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Triple team:
Barrington Branch, from left, Charles Shelton and Ed Sims are spearheading a fund to finance corporate growth, acquisitions, and real estate projects.



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Nancy Creek Capital fund financing growth

By J. Scott Trubey
STAFF WRITER

Finding success with their original formula, **Nancy Creek Capital** is returning to the same well with the launch of a second and much larger investment fund.

Nancy Creek closed Jan. 31 on \$25 million of a planned \$100 million fund to finance corporate growth, acquisitions, recapitalizations and potentially real estate projects. The team, led by high-powered Atlanta executives Barrington Branch, Charles Shelton III and Ed Sims Jr., plans to close on the full \$100 million by the end of the year.

Last June, the Vinings-based private equity firm closed its final deal in its \$38 million first fund.

Nancy Creek, with its stable of high-net-worth investors, returned yields of 5.5 percent per quarter for the past three years and 9 percent cash-on-cash return, which has remained stable despite the economy.

Unlike many private equity firms that look to acquire a portfolio of companies, five-year-old Nancy Creek provides mezzanine and equity to bridge the gap between what a bank can finance for its customers, and what the client needs for corporate growth, strategic acquisitions and recapitalizations.

Banks often cannot lend the full amount on such deals to guard against too much risk, and Nancy Creek principals say the \$1 million to \$5 million in mezzanine capital or equity they provide represents a largely under-served and sorely needed market.

"The banks today, when they make a loan, their typical loan size is 30 percent less than it was two years ago," said Sims, an attorney, a 35-year banking veteran and the former chairman of First Capital Bank of Atlanta.

With its first fund it deployed \$38 million in capital in 13 deals with an average of about \$3 million.

They invested mainly in manufacturing and service industries, from **S&S Industries Inc.**, the New York-headquartered maker of underwire for lingerie, to **Xorail**, the Jacksonville, Fla.-based provider of railroad signal and communication engineering services.

Nancy Creek's formula is to exit the company in four to five years with the borrower refinancing or using existing cash flow to buy out its interest. The firm does not seek to acquire its borrowers.

In the past four years, Nancy Creek has reviewed 240 deals per year valued at more than \$3.6 billion. It pulled the trigger on 13 of the deals, 10 of which were corporate mezzanine or equity deals for growth opportunities or acquisitions by the borrower.

"We look for the opportunity, not the sector," said Shelton, the former managing director and senior executive of the corporate finance department of what is now **SunTrust Robinson Humphrey**. "We're not a (sector-reliant) fund, and that's on purpose."

Deal flow is actually up about 20 percent, and the firm saw 300 prospective deals in the past 12 months. The quality is also improving, said Branch, a co-founder of investment banking house **The Branch-Shelton Co.** and former president and CEO of **Dutch Institutional Holding Co.**

The firm's commitment to build a fund three times larger than its first is a sign of its belief in the model, the partners said.

About 100 high-net-worth individuals from Georgia, Tennessee, Florida and New York invested in the first fund, and make up the majority of investors so far in the second. Nancy Creek is counting on continued investment from those legacy investors as well as institutional capital.

The firm anticipates making 25 to 30 deals over the next five years with an exit

from all in about nine years. Principals are seeing a need in manufacturing and corporate finance, and Nancy Creek is also interested in health-care deals.

Judging by its current stable of clients, the firm has seen "surprising strengths in manufacturing" as inventories have fallen and demand is picking up, Sims said.

Among its current portfolio of companies is **TWR Lighting Inc.**, a manufacturer of warning lighting for buildings, wind turbines and cellular towers, and **SunBelt Packaging LLC**, a maker of packaging material for freight distribution. Both are seeing pickups in activity.

Stuart Johnson, a partner with **Barnes & Thornberg LLP**, said banks are lending but with capital flow tight, there is a strong market for mezzanine and equity providers for small and midsized companies. "The banks are loosening but they're not loose," he said.

There are strong signs of growth for companies in health care, an Atlanta strength, and in energy, though other segments remain troubled in general. But companies sized between \$10 million to \$50 million in revenue are the players needed to pull the region out of its economic malaise, Johnson said.

Walt Moeling, banking attorney with **Bryan Cave LLP**, who serves on Nancy Creek's advisory board, said many community banks are suffering from liquidity shock and need the capitalization a private equity group can provide to maintain a customer relationship. "My basic view of the downturn, you don't get Main Street back without credit for small business to create jobs. And you don't get Main Street jobs by talking in Washington," Moeling said. "This is one of the only alternatives for a lot of smaller businesses."

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