFort's old-economy focus may reflect the strength of the firm's founding principals, other Atlantic Canadian investors lean toward much newer industries. "Take what's happening in New Brunswick," says Jeff Dawson, Vice-President with PwC's Atlantic Corporate Finance Practice. "There's been a couple of very successful exits in the tech space [Radian6 Technologies, Inc. and Q1 Labs Inc.], which allows a portion of that money to be reinvested into the regional economy, in particular to finance the next wave of technology-focused startups in Atlantic Canada. Atlantic Canadians who have had success here in the region are often quick to pay it forward." **UP**