

MERGE ACQUISITIONS

MAY 2018

Justin Ishbia,
Shore Capital Partners


Retail Health


From veterinarians to vision specialists,
practices are consolidating to improve care,
cut costs and serve consumers

OUTLOOK:
COMMON PITFALLS
TO AVOID

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Learn the common mistakes buyers and sellers in M&A make and how to avoid them

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InterGrowth Interviews

Like many of you, I will be heading to sunny San Diego for three days of networking with top dealmakers at the Association for Corporate Growth's InterGrowth 2018 May 2-4. The conference is expected to draw approximately 2,000 M&A professionals.

I'm looking forward to the keynote by Jeff Immelt, who served as CEO and chairman of GE from 2001 to 2017. While his legacy is currently being reexamined, his bio argues that "Immelt transformed GE into a simpler, stronger and more focused digital industrial company. He revamped the company's strategy, global footprint, workforce and culture, positioning GE for the future. During his tenure, industrial earnings doubled and GE returned \$143 billion in dividends, more than in the cumulative history of the company. Immelt was willing to disrupt GE reshaping the company's portfolio during the last decade, with bold moves such as the \$260 billion sale of GE Capital assets, the acquisition of platforms in Life Sciences and Renewables, adding global energy leader Alstom, the combination of GE Oil & Gas with Baker Hughes, and the divestitures of legacy businesses like GE Appliances, NBC Universal and Plastics. He was the architect of the GE Store, leveraging GE's unique scale to drive growth. Under his leadership, GE re-established market leadership with technological innovation, grew a strong share position in essential industries, and built a backlog of \$320 billion."

Bloomberg News



Jeff Immelt

In the middle market, the divestiture of GE Capital assets launched a highly competitive process for prolific lender Antares Capital, which ultimately was won by the Canada Pension Plan Investment Board in a \$12 billion deal that closed in August 2015.

The discussion with Immelt will be moderated by Jay Jester, a dealmaker well known to our readers. Jester joined Audax Private Equity at its inception in 2000. As a managing director, Jester leads the Boston firm's marketing and business development efforts. His team sources more than 1,000 new investment opportunities per year, according to Audax. Jester also serves on the board of ACG Global. At InterGrowth, we'll be conducting video interviews. Looking forward to seeing you there!

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Wild Sports makes “dream deal”

Private equity-backed Wild Sports has acquired outdoor games company KanJam. The target’s founders Charlie Sciandra and Mitch Rubin also invested in the deal and will remain with the company. Wild Sports is owned by Expedition Capital Partners, Centerfield Capital Partners and Cardinal Equity Partners.

Getzville, New York-based KanJam is known for making disc toss games under its own brand. The company has a licensing agreement with several Major League Baseball teams, colleges, and entertainment brands such as the Teenage Mutant Ninja Turtles and SponeBob Squarepants. In addition, KanJam has brand licensing deals with individual athletes including New England Patriots tight end Rob Gronkowski.

“It’s a dream deal,” says Wild Sports co-CEO Gregg Browne. Wild Sports makes tailgating and outdoor games, including cornhole, and has licensing deals with the National Hockey League and National Football League.

“KanJam’s success internationally also opens the door for other Wild Sports products and we plan on taking advantage of those newly acquired relationships,” adds Wild Sports co-CEO Todd Hines. Financial terms of the deal were not disclosed.

More and more family- and founder-run businesses in the lower middle-market are looking to private equity capital to finance their growth strategies. Such partnership can provide a handful of advantages such as a better chance of finding acquisitions, and access to more capital and industry contacts. For example, Huron Capital has formed



a new platform to seek M&A in the HVAC sector through the investment of Pueblo Mechanical & Controls Inc., and CenterOak Partners LLC formed a new operating company called TruRoad Holdings Inc. through the investments of JN Phillips Auto Glass and Techna Glass Inc.

—By Demitri Diakantonis

Newell, already selling Rawlings, expands divestiture plan

Newell Brands Inc. (NYSE: NWL) will further expand its transformation plan after reaching a deal with activist investor Carl Icahn. The update from Newell comes after the company agreed to add to four directors that were nominated by Icahn to its board. Newell says “there are further accretive divestiture opportunities,” but did not specify which brands or assets it will consider shedding.

“I believe we will be successful in helping to enhance value in the same way at Newell Brands. This company has a great stable of brands, and I

believe a streamlined consumer-facing portfolio will help the company focus on the most important businesses and reignite the performance in their core businesses,” Icahn said in a statement. Icahn owns a near 7 percent stake in Newell.

“Our agreement with Carl Icahn reflects our shared understanding of the complexity of our business and our strategy to win in the rapidly changing retail landscape,” adds Newell CEO Michael Polk. Newell expects the process to generate about \$10 billion in after-tax proceeds after it is completed, and the company is going to focus on nine core businesses that will have around \$11 billion in sales and \$2 billion in Ebitda.

Hoboken, New Jersey-based Newell is already taking steps to streamline the company’s portfolio through M&A. In February, the company said it will look at divesting the Rawlings, Goody, Rubbermaid Outdoor, Closet, Refuse and Garage, U.S. Playing Cards, Waddington, Process Solutions, Rubbermaid Commercial Products and Mapa products and brands. Newell said the process will cut its customer base in half and reduce the number of factories and warehouses it operates by the same count.

Newell’s transformation strategy shows the extent that retailers are struggling to keep their brick-and-mortar stores alive. For example, Toys “R” Us filed for bankruptcy in 2017 and recently announced it will shut all of its stores. Toys “R” Us owns the Babies “R” Us brand, which is a Newell customer of baby products. Newell makes Graco car seats and Baby Jogger strollers.

Best known as the maker of the Sharpie brand of pens and markers, Newell has been streamlining its portfolio

through M&A to focus on faster growing businesses including candles. Newell launched its Growth Game Plan in 2012 to create a “larger, faster growing, more global and more profitable company.”

In 2015, Newell added Elmer’s to its writing division, which houses the Sharpie brand. In 2016, the company completed the \$15 billion purchase of Yankee Candle owner Jarden. Newell won Mergers & Acquisitions’ 2015 M&A Mid-Market Award for Strategic Buyer of the Year.

More recently, Newell agreed to buy Chesapeake Bay Candle from its founders for \$75 million and completed the sale of the Rubbermaid consumer storage business to United Solutions and sold its winter sports unit to Kohlberg & Co. Newell also completed the \$100 million acquisition of candle producer Smith Mountain Industries and sold Irwin tools to Stanley Black & Decker Inc. (NYSE: SWK) for \$1.95 billion.

Goldman Sachs & Co. (NYSE: GS) and Deutsche Bank Securities Inc. are acting as financial advisors to Newell Brands, and Jones Day is acting as legal counsel.

—By Demetri Diakantonis

“Acquirhiring” drives mid-market M&A

Acquiring skilled talent — “acquirhiring” — has become a driver of M&A transactions and a top objective of middle-market businesses, according to a recent Business Pulse Survey conducted by SunTrust Banks Inc. (NYSE: STI).

For middle-market and small businesses that cite M&A as their top priority over

the next five years, finding valuable skilled workers may be an important objective, say executives of Atlanta-based SunTrust.

“With domestic unemployment continuing to hover just above 4 percent, one of the lowest levels in a decade, many companies feel they are at a critical point competing for talent,” says Jason Cagle, head of commercial banking at SunTrust. “Businesses are looking at all opportunities to attract and retain employees from offering new benefits to sharing tax reform proceeds. Less obvious is the role M&A can play to help secure a skilled workforce. This has become increasingly important as we advise our clients.”

The SunTrust/Radius Global Market Research survey polled more than 500 decision makers at small and middle-market businesses, defined as businesses with \$2 million to \$10 million and \$10 million to \$150 million in annual revenue, respectively. Leaders of middle-market businesses in the survey rank attracting and retaining employees as their top concern, and nearly 50 percent of all the survey responders say it is their top challenge for 2018. These findings follow the release of the U.S. Labor Department’s February Employment Situation report, which showed businesses adding 313,000 jobs, the most since July 2016.

The SunTrust survey found that 62 percent of small and mid-market business representatives believe the U.S. economy is strong, and 79 percent are even more optimistic about their own company strength. But 59 percent of the surveyed business leaders also say that employee morale could hurt their business’s performance in 2018. Also, 54 percent say that a shortage of skilled labor and 53 percent say higher-than-average turnover

Cascadia Capital grows craft beer advisory services

Cascadia Capital has merged with First Beverage Financial, the investment banking arm of First Beverage Group. The deal expands Cascadia’s consumer advisory services from packaged products, pets and restaurants into alcoholic beverages — particularly craft beers.

Los Angeles-based First Beverage advised on 25 beverage deals in the last four years, 18 of which came in the craft beer segment. In

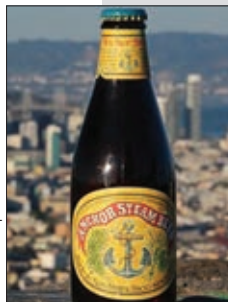
2017, First Beverage advised Anchor Brewing Co. on its sale to Sapporo Holdings Ltd. First Beverage’s parent company also has a beverage-focused private equity fund that invests up to \$15 million in businesses.

“This partnership is an exciting next chapter for both firms. The combination unites two highly-successful and specialized investment banking practices, accelerating our shared strategic growth initiatives and enhancing our coverage of the consumer landscape,” says Cascadia CEO Michael Butler.

Cascadia is a consumer-focused mid-market investment bank located in Seattle.

In 2018, Cascadia advised Salumia Artisan Cured Meats on its investment from Grant Peak Capital.

— By Demetri Diakantonis



Cascadia Capital

could hurt performance. Current job growth is more than double the expansion in the labor force, and a record number of Americans are employed, according to the bank.

When identifying M&A candidates, the bank helps its clients “evaluate company cultures and determine upfront the strategies necessary to retain key talent, which is critical to the long-term success of the deal,” Cagle says.

The SunTrust survey found one in four companies currently not offering a financial well-being program plan to do so this year. (A financial wellness benefit is an education program to help employees manage their finances).

Top talent

Mid-market companies have to deal with the following to attract and retain employees

- **Shortage of skilled labor**
- **Higher-than-average turnover**
- **Employee morale**

Source: SunTrust Banks

While surveyed business leaders agree it is the right thing to do, more than half said the top reasons to offer a financial wellness benefit were to retain employees and increase loyalty.

More than half of decision makers of both mid-market and small businesses believe that the 2017 Tax Cuts and Jobs Act will have a positive impact, and that they plan to invest money back into the company and/or pay employees bonuses and raises.

SunTrust operates consumer and wholesale business units, including corporate and investment banking services under the SunTrust Robinson Humphrey name.

—By Keith Button



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FedEx expands cross border e-commerce capabilities

FedEx Corp. (NYSE:FDX) has acquired P2P Mailing Ltd., a U.K. provider of e-commerce transportation services worldwide.

Acquiring P2P Mailing allows FedEx to more effectively serve the e-commerce market, says Carl Asmus, CEO of FedEx Cross Border, a FedEx subsidiary that provides global e-commerce technologies. P2P Mailing becomes a subsidiary of FedEx Cross Border with the deal.

“Global e-commerce continues to grow at a rapid pace,

Bloomberg News



and more and more merchants, marketplaces, e-commerce and social platforms are looking for innovative, cost-effective ways to get merchandise from distribution points in one country to customers in another,” Asmus says. “By adding P2P to the FedEx portfolio, we will be able to effectively serve

even more elements of the e-commerce market.”

As e-commerce continues to expand and supplant brick-and-mortar retail stores, M&A has heated up both for e-commerce companies and for companies that serve the industry, including transportation and logistics businesses.

On the e-commerce side, recent deals include GTCR and Sycamore Partners taking e-commerce services company



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CommerceHub Inc. private for \$1.1 billion. CommerceHub is a cloud-based commerce network that allows retailers to better compete online with Amazon.com (NYSE: AMZN).

