

MIDDLE-MARKET DEAL OF THE YEAR

MedPointe Inc. by The Carlyle Group and The Cypress Group

By Leslie Green

Bob Dahl, managing director at **The Carlyle Group**, and William Spiegel, managing director at **The Cypress Group**, agree that the acquisition of **Carter-Wallace's** health-care business was the most complicated, convoluted deal on which either has ever worked.

Perseverance brought them success. "When you're willing to stick it out, you often end up with the most interesting opportunities," Spiegel says.

Carter-Wallace, made up of a specialties pharmaceuticals business and a consumer products business, had been on the selling block for two years waiting for one buyer that would take the whole company. Finally, in early 2001, the seller realized there was no logical buyer for a drug company and a condom manufacturer under the same roof. At that point, **Bear Stearns'** client **MedPointe Capital Partners**, comprised of health-care veterans **Anthony Wild, James Burns** and **John Hawkins**, enlisted **The Carlyle Group** and **The Cypress Group** to back their bid for the health-care business.

The **MedPointe** executives, all of whom hailed from top-notch health care concerns, came together in the late 1990s in hopes of purchasing a health-care concern. Knowledge of the industry was not a problem. Wild, in fact, is the former president of **Warner-Lambert Pharmaceuticals**.

"Bear Stearns introduced us to one of the best management teams I've ever come across," Spiegel says. "They had operations down pat. They knew sales and marketing. They had great relationships throughout worldwide pharma."

And So It Begins

With **Carter-Wallace's** decision to split into two, auctions ensued in early 2001 — one for each of its business — and the **Carlyle/Cypress/MedPointe** team came out on top for the health-care side. Get-

ting the bid together was nothing compared to the process that followed.

While this consortium prepared to buy the health-care business, **Church & Dwight**, backed by **Kelso & Co.**, agreed to acquire the consumer products division. Despite the two businesses' autonomous appearances, they fell under one corporate structure that made the division process unwieldy. Splitting up and sorting out the shared services and corporate infrastructure — people, auto fleets, a corporate jet, employee termination contracts, even telephone systems — turned due diligence into a different kind of animal. At one point, after **Carlyle/Cypress** and **Dwight/Kelso (Armkel)**

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emerged as the obvious buyers, **Carter-Wallace** adviser **J.P. Morgan** put the two parties in a room and said, "You guys figure it out," remembers **Cypress's Spiegel**.

So they did.

Carlyle/Cypress purchased the whole **Carter-Wallace** corporate shell most likely for pricing and tax reasons, while **Armkel** bought the assets of the consumer products division. There were simultaneous merger agreements between the two groups and all parties became intimately involved in the time-consuming process of deciding "who got what."

"There were times when it wasn't clear whether or not we would prevail," says **Carlyle's Dahl**.

In addition to the division process, the situation for the **Carlyle/Cypress** group became more complex in deciding how to finance the deal. It came down to figuring out from a reporting standpoint the difference in the **Ebitda** of what they

were inheriting and the ultimate company they would eventually own. "We had to analyze the cost structure of **Carter-Wallace** from the top down, from the bottom up and even sideways to determine the true earnings power of the business and therefore how we could finance it," Spiegel says.

Additionally, **Dahl** explains that while one would normally come up with a valuation by adding the equity and debt and subtracting cash on hand, in this case there were a series of adjustments like liabilities and obligations off the balance sheet that indirectly adjusted value.

Complicating matters was the wrath of one investor, **Mario Gabelli**, who headed a group that owned about 27% of **Carter-Wallace's** stock. **Gabelli** was dissatisfied with the amount at which the company had agreed to sell. He thought the company was worth far more, and he made his position known. The **Carlyle/Cypress** team anticipated that he might cause problems, but due to ongoing litigation with **Gabelli** at *Buyouts'* press time, they

declined to comment in detail on the situation. The buyers said they feel confident, however, that they handled the purchase process appropriately. **Gabelli** has filed for dissenter's rights.

Besides the difficulty of marketing the deal around Sept. 11, the financing proved to be less painful than expected. **Bear Stearns** fully underwrote the bank debt with some help from **Lehman Brothers**.

In addition to the debt, **Cypress** and **Carlyle** each committed more than \$120 million in equity, with the remainder coming from the **MedPointe** executives and two small coinvestors. The deal closed on Sept. 28, 2001, and **Carter-Wallace's** health-care business became known as **MedPointe Inc.**

"It was the doggedness of this team that allowed this transaction to happen," says **Spiegel**. "We would not give up because we recognized there was a gem hidden in this company." **BUY**