

# SPARA CAPITAL PARTNERS INC.

Bay Street Experience, Main Street Approach

## BEHIND THE TOMBSTONE

**GOING LONG: THE VALUE OF LONG TERM  
ADVISORY RELATIONSHIPS • AUGUST 2015**

*Phased Shareholder Buyout and Related Financing  
and Corporate Governance Services*

*2007-2015*



## FER-PAL INFRASTRUCTURE

*The industry leader in trenchless water-main rehabilitation services.*

*Financing provided by:*

**BMO**  **Bank of Montreal**

*Transaction structured and negotiated by:*



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*We fight for entrepreneurs.*

## INTRODUCTION:

This whitepaper explores the value of long-term relationships between financial advisors and clients. It has been prepared based on Spara Capital's ("Spara") long-standing relationship with Fer-Pal Infrastructure ("Fer-Pal" or the "Company"), a leader in the North American clean water infrastructure services sector. In addition, Spara has drawn on experiences gained through other long-term client situations. The paper has been organized into sections in line with Spara's service mantra; Coaching, Challenging, Collaborating and Closing.



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Jason Sparaga | CEO of Spara Capital Partners

## BACKGROUND:

Fer-Pal is a Toronto, Ontario-based provider of trenchless water-main rehabilitation services to municipal governments across Canada and the United States. Fer-Pal is among North America's largest service providers, and leads the industry in terms of capability, quality, innovation and reputation for service. Due to the crumbling underground infrastructure throughout North America and the significant cost and social advantages of using trenchless ("no-dig") technology, the Company has enjoyed consistent growth for more than two decades.

Fer-Pal was one of the first prospects for Spara when it was founded in 2001. Spara and Fer-Pal engaged in a number of exploratory discussions over the first few years, ranging from

Private Equity recapitalization to acquisition opportunities. In 2007, the Shareholders of Fer-Pal decided it was time to start getting serious about succession planning. The long "courtship" period and established relationship between Spara and Fer-Pal ultimately resulted in Spara being retained by Fer-Pal to help the Shareholders explore their succession options; particularly for one of the Founding Shareholders. Fer-Pal was owned by four Shareholders; the two Founding Shareholders, Paul Ferretti and Shaun McKaigue who each owned significant and equal shares of the Company and two key managers who owned smaller positions in the Company. The impetus of the conversation was the fact that Paul Ferretti wished to define his eventual exit strategy and all Shareholders wanted insight into what options might be available to them and the Company.

"The strongest relationships between entrepreneurs and advisors are 'slow-cooked' over time," said Jason Sparaga, CEO of Spara Capital. "Clients must feel sufficient comfort to trust us with their 'children'. They have to be willing to follow our lead through what can be a stressful, life-changing process. And while some transactions and relationships happen very quickly, for us the strongest relationship build happens at a 'low heat' over the right amount of time".

Sparaga feels it is critical to understand clients from both a business and a personal perspective and just as important that they understand their advisors. He feels that all deals are built on foundations of mutual trust and confidence and recommends taking the time to get to know one another.

“And taking time doesn’t mean some defined chronology either,” said Sparaga. “Fer-Pal was definitely at the long end of the typical timeframe but it was right for the relationship. We’ve had clients in which we’ve gelled very quickly and others where after a number of years, we’re still trying to figure each other out,” he added.

“The point is, entrepreneurs need to get active in finding the right advisor before they are ready to transact and make a point to have very frank discussions on needs and wants from both personal and professional angles,” he added.

Spara Capital’s philosophy, when it comes to achieving success for its clients, can be summed up by the “4 C’s”, namely Coaching, Challenging, Collaborating and Closing. The following sections will look at how Spara incorporated the 4 C’s in order to help the Shareholders of Fer-Pal achieve their goals and objectives.

## COACHING

The Shareholders asked Spara to help determine and understand the full range of succession options and the impact to them from a number of perspectives including; risk/reward, personal finances, lifestyle, business growth needs, and the ongoing relationship between them. On this basis Spara went to work.

“We were engaged for three reasons” explains Eric Waxman, President at Spara, “first to provide a full range of options supported by the appropriate analysis; second to help them choose the option that best met with their personal and professional objectives; and lastly to quarterback and execute the transaction allowing the Shareholders to continue to focus on operating the business; and most importantly maintain the close relationship that they had built over the years”.

Spara brought forward a number of alternatives including selling the entire business to a strategic buyer/competitor; selling a minority or majority position to a financial buyer who could help drive the future growth of the business; and completing a Shareholder Buyout by the other partners and securing debt within the business (i.e. a recapitalization) to finance it.

