On the hunt: HBM Holdings grows revenue to nearly $800 million as it seeks more acquisitions

Nov 30, 2017, 2:00am CST

If Mike DeCola knew six years ago what he knows today, he'd have been "much more terrified" of the decision he was about to make.

It was July 2011, and the then-CEO of Mississippi Lime, a producer of lime and calcium-based products, was hunkered down with some of his top lieutenants and a pair of outsiders — Collaborative Strategies Principal Jack Smith and Washington University Professor Jackson Nickerson.

DILIP VISHWANAT | SLBJ

HBM's Mike DeCola was persistent is the acquisition of Aerofil, which is expected to record a 20 percent jump in sales in the next two years due to capital improvements.

DeCola said growth prospects in the lime industry had slowed. The group was rallying behind an idea to transform Mississippi Lime, one of St. Louis' oldest firms, with 2010 revenue of an estimated $212 million, into a holding company for manufacturing-based businesses to boost growth prospects.

"The more we talked about it and the more we pressure tested it, the more interesting it sounded to us," DeCola said. "But we were naïve. I look back at what we said then and I have to laugh before I cry."

Painful as the group's early planning may seem today, the foresight to diversify has paid off.

DeCola, along with trustees of a family trust established by founder Harry B. Mathews, launched a new investment and management company called HBM Holdings in 2012, and the firm has since grown revenue to about an estimated $800 million amid a fiercely competitive mergers and acquisitions landscape.

Through the first three quarters of this year, private equity activity in the middle market totaled $233 billion, up 13 percent over the same time period last year, according to data provided by Pitchbook. Also, median mid-market valuations have risen to their highest levels on record, often inflating the cost of companies that may have been classified as lower middle market in recent years, the data showed.

That's forced many strategic and private-equity buyers further down market — where HBM is fishing — and created a more competitive environment.

"There's just a ton of capital chasing deals, multiples are at an all-time high, and there is lots of liquidity in the market for debt leverage," said Kyle Chapman, managing director of BW Forsyth Partners, the investment arm of multibillion-dollar global manufacturing and engineering consulting firm Barry-Wehmiller Cos.

"It's just hard to go out and buy platforms," he said, referring to companies that can serve as a base to add future acquisitions, commonly called bolt-ons.

Smith said DeCola, who he considers among the three best general managers he's ever worked with, devised a plan to make HBM "not a traditional private-equity firm, but a company that would take the long-term view like a family office. Instead of approaching it from a pure financial standpoint, he'd approach it from a leadership development standpoint."

HBM ended a two-year dry spell for platform acquisitions in August when it purchased Indiana-based Schafer Industries, which manufactures custom-engineered gears and machine parts, and then followed it up with the acquisition of Sullivan, Missouri-based Aerofil Technology, one of St. Louis' largest private companies, in October.

Those deals, for which terms were not disclosed, helped HBM craft its strategy moving forward as it approaches the $1 billion in assets under management benchmark.

Fast start

Almost as soon as HBM was founded, the firm had two acquisitions under its belt.

It acquired Philadelphia-based food and pharmaceutical ingredient manufacturer Delavau from a private equity firm in 2012 and the next year, it bought Indiana-based Tru-Flex, a manufacturer of specialty metal hoses.

The deals helped boost HBM revenue from an estimated $230 million Mississippi Lime was generating in 2011 to an estimated $456 million for HBM's growing portfolio in 2013.

"Those first two years we got a couple of nice deals partly because of luck, and then we had a three-year dry spell where we weren't able to do much," DeCola said. "We thought it was going to be simple and didn't really understand how competitive it was."

DeCola said his experience with Mississippi Lime led him to believe HBM could complete more proprietary deals and fewer investment bank-led transactions. "We thought we could do 80 percent proprietary and 20 percent auctions and it turned out it was more like 90-10 the other way," he said. "When you're in the industry, you sort of know where to look for the deals and you don't need the intermediary help. When you don't know the industry, someone needs to bring it to you."

