abfjournal

SEPTEMBER 2008
VOL. 6, NO. 8

FOR THE COMMERCIAL FINANCE PROFESSIONAL | WWW.ABFJOURNAL.COM

PUTTING IT TOGETHER

Tyree Holdings & Capstone Positive Value Fund I: A Perfect Fit Causes Rapid Transformation

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When Capstone Positive Value Fund I purchased and restructured Tyree Holdings, there was a rapid and beneficial effect on all levels of the company's performance. According to Joseph Ingrassia and James Rybakoff, if restructuring changes are implemented in the first six months after the acquisition, investors can expect significant growth for the business' equity valuation.

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Tyree Holdings, Inc. is a prominent and nationally recognized Northeastern-based service/maintenance and environmental remediation provider for the retail petroleum industry. Tyree was founded in 1930, originally to provide pump and tank, construction, engineering and technical services to the retail petroleum industry. In the mid-1980s, the company diversified into providing environmental remediation services to its existing client base.

The company continued to be family operated and owned by third-generation members of the Tyree family, with more than 261 employees, until it was purchased and restructured by the Capstone Positive Value Fund I (CPVEF I) in January 2008. Today, Tyree is a fully integrated multidimensional petroleum and environmental services provider. Tyree is headquartered in Farmingdale, NY, and has five additional locations throughout the Northeastern U.S. as well as a satellite office in southern California.

Tyree's extensive license and permit portfolio allows it to operate in two main business segments: 1.) service/maintenance for retail gas stations and 2.) environmental remediation services. The service/maintenance division provides pump and tank construction, equipment installation, maintenance and rehabilitation and construction engineering services for retail gas stations. Environmental remediation services include hazardous material remediation, including underground storage tank (UST) removal, and excavation and removal of contaminated soils, emergency response services, and the installation and operation of soil and groundwater remediation systems and compliance services.

Until the mid-1990s, Tyree had been successful in pursuing, adapting and expanding its business model to best accommodate the constantly changing technical and regulatory climate in the retail petroleum industry. During the 1990's consolidation of the major oil and gas companies, Tyree experienced major changes in its business model, as it lost major service contracts. Over the five-year period from 2000 to 2005, the company downsized, experienced continuing losses and built significant debt. In February 2005, the company was restructured through a recapitalization by Capstone Business Credit, LLC, a special situations venture family of debt and equity funds. Capstone increased Tyree's borrowing base as well as initiating substantial operational and financial changes. These developments coincided with a recently renewed rapid growth trend in project volume in the industry, in the face of decreased industry capacity. These events allowed Tyree to return to profitability in 2006 and have continued to foster significant profitability growth through 2008.

Tyree was at an inflection point in January 2008, when CPVEF I completed the purchase through a leverage buyout. Based on Capstone's three relationships with Tyree, as Tyree's senior lender (through its debt funds), Capstone had acquired a significant understanding of the company's: 1.) operations, 2.) management deficiencies, 3.) systems and 4.) market. Capstone and Tyree believe that the changing market presents multiple opportunities for growth in the company's retail gasoline station construction and maintenance and environmental remediation businesses. The company had the licenses, experienced personnel and technical expertise to exploit this opportunity, but was blocked from doing so because of its capital structure and the high cost of a debt-heavy, under-equitized capital. Capstone, through CPVEF I, was able to purchase a controlling equity interest in Tyree at an attractive discount and infuse fresh operating capital into Tyree at reduced interest rates. This investment began the process of reforming and upgrading the company's management personnel, operations structure, financial management and expense controls.

CPVEF I's basic philosophy is to purchase and invest in companies that are over- leveraged but have a solid, sustainable business model and market position, and will benefit from significant assistance in enhancing management, installing financial controls and rationalizing operations and operating expenses. Tyree was a perfect fit for CPVEF I. Below are several areas which CPVEF I focused on to assist the company in attaining financial stability and growing Tyree's market competitiveness.

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INITIAL REALIZED CHANGES

- *Standardizing Communication & Meetings:* CPVEF I established monthly board meetings for the first year of its investment, commencing the day after the closing of the transaction. These meetings included not only all members of the board, but also discussions with, and presentations by, the key department heads. The fund's goal was to meet all the key decision makers in the company rapidly, establish a secondary management team early, purge underperforming management members within the first three months, and execute all significant operating policy changes as quickly as possible. The fund believes that the companies it invests in do not have the luxury of waiting a full year before discovering, for example, that senior management is not capable of executing the new business plan. These meetings have proved to be invaluable in giving portfolio companies the necessary guidance and resources to support their new business plans.

