

Stephens Group Invests Millions
By George Waldon - 8/27/2007

Witt Stephens Jr. didn't expect the pace of transactions would be so lively when The Stephens Group LLC was launched in July 2006. But it's the sort of first-year surprise the 39-year-old executive can endure with a smile. The Little Rock firm, which sprouted out of a reorganization of the Stephens family business empire, exceeded \$200 million in private equity investing during its first 12 months of operations.

"This started faster than we thought, but we found some really good deals," said Stephens, the co-chairman and chief executive officer.

Although it wasn't announced until February, a \$55 million private equity deal with Seminole Energy Services LLC of Tulsa was among the first big ones for The Stephens Group, and discussions date back to 2004. Bob Rosene Jr., chief executive officer of Seminole Energy Services, said his company has bought natural gas from the Stephens family in a relationship that long predates last summer's transaction.

"We have known the Stephens people directly or indirectly through Stephens Production Co. for 20 years," Rosene said. "This is the first time I've taken outside money. I've always used personal equity or traditional bank financing. It was a significant step for us."

Among the things that attracted him to partner with The Stephens Group is its perspective on investing and its disdain of management fees and other forms of front-end profiteering. Time horizons of three to five years are common among private equity groups, which push companies to crank out short-term payouts that could stunt longer-term profits.

"We don't feel that pressure," Rosene said. "They have a different mindset, and I really like working with them. They have high expectations, which I have no problem with.

"They are an extremely talented group, and they will do whatever they can to help the company, without getting involved in the minutia of day-to-day operations."

The Seminole transaction also has the distinction of being the only Stephens Group deal where the dollar amount saw the light of day. Financial details were absent from four other private equity transactions announced. (See New Investments at the end of this article.)

These five transactions accounted for half the deals that The Stephens Group closed during its first year of business. Of the 10 total transactions, most fell between its typical investment range of \$5 million to \$75 million.

Energy Sector a Focus

"We're liking the companies we're finding," said Rick Turner, senior managing principal who came from the old Stephens organization at the time of the reorganization.

Four of the five announced deals involve energy or are energy-related. It's a sector The Stephens Group is well acquainted with through the Stephens family's long ties to the oil and gas business.

"There's more opportunity today than there ever was," said Jon Jacoby, another old Stephens hand who is now vice chairman and senior principal at The Stephens Group. "The key is understanding the underlying trend and seeing there is wind behind the investment."

A sustained tailwind of opportunity continues to propel energy firms and energy-related businesses. Among those that caught The Stephens Group's attention is Spitzer Industries Inc., a Houston-based custom fabricator of oil and gas production equipment that mainly serves the deep-water sector.

"We decided we wanted to take it up to the next extreme level," said Cullen Spitzer, chairman and CEO of his namesake firm. "It's one thing to take a company to \$50 million but another thing to take it to \$150 million." Spitzer sent out solicitations for equity partners last year, and it didn't take him long to be drawn to The Stephens Group.

"Stephens was immediately a standout," he said. "They were clearly interested in our business, where we were and where we wanted to go."

Having sold several businesses in the past, Spitzer was geared up mentally for a long session of negotiations to complete the deal. Looking back, he wasted a lot of unnecessary energy.

"I had blocked out 10 hours that day to finalize the agreement, and I think we were done in about 45 minutes," Spitzer said. "I was pleasantly surprised that they didn't try to chip on us over every little detail. Having had other partners in the past, these guys are certainly a different breed.

"They have been stellar partners. They are there if we need them, but they believe in buying a top-notch management team and turning them loose."

A Natural Evolution

The Stephens Group grew out of desire by Witt Stephens Jr. and his sister, Elizabeth Stephens Campbell, 48, to strike out on their own. Witt Stephens Jr. describes the move as a natural evolution of a family business.

"It's a time to do your own thing," he said. "Different things happen to make it apparent it's the time to do it."

