# MERGERS& ACCUSITIONS

**APRIL 2018** 

11TH ANNUAL MID-MARKET AWARDS

Lender of the Year: Founded in 2014, Twin Brook has made a rapid ascent in middle market lending.

Trevor Clark, co-founder and partner

The Middle Merket con

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\$5.6+ Billion
of committed capital

\$5.1 Billion commitments issued to date

164 closed transactions

Since 4th Quarter 2014 inception

<u>TwinBrook</u>

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# TwinBrook

CAPITAL PARTNERS

An Angelo, Gordon Company

\$392.2M



Joint Lead Arranger & Documentation Agent Add-On Acquisition



FEBRUARY 2018



Sole Lead Arranger & Administrative Agent Leveraged Buyout



FEBRUARY 2018

\$58M



Sole Lead Arranger & Administrative Agent Leveraged Buyout

LNC

JANUARY 2018

\$44M

#### Air Filtration Holdings

Sole Lead Arranger & Administrative Agent Recapitalization & Add-On Acquisition

the edgewater funds

JANUARY 2018

Experience matters.



Sole Lead Arranger & Administrative Agent Recapitalization



JANUARY 2018

\$52.2M

#### SouthEast EyeSpecialists

Sole Lead Arranger & Administrative Agent Add-On Acquisition

FLEXPOINT FORD

**NOVEMBER 2017** 



Sole Lead Arranger & Administrative Agent Leveraged Buyout



DECEMBER 2017

\$350M



Joint Lead Arranger & Co-Syndication Agent Add-On Acquisition

BEECKEN PETTY O'KEEFE & COMPANY

**NOVEMBER 2017** 

### **QSi**

Administrative Agent Recapitalization

**Facilities** 



DECEMBER 2017

\$77M



Sole Lead Arranger & Administrative Agent Growth Investment



**NOVEMBER 2017** 

#### \$50M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



**NOVEMBER 2017** 

\$61M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



**NOVEMBER 2017** 



Sole Lead Arranger & Administrative Agent Add-On Acquisition



**NOVEMBER 2017** 



Sole Lead Arranger & Administrative Agent Leveraged Buyout



**NOVEMBER 2017** 

HM McClain

Administrative Agent

Control Recapitalization

PARTHENON CAPITAL PARTNERS

Hanson

Advisors®

HILL BE



Administrative Agent Leveraged Buyout



OCTOBER 2017

\$40M



No. of Section

Sole Lead Arranger & Administrative Agent Refinance & Add-On Acquisition

CENTURY PARK CAPITAL PARTNERS

SEPTEMBER 2017

\$124M



Documentation Agent Recapitalization



SEPTEMBER 2017

\$72M



Sole Lead Arranger & Administrative Agent In Support of Investment by

the edgewater funds

SEPTEMBER 2017

#### **Z-MEDICA**

Sole Lead Arranger & Administrative Agent Acquisition

LINDEN

SEPTEMBER 2017

SEPTEMBER 2017



nadams@wilmingtontrust.com 302-636-6103



**BRANDON HORAK** 612-217-5643



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# MERGERS & ACQUISITIONS Contents

April 2018 | Volume 53 | Number 04



# Cover Story 11th Annual Mid-Market Awards

Trevor Clark and team have built Twin Brook into a lending powerhouse.



#### Watercooler

- 6 Consumers demand fresh ingredients
- 7 CenterOak forms auto glass repair platform
- Splunk's cybersecurity play
- 10 AEI makes another add-on deal
  - Bosch eyes U.S. ride-sharing market

#### **Columns**

- 12 The Buyside
- 14 Finance Finesse



#### **Guest Articles**

- 42 How tax reform will boost midmarket M&A
- 46 The analytics advantage

#### Data

- 44 Most active investment banks
- 48 Data snapshot
- 24 **M&A Secene:** Frazier & Deeter golf event



#### **Inside Word**



#### Kudos!

The winners of Mergers & Acquisitions' 11th Annual Mid-Market Awards expanded their businesses significantly and led the way in innovation and thought leadership. Many forged new strategies for connecting the M&A community – and expanding membership in it – themes that took on more urgency than ever, as professionals in all industries challenged what had been business as usual.

**Deal of the Year: Stryker** for the \$680 million purchase of surgical imaging technology provider Novadaq, signaling the medical device maker's prowess in wielding M&A not just to grow existing businesses but also to enter new markets.

**Dealmaker of the Year: Randy Jacops**, CEO of database software developer Idera, for growing the company through several acquisitions in 2017 and recapitalizing the company with new majority stake owner HGGC in a \$1 billion deal.

**Private Equity Firm of the Year:** LLR Partners for impressive growth in transactions and firm development and for pioneering innovations in portfolio leadership support, including original content and networking events.

**Investment Bank of the Year: William Blair** for achieving significant growth, including exceeding the previous year's deal value by nearly 75 percent, culminating five years of investments in the firm's growth.

**Seller of the Year: Huron Capital** for an active year completing 21 transactions, including three exits, and for raising a new fund and a new investment capability to do non-control equity investments.

**Strategic Buyer of the Year: Campbell Soup** for leveraging acquisitions, such as Pacific Foods, to ensure the company known for comfort food for nearly 150 years remains relevant to millennials and future generations.

**Law Firm of the Year: McGuireWoods** for leadership in two key areas, connecting independent sponsors with capital providers and bringing women dealmakers together, as well as for solid growth in dealmaking.

**Lender of the Year: Twin Brook** for achieving tremendous growth, including doubling deal value from the previous year, raising a second fund of \$2.3 billion and building the three-year-old firm into a major source of loans.

Mary Kathleen Flynn

Editor-in-Chief

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April 2018

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M&A Mid-Market

Awards

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### **TwinBrook**

CAPITAL PARTNERS

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\$74.5M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



SEPTEMBER 2017

\$25M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



Waud Capital

SEPTEMBER 2017

\$205M



Documentation Agent Recapitalization



AUGUST 2017

\$44M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



JULY 2017

Redwood Dental

Sole Lead Arranger & Administrative Agent Leveraged Buyout



JULY 2017

ENVIR® VAC

Sole Lead Arranger & Administrative Agent Leveraged Buyout



JULY 2017

\$98M



Sole Lead Arranger & Administrative Agent Add-On Acquisition



JULY 2017

\$55M



Administrative Agent Leveraged Buyout

FRAZIER HEALTHCARE PARTNERS

**JULY 2017** 

NATIVE MAINE PRODUCE & SPECIALTY FOODS

> Sole Lead Arranger & Administrative Agent Refinance



RLJ EQUITY PARTNERS

JULY 2017

GROUP

Sole Lead Arranger & Administrative Agent Add-On Acquisition



JULY 2017

swipeclock

Sole Lead Arranger & Administrative Agent Leveraged Buyout



JUNE 2017

CHANIA!

Sole Lead Arranger & Administrative Agent Leveraged Buyout

BPOC-12

MAY 2017

\$80.4 M



Sole Lead Arranger & Administrative Agent Add-On Acquisition



MAY 2017

\$52M



Sole Lead Arranger & Administrative Agent Leveraged Buyout



MAY 2017

\$80.5M



Sole Lead Arranger & Administrative Agent Growth Buyout

CAPITAL PARTNERS

MAY 2017

\$65M



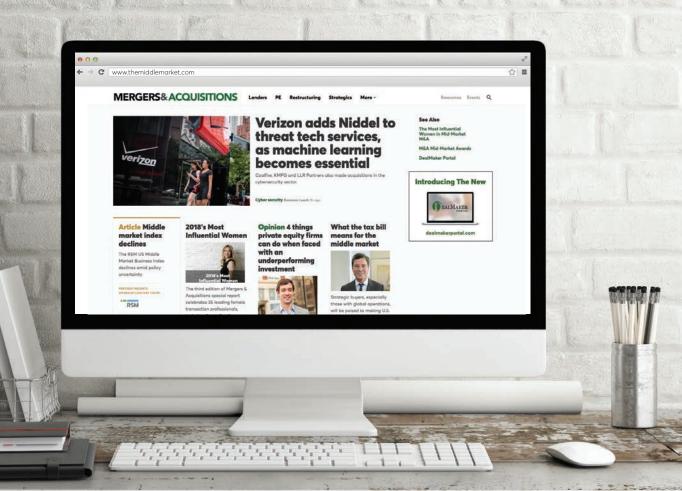
Sole Lead Arranger & Administrative Agent Refinance & Add-On Acquisition

**Spire**Capital

MAY 2017

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# What's going on @ TheMiddleMarket.com



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#### **Sector Focus**

Specialty Industrials Consumer Goods & Services **Business Services** 

### Consumers demand fresh and natural ingredients

onsumers are more focused than ever on the impact of food on their own health, as well as on the health of the environment, and they are flocking to restaurants that provide ingredients considered fresh and "natural." That is one one of the reasons ButterFly Equity bought farm to table fast casual restaurant chain Modern Market.

Modern Market, headquartered in Denver and founded in 2009, operates 28 fast casual restaurants across Colorado, Texas, Arizona, Washington, D.C. and Maryland. The company's menu focuses on "healthy, high quality, sustainably-sourced, scratch-made fare at an atrtactive price point." Some of Modern Market's food items feature: a curry salmon bowl, farmer salads and whole grain Belgian waffles that use cage free eggs and are made from scratch everyday, served in a "highly-convenient format well-suited to meet the rapidly-changing demands of the modern restaurant consumer."

"We believe that Modern Market's offering is increasingly representative of the way that modern restaurant-goers prefer to eat," says Butterfly co-founder Dustin Beck. Butterfly is a Los Angelesbased private equity firm that focuses on the food and beverage, foodservice and agriculture sectors.

Restaurants are scrambling to meet new demands from diners who want cuisine they believe is healthy, responsiblysourced and budget-friendly. Those types of restaurants are attracting buyers. TPG Growth acquired a majority stake in farm to table restaurant chain Mendocino Farms from L Catterton; New York fast casual restaurant operator Fresh&co, which features seasonal organic cuisine at its 10 Manhattan locations, bought a 35-acre farm on Long Island; and Advent International bought a majority stake in breakfast café operator First Watch



Restaurants, which offers a mix of farmto-table and "indulgent" menu choices, from Freeman Spogli & Co.

Piper Jaffray Cos. (NYSE: PJC) and Davis Wright Tremaine advised Modern Market. Kirkland & Ellis represented Butterfly. Financial terms of the deal were not disclosed.

-By Demitri Diakantonis

### Investment management to see an uptick in M&A

018 could bode well for the investment management (IM) sector. The industry could see an increased effort by strategic buyers and investment firms to bolster technology infrastructure through add-on acquisitions, according to an M&A outlook study by Deloitte Touche Tohmatsu Ltd.

Overall, 2017 delivered solid M&A activity for IM businesses, with the average deal value increasing to \$324.4 million from \$191 million in 2016. To the same effect, the number of deals

increased from 186 to 219 in 2017. SoftBank Group Corp., led by CEO Masayoshi Son, acquiring alternative-asset manager Fortress Investment Group LLC

for \$3.3 billion in cash was among 2017's largest deals in investment management. KKR & Co. (NYSE: KKR) and Stone Point Capital's purchase of Focus Financial Partners for \$2 billion also made the list as one of the larger deals in the sector in 2017.

"We anticipated the increase in deal volume based on three key factors," the study says, touting "collapsing margins experienced by IM players in

general; internal cost pressures arising from long-overdue front- and middleoffice technology upgrades; and external regulatory demands."

Dealmakers surveyed by Mergers & Acquisitions in 2017 also anticipated M&A in financial services and IM to pick up, citing the uncertainty regarding regulatory matters to be "short-lived." Pricing pressure and regulations constraining leverage for investment management firms will continue to be major factors in 2018, forcing key players to "include M&A in their toolbox of 2018 cost transformation levers," according to Deloitte's study.

Potential buyers and sellers should anticipate firms to pursue bolt-on acquisitions to strengthen infrastructure, drive back-office efficiencies and fill gaps in core product offerings to customers. The uptick in M&A and consolidation can be seen as a "means to build muchneeded scale, especially with more businesses being sold to non-bank owners given the more challenging and restrictive regulatory environment for investment managers owned by banks."

