STERLING
INVESTMENT PARTNERS

NEWS RELEASE

Grandson of the South

By Alison Roger, TheDeal.com
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In 1878 two Alabama men became partners in what would become Weil Brothers-Cotton Inc., one of largest cotton merchants in the world.

This is not their story. It's the story of two of their grandchildren, who hooked up through the cotton connection and went on to found a New York-based bank, Sterling Investment Partners LP.

One of them, Bill Macey, grew up in Atlanta and retains traces of Southern courtliness as he describes going to Yale Law School to get a “fancy law degree.” His exceptional ease while being interviewed hints at the poise that got him to Cravath, Swaine & Moore LLP.

“But I had serious doubts about whether I wanted to be a lawyer forever,” Macey says.

After a stint out West, a hankering for the deal business took him to Smith Barney. “Banking and corporate M&A lawyers essentially document other people's deals," he says. "I didn't think that was as interesting as doing them.”

Well-versed in the structure of transactions, Macey spent a few months at Smith Barney learning the financial analysis side of the business. But he still fretted at his status as a mere adviser.

Fortune — and family ties — entered when Macey's mother introduced him to Doug Newhouse, a cotton grandkid who had been at Middex Capital, a private equity firm, and at Lehman Brothers Inc. In 1991, the pair, along with Bill Selden, another Lehmanite, decided to begin doing their own deals. "We thought we could buy companies off recession-level earnings," Macey remembers. "I didn't have kids, so I thought, now's the time to do this."

The trio belted their first deal, American Buildings Co., out of the park, netting eight times their money in a later sale to Canada's Onex Corp.

Sterling has few ironclad investment criteria, but one of them is the presence of “real barriers to entry” that companies can use to competitive advantage, Macey says. In American Buildings' case, the company, which makes metal buildings and components, had a nationwide network of builder-dealers that wasn't easily duplicated.

By the end of the '90s, the partners were tired of such ad-hoc dealmaking. "There were too many opportunities we were missing without a fund," Macey recalls.

Unfortunately, Sterling's fund-raising karma wasn't as good as its investment track record. The firm signed up Robertson Stephens as a placement agent in the same week that NationsBank merged with Robbie's parent, BankAmerica, and operations ground to a halt. Sterling then turned to PaineWebber, which UBS acquired. There ended up being three rounds of due diligence on the fund, which finally closed at $235 million in October 2001.

By now there was a fourth partner, Charles Santoro, formerly of PaineWebber. Each of them owned 25% of the firm. "It's not like 'Animal Farm,' where some animals are more equal than others," Macey says.

Sterling soon struck again, this time in the form of a $190 million deal to buy six tankers from Amerada Hess Corp. The New York oil exploration company essentially guarantees the revenue on the ships through 2007. The purchase also met Sterling's barriers-to-entry criterion.

“The ships cost $100 million each to build, three times what we paid,” Macey says.

Co-investors include AetnaLife Insurance, PPM America Capital Partners, Landmark Partners and Massachusetts Mutual Life Insurance Co.

But the linchpin to the deal was the teamwork at Sterling. Newhouse had already supplied the theory. By the time Paul Gridley, a former investment banking colleague of Macey's, arrived to shop the transaction, all that remained was for the four partners to ask him to step out of the conference room.

“In five minutes we agreed to do the deal,” Macey says. Grandad would be proud.