

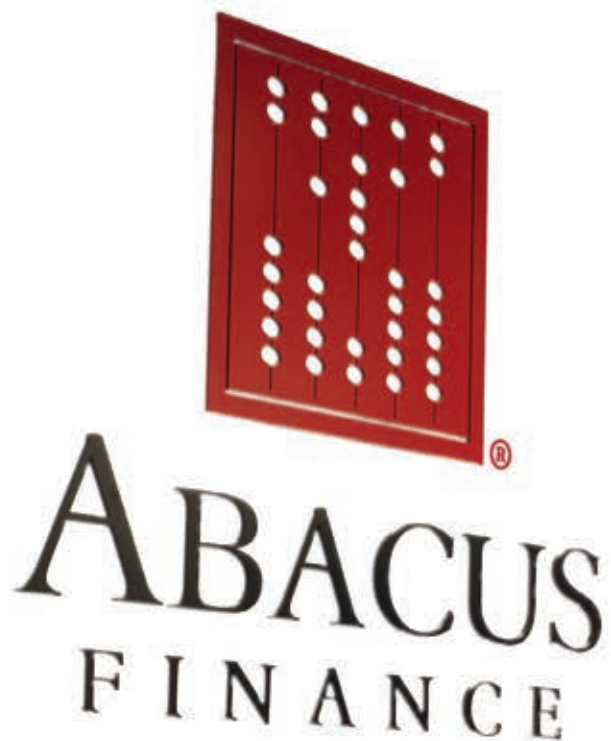
MERGERS & ACQUISITIONS

JUNE 2018

G BUYER'S GUIDE

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Buyer's Guide

The M&A industry is going strong, with no signs of slowing down. In today's fast-paced market, M&A pros are looking for a leg up on the competition and seeking ways to maximize investment returns.



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Enjoy our new look and meet the team

Check out the M&A daily wrap, video interviews with top dealmakers and vivid slideshows, plus updated designs in the magazine and on the website.



Mergers & Acquisitions attracts more than 50,000 M&A community members across our print and digital platforms. To serve your informational needs better, we have refreshed the look of the magazine and website and expanded our content offerings. Recently, we launched an online column, called "M&A daily wrap," in which we share a wide array of middle-market news and developments, including

deal announcements, fundraises, Q&As with leading dealmakers, reports, new hires and promotions. Think of it as your daily one-stop-shop for all things middle-market related.

Slideshows have proved very popular, and we've been producing them frequently. Recent slideshows have featured golf deals, timed to the Masters Tournament; middle-market companies based in the hometowns of the March Madness Final Four college basketball teams; and car deals, just in time for summer road trips.

Video is a key component of our content. Earlier in my career, I served as a broadcast TV reporter. Since I joined the brand in 2011, we have produced hundreds of video interviews with top dealmakers. Look for our team at events throughout the middle market. And visit TheMiddleMarket.com and follow us on LinkedIn, Facebook and Twitter @themiddlemarket.

—Mary Kathleen Flynn



The M&A team: Leatha Jones, Nikhil Mali, Demetri Diakantonis, Mary Kathleen Flynn, Harry Nikpour, Richard Grant

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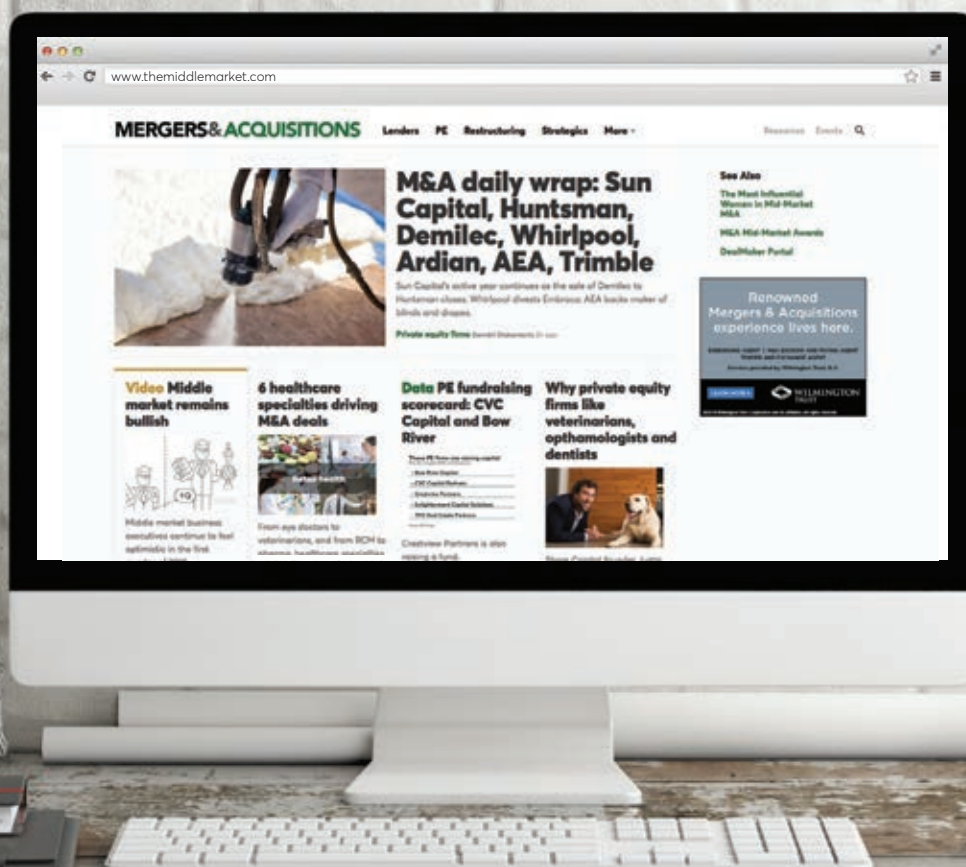
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What's going on @ TheMiddleMarket.com



Slideshow



Retail health

6 specialties driving deals

The healthcare industry remains a hot place for investment. According to Morgan Stanley, the sector began 2018 with the strongest start in over a decade. Many of the companies that are garnering attention from strategic acquirers and private equity firms.

M&A daily wrap



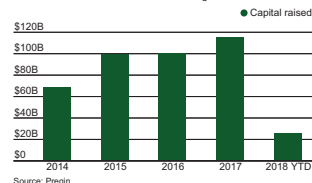
Auto parts attract PE buyers

Stellax Capital has acquired Fenix Parts, a recycler and reseller of OEM parts that were recovered from damaged or low-valued cars. As Americans begin to plan road trips and other summer vacations, car deals are thriving.

BlackRock snags TCP

The rise of private debt

Private debt funds raised a record-breaking \$115.4 billion in 2017



Private debt appeals to buyers

BlackRock is acquiring Tennenbaum Capital Partners, a firm focused on direct lending and special situations for mid-market companies. BlackRock says its clients are increasingly drawn to private credit as a higher-yielding alternative to traditional fixed income.

It's Good to Be Flexible



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Why PE firms like physician practices

Welsh, Carson, Anderson & Stowe forms radiology company through new venture, partnering with a healthcare practice

Charlotte Radiology, a physician-owned practice in the Southeast, has formed a new venture with healthcare investment firm Welsh, Carson, Anderson & Stowe to expand the practice across the U.S.

The new venture, US Radiology Specialists, also appointed John Perkins as its CEO and member of its board of directors. Perkins comes to the job with experience in operating and scaling up healthcare companies: he was formerly the chief executive of Bio Products Laboratory, a plasma protein therapeutics company, and before that he served as the executive vice president of global commercial operations for

Talecris Biotherapeutics. Perkins also has private equity experience as an operating partner for Bain Capital, Amersand Capital and Cerberus Capital, and held operating and M&A roles at General Electric.

"US Radiology Specialists is a physician-owned and quality-focused group set up to support our mission of providing exceptional patient care," says Bob Mittl, chairman of Charlotte Radiology's governance board and a US Radiology board member. "We are excited to form US Radiology Specialists in a joint partnership with highly experienced and like-minded partners such as WCAS."

Charlotte Radiology, based in Charlotte, North Carolina, describes itself as one of the nation's largest radiology groups, with 126 physicians and advanced care practitioners in the Southeast U.S., including specialists in body imaging, emergency radiology, interventional radiology, mammography, musculoskeletal, neuroradiology, nuclear medicine, pediatrics and teleradiology, or transmitting images between sites. The practice serves 18 hospitals, and owns and operates 14 breast centers, three mobile mammography units, two vein centers, and several other vascular and interventional care sites. Charlotte Radiology also has a joint

venture with Atrium Health, formerly Carolinas HealthCare System, operating five outpatient imaging centers and two mobile MRI units. Charlotte Radiology interprets or performs more than 1.5 million imagings and imaging-guided procedures each year.

New York-based Welsh, Carson, Anderson & Stowe, or WCAS, invests in technology and healthcare industries. WCAS describes its investment strategy as buying growth businesses, partnering with management teams and building value through operational improvements, internal growth and strategic acquisitions. The firm was founded in 1979 and has since organized 16 limited partnerships with total capital of more than \$22 billion.

WCAS is currently investing capital from a \$3.3 billion PE fund and has a current portfolio of approximately 20 companies. WCAS's strategy is to partner with outstanding management teams and build value for its investors through a combination of operational improvements, internal growth initiatives and strategic acquisitions.

"Charlotte Radiology is the perfect founding partner for US Radiology Specialists," says Brian Regan, WCAS general partner. "Combining their commitment to clinical quality with our resources, business support and capital investment, US Radiology Specialists will be able to rapidly expand, enabling us to reach more patients across the country."