2018 deals involving financial services and investment managers include: Veritas Capital's purchase of the U.S. public sector business from PricewaterhouseCoopers LLP; Oaktree Capital Management making a \$250 million joint-investment in asset management firm Kudu Investment Management LLC; Blackstone Group LP (NYSE: BX) leading a majority stake acquisition deal for Thomson Reuters Corp.'s financial and risk division; and Goldman Sachs' (NYSE: GS) potential purchase of personal finance startup Clarity Money.

-By Kamaron Leach

### CenterOak forms auto glass repair platform

enterOak Partners LLC has formed a new operating company called TruRoad Holdings Inc. through the investments of JN Phillips Auto Glass and Techna Glass Inc. The PE firm formed TruRoad with capital raised from its initial \$420 million fund.

TruRoad will focus on two segments: auto glass repair and insurance claim services. The company will operate under the JN Phillips Auto Glass, Techna Glass, Windshield Centers, and Harmon Auto Glass brands. TruRoad will serve consumers, insurance companies and fleet operators, and will have offices in Woburn, Massachusetts, Burlington, Massachusetts, and Sandy, Utah.

"We are excited to create TruRoad and be a part of a transformational transaction in the on-demand auto-service and claims management industry and invest alongside the management teams of these two great companies," says CenterOak managing partner Randall Fojtasek.

CenterOak is a Dallas-based private

equity firm that makes control investments of up to \$90 million in equity to back middle market businesses in the industrial



growth, consumer and business services sectors. The private equity firm backs U.S. companies that have between \$50 million to \$250 million in enterprise value.

-By Demitri Diakantonis

### Why buyers like healthcare analytics

In today's climate, medical professionals are looking to reduce costs while improving patient results. That is one of drivers attracting buyers, including R1 RCM Inc. (Nasdaq: RCM), to healthcare data providers.

R1 has reached a deal to acquire Intermedix Corp. for about \$460 million. Nashville-based Intermedix provides data analytics to more than 15,000 healthcare providers across the U.S. The target generated \$193 million in revenue in 2017 and an adjusted Ebitda of \$48 million.

"We believe the next chapter in healthcare is one of revenue cycle transformation, where an enterprise-wide approach will simplify and contribute to the way patients interact with the revenue cycle," says R1 CEO Joseph Flanagan. The deal does not include Intermedix's emergency preparedness business, which

### Splunk's cybersecurity play

plunk 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."

In another cybsercurity-related deal, LLR Partners' bought cybersecurity software provider BluVector from Northrop Grumman Corp. (NYSE: NOC).

—By Demitri Diakantonis

April 2018 MERGERS & ACQUISITIONS 7

will become a separate Thomas H. Lee Partners-backed company after the acquisition closes.

"We believe our health system and physician practice partners will more easily connect revenue cycle operations across all points of care, improving the patient and physician experience while improving revenues and reducing costs," adds Flanagan. Chicago-based R1 offers software to hospitals and physicians that is designed to help them manage their costs and stay in regulatory compliance.

In other healthcare data deals, EQT has agreed to acquire a majority stake

in healthcare technology provider Certara; Francisco Partners made a growth equity investment in healthcare information company Availity; Fidelity National Financial Inc. (NYSE: FNFV) has agreed to buy medical software and documentation provider T-System Holdings; and New Mountain Capitalbacked Ciox Health acquired data service company Arrohealth.

Bank of America Merrill Lynch and Kirkland & Ellis are advising R1. Evercore Inc. (NYSE: EVR) and Weil Gotshal & Manges are advising Intermedix.

-By Demitri Diakantonis

# Despite Obamacare uncertainty, PE firms invest in healthcare

ealthcare was the only sector in the U.S. to receive more private equity dollars in 2017 than 2016, despite the U.S. PE industry's record-breaking year for fundraising.

Private equity investments in U.S. healthcare totaled \$83 billion, up from \$72 billion in 2016, according to the American Investment Council's 2017 Q4



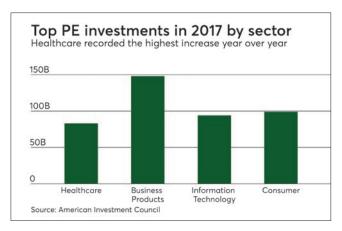
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Industry Investment Report. Overall, private equity invested \$542 billion in the U.S. in 2017, down from \$646 billion of

investments in 2016.

"Healthcare recorded the highest increase in investment year over year despite some uncertainty in the industry," said Bronwyn Bailey, AIC's vice president of research and investor relations.

Private equity investment for the year in the seven sectors tracked by AIC was concentrated in business products and services, with \$148 billion; consumer products and services, \$99 billion; and information technology, \$94 billion. The other three sectors, energy, financial services, and materials and resources, totaled \$118 billion in investments.

While the overall level of PE investment was down in 2017, the number of deals remained roughly in line with deals and investment volumes seen in previous years, AIC reported. The largest decline in PE investment was in information technology, with investment in the sector down \$71 billion from 2016. PE



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April 2018 MERGERS & ACQUISITIONS 9

investment in financial services was \$45 billion in 2017, down \$17 billion from the year before. The investment declines were modest for the other sectors.

For the fourth quarter of 2017, the top three healthcare PE investments were in the middle-market range, according to AIC: PharMerica, a pharmacy provider to institutions, at \$910 million, backed by Kohlberg Kravis Roberts & Co. and the Walgreens Boots Alliance; Young Innovations, a dental supply and equipment company, at \$770 million, sponsored by Linden Capital Partners and the Jordan Co.; and ZirMed, a healthcare technology company, at \$750 million, sponsored by Bain Capital, and Navicure, which received an investment from Bain.

-By Keith Button

### **AEI makes another add-on for Applied Composites**

Applied Composites Holdings, a portfolio company of AE Industrial Partners, has acquired aerospace composites maker San Diego Composites, its third acquisition in four months.

AE Industrial Partners, a Boca Raton, Florida, private equity firm, invests in aerospace, power generation and specialty industrial companies. San Diego Composites designs and produces composites in San Diego for the aerospace and defense industries. It has produced composite structures for NASA's Orion spacecraft and Raytheon missile systems.

AE Industrial's platform company, Applied Composites Holdings, was comprised of three aerospace and defense composites suppliers prior to the latest deal: AC&A Enterprises, Applied Composites Engineering Inc. and Applied Composite Structures Inc., which was formerly EnCore Composite Structures.

Rob Kolozs, co-founder and CEO of San Diego Composites, says his company had worked for years with AC&A prior to the deal. "Joining Applied Composites is an ideal strategic fit and natural next



step in the progression and growth of our business," he says.

AE Industrial formed what is now called Applied Composites Holdings starting in 2016 with its purchase of AC&A, maker of parts and tooling for aerospace, defense, space and specialty automotive companies. In months, the portfolio company picked up Applied Composites Engineering and EnCore Composite. Applied Composites Engineering in Indianapolis provides original composites to equipment manufacturers in aerospace and defense. EnCore, of Brea, California, designs and manufactures complex composite parts and assemblies for commercial passenger jet planes and military programs.

-By Keith Button

#### Bosch eyes U.S. ridesharing market

obert Bosch GmbH is joining the likes of Uber Technologies Inc., Lyft Inc. and Via Transportation

Inc. in its quest to join the popular ridesharing service industry. The Germanbased technology company has acquired U.S. carpooling start-up Splitting Fares Inc. for an undisclosed amount.

Founded in 2014, Splitting Fares is a technology designer and developer of a

social ride-sharing app that identifies and connects people with similar travel routes. The Detroit-based target received early investments from Verizon Communications Inc. (NYSE: VZ), Wells Fargo & Co. (NYSE: WFC) and venture capital firm Fontinalis Partners LLC, which is owned by Ford Motor Co. (NYSE: F) executive chairman Bill Ford.

The target's mobility services app strategically connects with businesses, universities and municipal entities to offer their communities and workforces ride-sharing capabilities. As part of the deal, Splitting Fares will become a part of Bosch's newly created division called Connected Mobility Solutions, as the buyer seeks to expand its reach in the ride services and connected vehicles markets.

"Increasingly, smartphones are becoming the most important means of travel," says Markus Heyn, a member of the Bosch board of management. The company signals that "connecting road users and modes of transportation is making flexible, multimodal mobility possible in a matter of seconds," while everyone can decide how they want to travel.

Bosch is a global provider of tech services and technology through its many subsidiary segments, including: mobility, industrial technology, consumer goods, and energy and building technology. The buyer manufactures a variety of products includes diesel systems, electrical drives, and automotive electronics.

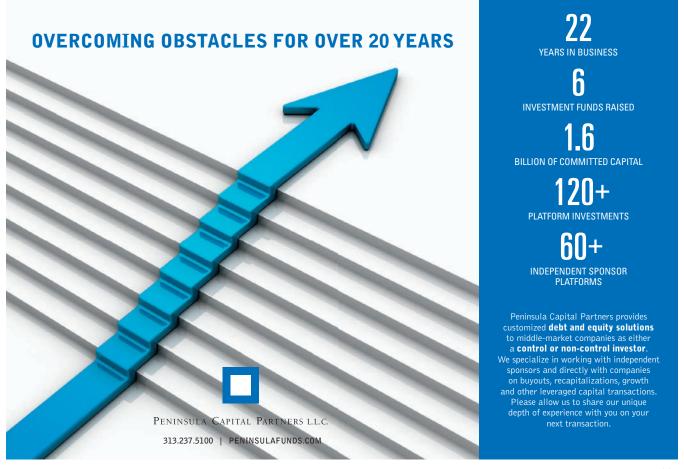
Bosch's push into ride-sharing and



related-services creates a compelling business relationship for some of the buyer's auto parts customers such as Uber and Didi, which are also working on self-driving cars. The German-based buyer recently announced that it would start testing self-driving cars that it has begun developing with Mercedes-Benz owner Daimler AG.

Tech deals have been a driving and consistent source for M&A over recent years, especially as the demand for mobile technology has shifted how millennials and baby boomers live their lives. Related deals involving mobile technology include: Qualcomm Inc.'s (Nasdaq: QCOM) \$47 billion agreement to purchase NXP Semiconductors NV (Nasdaq: NXPI) to expand beyond the smartphone market; Twitter's (NYSE: TWTR) acquiring Magic Pony Technology to improve video and image quality in tweets; and AT&T Inc.'s (NYSE: T) purchase of video content company Quickplay Media Inc. from Madison Dearborn Partners for the company's Internet video streaming service.

-By Kamaron Leach



April 2018 MERGERS & ACQUISITIONS 11

### The Buyside



### A. Schulman expands Lyondellbasell further into consumer goods

By Demitri Diakantonis

"

This combination will allow us to serve high-growth end markets beyond the automotive sector.

"

yondellBasell Industries NV (NYSE: LYB) will use the pending \$2.25 billion acquisition of plastics products producer
A. Schulman Inc. (Nasdaq: SHLM) to expand beyond packaging for auto parts into other sectors such as consumer electronics. A handful of strategic buyers are using M&A to broaden their product lines in the chemicals and plastics space.

Rotterdam, Netherlands-based LyondellBasell makes polymer products that are mostly used

in food packaging and automotive parts. The company has 55 manufacturing facilities across 17 countries. The addition of A. Schulman will give LyondellBasell a stronger presence in the electronics, construction agriculture industries. A. Schulman, located in Akron, Ohio, makes thermoplastic materials. In addition agriculture and 7 construction, the target = also offers its products to the energy, personal care,

electronics and sports and leisure sectors.

"The acquisition of A. Schulman is a natural extension of our current platform. This combination will allow us to provide our customers with a wider range of innovative solutions while adding the ability to serve high-growth end

markets beyond the automotive sector, such as packaging and consumer products, electronics and appliances, building and construction, and agriculture," says LyondellBasell CEO Bob Patel.

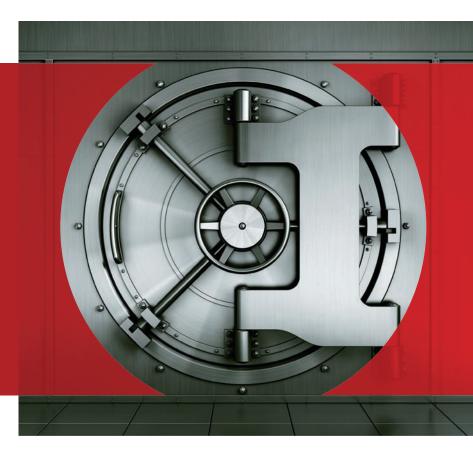
Other strategic buyers expanding their business lines include: Consumer packager Berry Global Group Inc. (NYSE: BERY) completing its \$475 million purchase of Clopay to expand into healthcare. In 2017, Loews Corp. (NYSE: L) paid \$1.2 billion for Consolidated Container Co. from Bain Capital Private Equity to form a



new division called Loews Packaging Group.

