



# Strategic Consulting

*Case Study*

## Executive Summary

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Imperial Parking Company ("Impark") was taken private by Cleveland-based private equity firm Gates Group Capital Partners ("GGCP") in May 2004. Impark was envisioned to serve as a platform investment for building a North American parking management competitor to Central Parking, APCOA/Standard Parking, and Ampco Parking, a division of ABM Industries.

## The Transaction

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GGCP formed Parking Management Fund I, LP ("PMF") in conjunction with the acquisition of Imperial Parking Corporation (AMEX: IPK) ("Impark") in May 2004. Although publicly listed, Impark was thinly traded and effectively controlled by the New York-based hedge fund, Gotham Partners, run by the legendary activist investor Bill Ackman, now of Pershing Square Capital. PMF was the successful bidder in a modified auction process run by The Blackstone Group on behalf of the Special Committee of the Board of Directors. Prudential Capital Group and CapitalWorks, LLC co-invested with PMF.

GGCP moved rapidly after the Closing to monetize the owned real property assets and utilize the excess cash on the balance sheet. As a result, the effective enterprise value of Impark's parking business was approximately \$21 million (not \$55 million) and the effective purchase price multiple was 3.2x (not 7.1x) of EBITDA:

Acquisition Enterprise Value (\$000's)	\$55,198
Less: Net Cash Proceeds of Divested Real Property	21,487
Less: Excess Cash at Closing	12,269
Restated Enterprise Value	<u>\$21,269</u>
TTM EBITDA as of 3/04	\$7,807
Less: Divested EBITDA	1,223
Reinstated EBITDA as of 3/04	<u>\$6,584</u>
Effective Purchase Multiple of Parking Business	3.2x

## Investment Thesis

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1. Largest operator in Canada with stable, recurring free cash flow,
2. The U.S. business was sub-scale and poised to drive healthy organic growth in core cities,
3. Real property assets were considerably under-valued,
4. Transaction structuring would allow for a write-up of the basis of the Canadian real property assets to fair market value, resulting in their tax-free divestiture,
5. \$12 million of cash in excess of what was required to fund the business and,
6. The U.S. business was losing money due to the absence of lease contract underwriting discipline.

## Early Operational Initiatives

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- Listing agreement executed with Colliers, targeting all-in sale proceeds of \$20 million,
- Engaged an engineering firm to perform Phase II environmental studies and took the properties to market prior to May 15, 2004, with the intention of wrapping up the last sale in 6 to 12 months.

## Early Operational Initiatives Continued

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- GGCP implemented the “2004 Profit Assurance Plan.” The Plan included:
  - Top to bottom expense reduction initiatives from HQ to the field,
  - Cost savings projects,
  - Rate increases in profitable markets,
  - Disposition of chronically unprofitable locations, and
  - The reallocation of capital/human resources to profitable markets.
- Through a newly created Office of the Chairman, GGCP also drove across the board process improvements in Human Resources and Administration, Marketing and Business Development, Cash Management, Governance, and Management Incentive Plans.

In collaboration with senior management, GGCP undertook a strategic transformation of Impark’s disparate, disconnected, and sub-scale back-office called Impark 2010 to coincide with the Vancouver Winter Olympics. Impark 2010 was the foundation for long-term business growth through the creation of a scalable shared service platform.

## Results

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- Completed the sale of all Canadian real estate,
- Reduced long-term debt by \$17.4 million and restructured senior credit facilities to provide \$25 million of new availability,
- Recaptured in excess of \$2.25 million of EBITDA in non-performing agreements,
- Improved the gross profit margin by over 20% from 19.3% to 23.2%,
- Improved the EBITDA margin by over 60% from 6.0% to 9.7%,
- Paid \$1.6 million in preferred dividends through June 30, 2006, and,
- Increased Impark’s cash balance by \$12.4 million.

### Recapitalization: Shareholder Value Creation

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- Acquisition Enterprise Value: \$55.2 million; Recap Enterprise Value: \$103.5 million (+88%)
- Acquisition TTM EBITDA: \$7.8 million; Exit TTM EBITDA: \$13.6 million (+74%)
- Purchase EBITDA Multiple: 7.1x (effective 3.2x); Recapitalization EBITDA Multiple: 7.6x
- Acquisition Closing: May 2004; Recapitalization Closing: November 2006
- Investment holding period: twenty-nine months
- Cash-on-cash return: 3.68x; IRR: 71%
- Raised an additional \$150 million to support future growth



Parking Management Fund II, LP (“PMF II”) was formed in conjunction with the recapitalization of Impark in November 2006. GGCP as PMF II’s general partner, sought to raise additional equity capital to finance significant add-on acquisitions and brought in a control co-investor, Babcock & Brown (ASX: BNB), an Australian-based global merchant bank (“BNB”). GGCP and BNB formed a joint venture called Babcock & Brown Gates Parking Investments, LLC and capitalized it with \$150 million in total capital commitments through PMF II and BNB’s Babcock & Brown Parking Management Fund I, LP (“BBPMF”). GGCP also served as co-general partner of BBPMF.

With the Great Recession of 2008/09, BNB was forced into receivership in Australia. With that, the decision was made to remove the general partner of BBPMF, half-owned by GGCP, for the purpose of terminating the payment of fees and carried interest. GGCP stepped back from its prior principal oversight role. The largest LP in BBPMF ascended to the board and took effective control of the business.

Under its new governance regime, Impark’s financial performance peaked in June of 2010 and eroded rapidly during the third quarter. Then in August of 2010, the decision was made to terminate the CEO, promote the CFO to interim CEO, and bring GGCP back into the lead board oversight role. Working together again with management, GGCP took immediate and decisive organizational action to reduce costs and refocus management on the business’ fundamentals, which had lapsed during the 12 months of GGCP’ forced disengagement from its historical oversight role. With the business turned around, The Blackstone Group was engaged for the second time to conduct a sale of Impark.

After a competitive auction, the business was sold to Ontario Teachers’ Pension Plan on October 14, 2011, for nearly \$160 million, more than seven (7) times its restated enterprise value of seven years earlier, when GGCP first acquired the business.

### **Impark Sale Financial Summary: Shareholder Value Creation**

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- Recapitalization Enterprise Value: \$103.5 million; Exit Enterprise Value: \$158.2 million (+53%)
- Recapitalization TTM EBITDA: \$13.6 million; Exit TTM EBITDA: \$20.5 million (+51%)
- Recapitalization EBITDA Multiple: 7.6x; Sale EBITDA Multiple: 7.7x
- Acquisition Closing: November 2006; Exit: October 2011
- Investment holding period: 59 months.
- Cash-on-cash return: 1.73x; IRR: 17%

Impark is now a subsidiary of REEF Parking the largest parking management company in North America, operating approximately 4,500 parking facilities with 10,000 employees in more than 500 cities across the U.S. and Canada. REEF is owned by SoftBank Group and Mubadala Investment Group.

# Strategic Consulting

## FIRM OVERVIEW:

Carleton McKenna & Co is an independent investment banking firm providing M&A and Capital Raising advisory services. We work with middle-market closely-held family businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Specialty Manufacturing & Chemicals, Consumer Products, Food & Beverage and B2B Services.

Our Team is made up of finance and accounting experts, entrepreneurs and operators, C-Suite and Board professionals, lawyers, consultants and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

## Interested in Planning Your Future?

Contact Mike de Windt for additional information and next steps to lead your business to success.



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## Interested in Learning More About CM&Co?

Contact Emily to learn more about Carleton McKenna's M&A services.



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