Advantage Solutions, a sales and marketing firm, acquired digital retail marketing agency Brand Connections from Veronis Suhler Stevenson. Brand Connections helps consumer companies increase brand awareness across digital media.

Recent transportation and logistics M&A include UPS (NYSE: UPS) recently acquiring Sandler & Travis Trade Advisory Services Inc., a provider of global trade compliance services focused on government and industry laws and regulations on the movement of goods across borders.

Middle-market PE firm Quad-C Management invested in transportation management provider AIT Worldwide Logistics to help the company expand organically and through acquisitions. AIT specializes in air and sea freight, ground distribution, warehouse management, intermodal and third-party logistics for customers in the government, life sciences, perishables, residential delivery and retail logistics sectors.

The Jordan Co. recently announced it was acquiring a majority stake in Odyssey Logistics & Technology Corp., provider of global logistics for the freight and transportation industries, with plans to expand Odyssey's business through add-on acquisitions. Odyssey provides intermodal services, trucking services, managed services, international transportation management, and logistics consulting services.

PE firm Platinum Equity agreed to buy aerospace logistics company Pattonair from Exponent Private Equity. Pattonair provides logistics and distribution services

for aerospace and defense companies, helping manufacturers with warehouse management, packaging parts, and delivery and distribution.

The new FedEx acquisition, P2P Mailing, is an international parcel delivery and logistics company that provides its customers with "last-mile" delivery options, or delivery from a transportation hub to the consumer. Its customers include The Hut Group, or THG, an e-commerce company; retailer M&S; and Feelunique cosmetics company.

FedEx Cross Border is a subsidiary of FedEx Trade Networks, which manages international freight shipping for its customers. "This acquisition is a further step in achieving the global mission of the FedEx Trade Networks group to provide specialized solutions to customers," says Richard Smith, CEO of FedEx Trade Networks. Memphis-based FedEx paid 92 million pounds for P2P Mailing. FedEx has annual revenues of \$64 billion and more than 425,000 employees.

—By Keith Button

Clearlake Capital raises fifth fund

Middle-market private equity firm Clearlake Capital Group has closed its fifth fund at more than \$3.6 billion in investor commitments.

The investment vehicle, dubbed Clearlake Capital Partners Fund V, is the largest to date for the Santa Monica, California-based firm, which has now raised more than \$7 billion from investors since the firm started in 2006. Fund V has more than 150 institutional investors from more than 25 countries in Asia, Europe, the Middle East, North America

and South America, including corporate pension funds, sovereign wealth funds, insurance companies, foundations, endowments and family offices.

"We are thankful and humbled by the opportunity to prudently invest on behalf of our prominent and expanding base of global Limited Partners," says José Feliciano, co-founder of Clearlake. "We believe that the interest in Fund V is an acknowledgment of Clearlake's superior track record and strategy. Clearlake brings deep industry knowledge and relationships, access to capital, and a flexible investment mandate to our partner management teams in our target sectors: industrials and energy, software and technology-enabled services, and consumer."

Investors have been pouring their money into private equity, contributing to record-high average Ebitda multiples paid on deals in the space. The global private equity industry raised a record \$453 billion from investors in 2017, according to market research firm Preqin. The amount raised in 2017 surpassed the previous landmark of \$414 billion set 10 years earlier.

Clearlake touts a proprietary approach to improving operations at the companies it invests in, and even has a registered trademark on its name for the approach: O.P.S. The firm describes the O.P.S. method as one that "generates creative solutions to operational challenges and offers resources and expertise that small- and medium-sized companies typically do not possess."

"We are grateful that investors appreciate the strength of the Clearlake franchise in positively transforming businesses," says Behdad Eghbali, Clearlake co-founder. "Clearlake creates value and provides patient, long-term capital to dynamic businesses that can

benefit from our proprietary operational improvement approach, O.P.S. We believe Clearlake has the investment and operational skills to execute its strategy and generate superior returns at this scale.”

Fund V has already begun investing, and its signed or closed transactions so far include deals for Diligent Corp., Perforce Software, Janus International Group, ProVation Medical Inc. and Wheel Pros.



Behdad Eghbali

José Feliciano

Clearlake made a minority investment in Diligent, a portfolio company of Insight Venture Partners that provides cloud-based enterprise governance management software to company boards of directors and senior management teams. The PE firm acquired Perforce, a technology development software company, from the Summit Partners PE firm.

Clearlake agreed to buy Janus, a supplier of doors and hallways systems for storage units,

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with plans to make it a platform company for acquisitions of other industrial and building products businesses.

The PE firm acquired ProVation, medical software company, from Wolters Kluwer, a software and professional services provider, with a similar plan: to build on ProVation as a platform company through both acquisitions and organic growth.

For Fund V, Credit Suisse Securities was the advisor and placement agent, with Simpson Thacher & Bartlett serving as the fund's legal advisor.

—By Keith Button

Silver Lake backs Key Arena developer

Silver Lake, the technology-focused private equity firm known for investing in Alibaba Group, Broadcom and Dell, has made a strategic investment in the Oak View Group, an entertainment and sports facilities company. The investment, reportedly for \$100 million, is designed to support OVG's growth strategy, including arena development projects and other strategic initiatives.

OVG was recently awarded the right to redevelop Key Arena in Seattle with partners TPG Capital founder David Bonderman and film and TV producer Jerry Bruckheimer, and was an integral part of attracting a National Hockey League expansion team to the market for the first time, generating a deposit campaign of 33,000 tickets in less than two days, according to the company. Los Angeles-based OVG plans a \$600 million renovation of the arena, aiming to have the 56-year-old arena renovated in time for the 2020-2021 hockey season.

Silver Lake's role as a leading investor in technology may make OVG a good fit, as state-of-the-art technology will play an important role in Key Arena's redesign. The rebuilt arena will be aimed at enticing the Seattle area's high-tech workforce from companies including Amazon Inc. (Nasdaq: AMZN) and Microsoft Corp. (Nasdaq: MSFT) to concerts, athletic events and other performances.

"We want to do our best to make this the most tech-savvy arena that's been built anywhere at any time; what exactly that's going to look like, we don't know," Bonderman told GeekWire in an interview earlier in March.

"Technology's impact on the global media and entertainment sectors has created new opportunities for OVG," said Lee Wittlinger, managing director at Silver Lake, in a statement. "We firmly believe that OVG is positioned to become a world-class franchise in sports and live events."

OVG has also partnered with New York Mets chief operating officer Jeff Wilpon and the New York Islanders to form a group that was awarded the right to build a new arena for the Islanders adjacent to the Belmont Racetrack in New York. Additionally, OVG has recently entered the facilities management business through its acquisition of Pinnacle Facility Management, and also owns and operates trade publications Venues Now and Pollstar.

"In less than three years, Oak View Group has made a significant positive

impact on the sports and entertainment facilities landscape," said OVG CEO Tim Leiweke in a statement. "I am very proud of what we have accomplished in such a short time. This deal with Silver Lake provides us with capital to continue to grow our business as well as invaluable expertise and relationships. I am thrilled to have them as my partner."

OVG was founded in 2015 by Leiweke, whose previous roles include chief executive of Maple Leaf Sports & Entertainment and Anschutz



Oak View Group













Entertainment Group, and Irving Azoff, the legendary manager of the Eagles band who serves as the CEO of Azoff MSG Entertainment, a joint venture with the Madison Square Garden Co. OVG was conceived as a "positive disruptor" in sports and entertainment. The company currently has more than 200 employees across offices in Los Angeles, Seattle and New York City. OVG's business divisions include OVG business development, OVG global partnerships, OVG media and conferences, OVG facilities, Prevent Advisors and the Arena and Stadium Alliance, a group of top U.S. venues.

In late 2017, OVG was reportedly among the bidders for SMG Holdings,



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which owns Houston's NRG Stadium, Chicago's Soldier Field, US Bank Stadium in Minneapolis, and the Chesapeake Energy Arena in Oklahoma City. Toronto private equity firm Onex bought the company in a deal that closed in January.

"Sports-industry insiders believe buyout firm Silver Lake Partners is working on a master plan with James Dolan that, one day, could help him buy Madison Square Garden — and maybe even the Knicks or Rangers," reports the New York Post. The news organization points out that Silver Lake disclosed a 6.3 percent stake in the Madison Square Garden Co. (of which Dolan is the executive chairman) in a recent 13D filing, indicating an activist position. The Menlo Park, California, investment firm said it would like to help MSG create long-term value.

Silver Lake is a global leader in technology investing, with approximately \$39 billion in combined assets under management and committed capital and a team of approximately 100 investment and value creation professionals located in Silicon Valley, New York, London, Hong Kong and Tokyo. Silver Lake's portfolio of investments collectively generates more than \$140 billion of revenue annually and employs more than 300,000 people globally.

Silver Lake's current portfolio includes leading technology and technology-enabled businesses such as Alibaba Group, Ancestry, Broadcom Limited, Cast & Crew, Ctrip, Dell Technologies, Endeavor, Fanatics, GoDaddy, Motorola Solutions, Red Ventures, Sabre, SoFi, SolarWinds, Symantec, UFC and Unity.

In 2017, Silver Lake raised \$15 billion in capital to back new technology deals. The fund, called Silver Lake Partners V, is the private equity firm's fifth buyout fund Silver Lake raised its fourth fund at

around \$10 billion in 2013.

—By Mary Kathleen Flynn

PE-backed Loftware makes first purchase

Loftware Inc., which develops software that manages product labeling for a wide range of client companies from FedEx to Johnson & Johnson, has acquired a developer of SaaS software for handling artwork used in product packaging. Loftware is a portfolio company of Riverside Partners, which first invested in the Portsmouth, New Hampshire, company back in 2014.

Gap Systems, based in Leeds, England, provides cloud-based software aimed at helping enterprises, including customers Bic and Jergens, manage artwork created and developed for product packaging. The Gap Systems deal is the first acquisition made by Loftware.

"Our investment thesis for Loftware anticipated growth both organically and through selective strategic acquisitions to extend its leadership position in enterprise labeling," says David Belluck, general partner at Riverside Partners, a middle-market PE firm headquartered in Boston. Loftware's organic growth since the Riverside acquisition has included a global push for customers, opening new offices in Germany and Singapore. The company has more than 5,000 customers in 100 countries.

Loftware produces barcode labels, radio frequency ID tags and documents tracking and identifying products all through the supply chain. Its software aggregates information needed for packaging labels by integrating with its clients' SAP, Oracle and other enterprise applications. Loftware's customer list includes 3M, Abbott, FedEx, Gap, GE,

Harley-Davidson, Johnson & Johnson, NCR, P&G, Serta, Simmons Bedding, Toyota and Velcro.

Gap Systems controls packaging artwork processes throughout the product lifecycle, featuring its Smartflow software. Its clients include Bic, Jergens, Kingfisher, Nisbets and Peroni. Combined, Loftware and Gap will be able to offer labeling and packaging software for a range of industries, focusing on pharmaceutical, medical device, manufacturing, food and beverage, chemical, retail, and consumer packaged goods sectors. The combined platform will be pitched as enabling customers to improve time to market, mitigate risk, reduce supply chain complexity, optimize costs and increase agility.

"Loftware and Gap offer truly complementary solutions that the market needs, especially as companies look to standardize on a single platform that can create, manage and print labels and packaging artwork across worldwide operations," says Paul Goldberg, Gap Systems CEO.

"Now internal and external stakeholders in packaging, regulatory, quality, operations, manufacturing, supply chain and marketing can address a more extensive set of requirements." Fueled by the rise of mass consumer markets all over the world, companies that produce packaging and labeling have become attractive acquisition targets for both private equity and strategic buyers.

—By Keith Button

Correction: In the previous issue of Mergers & Acquisitions, the name of McGuireWoods was incorrectly styled in some instances. The correct name of the firm, which won the M&A Mid-Market Award for 2017 Law Firm of the Year, is McGuireWoods.

