

## Transaction of the Year

# Small Company

Robert H. Barnett, Gregory A. Charleston, CTP, and  
Paul R. Share, Conway MacKenzie  
James J. Miller, FirstCity Crestone  
*for Republic Industries*

At a TMA holiday party, a door opened for Republic Industries.

Established in 1975, the Marshall, Texas-based manufacturer of cabinets, doors and countertops sold mostly to large general contractors building multi-family residences. In 2004 a private-equity firm took control of the business and planned to consolidate it with two other cabinet makers.

The private-equity firm hired a professional management team to add operational polish to the organization by improving collections and quality control, and making the pay scheme contingent on plant operations and variable. The previous owner-operator who had been retained as an executive left the business in late 2005, taking top employees to build Republic's new competitor.

That talent drain aggravated burgeoning problems for Republic as the subprime mortgage crisis evolved into a full-blown housing crisis. The downturn eroded its profits, and the company saw consecutive losses of \$16.2 million, \$9.9 million and \$3.6 million in fiscal years 2007 through 2009.

Republic was up against a wall. Its bank lender declined the company's appeal to draw from a \$2.2 million revolver because of covenant breaches and the dreary economy. Cash was so tight that sometimes the company delayed paying workers.

Enter Conway MacKenzie. Sizing up the case, the advisors analyzed cash flows and gave the company eight weeks to survive. A refinance and sale or business wind down were the only options.

The advisors talked up the business to potential suitors and at a TMA Georgia [Atlanta] Chapter holiday party in 2009, made a solid connection. Private-equity firm FirstCity Crestone had executed transactions with the advisory firm and the lender, closed under tight deadlines before, and had experience in the cabinet industry.

The bank favored the refinancing proposal with FirstCity Crestone over a second option to conduct a sale/leaseback of company real estate. The plan would supply both a term loan and revolver for \$2.3 million each and repay the bank in full. FirstCity Crestone and the private-equity firm would share ownership of the company.

The complicated ownership proposal hammered out details such as who would control the board, how to indemnify the minority owner, and how to unhinge Republic from an intricate ownership structure with related companies run by a professional management team.

The bank set a deadline of early February for the advisors and FirstCity Crestone to glue together the pieces of the deal.

The advisors also drafted a backup plan, procuring a \$2.2 million cash bid to sell the machinery and equipment and repay the bank if the FirstCity Crestone deal fell apart.

FirstCity Crestone closed the transaction in 51 days after the bank gave the go-ahead to pursue the refinancing option, underscoring a pivotal encounter that made all the difference. The deal saved approximately 180 jobs in a rural community and smoothed the way to sturdier financial performance.

Republic projected its 2010 EBITDA at about \$1.9 million and \$1.3 million of net cash flow after interest expenses. As a finishing touch, Republic added 30 manufacturing jobs and three office positions in March 2010. ✪



Robert H. Barnett



Gregory A. Charleston, CTP



Paul R. Share