SARATOGA INVESTMENT CORP.

Investment Profile: Easy Ice

Founded in 2008, Easy Ice is the United States' leading provider of commercial ice-machine subscriptions, renting out over 9,000 machines to restaurants, bars, industrial facilities, offices and hospitals in 47 U.S. states.

Based in Marquette, Michigan, Easy Ice rents energy-efficient, top-of-the-line Hoshizaki and Manitowoc ice machines, and backs them with a 100 percent lifetime guarantee, providing round-the-clock support and twice-a-year preventive maintenance.

Easy Ice's subscription model enables clients to avoid the maintenance and repair costs that accompany ice-machine ownership, as both are covered by the agreement. So too is the cost of ice while repairs are being performed.

THE CHALLENGE
Easy Ice was seeking strategic capital to grow its subscription-based ice-machine business without being limited by a bank's collateralized loan.

THE SOLUTION
Saratoga Investment Corp. made an initial $12 million investment in Easy Ice, then provided eight additional funding rounds over four years, including the buy-out of a large minority shareholder when the need arose.

OUTCOMES
Easy Ice expanded its footprint to over 9,000 ice machines in 47 states during its partnership with Saratoga and tripled its revenue and EBITDA in the process. The company's relationship with Saratoga resulted in its sale to a major private equity firm.

EASY ICE

Growing Its Innovative, Subscription-Based Commercial Ice Machine Business Through the Support of Saratoga Investment Corporation

Saratoga provided Easy Ice a flexible financing solution to support the expansion of business throughout the United States.

In 2013 Easy Ice was seeking to grow but needed capital to do so -- strategic capital. It also needed the type of flexibility a business development company (BDC) can offer.

Enter Saratoga Investment Corporation. Through an initial investment of $12 million and eight subsequent funding rounds over a four-year period, Saratoga was able to help Easy Ice, which rents commercial ice machines on a national basis, expand its footprint and increase revenues.

It was, in fact, the largest, most successful deal Saratoga has ever completed. Easy Ice, which rented 3,200 machines to various enterprises throughout the nation when it first engaged Saratoga, was by 2018 renting over 9,000 machines. Easy Ice also saw its revenue and EBITDA more than triple over Saratoga's investment period, and as the installed base of machines grew, revenue visibility and operating leverage improved as well.

Easy Ice was sold to a major private equity firm in December 2019.

"When evaluating options, a CEO needs to think beyond just the bottom-line cost of capital," Easy Ice CEO Mark Hangen said of his decision to work with Saratoga. "For us, the right lending partner was a BDC because Saratoga... recognized that my business was best served by re-investing my free cash flow to grow. The amortization schedule was appropriate to my operating plan and financial covenants were tailored to my growth, which gave us sufficient runway to grow into the assets we were financing."

Put another way, flexibility was crucial. Easy Ice's business model – which requires the acquisition of ice machines to support future growth – would have made it difficult to obtain a loan from a bank. BDCs, by contrast, don't have to contend with the same limitations and rules as traditional banks. This flexibility is oftentimes what gets deals done.

PROMISING BEGINNINGS

Hangen had co-founded Easy Ice in 2008 with John Mahlmeister, with the idea that those companies in need of ice machines would see ample benefit in Easy Ice's subscription-based service, as opposed to buying the machines themselves. In particular, Mahlmeister said in a 2014 news release, he and his partner made it clear as to how much of a saving business owners would realize in not having to service and maintain their own machines, not to mention finding backup ice in the event of a breakdown.

Mahlmeister said such a business model had first been used in the food-service industry, with dishwashers.

"Twenty years ago, nearly everyone bought their own dishwasher," he said in the release. "Now, 80 percent of our customers already get their dishwashers on a subscription, so switching their ice machine over to this service is an easy decision."

The business took hold, and when it was looking to expand, Saratoga stepped forward.

"We are very excited about the direction of this company.

> *"Now, 80 percent of our customers already get their dishwashers on a subscription, so switching their ice machine over to this service is an easy decision."*

It is rare to find a profitable company of this size with significant growth potential in a market that is mature," Charles Phillips, Managing Director of Saratoga Investment Corp., said in that same release. "Easy Ice's track record, unique position in the marketplace and seasoned management team enabled our investment committee to confidently fund their growth plans."

VERSATILITY NEEDED

The deal, said Joe Burkhart, Saratoga's Managing Director and head of business development, "originated through a proprietary relationship," in that Saratoga was introduced to Easy Ice's CEO Mark Hangen through an accounting services firm the company had worked with before. And like Phillips, Burkhart said it was an easy decision to join forces with Easy Ice, given the following factors:

Strong Value Proposition	Customers avoid a large up-front equipment purchase, receive repair and regular maintenance at no extra charge, and emergency ice delivery in the event of machine downtime.
Subscription-based Recurring Revenue Model	The company's cash flow was supported by over 3,000 monthly subscriptions.
Highly Diversified Customer Base	Easy Ice's largest customer represented less than one percent of revenues; over 95 percent of Easy Ice's customers were single-unit subscribers.
Strong Operating Leverage	The monthly recurring revenue business model has few fixed costs beyond the core operating management and sales/call center. Dedicated service technicians are utilized only in the most dense markets.

Saratoga continued to support Easy Ice's capital needs over the years, as it acquired Grove, based in Chicago; and Ice Masters, based in Shawnee, Kansas. And when one of Easy Ice's large minority shareholders was looking to sell, Saratoga bought them out.

"We were there for our partners," Burkhart said, adding that the relationship represented "the kind of flexibility and reliability businesses have come to enjoy and expect from us."

As noted above, revenue and EBITDA growth continued apace, tripling over the 6-year investment period. With the new influx of funding, Easy Ice grew its consumer base by 181% and benefitted from a lower churn rate as customers grew more seasoned. Six years later, the mutually profitable partnership led to Easy Ice's acquisition by a major private equity firm.

CONNECT WITH US

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