

# MERGERS & ACQUISITIONS

NOVEMBER/DECEMBER 2017



**Amazon's  
acquisition of  
Whole Foods  
has catalyzed  
dealmaker  
interest and  
activity in online  
meal delivery**

# Made to Order

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# MERGERS & ACQUISITIONS Contents

November / December 2017 | Volume 52 | Number 10



## Cover Story

### Made to Order

Amazon's acquisition of Whole Foods has catalyzed dealmaker interest and activity in online meal delivery



## Watercooler

- 6 Conagra is hungry for more snacks
- 7 Lexington bets on secondary growth
- 12 IOP continues deal spree
- 14 Scientific Games gambles on card holders
- 16 Riverside Co. eats up confectionery ingredients



## Columns

- 39 Private Equity Perspective: The China Syndrome
- 40 The Buyside: Brewing Coffee
- 41 Finance Finesse: Assessing the Credit Bubble



- 24 **News Analysis:**  
Transatlantic dealmaking continues to thrive

- 54 **Q&A:**  
Equifax and mid-market M&A



## Guest Articles:

- 50 Resolving post-closing disputes
- 56 The deal is in the data

## 60 People Moves





## Go With The Flow

Successful deals are like water—they take the path of least resistance. For water, that means flowing downhill and moving around obstacles. For profitable investments, it means seizing on new trends—and circumventing obstacles.

Right now, several important social trends are creating opportunities in new types of food distribution, and middle-market dealmakers are starting to take notice.

One trend is consumers' growing health consciousness—especially regarding the food they eat. Another is the mounting work pressures and concomitant time restraints felt by working people and their families.

A third trend has been harped on endlessly, and that is the insinuation of digital technology into every facet of modern life. The ability to plan and order meals online is no exception.

Put them all together and you have the growing popularity of home-delivered, pre-cooked meals made of fresh, wholesome ingredients that customers can order online. While currently just a tiny sliver of the U.S. food industry, this segment is growing at breakneck speed and redefining consumer appetites. And that turn of events—as we detail in this month's cover story by Assistant Managing Editor Demetri Diakantonis (p.42)—has begun attracting the interest of the major food players.

But when the elephant herd starts to move, the smaller and fleetier animals are well advised to get ahead of the stampede. So it is with private equity. Middle-market players are making defensive moves, and early-mover investors are seizing on the opportunities. Some of these—L Catterton's \$40 million investment in Home Chef is a case in point—have already proven to be ridiculously profitable.

There are obstacles to sidestep, of course. As William Blair managing director Michael Siska tells Diakantonis, "The home meal-kit business has a logistics and packaging impairment that's expensive to solve." But that's where the innovative use of digital technologies comes in—their growing prevalence is giving food sellers economical ways to adapt to consumers' changing preferences.

Growing consumer demand... efficient new means of fulfillment... companies maneuvering so they won't be outflanked... these are the trends propelling the home meal-kit market. Put them all together, and you have some very savory ground for M&A. Bon Appétit!

**Elliot M. Kass**

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What's going on @

# TheMiddleMarket.com

## Words, media and data work together in our redesigned website.

The popularity and utility of our website has also been growing over the years. TheMiddleMarket.com draws 50,000 unique visitors each month. We recently revamped the site, giving it a cleaner, simpler interface that delivers our authoritative, independent content in a new user experience built specifically to meet the needs of busy dealmakers.

The home page offers quick access to the annual M&A Mid-Market Awards and The Most Influential Women in Mid-Market M&A.

The lead story showcases significant news and trends affecting the middle market.

The most important recent stories appear on the top half of the home page.

The Latest provides a steady stream of updated content, including news, features, research reports, slideshows and video interviews.

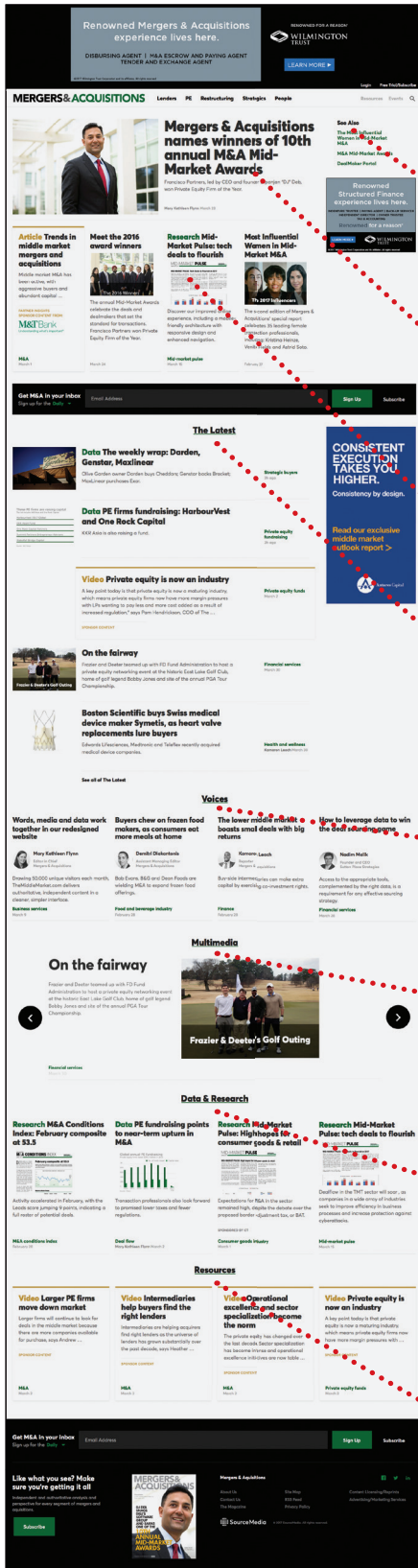
The Voices section highlights opinion pieces, including columns written by our M&A editorial team members and guest articles written by respected dealmakers.