J.P. Morgan (NYSE: JPM), Dyal Co. and Shearman & Sterling are advising LyondellBasell, Citigigroup (NYSE: C) and Skadden Arps Slate Meagher & Flom LLP are advising A. Schulman.

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### **Finance Finesse**



#### NVCA provides tools to stamp out sexual harassment

By Kamaron Leach

he National Venture Capital Association (NVCA) is spearheading efforts to address the sexual harassment issues looming across the industry, and is standing firm that "harassment of any kind has no place" in the VC world. The Washington, D.C.-based trade organization has released a set of resources and guidelines for venture firms, startup companies and limited partners to adopt in order to get ahead of the epidemic that has permeated the sector for far too long.

NVCA's resources intend to curb harassment and discrimination with documents that include: sample human resource policies, sample best practice guidelines and code of conduct policies as well.

The association responded to the industry's plague after "speaking with many of the victims, collecting recommendations via an online form, and organizing a workshop in San Francisco" bringing together more than 60 industry professionals from managing partners to human resource leaders

Dave McClure, the former CEO of 500 Startups, is most notably one of the many venture capital professionals to step down following allegations of misconduct in the workplace. Justin Caldbeck, co-founder of Binary Capital, had also stepped down after a report accused Caldbeck of making unwanted advances toward half a dozen women.

"Harassment of any kind has no place in our industry, and it remains incumbent upon NVCA to help lead our community towards positive outcomes to address it," states NVCA chief executive officer Bobby Franklin. "We encourage all VC firms to review these model documents and operationalize them into their organizations and existing policies as well as share them with their portfolio companies. With the release of these tools and resources, we've taken a positive step forward to address sexual harassment and create a more welcoming industry, but more work remains to strengthen venture capital for the better."

More work is indeed needed to address the harassment and discrimination issues that have lasted for decades, and NVCA's efforts are a step

in the right direction. Some firms, like Union Square Ventures and First Round Capital, and have recently added female partners for the first time.

Rebecca Kaden Spined Union Rebecca Kaden
Square Ventures in
October 2017, while Hayley Barna joined First
Round in November.

In an industry where men represent approximately 90 percent of investment partners at venture capital firms, according to a 2016 NVCA report, it's a sign that the VC world is slightly improving in terms of diversity though minority recognition should be the next step.

"You cannot have a diverse ecosystem without diverse talent," said Rodney Sampson, the inclusion and equity partner at TechSquare Labs, during a one-day diversity summit hosted by 500 Startups in June 2017. MA

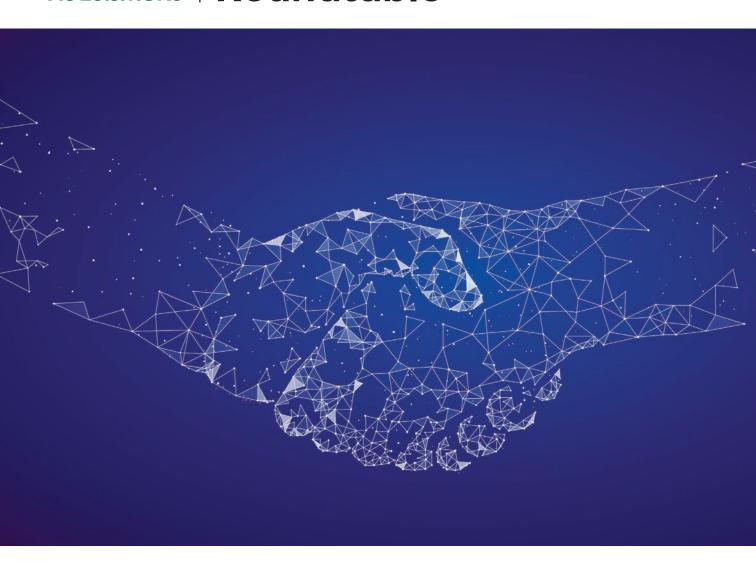


Harassment of any kind has no place.





### MERGERS Roundtable



## The role of technology in the evolution of the private equity industry







MODERATOR **Danielle Fugazy**Moderator, *M&A* 

As the private equity industry reaches maturity it has become increasingly difficult for private equity firms to get ahead of the competition. However, in an effort to get a leg up on the competition, many private equity firms are turning to technology. The strategy makes perfect sense: technology is known for creating efficiencies and streamlining processes in many industries. That said, while private equity is starting to adopt technology, the process has been slow despite the fact that various technologies could help generate out-sized returns that limited partners have come to expect. To discuss the issues, Mergers & Acquisitions brought together a number of private equity professionals. What follows is an excerpted version of the conversation, which explored what technologies private equity firms are adopting, how they are helping in the value creation process, what technologies PE firms are missing out on and what the impact will be going forward.

#### PARTICIPANTS:

**Eric Feldman,** Chief Information Officer, The Riverside Company

**John Kim,** Managing Director, H.I.G Growth Partners

**Rich Lawson**, Chief Executive Officer, HGGC

**Rahul Puri,** Global Head – M&A, Private Equity & VC Practice, NetSuite | Oracle



### Danielle Fugazy: At the firm level, what role does technology play in private equity today?

Eric Feldman (Riverside): At Riverside, technology is essential to our operations. Within the company, there are many core platforms, which support all aspects of our business. CRM for our deal sourcing and fundraising/investor relations efforts, a proprietary portfolio company tracking and management platform and then our critical back office systems, which support departments such as fund accounting, human resources, marketing and compliance. Operating a fund in just Excel today isn't possible and having the capabilities and skills in place to support integrations for data modeling and analysis is very important.

Given the proliferation of cloud-based systems, having the right strategies in place is critical. In addition to defining internal requirements and considering critical touchpoints between disparate systems, the private equity world must wrestle with the changing regulatory and legal landscape. Where data is stored matters more than ever, which GDPR and other data privacy regulations have made abundantly clear. Limited Partners are also weighing in with standards such a

are also weighing in with standards such as ILPA to help create standard views of reporting data. Technology aligned with clear processes and procedures can introduce efficiencies to help private equity firms stay compliant and competitive. Technology is the foundation supporting all of this, but if not applied correctly or well thought out it will become a hindrance.

John Kim (H.I.G. Capital): At H.I.G. Capital, we are a big user of Salesforce. We took Salesforce and modified it to meet our needs. It helps us track deals and companies — not only current, but historical. Every company that we have contacted, whether it's through a banker or directly, is tracked. We have about 400 professionals scattered across two or three dozen offices in three continents so it is important for us to have a central repository that we can go back to and



"Operating a fund in just Excel today isn't possible and having the capabilities and skills in place to support integrations for data modeling and analysis is very important."

Eric Feldman, Chief Information Officer, The Riverside Company understand the different touch points that different professionals may have had with that company through time.

We also track our banking and deal source relationships through Salesforce. We assign an individual to each account. We track how often we call on them and how often they have shown us deals.

Rahul Puri (NetSuite | Oracle): Forget whether it is ERP, HR, or even fund accounting—we've seen a general investment trend moving more to cloud-based systems. There are a lot of the funds that are seeing their portfolio companies move from manual, antiquated, on-premise systems to a cloud-based system. And the funds are starting to say, wait a second, all this technology is available that we can implement quickly and efficiently and with minimal disruption? We have to use this ourselves. In the last year, there have been about 15 funds that we worked with to help them move from a very manual system to a more scalable platform like NetSuite.

Fugazy: Would you say you're seeing the majority of private equity firms moving toward using technology at the firm level?

**Puri:** We work with a lot of firms where they have two or three analysts working on just getting reports from every portfolio. They have 40 tabs in an Excel spreadsheet with at least 10 to 15 metrics that they want to track. Yes, you can spend \$150,000 on an analyst to create that report and it will go out every Friday, every month end, every quarter, and at year-end. But by the time the data comes to me, is it real time and totally accurate? The technology and systems are now there and easily available to make this happen in real time with no errors. Now it is becoming cheaper, quicker, faster to deploy and I think that's what is driving a lot more adoption.

Feldman: Over the last three years, cloud solutions have really transformed how Riverside operates. Riverside is not interested in being in the business of hosting systems. It's not a core competency nor should it be. Leveraging cloud platforms, be it private cloud, softwareas-a-service or infrastructure-as-a service, is the direction we are moving. The ability to integrate data across cloud services has advanced over the years making it easier to leverage well-defined APIs and pull data from multiple systems for report creation and analysis. Transition to the cloud is of interest to our portfolio companies as well. Gone are the days when a small company should be hosting their email infrastructure in a small closet within their office, for example, so transitioning to cloud-based services that specialize in this is our preference.

Rich Lawson (HGGC): It is available now to every firm, so the question becomes how do you use that availability of data? I look at it in a couple different places, investor relations, our administration and fund level accounting, which we outsource. What I find fascinating in terms of building a private equity firm is that there was a time when we used to have everyone be responsible for relationships. We had created our own in-house database. What would happen is everyone would pile into it and there was tons of data, but it was really hard to figure out what was actionable. And then people would get busy on deals and they would forget to update it. User error always occurred for us. Instead, we ended up creating dedicated in-house groups. It was very challenging because most people on the deal side of the business want to own their relationship, but that creates an atmosphere of a bunch of independent contractors and that's not what we are. We are a firm. When we got to this point technology began to be very, very useful for us. Our dedicated in-house group is monitoring all inbound and outbound deal flow. I think we closed a transaction every 19 days last year. So the pace by which we've been able to accelerate our organization has really picked up. Early on there was too much information and it was not actionable.



"Working with a couple of key vendors allows us pricing advantages and consistency."

Rich Lawson, Chief Executive Officer, HGGC

### Fugazy: How are private equity firms using technology at the portfolio level?

**Puri:** We work with all kinds of firms globally. Part of their investment thesis is driving value through add-on transactions. Many are focused on investing in firms that are founder or entrepreneurowned, which probably haven't focused as much on the technology on the back-end. In the last seven years, the number of add-on acquisitions completed has quadrupled. As a result, a lot of private equity firms are now focusing on getting scalable infrastructure and how quickly they can add-on companies while making them efficient as soon as possible. We have about 40,000 entities running on NetSuite globally and as a result have created a best practice approach, which we call Suite Success. We can take any company in any vertical or industry and map out what the different best processes look like, whether it's the chart of accounts or lead to cash or

procure to pay process. And here is the kicker: we can get the financials up and ready in 100 days – that's a game changer in the industry. This is a huge positive for the private firms we are working with. And it helps drive the usage of technology at the portfolio level as well.

**Lawson:** It's important to talk about this with your portfolio companies. A lot of our companies are trying to make these decisions in a vacuum. We have 77 various entities and they all have different ideas about who they want to use. We have already done the work and we own the relationships. Working with a couple of key vendors allows us pricing advantages and consistency. We encourage our portfolio companies to work with our relationships.

Just this past week, we did our sixth add-on in one year to a company. We doubled the size of the business with this acquisition and it was in Europe. With our relationships in place, it took us about 90 days to get up, on board and ready to go. I don't think that would have been possible 10 years ago.

**Kim:** For ERP software implementations, you're not only implementing software, you have to analyze your own

business processes. There are best practices that come imbedded in the software, but there are some processes that you still have to customize. You either have to customize the software or you have to change your internal business processes to fit what's available from standard, off-the-shelf modules and that takes some time.

Also, a number of our companies are implementing cloud-based business intelligence (BI) tools. In the past, you had to establish an expensive data warehouse, which includes pricey hardware, and do a lot of data transformation to get some actionable insights. Today, companies have data in a lot of different locations, legacy platforms and databases. Having a BI tool that can take that data, normalize it, and then run sophisticated reports is a game changer. These tools have given our companies a lot of insight that they never had before. And it's enabled anyone in the company to run a lot of quick queries and reports as opposed to in the past you needed a very specialized analyst to do it. Getting these insights are going to be more and more important as companies try to compete in the ever-changing landscape where they have to get more and more data to help them understand which decisions to make.

