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Buyouts

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DEALS

KRG Bridges Debt To Buy Petro Company

SNAPSHOT:
Target: Tri-County Petroleum
Price: Undisclosed
Sponsor: KRG Capital Partners
Financial Advisor: Seller: Stephens
Legal Advisor: Sponsor: Brownstein Hyatt Farber Schreck; Seller: Pepper Hamilton

KRG Capital Partners has taken the leverage out of leveraged buyouts—at least for the moment. In a creative answer to the liquidity crunch, KRG Capital fully financed its latest buy, Pennsylvania-based distributor **Tri-County Petroleum**, with cash. The lubricant distributor plans to issue debt after the deal's close.

The Denver-based LBO shop opted to bridge the transaction to distinguish itself from competing bidders and to satisfy a timing requirement from the seller; two of Tri-County Petroleum's investors pressed for an exit before year-end. Concerned that lining up financing in today's credit market would stall the deal into 2008, KRG Capital decided to eliminate the issue altogether. Bridging debt may well become commonplace in the weeks ahead: **Sun Capital** said last week it was prepared to pay in cash to bridge its $762 million tender offer for Missouri-based Kellwood Company.

While the fate of Sun Capital's unsolicited offer is yet to be determined, KRG's money-up-front approach helped seal the deal. "We told them we are confident enough we can get the deal financed," said **Dale Meyer**, director at KRG Capital, "so we took financing off the table." He added: "It's not something we want to do regularly, but if it makes us competitive or if we can get a deal at a lower price, we'll do it."

That flexibility was one of the deciding factors for Tri-County's backers. And while KRG Capital recognizes the risk of such a commitment, the firm is confident in the strength of its relationships with lenders, Meyer said. "The potential disadvantage is that we misread the market and have to own all of it for equity, but I don't think that's the case," he said. Several banks have already expressed interest, he added.

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> *—Dale Meyer*
> *Director, KRG Capital Partners*

Though financing the deal post-close is atypical for KRG Capital—or for LBO shops in general—Meyer expects the financing will ultimately resemble capital structures employed for previous deals. KRG Capital tends to work with small clubs of senior lenders who hold loans rather than syndicate, he said. As in past deals, the firm intends to keep the debt at a modest level. Its strategy is to build portfolio companies quickly through acquisitions, not to pile on debt to juice returns, Meyer said. In fact, KRG Capital's historic leverage ratio is less than 4x EBITDA, he said. "Leverage is a part of our strategy, but not key," he said, adding that the scarcity of liquidity in the market eliminates the possibility of an aggressive capital structure.

This marks the ninth platform company for **KRG Capital Fund III**, a $715 million fund closed in 2005. Last year the firm closed its fourth fund at $1.96 billion.

Tri-County Petroleum, incorporated in 1991, distributes commercial and industrial lubricants to customers in the OEM, off-highway construction, food processing, surface mining and metal working industries. The Mid-Atlantic region offers consolidation opportunities, and Tri-County plans to scoop up family-owned lubricant distributors as add-ons, Meyer said. Tri-County's managers will retain their positions, and have equity stakes in the company.—E.G.