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Selling Season



Cadence Park in Irvine: sales remain strong, developer says

Homebuilding Industry Preps for Spring Recovery

By KATIE MURAR and MARK MUELLER

Orange County's contingent of publicly-traded homebuilders and land developers have struck a defiant tone to confront the choppy homebuilding market that rattled the industry — and battered their stock prices — in the latter part of 2018 and early 2019.

"We were in a slow period because of a steep rise in interest rates, but we are not standing on a cliff," Larry Webb, chief executive of Aliso Viejo's **The New Home Co.** (NYSE: NWHM), told the Business Journal last week.

Wall Street hasn't gotten that message, yet. Nearly \$2 billion in combined valuation was lost from the area's trio of public builders and developer **Five Point Holdings** (NYSE:FPH) over the course of the last year, making it one



Webb: Current issues nowhere like Great Recession

of the weaker-performing industry sectors in OC during that period. Public companies based here on average saw a 22% gain in stock value over the year (see related story, page 1).

The local contingent of homebuilders hasn't enjoyed the recovery seen by the overall market since last December's swoon, as questions continue to be asked about the health of the local and national market for new homes.

There are increasing signs of optimism. Improving market conditions the past few months — lower interest rates, a faster pace of sales, and more supply, in par-

➔ *Housing 67*

OC's Public Cos. Jump 22% in Year

Edwards, Chipotle Lead Increase

By PETER J. BRENNAN

Orange County's publicly traded companies reported a combined 22% gain in their market capitalizations for the 12 months ended March 29, aided by a first quarter rebound and huge gains by the area's two most valuable public firms.

The 78 companies tracked on the Business Journal's list total \$155.9 billion in value. The cumulative annual gain was higher than the 15% increase reported by companies on our list a year ago and lower than the 27% rise two years ago.

For our annual list, we included all OC-based companies trading on the New York Stock Exchange, Nasdaq or over the counter exchanges. We excluded several penny stocks that reported under \$1 million in annual revenue or didn't file recent reports with the Securities and Exchange Commission.

The list includes companies with market values of at least \$10 million on March 29.

The companies' combined revenue climbed 7.5% to \$53.2 billion, according to their most recent annual reports. They reported net income of \$4.63 billion, up 19%. Assets increased 5.2% to \$127.8 billion.

They grew their OC employment 3.3% to

➔ *Public Companies 20*

SR Cover Here

Brea HVAC Co. Coolsys Aims for \$2B Valuation

By PETER J. BRENNAN

Adam Coffey in February published "The Private Equity Playbook," which advises senior executives how to succeed when leading companies owned by outside investors.

A few weeks later Coffey showed them.

He engineered in March the sale of Brea-based provider of heating and cooling systems **Coolsys**, owned by Boston's **Audax Private Equity**, to **Ares Management Corp.** in Los Angeles.

Was the sale like the book he wrote?

➔ *Coolsys 63*



Coffey: 'everyone was smiling' after sale

Quiet Men: Ensign Group Father, Son, Power Growth

By PETER J. BRENNAN

It's not often a father and son can together build a company to a \$2.6 billion valuation.

Public Cos.

It's even rarer to find one that spins off another firm that by itself becomes worth another \$2.1 billion.

Such is the case of **Roy E. Christensen** and son **Christopher Christensen** who in 1999 began the **Ensign Group**, (Nasdaq: ENSG) a provider of health-care-related services at nursing homes and other facilities and one of the

➔ *Ensign Group 27*



Son Christopher to become Chairman

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THE LIST

FASTEST-GROWING PUBLIC COMPANIES
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Coolsys

► from page 1

“It really was,” Coffey told the Business Journal late last month. “Audax held the company for only three years, which gives you an indication that it went well.”

“Afterwards, everyone was smiling.”

It’s the latest deal for Coffey, who intends by 2023 to build the company, which installs and maintains refrigeration and heating systems for companies like Costco and Starbucks, to a \$2 billion enterprise value with annual sales of \$1.1 billion.

After Coolsys was bought in 2016 by Audax, which has \$12 billion in assets, Coffey was hired. He installed a new management team and renamed the company, previously Source Refrigeration & HVAC Inc.

He’s subsequently made eight acquisitions, building the company’s presence into more than 40 states. Coffey said annual sales have doubled to more than \$400 million.

Will Coolsys join the ranks of Orange County’s largest public companies profiled in this edition any time soon?

Not immediately. It has several more years to build its business before an IPO makes sense, Coffey said.

Fast Grower

Audax has “a disciplined formula” of buying firms with predetermined revenue and selling them when sales hit a certain level.

“If we’d waited six months, it’d be outside the Audax sweet spot,” Coffey said. “Coolsys is growing fast.”

Last September he began talking to 27 different private equity groups about a potential sale.

He’d worked with Ares before as chief executive of El Segundo-based Wash Multifamily Laundry.