“We first explored an outright sale, but this was not consistent with the objectives of the Shareholders, as they were not ready to cash in the chips yet. We next explored a Private Equity recapitalization for Fer-Pal. Despite there being strong interest from the PE community, it was just not a fit for the Shareholders. They wanted to own and control the business and their preference at that time was to have owners who work and manage the business. Because of this, it was obvious to our team that a Shareholder Buyout funded with debt was the right option for them.” said Waxman, “However, the Shareholders weren’t used to operating with significant debt, so the key was helping them understand the implications of this chosen direction. Essentially what they were getting themselves into, so they could make their decision with eyes wide open.”



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Eric Waxman | President at Spara Capital Partners

“We are entrepreneurs ourselves at Spara and we’re wired similarly to our clients. Our clients want us to provide them with comprehensive information and accurate, sometimes brutally-honest counsel. We do this, then we get out of the way and let them figure out what is right for them,” Waxman continued.

Having delivered a comprehensive view of the options, Spara recommended that the Shareholders explore the ins and outs of a Shareholder Buyout/Recapitalization together. They then helped the parties understand life, post-Transaction, in particular from the perspective of the Founding Shareholders.

“Without an advisor involved from the onset in a Shareholder Buyout, people can get focused on the wrong things,” said Waxman. “Valuation is important of course, but it is only one part of the equation. Transaction structure, total compensation, and timing are equally, if not more important, and understanding the obligations of the Company post-transaction is critical to the decision-making process. It boils down to establishing constructive communication and process; two key benefits that advisors provide,” said Waxman. “Without them, the fear of the unknown, or worse, mistrust can set in which creates friction and tension between the best of partners. We start with an open conversation to determine alignment and divergence between Shareholders, then look to close any gaps”.

“And ultimately any buyout cannot occur to the detriment of the business, such that it is not able to meet its operating and growth needs” Waxman added, “While this seems like common sense, it is amazing how often this is ultimately overlooked in these processes, and results in significant stress on the Company and the next generation of ownership”.

## CHALLENGING & COLLABORATING

To provide the best counsel and help determine appropriate options, Spara challenged the Shareholders to openly share their personal and professional needs, wants, and goals in a series of discussions led by Spara. Spara was also there to deal with sensitive and more contentious issues one-on-one and bring about these topics in a non-confrontational manner. This process proved extremely helpful and “set the table” for a mutually-agreeable transaction.

Through these conversations, the Shareholders, all of whom wanted what was best for the Company, agreed that a Shareholder Buyout was the right choice but still needed to determine several items. The major points that all parties agreed were priorities for resolution were a) determination of a fair valuation, b) not bringing in an outside equity partner, and c) ensuring a funding and repayment structure that would facilitate the Company’s continuing capital needs for growth.

Given both the Company’s profitability and limited debt, the Shareholders understood the possibility of supporting the Transaction with the use of leverage but they wanted to be certain they didn’t burden the Company with so much debt that it was unable to deal with any unexpected bumps along the way.

The Founding Shareholders also had their own set of unique issues. Paul wanted to take some money off the table and transition out of the business over the next five years, reducing his equity position and role allowing Shaun to formally take over leadership. However, he didn’t want to step back and reduce his ownership but still hold the same level of risk. At the same time, Shaun didn’t want to assume more responsibility and risk without new incentive, and more control over the business commensurate with his risk.

To address the unique needs of Shareholders, Spara proposed a two-phase Shareholder Buyout Plan. This plan would see a phased purchase of the shares, with Phase 1 taking place immediately and Phase 2 happening once Phase 1 had been completely funded. The structure of both phases was established at the time of Phase 1, with the variable being the performance of the Company. The Shareholder's Agreement needed to be updated to reflect the changes in ownership, but also respect legacy roles, relationships and operating fundamentals.



**Spara were our partners for the long haul. Both Paul (Ferretti) and I trusted Spara's role of buffer and objective third party. They allowed us to continue our strong relationship and helped ensure we remained both partners and friends through the entire process."**

Shaun McKaigue | Majority Shareholder of Fer-Pal

## CLOSING

Spara performed a detailed analysis of the Company to help establish a current market-based price for the business at the time of Phase 1, as well, they established the formula that would be used at the time of Phase 2 to purchase the remainder of Paul's shares. Spara worked with Fer-Pal's legal counsel in reworking the Shareholder's Agreement at the end of both Phase 1 and Phase 2 to reflect the revised shareholdings and the particular wants and needs of the Shareholders. This included working with the Shareholders on redefining both board level and Shareholder level controls that would take place as a result of the Transaction.