The Multimedia section offers slideshows and videos, featuring prominent thought leaders.

The Data & Research section focuses on reports, including the Mergers & Acquisitions Conditions Index (MACI) and the Mid-Market Pulse (MMP), both based on our proprietary monthly surveys of 250-plus M&A professionals.

Resources showcases sponsored content.

The site has been reinvented to engage the entire community of middle-market dealmakers. Stories scroll, instead of click, so there are no unwanted page breaks. Just one click in the newsletter lets you read the full report on-site in a continuous reading list. The site has been optimized on all devices for ease of use and intuitive navigation, wherever you are.







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## Conagra is hungry for more snacks

**C**onagra Brands Inc. (NYSE: CAG) has agreed to acquire Angie's Artisan Treats from TPG Growth. The purchase is part of the company's ongoing strategy to transform its portfolio through M&A.

Angie's, located in North Mankato, Minnesota, is known for making more than a dozen flavors of ready-to-eat popcorn under the Boomchickapop brand. The target has a presence in North America, South Korea and Peru.

"Adding the Angie's Boomchickapop brand to Conagra's portfolio is another important step in our ongoing plan to modernize our portfolio and accelerate growth," says Conagra CEO Sean Connolly. "It will be a great complement to our growing snack business."



Bloomberg News

Chicago-based Conagra, which owns the Slim Jim brand, has been busy buying and selling assets. In 2017, Conagra announced plans to sell the Wesson oil brand to J.M. Smucker Co. (NYSE: SJM) and bought meat snacks maker Thanasi Foods; In 2016, the company completed the spinoff of the Lamb Weston frozen fries division; Also in 2016, Conagra sold the Spicetec seasonings and flavors business to Givaudan.

TPG Growth is the middle-market and growth equity arm of private investment firm TPG. San Francisco-based TPG Growth has more than \$8.3 billion in

assets under management. The firm is also backed Bythe resources of TPG's nearly \$72 billion in assets under management. The firm recently made a minority investment in Campus Activewear.

McGrath North served is representing Conagra. Lindquist & Vennum LLP is advising Angie's. Houlihan Lokey Inc. (NYSE: HLI) and Kirkland & Ellis LLP are advising TPG Growth. Financial terms were not disclosed.

— By Demetri Diakantonis

## PE firms feed on restaurants

**F**reeman Spogli & Co. has acquired a majority stake in fast casual Mexican restaurant chain Cafe Rio from KarpReilly. The target's management team will keep a stake in the company. Demand for ethnic flavors is one of the drivers in restaurant M&A.

Cafe Rio was founded in 1997 and is based in Salt Lake City, Utah. The chain is known for making made-from-scratch dishes such as burritos and tortillas that use traditional Mexican ingredients. Cafe Rio operates more than 100 restaurants in 11 states mainly on the West coast. KarpReilly invested in the company 2004. Financial terms of the deal were not disclosed.

"Through our new partnership with Freeman Spogli, we will be able to leverage their team's extensive experience growing restaurant concepts as we look to expand

Cafe Rio in both existing and new markets," says Cafe Rio CEO Dave Gagnon.

Freeman Spogli is a Los Angeles-based

private equity firm that invests up to \$150 million in businesses across the consumer and distribution sectors. The firm has previously backed restaurant chains City Barbeque and El Pollo Loco.

Buyers are showing an appetite for ethnic restaurants, as consumers want food that reflects their diversity. Curry Up Now acquired Tava Kitchen; General Atlantic made a minority growth investment in fast-casual operator Barteca Holdings; and Burger King owner Restaurant Brands International Inc. agreed to buy Popeyes Louisiana Kitchen.

Piper Jaffray Cos. (NYSE: PJC), Ropes & Gray LLP and Kirton McConkie PC advised the sellers. Morgan Lewis & Bockius LLP represented Freeman Spogli.

— By Demetri Diakantonis

## Recycling providers don't go to waste

**S**tella Environmental Holdings Inc., a portfolio company of Hidden Harbor Capital Partners (HHCP), has acquired Rackleff Enterprises, a waste transfer station management company.

Rackleff operates seven transfer stations where solid waste is held in order to be transferred, treated or properly disposed of at another solid waste facility. The Statesboro, Georgia-based target

expects to benefit from operational efficiencies by joining the buyer.