The US Radiology deal is just the latest example of a burgeoning area of middle-market M&A: physician and dental practices. Sweeping up smaller practices into consolidated businesses can make operations more efficient through economies of scale, reduce the cost of care and improve patient outcomes,

beating out hospitals and other traditional care providers in the competition for the healthcare consumer. Recent deals in this area have included PE firm LLR Partners forming a Southeast U.S. eye care practices company, Eye Health America, starting with the acquisition of Eye Associates, Clemson Eye and Piedmont Surgery Center practices, with the goal of growing through more acquisitions and organically.

—Keith Button

High demand for auto parts

Stellex joins recent PE buyers CenterOak and Clearlake

Stellex Capital Management has acquired auto parts distributor Fenix Parts. The PE firm partnered with industry veterans Bill Stevens and Paul Delaney on the deal. Fenix is a recycler and reseller of original equipment manufacturer (OEM) parts that were recovered from damaged or low-valued cars.



"This is a great fit for us given our extensive experience investing across the automotive supply chain," says Stellex managing partner Michael Stewart. Stellex is a New York-based middle-market private equity firm that invests between \$25 million to \$100 million in deals valued up to \$500 million. In 2017,

Stellex formed a partnership with auto industry veteran Bruce Swift to seek acquisitions in the sector.

As Americans begin to plan road trips and other summer vacations, car deals are thriving, especially in the nascent self-driving tech sector. Intel bought Israel's Mobileye for about \$15 billion. Meanwhile, in a much smaller deal, Delphi bought NuTonomy.

As the industry readies for autonomous driving, there's a big wave of consolidation going on among makers of traditional car parts, with several new deals announced this week. Investcorp acquired KSI Trading Corp., a supplier of aftermarket auto body parts that services 10,000 collision repair shop customers across 25 locations in 14 states. Woodward Inc. bought diesel parts maker L'Orange from Rolls-Royce. And Canadian automotive retailer AutoCanada has acquired 15 stores from the Grossinger Auto Group. Akerman represented the seller. Other car part buyers include CenterOak Partners, Clearlake Capital Group and Wabash National. Meanwhile, Carl Icahn is among the sellers.

—Demitri Diakantonis

PE firms seek capital

Dyal takes minority stake in Vector Capital

Technology-focused private equity firm Vector Capital has taken on Dyal Capital Partners, a division of Neuberger Berman, as a minority partner. In recent years, Dyal has made investments in minority, non-voting ownership interests in other PE firms including: Vista Equity Partners, KPS Capital Partners, Silver Lake, H.I.G., along with

lender Cerberus.

Vector, based in San Francisco, will use the capital to expand its businesses, but the firm will not change its strategy, investment process or day-to-day operations. Dyal's ownership interest in the firm is a passive, non-voting, minority stake.

"This investment, which builds on our 20-year relationship with Neuberger Berman, provides Vector with permanent capital to strengthen our private equity business and further accelerate the growth of our credit business," says Vector founder Alex Slusky.

"Through our capital and our business platform resources, we look forward to further enhancing Vector's capabilities," says Dyal Capital head Michael Rees.

For middle-market private equity firms, selling minority stakes is a path to raise capital for expansion of business lines and for some general partners to gain liquidity. As acquisitions have become so pricey, return margins are thinner and capital infusions from selling minority stakes can help private equity firms grow more quickly. Private equity firms can also use the capital to broaden their ownership base and bring in new, younger partners as the older partners look to retire or step back.

Kohlberg & Co. recently sold a minority stake to Stephen Schwarzman's Blackstone Group LP (NYSE: BX), which invested with capital from its strategic capital holds fund under Blackstone Alternative Asset Management. Blackstone also bought a less than a 15 percent stake in Leonard Green & Partners.

Another middle-market PE firm, the Riverside Co., sold a minority stake to Parkwood LLC, a private trust company, with Riverside intending to spend

Betting on the cloud

Vector Capital backs a range of software companies

- **Corel, packaged software**
- **CloudSense, cloud software**
- **IPValue Management, intellectual property**
- **Saba Software, cloud technology**
- **Triton Digital, SaaS provider**

Source: Vector Capital

the capital on its debt lending business, deal businesses in Europe and Asia, and possibly acquiring other private equity firms.

Littlejohn & Co. sold a minority stake—passive, non-voting and less than 10 percent—to Goldman Sachs Alternative Investments & Manager Selection Group with plans to use the capital to grow. That investment was through the AIMS Petershill fund, which is set up to invest in minority stakes in PE firms, hedge fund managers and other alternatives management firms. Goldman's Petershill fund also invested in a minority stake—also non-voting and less than 10 percent—in Accel-KKR, a private equity firm focused on tech companies.

Vector Capital manages \$3.8 billion in tech company investments. The firm formed in 1997 as a spinoff of Ziff Brothers Investments, a family investment firm. Its investments have included taking public companies private, buying founder-owned companies, growth equity investments, recapitalizations, spinoffs and public company investments. The firm recently raised \$1.4 billion for its fifth private equity fund, Vector Capital V. Among its recent deals, Vector agreed to sell 2020 Technologies, a software developer for interior space planning, to Golden Gate Capital.

Dyal Capital, which started in 2011, seeks to acquire minority equity interests

in institutional alternative asset management businesses worldwide, with 27 such investments currently. Neuberger Berman, an employee-owned investment manager, has \$295 billion under management in equity, fixed-income, quantitative and multi-asset class, private equity and hedge fund investments. On the Vector-Dyal deal, Kirkland & Ellis was Vector's legal counsel and Fried, Frank, Harris, Shriver & Jacobson serving as Dyal's legal counsel.

—Keith Button

Americans love snacks

Charlesbank and Partners Group back Hearthside

Charlesbank Capital Partners and Partners Group have agreed to acquire Hearthside Food Solutions from Goldman Sachs (NYSE: GS) and Vestar Capital Partners. Based in Downers Grove, Illinois, Hearthside is an independent bakery and contract manufacturer for grain-based food and snacks for brands.



The company produces nutrition bars, cookies and cereals made at 25 manufacturing facilities across the U.S. and Europe. Goldman and Vestar bought Hearthside in 2014 from Wind Point. "We see strong potential for the company to continue on its growth

path as its business model is supported by global transformative trends, such as increased outsourcing, which show no signs of flagging," says Partners Group managing director Chris Russell. Americans are eating small, convenient on-the-go snacks like protein bars, more than ever before and that is driving deals among healthy snack companies. For example, Hershey Co. (NYSE: HSY) acquired SkinnyPop popcorn maker Amplify and Brands for \$921 million, and Campbell Soup Co. (NYSE: CPB) paid almost \$5 billion for Snyder's-Lance, the owner of Cape Cod potato chips. Ropes & Gray, Goodwin

Procter, Latham & Watkins, KPMG, PwC and Jefferies are advising the buyers. Davis Polk, Barclays and Goldman Sachs are advising Hearthside. Financial terms were not disclosed.

—Dimitri Diakantonis

Ardian raises new fund

AGF II is three times bigger than the firm's first in 2014

Paris private equity firm Ardian has raised €230 (\$283 million) for its new growth equity fund, Ardian Growth

Fund II. The fund was raised in four months, and it is three times bigger than Ardian's first growth fund, which was raised back in 2014. The firm has attracted institutional investors, such as the European Investment Fund (FEI) and Bpifrance.

"With the substantial size of the fund, the fundraise strengthens Ardian growth's positioning as a leading growth catalyst for ambitious entrepreneurs across Europe," says Laurent Foata, head of Ardian Growth. Ardian has backed more than 100 companies in the software and Internet sectors since 1998 including: Bricoprivé

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and Ivalua in France, Lastminute.com in Italy and T2O in Spain. Ardian started as AXA Private Equity under French insurer AXA and was formed by Dominique Senequier in 1996. The group was spun off in 2013 and named Ardian, and Senequier is the company's president. The firm is actively looking to expand its U.S. presence. Ardian is partnering with Transatlantic Power Holdings to create a renewable energy platform called Skyline Renewables. In 2017, the firm acquired Revere Plastics Systems LLC, a manufacturer of plastic injection molded materials.

—Demitri Diakantonis

Daseke buys again

The company purchases energy logistics provider Truck operator Daseke Inc. (Nasdaq: DSKE) has agreed to acquire energy transportation company Aveda for about \$102 million in enterprise value. The target provides services and equipment required for the exploration, development and production of petroleum resources in North America. Calgary, Alberta-based Aveda has 430 tractors, 660 trailers and 200 light duty trucks, and generated about \$158 million in revenue in 2017.

"This transaction is a strong fit for our company and shareholders as Aveda has demonstrated the ability to outpace their market's growth rate, and we expect joining Daseke will enable them to fuel their continued outperformance," says Daseke CEO Don Daseke. Addison, Texas-based Daseke operates more than 5,200 tractors and 11,000 flatbed trucks and trailers. Customers include Boeing Co. (NYSE: BA), Cat-



DASEKE

pillar Inc. (NYSE: CAT) and General Electric Co. (NYSE: GE). Daseke has been an active acquirer, wielding M&A to expand geographically and to diversify services. In 2017, Daseke acquired Tennessee Steel Haulers & Co., the Roadmaster Group and Moore Freight Service. In that same year, Daseke purchased R&R Trucking, competitors the Schilli Cos., Big Freight Systems and the Steelman Cos. Transportation and logistics has seen a lot of deal activity, with Quad-C investing in transportation management provider AIT Worldwide Logistics.