Deals were scarce as HBM continued to try and make a name for itself. "We got close on a number but couldn't get them done," DeCola said.

"It's a challenging market," said Tom Hillman, managing principal at private equity firm Lewis & Clark Capital, formerly FTL Capital. "The landscape is very competitive in the arena (HBM) plays in. But HBM is really a departure from the traditional (private equity) firms. HBM is really this new breed of family offices that are cropping up all over the country that are strategically looking at other platforms where they have competency as operators. They're investing in platforms that are more adjacent to really leverage their skills and capabilities and diversify their assets."

To adjust to the competitive landscape, HBM tweaked its investment criteria by seeking larger targets as platform investments — companies within an EBITDA range of $10 million to $25 million — while remaining flexible for add-on acquisitions to its existing portfolio.

HBM also hired Ryan Supple in August 2014 as its deal origination manager to identify and lead future acquisitions. Supple, who has an MBA from the University of Chicago's Booth School of Business — widely recognized as one of the best MBA programs in the nation — helped hone the company's initial evaluation of acquisition opportunities while working with the deal team through the sale process.

Supple helped HBM increase the number of potential deals it looked at to 426 potential deals in 2016 — up 90 percent over 2015.

Personal touch

Bob Dunaway, chairman and CEO of Aerofil, was a bit wary of DeCola when they met in 2015. Dunaway was tasked with selling Aerofil after his business partner had been diagnosed with terminal cancer.

"He said he'd like me to try and sell the company before he died," Dunaway said. "I said I'd try, but I couldn't promise anything."

Dunaway hired Stifel Financial advisers from New York to guide him through the process.

But before he could get very far with Stifel, DeCola cold-called Aerofil's attorney and asked to tour the Sullivan, Missouri-based company's facility.

"At the end of the tour, he said Aerofill was the kind of company that HBM was interested in acquiring," Dunaway said, noting DeCola's belief that the company could serve as a platform within HBM's portfolio. "I said 'Well, Mike, we're not for sale.' But over the next 18 months, he and I had lunch or breakfast to get to know each other. Eventually, I was comfortable enough that we shared the same goals and objectives that we stopped working with Stifel."

It's the type of playbook HBM officials want to replicate moving forward.

Amy Fields, vice president and chief human resources officer, said HBM was losing some of the traditional investment bank-led sales, which are typically structured like auctions.

“There were a lot of bidders, and we didn’t have the brand recognition that some other strategic buyers or private equity firms had,” she said. “So we started taking the tack of seeking other opportunities to get to close — proprietary deals through channels such as lawyers, wealth advisers or accountants.”

Adding value

Prior to being acquired, Aerofil, which packages aerosol and liquid products for retail and private-label companies, reported a 15 percent increase in revenue in 2016 to $188 million. Dunaway said he sees sales jumping another 20 percent to 30 percent to $240 million in the next two years thanks to capital commitments made by HBM.

“We’ve been basically sold out and running 24/7 for over a year now, but with my partner passing away, it didn’t seem like a good idea to invest the $12 million to $15 million needed (in two new aerosol lines), and then sell the company, so I put all that capital on hold,” he said. “But HBM has agreed to move forward, and we’ve bought those new lines, which are in a warehouse across the street and those two will probably add $50 million to $60 million in sales.”

HBM has made similar investments in its other portfolio companies.

In 2015, HBM spent $10 million to help Tru-Flex build a manufacturing facility in Poland.

“The private equity guys we bought the company from didn’t want to make that investment and recognized they needed to sell the business to someone who would,” DeCola said. “I think five years from now, we’ll be so glad we invested in Europe.”

Chapman, the BW Forsyth Partners managing director, said traditional private equity firms don’t have the luxury of investing that type of money into their portfolios because “they are so levered in financial debt that there’s not a lot of room for investing.”

