

# Equity group acquires specialty container co.

## Burleson business gets capital, new equity fund gets tax credits

BY MARGARET ALLEN | STAFF WRITER

When Mike Ames bought Tote Systems International L.P. in 2002, the engineer and entrepreneur realized fairly quickly the company required more cash to tap its potential.

In April, the 60-year-old maker of sealed bulk containers and systems for the pharmaceutical, food, manufacturing, and oil and gas industries became the first deal for the new Dallas private-equity fund Lone Star New Markets L.P.

Lone Star, founded in 2004, paid \$2 million in April for the majority share of Burleson-based Tote, said Arthur Hollingsworth, a longtime Dallas private-equity investor and Lone Star managing partner.

Tote, whose customers include DuPont, The Coca-Cola Co., Nestle S.A., GlaxoSmith-Kline S.p.A., Merck & Co. Inc., Johnson & Johnson and Bayer Corp., has about 500,000 of its sealed bulk containers and systems installed in manufacturing plants around the world.

"Tote was very attractive to us," said Hollingsworth, citing Tote's market position, customer base, installed base and management team.

"They're kind of the Xerox or Kleenex of their business. Their name is synonymous with bulk containers," he said. "That's quite valuable. And their customer base was quite impressive."

### An expensive niche

A \$250 million industry annually in the United States, sealed bulk containers are a sanitary way to manage both liquid and powder compounds during manufacturing, said Ames, now a minority Tote shareholder.

He was happy to bring Lone Star into the picture. Tote's highly engineered, custom-designed container systems are made of aluminum and steel, and projects have a long gestation from order to delivery. One container can cost from \$2,000 to \$18,000, while a small system of 60 containers and additional equipment can run \$1.2 million, he said.

"This kind of industry takes a large investment in raw materials," Ames said. "The cash infusion will help us manage the big projects. This gives us the opportunity to really go after the large jobs."

A new private equity fund in Dallas,

Lone Star New Markets takes advantage of tax credits offered by the U.S. Treasury Department in return for investing in low-income communities. That's particularly attractive to banks, which must comply with the 1977 federal Community Reinvestment Act requiring thrifts and banks make capital available in disadvantaged neighborhoods.

Lone Star's lead investor is Dallas-based Town North Bank N.A.. Other investors include Legacy Texas Bank, Plano; Regions Bank, Birmingham, Ala.; Dallas-based Bank of Texas N.A.; Inwood National Bank, Dallas; and Amegy Bank N.A., Houston; and West Texas National Bank, Midland.

Lone Star was certified in 2004 as a Community Development Entity as part of the Treasury's New Markets Tax Credit Program. Enacted in 2000, the program's allocations so far will generate \$15 billion in new, private-sector, equity investments in low-income rural and urban communities, according to the National Community Capital Association.

Nonprofit and for-profit entities compete to win allocations for either lending or equity investments in either real estate or business development. A fund can target a particular state, or several states.

Lone Star, a for-profit entity, won a \$25 million allocation for equity investments in business development in Texas. The fund is the only for-profit, equity Community Development Entity covering Texas.

Investors in the fund receive a tax credit spread over seven years equal to 39% of their investment, according to the National Community Capital Association. Congress allocates about \$3 billion in the tax credits annually.

Lone Star's investors will receive \$10 million in tax credits once the fund invests \$25 million, which it must do in five years.

Hollingsworth has commitments for the full \$25 million, which will likely be spread across eight to 10 transactions, he said.

To meet the program's income requirements, Tote will locate a new facility about three miles south of its current 52,000-square-foot manufacturing plant and offices in Burleson, Ames said.

The company, which employs 60, will add another 15 employees, he said.

Lone Star New Markets has a few other companies under consideration, but many of the fund's transactions haven't yet been identified, he said. About half of its deals will be growth-capital investments, while half will be outright acquisitions.



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