—Demitri Diakantonis

Gartner sells division

ParkerGale acquires CEG from Gartner

ParkerGale has acquired CultureIQ, whose software surveys employee engagement and culture, and backed CultureIQ's acquisition of the workforce surveys and analytics division of Corporate Executive Board. Corporate Executive Board is owned by Gartner (NYSE: IT), the IT industry research and

analysis firm.

ParkerGale has used CultureIQ's software across its portfolio for several years to conduct employee engagement and culture surveys, so the Chicago PE firm has a "strong conviction about the products and the market," says ParkerGale partner Devin Mathews.

"We think this is exactly what the market is looking for – a high-tech and high-touch approach to employee engagement," Mathews says. "From our industry research, we know there is a huge market without a clear leader. Companies are updating the old ways of surveying employees for feedback and are now listening deeply to their employees using technology and fostering engagement through action plans built on decades of benchmarking and best practices. The combination of New York-based CultureIQ and WS&A creates the clear leader the industry has been seeking."

The transaction to acquire CultureIQ-- and a carve-out from a large public company-Gartner--on the same day was complicated but interesting, Mathews says. ParkerGale will own a majority of the combined business,

which will retain the CultureIQ name.

"This is an exciting combination of two great companies," says CultureIQ CEO Greg Besner, who will be the CEO of the combined business. "One with strong, modern technology and one with decades of expertise and intellectual property. WS&A is the recognized industry leader working with some of the largest companies in the world and we are excited to join forces."

Besner started CultureIQ in 2013 as a software-as-a-service business in the employee culture and engagement survey industry. CultureIQ helps companies use employee feedback

data gathered through surveys and analytics to try to measure, understand and strengthen company cultures. It also has a strategy team that provides advice on how to improve and align corporate cultures.

Corporate Executive Board established its workforce surveys and analytics division through acquiring Valtera and Genesee Surveys. The division provides insights and analytics for corporate strategic planning and business outcomes based on a workforce survey and analytics platform. The business's intellectual property includes benchmarks and what it describes as the

"deepest best practices database in the industry." The division is also staffed with a team of psychologists to design the workforce surveys to generate insights and actionable intelligence.

—Keith Button

Ready to go camping

Outdoor deals are picking up just in time for summer

Camping World Holdings Inc. (NYSE: CWH) has agreed to acquire Cullum & Maxey Camping Center in Nashville.



Watercooler

The deal is part of Camping World's strategy to grow geographically through M&A.

"We are well-positioned to remain a leader in the RV industry as it continues to evolve," says Camping World chief operating officer Brenty Moody. Camping World recently agreed to buy Dixie RV Superstore.

Outdoor-related deals, including makers of camping equipment, are picking up as consumers gear up for the Spring and Summer seasons. For example, lower middle-market private equity firm L2 Capital Partners formed



CAMPING WORLD

a platform to focus on the camping sector through the investments of In-

sight 2 Design and Elevate LLC.

—Demitri Diakantonis

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The medium is the message

LLR Partners has pioneered a digital strategy, including website content and social media channels, to amplify its brand.

By Mary Kathleen Flynn



Competition in the private equity industry is more intense than ever, making it hard for PE firms to differentiate themselves from others. Embracing content creation, social media and

video helps LLR Partners maintain a high profile.

"Business owners and CEOs of companies have a lot of choices as to who their investors are," explains LLR managing director Michael Sala. "They're constantly being contacted for discussions and dialogues about how a private equity fund or growth investor could invest in them and bring value."

To stand out from the crowd, LLR has pioneered a digital strategy that involves embracing social media and devising new ways of connecting with prospective and existing portfolio companies. One aspect of the approach is a content series called GrowthBits. As an example of the type of content the firm is producing and how the series helps to share best practices throughout the firm's portfolio, a recent GrowthBits article outlined "must-have technologies for growth-focused companies," written by Bill Sweeney, the chief technology officer of Kemberton Healthcare Services, a company LLR backed in 2017. The

point of GrowthBits is so that when CEOs who are looking for an investor research the firm and visit its website, "they'll start to see the value that LLR can bring around 5 main drivers: sales, marketing, technology, finance and leadership," says Sala. The potential for expansion in those areas is what LLR looks for in portfolio companies when considering whether or not to invest in them.

Amplifier

"We're not just trying to bring people to our site, we're trying to convey why LLR can be a good partner that can add value over the long term."

Social media, including an active Twitter account (@LLRPartners), plays a key role. "We look at social media as a channel in which to amplify our message, to get our brand out there."

LLR won Mergers & Acquisitions' M&A Mid-Market Award for 2017 Private Equity Firm of the Year. It is one of the most active private equity firms in the middle market, having racked up 28 transactions in 2017, including 4 new platform investments, 18 add-on acquisitions and 6 exits.

Watch our pair of video interviews with Sala at TheMiddleMarket.com, and follow Mergers and Acquisitions on social media. We're on Twitter @themiddlemarket. **M&A**



LLR Partners' Michael Sala shares the firm's strategy and how it uses social media to amplify its message in a video interview with Mergers & Acquisitions.

Mary Kathleen Flynn is the editor-in-chief of Mergers & Acquisitions. MK oversees the brand's content on all media platforms, including website, e-newsletters, video, slideshows, podcasts and print. Follow her on Twitter at @MKFlynn

Retail's new world

Nike and other specialty apparel manufacturers are embracing new technology to keep pace with evolving consumer demands.

By **Demitri Diakantonis**



Consumers are more demanding and specific with the products they buy. Retailers along with specialty apparel manufacturers are under pressure to get a better grasp of shopper behavior

so they can tailor their marketing strategies and inventories to evolving consumer needs. In order to do this, companies are investing in technology, including data and analytics providers, snatching targets in those fields through M&A.

One prime example is Nike Inc. (NYSE: NKE), which has bolstered its digital capabilities with the acquisition of Invertex Ltd. of Tel Aviv. Invertex uses 3-D technology and mobile applications to analyze consumer buying behavior, aiming to provide retailers with information to customize products to meet specific customer needs. Invertex's imaging technology can be used to analyze people's feet in stores to suggest models and sizes that would fit them best.

Invertex is not Nike's only technology acquisition. The Beaverton, Oregon-based company bought consumer data analytics firm Zodiac Inc. "The acquisition of Zodiac demonstrates our commitment to further accelerating Nike's digital transformation and enhancing

our consumer data and analytics capabilities to help us serve consumers globally," says Nike chief digital officer Adam Sussman.

Buyer trends

Based in Philadelphia and New York, Zodiac uses "proven data models, customer analytics, and behavioral analysis to predict the future behaviors of individuals." "What really powers all these immersive consumer experiences is great data and the ability to maximize. And while we're constantly building these skills in-house we're also acquiring capabilities to accelerate our strategy," Nike CEO Mark Parker told investors.

Both strategic and private equity buyers

are going after analytic firms to monitor consumer behavior and help with their digital strategies. For example, in 2017, the Carlyle Group LP (Nasdaq: CG) acquired consumer data provider Claritas from Nielsen (NYSE: NLSN). New York-based Claritas, founded in 1961, provides consumer data and demographics, including where people work, live and shop, to help businesses better directly market to those clients.

On the strategic side, in 2016, security company Tyco International plc (NYSE: TYC) purchased Shopper-Trak for \$175 million. The Chicago-based target measures customer traffic as well as other consumer behavior for retailers, including Crate and Barrel and Harry & David.

M&A



Demitri Diakantonis is the assistant managing editor of Mergers & Acquisitions and writes *The Buyside* column about corporate dealmaking, and also covers the consumer sector. Follow him on Twitter at @ddiakantonis

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DEALMAKER'S

GIVE DEALMAKERS THE UPPER HAND

GUIDE



By Danielle Fugazy

The M&A industry is going strong, with no signs of slowing down. In today's fast-paced market, M&A pros are looking for a leg up on the competition and seeking ways to maximize investment returns. Products and services that give dealmakers the upper hand are highly sought after. Here's our updated annual look at the tools transaction professionals count on to help them source and close deals.

Referrals

Think Gartner Inc. meets Angie's List and there lies BluWave. The idea for BluWave grew over a 20-year span, while Sean Mooney was working in a

do more and more for returns." Mooney founded BluWave to help private equity firms and their portfolio companies select the best service providers.



private equity firm and started to see a void in the market as the industry became increasingly competitive. "After 2008, the competition in private equity became fierce," Mooney says. "Every deal wasn't a slam dunk and as time went on, private equity firms were required to

"When used correctly, service providers can meaningfully improve the efficiency and productivity of your business and increase value," he says. "Today, there are so many service providers and private equity firms don't have the time or resources to make sure they

are choosing the right provider. That's where we come in." In the past, private equity firms may have tried to forego the expense of outside help, but today, the industry has matured, and PE firms are more accepting of assistance.

BluWave can help connect private equity firms and their portfolio companies with everything from finding due diligence experts and executives to value creation initiatives, with the idea that being able to quickly pinpoint the right help will ultimately save companies time and money while producing better outcomes.

"The challenge is that as service providers grow, the folks in the middle or lower middle market can't afford them anymore," Mooney says. "Also, things have become so specialized that you want to make sure you are turning to the right companies for help. Instead of doing these searches, management can focus more on strategic activities while we handle this work. We have a pre-vetted network and understand how to get strong results for PE firms."

Private Equity firms such as Frontenac, Comvest Partners, GI Partners, Bunker Hill Capital and Blue Mountain Capital have used BluWave's services.

