

OpenGate Capital

~~Vulture~~ Venture Capitalism in Action

July 2021

**The Private Equity Stakeholder Project
Americans for Financial Reform**

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Introduction/HUFCOR

“HUFCOR represents an exciting addition as a category leader providing superb quality products and services to a variety of businesses around the world.”¹

— OpenGate Founder and Managing Partner Andrew Nikou, 2017

In 2017, OpenGate Capital, a Los Angeles-based private equity firm bought HUFCOR, which manufactures portable room partitions for hotels and convention centers and has been operating in Janesville, Wisconsin for 120 years.

Four years later, in June 2021, OpenGate announced that it would close the Janesville factory and shift its operations to Mexico, permanently laying off 166 workers, many of whom have spent their entire adult lives working for the company.

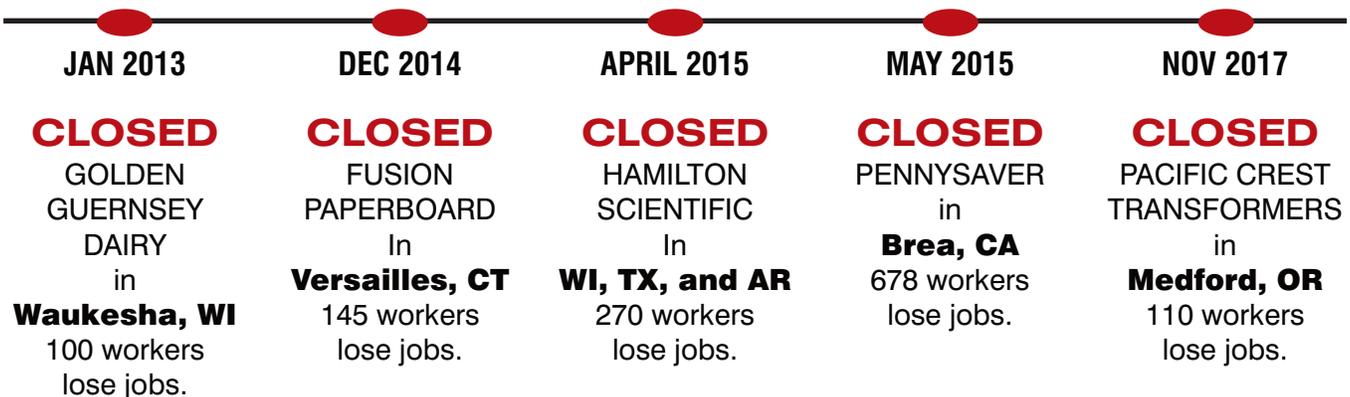
HUFCOR is just the latest casualty in OpenGate’s history of buying viable businesses and then running those companies into the ground, throwing employees out of work, sometimes without advance notice, and harming communities.

In a span of less than four years, OpenGate Capital ran at least five companies out of business, putting more than 1,300 U.S. workers out of their jobs. HUFCOR would be the third Wisconsin plant that Hufcor has closed in the last ten years.

While OpenGate’s actions have left workers jobless and creditors angry, the private equity firm has

done extremely well for itself, claiming to have generated annual returns of 18% and 37% respectively for its first and second funds.² Even as OpenGate drove companies into bankruptcy and closed plants, it extracted fees and dividends for its own benefit.³

OpenGate Capital is a private equity firm that was founded in 2005 by Andrew Nikou. It is based in Los Angeles and has an additional office in Paris, France. It has \$1.1 billion assets Under Management and focuses on the acquisition of lower-to-mid market businesses in the industrial, business services, and technology sectors.⁴



Golden Guernsey Dairy

“Not only is the [Golden Guernsey] brand a local icon renowned since 1930 for the highest quality and freshest milk products, but its facility is very efficient, and its managers are industry experts.”⁵

