THE BOND BUYER

Muni bonds for firefighting firm aid smooth flight to SPAC equity deal

By

Keeley Webster

Published

August 11, 2022, 12:14 p.m. EDT

The financing stars are aligning for a Montana-based aerial firefighting firm that has grown quickly to meet demand driven by massive wildfires that have plagued Western states for the past several years.

A total of $160 million of taxable municipal bonds for Bridger Aerospace priced in July and August.

The deal, carrying third-party verification as sustainability bonds, was followed by a merger with a blank-check special purpose acquisition company. That SPAC deal will turn Bridger into a firm that trades on the NASDAQ stock exchange.

The Super Scooper fire suppression plane can drop 50,000 gallons of water before refueling, according to bond documents.

Bridger Aerospace Group

"We are entering a new era of combating wildfire danger, and our financial needs are unique as we continue to expand our capabilities to tackle the critical needs of communities we serve," Tim Sheehy, CEO, founder and director of Bridger The bond proceeds will help pay for the financing of two airplane hangars at Gallatin Field in Belgrade, Montana, and the acquisition of four new SuperScooper firefighting aircraft.

Drought, increasing temperatures, overgrown forests and increased development near forests have resulted in more frequent and severe wildfires across much of the west.

Nearly a quarter of the U.S., mostly in the west, is at moderate to very high risk of severe wildfires, according to the U.S. Forest Service. This comes on top of several years of fires that have burned millions of acres in Oregon and California.

Aerospace, said in a statement.

Talks related to the potential for a SPAC merger was disclosed in the preliminary offering documents, but an addendum announcing a merger with NASDAQ-listed blank-check firm Jack Creek Investment Corp. was attached to offering documents on Friday.

"During 2022, BAG Holdings, has evaluated and continues to evaluate strategic transactional and financing opportunities, including, without limitation, accessing the public capital markets via an initial public offering, merger with a special purpose acquisition company or otherwise," according to the addendum. "BAG Holdings does not expect these opportunities will (if completed) have a negative impact on the credit worthiness or results of operations of the borrowers or result in any material change in the senior management of BAG Holdings."

If the merger closes, the combined company will be named Bridger Aerospace Group Holdings Inc., and is expected to list on the NASDAQ under the ticker symbol BAER.

The transaction valued Bridger at $869 million on a pro forma enterprise value and is expected to infuse up to $345 million of cash to the company's balance sheet, assuming no redemptions by Jack Creek's public shareholders and before payment of transaction expenses, according to a statement released by Jack Creek. Blackstone Tactical Opportunities, an early Bridger investor, will retain equity and two seats on the company's board of directors.

D.A. Davidson and Jefferies priced the $160 million in unrated federally and state taxable industrial development revenue bonds in tranches of $135 million July 19 and $25 million Aug. 5. The debt, maturing on Sept. 1, 2027, carries an 11.5% coupon.

"I was happy to partner with a company like this that is doing great things for the nation," said Kyle Thomas, a D.A. Davidson managing director. "I was glad to get the transaction closed in what has been a challenging market."

Though an 11.5% interest rate appears high compared to highly rated tax-exempt debt, "there's an argument that, if they completed the offering in July, it should be counted as a success," said Matt Fabian, partner with Municipal Market Analytics. "It has been a rough period for high-yield," he said.

"The bonds are performing an equity-like function," Fabian said. "It would make sense that the issuer would have to provide a return comparable to equity."

The offering documents stretch to 500 pages, which Fabian said is unusual for a five-year deal and speaks to the complexity.

And the complex transaction arrived at a time when the markets are rough because of the volatility in the high-yield space generally.

As high-yield taxables, the deal was also not just competing for attention from muni-focused investors, but had to compete against high-yield everywhere at a time that crypto, a high-yield play, and sovereigns, taking a hit from the Ukraine conflict, are pricing cheaply, he said.

"We are glad we got the transaction closed in what has been a challenging market," said Kyle Thomas, a D.A. Davidson managing director. D.A. Davidson

"The cheapness in crypto and sovereigns pulls investor interest away from muni high-yield," Fabian said.

"In the investment grade tax-exempt space, borrowers largely have a captive audience," Fabian said. "There is no other competing project that can provide a safe tax-exempt investment. In high-yield, people care less about tax exemption and more about yield. Given these are taxables, they are competing with taxable high-yield borrowers for investment dollars."

The interest-only structure at 11.5% means the investors will have been paid back nearly 12% of the principal through interest in the first year.

"These are muni investors who want to take the risk off the table as quickly as they can," Fabian said. "The structure allows investors to tolerate a haircut at maturity when normally they wouldn't — and an interest rate of that size indicates some uncertainty in the borrower's ability to pay it off, so they want to make sure they are getting paid off, in part, along the way."

The higher interest rate is in line with high-yield unrated taxable debt, Thomas said. He added, however, there weren't really any comparables, so the deal required a lot of price discovery and looking to what has priced on the secondary market.

An aerial firefighting company was a unique offering, Thomas said. The finance team also had to get investors comfortable purchasing the amount of debt offered with a company experiencing extensive growth, he said.

"It took investors awhile to understand the credit and contracts," Thomas said.

The deal originally expected to price in June,though a formal pricing date hadn't been set,and ultimately went in July, "because it took longer with investors to get them comfortable with the credit," Thomas said. "We had to add additional features and engaged with investors' counsel."

Changes include pricing the debt as interest only instead of fixed-rate with an amortization schedule, and the maturity was shortened from a proposed 20 years to five-year notes. A prior financing in 2021 had 20-year maturities.

The debt matches the timeline of the primary source of revenue, five-year contracts from the U.S. Forest Service and state governments needing aerial firefighting capabilities.

It also has a three-year call date. The interest-only structure means there will be a balloon payment at the end and Thomas said the debt will likely be refinanced when it reaches maturity.

Less than 10 bidders vied for the debt, but Thomas said a unique deal like this wouldn't draw 100 bidders.

The deal, verified as green by Kestrel Verifiers, a third party certification company that will provide ongoing disclosure on its environmental pledges, attracted interest from investors looking to add environmental, social, and governance-focused bonds to their portfolios.

"Investors liked the ESG nature of this business," Thomas said. "They understand there are a lot of wildfires and we need tools to fight wildfires."