On the contrary, the deal for Rackleff is intended to help

Stella Environmental expand in the southeast region of the U.S.

Founded in 1992, Stella Environmental provides outsourced



Cafe Rio



transfer management services to waste companies, municipalities and other government entities. The Houston-based buyer helps to manage the loading and transportation of waste from in-town processing facilities to remote landfills. HHCP acquired Stella Environmental, previously a division of Action Resources, in August.

“This acquisition strengthens our position in the transfer station management industry Byexpanding our reach and deepening our capabilities,” states Stella Environmental CEO Wilfred Roth. “Rackleff’s operational expertise and steadfast commitment to its customers align strongly with Stella’s core values, and its leadership position in the Southeast will help drive our continued growth.”

HHCP is a lower middle-market private equity firm based in Ft. Lauderdale, Florida. The firm invests in North American companies generating between \$50 million and \$500 million in revenue across the industrials, transportation and logistics, consume products, business services and retail sectors.



Adobe Stock

HHCP isn’t the first private equity firm to show interest in waste management company. Bain Capital invested in commercial recycling provider Living Earth using the firm’s Bain Capital Double Impact investing strategy.

— By Kameron Leach

## Kellogg is ready to take on the future of food

Kellogg Co. (NYSE: K) has agreed to acquire protein bar maker RXbar for about \$600 million. The addition of Rxbar will help Kellogg appeal to consumers who demand healthy convenient snacks.

“With its strong millennial consumption and diversified channel presence including e-commerce, Rxbar is perfectly positioned to perform well against future food trends,” says Kellogg CEO Steve Cahillane. Rxbar expects to finish 2017 with around \$120 million in sales.

Chicago-based Rxbar makes nutrition bars mostly with egg whites and nuts that come in 11 different flavors in addition to seasonal items, such as pumpkin spice. “Joining Kellogg is not only a great cultural fit, but it provides us with the tools and resources to accelerate our growth so the brand can scale even faster than it is today,” adds Rxbar co-founder Peter Rahal.

Kellogg, headquartered in Battle Creek, Michigan, is known for producing cereals and snacks under the Corn Flakes, Frosted Flakes, Pop-Tarts and Mini-Wheats brands. The company has been growing through acquisitions. For instance, in 2016, Kellogg announced plans to buy Brazilian biscuits maker Parati Group. And in 2015, the company bought Egyptian cereal producer Mass Food Group.

Buyers are actively chasing snack companies. Some recent deals include: B&G Foods Inc.’s (NYSE: BGS) acquisition of Back to Nature Foods; Conagra Brands Inc.’s (NYSE: CAG) agreement to buy Angie’s Artisan Treats; and Palladium Equity’s investment in Kar Nut Products.

— By Demetri Diakantonis

## Lexington bets on secondary growth

Lexington Partners has raised the firm’s fourth middle market fund, Lexington Middle Market Investors IV LP valued at around \$2.6 billion. LMMI IV will target growth capital and other middle-market buyout interests in the secondary market.

LMMI IV will also seek restructurings, spinouts and tender offers. The fund has received “significant commitments from new” investors who are interested in “increasing their private equity programs,” according to Lexington managing director Marshall Parke. Proskauer represented Lexington. LMMI IV has already completed about 15 secondary transactions.

“We look forward to continuing to provide high-quality middle market buyout exposure to our limited partners on a diversified, lower-risk basis through attractive acquisitions in the global secondary market,” Lexington partner Wilson Warren. Lexington closed a \$10 billion secondary fund in 2015.

Lexington estimates that the secondary market generates approximately \$30 billion in annual volume and expects that number to surpass \$40 billion by the end of 2017. Private equity firms becoming more active in managing their portfolio companies are among the main drivers in rising interest in the secondary market. New York-based Lexington is an independent manager of secondary and co-investment funds. — By Demetri Diakantonis

## Tech keeps cross-border M&A trending

**P**CM Technology Solutions UK Ltd, a subsidiary of PCM Inc. (Nasdaq: PCMI), is moving forward with plans to expand in the U.K. with the purchase of Stack Technology Holdings Ltd (The Stack Group).

Founded in 1979, The Liverpool, England-based Stack Group owns two cloud data centers and touts itself as a specialist in the management of information technology services, including cloud and infrastructure management, IT security, virtualization, data services, and unified communications. The target also owns two cloud data centers.

“The acquisition of The Stack Group is a key milestone for our new U.K. segment to further support our clients’ needs in the services and solutions market,” states PCM Inc. CEO Frank Khulusi.

The Stack Group will compliment the services Bootle, England-based PCM Tech with additional vendor accreditations and expertise in hybrid cloud, networking, security, data management and the digital

its list of customers.

Financial terms of the deal were not disclosed. At a time when data security is urgently needed to protect everything from massive databases to mobile devices, dealmakers are acquiring security providers from the middle-market. ManTech International Corp. (Nasdaq: MANT) acquired cloud service management provider InfoZen for \$180 million; Honeywell International Inc. (NYSE: HON) purchased Nextnine; Open Text Corp. (Nasdaq: OTEX) bought Guidance Software Inc.; Zix Corp. (Nasdaq: ZIXI) acquired email encryption provider Entelligence Messaging Server; and Symantec Corp. (Nasdaq: SYMC) announced plans to buy Fireglass for undisclosed terms.

