

## EXCLUSIVE REPORTS

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### **Xerium files for income deposit securities IPO**

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WESTBOROUGH -- Although paper roller manufacturing company Xerium Technologies Inc. generates little excitement in the financial world, it is among the vanguard of old-line companies opting for the hottest new financial vehicle, the so-called income deposit securities IPO.

The Westborough-based Xerium last week filed papers for an initial public offering for up to \$700 million in income deposit securities, involving Class A common stock and senior subordinated notes.

That move places Xerium in a class of only about a dozen other companies that have filed so-called income deposit securities or income participating securities IPOs in recent weeks, experts say. Food and merchandise concession company Volume Services America Holdings Inc., which went public in December, was the first such deal in the United States, according to financial insiders.

Modeled after the long-standing Canadian income trusts, the income deposit securities offerings are hailed as a viable method to take low-growth, cash-rich companies public.

The option also appeals to investors looking for yield, rather than capital gains, since they are buying a combination of stock and debt.

Income deposit securities offerings are attractive to private equity firms looking for an exit, said Laura Hodges Taylor, a partner in the corporate department of Goodwin Procter LLP who has worked on many income trust deals in Canada. Many U.S.-owned or majority U.S.-controlled companies with "steady predictable cash flows" that weren't sexy enough for IPOs have filed for Canadian income trust deals through the years, Taylor said.

"It's a better alternative than just selling the company privately," Taylor said. "They got nice valuations in Canada."

Xerium, which makes roll covers and other products used in the paper production process, appears to be an ideal candidate for the financial vehicle. The company, which is a subsidiary of Xerium SA, had sales of \$560.7 million in 2003, up 11 percent from its 2000 sales of \$504.9 million, according to its filing.

Although Xerium Technologies operates through a variety of brand names and subsidiaries and has 39 manufacturing plants in 15 countries and 4,000 employees, it is unclear how many Xerium employees are based in Massachusetts.

Xerium Technologies officials did not return telephone calls for this story.

Besides meeting the slow-growth test, Xerium also apparently enjoys stable growth.

Global paper production, which drives demand for the company's products, has increased by about 3 percent per year from 1980 to 2002 with growth in all but two years, according to the Xerium IPO.

Xerium's IPO, which involves an undisclosed amount of Class A common stock and senior subordinated notes due in 2014, listed no pricing details.

It estimated a maximum aggregate offering price of \$700 million "solely for the purpose of calculating the registration fee."

The IPO pipeline is filling up with the new type of deal because it's a way for private equity groups to recapitalize their investments by using public capital rather than private money, said Alan Fullerton, a vice president with Boston-based investment banking firm **Newbury Piret & Co. Inc.**

"It's an area of very high interest to private equity groups today because their liquidity is coming from doing these types of offerings," Fullerton said.

The option is attractive for investors seeking the safe harbor of cash yield, rather than the risk associated with the capital gain potential of a traditional IPO, Fullerton said.

Investors who have gathered meager returns from treasury securities in recent years, but who are still wary of stocks, are likely candidates, he said.

"Investors were burned in some of the speculation a few years ago and are now looking for a safer way to invest in the market," Fullerton said.

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