- *Recruiting New Senior Management:* The fund recruited a new president and chief operating officer from a well-known public oil company. The fund believed that the company had out-grown its family business operating style and needed new leadership, training, policies and procedures, and relationships. The fund recruited the new president and COO prior to closing and hired this individual the first day of its ownership. In addition, the fund recruited a top-level CFO from a large construction company within the second quarter of ownership. The company in turn has been able to adopt rapidly the required level of sophisticated management and operational structures, and put in place the new dynamic leadership, which has permitted the company to move faster toward a new level of profitability in a shorter period of time.

- *Restructuring of Certain Liabilities:* The fund went into the Tyree transaction knowing that the company's payables level was too high and that the majority of the payables needed to be termed out over a 24-to-48-month period. The company has now, six months after closing, sucessfully termed out 80% of its payables over 60 days. This has helped Tyree immensely, freeing up working capital, which can be used for the expansion and upgrading of equipment and systems.

The fund's investment in Tyree has had a rapid and beneficial effect on all levels of the company's performance: in management effectiveness, operational and financial controls, project management, profitability analysis and marketing strength.

- *Settling & Restructuring Certain Tax Liabilities:* The company had certain previous tax liabilites both with the IRS and the states in which it operated. The fund hired outside expertise within the first week of ownership and has been sucessful in spearheading a settlement structure with the various tax authorities.

- *Installating a New ERP System:* CPVEF I is required to produce monthly reports for its investors, and in turn must insist on rapid and accurate financial reporting from its portfolio investments. The company's ERP and accounting software dated from the early 1990s and was grossly inadequate for either reporting purposes or the maintenance of proper controls. Within the first quarter, the fund provided the necessary capital, along with freed up working capital, to purchase new hardware and a state-of-the-art ERP and accounting software package. Tryee will now have the ability to alter its business model, change its billing procedures, and add new services, on a seamless and expedited basis. This will permit Tyree to manage and control its growth (previously a significant management deficiency) to only those business lines and projects, which will contribute to growing profitability.

- *Push Towards Increasing Margins:* The fund moved quickly after the closing of its investment to analyze the company's gross profit margins by business line. The analysis revealed that Tyree's margins were below its competitors both in terms of market billing rates and the reimbursement of project and program expenses. The result was an increase in Tyree's gross profit margins averaging 7% in the second quarter of ownership, with Tyree's EBITDA margins projected to increase to approximately 13% by the end of the first fiscal year of ownership.

- *Revamping Business Policy & Procedures:* The company had operated under antiquated internal policies and procedures dating back to the 1970s. The fund viewed this as a major problem, which had resulted in unnecessary personnel levels, lengthy internal decision making processes, lack of accountability for key managers and a general decline in both productivity and profitability. New company policies and procedures comprehensively designed by the new senior mangement brought in by the fund to attack these deficiencies, have been initiated and are being implemented throughout Tyree with an increasingly favorable impact on profitability.

- *Restructuring Personnel:* The fund has worked with new and existing management to restructure and simplify Tyree's business units, reporting procedures and personnel requirements. Once these initiatives were in place, the fund worked with management to identify overstaffing, decision-making and other management weaknesses in order to institute a new level of management accountability and productivity in all business units down to the ground level. This has resulted, during the third quarter of CPVEF I ownership, in a significant restructuring of Tyree's personnel at all levels, with noncore personnel layoffs of approximately 10% of total personnel accross the entire company. Savings are projected to be several million dollars annually.

CONCLUSION

The fund's investment in Tyree has had a rapid and beneficial effect on all levels of the company's performance: in management effectiveness, operational and financial controls, project management, profitability analysis and marketing strength. The CPVEF I business model focuses on the revitalization of a company with an attractive and sustainable business through a structured recapitalization. This has resulted in introducing a more flexible growth-oriented capital structure, followed by rapidly implemented enhancements to the company's senior operating management, financial and operational controls, expense levels, management structure, staffing, internal and external operating procedures and policies.

If these and other important changes are implemented within the first six months of ownership the result can be a rapid transformation of an existing business run on an unsustainable and outmoded basis into a dynamic and growing business with continually improving profit margins, cash generation and operating efficiencies. These changes will hopefully result in significant growth in the business' equity valuation. abfj

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