Fund administration

No private equity firm sets out to build a giant back office, but over time, as funds and firms grow, back-office fund administration processes can take on a life of their own. "A lot of firms start off small, and they have a small back office, but the next thing you know, they have a big operation. They never raised a fund with the intention of becoming experts in fund administration, that's not what they want to do," says Robert

Woosley, national practice leader at Frazier & Deeter. The accounting firm's subsidiary, FD Fund Administration, offers fund administration services to private equity firms and real estate firms.

"There are so many compliance requirements now and pressure from the limited partners for reporting, it's driving the whole industry to move forward and think more serious about

fund administration," Woosley says.

Woosley says fund administration was a natural extension of Frazier & Deeter's certified public accountant capabilities. The firm had a strong relationship with a multi-billion-dollar private equity firm that had its own back office handling investor services, accounting, audits and valuations. In 2013, FD Fund Administration hired a few of those employees from the firm and worked with them side by side. The test was successful, and the new practice line was born.

Today, FD Fund Administration provides back-office fund administration for many well-known firms, including Hamilton Lane and real estate firm



Lubert Adler. To give clients a seamless interaction, FD and Frazier & Deeter's tax division work together. "We have sophisticated tax strategies in house that really sets us apart from the competition," Woosley says. "You don't want a fund administrator that doesn't

understand all the issues that private equity firms are dealing with. We are a one-stop shop, instead of having five vendors who don't communicate with each other."

Since FD Fund Administration started operations in January 2013, the firm has tripled its private equity assets under administration to more than \$25 billion.

"We knew there was a need for this. A lot of firms start off small, build strong reputations and grow. They create their own back office, but that's not their sweet spot. Their sweet spot is finding deals, creating value and putting investors' capital to work," says Woosley. "We understand administration is not their core, but

required more frequently."

Using a third-party fund administrator is becoming more acceptable to limited partners who are looking for a higher level of transparency. Hedge funds are required to have third-party administrators. While it's not a requirement for private equity firms, each year more PE firms shift to a third-party model.

Working with a third-party fund administrator is a more logical choice, not only because of transparency demands from limited partners, but because of the complexity of regulations and today's ever-emerging investment strategies, Woosley says. "Private equity firms realize they should focus on what they do best and leave this to the experts."

Recruiting

Having the best team possible will undoubtedly lead to enterprise value. Corey Roberts, CEO of Talent Equity Group, says there is an untapped opportunity to increase portfolio company enterprise value by improving the quality of talent below the C-suite level. "While the correlation between quality of talent and enterprise value is an economic fact, many private equity firms don't have enough visibility into the performance of talent that sits below the C-suite level," says Roberts.

Unlike a recruiting firm or headhunter who will fill a position, Talent Equity Group allows companies to outsource their entire talent acquisition process, enabling a portfolio company to focus on key business priorities as well as retaining and measuring their core talent base.

"Most small to mid-cap companies lack the resources and bandwidth to efficiently compete for high quality

talent," Roberts says. "This is especially true for highly skilled talent that is in short supply such as physicians and other clinical professionals. The effective unemployment rate for high-quality and specialty talent is zero, and therefore up-to-date systems and processes need to be deployed in order to compete." He says his firm has a

solution that will enable a portfolio company to consistently exceed performance by having the right talent in place and in queue.

Talent Equity Group typically works with small to mid-cap companies with \$50 million to \$400 million in annual revenue. Each client is assigned an account director and a dedicated team that manages the entire talent process. The company also provides advisory services, which can assess the overall



Buyer's Guide

talent requirements of a portfolio company business, both pre-and post-acquisition. The company has more than 30 professionals and is expected

to double in size this year. Additionally, TalentEquity Group covers most business sectors, but has particular success with companies that value human

capital as a key to growth and success. "We provide a turn-key platform that brings best practices to hiring, retaining and promoting high quality talent."

Online services

A slew of services don't fit neatly into well-defined categories, but they shouldn't be dismissed because they can be very important for dealmakers. Axial Networks Inc. is one company that didn't fit squarely in a category, so it created its own category: online deal networks. Axial is one of the more successful online deal networks that investment bankers, strategic buyers and private equity investors have adopted for business development, deal management and deal sourcing. Although the company has found early success, it's always looking to fine-tune things.

To best serve the middle market's investment bankers and their clients, the company made a significant decision in 2017 to make every deal on Axial 100 percent confidential and private. "There is no spammy or deal-blasting activity allowed," says Peter Lehrman founder and CEO of the New York-based company. "This decision has led many investment bankers to take a hard second look at our tools, and that's resulted in much higher-quality member deal activity over the last 12 months. To be a widely adopted dealmaking platform for the middle market's investment bankers and their clients, it required that we walk away from some of the original decisions we'd made for how to get the platform up and running."

In 2017, the revenues of businesses

that made private transactions via the Axial deal network ranged from \$2.9 million to \$610 million, with Ebitda ranging from negative \$19 million to \$223 million. Top sectors of deal flow activity include business services, Software as a Service, healthcare



information technology, distribution and logistics, and manufacturing.

Axial has brought more than 1,300 investment bankers into the fold including boutique investment banks like 41 North Partners, Allegiance Capital, Copper Run Capital, Capstone Headwaters, Hilliard Lyons, Progress Partners and Seven Mile Advisors.

Axial members include investment professionals at Alpine Investors, Decathlon Capital Partners, SFW Capital, Oaktree, Huron Capital Partners, Tregaron Capital and Sterling Commercial Credit. Its strategic buyer members include High Road Capital Partners' marketing services platform BlueSpire, Levine Lichtman's environmental

services platform Trinity Consultants, Ontario Teachers' Pension healthcare platform PhyMed Healthcare Group, and TPG's healthcare services platform Precision for Medicine.

Sutton Place Strategies, known as SPS, is another company that helps transaction professionals improve deal flow. The New York-based information services firm, which helps investors optimize their business development and deal sourcing effectiveness, was founded on the understanding that better fund performance can be achieved through better deal sourcing. Firms such as HighRoad Capital Partners, Huron Capital Partners, Little John & Co., Kolhberg Co., Monroe Capital and NexPhase Capital use SPS' services.

"Given the complexities and competitiveness of sourcing quality deals at reasonable valuations in this market, we offer an intelligent platform for investors looking to alleviate the stresses of origination while enhancing their sourcing techniques to improve fund performance," says SPS founder Nadim Malik. "Through unique tools and reports, SPS provides clients with real-time, actionable data and analysis to streamline business development,"

The company recently released its SPS Fusion software, which includes its customer relationship management integration strategy, and has rolled out many new features to its Portal software. "Getting real-time alerts to new deals closing and active professionals in your investment criteria can give you an edge in today's hyper-competitive and mobile-first world."

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Valuation services

With nine U.S. offices and a 40-year history, Valuation Research Corp., known as VRC, calls itself one of the oldest and largest business valuation companies in the U.S. "We are a fully independent valuation firm, as we are not part of an accounting firm or investment bank, which means our clients enjoy specialized expertise and few conflicts," says VRC managing director Jeff Miller. "We work with the fund itself or the portfolio companies, and offer experience across all major industries. And we can handle every valuation need – from fairness opinion to purchase allocation to stock-based comp and impairment – throughout the life cycle of the investment."

The need for independent valuation services is increasing for the same reasons that fund administration services are on the rise. "There is increased audit scrutiny, and more pressure from

the limited partners to have third-party valuations," says Miller, who expects the



pressure will continue to increase. "We also do positive assurance, and reviewing of firms' internal valuations, and are seeing more private equity firms reaching out for third-party valuation support."

VRC is seeing growth in purchase allocations for M&A in the middle market, and an increase in deals to take public companies private. "PE fund management groups are also continuing to set

up new or additional credit funds, and we've been valuing many more of these debt positions, as well as increased support of daily-NAV mutual funds for their investments in such private companies as Uber," Miller says.

Virtual data rooms

Virtual data rooms, or VDRs, are now as much a part of the M&A industry as auction processes. Gone are the days of traveling to an office to search through papers in a physical data room. The virtual data room software niche should continue to grow as businesses continue to become more comfortable using online services, and as they transition away from physical data forms, according to research firm IBIS. At the end of 2017, the industry's annual revenues were roughly \$800 million.

More than 20 years ago, Intralinks was one of the first companies to introduce virtual data rooms to the private

equity industry. Matthew Wells, senior director of strategy and product marketing with the company, says first and foremost, Intralinks focuses on security. "We are hosting the most sensitive and confidential data for some of the largest companies in the world, so we have a strong focus on security," says Wells, adding the company is also very deeply committed to helping add efficiency and speed during the transaction process. For this reason the company recently released the latest version of its platform, with a new user interface focused on speed and ease of use. "We want it to be as easy as possible for our

users," Wells says. "Our new platform is 50 percent faster across the board so no one is spending more time than necessary in the VDR. We want to help users get to closing as fast as possible."

Intralinks is also offering clients insights into future dealmaking. Given that Intralinks is seeing a significant percentage of M&A transactions, the company has started publishing their Deal Flow Predictor, which makes predictions on future M&A volume based on early-stage activity on its platform. "Deals on our platform are generally six months out from public announcement, thus we're able to make predictions about aggregate deal volume half a year into the future," says Wells.

Intralinks isn't the only VDR company



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looking to entice clients with extra perks. Other data providers are also innovating to keep clients coming back for their services.

"The concept of the virtual data room is not new, but we have been doing a lot to wrap services around Venue, our VDR offering, to address the entire deal process," says Craig Clay, president of global capital markets at Donnelley Financial Solutions (NYSE: DFIN). "We have also invested in innovative features, making it a lot easier to use."