— By Kamaron Leach

## Littlejohn stays active, sells logistics provider

**P**itney Bowes (NYSE: PBI) is acquiring logistics company Newgistics Inc., from private equity firm Littlejohn & Co., for \$475 million. The buyer intends to operate the business as an independent unit into the first quarter of 2018 to avoid disruptions during the holiday shopping season.

Newgistics provides more than 500 retail clients with e-commerce logistics and parcel services through nine operating facilities. The Austin, Texas-based company provides a variety of services, including: digital commerce development, deep analytics, relationship management, systems integration, fulfillment, parcel delivery and returns management. Newgistics is a workshare partner of the United States Postal Services (USPS) and processes nearly 100 million parcels each year, according to the company.

“Newgistics fits uniquely at the intersection of our parcel growth strategies and will accelerate the overall transformation of Pitney Bowes,” states Pitney Bowes CEO Marc Lautenbach. “This acquisition – combined with recent innovations in mailing and shipping for SMB clients, organic growth of our Global Ecommerce business, and expansion of our presort and parcel services network – definitively anchors Pitney Bowes in a growing space and vastly increases the value we can deliver for our clients.”

Founded in 1920, Houston-based Pitney Bowes offers mail processing equipment, mail supply services and software. Parcel volume, according to Lautenbach, has increased globally By48 percent over the past two years



and is expected to grow at least another 17 percent By2021. In addition to the Newgistics deal, Pitney Bowes announced the opening of a new presort services operating center in Huntington Beach, California. The new facility will help Pitney Bowes to further expand in the U.S. domestic parcel industry.

Littlejohn is a Greenwich, Connecticut-based investment advisory firm that backs middle-market companies seeking to change their capital structure, growth strategy or operations. The firm is currently making investments from Littlejohn Fund V, fifth fund, which has,



workplace. The buyer touts Cisco Systems Inc. (Nasdaq: CSCO), Dell Inc. (Nasdaq: DELL), NetApp Inc. (Nasdaq: NTAP), VMware Inc. (NYSE: VMW), Ubiquiti Networks Inc. (Nasdaq: UBNT) among



# WHAT'S THE DEAL WITH DUANE MORRIS?

THAT NAME KEEPS POPPING UP MORE AND MORE AS DEAL COUNSEL

## Recent Financing Deals

<b>\$27 MILLION</b> Acquisition financing of private equity owned branded products and customized stationery leader for 	<b>\$17 MILLION</b> Senior secured equipment loan to national manufacturer and distributor of almond milk and related products for 	<b>\$24.2 MILLION</b> Financing for acquisition of company in the automotive industry to financial sponsor for  SPONSOR FINANCE GROUP	<b>\$75 MILLION</b> Secured credit facility to piping systems manufacturer, with guaranties from affiliates in Belgium and Canada for 	<b>\$25 MILLION</b> Financing to a consortium of nursing homes in New Jersey for 
<b>\$15 MILLION</b> Secured refinancing of a hospital in California for 	<b>\$231 MILLION</b> Debt and equity financing for major for-profit substance abuse treatment center chain 	<b>\$160 MILLION</b> Syndicated, agented financing to turkey processor West Liberty Foods for 	<b>\$250 MILLION</b> Syndicated, secured credit facility with accordion feature for major privately held food importer 	<b>\$40 MILLION</b> Term loan financing from Bank of America for PT Bank Negara Indonesia 

## Recent M&A Deals

 Acquisition of this government IT provider for DoD and Federal government IM solutions leader 	  363 sale of all assets to these industry leaders for injectable drug delivery systems specialist 	 Acquisition of 76 southeastern U.S. retail locations of growing rent-to-own leader for franchisee 	 Acquisition of 85% ownership interest in major regional John Deere distributor network for 	 Stock-for-stock acquisition of Canadian-listed Calico Resources for NYSE-listed 
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## Recent Securities Deals

 <b>\$40.2 MILLION</b> Offering of Series A and Series B Common Stock and Warrants for 	 <b>\$75 MILLION</b> Common Stock ATM Offering   	 <b>\$50 MILLION</b> Common Stock ATM Offering 	 <b>\$703 MILLION</b> QIP and private placement to listed India-based NBFC-D Bajaj for   	<b>\$500 MILLION</b> Underwritten registered public offering of 7.875% senior notes due 2025 for 
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## Recent Fund Formations

<b>\$50 MILLION</b> Fund formation for investments in consumer products and services businesses for 	<b>\$68 MILLION</b> Advised on launch of Spell Capital Fund V, focused on buyout of industrial manufacturing businesses 	<b>\$125 MILLION</b> Small cap value equity strategy fund, with Irving Magee Investment Management LLC for Michigan LP 	<b>\$100 MILLION</b> Formation of private equity growth capital fund investing in high-growth consumer branded products for 	For more information on how seriously we take our deals, get in touch with <b>BRIAN KERWIN</b> , chair of our global Corporate Practice, at 312.499.6737 or <a href="mailto:bpkerwin@duanemorris.com">bpkerwin@duanemorris.com</a> . 
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nearly \$2 billion in capital.

