

CANADIAN BUYOUTS

FALL 2010

DEAL NEWS

BLUE WOLF EXPANDS OWNERSHIP IN NOVA SCOTIA

By Danielle Fugazy

Founded in 2005, it wasn't until 2007 that **Blue Wolf Capital** made its first investment. The New York-based generalist firm invested in Finch Paper Holdings, a paper company located in Glens Falls, NY. The company had characteristics that Blue Wolf's partner **Adam Blumenthal** liked. At its core, the business was viable and Blumenthal was confident that his firm could help bring the company back to profitability. In Blumenthal's view, the company had a strong customer proposition with good market share that was being obscured by issues that Blue Wolf felt were manageable. After purchasing Finch, Blue Wolf restructured and recapitalized the company. While the deal was a good first, little did Blumenthal know that this deal would set into motion a deal that has made Blue Wolf a local hero of sorts in Nova Scotia.

After word spread of what a good job Blue Wolf had done with Finch, in 2008 Neenah Paper Company of Canada put a call into Blue Wolf to see if the firm had any interest in buying their pulp mill at Abercombe Point in Nova Scotia. The mill was not part of Neenah's core competencies, but was an important asset to the Canadian forestry economy.

"It became evident that the mill had to exist because it was extremely important to the economy in Nova Scotia. It was really part of an integrated forest economy. Neenah had used it as a provider of raw materials. They saw it as a cost center," says Blumenthal.

The company had characteristics that Blue Wolf liked. For Neenah, the cyclical nature of the commodity pulp business didn't fit well with Neenah's aspirations to be a steadily growing, mid-sized public company. But for Blue Wolf, managing the cyclical nature was simply a matter of proper capitalization. Blue Wolf recognized that with the importance of the mill to the forest products economy of Nova Scotia, there was room to partner with local sawmills, lumber contractors, communities, and the Province itself to cushion the cyclical nature.

In June of 2008, Blue Wolf bought the business and turned it into a standalone pulp mill, renaming it Northern Pulp Nova Scotia Corp. The mill was not without its challenges. The mill needed to diversify its customer base. Additionally, in the 1970s, the mill had built an effluent treatment

facility. The center created conflicts with the First Nations Tribe. The facility smelled bad. Additionally, Neenah Paper's land holdings weren't part of the deal. Northern Pulp had an agreement to manage the Neenah lands under a long-term agreement and to continue to harvest the timber from the lands.

Blue Wolf rolled up its sleeves and got to work. It worked with the union to increase productivity and lower costs. It reduced the impact of the effluent treatment facility. Blue Wolf started working with environmental regulators to manage the center as cleanly as possible, and to reduce its environmental footprint. The mill's engineers implemented a plan that reduced the area needed for the center's settling basins by almost 80 percent.

"We really made an effort to become a steward of the environment," says Blumenthal. "We were being good citizens because we wanted to be, but it proved to be even more important because when the additional land that Neenah owned came up for sale the Nova Scotia government came to us. We had worked hard over the years and became a respected member of the local business community and the Province felt comfortable turning to us."

In March 2010, Blue Wolf, along with its partner **Atlas Holdings**, spent C\$82 million to buy Canadian forestland from Neenah. Nova Scotia lent Northern Pulp C\$75 million to purchase the 475,000 acres, ensuring the



THOMSON REUTERS™

wood supply to its mill and protecting the land as a forestry asset. And in August, Blue Wolf also brought **John Hamm**, a former Premier in Nova Scotia, on to its board and created Northern Resources Nova Scotia Corp., which will run both Northern Pulp and Northern Timber Nova Scotia Corp., the entity holding the newly acquired forestland.

The deal was a score for everyone involved. While the mill itself only employs about 250 people, indirectly it supports roughly 1,700 high-paying jobs in northern and central Nova Scotia. "This agreement also benefits the people who work with the company's contractors and suppliers — and in the

corner stores, car dealerships and other businesses where our forestry workers spend their money," says **Percy Paris**, Minister of Economic and Rural Development. The forest industry contributes C\$700 million to Nova Scotia's gross domestic product, employs about 11,000 people and has more than C\$1 billion in exports, or 17% of Nova Scotia's export trade.

The Province had its objectives too. They wanted to reserve some land for conservation. After buying the land, Blue Wolf sold the Province 55,000 acres of land, most of which is slated for protection in Cumberland, Colchester, Pictou, Halifax,

Hants and Guysborough counties, for C\$16.5 million, well below market value.

"This purchase includes some exceptional natural land for protection at an excellent price and will help us move toward our goal of protecting 12% of the Province's land mass by 2015," says **John MacDonell**, Minister of Natural Resources.

The Province's investment will also allow Northern Pulp to invest C\$5 million to reduce odor in the community surrounding the Abercrombie mill.

Adam Blumenthal, Partner, Blue Wolf Capital, 212-488-1340