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Spirited investment

Business veterans join forces to invest in local firms

Michael Hammond, The Record

Spirited Investors Corp. is about as far from retirement as you can get.

Its executives don't even like saying the word retirement. It's been a year since the private equity firm was launched and its partners are eager to swing into action and become active investors in the business community.



Business backers - Rick Baker (left) and David Drinkwalter run Spirited Investors, a private equity firm in Waterloo that's eager to invest in local businesses.

The investment partners, many of whom have extensive track records in their fields, all share the common goal of not wanting to retire, says David Drinkwalter, the firm's vice-president. "We've gone from concept to tremendous bench strength," he says in describing the firm's first year.

As the company name suggests, Spirited Investors is not a typical investment firm. For one thing, it's based in Waterloo, not Toronto. Second, a big part of its mission is to invest in business opportunities in Waterloo Region.

In January, the firm's first 16 investors were secured as Spirited closed an initial round of funding worth \$4 million. The partners will now start assessing investment opportunities.

The firm isn't a venture capital company or a group of angel investors. It is targeting well-established businesses that may be one or two issues away from making it big. In some cases, a business might be successful but it lacks a proper succession

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plan. Another might have problems between its partners. Some might have a good product but are struggling with marketing.

In each of those scenarios, one of Spirited's investors will help mentor the business through its issues and guide it onto a more solid path. Once the turnaround is complete, the firm will sell off its stake in the newly invigorated business, giving its investors what it hopes is a large return on their initial investment.

Drinkwater says it's a safe investment model since Spirited will only get involved in a business where it has the in-house expertise to effect change. "This gives us minimal risk. We don't invest in an organization where we don't see the answer."

The firm has already been approached by companies interested in receiving financing. A number of businesses, Baker says, don't realize that their problems don't begin and end with money. In many cases, the owners don't realize a cash shortage is symptomatic of larger organizational problems.

There's no question that Spirited's management believes in its business plan. But there's also a sense of purpose among the investors that would make community boosters cheer.

Rick Baker, the firm's chief executive officer, had been thinking about a venture like Spirited Investors for some time, but the idea solidified in September of 2006 when he heard University of Waterloo president David Johnston speak about 10 goals Waterloo Region needs to achieve to become the "knowledge capital of Canada." He decided to try to bring together local business veterans who could invest in companies, mentor them through challenges and craft an attractive exit strategy once their fortunes improved.

After discussing the idea with colleagues, Baker forged ahead and was able to attract a number of business people into the fold. He calls them "activestors." Each contributed \$100,000 to \$500,000 for a stake in the firm.

The roster of activestors is impressive. It includes local real estate agent Mary Bales, who founded affordable housing project Heartwood Place, Jim Beingessner, well-known former president of B&W Heat Treating, Cora Group chief financial officer Adrian Conrad, Ted Cross, former director of UW's technology transfer and licensing office and founder of Chinook Chemicals Co., and C3 Group of Companies president Murray Gamble.

"We want baby boomers as activestors," says Baker. "They have the business-excellence experience, the time and the desire to give back."

The group of investors is comprised mainly of local business veterans with good reason. Besides the goal of achieving a high return for its investors, Spirited also aims to use its accumulated expertise to strengthen the local economy.

"There are some tremendous people in this region," Baker says. "There are some tremendous things going on."

Dennis Grimm, a partner with PricewaterhouseCoopers' regional operations, says having groups of local investors ready to commit more than just their money is an encouraging sign the regional economy is maturing. "What's most exciting about this is these are locally successful business people."

Having a local private equity firm ready to get involved almost exclusively in the local economy also is promising, Grimm says. "Any time you can combine money and skills, the prospect for success is much better. It sounds like an Accelerator Centre or incubator system, but for active companies. That's an unserved niche."

Baker and Drinkwater say they've learned a lot as the private equity firm has taken shape. "It's been an interesting year for us for sure," Baker says. "None of us have been fundraisers for private investment before."

Baker and Drinkwater are clearly eager to get started. Baker, 52, is a 25-year veteran of the energy industry who recently sold off three companies involved in energy management and consulting. Drinkwater, 65, is a former chief economist and Western Region director with Ontario Hydro. He recently taught finance at a Chinese university.

Both men have accomplished a great deal, but don't seem keen on simply sitting back and slowing down, let alone seriously uttering the 'R' word.

Baker wants to continue raising more funds. His goal is to eventually raise \$20 million in \$5-million increments. He intends to do that by bringing in a few more "activestors" to round out the company's roster of active investors to 24.

After more investors have bought in, Spirited wants to get a few institutional investors on board, including some pension funds. The goal is not to give up control of the company to the pension funds, but to top up the firm's pool of capital. Already, the firm has had preliminary discussion with several funds.

Since the firm's average investment in a business will not exceed \$1 million, its founders think they will fill an investment niche that's too small for large institutional investors to consider.

However, with the area's emergence as a diversified, intelligent economic centre, large Bay Street investors looking to branch out will be looking increasingly to areas like Waterloo Region.

"A lot of pension funds are interested in diversifying their investment base," Baker says. "But pension funds have too much overhead to do a \$3-million investment in Waterloo."

It's heady talk for a firm that has yet to make its first investment,

but with a name like Spirited Investors, it's hard not to have big dreams.

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