Virtual data room companies are also trying to stay on the cutting edge of technology to gain the upper hand with competitors. For example, Donnelley Financial Solutions offers sellers options to create videos and graphics to



tell their story. Instead of just creating a paper trail, users are able to communicate more personally through video.

"Typically, banks are used to putting out a classic pitch book, but with venue deal marketing, we bring deal informa-

tion to life with video, audio and other rich media," says Clay. "These are no longer stagnant PowerPoints. It makes the process much more interactive. We are communicating in an amazing new way today."

Non-traditional due diligence

In today's world where people's actions can easily play out in public, online or elsewhere, dealmakers are looking for a little more than traditional due diligence. More and more buyers perform reputational due diligence and anti-money-laundering/know-your-customer due diligence. As part of

deal support services based in New York, comb through thousands of press outlets and alert clients to any red flags or negative information.

"As global M&A activity is forecasted to rise in 2018, we can also expect deals to face increased regulatory scrutiny. It is critical to have the right

help early on to navigate deal complexities," says Bill Moore, a senior manager at CT. Since formalizing its offering, For example, a CT client was buying a food manufacturer, and the reputational due diligence uncovered recalls, due to improperly listed allergens on product labels, a serious

issue operationally and financially. The searches can also uncover information about company executives. "As technology and the Internet evolves more and

more, reputational as well as statistical and legal data is much more accessible to lenders and acquirers. Having the ability to dig deeper into the leaders of industries and entities is allowing for much more informed decisions," says Moore. Anti-money-laundering and know-your-customer regulations have become important requirements of banks to verify the identity and business history of individuals with whom firms are considering doing business. This type of search will uncover if someone has political exposure or affiliations and if that person is on a U.S. government or international watch list for money laundering or terrorist-related activities. It can also uncover things like past insider trading violations or other sanctions. "Different kinds of businesses have different risks and due diligence requirements associated with them. It is all too easy to overlook critical information that could impact a deal timeline, or lead to fines, penalties and damaged reputation."



reputational due diligence, many firms are opting to conduct negative news searches. Companies, such as CT Corp., a provider of business compliance and

Back office technology

Technology provides new and innovative techniques to help chief financial officers do their job more effectively and more accurately, yet many CFOs are not taking advantage of it. "It's unfortunate, but private equity firms usually find two or three key things to prioritize at portfolio companies and back office support isn't always on that list," says Gavin Backos, principal, technology and management consulting at RSM US. "But most CFOs have the same issues and there are tools to alleviate some of the burden."

Many accounting firms known for their due diligence on private equity deals have expanded their offerings to include sizing up back-office technology offerings that private equity firms and portfolio companies could benefit from. Not all private equity firms take advantage of the new offerings, but their interest is increasing. "We do have more firms coming to us to help them because there's only so many things they can focus on and they are starting to recognize this is



important," says Backos.

RSM has been helping private equity firms with this for several years. The process requires RSM to assess the current situation, make recommendations and then implement new technology. "What if you can give your CFO the tools to close their books in a timely manner and feel confident that they have accurate information? With the right technology and process you can, and this is so important, as key decisions are often made based on this financial information," says Backos. "It's like advertising you can lose 10

pounds in three days if you take certain steps. It really opens the CFOs' eyes up, because it's a game changer."

The process of learning about automation options and then implementing them can take anywhere from three to six months, but can be worth it. Automation technology can save on staffing and other costs, and provide many additional benefits. Back-office technology can help a company mine its data better and get all financial statements in a single repository.

Backos went through this process for a portfolio company of a reputable middle-market private equity firm and it made a big difference. "You see immediate results. They had a team of people working 12 hours days and they were able to cut that down to eight hours with technology enhancements," says Backos. "The client said, 'The most important thing is making sure I can close my books and provide accurate financial reporting.' The other thing he wanted was real-time visibility into the results of that month and to be able to compare them to previous months. That's all doable today."

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Networking groups

Networking with the right people can go a long way. Investment bankers are always suggesting to clients that they meet people in the industry and keep taking the pulses of the markets they are interested in investing in. As the M&A industry has grown over the years, organizations supporting the industry have also grown substantially.

These organizations not only provide networking opportunities, but a sense of community, and in many cases, a national voice for the M&A and private

equity industries.

That is the case with the American Investment Council, or AIC. Founded in 2007 as the Private Equity Council, the Washington, D.C.-based organization lobbies on behalf of the private equity industry. AIC will host numerous events in 2018 and convene various committees and working groups to share private equity best practices and insights. But AIC is just one of many organizations M&A and private equity professionals belong to today. The

Association for Corporate Growth has become a go-to networking organization for middle-market M&A professionals. Although the association was founded in the 1950s, it wasn't until the late 1990s that the association started focusing its efforts on the private equity community. Today, the association offers guidance on compliance issues, provides a job source network and works with AIC to lobby on behalf of the middle-market M&A industry.

"Associations provide great networking opportunities; it's great to hear what your peers are seeing in the market," says Huron Capital Partners

Buyer's Guide

partner Gretchen Perkins. "They also work hard to promote the M&A and private equity because it has become increasingly important we have a voice in Washington, D.C."

The Alliance of Merger & Acquisition Advisors focuses on dealmaking in the lower middle market, offering members networking opportunities as well educational classes. The alliance also lobbies on behalf of private placement brokers. The Small Business Investment Alliance focuses on the lower middle market and also provides networking opportunities and lobbies on behalf of the industry. These groups commonly



work together.

"Many of the associations and organizations in middle-market M&A have become invaluable tools because they are so efficient," says Riverside Co. chief operating officer Pam Hendrickson. "The ability to talk with

peers about what's happening in the market through either events or social media is a huge time-saver. These organizations also provide a voice for the

'middle child' of the M&A industry, a group that represents over 90 percent of all M&A transactions. Historically this group has been absent from the major finance publications as well as from Washington. It is great and important to see us finally having a voice."

ACG

Data providers

The number of data providers has grown substantially over the years, Venture Economics, now known as Thomson Reuters Corp. (NYSE: TRI), used to be the only formidable game in town, but today the industry has a wide variety of data providers. They are targeting narrow, tightly defined categories of customers according to size, geography and other criteria. Some of the most popular data providers are Dealogic, Pitchbook, Preqin and Thomson Reuters, all of which are constantly trying to gain market share.

Despite the growth in data providers, the managers of GF Data Resources LLC still felt there wasn't enough data available on the lower middle market. In 2006, the company started collecting data on deal values from private equity groups and selling it to other PE groups. Specializing in private equity-sponsored transactions with enterprise values of \$10 million to \$250 million, GF

Data has provided benchmark historic data for firms to value their portfolio companies based on fair value accounting standards. However, many dealmakers are also increasingly using the data of GF Data and other providers to guide the valuation expectations of sellers.



"There was so little data available for deals in the \$10 million to \$250 million enterprise value range, which is why we launched the firm," says Graeme Frazier, a partner in Conshohocken, Pennsylvania-based GF

Data. "Today, we find business owners will say they had a friend that sold for a high multiple and then they expect the same. The reality is this is a one-time event for most of these guys and they need perspective on what drives valuations. Buyers use the data to show the sellers examples of what deals sold for and why."

Investment bankers and private equity firms are particularly interested in this issue because usually they have to set sellers' expectations. The data allows them to show the seller similar companies and explain why the company was valued as it was. "Instead of calling the baby ugly, you are showing the sellers real examples of deals that are similar to theirs that have closed. It really helps define expectations," says Frazier.

In addition to helping to set deal prices and showing market trends, the data can help the involved parties understand the entire capital structure, including the debt and sub-debt in the deal.

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Danielle Fugazy is a contributing editor of Mergers & Acquisitions.

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Private Equity

Q & A



As managing partner of Brightstar Capital Partners, Andrew Weinberg chairs the investment committee and serves on the boards of Global Resale and Texas Water Supply Co.

New kid on the block

"Greatest generational transfer of wealth ever seen" benefits Brightstar's \$710M debut fund.

By Mary Kathleen Flynn

Middle market private equity firm Brightstar Capital Partners recently closed its inaugural fund at \$710 million. New York-based Brightstar, which invests up to \$250 million in businesses, has already invested in two portfolio companies: logistics technology provider Global Resale and water supplier Texas Water Supply Co.

We asked managing partner Andrew Weinberg to tell us more about the firm's investment thesis and the opportunities he sees for M&A this year.

Why is now a good time to launch a new PE firm?

Brightstar Capital Partners was founded in 2015, and we recently closed on more than \$710 million for our inaugural private equity fund program. The timing of our close takes place against the backdrop of what will most likely be the greatest generational transfer of wealth ever seen to date. Estimates for this wealth transfer in the U.S. alone range from \$10 trillion over the next decade to \$25-30 trillion in the next 25-30 years. As family

and closely-held businesses navigate this wealth transfer they will be faced with challenges arising from an ever-changing operating environment, pressures to maintain sustainable growth and their competitive positions, not to mention the inherent issues associated to the ownership group.

There is a significant opportunity for a PE firm, such as Brightstar, to serve as a partner to selected companies that fall within this latter range and that have exceptional potential for growth and significant value creation.

There are roughly 200,000 companies in the U.S. with revenues from \$10 million to \$1 billion, most of which are closely held or family controlled. Within the middle-market universe, there are 32,000 businesses with revenues between \$50 million and \$1 billion, and these companies are vital to the U.S. economy, representing 16 times the number of public companies with the same revenue profile.