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Private Equity Perspective



CEO turnover wreaks havoc on hold times and lower returns

By Keith Button

“Private equity firms are not doing a very good job at identifying what’s required for most CEO positions.”

More than half of CEO turnover at portfolio companies is unplanned, leading to longer hold times and lower returns for private equity firms, according to a new survey.

CEO turnover at a portfolio company is unexpected 53 percent of the time, including 31 percent of time when the unplanned turnover is driven by the PE firm and 19 percent of the time when it is both unexpected and mutually agreed to by the PE firm and the CEO, according to the surveyed PE firm executives. AlixPartners, a New York consulting firm, and Vardis, a New York-based headhunter, surveyed executives from 53 PE firms and 63 portfolio companies in the fourth quarter of 2017 for the survey, titled the “AlixPartners-Vardis Third Annual Private Equity Survey.”

Private equity firms need to step up their planning and preparation, says Ted Bililies, an AlixPartners managing director. “This year’s survey shows that private equity needs to take further action to avoid costly C-suite turnover,” he says. “They need to undertake more robust CEO assessment during due diligence, move succession planning to the top of their priority list and set clear expectations upfront with CEOs regarding goals, performance metrics and communications.”

Unforeseen CEO turnover comes at a cost for investors. The surveyed PE firm executives say that the impact of unexpected CEO turnover is a worse internal rate of return 46 percent of the time and a longer hold time in 82 percent of the cases.

The AlixPartners-Vardis survey report also points out that most CEO replacements are poorly

timed: 58 percent of portfolio CEO replacements are made within one year following a deal closing or one year prior to an exit deal, despite the fact that 39 percent of the PE firm executives say that replacements during those periods cause the most disruption.

Private equity firms are not doing a very good job at identifying what’s required for most CEO positions, Bililies says. Two of the most important factors are leadership skills and strategic thinking, he says, and 36 percent and 28 percent of survey respondents from PE firms say those two factors, respectively, are the hardest to accurately assess.

At the same time, portfolio company executives recognize the importance of the two factors. Of the portfolio company executives surveyed, 67

Failure to plan

Who’s responsible for portfolio company CEO turnover?

- Planned and driven by PE firm: 37%
- Unplanned and driven by PE firm: 31%
- Unexpected, 100% mutual agreement: 19%
- Planned and driven by CEO: 8%
- Unplanned and driven by CEO: 5%

Source: AlixPartners-Vardis Third Annual Private Equity Survey

percent say that leadership skills allow them to perform at the highest level, while 46 percent place a similar importance on strategic thinking.

“They’re either trusting their gut, or they’re going by [the CEO’s] resume,” Bililies says. “They’re not really paying attention to the individual in the challenges that he or she is going to face tomorrow.” **M&A**

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The Buyside



Why businesses need cybersecurity providers more than ever

By Demetri Diakantonis

“

Splunk is committed to pushing the limits of technology to help our customers get the answers they need.

”

Demand for new and improved cybersecurity offerings, in some cases spurred by well-publicized data breaches and ransomware attacks, has created a healthy appetite for M&A with cybersecurity-related companies. For instance, Palo Alto Networks (NYSE: PANW) agreed to acquire venture capital-backed Evident.io, a cybersecurity monitoring company, for \$300 million, and Duff & Phelps is buying cybersecurity and risk management firm Kroll from Corporate Risk Holdings.

New York-based Kroll, founded in 1972, provides investigative, cybersecurity, due diligence, compliance and physical security to help companies make better risk management decisions on people and assets. The target serves corporations, financial institutions, law firms and government agencies.

In another recent notable deal, Splunk Inc. (Nasdaq: SPLK) wants to use its cybersecurity product offerings to help companies automate their threat responses. The data analytics provider has agreed to buy venture capital-backed Phantom Cyber Corp. for \$350 million in cash and stock.

Phantom, launched in Palo Alto, California, in 2014, assists businesses to automate their security threat response tasks that are usually carried out by security personnel. The target previously received venture funding from Kleiner Perkins Caufield &

Byers, Foundation Capital, and In-Q-Tel.

“Splunk is committed to continuously pushing the limits of technology to help our customers get the answers they need from their data,” says Splunk CEO Doug Merritt. Splunk, based in San Francisco, captures machine generated data in real time and turns them into reports mainly to help cybersecurity teams identify patterns.

According to research firm Gartner: “By 2022, 40 percent of all large enterprises will combine big data and machine learning functionality to support and partially replace monitoring, service desk and automation processes and tasks, up from 5 percent today.”



Adobe Stock

In other related deals: KPMG bought the identity and access management business from Cyberinc and LLR Partners' bought cybersecurity software provider BluVector from Northrop Grumman Corp. (NYSE: NOC). **M&A**

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Cover Story

R



Justin Ishbia
Shore Capital Partners

etail Health

From veterinarians to vision specialists, practices are consolidating to improve care, cut costs and serve consumers

By Danielle Fugazy

Sheffield



“
As consumers,
we are all
used to having
access to
almost any
product or
service on
our phone
in minutes.”

The healthcare industry remains a very hot place for investment. According to Morgan Stanley, the U.S. healthcare M&A market began 2018 with almost \$39 billion worth of deals announced in January — the strongest start in over a decade. Many of the companies that are garnering attention from strategic acquirers and private equity firms have a few things in common: they are in subsectors where there is room for consolidation; they take pressure off hospitals; and most aim to give patients more specialized treatment, which is believed to lower the cost of care and improve outcomes.

“As consumers, we are all used to having access to almost any product or service on our phone in minutes,” says Justin Ishbia, founder of Shore Capital Partners (pictured with his 5-year-old yellow lab Sheffield). “As healthcare becomes more retail-focused, we believe that the winners in healthcare are those who adapt to the demands of consumers, and those who rely solely on traditional models will be left behind. The traditional models are no longer working, and there is room to deliver high-quality care at a lower cost and build better retail-like models that treat patients like valued customers, while also reducing costs by taking advantage of economies of scale. This is happening in a variety of niches within healthcare.”

Here are six subsectors that are garnering interest from both private equity firms and strategic acquirers:

1. Dental

Pprivate equity firms are in hot pursuit of dental practices. The dental market is highly fragmented, with only 16 percent of dental practices rolled up, according to Harris Williams & Co. To take advantage of economies of scale, private equity firms are actively buying up practices all over the U.S.

For example, in 2015, Chicago-based lower middle-market private equity firm Sheridan Capital Partners made an initial investment in Smile Doctors, a Texas-based provider of orthodontic services. Since that investment, Smile Doctors

has made 20 add-on acquisitions, including more than 10 in 2017. Smile Doctors grew from 12 clinics in Texas and Georgia to more than 90 clinics across 11 states and had projected earnings of \$35 million in 2017. It is now the largest orthodontic dental organization in the U.S. In 2017, through a recapitalization, Linden Capital joined as lead investor, while Sheridan and management rolled over equity.

Delivering high-quality clinical care and operating a small business successfully is challenging for doctors, which is why companies that are built like Smile Doctors are becoming more common, says Fritz Buerger, lead William Blair banker on the Smile Doctors transaction. “Doctors typically have no formal business training. Joining a larger corporate entity enables healthcare professionals to focus on caring for patients while offloading many of the administrative elements of running a small practice. It’s more productive for everyone,” says Buerger.

Smile Doctors and other consolidators hire significant corporate staff, such as human resources, information technology, marketing and finance professionals who can assist with back-office tasks such as recruiting, patient scheduling and billing. “The result is that organizations with more corporate support can deliver a more patient-friendly experience,” Buerger says. “Clinic staff isn’t distracted by administrative tasks and instead can focus all their efforts on the patient. And that’s important because individuals today expect to be treated like customers. People are very attentive to poor service, like long wait times or unfriendly receptionists.”

Dental practices are also of particular interest because the industry has experienced consistent, stable growth. The industry isn’t affected much by economic up and down cycles because people view oral care as important, regardless of what the economy is doing. “Dental is also appealing because the market is fragmented with a lot of small practice owners seeking to sell – and private equity groups can provide liquidity to these individuals while helping them optimize their practice,” says Buerger. “This change is going on in many

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Representation in negotiation and signing of a merger agreement with Americas United Bank for



\$24 MILLION

Acquisition of leading prosthetic device manufacturer BionX Medical Technologies for German prosthetics innovator



C\$563 MILLION

Sale of majority interest to PE leader Apax for Canada-based weight loss/wellness solutions innovator



\$147 MILLION

Agreement to sell Construction Claims Group to UK-based Bridgepoint Development Capital for NYSE-listed



SencorpWhite

Sale to packaging leader SencorpWhite for designer and manufacturer of heat and vacuum sealing machinery



Merger with Australia-based global leader in intimate apparel and swimwear for fashion/lifestyle brand innovator



363 sale of all assets to these industry leaders for injectable drug delivery systems specialist



Acquisition of engineered carbon-fiber composite manufacturer Citadel for composite pipeline and pipework repair solutions leader



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“There’s a need for a wide distributed care network, as baby boomers start to age, and fewer children live near their parents.”

other sectors such as eye care, dermatology and animal health.”

2. Home care

The hospital setting is the most expensive place for patients to receive care, and sometimes it’s not the best place to receive care. With the growing public acceptance of the cost and health benefits of home healthcare, private equity firms and strategic acquirers see home healthcare as a growing line of business—so much so that even insurance companies are buying home health companies. While they will generate extra revenue from the deal, the real appeal is controlling their patient network by keeping them out of the hospital. At the end of 2017, insurance giant Humana (NYSE: HUM) acquired a 40 percent stake in Kindred at Home, the largest home healthcare provider in the nation. The acquisition will allow Humana to better manage its Medicare Advantage population, preventing unnecessary hospitalizations.

Additionally, according to Zion Market Research, the home healthcare market is expected to grow to \$391.4 billion globally by 2021.

“Facility-based care is expensive,” says John McKernan, a principal with the Riverside Co. “And it can be hard for elderly and low-income people to get around, and it can lead to them neglecting their care and then their issues become more acute and more expensive to treat. We are actively looking to buy companies that keep people out of the hospital setting.”

Riverside bought ComForCare Health Care Holdings in 2017. The home care company is a franchisor of ComeForCare Home Care and At Your Side Home Care. With 196 locations in 34 states and three Canadian provinces, ComForCare franchisees provide non-medical and private-duty nursing services to elderly, physically handicapped

and injured people in their homes. Riverside expects to invest in sales and marketing while pursuing strategic add-on acquisitions to consolidate the marketplace.

“There’s a need for a wide distributed care network as baby boomers start to age and fewer children live near their parents. Most seniors want to live the best possible life they can at home as independently as possible,” says Stephen Rice, a principal with Riverside.



As a complimentary business, in February, Riverside acquired CarePatrol as an add-on acquisition to its ComForCare platform. CarePatrol franchisees provide senior living advisory and placement services to seniors and their families.

“When the time is right CarePatrol can work with ComForCare patients to help plan their next steps,” says Rice.

3. Pet care

It may seem somewhat of a stretch to include pet care as a sub-sector of healthcare, but maybe not so much when you consider that people are increasingly demanding the same level of care for their pets as for themselves. And many of the same trends prevalent in medical practices for humans are present in the practices for pets. The sector is benefiting from consistent growth, as pet owners have more disposable income and spend more than ever before on their pets. Additionally, more people than ever before are pet owners today. Approximately 68 percent of U.S. households own

a pet; that's up from just 33 percent in 2000, according to IBIS World Report.

Add to those tailwinds that there is no reimbursement risk, and it's a highly fragmented industry and it's no wonder private equity firms are clamoring to get into the space.