Littlejohn has remained active throughout 2017. The private equity firm recently bought chemicals producer Cornerstone from HIG Capital; purchased money vault maker Tidel; bought sheet metal producer Maysteel; and acquired patio furniture manufacturer Brown Jordan International in January 2017. Littlejohn also raised a \$406 million collateralized loan obligation fund (CLO), called Wellfleet CLO 2016-2 in November 2016.

— By Kameron Leach

## Circor strengthens fluid handling biz

Circor International Inc. (NYSE: CIR) has agreed to purchase Colfax Corp.'s (NYSE: CFX) fluid handling business for \$855 million in cash and stock. The acquisition is intended to help build out Cicor's product line and services involving the flow control of fluids and help it achieve greater efficiencies.

Dating back to 1860, Colfax Fluid Handling has manufactured screw pumps for demanding service applications in commercial marine, defense, oil and gas and the industrial sector in general. The Monroe, North Carolina-based target supplies a portfolio of fluid handling products to support gas compression, chemical processing, power generation and wastewater operations. Cicor expects the purchase to yield savings from greater supply chain efficiencies, cost reductions and manufacturing rationalization.

"CFH's differentiated product offering enhances our ability to provide critical flow control solutions, and expands our presence into new markets," states Circor CEO Scott Buckhout.

Based in Burlington, Massachusetts, Circor distributes valves and sub-systems used in the energy, aerospace and industrial markets. Circor operates



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from two divisions: energy and advanced flow solutions. With products sold to more than 950 distributors worldwide, the buyer has manufacturing facilities located in the U.S., Canada, Western Europe, Morocco, and India. For the acquisition, Circor will pay \$542 million in cash, issue nearly 3.3 million new shares valuing approximately \$163 million, and assume global pension plans with a liability of \$150 million in pre-tax dollars.

The middle market has been swarming with deal activity across the industrials and manufacturing sectors. Related deals include: Colfax subsidiary Esab Welding and Cutting's purchase of gas welding tool maker Arc Machines Inc from Marwit Capital; Tech Air's, backed ByCI Capital Partners, completed deal to buy two welding suppliers; Berkshire Hathaway Inc.'s purchase of Wilhelm Schulz GmbH; Graycliff Partners' backing sheet maker A-1 Machine Manufacturing Inc.; Liberty Hall Capital Partners' acquisition of aerospace parts supplier ZTM Inc.; and LFM Capital's investment in hydraulic clamps maker Vektek LLC.

— By Kameron Leach

## Court Square backs playground manufacturer

Court Square Capital Partners has purchased PlayCore Inc., one of the largest U.S. playground equipment manufacturers, from Sentinel Capital Partners nearly two months after the firms were said to be in talks about a possible acquisition. Sentinel backed PlayCore in 2014.

Founded in 1979, PlayCore designs and distributes products for educational and recreational play. The target's portfolio of playground structures includes: picnic tables, park benches, dog park equipment, spectator seating, sporting scoreboards, commercial pool equipment and bike storage amenities. The Chattanooga, Tennessee-based company has completed 14 add-on acquisitions since Sentinel's initial investment. PlayCore previously operated under the Swing-N-Slide Corp. brand name before changing the company name in April 1998. Financial terms of the deal were not disclosed.

Court Square is a New York-based private equity that invests in business services, industrial, healthcare and technology and telecommunications sectors. With the purchase of Playcore, the PE firm will gain more than 27



PlayCore

playground equipment brands. Court Square has made other middle-market deals, including the acquisition of medical

supply distributor NDC in 2016, and the selling of generic drug distributor Harvard Drug Group to Cardinal Health Inc. (NYSE: CAH) in 2015.

Sentinel is a middle-market private equity firm based in New York. The firm invests in businesses with up to \$65 million in Ebitda across the aerospace and defense, business services, consumer, distribution, food and restaurants, healthcare and industrial sectors. Busy with acquisitions, Sentinel recently acquired clothing distributor Cabi; home show operator Marketplace Events; marketing training company Corporate

Visions; auto parts maker Driven Performance Brands; restaurant operator Fazoli's Group, and relocation service provider Total Military Management. Harris Williams & Co. served as financial adviser to both PlayCore and the seller.