— OpenGate Founder and Managing Partner Andrew Nikou, 2011

In September 2011, OpenGate Capital bought the Golden Guernsey Dairy in Wisconsin, which had been in business for over 80 years. Its previous owner had been forced to sell by the Department of Justice because of antitrust concerns that the company had too large a share of the school milk business.⁶

What OpenGate Capital Did with the Company

In January 2013, just 16 months later, without any advance notice, workers were called together for a meeting at 7 a.m., two hours into their shift, and told to pack their belongings and leave. The plant was shut down immediately, and workers who showed up for later shifts found the doors locked.⁷ About 100 workers at Golden Guernsey lost their jobs.⁸

Three days after closing the plant in 2013, the company filed for Chapter 7 bankruptcy. Andrew Nikou, the CEO of OpenGate Capital said that he had never had a business fail before, and that there would be better communication in the future.¹⁰

In a later court filing, the bankruptcy trustee alleged that OpenGate had obtained Golden Guernsey at a “bargain purchase price,” made “no net

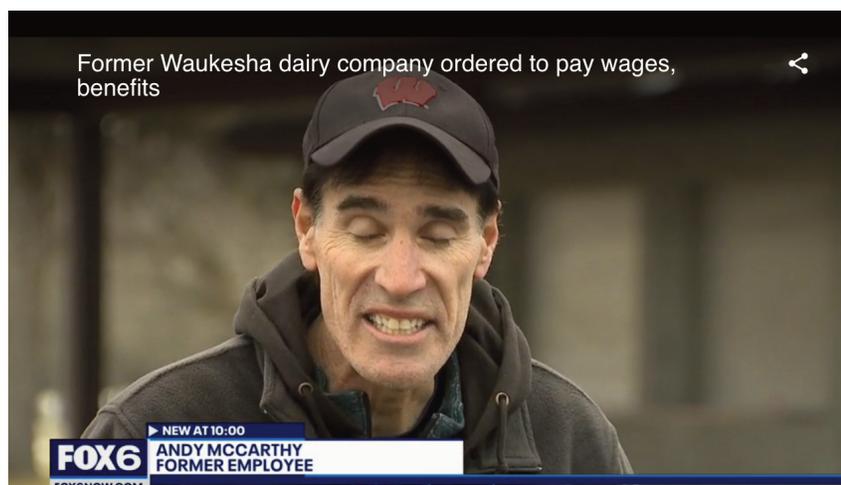
“It came as a complete shock to the management at the dairy and the union that they were about to close,”

— Eileen Applebaum, a senior economist at the Washington, DC-based Center for Economic Policy Research, *whose book, Private Equity at Work: When Wall Street Manages Main Street*, devotes a chapter to the Wisconsin dairy.⁹

investment” in the company after buying it, and the “value was consistently eroded” leading up to the bankruptcy.¹¹

Golden Guernsey listed in its bankruptcy filing that it owed money to dozens of schools and several local Wisconsin municipalities.¹²

The Wisconsin Department of Justice (DOJ) found that the OpenGate-owned Golden Guernsey violated state law by not providing 60 days’ notice to its workers or state and local government officials prior to closing and that the company owed workers over \$1.5 million for 60 days’ wages and benefits. The DOJ pursued this claim in bankruptcy court, and finally seven years later in December 2020, the court ordered Golden Guernsey to pay each worker about \$12,000.¹³



A court decision awarding back wages to former employees came eight years after OpenGate shut down the factory.

