

Client: Superior Air Handling Corporation

Transaction: Equipment sale and leaseback to payoff senior debt and generate working capital

The Situation

Established in Ogden, Utah in 1948, Superior Air started business as a sheet metal shop for the heating, ventilation and air conditioning (HVAC) industry. Over the next 50 plus years, Superior ebbed and flowed with the economy and consumer demands, emerging as one of the largest and most well respected sheet metal contracting companies in the nation. And, in March 1997, a group of 30 employees purchased Superior from EMCOR Group.

Today, Superior is owned by a cross-section of key management and production personnel and is supported by 350 employees. It generates annual revenues of more than \$35 million, manufacturing HVAC duct systems in its facilities in Clearfield, Utah and installing them across the United States, including Hawaii and Alaska.

Superior Air's success in selling its contracting services is based on its ability to provide quality performance at a competitive price. Moreover, Superior has gained a reputation of providing unprecedented customer service and special care for repeat customers.

Even with such a strong foundation of experience and a proven strategic business plan, in late 2004 and early 2005, Superior hit unexpected challenges. After years of profitable operations, escalating steel prices, tight margins and an extremely competitive environment during economic recession, had taken a toll on Superior's market niche.

The Transaction

The company engaged Aequitas to assist them in identifying an enterprise-wide solution. Working closely with Superior's executive management team to complete a thorough assessment of Superior's operations, Aequitas was able to assist in identifying opportunities to leverage for greater efficiencies and make recommendations about how to access the cash needed to affect a turn-around. Tapping into its expertise in offering creative alternatives to reconfigure a company's balance sheet and generate cash flow, Aequitas recommended that Superior consider a bundled equipment sale and leaseback that incorporated a \$700,000 sale of equity as an unsecured component of the lease.

By implementing this approach, Superior completed a \$1.8 million equipment sale/leaseback transaction that allowed the company to payoff \$900,000 in existing senior bank debt. Better yet, after transaction costs Superior netted \$800,000 of new working capital to fund its growth opportunities. In the partnership with Aequitas, Superior also further strengthened its organization by restructuring its senior management team including replacement of select project managers; recruiting a slate of new board members from outside entities; making additional reductions in overhead expenses; establishing stricter project selection criteria with more exacting margin requirements; and implementing other project and financial controls.

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The Results

Based on its partnership with Aequitas, Superior has once again generated profits for twelve consecutive months. With a completely restructured and recapitalized balance sheet, the company has its highest backlog in history of more than \$60 million in very solid margin projects, which based on company revenue forecasts will take it well into 2007 and beyond.

The lessons Superior learned through the challenges it faced have made the company stronger than ever. Going forward they continue to work hand-in-hand with Aequitas to ensure that Superior remains the HVAC sheet metal industry leader for the next 50 years and beyond.