**Puri:** I have definitely seen a lot of firms implement the BI tool. And you're right, those can be done in weeks not even a hundred days.

### Fugazy: How easily do portfolio companies embrace your suggestions?

**Feldman:** My experience with Riverside companies is that they are very eager and excited that they have somebody that they can bounce ideas off of. They welcome suggestions and appreciate being able to save time. We own over 80 companies, all sitting within the lower-end of the middle market, and they are eager to learn and share with each other. I've spent a lot of time building a Riverside community where our companies



"Having a BI tool that can take that data, normalize it, and then run sophisticated reports is a game changer. These tools have given our companies a lot of insight that they never had before."

John Kim, Managing Director, H.I.G Growth Partners can collaborate and share best practices with each other.

Puri: Private equity firms rarely mandate using their providers, but some strongly recommend it as they want to make sure that when their portfolios are evaluating they have some of the best-in-class as part of the mix. With that in mind, we have built relationships and we've signed non-binding Master Services Agreement that offer portfolio companies preferred commercials as well as focused implementation teams. For some of the lower middle market and middle market firms this is great as they can benefit from the pricing and also save time on negotiations. Internally, we have a Value Management team that builds out the ROI models which then makes the process of embracing the suggestions much more seamless.

**Kim:** In terms of embracing our suggestions, it's helping to run their business. Should your technology be optimized or re-platformed? We give them ideas, but part of why they may not embrace it is because they have to do a switch out while the business is still running. We can't tell them to put their business on pause, it takes time.

**Lawson:** You can have all these wonderful things, but if people are reticent

of making those kind of investments then it's not going to go smoothly. One of the things we found very helpful is introducing great folks to come in and speak to our entire CFO group. We'll hold various offsites; I find that they feel it's very useful talking to someone that just went through that, or went through it three years ago, or is about to go through it at the same time they are.

**Kim:** We do webcasts and have one of our technology partners talk about best practices and products/ solutions. We discuss the capabilities of a partner so that management can understand whether the partner would be a good fit for them. It's important to take those best practices and learnings and share them with portfolio companies as well as the deal teams.

**Lawson:** For many of the portfolio companies it really helps when they find out there is a community.

### Fugazy: How painful or painless is integrating new technology?

**Feldman:** Any kind of transition to a new platform is very painful. An extensive amount of planning has to go in to it. Even before you decide to evaluate a product, the question I tend to ask the companies is: What is the problem you are trying to solve? It takes time, energy, conversations with the right people and then going to market to make sure that 80 percent of the needs are going to be met by whatever platform you're putting in place. And then the really complicated part happens when you are moving from an existing platform that has its data structured a certain way into a new platform without disrupting the business. If you're a small company like the ones we invest in, the question becomes who is going to be doing all of that? A number of our companies opt to bring in external resources, such as a project manager, to assist with the bigger migrations. The project managers become the champion of the project. They understand business needs. They will be the interface between the business and the third-party. That's a good scenario. A mistake that some of our companies have made in the past

**Puri:** You can't totally eliminate the pain. You can definitely reduce it. As I said earlier, with our Suite Success methodology we share what the best practices for companies of your size and industry looks like. It shows that this is not first time this is being done – it's tried and tested, which results in reducing the pain drastically. I have GPs and CEOs and CFOs of companies coming to me and telling me that with this model the time to value has been reduced. They now know prior to even going in what great can look like.

is once they sign the contract, they assume that the

third-party is going to make it all happen for them and

that ownership internally is pushed to the side. In reality

it is their data, it is their process, and they have to be

responsible for it.



"We can take any company in any industry and get the financials up and ready in 100 days... that's huge for any sponsorbacked company."

Rahul Puri, Global Head – M&A, Private Equity & VC Practice, NetSuite | Oracle

**Kim:** When any portfolio company thinks about making changes it's because they have current pain already. A lot of times when we invest, companies have proprietary software that is customized to exactly what they have today. It usually doesn't have the ability to scale as the company gets bigger. There is some limit to their proprietary software, so at some point they have to decide how to scale or re-platform on something that is commercially available. Hopefully, they will look to cloud-based solutions because it is easier to implement, but it means that they have to give up some of the things that they were used to. And that painful process of giving up those things and finding a software platform that best matches what they have today is a lot of work. It's never not painful, but you will be in a much better place afterwards than you were before and that is the reason why people make those changes.

### Fugazy: Are any types of portfolio companies more accepting of the change and new technology?

**Kim:** I invest in tech and E-commerce. On the tech side, you would think that

the technology company would be embracing new technology. But sometimes you have the "not invested here" thinking that prevents them from really exploring other solutions, whether they should be buying or outsourcing instead of making it on their own. For E-commerce businesses, they are constantly trying new things because you can quickly measure sales results. They do a lot of testing and look at the results whether it's seeing conversion rate increase, more traffic, or higher order values. These companies are constantly looking for new technology solutions as long as they are easy to integrate and stack.

**Lawson:** Sweet spot for us seems to be companies right in the middle market. Change is more difficult for the larger companies. It is really the medium-sized companies that have reached a certain scale that are asking you to come in and make an investment of time and resources. Companies in the middle seem to be very

receptive to change. You would think smaller companies would be, but we do not find that.

**Feldman:** For the companies we invest in it's the first time they have partnered with a private equity firm and the reporting requirements, more often than not, helps to create a conversation around the utility of existing systems. The assumption after an acquisition is that some changes are inevitable, and we partner with, and encourage, our companies to think through how best to be more efficient and more precise. Our companies are generally open to change because most of them have yet to scale their technology footprints to keep pace with the demands of the business.

**Puri:** We are fortunate to work across different industries. size and geographies. I think historically manufacturing and distributions companies are the laggards in terms of adopting some of the cloud technology as compared to a software company, for example. Additionally, companies that are going through add-on acquisitions and realize that they need a scalable platform realize sooner or later that they need to embrace some of the new technology. There are three or four major reasons why companies are accepting new and changed technologies. First, changing business models. A lot of companies are moving to the SaaS model and their current infrastructure can't handle the change. Second, they are offering new products or expanding internationally. As sponsor-backed companies looks to expand, they need a robust system that can help them, especially if they are going international - consolidation and reporting becomes key. Upgrading is another reason. A large number of companies have antiquated systems and now need to upgrade and instead of using the same on-premise, they are looking at someone like NetSuite to get them to the next level. Add-on acquisitions is another reason. Companies know that they are going to grow through acquisitions and need a scalable platform and it is the same with carve outs.

### Fugazy: Going forward, what technologies do you think will be winners?

**Kim:** The nice thing about the cloud is it helps you do acquisitions. When you make an acquisition, you can more easily switch the target company over to the platform company's cloud software program. Granular information becoming more available is also very powerful today. We call it big data, but the data has

to be analyzed correctly. Machine learning is another technology to be watched. It's a fancy name for using software derived algorithms to come up with optimizations that help with a situation that might have not been conceived through human creativity.

Lawson: I would take a more general view which is technology is invading all of these different end markets. I find it fascinating that almost every company is a tech company today. We're finding that there are so many different end markets, such as insurance, grocery, retail and auto where you have businesses that are actually thriving because they're technology companies providing the tools to traditional players in those industries that are going to face significant headwinds in the next five to seven years. MyWebGrocer, for instance, provides the 'picks and shovels' to traditional grocers that are concerned about the emergence of Amazon in the grocery vertical.

There are a lot of neat middle market-type companies that are technology companies that are providing tools to traditional industries and players in those industries that are going to be in big trouble in the next five to seven years.

**Feldman:** Blockchain is one that many people are curious about. The fluctuations with Bitcoin over the last several months has created an interest and there are opportunities to ensure the companies we invest in understand the differences between crypto currency and blockchain technologies. This spring, Riverside is hosting a conference for our IT leaders and we're planning on having a speaker discuss opportunities for the use of blockchain across all different verticals. The intention is to present concepts and ideas which otherwise may not be obvious to everyone given the somewhat esoteric nature of blockchain. We're excited about this opportunity and are looking forward to seeing how it will benefit our companies.

**Puri:** Look at all these companies in North America; probably 60 to 70 percent haven't even embraced the cloud. I think for the masses just getting real time information to make decisions is going to be key. Cloud is here and has been here since NetSuite pioneered it in the late 1990s. We are going to see companies on a large scale embrace the cloud.

### MERGERS Roundtable





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On the way to the ACG Atlanta Capital Connection, selected dealmakers played at the historic East Lake Golf Club, hosted by Frazier & Deeter.











By Mary Kathleen Flynn

bout 30 fortunate dealmakers had the opportunity to play a round of golf at Atlanta's historic East Lake Golf Club and pick up some tips from PGA tour professional Ollie Schniederjans before heading to the recent Atlanta ACG Capital Connection. The day was hosted by accounting firm Frazier & Deeter and sponsored by accounting of the professional developer.

by enterprise software developer Workiva.

The East Lake Golf Club is the home of the Tour Championship, the culminating event of the PGA Tour Playoffs for the FedEx Cup, with the top 30 players on the points list qualifying each

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year. The East Lake Golf Club holds a special place in history. This is where Bobby Jones learned to play golf as a child. At the age of 6, he won a six-hole tournament. At 9, he was the club's

#### **M&A Scene**

junior champion. At 28 in 1930, Jones won the United States Open, British Open, United States Amateur and British Amateur championships – the only player ever to achieve the grand slam in the era before the Masters. (In what's known as the Masters era, five men have achieved career grand slams: Jack Nicklaus, Tiger Woods, Gary Player, Ben



Bobby Jones, at age 9

Hogan, and Gene Sarazen. Female players who have achieved grand slams include Annika Sorenstam and Inbee Park.)

Today, the club serves as a driving force behind efforts to revitalize the surrounding neighborhood. Profits from the club, as well as charitable donations from the club's corporate membership, support the East Lake Foundation and its redevelopment

project with more than \$20 million to date. The foundation is credited with helping "transform one of the nation's worst public housing projects into a thriving community," according to the club's website.

Founded by Jim Frazier and David Deeter in 1981, Frazier & Deeter is a nationally recognized CPA and advisory firm headquartered in Atlanta. The firm provides tailored services across a wide range of tax, audit, accounting and advisory needs to achieve each client's unique financial goals. Members of the firm who participated in Frazier & Deeter's ACG Capital Connection Pre-Conference Event included: CFO Jeremy Sperring, partner Shawn Folwer and FD Fund Administration partner Tom DiEgidio. Participating from Mergers & Acquisitions were Harry Nikpour, publisher and vice president of capital markets, and Rich Grant, senior sales manager.



April 2018 MERGERS & ACQUISITIONS 25





he companies and individuals honored by Mergers & Acquisitions' 11th Annual M&A Mid-Market Awards soared in 2017. Not only did they grow their businesses significantly, but they also led the way in innovation and thought leadership. Many of the winning firms forged new strategies for connecting the M&A community – and expanding membership in it – themes that took on more urgency than ever, as professionals in all industries challenged what had been business as usual.



#### **DEAL OF THE YEAR**

## Stryker

tryker Corp.'s (Nasdaq: SYK) \$700 million purchase of surgical imaging technology provider Novadaq, signals the medical device maker's prowess in wielding M&A not just to grow existing businesses but also to enter new markets.

Over the last three years, Stryker has spent nearly \$6 billion to buy more than a dozen companies, enabling the company to outperform competitors in terms of growth, according to analysts. The company paid about \$831 million on acquisitions in 2017 alone, according to regulatory filings. Stryker has made 20 deals over the last five years. Stryker posted about \$12.4 billion in revenue in 2017, up from \$11.3 billion in 2016. Its gross profit rose from nearly \$7.5 billion in 2016 to almost \$8.2 billion in 2017.

Kalamazoo, Michigan-based Stryker is a leader in surgical equipment, neurovascular products and orthopedic implants, and many of its acquisitions have expanded the company's presence in existing markets. But its 2017 standout purchase of Novadaq signaled the company's willingness to expand into new markets through M&A.

Novadaq develops and sells medical imaging and therapeutic devices that is used in operating rooms. The company's technology is used to visualize blood vessels, nerves and the

lymphatic system during surgical procedures. Novadaq is known for producing the Spy, Pinpoint and Luna brands. Piper Jaffray served as lead financial advisor to Novadaq in the sale.

on Feb. 28. In 2017, Stryker agreed to buy Vexim of Balma, France, for about \$223 million. Vexim is known for making spinal implants under the SpineJack brand.