— By Kamaron Leach

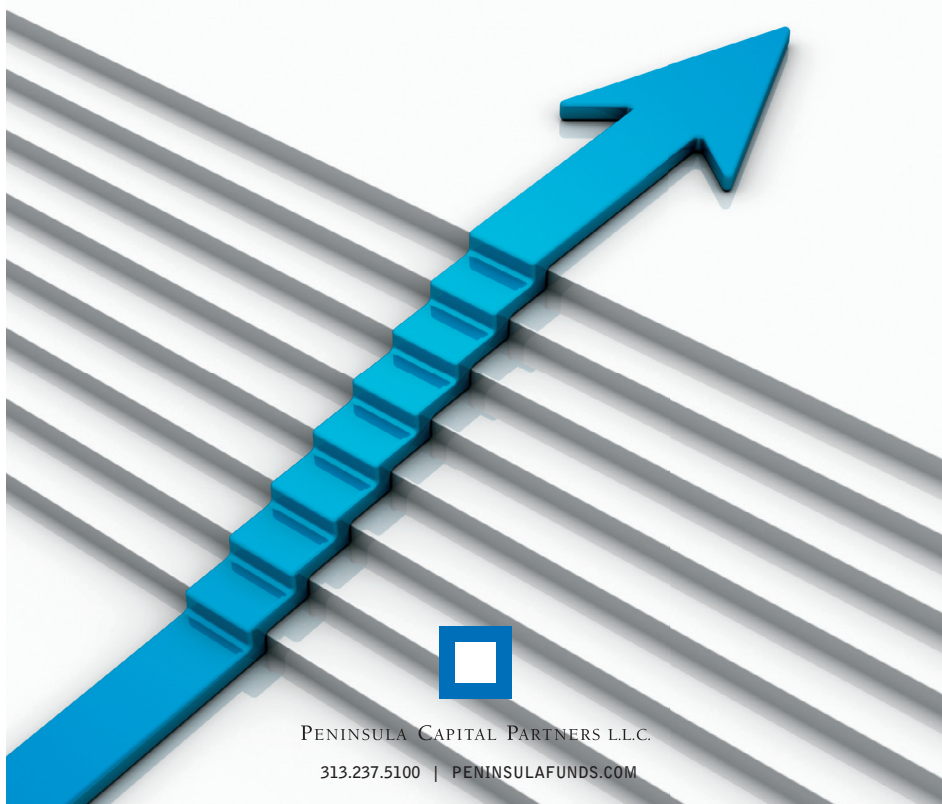
## Medical tech draws strategic buyers

Fidelity National Financial Inc. (NYSE: FNFV) has agreed to buy medical software and

documentation provider T-System Holdings for \$200 million. The buyer will seek additional acquisitions to help grow the target.

T-System, based in Dallas, develops information software for emergency room physicians to make it easier for them to diagnose and treat patients. In addition, the T-System's technology is designed to assist healthcare providers assess performance and meet regulatory compliance. "We can assist T-System in making multiple acquisitions that can accelerate future growth," says Fidelity chairman William Foley.

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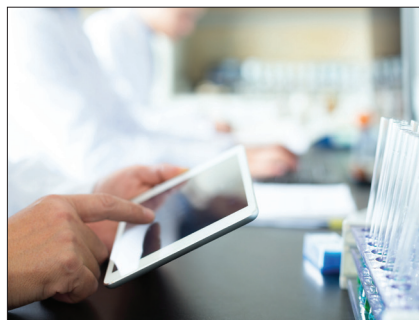
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Jacksonville, Florida-based Fidelity provides title insurance and other financial services to the real estate and mortgage sectors through its Black Knight Financial Services and ServiceLink Holdings subsidiaries. Fidelity recently agreed to merge casual dining chain 99 Restaurant & Pub with J. Alexander's Holdings Inc.



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(NYSE: JAX).

In other healthcare technology deals, EQT has agreed to acquire a majority stake in healthcare technology provider Certara; Francisco Partners' eSolutions is purchasing data analytics firm RemitDATA; and New Mountain Capital-backed Ciox Health acquired data service company Arrohealth.

— By Demetri Diakantonis

## IOP continues deal spree, following fund close

Industrial Opportunity Partners has made an investment in foam maker Creative Foam Corp., partnering with the target's management team on the deal.

Creative foam makes die cut, and nonwoven foam materials for the automotive, medical and energy sectors. The company has 14 facilities spread across Michigan, Indiana, Colorado, Ohio, Tennessee and Florida. Based in Fenton, Michigan, Creative Foam was

founded in 1969.

"IOP brings both capital and significant industry experience, which I believe will enhance the company's ability to support growth and to expand our capabilities," mentions Creative Foam president David Swallow.

IOP is an Evanston, Illinois-based middle market PE firm that invests up to \$50 million in businesses that have between \$30 million and \$350 million in revenue. The firm, which focuses on the construction, automotive and industrial sectors, recently closed its third fund.

Mid-market foam producers are proving to be attractive targets. Arsenal-backed Acella is purchasing assets from Covestro; FFL Partners backed-Icynene is buying Lapolla Industries and in 2016, Audax-backed Innovative Chemical Products purchased Fomo Products.

Western Reserve Partners advised Creative Foam. McDermott Will & Emery represented IOP. JP Morgan (NYSE: JPM), Comerica Bank, Hancock Capital Management and Norwest Mezzanine Partners provided financing. Financial terms were not disclosed.

— By Demetri Diakantonis

## Victor Capital makes first deal since inception

Victor Capital Partners has acquired fabric insulation producer PrimaLoft from Prudential Capital Group. The buyer teamed with private equity firm Allstate along with the target's management team on the transaction.