Brea HQ: nearly 400 workers; doubling of nationwide worker base planned

“Ares was always my lead horse. I love the people and how they operate,” he said.

“Ares has known Coolsys’ CEO and President Adam Coffey for a long time, and we are looking forward to working with him again,” **Matt Cwiernia**, partner and co-head of North American Private Equity at Ares, said in a statement announcing the deal.

The size of Ares (NYSE: ARES), which has about \$131 billion in assets under management, will give Coolsys an opportunity

to make about four to eight acquisitions a year, Coffey said.

He also wants to expand overseas.

Now, “I can do much bigger things.”

Critical Need Play

Coolsys has 2,000 employees and plans to double that in the next five years.

Its biggest division provides services to grocery stores, which are dedicating more square footage in their facilities to cold foods and less to dry goods. It’s also adding new customers such as blood banks and wineries.

“When a customer has a mission-critical need, that’s where we play,” Coffey said.

“What we have for our industry is a juggernaut. This is an industry that has legs to it.”

Management remains a significant investor in Coolsys with about 10% of the firm, he said.

“We enjoyed our victory for a few days,” he said of last month’s sale.

Coffey said the company isn’t looking for new office space, noting it has more than eight years to go on a 10-year lease near the Brea Mall. It recently built a new training center in Fullerton.

As it approaches 2023, Coolsys will have a dual track of being sold to another firm or going public, Coffey said.

To achieve an enterprise value of \$2 billion, he estimated the company will need more than \$1 billion in sales so it can be a broadly held publicly traded company.

Expect more big deals in the meantime.

Coffey’s “Private Equity Playbook” said the optimal hold time for a company owned by a private equity firm is three to five years—with Audax’s recent investment on the low end of that range.

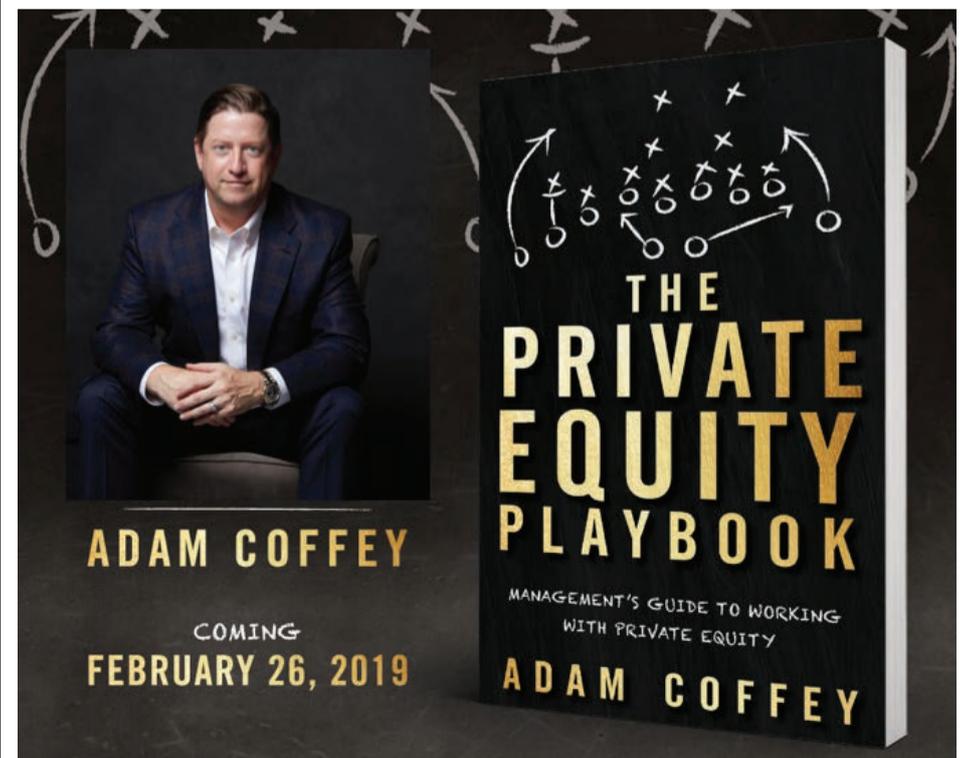
Late last month, Amazon’s Kindle ranked Coffey’s book No. 1 in the valuation section and No. 2 in the corporate taxes and private equity categories.

Coffey noted that deals like his just-completed transaction are getting done because “\$1.3 trillion is sitting on the sidelines waiting for companies to buy.”

“For people who own private companies and are entertaining a sale, now is a stellar time to do that. There’s a lot of capital.”

Lincoln International acted as a financial advisor, and **Kirkland & Ellis LLP** acted as legal advisor to Coolsys. **Proskauer Rose LLP** acted as legal advisor to Ares Management. ■

INVESTMENT 1/4 HERE



Art imitates life: Coffey table book reveals secrets of PE world