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EXITS

Talking Top Quartile with Castle Harlan's Bill Pruellage, Howard Morgan

By Steve Gelsi

Castle Harlan Fund V has yielded a net IRR of 21.9 percent for the **Oregon Public Employees Retirement Fund** as of Dec. 31, 2012, above the 19.0 percent threshold for top quartile vintage 2008 funds and well above the median of 10.6 percent, according to data compiled by *Buyouts*.

Howard Morgan and **William Pruellage**, co-presidents of **Castle Harlan**, spoke to *Buyouts* at the firm's New York headquarters.

Q Talk to me about fundraising for Fund V. Was it a difficult time? The fund was short of its target, which may not have been unusual at the time.

Howard Morgan: It was a challenging environment. The week of our first close was the week that Bear Stearns went out of business. Environmentally, it went from bad to worse. We ultimately closed on $800 million in 2010 and at the time we had a target that was significantly bigger; $1.5 billion was on the prospectus. Bill and I became co-presidents three and a half years ago, really at the launch of the investment period for Fund V. So, while we've worked together for 17 years, formally this was sort of the launch of our first partnership in the leadership of the firm. We're happy with where we came out, given the environment, and we've been proactive investing that fund.

Q How did you navigate the financial crisis? You were sort of in the middle of it when you were raising the fund, so it must be a great question for you.

Howard Morgan: The first thing I'd point out is that in 2007 we did not do a single platform acquisition (from Fund IV). We sold. We had more liquidity than we'd ever had in our history. Maybe we were seeing on the horizon troubling times ahead. We remained very slow through the bulk of the recession. However, we managed to grow a number of companies. Notably, United Malt (from Fund IV) was a business where we succeeded in tripling EBITDA during the global financial crisis.

Bill Pruellage: It was really one of the few exits completed in the fourth quarter of 2009.

Q Once you raised the fund, what was your initial deal?

Bill Pruellage: The first investment in Castle Harlan Fund V was Pretium Packaging. This is a business that actually performs relatively well during recessionary periods. It manufactures rigid plastic bottles used for things like shampoo and pickles, items that people are buying in any economic environment. It was a transaction that we were able to put together at the end of 2009. We closed in the beginning of 2010. That was a deal that took several months to put together. It was also two companies that we acquired and merged simultaneously. We put a company called Novapak together with Pretium — highly complementary businesses.

Howard Morgan: It was a simultaneous add-on — trying to be creative.

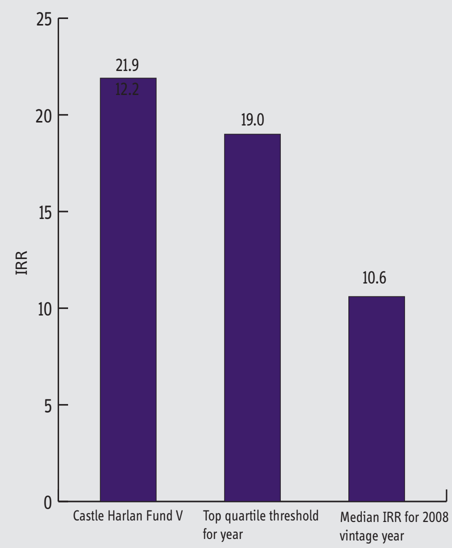
Q What else contributed to the success of Fund V?

Howard Morgan: IDQ is an outstanding example. They are really the only producer of a do-it-yourself product to repair your car air conditioner. The average repair job for an AC is probably $500. Our product, the leading brand name called A/C Pro, is a $35 product. We sold the business to **Kinderhook Industries**.

Bill Pruellage: Securus Technologies Inc. We acquired it from **H.I.G. Capital**. It's a leading telecommunications provider to prisons and jails. It's a company we owned for just under two years. We were able to build market share by focusing on large-scale state contracts. We also completed a couple of add-on acquisitions — a common growth strategy for us. In this case we were able to acquire the leading provider of video visitation along with a leading provider of investigative software. They really enhanced our product offering. We exited to **ABRY Partners**.

Howard Morgan: Another one we did a little more than a year ago was Shelf Drilling (purchased from Transocean as an international collection of offshore jack-up rigs). We were not looking to buy *anything* in energy — we wanted to be very targeted and contrarian. Shelf Drilling is in shallow water, while the more popular area was deep and ultra-deep. But we saw steady, predictable cash flow, mostly oil. We really created a company that has now already doubled its earnings in just one year. We still have that one. It is on the company's website that it's exploring the possibility of an IPO. It's early but we've sort of accomplished our mid-term earnings objectives and so we'll see.

Castle Harlan Fund V



Source: Buyouts, pension fund data

Q Looking back on your fund, you actually managed to nearly hit your $1.5 billion target because you've had $590 million in co-investments so far for Fund V.

Howard Morgan: We've been big believers in co-investments for decades. We've had co-invests in 13 of the last 18 deals. And co-invest does a number of things. In this day and age, it certainly rewards some existing partners — partners are looking for it. It also gives us an opportunity to meet new partners to experience a deal.

Edited for clarity

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