

# Going after the brass ring

*New equity investment fund targets small businesses*

BY STEVE JAGLER, of SBT

**A** small-business owner has grown his company over two decades. After years of sweat and equity, it is now time for him to consider retiring, stepping aside and cashing in on his investment.

He's got a senior management team of three people who have played integral roles in the success of the company. They would be very interested in buying the company as the founder rides off into the sunset.

However, the members of the management team do not have the wealth to put up the \$1 million to \$3 million that would be needed to buy the business and give the owner a fair return on his investment.

That's precisely the point where Steven Peterson and David Raffel want to step in. They are partners in the newly formed Brass Ring Capital Inc., a Milwaukee-based private equity investment company that has launched the Renovare Capital Partners Fund.

In the aforementioned hypothetical case, the members of the small company's management team would cobble together whatever equity they could, maybe \$300,000, and Brass Ring would kick in the remaining equity to buy the firm from the founder.

The founder retires. Brass Ring takes a majority interest in the firm. The management team is retained by an employment contract to oversee and grow the firm. Ultimately, the company is sold at a higher multiple a few years down the road, and all of the parties profit.

At least, that's the business model and the objective of Brass Ring.

The company is different than typical venture capital firms, which usually target

startup ventures or young companies in need of cash infusions.

Brass Ring has very defined investment criteria. To be considered, the client company must:

- Have annual revenue of \$5 million to \$25 million.
- Have earnings before interest, taxes, depreciation and amortization (EBITDA) of \$1 million to more than

\$3 million.

- Be in the business services or manufacturing industries.
- Have a stable customer base with no single clients providing more than 25 percent of the firm's business.
- Have an operating history of at least five years.

Brass Ring is targeting companies in Wisconsin, Minnesota and other Midwestern states.

"We're looking for established, profitable businesses. Our way of differentiating is to focus on these smaller companies," Peterson said. "We typically buy a controlling interest, and we basically act as the equity sponsor in the deal. We bill ourselves as business buyers."

Brass Ring recently closed on raising \$13.7 million in capital from 65 individual limited partners, many of whom reside in southeastern Wisconsin. Peterson and Raffel had been working to attract investment commitments from partners since April 2003.

The new Renovare Capital Partners Fund will buy controlling interests in small companies over the next 10 years, with options for three years thereafter.

Peterson and Raffel are hoping to deliver a 20 to 25 percent annual return for their partners by buying companies and selling them over that time frame.

"This region is very rich in the types of businesses we're after. There just is not a lot of players chasing this size of company," Peterson said.

They hope to buy one company this year and two more next year.

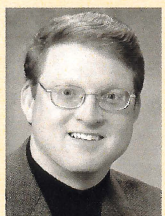
Peterson thinks Brass Ring is in the right place at the right time. So many small-business owners have wanted to sell

## Brass Ring principals

STEVEN PETERSON,  
MANAGING DIRECTOR



Peterson was a principal at Cedar Creek Partners, a \$100 million private equity firm in Milwaukee. His previous experience included consulting for Supervalu, investment banking at Piper Jaffray Cos. and investment management at American Express.



DAVID RAFFEL,  
MANAGING  
DIRECTOR

Raffel was a vice president at Agjo Capital, a \$42 million private equity firm in Minneapolis. He spent five years working in small business consulting, investment banking and commercial lending. He began his career in private equity at New York-based Harvest Partners.

their firms in recent years, but decided to wait until the economy turned around before putting up the for sale sign, he said.

"There's a lot of pent-up demand. It's absolutely picking up," Peterson said. "We've seen a material pickup in deal activity this year because the markets are getting better. There are a lot of sellers who have been on the sidelines for years, and now they're looking to sell."

Peterson said many Wisconsin companies have been "decimated" by competitors who have outsourced jobs to cheap labor markets such as China.

Because of the outsourcing factor, Brass Ring is targeting two types of companies: (1) Midwestern firms that provide services to other businesses; and (2) niche manufacturers that are producing something of value that can't be duplicated overseas.

## Brass Ring Capital Inc.

**OBJECTIVE:** A private investment firm focused on buying majority interests in established, profitable small businesses in the Midwest.

**ADDRESS:** 826 N. Plankinton Ave., Suite 500, Milwaukee, 53203. The company also has an office in Minnetonka, Minn.

**WEB SITE:** [www.brassringcapital.com](http://www.brassringcapital.com)

**FUND:** Renovare Capital Partners Fund

**COMMITTED ASSETS:** \$13.7 million

**NUMBER OF INVESTORS:** 65

"They don't seem as susceptible to the outsourcing issue, and we like niche manufacturing, rather than general manufacturing," Peterson said, adding that Brass Ring will not target retail or consumer product manufacturers.

Peterson acknowledges that Brass Ring's approach of buying majority interests will not be a fit for many company owners thinking of stepping out of the way.

After all, the management team would not be calling the ultimate shots in that scenario.

"There's a lot of people out there not willing to do that. However, we don't want to run businesses. It's a hassle," Peterson said. "The biggest challenge in our business is evaluating people. The last thing we want to do is get into a management fight. We won't be out there terminating people, because it's not good for business."

Small-business owners thinking of bringing in equity partners should check the references of those partners before making a commitment, Peterson said.

"It's really a business where reputations count tremendously," he said. "We want to be a partner."

## Investors behind the scenes

Brass Ring Capital Inc. has 65 limited partners who have committed a combined \$13.7 million to the venture. The investors in the fund include:

- Scott Sylla, former CFO of Ultra Mart Inc., New Berlin.
- Russell Rindt, Morgan Stanley broker and former grocery store chain owner, Plymouth.
- Scott Moon, owner of two businesses, Shorewood.
- F. Michael Kluber, senior executive at Rockwell Automation Inc., Brookfield.
- Richard Lane, Broadview Advisors portfolio manager, Milwaukee.
- Glenn Primack, Broadview Advisors portfolio manager, Milwaukee.
- Robert Cook, Cedar Creek Partners co-founder, Shorewood.
- Daniel Jagla, Cedar Creek Partners co-founder, Mequon.
- H. Wayne Foreman, Cedar Creek Partners co-founder, Waupaca.
- Jim Kitzinger, Kitzinger Lautmann Capital Management Inc., Port Washington.
- Steven Anderson, Cedar Creek Partners executive, Detroit Lakes, Minn.
- Gary Stephenson, Cedar Creek Partners executive, Sayner.
- Mark Witt, attorney at Godfrey & Kahn, Milwaukee.
- John Schliesmann, attorney at Reinhart Boerner Van Deuren S.C., Brookfield.
- James Cox, Fiserv Inc. executive, Edina, Minn.
- John Danner, physician, Oneida.
- Richard Leonard, owner of packaging machinery sales company, Howards Lake.