Stryker is a high quality dividend



"I am very pleased with the initial integration of Novadaq. And certainly getting the sales force all lined up early in 2018 as probably one of the fastest integrations we've had since I've been at Stryker," Stryker CEO Kevin Lobo told analysts. Lobo joined Stryker in 2011 and was appointed CEO in 2012. He previously held roles at KPMG, Unilever, Kraft Heinz Co. (Nasdaq: KHC) and Johnson & Johnson (NYSE: JNJ).

At the end of 2017, Stryker moved into another new market when it announced a \$662 million deal for Entellus, which makes devices for the ear, nose and throat (ENT) treatment, an area in which Stryker had not previously held a significant presence. That deal was completed

growth stock with a long growth runway ahead, say analysts. That is because the demand for hip and knee replacements, Stryker's core products, is expected to rise as Americans live longer. Knee replacement surgeries are expected to soar by 673 percent through 2030, according to the Journal of Bone and Joint Surgery, while hip replacements are expected to rise by 174 percent through the same time period. The joint replacement market is expected to be worth around \$35 billion by 2022.

Stryker is going to remain aggressive in looking for acquisitions in markets it has little to no presence in. "So we have multiple divisions with their own business development teams that are constantly scanning the market for deals," adds Lobo.





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#### DEALMAKER OF THE YEAR

## Randy Jacops

andy Jacops, the CEO of B2B software developer Idera Inc., achieved many milestones in 2017, including a trio of acquisitions and a \$1 billion recapitalization that brought in private equity firm HGGC as a new majority stakeholder. Other

achievements included: growing Idera's employee base by 37 percent; releasing 63 new products; adding 8,500 new enterprise clients; and expanding the company's presence in the Asia-Pacific, Latin American and European territories.

Jacops has a long track record running technology compa-

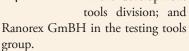
nies. He became the CEO of Idera in 2013 after serving as COO. Previously, he served as the CEO of software developer Versata Enterprises and as a venture partner at Valhalla Partners. In 2014, TA Associates bought Idera, and TA director Hythem El-Nazer joined the board. In the 2017 recap, TA remained a minority stakeholder, as did Idera management.

Under TA's ownership, Idera grew significantly through transactions. "M&A drove our revenue to a 300 percent increase over the past three years," Jacops explains. "This

includes a 2015 deal where TA's Hythem El-Nazer championed the acquisition of a company larger than Idera. While some investors questioned projected synergies, the results transformed market confidence in our team. M&A also exposes our team to new and different ideas and

ensures we challenge ourselves to constantly innovate products and go-tomarket strategy."

In 2017, Houston-based Idera closed three transactions - one for each business unit: Aqua-Fold Inc. in the database tools business unit; Sencha Inc. in the development tools division; and



"With balanced transition resources, we integrated the companies in 90 days and exceeded synergy targets," Jacops explains. "We accelerated growth via simplified licensing, improved maintenance programs, and optimized demand generation. We expect these accretive acquisitions to grow even faster as we cross-sell to our installed base."

Acquisitions are expected to play a significant role in Idera's future with HGGC on the team. "TA has been an excellent partner and supported our acquisition strategy. Like TA, HGGC understands proper risk-reward analysis," says Jacops. "In addition to fresh eyes and new energy at the table, HGGC is world class at partnering with successful private equity management teams and instilling the confidence to think bigger and deliver outsized results."

HGGC has built a successful track record in the infrastructure software space. HGGC's successes in the sector include buying Serena Software from Silver Lake Partners for \$450 million and selling it two years later to Micro Focus for \$540 million in 2016.

"Early on, HGGC's Neil White articulated a goal of doubling the company size in three years," Jacops says. "My goal is to exceed Neil's challenge, and that will require a focused commitment to finding companies where we can deploy our playbook to accelerate growth and profits. Our leadership team's playbook has delivered proven results in over 20 acquisitions, and we expect to do the same with the new ownership team."

HGGC's hopes for Idera are high. "The infrastructure software space is currently undergoing mass consolidation," says HGGC CEO Rich Lawson. "A key pillar of HGGC's investment thesis is to drive Idera's M&A activity to stay at the forefront of this trend."



Randy Jacops



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#### PRIVATE EQUITY FIRM OF THE YEAR

### **LLR Partners**

hiladelphia-based LLR Partners was one of the most active private equity firms in the middle market, racking up 28 transactions in 2017, including 4 new platform investments, 18 addon acquisitions and 6 exits. The firm continued to expand, with more than a dozen new hires, several promotions and the engagement of several senior operating advisors. LLR also pioneered a digital strategy that involved embracing social media and devising new ways of connecting with prospective and existing portfolio companies.

"In such a competitive market, our dedicated industry teams and flexible approach to deal structuring helped us complete new investments in four of our key target areas - fintech, healthcare, security and software," says managing director Michael Sala. The firm's 2017 platform investments were: Professional Capital Services (PCS), which develops software that automates the sale, design, valuation and management of retirement plans; Kemberton Healthcare Services LLC, a provider of technology-enabled revenue cycle management (RCM) services to hospitals for complex claims; 3SI Security, a developer of asset protection systems and GPS tracking technology for the financial services and retail markets; and eLocal, a provider of digital performance marketing and new customer acquisition for service businesses.

In addition to being an active year for transactions at LLR, 2017 marked a critical point in the firm's digital evolution. "The site redesign was carefully thought out from a coding, content and user experience standpoint to serve as the home base for a



**LLR Partners Team Members** 

broader strategy around original content, portfolio events, social media, email marketing and search engine optimization (SEO)," explains Kristy DelMuto, vice president of strategic marketing.

The firm launched GrowthBits, a collection of posts that codify best practices from the LLR portfolio leaders, value creation team and senior operating advisors. The goal is to make the content accessible and actionable for any growth-oriented executive or advisor. LLR also formalized its long-running series of Collaborate Events, which bring together portfolio companies annually for peer networking and best practice sharing in-person. The firm makes extensive use of

LinkedIn, Twitter, email and SEO to reach new and existing audiences. During the program's first year, the effort led to 70 percent growth in the firm's LinkedIn following.

Talent at LLR is both a critical focus in the portfolio and at the fund

level. Within the firm's value creation team, there are now 3 full-time talent professionals dedicated to supporting portfolio companies' human capital strategies. In-house, LLR made 13 new hires in 2017 including Steve Chang as managing director, strategy, and Bill Tobia, as managing di-

rector, strategic finance. Thirty percent of the 2017 new hires were female, including women added across the investment and origination teams.

"LLR believes its people are its most important asset, and fostering a culture of inclusion and diversity is core to the way it runs the firm," says COO Todd Morrissey.

Says Sala: "Between LLR's consistent focus on creating long term value for technology, services and healthcare companies since inception; its strong commitment to growing a team of sharp, collaborative professionals; and now its added digital component, the firm is seeing the power of its 2017 brand evolution igniting new conversations and creating new opportunities."

## ACG Minnesota

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The 2018 Upper Midwest ACG Capital Connection® provides a unique opportunity to network with more than 500 representatives of leading corporations, private equity groups, mezzanine lenders, senior lenders, investment bankers, attorneys, accountants, and other M&A advisors and service providers from both the local and national markets.

### MONDAY, JUNE 4, 2018

### **GOLF TOURNAMENT**

The golf tournament will be hosted at the Minneapolis Golf Club. The club's premiere golf course was designed by Willie Park, Jr. and Donald Ross. Opening in 1916, the club hosted the U.S. Amateur in 1950 as well as the PGA Championship in 1959, which Bob Rosburg won.

### **LAWN BOWLING**

For those who would rather not golf, enjoy an afternoon of lawn bowling on the 10,000 square foot green at Brit's Pub, a legendary bar in the heart of downtown Minneapolis.

### **OPENING NIGHT RECEPTION**

All attendees are invited to join us for a reception at Renaissance Minneapolis Hotel, The Depot. The event features breweries, wineries, distilleries and local vendors showcasing their wares at tables with investment bankers. It's a great atmosphere for informal networking.

### **TUESDAY, JUNE 5, 2018**

### CAPITAL CONNECTION

The Capital Connection is a unique opportunity for all attendees to network with representatives from more than 60 leading private equity firms, hedge funds, and mezzanine debt providers from both the local and national markets.

#### DEALSOURCE

During this afternoon session, registered Capital Connection exhibitors will meet with investment bankers registered for DealSource to discuss acquisition and divestiture opportunities and criteria. Meetings will be arranged in advance via an online scheduling tool.





### KEYNOTE SPEAKER LEE SCHRAM, Chief Executive Officer, Deluxe Corporation

Lee Schram was named chief executive officer of Deluxe Corporation in May 2006. Since then, he has led a transformation initiative to significantly reposition Deluxe from primarily a check printer to a marketing solutions and other services provider. By harnessing the entrepreneurial spirit of the company's 5,900 employees, Deluxe currently serves over 4.5 million small businesses and 5,100 North American financial institutions.

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Contact Nicki Vincent, Executive Director at nicki@acgmn.org or 612.590.1041

### INVESTMENT BANK OF THE YEAR

## **William Blair**

worthy contender in any year, William Blair excelled in 2017, achieving significant growth, including exceeding the previous year's deal value by nearly 75 percent. The accomplishments were the culmination of five years of investments the firm has made, during which time the number of bankers has grown by more than 60 percent.

The Chicago investment bank completed 124 M&A advisory transactions, up nearly 22 percent from the previous year's 102, representing \$52.1 billion in total deal value, William Blair's highest total ever and up nearly 75 percent from \$29.8 billion in 2016.

"Our success in 2017 can be attributed to combining all of our individual talents, perspectives, ideas, and contributions to produce the best year William Blair has ever delivered for both our clients and each other," says Brent Gledhill, global head of investment banking.

"We have been in investment mode for quite some time. We have grown our talent pool, and presence around the world. Our efforts put us on a growth trajectory that took us to the position we hit in 2017," says Mark Brady, global head of M&A for William Blair. "We also care deeply about our relationships. More than 60 percent of William Blair's transactions in 2017 involved repeat clients.

We are a trusted advisor to clients across market cycles, and we have a track record of delivering optimal outcomes."

This trajectory is best reflected by two data points: first, William Blair's annual M&A deal values have grown at a compound annual rate of 23.5 percent since 2011; and second, the firm's project backlog heading into 2018 was its largest ever.

Over the last five years, William Blair has devoted significant resources to growing the depth of its sector



expertise, expanding its knowledge of and relationships with strategic and financial buyers globally and increasing the sophistication of its M&A processes through data-driven insights.

These investments include growing the number of bankers by more than 60 percent, expanding its debt financing capabilities, and hosting a lineup of conferences. Perhaps the most visible investment that William Blair made in 2017 was opening its

new North American headquarters in Chicago.

In addition to growing the firm, the bank also worked on many notable transactions, including CMC Biologics' sale to Asahi Glass CMC Biologics, a contract development and manufacturing organization with facilities in Denmark and U.S. and a portfolio company of European Equity Partners and Monitor Clipper Partners, was sold to Asahi Glass, a Japan-based manufacturer of glass, chemicals, and high-tech materials.

William Blair made a minority investment in CMC and has been an advisor on previous deals. The bank's M&A experience in the sector and Asian presence allowed it to engage with the most motivated potential strategic buyers.

"We sold a European

company to a Japanese buyer that's not even in the same sector," says Andy Jessen, head of North American M&A. "But understanding the business and having information on businesses globally helped us find the right buyer. We recommended the seller talk with Asahi, and we were able to make a deal that achieved the best results for our client. Our data and expertise sometimes leads to very unique outcomes that you couldn't predict at the beginning of a process."



### SELLER OF THE YEAR

## **Huron Capital**

ignificant exits were among the many successes Huron Capital enjoyed in 2017. The lower middle market firm completed 21 transactions, including 4 platforms and 14 add-ons and 3 exits. Huron also raised a new fund and initiated a new investment capability to do non-control equity investments.

Based in Detroit, Huron is considered Michigan's largest and most active private equity firm. Since the firm's founding in 1999, it has made more than 140 investments and raised six funds totaling over \$1.8 billion, including the \$550 million fund raised in 2017.