According to Harris Williams, only 9 percent of the veterinary market is consolidated. That's compared to 33 percent in optical, which is still considered ripe with consolidation opportunities. There is an aging population of veterinarians who want to sell out of their practices and an increasing number of new veterinarians with high student debt and an

increased desire to work as veterinarians, but not necessarily do the administrative work of owning a practice.

"It's one of the best healthcare sectors, especially in the middle market. New vets are buying businesses at the rate they used to, and at the same time you have millennials spending more on their pets," says Ishbia. "Pets are also benefiting from advances in human medicine. Vets have learned from human advances how to keep pets alive longer with medications and procedures, which is driving longer animal life and more spend in the industry."

The veterinary services market is a

\$39 billion market when you consider everything from boarding and grooming to hospital visits, according to Shore Capital.

To take advantage of the opportunity in the market, Shore Capital partner Mike Cooper led the purchases of dozens of vet practices to form Southern Veterinary Partners and Midwest Veterinary Partners. Southern Veterinary now has 47 locations, while Midwest Veterinary has 29 locations. "Southern Veterinary started out as three locations in Alabama and we acquired 41 locations. Each location has about \$1.5 million to 2.5 million in revenue per year. As a consoli-

The image is a promotional poster for an ACG San Diego event. It features a background of wine glasses and appetizers. The text is overlaid on the image. The ACG logo is in the top left, with 'San Diego' and 'WHERE DEAL MAKERS MEET' below it. The main title 'Let the Wine & Deals Flow' is in large, bold, black letters. Below the title, the date 'Thursday, May 3, 2018' and time '5:30 - 8:30pm' are listed. The location 'San Diego Wine & Culinary Center, San Diego, CA' is also included. At the bottom, it says 'Members and Invited Guests Only' and 'Join ACG San Diego for \$495'.

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“Coatings on pills make them taste better, easier to swallow and easier to identify.”

dated group, we can buy supplies at a better cost, offer more consumer-focused care with later hours and manage the offices more efficiently letting the doctors focus on their patients' needs,” says Ishbia.

Shore Capital plans to keep buying practices through its two platforms.

Shore isn't the only one interested in the pet care space. In December, KKR & Co. (NYSE: KKR) acquired PetVet Care Centers from Ontario Teachers' Pension Plan, L Catterton. PetVet is an acquirer and operator of general practice and specialty veterinary hospitals for companion animals. Perhaps as a testament to strength of the pet care industry, when Ares Management (NYSE: ARES) sold Nation Veterinary Associates (NVA) to OMERS Private Equity recently, it only sold a minority stake in the business. NVA is the largest independent owner-operator of veterinary hospitals, pet boarding and daycare centers in the United States, Australia, Canada and New Zealand.

4. Pharmaceuticals

Coatings is becoming an increasingly interesting place for investors. In March, TA Associates completed the purchase of Ideal Cures Private Ltd., a supplier of ready-to-use coating products for tablets and capsules. Founded in 1999 in India, Ideal Cures' products are used to provide aesthetic coatings for swallowability and taste masking. They also aid in brand recognition, authentication and differentiation.

The coating industry is fairly large, about \$800 million to \$1 billion in size, and TA Associates believes that the trend is to outsource the production of ready-to-use, fully-formulated coatings, which is driven by companies seeking innovative solutions that reduce processing time and a company's carbon footprint.

“As the need for healthcare grows globally so does the need in the pharma industry. The addressable market is growing,” says Dhiraj Poddar, a director with TA Associates. “A lot of coating was done in-house in the past, but the market is shifting toward the outsourcing model because it's

more efficient.”

TA expects to expand the geography of the business. It's a significant player in India now, but will look to expand globally through acquisitions.

Coating companies continue to attract buy-



er interest. Axalta Coating Systems Ltd. (NYSE: AXTA) purchased Netherlands distributor Geer-aets Autolak; Audax Private Equity-backed Innovative Chemical Products (ICP) bought adhesives maker Fomo Products Inc.; and PPG (NYSE: PPG) acquired MetoKote Corp.

Poddar says most of the players in the market are strategic acquirers because the industry is so niche. “I don't see too many private equity players in the space that aren't backing a strategic acquirer because it's such a niche industry. Still, I think you will continue to see more consolidation in the market. We hope to gain market share over time through acquisitions,” says Poddar.

5. RCM

At its most basic, revenue cycle management (RCM) is the billing, reimbursement and collection function of a healthcare system. Historically, healthcare organizations such as hospitals handled this function in house. However, as both the need to comply with government regulations and the complexity of RCM increase, more healthcare organizations are choosing to work with outside vendors. According to a report by Research and Markets, the RCM outsourcing

market in the U.S. was expected to grow by 15 percent from 2016 through 2021.

The better the RCM the better the margins. Top-shelf revenue cycle management will increase cash flow, reduce the cost of collecting payments and allow for fewer denials. Hoping to catch the tailwinds in the RCM market, private equity firms have been very active in the subsector. Healthcare IT and RCM deal volume reached 164 completed transactions in 2017, up from 130 the year prior, according to Greenberg Advisors, a RCM and health IT-focused investment bank.

Riverside Partners, a Boston-based

lower middle-market private equity firm that focuses on technology and healthcare deals, has invested in two RCM businesses in the past two years. They are both providers of specialized, technology-enabled RCM solutions for claims. "There is a significant opportunity for hospitals to enhance the revenue cycle function by outsourcing to specialized revenue cycle providers, especially in the area of complex claims," says Max Osofsky, a general partner with Riverside Partners. "Every dollar of margin is important to hospitals, and accessing specialized technology and teams to address complex claims is one way hospitals can enhance reim-

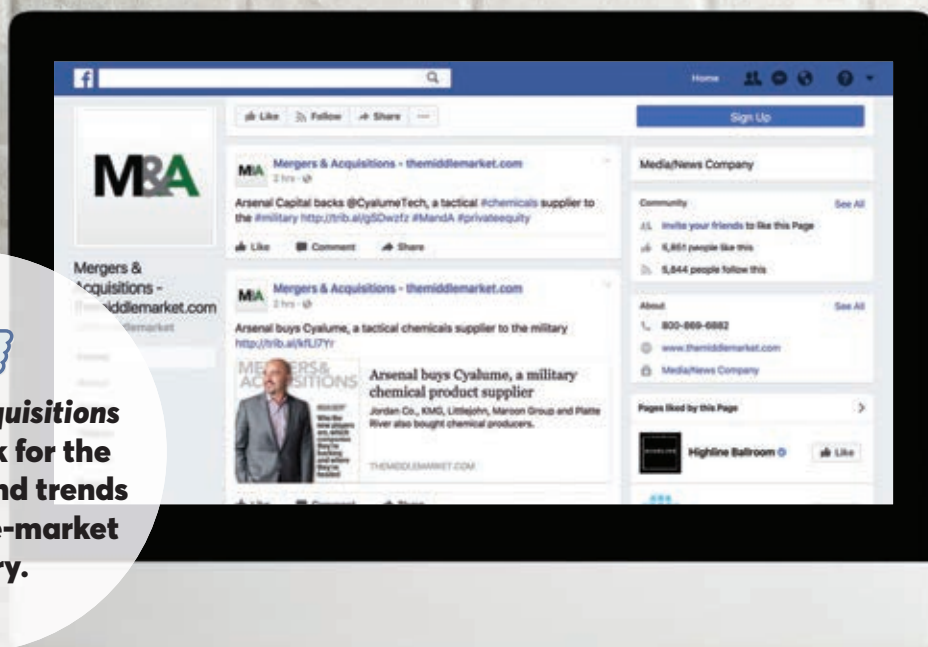
bursement and add to their bottom line. We are building specialized revenue cycle platform that we believe will be attractive to a number of buyers in the future, including other private equity-backed strategic acquirers."

Riverside invested in Bottom Line Systems in 2016 as well as in Medical Reimbursements of America last year. Riverside Partners is one of many pursuing a roll-up strategy in the RCM space. In 2015, TowerBrook Capital Partners launched an effort into the space and has built R1 RCM through various purchases. Additionally, strategic acquirers are interested in the space. In March,

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“
Ophthalmology
is a highly
fragmented
industry with
no real
national player.”

Cognizant (Nasdaq: CTSI) announced its agreement to purchase Bolder Healthcare Solutions, a privately-held provider of RCM software for hospitals and physician practices.

6. Vision

Consolidation among eye care professionals continues to be a strong play for private equity firms. Despite years of consolidation it's still a highly fragmented industry with only 33 percent of optical companies consolidated, according to Harris Williams. There are 23,000 independent optometrists and 18,000 ophthalmologists in private practice today.

“Vision, and particularly ophthalmology, has historically been an medical specialty in which there were not large regional or national platforms. Rather, the market has and continues to be served predominantly by local providers and as a result there is a high degree of fragmentation. Private equity has started to invest in the sector to create larger companies with density in a geographic market that can benefit from administrative and other economies of scale, similar to what we have seen in many other healthcare sectors,” says Andy Dixon, a managing director with Harris Williams.

In some markets, optometrists and ophthalmologists have joined together in the same clinical practice enabling them to be a single source of comprehensive eye care for consumers and increasing referral capture for medical services, such as surgery for cataracts, which are often detected in routine eye exams.

In addition, as ophthalmology groups scale within a geographic market, many have opened their own dedicated surgery centers which can be more cost-effective and generate better clinical outcomes than third-party-owned multi-purpose facilities.

In March, LLR Partners formed Eye Health America, a practice management company established to buy eye care practices located in the

Southeastern U.S. As part of the initial formation, Eye Health America announced the acquisition of the Eye Associates, Clemson Eye and Piedmont Surgery Center, providers of advanced eye care and ambulatory surgery services. LLR was named Mergers & Acquisitions' M&A Mid-Market Award for 2017 Private Equity Firm of the Year.

“Ophthalmology is a highly fragmented industry with no real national player. It's ready for consolidation. As part of a larger entity, eye care groups can leverage a shared infrastructure, while gaining access to additional service offerings,” says Kevin Becker, a vice president with LLR. “This strategy allows the doctors to be focused on providing high quality patient care.”

LLR has been working on its eye care thesis for about two years and partnered with an ophthalmology practice CEO to identify leading eye care platforms. Part of the strategy is to consolidate doctors and acquire surgery centers that only focus on eye care.



“Having access to a captive surgery center is key. Without a surgery center, doctors are forced to compete for time blocks in shared multi-specialty centers or hospitals, oftentimes commuting back and forth to different locations, which can be inconvenient for both the doctor and the patient,” says Becker, adding that LLR has a significant pipeline of acquisition opportunities and expects to grow its platform both organically and through add-ons over the next five years. **M&A**

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Danielle Fugazy
Contributing Editor, *M&A*

Finding and winning deals in today's ultra competitive M&A environment has become extremely difficult. Stories of private equity firms going far down the road in a process only to lose the deal to a competitor have become the norm. As a result, some private equity firms have worked very hard to differentiate themselves from the competition and their strategy is working. This roundtable, sponsored by Abacus Finance, explored how some private equity firms have differentiated themselves, what makes them unique and how it has helped them find and close deals.

PARTICIPANTS:

Charles Cox, Director, LongueVue Capital

Jessica Ginsberg, Vice President, LFM Capital

Laurence Lederer, Managing Director, Branford Castle Partners, LP

Eric Petersen, Senior Vice President, Abacus Finance



Danielle Fugazy: How would you characterize the market today?

Jessica Ginsberg (LFM Capital): The market is incredibly competitive. There is a ton of capital out there and so many firms chasing the same handful of deals.

Laurence Lederer (Branford Castle Partners): There's no question that it's competitive, but the overall market has been great for us. We focus on \$2 million to \$10 million EBITDA companies; and we are still able to find great companies at reasonable valuations. We've been around for 30 years, so we've seen different market cycles. In today's market, it's very competitive in the larger market, but we're still able to find attractive companies and good valuations at our end of the market.