A memorandum of understanding regarding a division of assets was formed in May 2006, 10 months after the death of their uncle, Jack Stephens.

The siblings sold their interest in Stephens Inc., the investment banking firm founded in 1933 by their legendary father, Witt Stephens Sr. The firm was later led by Jack Stephens from 1956-86 and since then by his son, Warren.

As part of the division, The Stephens Group acquired sole ownership of two legacy investments in Houston: ISS LLC, an oil and gas exploration and production company, and Jebco Seismic Ltd., touted as one of the largest independent international geophysical contractors.

With those two exceptions, the intertwined Stephens family investment portfolio (referred to as legacy investments) remains intact through SF Holding Corp.

The Stephens Group formed in May 2006 and physically separated from the Stephens Building in February, moving from downtown Little Rock to the Riverdale area.

The company signed a multi-year lease for the fifth floor and a piece of the first floor of the Morgan Keegan Building, where 50 staffers will work. Half the fifth-floor space remains a remodeling work in progress.

Last year, a 2-acre property at 1000 North St., the one-time home of the Balch Mazda service center, was purchased for \$1.46 million. That would-be office site remains dormant.

"We wanted to get a nice, convenient location," Witt Stephens Jr. said. "We're very happy here for now."

"We're Conservative"

While private equity investing is the focus of The Stephens Group, the firm's interest in Arkansas companies extends to dabbling in venture capital. The Stephens Group is among the investors in the \$75 million Diamond State Ventures II fund, set to close Sept. 30.

"We'd like to explore that relationship with them and look to fill in different capital needs within the state," said Joe Hays, managing director of Diamond State Ventures. "My guess is there will be other opportunities to work

with them through referrals or other occasions."

The Stephens Group's Diamond State investment shouldn't be mistaken for a divergence. The company prefers investing in ventures with an earnings history, preferring firms that generate at least \$5 million in pre-tax earnings.

"We're conservative, and we want to have the same agenda as management," Witt Stephens Jr. said. "They want capital that will be patient. We provide expertise, but we don't try to run their company.

"We're a little more casual," Rick Turner said. "We have a style that resonates with our partners. We're relational. We want to help them with our business acumen. Our style is such that we're not a distant partner, but we aren't calling them everyday."

The company has an admitted Arkansas bias for practical reasons as well as sentimental: It's simply more convenient to work with nearby companies. But its leadership is quick to point out that its investment interests go well beyond the state and region.

"We will put money to work to create the best possible return," Turner said. "We actually are looking around the globe."

New Investments

- Sept. 29, 2006: Joined with The Sterling Group Ltd. of Houston to acquire a majority stake in Houston-based BTEC Turbines Ltd. Details of the equity and debt capital transaction weren't disclosed. BTEC, founded in 1997, specializes in refurbishing, repairing and packaging large gas turbines and turnkey power plant design, construction, commissioning and support.
- Feb. 13, 2007: Provided \$55 million in equity capital to support the growth of Seminole Energy Services LLC, a Tulsa-based natural gas marketing, gathering and processing firm that operates in 13 states.
- Feb. 20, 2007: Bought a majority stake in Spitzer Industries Inc., a Houston-based custom fabricator for oil and gas production equipment. Details of the transaction, which completed a partial recapitalization of Spitzer, weren't disclosed.
- April 3, 2007: Acquired a majority stake in Multi-Shot LLC, an independent directional drilling services firm in Conroe, Texas, and provided subordinated debt financing. Details of the transaction weren't disclosed. Multi-Shot is attempting to convert into a public company as part of a merger with JK Acquisition Corp. of Houston. If successful, Multi-Shot would morph into MS Energy Services Inc. and The Stephens Group would become a minority investor in a public venture.
- April 19, 2007: Teamed with Lake Capital of Chicago to purchase a majority interest in Little Rock's Vestcom International Inc. Details of the transaction weren't disclosed. Vestcom is the leading provider of shelf-edge communications for many of the nation's top grocery, drug and mass merchandising chains.