"2017 was a hot M&A market," explains managing partner Brian Demkowicz. "This was largely due to liquidity in the debt markets and deep cash reserves on the balance sheets of corporate buyers. The main challenge was keeping multiple buyers interested in the chase to buy one of our businesses as long as possible, and perhaps to the point of signing binding purchase agreements in a limited time window. The second challenge was avoiding leakage in the negotiated price, prior to the closing and from post-closing price adjustments. Additionally, with a strong market for selling, some buyers assume that properties will go for high multiples and require the buyers to accept weaker

long-term returns on their investments, leading part of the buyer pool to simply withdraw without understanding whether buyer demand was actually present. Lastly,



**Brian Demkowicz** 

with strong valuations, sellers are challenged to make sure the operating company performs well up to and through the closing date. Any sign of weakness can open the seller to possibly renegotiation efforts."

In 2017, the firm exited a trio of companies: the Olon Group, a manufacturer of molding and drawers, sold to the Miller Group, an Ontario-based family office investor; LeadingResponse, a provider of customer acquisition services, sold to ICV Partners, a New York-based private equity firm; and Systems Inc., a manufacturer of loading dock leveling equipment, sold to the Chamberlain Group, corporate parent company to LiftMaster, Chamberlain, Merlin and Grifco.

Other initiatives included deploy-

ing a new investment strategy, called Flex Equity initiative, which expanded the firm's strategies to include non-control equity. The initiative utilizes the company's existing infrastructure, operational resources and investment processes, while capitalizing on attractive non-control opportunities being sourced through the firm's proprietary value-sourcing model. The Flex Equity team closed its first investment in July 2017, Stay Online,

and sourced an expanded management team, including a CFO. The firm also grew its ExecFactor program, Huron Capital's proprietary, executive-led strategic market entry program.

Looking ahead, says Demkowicz: "We expect a continuation of a generally very favorable market for exits in 2018. There continue to be ready buyers, both financial and strategic, with abundant liquidity for acquisitions, along with relatively inexpensive financing (even if interest rates creep up a bit). We are optimistic about another strong year of M&A activity."

### STRATEGIC BUYER OF THE YEAR

## **Campbell Soup**

ampbell Soup Co. (NYSE: CPB) is leveraging acquisitions and equity investments to ensure the company known for comfort food for nearly 150 years remains relevant to millennials and future generations.

Campbell, which recently completed the \$700 million purchase of organic soup maker Pacific Foods, is accelerating its acquisition strategy to meet increased consumer demand for healthy snacks. Pacific, located in Tualatin, Oregon, makes vegetable broths along with soy and almond beverages under its own brand. "The addition of Pacific Foods advances our real-food capabilities," said CEO Denise Morrison at a February 2018 event.

"The pace of change will continue to increase. We're no longer just a canned soup company," Morrison added. Campbell is currently in the midst of closing a \$4.8 billion deal for Snyder's-Lance, maker of popular pretzels, which after completion will be the largest deal in Campbell's history. Snyder's is known for making pretzels under the Snyder's of Hanover brand. The company also makes Cape Cod potato chips and Pop Secret popcorn. On-the-go snacks are popular among busy consumers.

"Both the Pacific and Snyder's-Lance acquisitions are expected to improve our overall growth profile as we further extend our portfolio across these attractive categories. In both cases, they build upon the strength we have in the soup and broth and snacking categories,"



Denise Morrison

Campbell CFO Anthony DiSilvestro tells Mergers & Acquisitions.

Campbell, founded in 1869, began its diversification beyond soup in 2012 with the \$1.5 billion purchase of Bolthouse Farms, a producer of carrots, juices and salad dressings. Bolthouse's performance has struggled under Campbell's ownership, being plagued with poor harvest crops and drink recalls. Since then, Morrison has restructured the Bolthouse division.

"Overall, we learned several important lessons and we're applying them going forward. First, establishing a leadership team with diverse skills and experience early on. Sec-

ond, fresh food is more perishable and therefore more fragile, creating some volatility in our results. Lastly, the fresh supply chain presents an opportunity for productivity im-

provement and optimization," DiSilvestro adds. Aside from its namesake canned soup, Camden, New Jersey-based Campbell owns the Prego sauces and the Pepperidge Farm cookies and snacks brands.

In 2016, Campbell established a \$125 million VC fund, which has backed a handful of startups, including: Juicero, Farmers Business Network, Pilotworks, Sample6 and meal-kit company Chef'D. A couple of

Campbell's competitors, such as General Mills Inc. (NYSE: GIS) and Kellogg Co. (NYSE: K), have also raised VC funds to back food start-ups.

"The millennials have not just arrived, but they are now taking over," Morrison said. "If we don't work with them, we will soon be working for them."

"Our focus right now is integrating Pacific Foods and then Snyder's-Lance. Looking forward, we are committed to deleveraging following the Snyder's-Lance deal and longer term, we will continue to look for deals that make strategic and economic sense," says DiSilvestro.

### LAW FIRM OF THE YEAR

## **McGuireWoods**

ot only did McGuire-Woods grow the volume of deals it advised on in 2017, but it also innovated in two areas that have become increasingly important in the middle market: connecting independent sponsors with capital providers and bringing women deal professionals together.

"We had a great year in 2016 and an even better 2017. Nothing speaks louder than our work, which allows our reputation to grow. Investors know we are a legitimate shop that can handle the work. We also have an entrepreneurial spirit. We are always trying to put dealmakers together. We look for ways to add value. We may not always get the work immediately, but if we add value, then the work will come," says Scott Westwood, chair of McGuireWoods' M&A Practice.

To that end, McGuireWoods distinguished itself from competitors through two initiatives that allowed McGuireWoods to expand beyond being a legal services provider to being a key industry player. McGuireWoods was the first law firm to implement a cross-office, nationwide, initiative connecting independent sponsors with capital providers for their transactions. The connections forged through this initiative have already been responsible for numerous s significant transactions and

laid the groundwork for more.

"Our one-of-a-kind independent sponsor initiative showcases how we add value beyond the traditional role of legal counsel. We work hard to build relationships by identifying opportunities to make smart introductions and understand the complex dynamics of these transactions," says Jon Finger, a partner in the firm's Dallas office.

Additionally, McGuireWoods spearheaded an initiative to promote the advancement of women, bringing together women investors from private equity firms and lenders, and facilitating relationship-building







Amber Walsh

through a series of industry-focused events.

Led by partner Amber McGraw Walsh, chair of McGuireWoods' healthcare practice, the program enables firm attorneys to expand existing client relationships and make new contacts that may produce new firm business and raise lawyers' profiles.

"The need for greater diversity in private equity and lending is critical. We saw an opportunity to partner with clients, leverage the leadership and industry knowledge of the women in our networks, and provide a platform for raising their profiles and creating business opportunities. The response has been amazing," says Walsh, a partner in the firm's Chicago office.

In dealmaking, the firm advised on 175 deals, up from 141 the previous year. McGuireWoods advised Sheridan Capital Partners on more than a dozen bolt-on acquisitions for Smile Doctors, which grew to the largest orthodontic company in the U.S. In November 2015, Chicago-based lower middle-market private equity firm Sheridan Capital Partners made its initial investment in Smile Doctors. Since that investment, McGuireWoods represented-Smile Doctors in close to 20 bolton acquisitions. In this time, Smile Doctors grew from 12 clinics to more than 90 clinics across 11 states. Through a recapitalization in 2017, Linden Capital joined as lead investor while Sheridan and management both rolled over their equity.

"We have 150 lawyers in 23 offices and we are all connected, working together across the nation and the globe. That's why you have seen us grow and increase in the rankings," says Westwood.

April 2018 MERGERS & ACQUISITIONS 37



### LENDER OF THE YEAR

## **Twin Brook**

hicago's Twin Brook Capital Partners achieved tremendous growth in 2017, including doubling deal volume from the previous year, raising a second fund of \$2.3 billion, and building the three-year-old firm into a major source of loans in the lower middle market.

Founded in 2014, Twin Brook Capital Partners is the middle-market direct lending subsidiary of Angelo, Gordon & Co. The firm is led by co-heads Trevor Clark and Christopher Williams, who previously co-founded Madison Capital, a highly regarded middle-market lender. Clark and Williams have quickly built Twin Brook into a powerhouse of lower middle-market lending, closing 84 transactions worth \$2.4 billion in 2017 - twice the loan value of 2016. Twin Brook was the administrative agent on 87 percent of the new platforms closed in 2017, highlighting the strength of the firm's sponsor relationships in the lower middle market. This was particularly impressive given that this is only the firm's third year in business.

"The loans we closed in 2017 are consistent with our strategy of focusing on lower middle market sponsor backed transactions, spending most of our time working with companies between \$5 million and \$25 million of Ebitda," says Clark. The firm's average Ebitda size is around \$17

million, but ranges from \$4 million to \$100 million in instances where the company has grown through acquisition. "Our team has focused on providing flexible capital structures to support the growth strategies



of lower middle market borrowers. That's what our focus was when we launched, and that is our same focus in 2018."

Twin Brook's financing of Oracle Elevators was one of its most notable deals in 2017. Twin Brook led an \$80.5 million unitranche financing structure supporting L2's buyout of Oracle, an elevator service and maintenance company. Oracle was an existing portfolio company of Twin Brook, which exemplifies how Twin Brook has supported the organic and acquisition-related growth of its clients. Under Incline Equity Partners' ownership, Twin Brook recapped Oracle in 2015 and then backed L2's acquisition of the

company in May 2017.

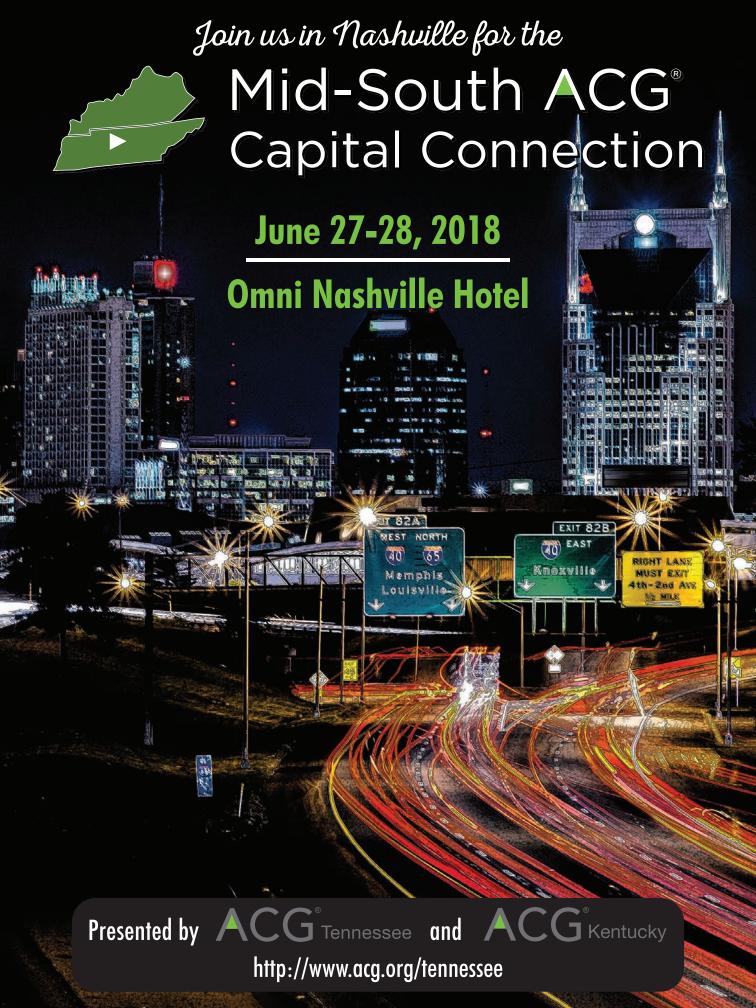
"Oracle provides an excellent example of how we not only support the growth strategy of our private equity clients during their hold period of an investment, but how we

> can also follow these borrowers into the next generation of private equity ownership," says Clark.

> Twin Brook also led a large syndicated transaction supporting Linden Capital Partner's buyout of Smile Doctors, an Orthodontic practice management company. Twin Brook

supported the acquisition of over 20 practices by Smile Doctors under previous ownership helping the company grow its scale and geographic reach.

