Kelso to mine Nortek dividend

by David Carey (of the Deal.Com) Posted 03:14 EST, 18, Nov 2003

Kelso & Co. is the latest LBO firm to mine a mother lode of cash via a leveraged recapitalization.

Nortek Inc., the Providence, R.I.-based building products supplier Kelso bought in January for $1.6 billion, said Monday, Nov. 17, that it would use cash raised in an upcoming $350 million bond issue to award Kelso, a 79% owner, and other shareholders a hefty dividend.

In the recap, New York-based Kelso will recoup roughly three-fourths of its $379 million equity investment in Nortek.

The planned payout is the latest in a raft of similar financings, as sponsors take advantage of a hot junk-bond market. In the biggest such deal, **Carlyle Group** and **Welsh, Carson, Anderson & Stowe** are poised to recover close to half their $1.6 billion equity investment in **Dex Media Inc.**, a yellow-pages publisher they acquired for more than $7 billion.

Since Kelso bought it, Nortek, a manufacturer and distributor of heating and air-conditioning systems, range hoods, windows, doors and vinyl siding, has posted strong results. Ebitda for the first nine months of 2003 was $210.7 million, up 14% from the comparable period last year. That pushed Nortek's Ebitda margin up from 12.7% in 2002 to 13.7% in 2003.

In addition to the recap, Kelso hopes to sell a unit, which could help it pay down debt. Some weeks ago, Nortek hired **UBS Securities LLC** and **Daroth Capital Advisors LLC** to find a buyer for its windows, doors and vinyl sidings business.

Sources say Kelso hopes the unit will fetch 8 times projected Ebitda, or more than $650 million. Ten months ago, the firm paid 7 times trailing Ebitda for all of Nortek. Selling the unit would enable Nortek to reduce long-term debt, buttressing the value of its equity. About four parties, all buyout firms, have bid for the unit, sources said.

The makeup of Nortek's debt has made it difficult to pare down, said Joseph Snider, an analyst at **Moody's Investors Service**.

"Usually when a company generates excess cash flow, it pays down bank debt," Snider said. "But Nortek has no bank debt; it's all public notes." Calling or tendering for the bonds would be costly because Nortek's bonds trade at a premium to par.

Still, Snider said, a sale of the windows and doors business likely would lead to a delevering. "If that happens, it would please Moody's," Snider said. "But we recognize that it may not."

Moody's gave a Caa1 rating to the $350 million of senior exchangeable discount notes due 2011 that Nortek will issue to fund the dividend.

Nortek, the holding company in which Kelso holds its stock, will issue the new notes.

Moody's said Monday it confirmed its previous ratings for the rest of Nortek's notes. As operating-company debt, those notes are senior to the new discount notes.