

SPARA CAPITAL PARTNERS INC.

Bay Street Experience, Main Street Approach

BEHIND THE TOMBSTONE

TRANSACTION OVERVIEW • JANUARY 2013

The Management Buyout of the
Majority Shareholders of:

BLACKSTONE
ENERGY SERVICES INC

*An independent, Ontario-based energy
advisory and management firm.*

Debt financing provided by:



Transaction Structured and Negotiated by:



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We fight for entrepreneurs.

BACKGROUND:

Blackstone Energy Services Inc. is a Toronto, Ontario-based independent energy advisory and management firm servicing the, commercial and industrial (“C&I) and municipal, university, school and hospital (“MUSH”) sectors. The Company was founded and is managed by Ryan Duffy, a minority shareholder with Majority Partners who were not active in the business.

Ryan’s relationship with his partners was workable but delicate. Ryan wanted to grow Blackstone, while his partners were looking to use Blackstone as a means of funding a number of other mutually-owned holdings, where in each of these cases Ryan was also minority shareholder. It had become evident to Ryan and his partners that some sort of transition in ownership was required to allow each faction to pursue its independent path.



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Ryan Duffy | Blackstone Energy Services Inc.

By having a focus on Blackstone alone, Ryan and his team saw an opportunity to drive the business forward on a rapid growth trajectory but lacked the capital and deal making expertise to affect a buyout of his partners. He knew that the Majority Partners would have no interest in vendor financing or an “Earn-out”. Ryan engaged Spara as exclusive advisor to explore and provide counsel on strategic transaction options and, ideally to help secure a majority equity ownership of Blackstone, if possible.

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“Although I had a sense for my partners’ valuation expectations, I wasn’t really sure how much capital I would require or what the deal might look like. Initially, I was looking for counsel on what options were available to me” he added.

SPARA’S APPROACH:

Spara provided its advisory services, following the mantra to ‘Coach, Challenge, Collaborate and Close’.

COACHING

Having completed numerous buyout transactions, Spara principals understand the delicate approach often required to keep the transaction on track. Spara worked to help Ryan understand his strategic options and presented the risks, benefits, timelines and requisite resources in each option. They also provided guidance on how to interact with the Majority Partners during the process.

“Introducing buyouts can be a sensitive process so it is critical to have good advice and know your alternatives before getting too far down the road into the discussion” said Jason Sparaga, President and CEO of Spara Capital.

Spara prepared marketing materials and helped to present projections for the prospective capital partners, and also assisted Ryan in identifying and positioning potential risks that partners might identify in due diligence. Spara provided guidance on transaction structure and introduced Ryan to various potential capital partners, consisting of institutional debt, subordinated debt and private equity groups, with various strategies and abilities to support Ryan and his team through growth and an eventual exit of the Company. It was critical to take many of these steps before finalizing an agreement with his partners, so that Ryan would have the confidence that he would be able to close a transaction quickly should they accept.

CHALLENGING

By challenging Ryan on his real objectives with respect to the Company, post-transaction, Spara found that a key priority for Ryan was acquiring 100% equity, if possible or otherwise needed to be an all-debt deal as Ryan and his team were unable to arrange the equity themselves.

While this seems like an obvious point in hindsight, it was well-off Ryan’s ‘realm of possibility’ and he had resolved that he would need an equity partner to close the Transaction. However, Spara was able to structure the deal to attract motivated lenders with experience in his sector, allowing Ryan to secure favourable terms and a capital structure that provided him with 100% equity ownership.

Spara also challenged Ryan to stay focused on the major points and avoid Transaction minutiae at times where negotiations became difficult. They led the process of structuring, negotiating and supporting the Transaction with the Majority Partners from the Letter of Intent stage through to Closing.

“There was too much emotion and history on both sides. Every little issue became proxy for our strained relationship. They fought hard for a win-win deal which sometimes meant they had to be firm in managing me” said Duffy.

COLLABORATING

Upon finalizing the terms of the buyout by the Majority Partners, Spara moved quickly to arrange the requisite capital for the Transaction and manage financiers’ due diligence and closing processes. Spara ultimately secured financing and helped to facilitate inter creditor relations in a financing package that included senior debt from TD Commercial Banking and subordinated debt from BDC. Spara worked with the lenders to negotiate favourable pricing, terms and conditions for Ryan.



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Ryan Duffy | Blackstone Energy Services Inc.

Through intense negotiations Spara was also able to ‘untangle’ and divest Ryan’s interests in the other mutually-owned interests outside the Transaction with the Majority Partners.

“I expected that this would be the first step in a series of transactions, over years, that would be required to untangle the multitude of ownership interests I had with my partners”, noted Duffy. “Spara collaborated with me to help set a course for negotiations to wrap everything up at once. They rightfully convinced both me and my partners that this was a crucial piece that needed to be resolved, today. It was very complicated, but they made it work for all”, he added.

CLOSING

The Transaction closed in late 2012 and Blackstone Energy Services Inc. is now fully-owned and operated by Ryan Duffy. Ryan is excited about the future, is pleased in having been able to acquire 100% of the equity, and is confident his former partners are pleased with the purchase price and the structure under which the Transaction was completed. Blackstone’s new lenders have great confidence in the strength of his business plan and his management team and their ability to execute and drive growth.

The Management Buyout of Blackstone has proven an effective means of transitioning the ownership of the Company. Spara’s process and effort evidenced in its “fight” were critical elements in managing and closing this complex transaction.

CONCLUSION

Management Buyouts (or “MBO”s) of small to medium sized private companies (“SMBs”) are still quite rare in Canada. It is an often-overlooked solution to succession, given the misconception that management teams lack the access to capital and professional guidance required to effectively manage and close a complex transaction. Both owners and managers should consider this option seriously when looking at the succession of an SMB.

“When executed effectively, buyouts are the holy grail of succession for lots of companies,” said Sparaga. “Many times there is a significant gap in the amount of capital a (majority) shareholder requires to exit a business and what a management team can come up with themselves. But with an experienced advisor in place management can often access capital or structure a transaction to overcome this gap. The toughest hurdle in these situations however, is the strain they put on the management and shareholders. By definition buyouts are complex and emotionally charged transactions.”

“So it is important to be prepared; to understand your options; to move quickly; and to work with experienced advisors who will fight hard to close the deal” he added.

ABOUT BLACKSTONE ENERGY SERVICES:

Blackstone is an independent energy advisory and management firm that manages significant energy portfolios for North American organizations in the commercial, industrial, municipal, university, school and hospital markets, based in Toronto, Ontario. www.blackstoneenergy.com

ABOUT SPARA CAPITAL PARTNERS INC.:

Spara Capital is a boutique M&A advisory and merchant banking firm that provides strategic, transactional, and financial advisory services to shareholders and managers of private and small-cap public companies with revenues or valuations typically in the range of \$10 to \$100 million. For more information visit www.sparacapital.com.