

Minneapolis / St. Paul Business Journal - March 3, 2008

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Friday, February 29, 2008

Spell Capital had strong deal flow in '07 with 15 transactions

Minneapolis / St. Paul Business Journal - by [Bryant Ruiz Switzky](#) Staff Writer

The deals are flowing like honey in a heat wave for **Spell Capital Partners**.

The Minneapolis private-equity and buyout firm completed 15 transactions last year - 12 buys and three sells -- worth more than \$400 million, outpacing many local competitors in terms of volume.

"We've had some great returns and the deal flow is exceptionally strong," said Bill Spell, president.

Business likely will stay strong, as Spell Capital's phones keep ringing with five to seven potential new deals a day. It's completed two transactions already this year and will wrap up two more next month.

Spell Capital's business model is pretty straightforward. It purchases controlling stakes in profitable manufacturing companies with less than \$50 million in revenue, grows the companies organically as well as through add-on acquisitions, then sells them four to seven years later - ideally for a healthy profit. The firm has eight employees and six portfolio companies with about \$325 million in combined annual revenue. Three of those companies (**Arctic Fox**, **Stremel Manufacturing Co.** and **Midwest Plastic Components**) are based in the Twin Cities.

Nine of Spell Capital's 12 purchases last year were add-on acquisitions, in which its portfolio companies actually completed the deals. Of its three sales in 2007, the largest was Bremen, Ind.-based copper-wiring company Copperfield, which sold for \$213 million.

So, how is Spell getting around the credit crunch and economic slowdown constricting the mergers and acquisitions markets?

"Clearly, credit's tighter," Spell said. "However, because we've got a pretty good track record and have longstanding relationships with a number of senior and mezzanine lenders, we haven't noticed it at all." He added that investors who don't have a long track record, don't have pools of committed capital and are maybe doing marginal deals are the ones having trouble getting financing.

But the credit crunch has not affected all strata of the industry equally, said David Lobel, founder and



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Spell Capital Partners is on track to close four deals in the first quarter of 2008, said President Bill Spell.

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managing partner of **Sentinel Capital Partners**, a New York private-equity firm that invests in Minnesota companies. Smaller deals, like the ones Spell Capital does, are less impacted because they're much easier, and less risky, to finance as banks can hold the loans on their balance sheets.

For big deals, lenders underwrite the loans and offer them to investors as syndicated paper. With the syndicated paper market dried up, banks are worried they'll get stuck holding the bag and have stopped doing many of those deals, he said.

And while the market is still open for smaller deals, "the financing is not as generous as it used to be," Lobel said. "[Borrowers] have to pay more for their debt and they can't get as much of it."

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