Charles Cox (LongueVue Capital): There is a record number of active private equity firms in the market with a record, or near record, number of assets under management, so that in itself makes the market very competitive. Moreover, there has been an influx of independent sponsors, family offices and corporate strategics looking to invest in attractive companies, which makes the market even more crowded and competitive.

Eric Petersen (Abacus Finance): There is a flood of capital chasing after a finite number of deals. In some of the auction processes when a banker is bringing a quality asset to the market, you get a spike in valuations and you get a spike in leverage, which makes it very difficult for firms to compete.

Fugazy: What makes your firm unique?

Petersen: On any one auction deal, we're listening to a handful of presentations. So we get to hear the front end pitch of why firms think they are different, and how they differentiate. It's the firm's DNA that will really resonate in a management presentation.



"Our legacy separates us. If we are meeting with a company owner who has founded the business or it's a multi-generational family business, our roots as a family office and having two generations of the Castle family involved, appeals to certain sellers."

Laurence Lederer,
Managing Director,
Branford Castle Partners, LP

Lederer: Our culture and our history absolutely make Branford unique. We've been around for 30 years and were founded by our chairman, John K. Castle, so we have that long history. We were a family office for John K. Castle prior to raising a fund and we have a very strong reputation in the marketplace. Our legacy separates us. If we are meeting with a company owner who has founded the business or it's a multi-generational family business, our roots as a family office and having two generations of the Castle family involved, appeals to certain sellers. The executives and managers with whom we've worked are our best advocates. They often work with us on multiple opportunities and a number of former portfolio company executives are now Branford LPs and advisors.

Ginsberg: We are unique because we are so focused on manufacturing. That stems from two of our founding partners having significant operating experience before getting involved in private equity. They spent the bulk of their careers at companies like Dell, Caterpillar, and Ditch Witch and really know, for example, what a plant floor should look like and feel like. It's a story that resonates really well with business owners who appreciate that we have lived through many of the challenges they face day to day. We can provide capital, but we can also add value in many different ways from introductions to people in our operating networks to helping source add-ons.

Cox: Since inception, LongueVue has been very successful in collaborating with entrepreneurs and approaching every relationship with a partnership mentality. Our two founders were entrepreneurs, and our initial investor base was mainly composed of high-net-worth entrepreneurs, people who were successful at growing their businesses. An entrepreneurial and partnership mentality are encoded in our DNA, and our transactions reflect this unique approach. For example, we utilize creative incentive structures with back-end

weighted rewards for management teams, which aligns our objectives and creates substantial skin in the game. Upon a successful exit, our entrepreneur partners and management teams gain the opportunity to realize outsized equity ownership and returns.

Another testament to LongueVue's partnership mentality is after we closed our first fund, we had a series of successful exits. And the majority of those entrepreneurs liked the way we did business and chose to be LP's in our second and third fund.

Fugazy: How do you think most private equity firms source deals today?

Ginsberg: Most firms play in broad competitive auction processes. A pretty typical way to see a deal flow is through maintaining relationships with bankers, brokers, and buy-side types of folks.

Lederer: At Branford we use an "all-the-above" strategy. You have to these days. We have a robust network of intermediaries from the larger firms to one and two-person shops. We utilize a partner-led sourcing model, so the partners at Branford are on the road meeting with these folks, making sure we continue to maintain robust deal flow. Of course we also look for proprietary deals, and that's when our network and our history come into play. We provide buy-side incentives for brokers to bring us opportunities even though they may not have a sell-side mandate. Also, we'll provide incentives to our network of former executives and managers to bring interesting opportunities to the table as well.

Ginsberg: In addition to relying on bankers, we have a very robust direct sourcing platform. We reach out to thousands of business owners every year and connect with several hundred. We find that our background tells a unique story that is interesting to business owners and helps us start to build relationships.



"By building an authentic relationship at an early stage, we are often the first call when they are looking for a partner to help take their business to the next level, either today, tomorrow, or in the future."

Charles Cox,
Director,
LongueVue Capital

Fugazy: If you find a proprietary deal do you find management hires a banker anyway?

Ginsberg: We've closed two platform deals and one add-on acquisition through our direct sourcing process and we have never found that to be the case. We typically hear from owners that our story is different from other firms and they want to get to know us and learn more.

Cox: We implement a two-prong strategy in our sourcing efforts. We are always building and nurturing our valued relationships with investment banks with actionable opportunities. In combination with these efforts, our firm is investing more resources engaging non-traditional deal sources that can facilitate early introductions to entrepreneurs. On the front end, we have an opportunity to establish mutual trust and share objectives with an entrepreneur considering partnership options. By building an authentic relationship at an early stage, we are often the first call when they are looking for a partner to help take their business to the next level, either today, tomorrow, or in the future.

Petersen: As much as everyone likes a nice proprietary deal at a reasonable valuation, you certainly can't discount the bank process. The efficiency and value the investment bankers provide is

tremendous.

Lederer: We've certainly had situations in which we've entered into a direct non-competitive acquisition process. But there are other situations in which a seller hires an advisor or broker and they run a very limited process, which can also be a very beneficial dynamic.

Fugazy: When you launch a new firm in such a crowded market were you consciously trying to be different?

Ginsberg: We launched in the fall of 2014. We have always been incredibly focused on manufacturing

because it's where we came from and it's what we know. A great example of that is our strong connection to an MIT grad school program called Leaders for Global Operations. Three members of our small team graduated from the program, earning both MBAs and Masters of Engineering degrees. That program has created a really strong operating network and candidate pool for us as we look to add to our portfolio company management teams, which we believe is differentiating, especially for funds of our size.

We also started our direct sourcing platform on day one, and that actually came before we started building relationships with bankers and brokers.

Cox: We try to continuously enhance and evolve our business development and marketing strategy. In addition to traditional sourcing efforts, we engage operating executives directly, hold town hall meetings and host brown bag lunches in an effort to educate professionals and prospects on the potential of a private equity partnership.

In a very crowded and competitive market, we are always open to building new relationships and telling the LongueVue story. We strive to take every meeting and are not afraid of kissing a few frogs along the way. Recently, we have done a great job of covering our backyard and finding talented entrepreneurs that are open to a private equity partner.

Ginsberg: Private equity has a bad rap in a lot of circles. We see it as part of our job to tell a different story. We're not scary. We're not going to buy your business, close your plant, and fire your people. We are going to invest in your company, develop your people, grow your business, and really do right by your legacy. That's the picture of private equity we are trying to portray.

Cox: From the beginning we decided to be very hands-on, proactive and accessible. We work closely with our



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Jessica Ginsberg,
Vice President,
LFM Capital

management teams and it has created a very successful track record for us. The CEOs from former LongueVue portfolio companies are our best references.

Lederer: Our track record of success is the best calling card. When sellers hear how our former portfolio companies have done, hear from former managers that have worked with Branford and are still involved with our firm, and hear about the returns that were generated, that's what gets folks interested.

Fugazy: What resonates with lenders?

Petersen: The word DNA keeps popping up over and over. I think what is different is what's not replicable by other firms. We talked about the process, the machinery for sourcing deals, but underlying the processes and procedures there has to be something distinct and unique about a firm that actually makes them stand out. You can't easily replicate a 30-plus year track record, specific operating roles, or an operationally entrepreneurial background, for example, without actually having invested in and lived those experiences.

Fugazy: Other than price, what resonates with bankers?

Lederer: They want certainty to close, especially at our end of the market. In the \$2 million to \$10 million EBITDA range you've got independent sponsors and other similar bidders. It can be a bit of the Wild West. Obviously price is going to be the major factor, but firm reputation and confidence of close go a long way.

Ginsberg: We think our focus on manufacturing and operations helps us stay front of mind with investment bankers. They know our story speaks well to business owners and they also appreciate having someone at the table that can bring operating expertise and a strategic vision, not just financial improvements.

Cox: As a firm, we strive to have open and honest

communication at all times, and we believe this style resonates with investment bankers when price may not be the primary objective for a transaction. As a result, this approach has led to a number of pre-process introductions.

Fugazy: Do you find firms trying to replicate what you're doing and is that even possible?

Ginsberg: Firms are definitely being more proactive in seeking out proprietary deals – I think launching a direct sourcing platform can be intimidating and is a little like finding a needle in a haystack, but we are very committed to keep looking.

Lederer: You can't replicate the 30-year history of Branford Castle or the decades that John K. Castle has spent as a leader and innovator in the private equity industry. I think that is well-received by the banking community and by sellers when they understand our track record. People do try to copy each other in this market, but you can't copy that kind of history and firm reputation.

Cox: We have many relationships in the Southeast, but we invest coast to coast. The constant theme and differentiator in winning deals has been our fit with management and commitment to partnership.

Fugazy: Do you ever find that you're too specialized?

Ginsberg: We look at manufacturing through a broad lens – we see everything from general industrial deals, which are very comfortable for us, to companies that make medical or food-related products. We are also very flexible in terms of the situations or stories we will invest in. We don't have a recipe; we look at each deal on its own. A great example of that is management dynamic. We are really open to looking at deals where management is transitioning out and we need to bring in new people from day one. We are also always excited to partner with the existing teams who want to stay on and grow their businesses. Being open-minded



"You can't easily replicate a 30-plus year track record, specific operating roles, or an operationally entrepreneurial background, for example, without actually having invested in and lived those experiences."

Eric Petersen,
Senior Vice President,
Abacus Finance

has helped us. We try to be as flexible as we can with different situations.

Cox: We certainly do not want to get painted into a corner. But I think partnership relationships are what we focus on. And it happens that most of your key relationships are in some proximity to where you're headquarters are at a point in time. We've done a tremendous job in cultivating those relationships and actionable opportunities.

Fugazy: Where do you see things headed in the near future for the industry?

Lederer: Fortunately in our end of the market, there are enough great small companies and we can find them at reasonable valuations. We don't try to necessarily predict exactly what's going to change in the private equity market overall, but Branford's model has been able to continue to surface these really nice companies. We expect that to continue into the future.

Petersen: I don't think it will get less crowded or less competitive either. For firms that raise capital, there is a pretty defined deployment and return cycle, so it will not turn for a year or 18 months; it takes time.

Cox: We plan to stick to our knitting as we move forward. We are situation-driven, opportunistic value investors, and we are very prudent with the way we leverage our businesses. In a hyper-competitive market, you have to continue to evolve your sourcing strategy. Whether your positioning is through sector, geography, culture or history, you need to clearly promote your brand. When you leave a meeting, your message must resonate.

Ginsberg: I agree. We're constantly trying to sharpen our pencil on what we do and how we do it. The direct sourcing process is a great example of that. We are constantly updating our messaging and changing the processes on the back end to make sure we are as effective as we can be.

Lederer: We continue to see activity from independent sponsors. Branford is open to working with different kinds of independent sponsors. They may have a deal ready, but they need funding and if they have the right expertise we're happy to work with them. On the other side of the coin, Branford has ultimately won processes where the independent sponsor won the first round but their equity financing didn't come through. We hang around and try to stay in touch in case an independent sponsor extends themselves and can't get to a close.

Cox: LongueVue has enjoyed successful partnerships with two independent sponsors, and we will continue to engage value-added independent sponsors as part of our sourcing strategy.

Fugazy: From a lender's perspective, when are you looking at independent sponsors versus family office, versus lower middle market private equity firms, who do you prefer to work with?

Petersen: We come in a little bit later in the process. It's been mentioned a couple of times; the certainty of close becomes a much bigger deal. So

"Fortunately in our end of the market, there are enough great small companies and we can find them at reasonable valuations."

when you start to rank those different equity sources, a committed fund and family offices tend to do well. And then when you get to independent sponsors, it can be a little more challenging. It does weigh into our underwriting where the equity is coming from.

Fugazy: It does seem that family offices and independent sponsors are more frequently part of the process now. Are you finding more sellers are interested in patient capital today?