"We are an experienced group. We have continued to be active lenders through multiple credit cycles and we have focused on a very specific part of the market and penetrated it while many of our peers have moved up market. You are starting to see a shakeout in the industry, and manager selection does matter," says Clark. "In three years' time, the response we have received from investors has exceeded our expectations. We will try to continue to exceed their expectations."



### FIVE YEARS OF WINNERS

#### THE M&A MID-MARKET AWARDS HONORING THE LEADING DEALS AND DEALMAKERS.

	Deal	Dealmaker	Private Equity Firm	Seller	Strategic Buyer	Investment Bank	Lender	Law Firm
2017	Stryker (Novadaq)	Randy Jacops, Idera	LLR Partners	Huron Capital	Campbell Soup	William Blair	Twin Brook	McGuireWoods
2016	Resmed (Brightree)	Greg Sandfort, Tractor Supply	Francisco Partners	The Halifax Group	Dover	Harris Williams	Golub	Kirkland & Ellis
2015	Amazon (Elemental Technologies)	David Brackett, John Martin, Anatares	Audax	The Riverside Co.	Newell Rubbermaid	KeyBanc	NewStar	Milbank
2014	Thoma Bravo (TravelClick)	Gretchen Perkins, Huron Capital Partners	HGGC	The Riverside Co.	PPG Industries	Piper Jaffray	GE Capital	Jones Day
2013	Hormel (Skippy)	Stewart Kohl, Bela Szigethy, The Riverside Co.	GTCR	Vector Capital	Yahoo	Lincoln Interna- tional	Fifth Street Management	K&L Gates

## What Makes a Winner?

Mergers & Acquisitions' M&A Mid-Market Awards honor leading deal-makers and deals that set the standard for transactions in the middle market.

To determine the winners, Mergers & Acquisitions considers a variety of factors. We look for companies and individuals who overcame the challenges the year brought, embodied the trends of the period and took their businesses to the next level. Market leadership and performance are important, but league tables aren't everything. Growth counts for a lot, especially when the rate of growth outpaces peers and the overall industry. Innovation also counts. We value companies that changed the M&A landscape, expanded into new territories and transformed their businesses. Thought leadership in the industry is also relevant.

Looking at past winners provides a good guide to what we're seeking (see chart). We bestow M&A Mid-Market



Awards in the following eight categories:

**Deal** recognizes a transformative transaction that made a significant impact on the buyer's strategy, or sector, or overall M&A. The award goes to the buyer. Corporations

and private equity firms are eligible.

**Dealmaker** honors an individual who made a significant impact on M&A, or who led a transformative transaction. The award goes to the person who led the deal.



All dealmakers are eligible.

**Private Equity Firm** recognizes a PE firm that stood out in a competitive land-scape. We take into account the acquisitions, exits, fundraising and other activities made by the firm throughout the year, including growth. Thought leadership also plays a role. The award goes to the firm, and only PE firms are eligible.

Investment Bank honors a bank that outshone the competition. We take into account the volume of deals advised on, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the bank. Full-service investment banks are eligible.

**Seller** recognizes a firm that produced stellar exits throughout the year. The award goes to the firm.

Strategic Buyer honors a corporation that wielded M&A to transform or significantly expand its business, or sector or overall M&A. Acquisitions and divestitures emblematic of the company's M&A strategy are considered. The award goes to the company. Corporations are eligible.

Law Firm of the Year recognizes a law firm that excelled. We take into account the volume of deals advised on, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the firm, and law firms are eligible.

Lender of the Year honors a lender that ran ahead of the pack. We take into account the volume of loans made, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the lender, and lenders are eligible.

To be eligible for our awards, deals must meet the following criteria: be valued at or below \$1 billion; involve at least one U.S.-based company as buyer or seller; and have been completed by Dec. 31 of the award year (2017, in this case). Nominations are helpful but not required. We open up the nomination process on December 1 of the award year, with a final deadline of January 31 the following year.



## Health Care Deals 2018: Where have we been and where are we going...

May 18, 2018
Tappan Hill Mansion, Tarrytown, NY
7:30am – 9:30am

Panelists will talk about the state of the health care deal market in 2018, developments in financing, risks and rewards, what subsectors are getting more interest than others, the types of transactions that have occurred and what might be interesting in the future.

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April 2018 MERGERS & ACQUISITIONS 41

### **Guest Article**



## will boost middle market M&A

The reduction in the corporate tax rate from 35 to 21 percent will give strategic buyers more cash to spend on acquisitions.

**Gary Wallace** 

fter months of anticipation and countless negotiations, Congress finally passed the Tax Cuts and Jobs Act at the end of 2017. Hailed as the most significant change to the U.S. tax code in more than 30 years, Republicans hope that the new legislation will boost the economy by spurring job growth, driving wages higher, and increasing corporate investment in the country. It is too soon to tell whether these goals will be met, but we do know this legislation contains several provisions that have the potential to significantly boost capital investments in the middle market and increase deal flow across the United States. It is important to know the impacts of the new tax provisions to adjust strategies accordingly and reduce tax burdens.

One of the most anticipated changes of the act included a reduction in the corporate tax rate from 35 percent to a flat 21

percent and the repeal of the corporate alternative minimum tax. Both changes became effective after Dec. 31, 2017 and will increase the after-tax profitability of corporations.

We have already seen that some corporations are using these extra savings as compensation incentives for employees but corporations will also be looking for making additional investments in the business which sets the stage for M&A activity. Corporations will seek better multiples by obtaining a return on investment, and with tax reductions, focusing on enhanced cash flow by acquiring middle market companies — especially those that require or produce accelerated tax benefits for "qualified property," qualified property, as defined by the act, includes any tangible property with a depreciable life of 20 years or less. This includes computer software, machinery, land, property, and other tangible assets.

### **Guest Article**

The act provides an immediate bonus deduction for 100 percent of the cost of these assets for through 2022. More importantly, the deduction is available for both new property and property acquired from a different taxpayer. In other words, property acquired through an acquisition now qualifies. Businesses looking to reduce their tax burden will find these provisions particularly attractive and will be inclined to use excess cash to make investments in middle market companies. Certain asset intensive sectors that will be big winners include pharma, manufacturing, construction, and others that hold and/or produce qualified property.

An important aspect to note about this increased depreciation provision is that acquirers and sellers will need to structure deals as asset acquisitions to receive the upfront deductions. Historically, most acquirers have preferred this form of deal structure. However, it is not always the most advantageous for the corporate seller. Therefore, middle market acquirers will need to carefully consider how to make deals more attractive given that the act does add additional depreciation benefits for the buyside of the deal.

For transactions with significant intangible value, the reduction in the corporate rate to 21 percent may mean that the tax impacts of an asset acquisition are not quite as valuable as it was under a 35% corporate tax rate regime. This is because the tax value of intangible amortization (generally over 15 years) has a lower cash flow impact. Of course, acquirers may still prefer the legal protections with an asset acquisition over a stock purchase.

Another important provision on the buyside of deals is the impact of tax rate changes to pass-through companies. Pass-through corporate structures such as partnerships and LLCs make up 90 to

95 percent of the middle market and are a preferred structure for private equity deals because it alleviates "double taxation," and allows the flexibility of an exit.

The act provides beneficial deductions to certain pass-throughs including a deduction of up to 20 percent of their business income. However, pass-throughs that fall into a "specified service trades or businesses" such as health, law, consulting, athletics, financial services and brokerage services won't qualify for the deduction if the taxpayer's taxable income is more than \$207,500 (\$415,000 for married individuals filing jointly).

For those seeking to acquire a company, these favorable deductions could present challenges for targets that are non-qualifying businesses. Private equity sponsors will need to consider these challenges and evaluate the tax profile of the acquired business as well as the other provisions of the act, which may impact the timing of a possible exit due to carried interest limitations, new limitations on business interest deductions and net operating losses, and the other tax attributes of the company being acquired.

The act also includes a one-time repatriation tax on accumulated earnings held overseas. The tax rate is 15.5 percent on earnings held in cash and 8 percent on the remaining earnings and is paid over a period of years. The repatriation of these funds by major corporations will likely be invested in one form or another to avoid additional taxes in the future. This could set up a tremendous opportunity for the middle market because corporations may likely use their repatriated cash to acquire companies that complement their core business. Again, like the corporate rate reduction, the act's impact on freeing capital for investments will put the burden on acquirers to put that capital to work in the U.S. which may

result in enhanced multiples.

One final consideration for acquirers and sellers in 2018 is what might happen in Washington. As of now, it is possible that Democrats could retake one, if not both houses of Congress in this year's election cycle. As we all witnessed from the coverage of the act's passage, Democrats are not fans of this new legislation, which some have called a "corporate give-away." If Democrats become the majority, they might reverse the recently passed tax legislation, bringing back closer parity in individual vs. corporate tax rates, which means acquirers need to analyze the current situation, but also think about the future impacts of their decisions. This is especially true as it relates to corporate structures. If Democrats raise the corporate tax rate, the ability to convert a corporation back into a passthrough structure would become much more tax costly.

There is tremendous sentiment that M&A activity in the middle market will surpass 2017 levels this year. Both the size of deals and the quantity of those deals will likely be much higher as both sellers and acquirers look to take advantage of the act's pro-growth provisions. It is important to realize all of the benefits and potential hurdles the act contains so that all parties will benefit from their transactions.

Even through the Act will have substantial impacts on many negotiating decision points, the business community is hopeful that Congress' goal becomes reality and that the Act does indeed boost the U.S. economy.

Gary Wallace is the tax department leader for Keiter and serves on the firm's executive committee. Prior to joining Keiter, Wallace was the CFO for the Riverstone Group, LLC and CCA Industries Inc.

### **Most Active Mid-Market Investment Banks by Volume**

KPMG closed more middle-market M&A deals than any other investment bank in the world. PricewaterhouseCoopers, Rothschild & Co., Houlihan Lokey and BDO were among the top 5 in deal volume.

Investment Bank	Number of Deals		
KPMG	337		
PricewaterhouseCoopers	278		
Rothschild & Co	273		
Houlihan Lokey	207		
BDO	201		
Ernst & Young LLP	195		
Deloitte	189		
Lazard	185		
JP Morgan	160		
Goldman Sachs & Co	160		
IMAP	157		
Morgan Stanley	141		
Oaklins (FKA M&A Intl Inc)	126		
Credit Suisse	125		
Mizuho Financial Group	117		
Industrial & Comm Bank China	116		
Lincoln International	116		
Citi	114		
Baker Tilly International	112		
Sumitomo Mitsui Finl Grp Inc	110		
Barclays	101		
Moelis & Co	96		
Stifel/KBW	95		
Raymond James Financial Inc	94		
BNP Paribas SA	90		
Generational Equity	88		
Clairfield International	87		
KBS Corporate Sales Ltd	87		
Jefferies LLC	86		
Piper Jaffray Cos	85		
Alantra Partners SA	77		
Bank of America Merrill Lynch	74		
Duff & Phelps	74		
Evercore Partners	73		
UBS	71		
RBC Capital Markets	68		
Deutsche Bank	68		
Clearwater International	68		
Global M&A	62		
Grant Thornton	61		
Benchmark International	58		
Macquarie Group	57		
CFI	57		
CITIC	55		
Nomura	52		
Robert W Baird & Co Inc	51		
BMO Capital Markets	47		

Investment Bank	Number of Deals
KeyBanc Capital Markets Inc	47
Credit Agricole CIB	46
Globalscope	46
PNC Financial Services Group	44
Daiwa Securities Group Inc	43
Haitong Securities Co Ltd	42
UniCredit	42
Sandler O'Neill Partners	41
RSM Corporate Fin LLP	39
TD Securities Inc	36
HSBC Holdings PLC	35
Stephens Inc	35
Natixis	35
China Securities Co Ltd	33
ING	33
Capitalmind	33
GCA Corp	32
Stout Risius Ross Inc	32
Itau Unibanco	31
William Blair & Co	31
BCMS Corporate Ltd	31
Cooperatieve Rabobank UA	31
China International Capital Co	30
China Merchants Securities Co	30
Wells Fargo & Co	30
Mitsubishi UFJ Financial Group	30
Societe Generale	30
Kon SpA	29
PJT Partners Inc	27
CBRE Holding SAS	26
Chartwell Financial Advisory	26
Greenhill & Co, LLC	25
Investec	24
Canaccord Genuity	22
Somerley	22
Livingstone Partners	22
GF Securities	21
Smith Cooper Corporate Finance	21
Concentro Management AG	21
Mazars SA	21
Translink Corporate Finance	20
SunTrust Banks	20
CIBC World Markets Inc	19
AGC Partners	19
Prairie Capital Advisors Inc	19
Kingston Corporate Finance Ltd	18
Cenkos Securities PLC	17

### Most Active Mid-Market Investment Banks by Value (\$bil)

J.P. Morgan's total dollar value of completed middle-market M&A deals was the highest of any investment bank in the world. Goldman Sachs & Co., Morgan Stanley, Rothschild & Co. and Credit Suisse were among the top 5 in deal value.