We believe that there is a significant opportunity for a PE firm, such as Brightstar, to serve as a partner to selected companies that fall within this latter range and that have exceptional potential for growth and significant value creation.

Our ability to realize this opportunity comes not only from the capital that we provide but also from the talent and strategies that we bring to the table with the exceptional team at Brightstar.

Tell us about the background of the team members.

We have assembled a team of 20 investment professionals, many of whom I've worked with for over a decade. Collectively, we have more than \$25 billion of transaction experience across multiple sectors, with both family/private and publicly traded companies as investors, operators and in many cases, both. Our partners and managing directors have extensive private equity and C-level experience at major companies including Dell, Motorola, Waste Management, Carlson Companies and URS. The combination of the investing and operational backgrounds is integral to our proprietary investment sourcing and active role in the value creation of the portfolio companies post-investment.

We were delighted with the success of our inaugural raise, which we attribute both to our strategy and to the talent that we have gathered. We have secured commitments from a diverse set of institutional investors, including university endowments, high net worth investors, pension funds, private foundations, family offices and insurance companies.

What is your investment thesis?

We focus on control-oriented North American middle-market investment opportunities, with an emphasis on closely-held or family-owned businesses. The years of investing and operating experience brought together by our firm's professionals provide us an understanding of the complexities in the types of

investments we evaluate. Our experience allows us to help existing management teams to take their companies to the next level of growth, resulting in significant value creation. By partnering with the owners and/or management teams of our portfolio companies, Brightstar becomes the catalyst for improvements in operations, sourcing, marketing, and capital planning and allocation. In addition, we actively engage with management in developing and executing growth-oriented strategies in such areas as geographic, channel or product expansion; partnerships and joint ventures; and M&A.

Which sectors are attractive?

While our first investments were made in logistics and water infrastructure businesses, we are actively looking at opportunities across a broader range of sectors. More important than sector is the potential for our portfolio companies to benefit from the collective investing and operating experience of our firm to scale and build value through identified strategic initiatives. Brightstar typically partners with closely-held businesses that may face generational ownership transitions or that may require capital to "rise to the next level" for organic or inorganic growth. Thanks to our network, we have seen over 100 proprietary deals since our inception and have a robust pipeline that we're currently working on.

We plan to invest between \$50 million and \$250 million of equity into each portfolio company between initial investment and opportunities for follow on investment thereafter.

What are the biggest challenges PE firms face today?

There are many challenges for general

partners and limited partners alike. As capital continues to be available in abundance, valuations will continue to be one of the most significant challenges. Without clearly differentiated strategies for value creation, GPs will likely be challenged to secure the right opportunities. Auctions will continue to drive valuations to ever higher levels, impacting the returns that GPs are able to deliver to their LPs. Brightstar is well positioned to address this challenge, as we maintain a well developed and tested strategy, which is complemented by our proprietary approach to sourcing opportunities from select family and closely-held businesses.

What is your outlook for M&A in 2018?

M&A will likely continue apace into 2018, assuming no major macro disruption, and all indications are that we may well see new record levels of activity as PE firms deploy their well-subscribed funds.

However, there is a chance that we may start to see early indicators of longer term M&A activity beyond 2018/19 cooling, as higher volatility reenters the market and investors reconsider their asset allocation given the potential for higher yields from mainstream investments. Should this develop, it will be the PE firms with the right strategy, talent, track record and execution that will be sought out by both LPs and businesses alike for their ability to deliver more than just capital alone. **M&A**

Advisors on Brightstar's fund included Eaton Partners as placement agent, while Simpson Thacher & Bartlett LLP provided legal counsel. Kirkland & Ellis LLP served as legal advisor to Brightstar on the investment in Texas Water Supply Co.

Mary Kathleen Flynn is the editor-in-chief of Mergers & Acquisitions. MK oversees the brand's content on all media platforms, including website, e-newsletters, video, slideshows, podcasts and print. Follow her on Twitter at @MKFlynn



Demand for specialization

Business services enable executive teams to focus on core competencies, driving robust interest from private equity.

By Vicente Miguel Ramos

The business services sector is a category that often struggles with an identity crisis. Within Standard & Poor's GIC classification system, it isn't even listed as its own sector, but rather included as a mere grouping within the larger industrials space. Further muddying the waters, the business services sector can often seem like a "catch-all" category within private equity for deals that don't fit as easily into other, more obvious buckets. But while it can be hard to categorize, business services very much belong as a distinct area of focus for sponsors, with its own drivers and risks, as well as outsized rewards for those who know the space well.

By its strict definition, the business services sector encompasses companies whose core offering is built around supporting the operations of other commercial enterprises. The services can range from industrial applications, such as security, facility maintenance

or third-party logistics, to knowledge skills, including marketing, HR, accounting or legal services. The end markets addressed are also as wide and varied as the economy, itself, which is why the lines tend to blur between business services and other sectors.

From a high level, though, the space has been a beneficiary of the trend toward "hyper-specialization," in which corporate functions are increasingly isolated and distilled down into highly focused tasks. As a recent Deloitte survey identified, outsourcing is no longer about simply solving capacity issues or enabling global scalability; it's also about accessing intellectual capital that otherwise wouldn't be available. Executive teams, as a result, can focus on core competencies, while tapping experts for ancillary functions that can perform these tasks far better and at a lower cost than trying to recreate the same capabilities in house.

Key Takeaways

1. Develop an expertise for sectors and subsectors with tailwinds for growth.
2. Identify firms that provide value-added services to large and growing end markets.
3. Recognize where you are in the business cycle, and run your downside scenarios.
4. Pick opportunities with potential for operational improvements and a margin of safety.
5. Identify potential strategic and financial buyers for the exit.

Private equity investors are attracted to the business services sector because they recognize, first hand, the value proposition being offered – a draw that has only become more acute as disruptive change has forced companies to rethink their entire business model. Firms such as 3G, for instance, have helped to reintroduce concepts such as zero-based budgeting, in which portfolio companies are asked to re-examine every single cost and assess what can be rationalized, outsourced, automated or eliminated altogether. As Bain & Company highlighted in a recent insight, organizations can cut as much as a quarter of their overhead, while improving both their efficiency and competitive-

ness. This trend provides an obvious foot in the door for “specialized” service providers benefiting from economies of scale.

The other factor, not to be overlooked, is that the competitive landscape has become so dynamic – thanks to increasing regulation, ongoing globalization, and emerging digitalization trends – that many businesses simply need to solicit outside domain expertise. This has created an added tailwind for the business services sector at large.

Predictably, the demand for specialization across the business enterprise is driving private equity interest. PE investments in U.S. business-to-business companies reached nearly \$140 billion in 2017, according to PitchBook Data, which is more than a third higher than the deal volume of the next highest sector.

Secular trends

The thesis, for many, is to target the more fragmented areas within business services and help these companies both diversify and scale their business through organic growth and add-on acquisitions. Constitution Capital, for instance, co-invested in the buyout of HR outsourcing company CoAdvantage, a regional player in the sector for professional employer organizations (PEOs).

The company offers payroll processing, benefit administration, risk management and employee-development services, as well as a customized portal for small- and mid-sized businesses. Their value proposition is in helping smaller companies attract and retain talent without making a disproportionately sized commitment to an HR function that doesn't typically



generate revenues.

The compelling secular trends, however, probably mask some of the more prominent risks for those who are less familiar with the space. Of the approximate 1,300 realized investments that we've tracked in the sector over the past 27 years, more than one out of every five has resulted in the loss of capital, or has only allowed sponsors to recoup their original investment.

Historically, business services companies have been more susceptible to the economic cycle than most other sectors. During periods when earnings performance wanes, the first area to be scrutinized is typically third-party professional services. This is why sponsors who have experience in the space tend to gravitate to asset-light companies with fewer fixed costs and more flexibility. They're also that much more likely to pursue a deeper level of upfront due diligence to understand potential concentration risk, the strength of client relationships, and whether the services offered are vital or ancillary to the underlying value proposition of the target company – all factors that

are often magnified in the small and middle market.

The 2007 buyout of Avaya Inc. provides a case study of what can go wrong. The company helps businesses manage their customer contact centers, while offering other managed services to support the integration and upkeep of its networking products. The economic downturn in 2008 hit the company soon after this transaction closed. For the next few years, the company was affected by a number of factors, including high leverage, an underfunded pension plan, competition from larger rivals, and shifting technology landscape. Avaya ultimately filed for bankruptcy in January 2017.

But just as the business services sector has been a beneficiary of specialization, so too have sponsors that have made a concerted effort to focus on the vertical. According to our proprietary database, realized business services deals have generated a median return of 2.4x invested equity since 1990, while nearly a quarter of the deals have generated return multiples of 4x or higher.

M&A

Vicente Miguel Ramos is a partner at Constitution Capital and is responsible for screening, evaluating, negotiating and monitoring private equity investments. He is a member of the Investment Committee.

Private Equity

Q & A



Mike Beauregard, Brian Demkowicz, Peter Mogk, John Higgins

Smaller stakes

Huron Capital's Flex Fund courts owners who want growth but also want to retain control.

By Keith Button and Mary Kathleen Flynn

Middle-market PE firms have shown increasing interest in taking minority stakes in portfolio companies. The strategy is aimed at benefiting business owners and entrepreneurs who need capital for acquisition financing, liquidity events, organic growth initiatives and recapitalizations but do not want to sell a controlling stake. One of the firms that helped popularize the trend is the Riverside Co., which in 2017 closed the \$418 million Riverside Strategic Capital Fund (RSCF).

