Chicago Tribune
ONLINE EDITION

http://www.chicagotribune.com/business/chi-0602130201feb13,1,596379.story

MINDING YOUR BUSINESS

Equity infusion adds foreign muscle

Companies sell stakes to fund global growth

By Ann Meyer
Special to the Tribune

February 13, 2006

For nearly two decades, Happ Controls found plenty of ways to grow its joystick and gaming-parts business domestically by being quick to market with value-added products at reasonable prices.

It produced most of its parts for electronic amusement games, casino games and vending machines in Elk Grove Village, without ever venturing to China.

But recently, its domestic mind-set has given way to a broader, international outlook since private equity firm Pfingsten Partners in Deerfield acquired a majority stake in the company.

Pfingsten's investment in June 2004, coupled with its strategic advice on how to go global, led to a revamp of Happ's local manufacturing plant and a new push abroad, said President Tom Happ, the son of Frank Happ, founder and vice chairman of the company.

A similar scenario is occurring at manufacturing firms throughout the nation that see the need for international expansion but aren't sure how to do it themselves, experts say. Increasingly, they're selling stakes in their companies to private equity firms to finance new growth opportunities.

Flush with capital, Happ acquired Suzo International, a Rotterdam, Netherlands-based manufacturer of amusement and gaming components with an international customer base.

"We had talked many years ago with Suzo about trying to merge the two companies, but capital got in the way of it," Tom Happ said.

Pfingsten made the deal happen in December 2004, creating a global company with 400 employees in 12 locations, distributing some 70,000 different products to customers in more than 70 countries.

The company followed that deal with another in October, acquiring Advanced Electronic Systems in Los Vegas, which repairs and sells parts for amusement games. And Suzo-Happ is on the lookout for more acquisitions, Happ said.

With private equity financing readily available, a growing number of small and midsize manufacturers are taking the plunge, experts say. In fact, last year was the best for global merger and acquisition activity since 2000, according to

Thomson Financial, which reported $2.7 trillion in mergers and acquisitions in 2005, including $1.13 trillion in the U.S.

The reason is simple, suggested Daniel Varroney, president and chief executive of the Association for Corporate Growth, a Palatine-based association for professionals involved in corporate growth and dealmaking.

"It's less expensive to acquire than to grow organically," he said.

Amid growing international competition, manufacturers see mergers and acquisitions as a way to grow faster than they could on their own. In fact, nearly half of dealmakers expect to be involved in an international cross-border merger or acquisition this year, Varroney said.

Manufacturing is second only to technology among segments attracting attention from dealmakers, according to a January dealmakers survey conducted by the association and Thomson Financial.

So far, the strategy is working for Happ. The merger with Suzo doubled Happ's size, to about $150 million in sales, and gave Happ capacity in the United Kingdom, Europe and South America, plus new markets for distribution, said John Underwood, managing director at Pfingsten Partners and a director of Suzo-Happ.

"It would have taken years to obtain the market penetration in Europe that we garnered by buying Suzo," Underwood said. "Not only did we get the production facilities, but we got the know-how and capabilities of all the people in the UK and Rotterdam."

What's more, Suzo's executives have connections in China, which Happ is using as it begins to source more component parts overseas, Tom Happ said.

"In the first 18 years of old ownership, we had never been to China. In the first year of new ownership, we had people there every other month," he said.

The company, which Frank Happ started in his garage in 1986, quickly became the predominant domestic supplier of joysticks, steering wheels, buttons, flippers, trackballs and other components of amusement games, as sales grew 900 percent between 1986 and 1990.

Quality, cutting-edge products at competitive prices drove steady growth for more than decade, Tom Happ said. But the manufacturing facility was in need of a major overhaul, and company's small UK operation, pulling in about $2 million in annual sales, wasn't propelling international expansion.

Still, when Pfingsten Partners looked at the company two years ago, it liked what it saw, Underwood said.

"They were taking market share, not having market share taken from them. They had the right products and customer service and were selling at the right price," he said.

With Pfingsten behind it, the company got to work on efficiencies, laying off about 18 of 265 domestic workers in November 2004 while improving the workflow at its plant. The facility overhaul included new workstations, better lighting and seating, new lockers and a new cafeteria.

Employee satisfaction improved, and the company was better able to calculate proper lead time for production, executives said.

"We invested about $280,000, and the return was $500,000 in improved productivity and enhanced delivery to customers," said Art Melesio, vice president of purchasing and distribution.

At the same time it reopened discussions with Suzo, with hopes of gaining a more established European foothold to expand internationally.

As the company pursues more Asian manufacturing arrangements, Happ expects continued efficiencies. Threequarters of the company's manufactured goods are produced in Elk Grove Village, he said, but the company intends to shift more of its stable production jobs to lower-cost providers in China.

Still, he said, the Elk Grove facility will continue to handle the shorter production jobs, those that change frequently, are needed more quickly or require more oversight.

"I don't ever see it going down to zero here," he said.

Going forward, the company is targeting single-digit sales growth this year, climbing to double-digit growth in 2007, Happ said. And the company expects larger profit increases, as it finds savings with its partners.