Ginsberg: We hear hesitation from business owners on the buy-and-flip. We tend to believe that because we're operationally involved in our portfolio

companies and truly want to enact change, it will take longer to add the kind of value we want to add. We will likely hold our investments longer than what is average for private equity.

Lederer: When we were a family office, I don't believe there were too many opportunities that were won because of a potentially longer hold period. I don't believe with the situations we're seeing now that folks are turned off by the fact that we will help for a finite period of time until the sale to the next, best owner.



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Feature

WILL COINBASE LEAD A WAVE OF M&A IN CRYPTOCURRENCY?

By Mary Kathleen Flynn



After overseeing 40 transactions at LinkedIn, Emilie Choi has joined the exchange for Bitcoin and other digital currencies as vice president of business development.

Emilie Choi has joined Coinbase as vice president, after an eight-year tenure at LinkedIn, where she oversaw 40 transactions in her role as vice president of corporate development. In her new role at Coinbase, Choi will lead corporate development, business development and business operations for the venture capital-backed startup, which provides an online exchange for digital currencies, including Bitcoin, Ethereum, and Litecoin. The cryptocurrency sector may soon be ripe for M&A, and Coinbase may be in a good position to do some consolidating.

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Choi's deep experience leading world-class corporate development teams will help move Coinbase into new markets.

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Coinbase

“We want to connect with entrepreneurs and teams around the world who are passionate about building innovation in the crypto space.”

“Coinbase is moving fast into a new phase of the company’s journey,” said Asiff Hirji (pictured, left), president and COO of Coinbase, in a March 5 blog post announcing the appointment. “Emilie’s deep experience leading world-class corporate development teams will help move Coinbase into new markets and opportunities globally by leveraging acquisitions, strategic investments and partnerships.”

Advocate for founders

At LinkedIn, Choi led dozens of acquisitions, including: Lynda, Bright, Newsle, Connectifier, Slideshare and Fliptop, as well as LinkedIn’s joint venture in China and strategic investments in Cornerstone On Demand and G2 Crowd. Prior to LinkedIn, Choi worked at Warner Bros., where she developed long-term strategies for the WBTVG digital businesses, including TMZ, Kids WB, Essence and The WB, and at Yahoo Inc. (Nasdaq: YHOO), where she advised the senior management team and executed high-profile transactions, including Flickr and Yahoo’s original investment in Alibaba.

“In addition to her deep experience building and scaling at high-growth companies, Emilie’s reputation as an advocate for founders through every step of the M&A process makes her the perfect fit for Coinbase,” said Hirji. “As part of our vision to create an open financial system, we want to connect with entrepreneurs and teams around the world who are passionate about building innovation in the crypto space. Emilie has an outstanding record of building strong relationships with founders and in creating environments where entrepreneurs can continue to execute on their vision within larger companies.”

Coinbase may be well poised to consolidate the emerging crypto currency sector. Founded in June of 2012 and headquartered in San Francisco, Coinbase has raised \$217 million from venture capital firms, including Andreessen Horowitz, Union Square Ventures and Ribbit Capital, SV Angel and Funders Club.

To date, the investments in blockchain

technology companies are in the early stages. In addition to VC firms, big tech companies and some financial services companies have been investing. Partnerships identified in a recent roundup by CNBC included: Citi, Goldman Sachs and JPMorgan Chase are backing Axoni, which is working on applying blockchain technology to banking; Visa, Nasdaq, Citi and Capital One have made direct investments in Chain, which lets financial institutions create and store digital assets on private networks; and Google is backing Ripple, which provides financial institutions with money-transfer technology, and LedgerX, a cryptocurrency derivatives platform.

Backing blockchain

Choi’s appointment came during a busy time for Coinbase and for the cryptocurrency industry in general. The startup unveiled the Coinbase Index Fund, which is designed to give investors exposure to all digital assets listed on Coinbase’s exchange, GDAX, weighted by market capitalization. “Index funds have changed the way that many people think about investing,” said product manager Reuben Bramanathan. “By providing diversified exposure to a broad range of assets, index funds enable investors to track the performance of an entire asset class, rather than having to select individual assets. We’re excited to give our customers the ability to invest in the potential of blockchain-based digital assets as a whole.”

Coinbase also announced the appointment of Eric Scro (pictured, right) as vice president of finance. Scro most recently held the position of head of finance at the New York Stock Exchange, an investor in Coinbase.

Meanwhile, the cryptocurrency industry still has the feel of the wild west. But there may be a new sheriff in town. On March 7, the U.S. Securities and Exchange Commission said that many online trading platforms for cryptocurrencies should be registered and subject to additional rules, suggesting the digital currency sector will be under scrutiny for some time to come. **MA**

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DECEMBER 2017

\$50M



Sole Lead Arranger &
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Leveraged Buyout



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Guest Article

WHAT TAX REFORM MEANS FOR CARRIED INTEREST AND PRIVATE EQUITY

By Jeffrey Bilsky and Stephen Sonenshine



The Tax Cuts and Jobs Act will affect capital gains on holding periods for portfolio companies.

The timeline for the consummation of an equity-based transaction varies depending upon multiple factors that in part are beyond a seller's control. However, fund managers have historically focused on ensuring that their carried interest allocation is subject to the more favorable long term capital gains tax rates by meeting the one-year holding period requirement under the Internal Revenue Code ("IRC"). As a result of the Tax Cuts and Jobs Act, passed into law on December 22, 2017, fund managers could find their carried interest allocations subject to tax at ordinary income tax rates rather than the more favorable capital gains tax rates.

Overview of Carried Interest Rules

Under the newly enacted IRC Section 1061 under the Tax Cuts and Jobs Act, a partner's allocation of long term capital gain may be recharacterized as short-term capital gain, which is taxed as ordinary income rather than the more favorable long term capital gains rate. Based on the tax rates now in effect, capital gain allocations will be taxed at 23.8 percent (excluding state taxes) whereas ordinary income allocations will be taxed at a maximum rate of 40.8 percent (excluding state taxes).

In general, when a fund sells an asset (e.g., stock in a portfolio company), the gain on the sale will be treated as a capital gain. To the extent the disposed asset has been held for more than one year, the gain will be characterized as long-term and subject to the lower capital gains tax rate. However, if this gain is allocated to a partner holding an "applicable partnership interest" the gain will be recharacterized as short-term capital gain to the extent the disposed asset was held for less than 3-years. The newly enacted IRC Section 1061, therefore, creates a 3-year holding period

with respect to certain assets instead of the 1-year holding period under the previous tax regime.

Under these new rules, the term applicable partnership interest means a profits interest issued by a partnership operating an "applicable trade or business" to a partner in connection with the performance of services. In other words, a carried interest received by a fund manager is an applicable partnership interest if the fund is operating an applicable trade or business. A fund that raises and returns capital in connection with investments in securities, commodities, rental or investment real estate, cash, options or derivative contracts with respect to securities, commodities, rental or investment real estate will be considered operating an applicable trade or business.

Here are some key takeaways:

- As a result of the Tax Cuts and Jobs Act, fund managers could find their carried interest allocations subject to tax at ordinary income tax rates rather than the lower capital gains rates if held for under three years at the time of exit.
- Properly tracking the holding period attributable to the disposed asset becomes critical and raises a significant trap for the unwary, especially when a fund (or its portfolio company) intends to grow through acquisitions.
- This change in the required holding period and the potential for ordinary income taxation is causing fund managers to reassess the structure (and financing) of potential add-on investments, tax classification of portfolio companies, structure of monetization events, and the terms of their carried interest.
- Fund managers should consider the

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potential pitfalls associated with their traditional structures to ensure the favorable long term capital gain treatment is obtained in current and future transactions.

Trap for the Unwary

The recently enacted IRC Section 1061 has caused fund managers to increase their focus on carried interest allocations and whether these allocations will result in long term capital gain. The key determining factor is whether the disposed asset has been held for at least 3-years. Accordingly, properly tracking the holding period attributable to the disposed asset becomes critical and raises a significant trap for the unwary, especially when a fund (or its portfolio company) intends to grow through acquisition or is classified as a flow-through entity (i.e., partnership) for U.S. income tax purposes.

This change in the required holding period and the potential for ordinary income taxation is causing fund managers to reassess the structure (and financing) of potential add-on investments, tax classification of portfolio companies, structure of monetization events, and the terms of their carried interest, including incremental interests granted under management fee waiver or cashless contribution arrangements.

Consider the following example:

Fund, LP raises \$100M of capital with commitments of \$1M to be contributed by the general partner (GP) and \$99M to be contributed by the limited partners (LPs). Depending on overall performance of the fund, the GP will be entitled to an allocation of up to 20% of gains recognized on investment assets.

On 1/1/2017, Fund, LP invests \$50M in the acquisition of a portfolio company (PortCo). Fund, LP invests additional capital in PortCo and contributes these funds to PortCo on several dates, including: 6/30/2017 (\$10M), 12/31/2017 (\$25M), and 3/31/2018 (\$15M).

On July 1, 2020, Fund, LP sells the interest in PortCo for \$175M recognizing long-term

capital of \$75M (\$175M disposition proceeds less \$100M total invested capital). Under the terms of the Fund, LP operating agreement, GP is allocated 20% of this gain, or \$15M.

Of the \$15M long-term capital gain allocated to the GP, \$6M will be recharacterized as short-term capital gain calculated as follows:

- Total long-term capital gain recognized by the fund equals \$75M (\$175M of proceeds less the \$100M of total invested capital)
- GPs share of this gain is \$15M ($\$75M \times 20$ percent).
- GPs share of gain recharacterized as short-term capital gain is \$6M ($\$15M \times 40$ percent).

In order to minimize the amount of capital gain recharacterization, consider an alternative whereby PortCo obtained debt-financing on 12/31/2017 and 3/31/2018 instead of equity financing from Fund, LP. Structuring these subsequent investments as debt-financing would have prevented PortCo from issuing new stock to Fund, LP, which would have been a disposed asset with a holding period of less than 3-years. This change in financing structure for these investments would result in all of the carried interest allocation being subject to the more favorable long term capital gain tax rate.

Conclusion:

The enactment of IRC Section 1061 under the Tax Cut and Jobs Act extended the holding period needed to obtain the favorable long term capital gain tax rate. As fund managers assess additional opportunities to deploy capital or evaluate potential monetization events for a portfolio investment, the fund manager should consider the potential pitfalls associated with their traditional structures to ensure the favorable long term capital gain treatment is obtained in current and future transactions.

Jeffrey Bilsky is the technical practice leader for BDO's national tax office partnership taxation group. Stephen Sonenshine is a partner in BDO's transaction advisory services practice.

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Common Pitfalls to Avoid

Learn the common mistakes buyers and sellers in M&A make and how to avoid them



Hugh Giorgio is a Managing Director in the Investment Banking division of M&T Bank. Hugh has been with the Debt Capital Markets group within the Investment Bank for over 15 years and leads Sales and Trading with a particular emphasis on Leverage Finance. Below is a Q&A with Hugh about some of the common pitfalls made by buyers and sellers in M&A and how to avoid them.

What are some of the most common mistakes you see buyers make?

Due to the current bullish market conditions, buyers are often asked to shorten the due diligence process. Buyers are beginning to accept sell-side due diligence reports more frequently as a result of these market conditions. Typically, a buyer would bring in their own consultants rather than accepting a seller's advisor's reports including quality of earnings. Another common mistake is that buyers underestimate the time and effort involved in systems integration. System integrations rarely go smoothly and the impact on your employees and financial performance can be significant. Finally, both buyers and sellers alike frequently underestimate the importance of cultural fit and governance issues. Understanding roles and responsibilities is important in this regard.

On the other hand, what are some of the common mistakes you see entrepreneur sellers make?

For an entrepreneurial seller, it's usually their first time taking institutional equity and they often misunderstand the importance of hiring the correct advisors to assist with the process. From time spent in the industry and knowing their competitors, entrepreneurs believe they know who the right buyers of their business will be and don't necessarily want to pay for professional advice. However, these are very complicated transactions and sellers need competent advisors and legal counsel. The right advisors know most of

the buyers and their reputations. There are many more details beyond sale price that have to be worked out and entrepreneurs without advisors typically stumble through the process.