Fusion Paperboard

“These are classic, well-run manufacturing subsidiaries that have the untapped potential to be even better. . . OpenGate’s specialized knowledge of the industry enabled us to quickly recognize what gems these subsidiaries are.”¹⁴

— OpenGate Founder and Managing Partner Andrew Nikou, 2011

In 2011, OpenGate Capital acquired two companies that manufactured boxes for cereal and frozen foods and merged them into one company, Fusion Paperboard. In a press release about the acquisition, OpenGate said, “With a steadfast reputation for quality and consistency, the businesses have a wide client base of consumer products companies. The plants’ modern equipment, talented management team and skilled base of employees made them attractive investment opportunities.”¹⁵

What OpenGate Capital Did with the Company

In 2013, the state of Connecticut made the company a loan under the condition that it would hire up to an additional 20 workers and stay in Connecticut for 10 years.¹⁷

Instead, OpenGate closed the plant in 2014 after making just a few payments on the loan and laid off all 145 of its workers.¹⁸ Fusion also owed \$240,000 in back taxes to the Connecticut city where it was located.¹⁹

Just a few months before closing the mill, the company had signed a six-year contract with the union representing its employees.

“After we signed a contract, we thought we were golden, but two months later they told us they were closing the place,” the union’s local president said. “It was rough, but they didn’t care. To me, you don’t sign a six-year contract and decide to close a facility.”²⁰



“I consider this company, OpenGate Capital, to be the robber barons of this age. They think it’s a big joke. I just don’t find it funny to ruin people’s lives. They just care about lining their pockets with money. I find it to be despicable.”

— Connecticut State Senator Cathy Osten, who represented the area where the factory was located.¹⁶

Hamilton Scientific

“We are committed to investing significant human and financial capital and look forward to building upon the inherent success of the business.”²¹

— OpenGate Founder and Managing Partner Andrew Nikou, 2012

In 2012, OpenGate bought Hamilton Scientific, which was founded in 1880 and designed and manufactured laboratory furniture and workstations, with facilities in Wisconsin, Texas, Arkansas, and Mexico.²²

An OpenGate press release about the acquisition touted the company’s solid customer relationships, which were supported by “sophisticated project management processes, installation system and fully robust IT process,” and which stretched “back 100 years, leading to repeat sales and increased brand awareness.”²³

What OpenGate Capital Did with the Company

In 2015, OpenGate abruptly shut down Hamilton Scientific, closing its facilities in Round Rock, TX; DePere, WI; and Mountain Home, AR, costing 270 people their jobs.²⁴ Workers filed a class action complaint against Hamilton Scientific for allegedly failing to provide the 60-day written WARN notice. The case was settled in 2016.²⁵

In a court filing, the bankruptcy trustee alleged that prior to filing bankruptcy, “OpenGate sold all, or substantially all, of Hamilton Scientific’s assets,

“OpenGate exerted improper influence and control over [Hamilton Scientific] and all aspects of their operations for the benefit of itself and its affiliates, thereby causing damage and harm to the [Hamilton Scientific],”

— Hamilton Scientific Bankruptcy Trustee



including IP, to Hamilton Laboratory Solutions, which continues today to operate the same business previously run by Hamilton Scientific.²⁶

The bankruptcy trustee also alleged that OpenGate collected \$1.6 million in purported “management fees” from Hamilton Scientific in December 2014, just months before it began shutting down the company and despite Hamilton Scientific being insolvent.²⁷

“OpenGate exerted improper influence and control over [Hamilton Scientific] and all aspects of their operations for the benefit of itself and its affiliates, thereby causing damage and harm to the [Hamilton Scientific],” the bankruptcy trustee alleged.²⁸

The bankruptcy trustee’s adversary case against OpenGate Capital was settled in late 2020.²⁹

PennySaver

PennySaver “is a powerful business given it is profitable and very stable, has tremendous brand recognition, and provides advertising products and services to clients with incredible reach and frequency.”³⁰

— OpenGate Founder and Managing Partner Andrew Nikou, 2013

OpenGate bought the classified ad magazine PennySaver in Brea, CA in September 2013.

