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'Opportunistic' Spell Capital sees deal flow surge in early 2007

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

Private-equity firm **Spell Capital Partners** is on a tear. The company expects to complete 12 deals in about six months, tripling its volume from a year ago.

The Minneapolis-based company tacked on two of those deals last week when **Stremel Manufacturing Co.**, a Minneapolis-based precision metal-fabrication shop, acquired Little Falls-based Falls Manufacturing Inc. and Phoenix-based Stewart Manufacturing Inc. Spell Capital owns a majority interest in Stremel and orchestrated the deals, which effectively tripled Stremel's revenue to \$50 million.

Such buys are typical for Spell Capital. The firm has stuck to a specific niche since its inception in 1988: profitable manufacturing companies with revenues of less than \$50 million.

The firm has a controlling stake in eight companies with more than \$600 million in combined revenue, most of them in the Midwest. It typically holds on to companies for four to seven years, increasing their size and profitability through add-on acquisitions like those at Stremel.

Since December, the firm has sold one company, bought three and completed eight add-on acquisitions. Five more deals are waiting in the wings. The investments are part of Spell Capital Partners Fund 3, for which the company raised \$60 million last year. The fund will eventually have nine to 10 platform companies when investments are finished in 2009.

President Bill Spell shrugs off the recent flurry of activity as a product of the business climate. "These things go in fits and starts. The nature of our business is that when certain things exist -- a lot of capital, relatively low interest rates and a good economy -- there's a lot of activity. But things can change. A year from now, we might just buy one company and sell one company. The key is that we're very opportunistic."

Part of the firm's formula is to acquire companies with management teams that share an ownership stake and that will run the company the same way they did before Spell Capital was involved. In the firm's last three transactions, the management teams continued to own 20 to 30 percent of the companies, Spell said.

Al Lineberry, president and CEO of Stremel Manufacturing, said Spell Capital's practice of leaving companies intact was a key factor in the decision to sell to Spell last year.

"Spell is a great company to work with. We actually picked them over several suitors that wanted to buy

Stremel. It's been a great marriage so far," Lineberry said.

Several of the companies in Spell Capital's portfolio are plastics manufacturers, which has become somewhat of a specialty for the firm over the years.

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