



Watermill Group

An avid sailor, Steven Karol discusses how his company won the race by keeping its eyes on the horizon and sailing into the storm.

Winds of Change



The winds of change are constant in the world of business. Capitalizing on that change is the Massachusetts-based Watermill Group, a private buyout organization that focuses on acquiring middle-market companies in transition.

The “transition” in this case can take any number of forms—it may be a traditional private sale by the founder or family, a corporate carve out, a secured party sale, or a bankruptcy auction.

The Watermill Group’s formula is as straightforward as it gets. The company looks for companies facing strategic or financial challenges and then applies transformational capital, strategic insight, and managerial guidance to drive change.

It’s an approach that obviously works, as the firm’s partners have collectively completed more than 100 deals with a total transaction value of more than \$4.1 billion.

“Our passion lies in helping companies achieve their full potential through strategic transformation,” said Managing Partner and Founder Steven Karol. “We create vibrant and successful businesses out of assets or companies that were close to shutdown or liquidation, suffering from a history of severe operating losses, burdened with excessive debt, or at an inflection point in their growth trajectory.”

Karol attributes the group’s three decades of success to following a commonsense approach. The group first reviews the business environment and the lifecycle position of the company. Preferred are US or Canadian companies that require operating, strategic, and capital resources to grow. Sales and profitability declines are common in these companies, but many are growing modestly and need help to capitalize on larger opportunities.

Next, the group seeks to enhance performance through managerial guidance. While the existing management teams are retained in many cases, some situations require bringing in fresh blood. Other times, existing management teams are simply augmented with Watermill principals.

Here, Watermill emphasizes a values-based corporate culture, putting integrity at the forefront of all that it does. “When you’re managing other people’s money, if you have integrity and they trust you, you have much more flexibility and range to do what you need to do,” Karol said. “Everything we do is measured against whether we believe it is the right thing to do.”

Heart of the storm

An avid sailor, Karol had his eye on the horizon when the dark clouds of a troubled economy began appearing several years ago.

“We knew we were headed for rough weather, so we streamlined and cut costs,” he said. “But everyone else was doing that, too. So, after we had battened down the hatches, we asked, ‘What can we do to make headway?’”

Here, he knew Watermill had to attack strategically. “We put new capabilities into companies while others were taking them out,” he said. “With some companies, we invested in technology, with others it was making sure we had the right people, and with some it was updating machinery and equipment.”

In the end, Karol and company knew they had to sail into the heart of the storm with the belief that they wanted to be way ahead when the economy came out of the doldrums. “A sailboat race is won on the upwind leg,” he said. “If everyone’s not working together as a team, the sails are not optimized; you lose wind and, ultimately, lose speed.”

It was a strategy that has paid off handsomely. Without exception, Watermill’s portfolio of companies (which includes names such as Latrobe Specialty Steel Company, C&M Corporation, and Preferred Compounding Corporation) have gained marketshare and are now better positioned than when they went into the recession.

And, with the worst of the storm behind, Karol sees clearer skies ahead. “There’s dry powder in the market,” he explained. “Private equity firms have raised \$600 billion more than they’ve spent. Many banks, corporations, and private equity firms are exploring how we can help them generate new investment opportunities as well as enhance their existing portfolio holdings, so we think next year will be a great one.”

A study in diligence

An example of the depth of diligence required for a successful turnaround can be seen in the company’s acquisition of FutureMark Paper. At one time, the company was “a division of a division of an international paper company.” The original owner had invested some \$350 million in its paper mill, building it on a European model that focused on pulp recycling to feed the presses.

But if the Internet were the new paper, why would anyone want to buy a paper mill?

Well, the Watermill team had a “hang-on-a-second” moment when it considered the rising consumer interest in environmentally sustainable products. “We came to the conclusion that consumer awareness and seriousness about wanting to be green was upon us,” Karol said.

So, Watermill set out to research that hypothesis. It quickly discovered a fast-growing, underserved market for environmentally friendly paper. “Our end users all had sustainability offices that needed to be able to document environmentally sound practices,” said Karol.

Watermill brought strong assets to FutureMark Paper, includ-

ing new management, an infusion of marketing expertise, and capital investments to expand capacity. In fact, it is now the only North American company capable of manufacturing up to 100% recycled, coated mechanical printing paper. Raw material is harvested from the “urban forest” of nearby Chicago, diverting waste paper from landfills to produce up to 100% recycled, coated paper for magazines and catalogs.



“We were drawn to this paper manufacturer for its green technology and its ability to offer a one-of-a-kind product in an otherwise commoditized market,” Karol said.

No details were overlooked in the acquisition. Issues such as evaluating the electrical supply to the mill and even renegotiating a few sticky issues in a union contract were handled; even the expiration of a federal subsidy that many mills relied on.

Finally, the group created a new brand and messaging for the company and launched a new website. “In the end, we didn’t call it an acquisition of the mill,” Karol said. “We called it the launch of FutureMark.”

Chase your passion

It turns out that Watermill’s research was spot-on. Paper prices are up 15% over last year, and FutureMark is booked through the end of the year at a time when many in the industry have shut down mills.

“I learned early on to not chase the money. Chase your passion, instead,” said Karol. “When we save a company or help a company in transition to realize its aspirations, we save or create jobs, and we return money to our investors. There’s no happier day than when we say it is a success.” ■

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