Another pitfall is not having the right financial systems in place. Many companies have a bookkeeper, but not a CFO or someone who has the skill set to go through the diligence process with the buyer. A company with insufficient financial systems and no sell side advisor may well pay the price in the form of a lower transaction value. The ultimate goal of a sell side advisor is success at the right price and structure, and errors in financial systems result in broken deals or a re-traded price.

We also urge sellers to take caution when agreeing to a minority equity deal. If things go well it can be quite lucrative; however, if things turn south, negotiations can be challenging and sellers may have a negative financial outcome.

How can an investment banker help?

Recognizing we are talking about entrepreneurs who are likely selling a business for the first time, having proper representation is critical. It's obviously an emotional decision and a process in which they don't have experience. Investment bankers deal with these transactions on a daily basis. We take the emotion out of the process and bring the discipline necessary to make a sound decision.


Many times sellers will think they know who their buyer will be, but they don't realize that the company they have in mind may

have never bought a company before, or doesn't have the capital to get the deal done. Investment bankers know the buyers and understand their reputation. We never want to see a deal fail, so we strive for committed "no-outs" purchase agreements.

We ensure buyers are properly vetted and the transaction will continue to progress. We like to have insight into the "100-day plan" to fully understand a seller's plans regarding integration in general. It gives us a perspective into issues and concerns they may have and an ability to track progress.

How do you counsel your clients?

Overall our general advice is: hire an investment banker, professional financial advisors and transactional attorneys, and get your financial house in order. Talk to other people who have sold their business. Know your counterparts in the deal and start to understand how they perform. This is a seller's market and with the right people representing you, it's a great time to sell. But on the buy side, buying when multiples are high and people are being forced to rush, mistakes can, and do, happen.

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Guest Article

7 IMPERATIVES TO SUCCESSFUL POST-MERGER INTEGRATION

By John Jureller



Having an open line of communication with employees is one way to help a merger succeed.

It's a tale of two Big 4 studies. The Deloitte M&A Trends Report finds that corporate and private equity executives foresee an acceleration of M&A activity throughout 2018 "in both the number of deals and the size of the transactions." The PWC M&A Integration Survey, meanwhile, reports on a less enthused crowd. Many F1000 executives who've undertaken a merger or acquisition during the last three years bemoan a lack of "high performing deals."

Anyone else see a disconnect? We're in search of the pot of gold promised by the merger of complementary companies, but that end-of-rainbow fortune has proven elusive. The culprit? Integration.

A recent roundtable on merger integration with participants from over 15 leading private equity firms including H.I.G. Capital, Lightyear Capital, and Trilantic Capital Partners revealed that the integration rainbow is littered with pitfalls that can befall even the most well-matched of mergers: "A lot of executives make the mistake of believing the end of the project plan marks the end of the integration, but there's still much more work to be done in order to achieve the real benefits of the merger. Full integration probably takes three times as long as you'd think. Acquiring companies need to have the persistence to see it all the way through. Many don't."

The roundtable further identified seven imperatives to integration success.

7. Size Doesn't Matter: Or, at least, not as much you might think. "Time, effort and complexities are much more related to scope than scale." In a scale acquisition, the buyer seeks an enlarged presence in a particular market and targets a competitor in a related sector. "Even when we are talking about two giants, this is usually a more straight-forward deal. Integration is easier if it's an adjacency to what you have in your portfolio today."

Scope buyers, on the other hand, often use their acquisition as a springboard into new and

unfamiliar territory. "Because these deals are less about streamlining operations and exploiting cost synergies, the investment of time to win over the hearts and minds of management, to explain the vision behind the acquisition, will be far more significant." That holds true even when the size of the companies merging would suggest otherwise. "We had a Goliath in industry A swallowing up a David in industry B. Because it was a scope deal, it was critically important for the management team to feel good about coming into a new environment, and so we spent far more time massaging the David integration than we would have suspected based on deal size alone."

6. Start at the Beginning: Or, in deal speak that would be the at the CIM (confidential information memorandum). "Is this a time to get into the weeds on merger integration planning? No. Too much resource allocation too early on is an unsustainable model against aggregate deal success. But, the outset of the transition process is the time to make reasonable and conservative integration expectations, such as: revenue and expense synergies, operating expense and capital expenditure integration budgets, and integration timelines."

The truth is, however, many of the initial evaluations now happen before, well, the beginning. "It's very rare that we will get a CIM that's the perfect fit for one of our portfolio companies around which we don't already have a perspective. Either that's because we always vet the market for add-on acquisitions or because, as is happening with more frequency, prospective acquisitions will actually call us with a synergy plan. For example, we just bought the number one player in a market and the number two player called us and said 'we're doing a couple million bucks in Ebitda, but we can deliver you more than double that through synergies and here's a corresponding cost plan.'"

5. The PMO VIP: Who heads the PMO (Project Management Office) may be just as

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Is this a time to get into the weeds on merger integration planning? No.

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“
Employees
don't want to
hear from
Mr. Wall Street
PE guy.
They want to
hear from their
CEO/
management.
”

important a decision as whether to have one in the first place. On the latter question, having one is always the ideal state. Certainly there are those rare portfolio companies that have the internal skillset to be a self-sufficient acquisition machine, and where, given the internal dynamics and competencies of management, a PE-supplied PMO is not necessary. “But, ideally, we would have a dedicated PMO in every situation, even if it's a small tuck-in, because you need someone bird-dogging the integration to realize the synergies and to get the basic integration stuff done. Otherwise, there's just too much work for any sort of management team to do.”

The merger is a shiny new toy that can distract from day-in-day-out operations; the PMO ensures it does not through the creation of a separate integration entity. But, who heads that entity? Someone who is senior, well respected, and has the credibility to spearhead integration efforts. Sometimes that person can be found in either the acquiring or absorbed companies. But just as often, even when that skillset is found, the necessary bandwidth is not. In those cases, it's best to look for either an external operations agent.

4. It's All About The People: Therein lies the 3 most important priorities of any integration effort: people, people, people. “A successful integration boils down to keeping most of the people that I want to keep.” If retention is the name of the game, then communication is best way to play. Intuitive as it may sound, it can be difficult to keep the workforce fully aligned.

Early and ongoing communication with employees is critical to deal success. “You want to tell your people off the bat, ‘Listen, we know it's going to be bumpy for a while, but here is what the end of the road is going to look like.’ And then you want to hug all of the people that you want to keep forever, and hug all of the people you want to keep at least through the transition.”

3. Look Who's Talking: The question then becomes: just who is doing that hugging? There are some PE professionals that believe

in the importance of institutional owner communication. That's particularly true in a CEO transition or in a carve-out scenario. “But, for the most part, employees don't want to hear from Mr. Wall Street PE guy. They want to hear from their CEO/management. So we plan a town hall schedule. We say to the CEO ‘sorry, not sorry, but for the next two months you will be on the road meeting with every single person face to face, communicating, our vision, our plans, their future.’ If they won't buy in to that, we won't buy.”

2. Have a Pen Pal: Communications, they say, is a two way street. Yes, you need ambassadors of the new message, but you also need sources for the on-the-floor, off-the-record feedback. “I call these guys my pen pals. When you go to a town hall tour with the CEO, what really happens is you take the regional leadership team out to dinner and they want to feel like the leader of their fiefdom within the organization. They like to hear themselves talk and that can be the most valuable way to hear the issues that are not bubbling to the surface.” These are the people to whom you, as intuitional owner, give your cell phone. These are the people whose calls you take.

1. Define Success: “One thing I've been surprised by is how people cling to structure. If you put together a very detailed governance plan, I've found that people respond well to being told what to do, which can be leveraged to accelerate integration activities.” It's a fair, sound statement, but the other side to that coin is less that they love a task list, and more that they respond well to knowing what success looks like. “People like knowing they have achieved something at the end, which is why distilling success down into concrete, measurable goals is paramount. If you can measure it, you can align to it. If you can measure it, you can communicate to it. If you can measure it, you can achieve against it.”

John Jureller is managing director at Accordion, the private equity financial consulting firm focused on the Office of the CFO.

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Stephanie Davies



Sarah Fitts



Li Han

New Hires and Promotions By Demitri Diakantonis

Chad Abraham was appointed to chief executive officer of **Piper Jaffray Cos.** (NYSE: PJC) effective January 1, 2018. Abraham, previously the firm's global co-head of investment banking and capital markets, succeeds Andrew Duff, who will remain chairman of the Piper Jaffray board.

Michael Axelrod has been named CEO at **Swander Pace**-backed **Passport Food Group**. He was most recently a president at TreeHouse Foods Inc. (NYSE: THS). Swander Pace invested in Passport, a manufacturer of internationally flavored foods, in 2017.

Victor Barcot has joined **Houlihan Lokey** (NYSE: HLI) as a managing director in the firm's oil and gas exploration and production group. Barcot, based in Houston, previously served as managing director at Deutsche Bank (NYSE: DB).

Todd Beauchamp was hired by **Latham & Watkins** LLP as a partner in the firm's Washington, D.C.-based payments and emerging financial services practice. Joining from Paul Hastings, Beauchamp holds experience in payments regulatory, complex transactional and corporate matters.

Jay Blackman has rejoined **Vinson & Elkins** as counsel based in Houston. Previously counsel at Willkie Farr & Gallagher LLP, Blackman represents private equity investors in M&A, dispositions and strategic investment transactions.

David Burdette has been promoted from vice president to director at **Prairie Capital Advisors**. Based in Atlanta, Burdette specializes in transaction financing, M&A and ESOP analysis. He previously worked as a manager at Willamette Management Associates.

Cheryl Carner has been promoted to senior managing director at **Solar Capital**-backed **Crystal Financial**. She focuses on business development and underwrites financing for mid-market companies that need capital for M&A.

Datuk Ben Chan joined **Ontario Teachers' Pension Plan** as a managing director to lead the

firm's deal activity in the Asia-Pacific region. Chan was previously with Khazanah Nasional Berhad, the sovereign wealth fund of Malaysia.

Stephanie Davies has joined New York-based **Stout Risius Ross LLC** as co-head of sponsor coverage in the firm's investment banking group. Prior to Stout, Davies was the head of business development for Staple Street Capital.

Steve Dearing was hired by **Stephens Inc.** as a New York-based managing director. Joining the firm's equity capital markets team, Dearing has more than 30 years of experience in transactions covering the transportation, industrial, healthcare, technology, media, energy and real estate sectors.

Mark Emrich has joined **Murray Devine Valuation Advisors** as a managing director in the firm's New York office. Previously working in the same capacity at Anagenesis Capital Partners, Emrich leads Murray Devine's New York business development activities with a focus on alternative investment firms and intermediaries.

Sarah Fitts has joined **Schiff Hardin's** New York office as a partner. Previously with Debevoise & Plimpton, she focuses on M&A in the energy sector.

Ryan Flanders was hired by **Monroe Capital** as vice president, where he will serve on the firm's investor relations team. Flanders was most recently the head of private debt products at Preqin.

Andrew Fulford has been named vice president of corporate development at St. Louis investment firm **HBM Holdings**. Fulford was most recently with Graybar Electric Co. HBM invests in middle market businesses that have up to \$25 million in Ebitda.

Gene Gorbach has been promoted from senior associate to investment partner at middle market private equity firm **Arsenal Capital Partners**. Gorbach joined the firm in 2008 and serves on the board of three healthcare companies, including: BioVT, TractManager, and WCG. He has previously worked at American Capital, Madison Dearborn Partners and J.P. Morgan (NYSE: JPM).