In 2018, Huron Capital joined the fray, recently raising the \$141 million Huron Flex Equity Fund, the firm's first fund for making non-control investments. Michigan's most active private equity firm, Since its founding in 1999, the Detroit firm has made more than 140 investments and raised six funds totaling over \$1.8 billion, including the \$550 million fund raised in 2017. Huron enjoyed a stellar 2017, completing 21 transactions, including 4 platforms and 14 add-ons and 3 exits. The Detroit firm earned Mergers &

Acquisitions' M&A Mid-Market Award for 2017 Seller of the Year for the trio of exits that included: the Olon Group, a manufacturer of molding and drawers, sold to the Miller Group, an Ontario-based family office investor; LeadingResponse, a provider of customer

Through our dedicated deal sourcing program, we experienced increasing demand for this type of solution, and we decided to leverage our strong capabilities in the lower middle market by expanding into this adjacent and complementary strategy.

acquisition services, sold to ICV Partners, a New York-based private equity firm; and Systems Inc., a manufacturer of loading dock leveling equipment, sold to the Chamberlain Group, corporate parent company to LiftMaster, Chamberlain, Merlin and Grifco.

We asked Huron managing partner Brian Demkowicz about the new fund and the thinking behind it.

How is the Huron Flex Fund different from the firm's other funds?

The Huron Flex Fund is our sixth fund and represents the inaugural expansion of Huron Capital's well-established investment

platform that has served the broader lower middle market for almost 20 years. Whereas our flagship funds focus on control investments, our Flex Fund seeks to make non-control investments to provide customized and flexible solutions to help business owners accomplish a variety of growth and liquidity objectives.

We work closely with the business owner/management team to implement improvements and accelerate growth through add-ons and revenue initiatives.

Through our dedicated deal sourcing program we experienced increasing demand for this type of solution and we decided to leverage our strong capabilities in the lower middle market by expanding into this adjacent and complementary strategy. Our dedicated Flex Fund team, Doug Sutton and Charlie Sheridan, has a successful 20-year history of making non-control investments. The expansion demonstrates our focus on remaining a strategic solution provider to our limited partners and working with them to identify attractive entry points in the lower middle market.

What types of companies is Huron will backing with this fund?

Through the Huron platform, our goal is to leverage our buy-and-build strategy in partnership with seasoned executives to improve and grow our businesses through strategic initiatives, operational improvements and add-on acquisitions throughout the lower middle market.

We typically focus on companies having up to \$200 million in revenue in the business services, specialty industrials and consumer sectors that can ben-



Brian Demkowicz

efit from our operational approach to creating value. The Flex Fund will focus on the same types of companies in the same sectors where we've historically been successful.

How does the "buy-and-build strategy" play out with the Flex Fund portfolio?

We are taking the same buy-and-build approach with the Flex Fund. We work closely with the business owner/management team to implement improvements and accelerate growth through add-ons and revenue initiatives. We offer a great solution for those owners seeking a value-added partner for growth but are not yet ready for a control transaction.

Tell us about the investments Huron is making from the fund.

We have already closed two investments in the Flex Fund, with Stay Online based in North Carolina and B&B Roadway Security Solutions based in Texas. Stay Online is a manufacturer of high-end, specialty cables used primarily in

data centers and B&B is a provider of perimeter access and security solutions. Both companies were right in our strike zone, and in each case we partnered with the management team and shareholders to provide capital and operational resources to facilitate growth.

How will Flex Fund portfolio companies use the capital?

As with our other funds, the Huron Flex Fund draws from Huron's strengths as a value-added partner, using our broad operational, financial and strategic resources to help businesses improve and accelerate growth. Our capital is typically used to facilitate business expansions, strategic add-ons, balance sheet enhancements and shareholder repurchases. Our Flex Fund focuses on providing non-control solutions that allow some or all of the existing shareholder group to retain its controlling interest.

Our capital is typically used to facilitate business expansions, strategic add-ons, balance sheet enhancements and shareholder repurchases.

Why are more PE firms expanding into minority stake investments?

There is growing demand for this type of capital solution, and PE firms are looking to capitalize on this trend. The PE industry is incredibly competitive and firms are looking for ways to leverage their brands and capabilities to expand into adjacent strategies to grow and diversify their firms. For Huron Capital, the expansion allowed us to continue growing our firm while remaining focused on the lower middle market.

M&A

Keith Button is a contributing editor of Mergers & Acquisitions.



Branding tips for PE

Running paid campaigns and having a social media presence can help firms get their names out there.

By Joe Burkhart

The digital age necessitates that everyone — not just organizations — build and maintain an online presence in order to achieve greater success. This is especially true for private equity. Without an online brand, you risk losing out on business deals and networking opportunities.

Of course, making your brand work properly for you requires the right strategy. Here, we'll examine several key online branding tips that both individuals and companies can apply. Use it as a guide to establish a brand that delivers you greater success.

Potential investors and partners may be impressed by announcements of new business endeavors, transactions, financial results, milestones, and other positive news. You absolutely need that sort of good press in private equity.

However, what's going to deliver the most return on your investment in branding is

informative content that's relevant to the field. Those reading it should walk away feeling they've learned something helpful. No matter what you specialize in, you can produce articles, videos, infographics, and other content that informs (and doesn't advertise).

According to a survey by BackBay Communications, an incredible 70% of private equity firms believe that having a strong brand is very important. It's very encouraging that so many are recognizing the importance of branding.

So, how do private equity firms and team members build that strong brand?

Bill Haynes, President and CEO of BackBay Communications, says private equity firms must "embrace the need for differentiated firm positioning and ongoing integrated communications programs that position them as experts."

This is done through content. For a private equity firm, that could mean articles about how to close deals, alternative investment options, entrepreneurship, the importance of using CRM tools, and more.

Secure your domain

According to MineWhat.com, 81% of consumers conduct online research prior to purchasing. When potential investors and companies seeking liquidity search for your business on Google, you don't want them to be led to websites and content you don't control. You want them discovering content and info that showcases you know how to invest in and grow businesses.

This means you have to secure a domain name. As noted in a guide published by GoDaddy, having a domain name offers you many benefits, including:

■ Increased accessibility:

You'll be within reach 24/7.

■ **Brand protection:** Don't give someone else the opportunity to register your domain name.

■ **Promotion:** You can use the website to publish content, make offers to clients, etc.

When choosing a domain name for yourself, try to make it your first and last name, like so: [http://www.\[firstnamelastname\].com](http://www.[firstnamelastname].com). If choosing one for a business,

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Marketing

it should be your exact company name: [http://www.\[companyname\].com/](http://www.[companyname].com/).

Just remember: Do what fits you on the website. As Gary Vaynerchuk, a serial entrepreneur and digital marketing guru, states, "you need to know your personal brand and stay true to it," instead of doing things just because a famous person in the industry does it.

Run paid campaigns

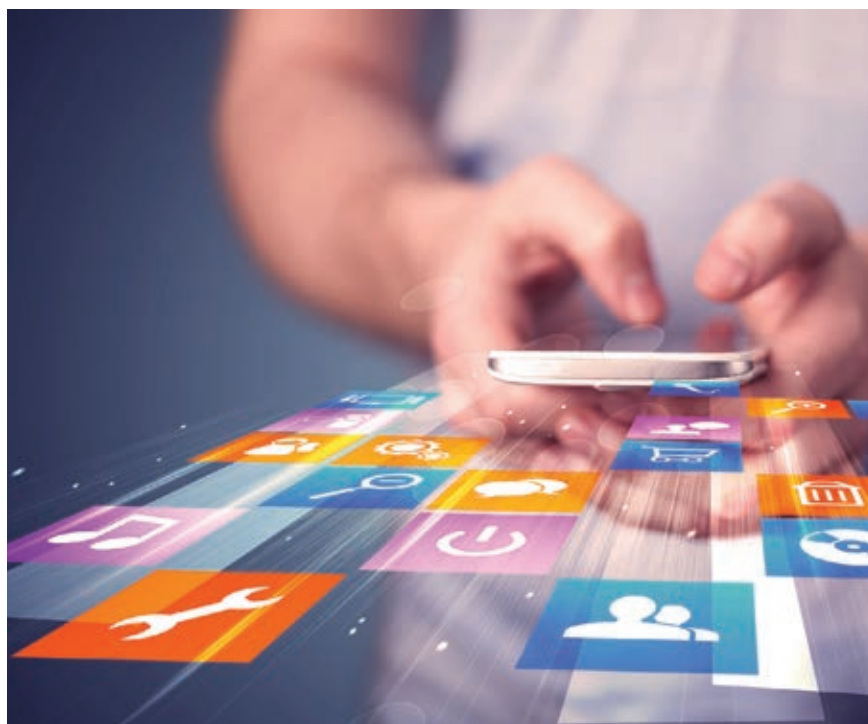
By producing content and maintaining your website, you'll drive organic traffic over time. This will increase your chances of gaining business and finding networking and investment opportunities.

The issue is that this can take time in private equity. To speed up the process, you could pay for promotion through content distribution networks, such as Taboola. Content distribution networks enable you to engage new audiences and maximize the reach of your content and products or services.

For instance, if you maintain a blog on your company's website, a paid campaign gets you native ads in well-known media sites like ESPN, USA Today, and Time. According to Outbrain, brand recall with native ads is twice as effective as brand traditional banner ads.

Just imagine how many people come across those ads. With the right headline and great content, you could position yourself as a thought leader in the investment industry, making it more likely to gain access to investment dollars and close deals.