"Spara were our partners for the long haul," stated Shaun McKaigue, Majority Shareholder of Fer-Pal, "Both Paul and I trusted Spara's role of buffer and objective third party. They allowed us to continue our strong relationship and helped ensure we remained both partners and friends through the entire process".

Spara also helped arrange the debt financing to fund both phases of the Transactions. They developed the financing package that would be used to raise the requisite capital, and negotiated and managed the financing process. They were instrumental in structuring and securing the debt utilized for the buyout. Spara's process facilitated the most competitive terms, and a flexible structure that did not impede the growth plans of the Company, or any seasonal operating limitations. This proved to be of tremendous value to the Shareholders of Fer-Pal, who were very conscious of the impact leverage could have on their growth capital needs. The debt utilized for both Phases of the Transaction was provided by Bank of Montreal, who have funded the Company for over 7 years and have grown to become a trusted partner.

"I was very impressed with how Spara managed the financing process. They added tremendous value with their knowledge and insight of the various capital options and how they negotiated on our behalf," recalled McKaigue.

Spara was also consulted from time-to-time to assist the Shareholders in resolving minor issues relating to the buy-out and financing, and even engaged to look at a few small acquisition opportunities as they emerged during the time period between buyout phases.

Upon completion of Phase 1 of the buyout, Shaun became the Majority Shareholder of the Company, however it was important that certain controls and legacy decision-making protocols be respected/retained. Spara helped create governance around decision making that reflected the new ownership, while respecting the historical decision making process through an amended Shareholder's Agreement. Spara worked closely with the Shareholders and their legal counsel to amend and update the agreement.

In Phase 2, Spara once again assisted in amending the Shareholder's Agreement. The Company had grown considerably in the five-year period between phases and new realities needed to be addressed. For example, Shaun's future objectives and legacy had changed over the period which needed to be reflected in the Shareholder's Agreement. In addition, new key employees needed to be incented to reflect both their contribution to the recent growth of the Company, and also to cement their role in the ongoing growth of Fer-Pal. Option Agreements were developed and executed with key management. The Option Agreements allowed certain key management to earn and purchase equity in the business over a vesting period and participate in the growth above a baseline valuation. Spara was integral in working with Shaun and the Company's counsel to create and document the Option Agreements.

"What's interesting in looking back at both the phases of this Transaction, is how the Shareholders' views, needs and preferences changed and matured as the Shareholders and the Company grew." reflected Waxman, "Aside from this process being an enabler of a buyout of a retiring partner, it also was a catalyst for governance and strategic change within the business. The implications of a Transaction like this are so impactful on the direction of the business. It needs to be handled properly."

## CONCLUSION

Spara has been a trusted advisor to Fer-Pal through the succession plan of a Founding Shareholder, and helped to position the Company for its future. Spara was an instrumental part of critical events in the lifecycle of the Company; successfully guiding the Shareholders through some very important issues.

"We helped the Shareholders work through the various deal points such as; transaction value, deal structure, on-going decision-making, and management control," said Waxman. "What is great is that although it seemed that each issue that surfaced during the Transaction was more complex and trickier than the one before, there was never any doubt that we would be able to help the Fer-Pal Shareholders to achieve their goals".

Waxman feels that the greatest asset his team brought to each situation was having secured the trust of the Shareholders over the tenure of their relationship, and it grew with each phase of the buyout.

"Each time we were called to Fer-Pal to assist them, there was an understanding that we would work to find a solution that was in their best interest and consistent with their goals and objectives" said Waxman. "No matter how contentious the issue, we were all going to work together to figure out a way forward. This was only possible because of the alignment and the mutual trust we had established with all of the Shareholders, the product of both a great group of people at Fer-Pal and our long term relationship," he continued.

"Spara has been our trusted advisory partners for the better part of a decade," said Shaun, "I can definitely say they'll be our advisors in our future transactions too, whatever those may be".

### **ABOUT FER-PAL INFRASTRUCTURE:**

Established in 1986, Fer-Pal Infrastructure is a company that offers complete water-main rehabilitation solutions. Fer-Pal specializes in projects utilizing trenchless technologies of all types and sizes for municipalities across Canada and the United States. More on Fer-Pal can be found at [www.ferpalinfrastructure.com](http://www.ferpalinfrastructure.com)

### **ABOUT SPARA CAPITAL PARTNERS INC.:**

Spara Capital Partners Inc. is a boutique M&A advisory 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. To get started building a long-term relationship with Spara Capital today visit [www.sparacapital.com](http://www.sparacapital.com)