Founded in 1988, Latham, New York-based PrimaLoft makes insulation, fabrics and yarns for outdoor and hunting apparel, military gear and home furnishings. The company has additional

offices in Germany and China. "This is an incredible opportunity to enhance the future of PrimaLoft," says PrimaLoft CEO Mike Joyce. Madison Capital, Antares and Intermediate Capital Group



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provided financing.

The acquisition of PrimaLoft marks the first for Victor Capital since the private equity firm was founded in 2015. Victor Capital is located in New York and concentrates on the consumer and industrials sectors.

In other similar deals, Arlington Capital acquired seat fabric manufacturer Tex Tech and in 2016, Platinum Equity bought International Textile Group.

Financial terms of Victor Capital's investment were not disclosed.

— By Demetri Diakantonis

## Demand for spray foam rises

Icynene U.S. Holding Corp. has agreed to buy spray foam producer Lapolla Industries Inc. for \$160 million. The buyer is backed Bybacked Byprivate equity firm FFL Partners.

Lapolla, located in Houston, manufactures spray polyurethane foam for insulation and roofing products that are designed to reduce energy consumption. Mississauga, Ontario-based Icynene also

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makes spray foam material. Icynene has installed insulation on more than 425,000 commercial and residential projects since it was formed in 1986.

“Consumers are increasingly turning to high quality spray foam that forms an effective air barrier to meet their energy saving insulation needs,” says Icynene CEO Mark Sarvary. Houlihan Lokey Inc. (NYSE: HLI) is advising Lapolla.

FFL Partners is a San Francisco-based middle-market private equity firm that invests between \$50 million to \$300 million in transactions. The firm was founded in 1997 and concentrates on the industrials, consumer, financial services, healthcare and business services sectors.

Demand for spray foam companies has been rising in the middle-market. Accella Polyurethane Systems LLC, a portfolio company of Arsenal Capital Partners, has reached a deal with Covestro LLC to acquire certain assets of the target’s spray polyurethane foam business. In 2016, Audax Private Equity-backed Innovative Chemical Products (ICP) purchased adhesives maker Fomo Products Inc.

— By Demetri Diakantonis

## Mid-market nourishes with vitamins

**T**SG Consumer Partners acquired supplements retailer LuckyVitamin from GNC Holdings Inc. (NYSE: GNC). The private equity firm is partnering with the target’s founder Sam Wolf on the deal.

LuckyVitamin sells more than 40,000 branded and private label vitamins, nutritional products, personal care and organic snacks through its website. The Conshohocken, Pennsylvania-based company was originally founded in 1956 as a neighborhood pharmacy and

launched LuckyVitamin.com in 2005.

TSG is a private equity firm with offices in San Francisco and New York that focuses solely on the consumer sector. Areas of interest include: food and beverage, restaurants, personal care and apparel. The firm has invested in beer producer Brewdog; jewelry company Charming Charlie and fashion retailer Revolve. Founded in 1989, it has about \$5 billion in assets under management. “They are an ideal partner, and I am confident that their strategic support will be invaluable as we drive the accelerated growth of our business,” said LuckyVitamin founder and CEO Wolf.

Imperial Capital advised TSG. Financial terms were not disclosed.

The middle-market has seen multiple deals involving nutritional wellness products and vitamin producers such as: HGGC’s buying of Nutraceutical International Corp. (Nasdaq: NUTR) for \$446 million; Swander Pace Capital’s purchase of Swanson Health Products’ vitamin portfolio; and The Clorox Co.’s (NYSE: CLX) acquisition of probiotics maker Renew Life Holdings.

— By Demetri Diakantonis

## Scientific Games gambles on card holders

**S**cientific Games Corp. (Nasdaq: SGMS) has agreed to purchase Tech Art Inc., a card holder supplier for the gaming and casino industry. The buyer intends to expand its table game portfolio with the purchase of Tech Art.

Tech Art, based in Las Vegas, has supplied card readers to blackjack card

dealers, players and casino managements companies since 1989. Blackjack is a game commonly referred to as 21, in which a card dealer and players collect cards in order to reach 21 points without going over the limit. Tech Art’s MaxTime Performance product is used to help increase game speed and improve the security of blackjack games by not exposing the value of the dealer’s card prematurely. Financial terms of the deal were not disclosed.

Scientific Games, led by chairman and



billionaire investor Ronald Perelman, develops technology-related products for the gaming, lottery and interactive gaming sectors. The deal for Tech Art introduces two new games, Super Fun 21 and Bet the Bust, to the buyer’s portfolio of table games. The Las Vegas-based company has previously made other acquisitions in order to broaden its services across the entertainment industry. Among them, in 2014, it purchased Bally Technologies Inc., a manufacturer of lottery-game and shuffling machines, for \$3.3 billion.

In other middle-market casino and gaming deals: Eldorado Resorts Inc. (Nasdaq: ERI) merged with MTR Gaming Group Inc.; Penn National Gaming Inc.’s (Nasdaq: PENN) purchase of Tropicana Las Vegas Casino Hotel Resort for \$360 million; and Elray Resources Inc. investing in the online casino Golden Galaxy.