Do note major online advertisers like Outbrain and Google Adwords allow you to set budgets with flexible pricing. Using real-time data, you can see how effective the campaign is and calculate ROI based on traffic, leads, and



conversions. Start small if necessary. If the campaign works, you can put even more money into and continue to grow your brand.

As of late 2017, LinkedIn estimated that it had more than 500 million users. That's a lot of people sharing content in their field, networking with potential partners, and looking for jobs.

Both companies and individuals in private equity must be on LinkedIn. It's where the professional world interacts — and where you're most likely to connect with the most promising investors and investment opportunities.

You can also maintain existing relationships with shareholders through LinkedIn. I personally use it to network and share articles about private equity, investment, business development, and other related topics. The conversations those pieces generate help me build a brand.

Beyond LinkedIn, you should be

active on some other social media sites. For instance, since private equity firms engage in leveraged buyouts, recapitalizations, growth financing and other types of investments, you want to go where many middle-market businesses are: Facebook, Twitter, Instagram, etc. On such sites, you may be able to find hidden treasures, like a lower middle-market company with a disruptive business model and strong potential for explosive growth.

Investors and companies want to trust the people they're working with. You can do that by publishing valuable content, maintaining a website, running paid campaigns, and connecting with audiences on social media.

As private equity firms increasingly have to compete for dollars and deals, you must find a way stand out. Branding is how you can differentiate yourself in the industry and get a step ahead.

M&A

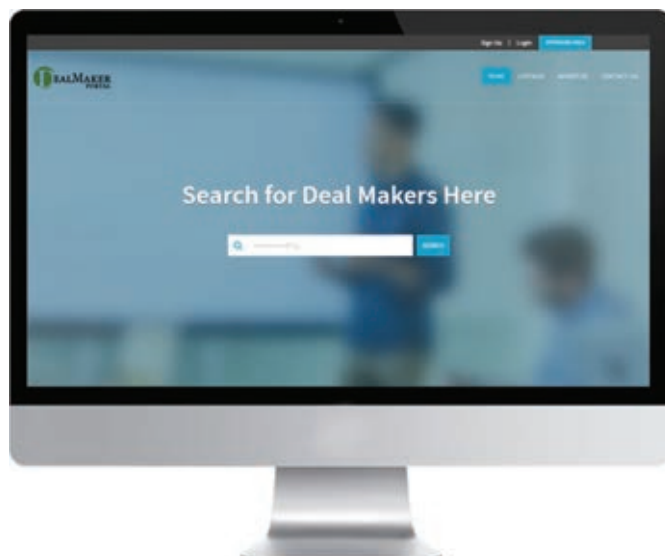
*Having spent almost 20 years working with lower middle-market companies, **Joe Burkhardt** started his career in investment execution before coming onto Saratoga Investment Corporation, where he built the business development (BD) function from scratch.*

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New hires and promotions

By Demitri Diakantonis

Björn Åkerlund, Gunnar Brundin and **John Hamilton** have joined **Lincoln International** as managing directors in Stockholm. They focus on M&A in the business services, technology, consumer and industrial sectors, and were mostly recently with advisory firm Nordhaven.

Eric Anderson has been named CEO at Riata Capital Group-backed **Acuity Eyecare Group**. Anderson most recently served as executive vice president at Fossil Group Inc. (Nasdaq: FOSL).

Tony Armand has joined **Norwest Equity Partners** as an operating partner to help the firm expand its consumer, sports and outdoor investment opportunities. Armand has had a previous working relationship with Norwest through portfolio management, including serving as CEO of Shock Doctor Sports. Armand most recently served as CEO of United Sports brands.

David Bard has joined the **Halifax Group's** Washington D.C. office as a managing director. In his role, he will be responsible for sourcing, evaluating, executing and working with the firm's investments. Bard was previously a principal at American Securities.

David Bartleme has joined Milwaukee-based private equity firm **Borgman Capital** as a managing director, where he will focus on the oil and gas and chemicals sectors. He previously worked in Shell Oil's corporate M&A group.

Taylor Boswell was hired by the **Carlyle Group LP's** (Nasdaq: CG) credit opportunities

team in New York as a managing director. Carlyle's credit opportunities group invests primarily in highly-structured and privately-negotiated capital through secured loans, senior subordinated debt, mezzanine debt, convertible notes as well as common equity. Boswell was most recently with Apollo Global Management LLC (NYSE: APO).

Chris Carmosino has joined **Gordon Brothers** as president, valuations. He was most recently with Citizens Business Capital where he led the asset-based lending unit.

Stephen DeFalco was hired by **Lindsay Goldberg** as a partner. He will lead the firm's efforts in enhancing operational and technological resources to support growth across portfolio companies. DeFalco is the former CEO of Crane & Co., supplier of currency paper and anti-counterfeiting technology to the U.S. government.

Michael Doppelt has rejoined middle-market private equity firm **Irving Place Capital** as a partner and head of fundraising. Doppelt was most recently with Lightyear Capital and was previously with Irving Place from 2005 to 2010.

Kaarli Eichhorn joined **Jones Day's** antitrust and competition practice in Brussels. Eichhorn is a former global executive counsel at GE (NYSE: GE), and focuses on complex, multinational mergers, antitrust and compliance.

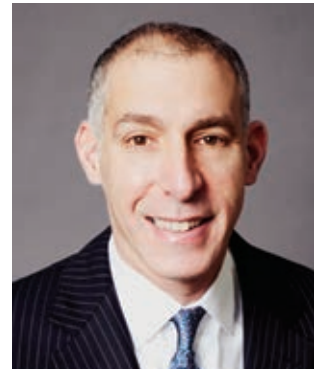
Michael Haas has joined **Latham & Watkins** as a partner in New York. Most recently with Jones Day, Haas concentrates on M&A, pri-

vate equity and financing in the real estate sector.

Fenton Healy was hired by Gordon Brothers to lead the firm's new Melbourne office. Healy previously held leadership positions at Australian online retail and auction company GraysOnline.



Taylor Boswell



Michael Doppelt

Jeffrey Huddleston has joined **Alvarez & Marsal** as a managing director in Houston. Previously with Conway MacKenzie, Huddleston specializes in advising distressed companies, lenders and creditors on both in-court and out-of-court restructurings and turnarounds.

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People Moves

Scott Joachim and **David Johanson** have joined law firm **Goodwin** as partners. They both concentrate on private equity and M&A in the technology sector and were previously with Fenwick & West.

Scott Jones has joined **Kirkland & Ellis'** Boston office as a partner. Previously with Proskauer Rose, Jones advises private equity and investment funds on complex tax issues.

Jeremy Kogler was promoted from principal to partner at New York-based **Blue Wolf Capital Partners**. Kogler joined Blue Wolf in 2010 and focuses on healthcare investments.

Marc Liebman was named co-head of the western region in **Alvarez & Marsal's** North American restructuring group. Liebman focuses on the development and implementation of strategic, financial and operating plans for over-leveraged and undercapitalized companies in both out-of-court and in chapter 11 cases.

Martin Mumford has joined **Angeles Equity Partners** as an operating partner, focusing on industrial services. He was most recently a principal in the consumer, industrials and services group at Oliver Wyman.

David Nelson has been hired as CFO at

Marlin Equity-backed **Serenova**. Nelson is the former CFO of Periscope Holdings.

Jonathan Pearce and **Eric Weiner** have been promoted from principal to partner at Austin, Texas-based private equity firm **Blue Sage Capital**. They are both responsible for sourcing and executing investment opportunities, and portfolio company monitoring.

Arash Attar-Rezvani, Holger Hofmeister, Akira Kumaki, Richard Oliver and **Blair Thetford** have been named partners at **Skadden Arps Slate Meagher & Flom LLP**. The group focuses on M&A and private equity.

David Schwartz has joined **Orrick** as a partner in New York. Previously with Hughes Hubbard & Reed, Schwartz focuses on M&A in the technology and life sciences sectors.

David Segre has joined **Cooley** as a partner in San Francisco. Most recently with Wilson Sonsini Goodrich & Rosati, Segre focuses on M&A.

Alex Wilmot-Sitwell has been hired by **Perella Weinberg** as a partner in London. Sitwell was most recently the

president of EMEA at Bank of America Merrill Lynch.

Brett Skolnik (pictured) has joined the global investment banking group of

employee-owned financial services firm **Baird** as a managing director on the global healthcare team. Based in New York, Skolnik is covering healthcare facilities and alternate site providers, with a focus on multi-site physician and other provider groups, behavioral health and post-acute care. He joins Baird from BMO Capital Markets, where he served as managing director, responsible for the firm's healthcare M&A practice.

Matthew Smith was hired by **Perella Weinberg** as a partner in London. He was most recently the head of U.K. corporate finance and advisory at Barclays.

Thierry Somma has joined **Simmons & Simmons** as a partner in Luxembourg. Previously with Hogan Lovells, Somma focuses on M&A and private equity.

Craig Vogelsang got hired by **Baker Botts** as a partner in Houston. Previously with Winston & Strawn, Vogelsang focuses on oil and gas financing and acquisitions.

Louis Susman got hired by **Perella Weinberg Partners** as a senior advisor. Susman previously served as the U.S. Ambassador to the Court of St. James, a member of the Secretary of State's Foreign Affairs policy board, and as vice chairman of Citigroup (NYSE: C) investment banking.

Albert Yang has joined real estate investment firm **Harrison Street Real Estate Capital** in London as a head of European investor relations. Previously with Barings Real Estate, Yang will be responsible for capital raising and business development in the Europe, Middle East, and Africa (EMEA) region.



Brett Skolnik



Albert Yang



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