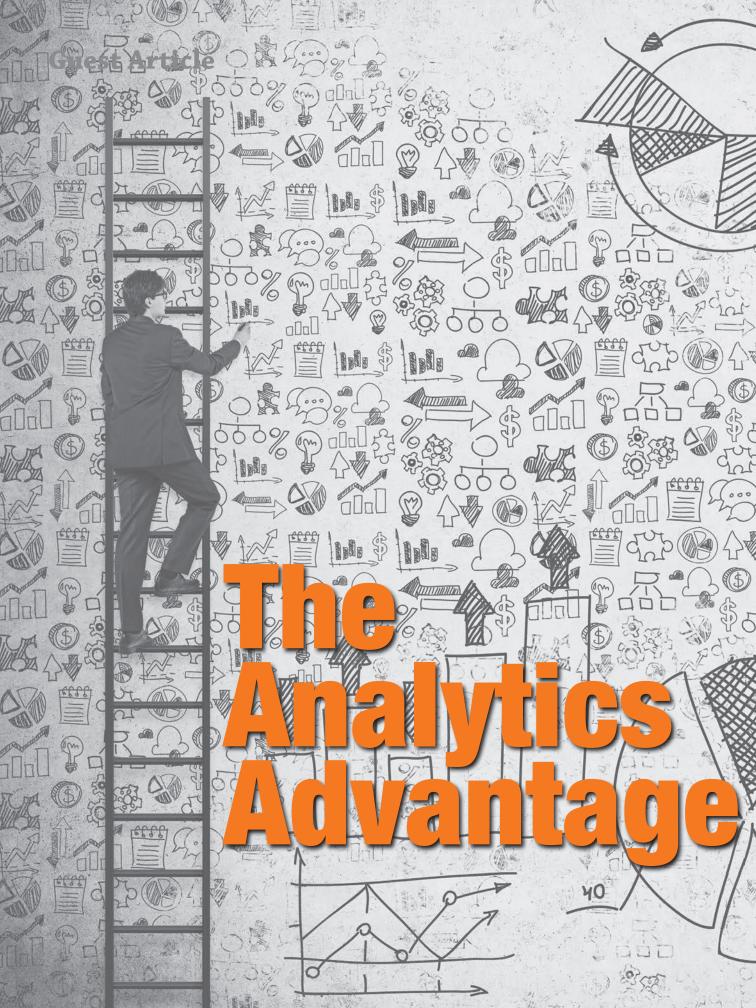
Investment Bank	Value (\$bil)
JP Morgan	47.2
Goldman Sachs & Co	41.3
Morgan Stanley	41.1
Rothschild & Co	32.3
Credit Suisse	28.8
Citi	26.5
Barclays	26.3
Lazard	26.3
Bank of America Merrill Lynch	23.9
Jefferies LLC	18.9
Deutsche Bank	18.6
BNP Paribas SA	16.4
UBS	16.0
Evercore Partners	15.7
Moelis & Co	15.4
RBC Capital Markets	15.4
Houlihan Lokey	14.5
PricewaterhouseCoopers	11.9
CITIC	11.9
BMO Capital Markets	11.8
Ernst & Young LLP	11.4
Stifel/KBW	10.9
Nomura	10.7
TD Securities Inc	10.3
Macquarie Group	10.2
HSBC Holdings PLC	10.2
KPMG	9.5
Industrial & Comm Bank China	8.5
China Securities Co Ltd	8.1
Wells Fargo & Co	8.0
Piper Jaffray Cos	7.7
Sandler O'Neill Partners	7.4
Centerview Partners LLC	7.4
Robert W Baird & Co Inc	6.8

Investment Bank	Value (\$bil)
Haitong Securities Co Ltd	6.8
Raymond James Financial Inc	6.7
China International Capital Co	6.7
CIBC World Markets Inc	6.5
Deloitte	6.4
Daiwa Securities Group Inc	5.4
Credit Agricole CIB	5.2
National Bank of Canada Fin'l	5.1
China Merchants Securities Co	5.1
Sumitomo Mitsui Finl Grp Inc	4.9
Mediobanca	4.9
Guotai Junan Securities	4.6
Itau Unibanco	4.3
Stephens Inc	4.2
PNC Financial Services Group	4.0
Mizuho Financial Group	3.9
Greenhill & Co, LLC	3.7
Investec	3.5
SEB	3.3
KeyBanc Capital Markets Inc	3.2
William Blair & Co	3.2
GCA Corp	3.2
Banco BTG Pactual SA	3.2
CBRE Holding SAS	3.2
Standard Chartered PLC	3.1
Somerley	3.0
Cowen & Co	3.0
Huatai Securities Co Ltd	3.0
ING	2.9
Duff & Phelps	2.8
Scotiabank	2.7
Canaccord Genuity	2.7
Natixis	2.6
Societe Generale	2.5

#### **Editor's Note:**

To measure activity in the middle market, Mergers & Acquisitions looks at transactions that fulfill several requirements: Deals must have a value of roughly \$1 billion or less, or an undisclosed value; and they must be completed (not just announced) within the timeframe designated. For this ranking, we included deals throughout the world. Excluded from our charts are: recapitalizations; self-

tenders; exchange offers; repurchases; stake purchases; and transactions with undisclosed buyers or sellers. The data provider is Thomson Reuters, which updates its databases continuously. We use the data available at press time. For this article, data was collected on Feb. 15, 2018.



# Digital technologies, such as artificial intelligence and analytics, play a key role in helping human deal analysts sort through vast amounts of data. By J. Neely

igital technology has fundamentally transformed the M&A market, changing the way companies approach deal strategies – from the targets they're chasing to the processes they have in place for deal execution and integration.

### Wanted: digital assets

ompanies are increasingly turning to M&A to strengthen their digital footprints, acquiring multiple businesses in quick succession to gain technologies they don't currently possess. Digital fuels growth, and many large organizations are recognizing that they can't build the digital capabilities they need as quickly as they would like to achieve that growth organically. Instead, they're looking outside for new, emerging players to acquire innovation and technologies to stay competitive.

For example, Siemens has invested \$10 billion in software companies since 2007 to help fulfill its digital strategy. As a result, in 2016, Siemens' digital business generated around \$4.6 billion, 12 percent more than 2015—with double digit growth predicted through 2020.

Digital needs are fast rivaling traditional reasons in spurring M&A events across all industries. Accenture Strategy research shows that acquiring new capabilities and the need for next-gen tech are on par with more traditional M&A triggers such as expanding into geographic markets or industries.

### A new M&A approach

To make digital acquisitions a success and have them contribute to

new business growth, companies need to transform their M&A approach from the get-go. More than three-quarters of executives agree they cannot rely on traditional M&A capabilities for digital deals. These deals require a different mindset, and different toolkit – companies getting it right are digitizing their processes from target screening to valuation, through to discovery, negotiation, integration and beyond. More than 60 percent of companies are already using a different pre-deal team and evaluation for digital transactions.

Digital technologies also allow companies to generate better insights faster, run a smoother process and extract more value from M&A. Analytics and applied intelligence play a key role in helping human deal analysts sort through vast amounts of data—from financials, to company communications, social media and customer sentiment.

### Digital wealth for all

To realize an acquisition's full potential, companies also need to spread that digital savvy across the organization. Currently, research shows most companies are failing to infuse the cultural DNA of their digital deals into the wider organization, with almost two-thirds keeping digital acquisitions as a standalone business.

An increasing number of acquiring executive teams are realizing the value of harvesting the DNA that their agile upstarts bring, but integration must be done thoughtfully, not monolithically. For example, one approach that has proven successful is to foster a culture of cultures that allows new acquisitions

to thrive in the parent company's ecosystem, while creating commercial and infrastructure linkages that enable collaboration around market opportunities. Additionally, as companies acquire multiple digital entities, some may find stringing them together to create a new capability and meld the best of all cultures could create a competitive advantage.

- Develop a distinct process for digital M&A. From target screening to valuation, discovery and negotiation, a modified playbook can be a huge advantage.
- Determine the appropriate level of integration, to scale new business growth. The more digital acquisitions a company makes, the more necessary holistic integration strategy becomes.
- Double down on technologies like analytics and artificial intelligence to improve end-to-end capabilities for all acquisitions—traditional and digital. Companies will generate better insights faster, streamline the process and extract more value from M&A

M&A activity related to gaining digital capabilities will only continue to increase. Those who move quickly to bring their company into the new with digital technologies are best positioned to reap the rewards.

J. Neely is managing director and global M&A lead within Accenture Strategy, where he focuses on working with clients across the consumer, retail and industrial sectors.

### **Data Snapshot**

## **Spotlight: Lower Mid-Market**

Q4 purchase price multiples up more than 19 percent year over year

Valuation multiples continued to surge in the fourth quarter of 2017, according to GF Data. Deal pricing pushed upward to an average mark of 8.1x EBITDA, a 19.3% increase over the yearago fourth quarter (6.8x) and a 7.0% jump from 3Q '17 (7.5x). The 8.1x mark is a 28.5% increase over the GF Data historical average multiple of 6.3x, which includes deals dating back to 2003.

Completed deal volume for the fourth quarter was up 19.3% over the corresponding quarter last year, and 41.7% higher than Q3 2017. GF Data reports on transactions completed by a pool of 201 private equity funds and other sponsors on transactions they complete in the \$10-250 million Total Enterprise Value (TEV) range, with TEV/ Adjusted EBITDA multiples of 3-15x.

The active fourth quarter is notable given the anecdotal impression that some sellers once again pushed off end-of-year closings in anticipation of federal tax changes. Historically, fourth quarter volume is the highest volume quarter of the year, and averages approximately 25% higher volume than the following Q1.

Deals involving above average financial performers and businesses with higher enterprise values continue to command demonstrable premiums. The quality premium for above-average performers was 27.1% in Q4 2017, off 10.3 percentage points from the prior year period but still a remarkable 18.5 percentage point increase over the historical average. The premium for deals with larger enterprise values in 4Q 2017 was 2.3x EBITDA, up 24.4% from last year's Q4 and up 73.3% from the GF Data historic average of 1.3x EBITDA.

	Q4 2017	Q4 2016	Q3 2017	GF Data Historical Avg.
TEV/Ebitda	8.1	6.8	7.5	6.3
TEV/Ebitda % change		19.3%	7.0%	28.5%
Volume % change		19.3%	41.7%	
Quality Premium	127.1%	137.5%	106.1%	108.6%
Quality Premium % point change		-10.3%	21.1	18.5
Size Premium (TEV/Ebitda)	2.3x	1.9x	2.4x	1.3x
Size Premium % change		24.4%	-3.1%	73.3%

GF Data provides data on private equity-sponsored M&A transactions with enterprise values of \$10 to 250 million. GF Data gives private equity firms and other users more reliable external information to use in valuing and assessing M&A transactions.

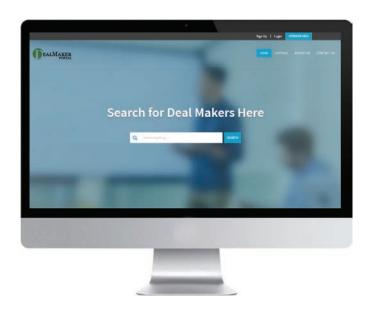
- GF Data defines the Quality Premium to include better financial performers (businesses with TTM EBITDA margins and revenue growth rates both above 10 percent, or one above 12 percent and the other metric at least 8 percent.
   Outliers on the high side are also excluded.)
- GF Data defines the Size premium to compare transactions with \$10-50mm in TEV vs. completed deals with \$50-250 million in enterprise value

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