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LBO Profile: Blue Wolf Embraces Complexity in a Regulated World

By Laura Cooper

An idle sawmill in Arkansas may seem like an unlikely investment target for many private-equity firms, but not for Blue Wolf Capital Partners.

The New York-based firm has earned a reputation for managing complicated deals, such as ones that involve struggling companies or those in heavily regulated or heavily unionized industries. Blue Wolf has plenty of capital to tackle those deals, as well as ones involving healthier companies, after wrapping up its fourth midmarket fund at \$540 million in October.

“We think the approach we have of diving deep into a sector and embracing the need for organizational change—it gives us a perspective on each of those industries and lets us see some things that many other firms don’t,” said Managing Partner Adam Blumenthal, who founded Blue Wolf in 2005.

This year, for example, the firm saw an opportunity to revive a sawmill in Glenwood, Ark., that had been idle for seven years. The mill, which became portfolio company Caddo River Forest Products, ceased operations after the family that owned it put assets in bankruptcy during the economic downturn that followed the financial crisis of 2008. Blue Wolf invested \$20 million in the company to reopen the mill, which processes southern yellow pine, creating 130 new direct jobs along the way.

“It got going this summer on time and ahead of budget,” said Blue Wolf Partner Michael Ranson, adding that the next phase of the firm’s plan, which is on track for early 2018, is to more than double the plant’s production capacity.

Mr. Ranson said the private-equity firm

BLUE WOLF CAPITAL PARTNERS

History

Blue Wolf was formed in 2005 by Adam Blumenthal, who had previously served as first deputy comptroller for the City of New York and before that built and managed American Capital Ltd.

Strategy

The firm typically invests in companies with annual revenue of more than \$50 million and enterprise values of \$50 million to \$500 million. Blue Wolf makes equity investments of \$25 million to \$250 million.

Industries

Health care, aerospace and defense, energy services, forest and building products and niche manufacturing and distribution.

was approached by an investment bank that knew Blue Wolf invested in southern pine mills—a niche the firm carved out for itself over the years with investments in other mill companies such as Twin Rivers Paper Co. and Northern Resources.

In addition to working with a bankrupt asset that had been closed for many years, Blue Wolf had to work with Arkansas state and local governments to obtain subsidies in order to get the mill off the ground. The work included expediting necessary permits and obtaining government subsidies.

Howard Searing, a director and portfolio manager in the private market group at DuPont Capital Management, which backed both the firm’s third and fourth funds, said his organization favors value-based firms such as Blue Wolf that are willing to tackle more complex situations.

“They get more involved in the complexi-

ties of the business,” Mr. Searing said. “Through themselves or resources, they change the business through things they have a semblance of control over.”

He added that his organization also likes Blue Wolf’s ability to successfully manage “unhappy people around the table” such as employees, existing owners and labor unions.

Blue Wolf has a long history of dealing with labor unions—a very specific group many private-equity firms have traditionally sought to avoid. Mr. Ranson said there is union representation at 20% to 25% of the firm’s portfolio companies.

But Blue Wolf’s investments aren’t limited to struggling companies. The firm also invests in healthy companies that operate in complex regulatory environments, such as Great Lakes Caring Home Health and Hospice. In 2016, Blue Wolf backed the Jackson, Mich.-based business, which provides hospice services that span areas such as home health care, private duty services and palliative care.

Adam Nielsen, the chief executive of Great Lakes, said Blue Wolf brings to bear all of the experience and knowledge it has gleaned from working with other portfolio companies across sectors when it comes to working with his company.

Since the firm invested in Great Lakes, the partners have completed acquisitions of varying sizes, including the additions of Grace Hospice and Heart of America Hospice in 2016.

“Great Lakes wasn’t a special situation; we’re a high-performing asset in the health-care industry,” Mr. Nielsen said. “They understand the ability to work in a regulated environment and are respectful of what we do and continue to do.”