“Similar to BW Forsyth Partners, HBM is relatively debt averse and they build businesses the right way,” Chapman said. “It’s a great model that I think will win more over time, but it does take time. It took us two years of just looking at deals without doing one, and then we did three platform deals in 18 months.”

Business outlook

Since diversifying its portfolio, HBM has seen its revenue grow more than 275 percent. During that same time, employee totals have roughly doubled and facilities under management has ticked up from five a half-decade ago to 17 sites today.

DeCola said HBM is likely to add another two to four MBA graduates per year to help stock the leadership pipeline for portfolio companies.

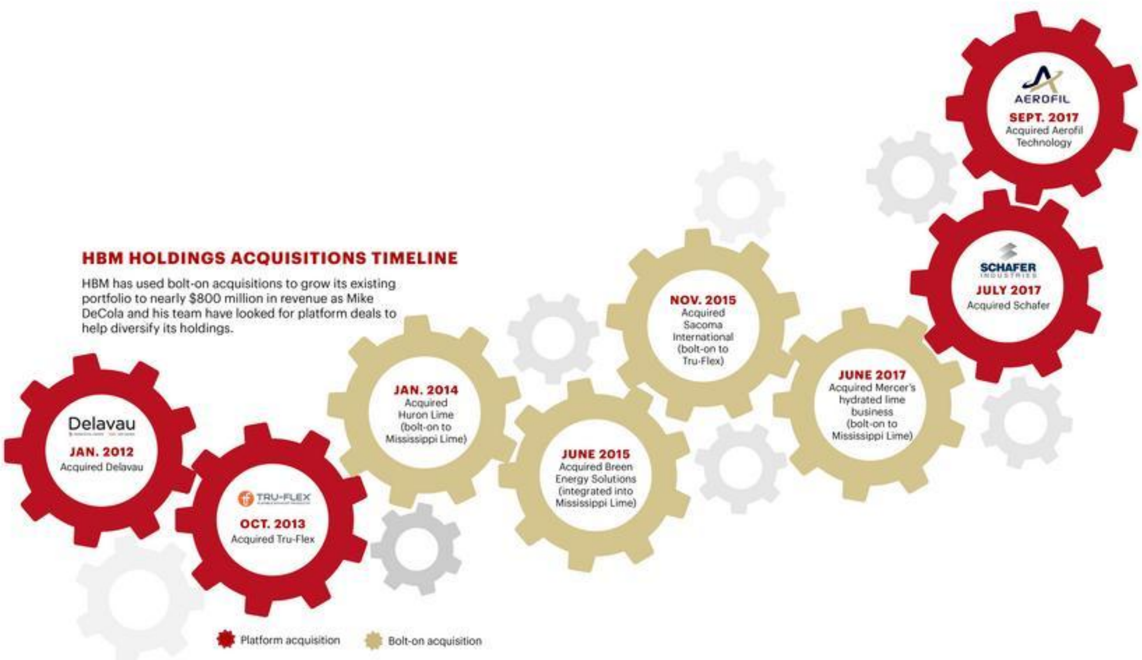
Smith, the Collaborative Strategies principal, said HBM is unique in recruiting and developing young MBAs and “putting them out there on the factory floor and into general management, making them multi-dimensional.”

“That’s a great tool because when you acquire a business, it’s usually because they haven’t done succession planning or don’t have the talent to move forward,” Smith said. “Now, HBM has this pool of talent they can turn to. Private equity firms might parachute a president in, but certainly not a vice president of sales like HBM can.”

In addition, DeCola said HBM is on track to meet the business goals his group set forth back in 2013 for 2010, but he declined to say what those goals were. “It wasn’t something we set because it was important, but we needed to have something to aspire to or there would be no sense of urgency,” he said.

The firm is also crafting more refined marketing strategies to better reach the business advisers of owners that may soon explore a sale, which could lead to more deals for HBM.

HBM timeline



Brian Feldt
Senior Reporter
St. Louis Business Journal