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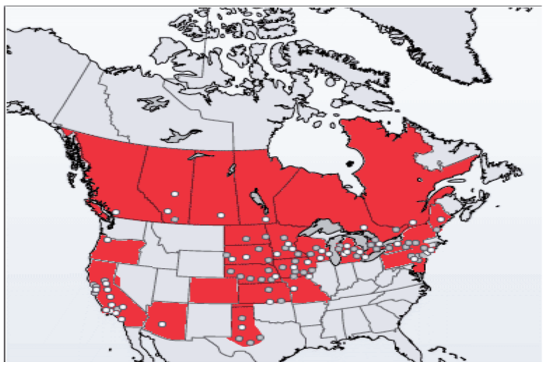
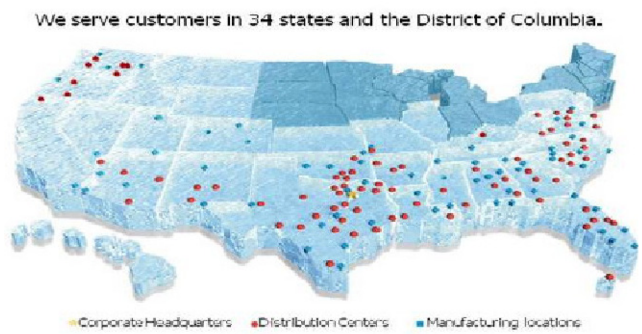
While researching Reddy Ice, we were wondering why they were so fixed on acquiring Arctic Glacier (AGUNF). Now we know why. AG is a slightly smaller co. with footprints in the Northeast, CA, Canada and Mid-West, or **specifically the area where Reddy does not have a presence**. Arctic Glacier filed for Ch. 11 as well, so both parties are in deep trouble. However, once they come out of the reorganization, then they will be able to combine the two business entities. The concerning point is both tried and both failed in the same industry. Possibly cut throat competition between the two and other major players could have played a role, but we are erring on the skeptical side and wonder whether the new combined, reorganized entity will fare better.



Arctic Glacier



Reddy Ice

Arctic eventually filed a Ch.15, which is a cross border filing, since the co. has operations in both Canada and the U.S. Arctic operates 39 production plants and 48 distribution facilities. It seems as if they were involved in a pricing lawsuit which involved millions in claims by consumers.

Looks like HIG Zamboni, a PE firm, purchased the co. for +$400 MM in July. **The merger is not possible now, but may be possible if HIG sells the co. to Reddy.** Why would a PE firm purchase Arctic Glacier? We looked into AG's filings available in SEDAR, the Canadian version of Edgar. Sales were $238 MM with EBITDA of $43 MM (18% margin) and assets of $295MM, long term debt of $212 MM and book equity of $44 MM. With the $400 MM buyout, HIG has assumed or repaid the debt. The stock was diluted heavily from 39 MM to 350MM shares outstanding in July 2011, when $90 MM in convertible debt was not retired, but converted to equity due to a shortage of financing. The co. breached bank covenants related to EBITDA multiples and decided to implement a recapitalization which was commenced on February 2012. The co. received $50 MM in DIP financing, of which they drew near $30 MM by June 2012. The antitrust investigation/litigation lawsuit fees and weakening industry fundamentals were the main causes for the recap. Litigation related fees were a cumulative ~$40 MM. The co. also had +$50 MM in goodwill impairments, revealing a similar acquisition led growth strategy like Reddy. **Now that the litigation is behind the co., HIG could focus on positioning the co. for a sale to competitors like Reddy, or may even purchase Reddy and create an industry leader with a 25% market share.**

Looking at the capital structure, co. has $250 MM in debt + $40 MM DIP financing, for a combined $290 MM in debt, so the debt holders recovered par and equity holders received +$100MM, or about $0.33/share, but last closed at $0.19. HIG purchased equity for $140 MM ($430 purchase price minus $290 MM in debt) for an Equity/EBITDA of near 3x and EV/EBITDA of near 10x. $180 MM in non-intangible assets. Interest costs are very high, about 10% annually. By paying off the debt, HIG could reap pre-cap ex cash flows of near $40 MM and $20 MM after cap-ex. If they leveraged at 60/40 on the deal, it would be a $20 MM FCF on a $160 MM equity deal, or a 12% annual return just on cash flow. Analyzing the past couple years of operating cashflow, we come to a similar conclusion like Reddy that operating cashflow can't support the cap ex and acquisition costs, so if the co. continues to pursue an acquisition led growth strategy, the co. will face similar overleveraged balance sheet, which brought their misfortune.