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People



Caroline Jury



Michael Nolte



Blake Otte

TJ Graham has joined **Cooley** as a partner in the firm's technology group. He focuses on M&A and corporate divestitures that involve software with consumer products and digital media. He was previously with Wilson Sonsini Goodrich & Rosati.

Former Food Network CEO **Erica Gruen** joined **Oaklins DeSilva-Phillips** as a senior advisor. Gruen is known for introducing shows such as the Iron Chef and Emeril Live.

Li Han has joined **O'Melveny's** Hong Kong office as a partner. Previously the general counsel of Shanda Group, Han focuses on private equity and M&A.

Wade Hansen has joined Los Angeles-based **Intrepid Investment Bankers** as a managing director where he will focus on M&A in the healthcare, technology and digital media sectors. He was previously the co-founder of MHT Partners and founder of Cabrillo Advisors.

Tyler Harrington has been promoted to managing director at **Crystal Financial**. He concentrates on underwriting and portfolio management.

Scott Hauncher was hired by **Huron Capital** as a partner. Most recently with Superior Capital, Hauncher focuses on investments in the manufacturing and business services sectors.

Richard Hooper has been named CEO of **SK Capital**-backed **Tri-Tex**, a Saint-Eustache, Quebec-based producer of adhesives and sealants. He replaces Natalie Laham, who will stay with the company as a minority shareholder. Hooper was mostly the CEO of chemicals company SummitReheis, which was sold to Elementis Plc in 2017. SK Capital invested in Tri-Tex in 2017.

David Hunter joined Salt Lake City-based private equity firm the **Cynosure Group** as a managing director and head of investor relations. Hunter was previously with Partners Group.

Andy Hurd was hired by healthcare focused private equity firm **Cressey & Co.** as an operating partner in Chicago. Hurd mostly recently served as CEO of healthcare analytics company MedeAnalytics, which was acquired by Thoma Bravo in 2015.

Jim Hyatt has been named CEO at **Golden Gate Capital**-backed restaurant chain **California Pizza Kitchen**. Hyatt is the former CEO of Ruby Tuesday. Golden Gate acquired California Pizza in 2011.

Caroline Jury was hired by **Morrison Foerster's** London office as a partner. Most recently with Clifford Chance, Jury represents financial institutions and private equity firms on cross border M&A and lending.

Karin Kovacic has joined **Monroe Capital's** originations team as managing director, East Coast region. Prior positions included senior vice president at Alcentra Capital and roles at CBIZ Inc. and Fifth Street Capital.

Justin Lindsey was hired by **General Atlantic** as an operating partner, in New York. Lindsey is the former chief analytics officer of Bamtech Media, and he will help General Atlantic's portfolio companies leverage data and analytics in order to help drive revenue growth and make operational improvements.

Alexis Maskell was hired by **Citigroup Inc.** (NYSE: C) to co-head the firm's European, Middle East and African (EMEA) alternatives assets group, including private equity, sovereign wealth funds, pension funds and family offices. Based in London, Maskell was mostly the co-head of investment banking at HSBC, where he focused on private equity.

Ryan Mollett has joined **Angelo, Gordon & Co.** as global head of distressed debt. Mollett was previously with GSO Capital Partners, the global credit investment arm of Blackstone Group LP (NYSE: BX).

Wesley Nissen has been hired as a partner at Chicago-based **Neal Gerber Eisenberg**. Nissen works with family offices and asset managers on M&A and capital raising. He was previously with DLA Piper.

Michael Nolte was appointed as chief executive officer of **Bracket**, a clinical trial technology services provider backed by Genstar Capital. Nolte joins Bracket after served as CEO of Influence Health.

Brian Orkin has been promoted from principal to investment partner at **Arsenal Capital Partners**. Orkin joined Arsenal in 2010, and works in various business development and strategy roles on the

specialty industrials team.

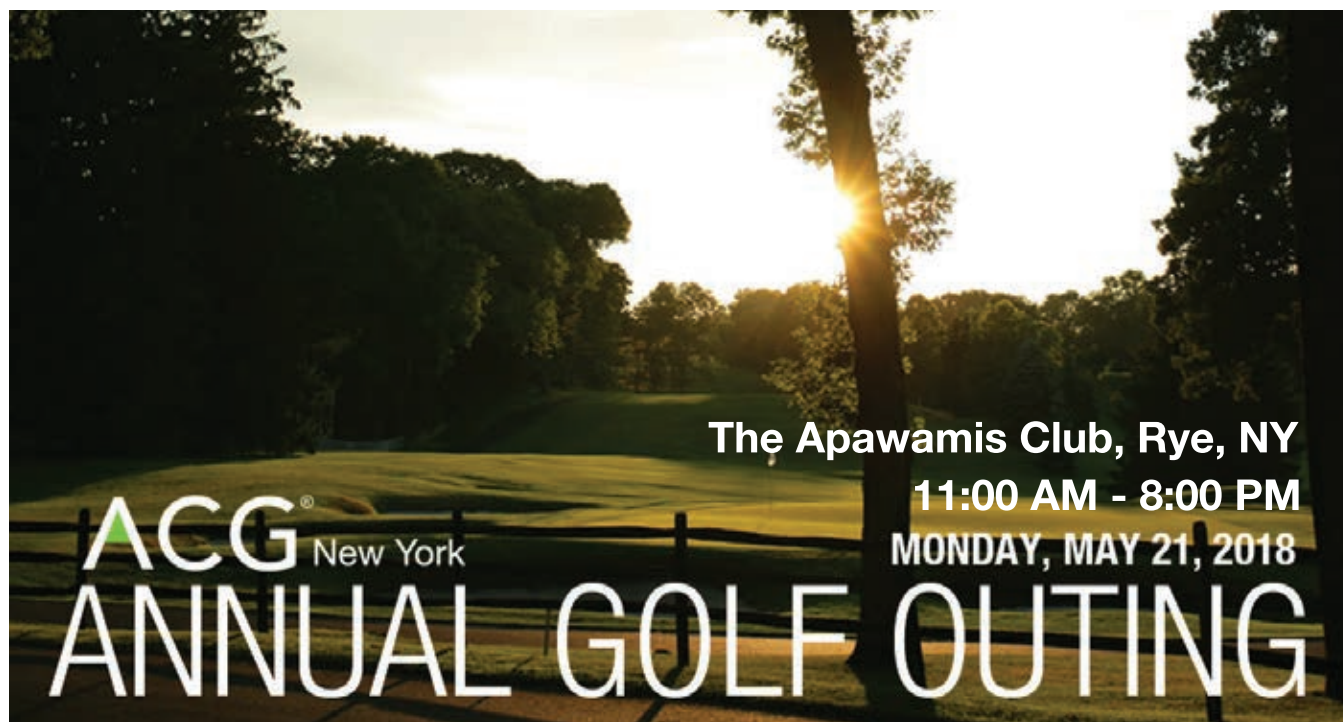
Blake Otte was hired by New York-based **Stout Risius Ross LLC** as co-head of sponsor coverage in the firm's investment banking group. Prior to Stout, Blake previously headed business development and capital markets at AloStar Capital for the Northeast region.

John Owen has been named chief financial officer at **PDC Brands**, which is backed by **CVC Capital Partners** and **Leonard Green & Partners**. Owen most recently served CFO of beverage company Beam Suntory. Stamford, Connecticut-based PDC is a beauty and personal

care company that owns the Cantu, Dr Teal's, Eylure and Body Fantasies brands. CVC acquired PDC in 2017.

Evren Ozargun has been promoted to senior managing director at **Crystal Financial**. He is responsible for managing a team of underwriters and portfolio managers, as well as working closely with Crystal's business development officers in assessing and structuring new deal opportunities.

Stephen Paras has joined **Star Mountain Capital** as a managing director. He was previously the head of U.S. leveraged loan capital market at Merrill Lynch.



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People



Debra Richman

Jonathana Pearce has been promoted to partner at Austin, Texas-based private equity firm **Blue Sage Capital**. He is responsible for sourcing and executing investment opportunities, and portfolio company monitoring.

Debra Richman was hired by **Alvarez & Marsal** as a managing director in the firm's healthcare group in New York. In her role, Richman, will advise payors and providers to hospital systems on revenue growth strategies. Richman was previously the vice president of healthcare business development and strategy for Nielson.

Kerr Robertson was hired by **William Blair** as a managing director based in the firm's recently-opened office in Charlotte, North Carolina. Previously a managing director at Wells Fargo Securities, Robertson holds experience advising private and publicly traded companies in the healthcare sector.

George Rupp was hired by **JCR Capital** as a managing director, where he will oversee the firm's fundraising efforts. Rupp was most recently with Kayne Anderson Capital Advisors. Denver-based JCR is a real estate-focused alternative investment firm.

Nikhil Sathe has joined Milwaukee-based logistics-focused advisory and consulting firm **Armstrong & Associates** as a managing director where he will lead its M&A group. Sathe most recently served as CFO at transportation provider Genpro.

Deb Schoneman has been promoted to president of **Piper Jaffray** effective January 1, 2018. Schoneman joined the firm in 1990, and most recently served as CFO and global head of equities. The CFO role is now assumed by Tim Carter.

Roy Seroussi has been promoted from principal to investment partner at **Arsenal Capital Partners**. Seroussi also joined the firm in 2008, and serves on the board of Cyalume Technologies, Inhance Technologies, Elite Comfort Solutions, and Polymer Solutions Group.

Elizabeth Kemery Sipes has joined **Perkins Coie's** Denver office as a partner. Previously with Bryan Cave, Sipes advises private equity funds, private investment funds and hedge funds.

Kenny Smith has been promoted to managing director at **Crystal Financial**. He is responsible for sourcing and structuring new transactions from private equity sponsors.

Robert Stein has joined **Akerman** as a partner in New York where he will co-chair the firm's corporate finance and lending practice. He focuses on leveraged buyouts and debt financing across the middle-market. Stein was most recently with Kirkland & Ellis.

Kanji Takenaka has been hired by **Ardian** as managing director and head of the firm's new Tokyo office. Takenaka joins the private investment firm with senior role experience at Simplex Real Estate and Fortress Investment Group.

Jason Urband was promoted from principal to partner at Denver private equity firm **Lariat Partners**. Urban focuses on investments in the consumer services, tech-enabled services and packaging sectors.

Christopher Vaughn has joined **Venable LLP's** corporate practice as counsel. Based in Baltimore, Vaughn focuses on domestic and international M&A, divestitures, debt and equity financings. Vaughn previously served in the U.S. diplomatic corps as a foreign service officer in the Office of the General Counsel of the U.S. Agency for International Development.

Mark Voccola was hired by **Ardian** as co-head of the firm's U.S. infrastructure group in New York. He was previously with Ares EIF, which was part of Ares Private Equity.

Eric Weiner has been promoted to partner at **Blue Sage Capital**. He is responsible for sourcing and executing investment opportunities.



Kerr Robertson



Kanji Takenaka



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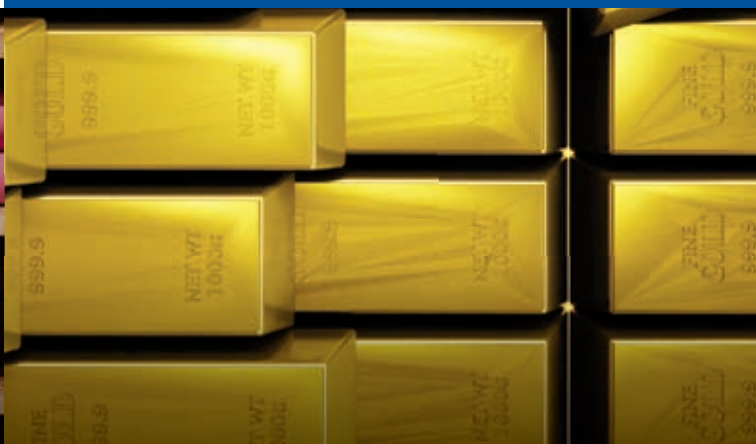
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