Case Study 3

Blue Wolf Capital Management and Finch Paper Llc

About Blue Wolf Capital Management

Adam Blumenthal and Josh Wolf-Powers founded Blue Wolf Capital Management in April 2005. Since then, the firm has made five investments – four in pre-fund, oneoff vehicles, and one by Blue Wolf Capital Fund II, L.P., (the "Fund") – the firm's first institutional private equity fund. The Fund, a control-oriented middle-market buy-out private equity fund, focuses on companies in North America. It was formed to realize significant capital appreciation by investing in attractive companies whose value is obscured by complexity, and in particular, in companies that manage the complexities associated with three powerful constituencies that deter most middle-market private equity investors: government, labour unions, and creditors armed with the power of the bankruptcy court. For further information see, www.blue-wolf.com

Blue Wolf's approach to ESG issues

Blue Wolf's investment strategy assumes the importance of environmental, social, and corporate governance (ESG) issues in the investment decision-making process, and its staff includes individuals with government, labour relations, and operations management experience that understand how ESG issues impact on all businesses. Blue Wolf makes control investments in middle-market companies in sectors underserved by private equity, and manages situations involving multiple stakeholders where ESG issues often arise. Among the stakeholders can be government, either as customer, policy-maker, regulator, market influencer, or provider of subsidy; and labour unions, both as a potential source of deals and in the creation of value post-acquisition. Blue Wolf also has expertise in resolving issues borne from organizational mismanagement and/or corporate governance failures. Blue Wolf Capital Management is a signatory of the Principles for Responsible Investment (PRI).

Acquiring Finch Paper

Finch Paper was over 140 years old when Blue Wolf made its investment in 2007, and was led by an inflexible and litigious group of over 100 descendants of one of the company's founders. The company was and is a leader in the premium uncoated printing paper market, manufacturing over 250,000 tons per year for advertising materials, book publishing and business office uses from its single mill in Glens Falls, New York – making it an attractive investment opportunity. In 2001, there had been a bitter six-month long strike, and at the time of Blue Wolf's acquisition of the company, it had seven collective bargaining agreements covering workers represented by five unions. The existence of a fractured ownership group, the history of contentious labour relations, and the need to implement a state-of-the-art environmental programme presented obstacles to a successful transaction.

Relevance of ESG issues to the investment

Blue Wolf contacted officials at the United Steelworkers of America (the lead union at Finch) to satisfy concerns about our ability to work with the unions to improve operations. In addition to dealing with labour issues, Blue Wolf's ultimate success in acquiring Finch, at a price below that established in a competitive bidding process, was based on our willingness to provide the sellers with liquidity for 161,000 acres of Adirondack Forest timberlands. We were confident in this transaction because of our ability to sell the timber to a unique buyer, one to which the family owners would have never agreed to sell to, The Nature Conservancy. As a result of this transaction, 161,000 acres of environmentally sensitive forestland was transferred to the ownership of The Nature Conservancy, and ultimately, much of it in turn passed on to New York State.

The Nature Conservancy also re-hired Finch Paper LLC to manage the land for them in a sustainable manner.

Outcomes

The acquisition of Finch Paper is an example of how Blue Wolf's investment strategy works. In this instance, because of our ability to navigate a series of complicated situations, including a divided family ownership, contentious labour relations, material environmental concerns, and the sale of land and equipment, we were able to acquire a $25 million of annual EBITDA business for $52.5 million. Moreover after taking control of the company, we were able to use the goodwill generated to rationalize the company's cost structure, create incentive plans for both management and hourly staff, reposition the brand name and refinance to reduce interest costs.

www.blue-wolf.com
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