What OpenGate Capital Did with the Company

Less than two years after purchasing PennySaver, in the middle of a Friday afternoon, workers were told to pack up and leave. The 678 workers at Penny Saver received no notice. They did not receive any compensation for their accrued vacation days, and their final pay checks bounced. Adding insult to injury, many workers had to pay overdraft fees to their banks, the *Orange County Register* reported.³¹

A company representative said that PennySaver didn't give workers more notice because under the circumstances, the law didn't require it.³²

The trustee in charge of the bankruptcy alleged that OpenGate and Nikou “used their control over a historic business that had fallen on hard times to loot the business of millions of dollars in cash. They did so to pay themselves and their affiliates distributions, fees, salaries, and bonuses. . . while providing the business little if anything of value in return.” The trustee further alleged that “this is far from the first time that Defendants [OpenGate Capital] have been alleged to have engaged in similar conduct.”³⁴

The bankruptcy trustee alleged that OpenGate began its “cash stripping immediately upon taking control of the PennySaver assets.”

At the closing of its acquisition, OpenGate used PennySaver's assets to pay \$568,000 of its expenses in acquiring the company, including paying itself \$320,000 as an “acquisition fee.”³⁵

Then just two weeks after the acquisition, OpenGate, according to the bankruptcy trustee, began paying itself a \$1 million per year “management fee” in monthly installments. The trustee alleged that OpenGate “did nothing to earn that money. PennySaver had qualified management in place.”³⁶

“The management fee though, was just a start,”

“It appears that from the start OpenGate Capital was planning to strip as much value from the PennySaver business as it could, and then dump it into Chapter 7 bankruptcy when the company no longer had enough cash to continue in operation. It is a business strategy that OpenGate has followed repeatedly. . . .”³³

— PennySaver Bankruptcy Trustee.

alleged the bankruptcy trustee. Three months after buying the PennySaver, OpenGate sold the company's land and primary office for \$10 million and agreed to lease back the property for the next 15 years. OpenGate immediately transferred \$2 million of that cash to itself as a “distribution.”³⁷

“This appears to be a repeated pattern for OpenGate,” the trustee alleged. “It has been charged with looting other insolvent companies in the same manner, and then shuttering facilities and abandoning the employees without warning. This action seeks to hold Defendants responsible for their actions here in a scheme that enriched them but left creditors and employees without redress.”³⁸

The PennySaver bankruptcy trustee's suit against OpenGate Capital was ongoing as of July 2021.³⁹



Pacific Crest Transformers

“Pacific Crest Transformers was OpenGate’s very first acquisition in North America in 2006 and since owning that business, we have done exceedingly well with it, operationally and financially.”⁴⁰

— OpenGate Founder and Managing Partner Andrew Nikou, 2016

Pacific Crest Transformers was an electrical equipment company in Medford, Oregon that was founded in 1919.⁴¹

What OpenGate Capital Did with the Company

In 2016, Pacific Crest Transformers announced that it was opening a new manufacturing facility in Monterey, Mexico that would produce components for final assembly at the Medford, Oregon factory. The company said that this would double the output of the Oregon facility and create 20-25 new jobs there.⁴²

In November 2017, less than two years after making the above statement about how well Pacific Crest Transformers was doing, Open Gate announced that it was shutting Pacific Crest down and putting its 110 employees out of work.⁴³



Conclusion

OpenGate Capital has a history of buying companies, siphoning off the assets for its executives and investors, and then discarding the lifeless carcasses, throwing employees out of work, sometimes without any notice.

OpenGate Capital's actions don't just hurt the individual workers, they harm the entire community,

especially when those businesses have been in the community for decades or even more than a century.

OpenGate has declared that Hufcor and Janesville, Wisconsin will be its next victims, and that it will cease operations in Janesville on August 3.⁴⁴ It's not too late for OpenGate to reverse course and keep the jobs and facility open.



The Private Equity Stakeholder Project identifies, engages, and connects stakeholders affected by private equity with the goal of engaging investors and empowering communities, working families, and others impacted by private equity investments.

Americans for Financial Reform is a nonpartisan, nonprofit coalition working to lay the foundation for a strong, stable, and ethical financial system.

Endnotes

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