— By Kamaron Leach





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## Riverside Co. eats up confectionery ingredients

**T**he Riverside Co. is acquiring Parker Products, a specialty ingredients manufacturer. The deal comes several months after the privately-held Riverside Co. raised growth capital by selling a minority stake in its firm to Parkwood LLC.

Parker Products distributes ingredients for baking, dairy, beverage, confectionery, ready-to-eat, snack and foodservice providers. The investment from Riverside Co. is expected to allow the Fort Worth, Texas-based company to accelerate its growth by expanding its portfolio of products. These include such items as Agave-glazed quinoa, blueberry-rosemary fruit prep and peppermint candy.

Riverside Co. is one of the most active firms in the private equity space. Its minority stake sale last April follows the lead of other middle-market investment houses, such as Littlejohn & Co. LLC and Vista Equity Partners. At the same time, Riverside Co. raised a non-control investment fund, known as Riverside Strategic Capital Fund. The new fund is currently invested in six businesses, including: Alcohol Monitoring Systems, Bentley Laboratories, DuBois Chemicals, Faddata, North American Dental Group, and True Health Diagnostics.

Ingredient related deals have been picking up recently. SK Capital acquired a majority stake in Niacet Corp., a producer of salt ingredients; McCormick & Co. (NYSE: MKC) bought flavors manufacturer Enrico Giotti S.p.A; Maroon Group purchased Seidler Chemical; Monster Beverage Corp. agreed to buy American Fruits & Flavors; and Vantage Specialty Chemicals Inc., backed



Parker Products

By the Jordan Co., acquired oils maker Mallet and Co. Haynes and Boone LLP is acting as legal adviser to Parker Products.

— By Kameron Leach

## Apax packages Tosca acquisition

**P**rivate equity advisory firm Apax Partners LLP is buying Tosca Services LLC, a provider of food-related packaging materials.

Atlanta-based Tosca produces of corrugated and reusable packaging products for perishable items such as protein, eggs, produce and cheese. The target operates 14 U.S. service centers, distributing packaging materials to grocery retailers and suppliers.

Financial terms of the acquisition were not disclosed.

Headquartered in New York and London, Apax is a private equity firm that has raised and advised more than \$48 billion in assets under management since inception. Apax targets the technology

and telecommunications, business services, healthcare and consumer goods sectors. The firm has had its fair share of middle-market deals, recently acquiring SaaS provider ECI Software Solutions, Answers Corp. and retailer Rue21.

“In today’s complex and fast-changing grocery environment, challenged by increasing pricing competition, grocers need a solution like Tosca’s that drives supply chain efficiency and simplicity while also positively impacting the environment,” states Apax partner Ashish Karandikar. “We see significant opportunities for the company to continue to innovate and are delighted to work alongside the existing management team as the company enters its next phase of growth.”

Other recent packaging deals include: ProAmpac’s purchase of PolyFirst Packaging; Dade Paper & Bag Co.’s agreed to merge with Imperial Bag & Paper Co. LLC; Sabert Corp. is buying of Mullinix Packages Inc. from Mason Wells; and Sonoco’s (NYSE: SON) deal to purchase Clear Lam Packaging Inc. William Blair & Co. LLC is serving as financial adviser to Tosca, while Kirkland & Ellis LLP is acting as legal counsel. RSM US LLP and PriceWaterhouseCoopers LLP are serving as accounting advisers to Tosca.

— By Kameron Leach

## Maroon Group continues M&A spree

**M**aroon Group has purchased ingredients supplier Seidler Chemical. The buyer is backed by private equity firm CI Capital.

Seidler, based in Newark, New Jersey, distributes chemicals including acids, oils and sulfates. The target serves the food and beverage, personal care and pharmaceutical sectors.



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“This acquisition expands our value-add service offering and builds additional scale in attractive end markets. We are seeking additional strategic add-on acquisitions to complement Maroon Group’s business,” says Maroon Group CEO Mark Recihard. The Seidler deal is Maroon Group’s seventh add-on under CI Capital’s ownership. Some other purchases include Cadence Chemical, Lincoln Fine Ingredients and U.S. Chemicals.

Founded in 1977, Maroon Group is an Avon, Ohio-based supplier of chemical additives, resins, pigments and packaging to more than 900 manufacturers across a variety of industries, including: paint and coatings, plastics, graphic arts, sealants and adhesives, chemical compounders, rubber, and construction. CI Capital invested in Maroon Group in 2014.

CI Capital is a New York-based private equity firm with more than \$2 billion in assets under management. The firm began making investments in 1993 when it was called Caxton-Iseman Capital. The firm served as the private equity arm of Caxton Associates for approximately 14 years, before spinning-out on its own in 2007. CI Capital has made over 200 acquisitions since its inception.

The middle market continues to see robust activity in the chemicals sector. Huron Capital formed Brudner Polymer to pursue investments in the space; Other deals include: Ingevity Corp.’s (NYSE: NGVT) acquisition of Georgia-Pacific’s pine chemicals business for \$315 million and Littlejohn’s purchase of Cornerstone Chemical Co.

— By Demetri Diakantonis

## Cryolife expands in Germany

CryoLife Inc. (NYSE: CRY) is acquiring Jotec AG, a German medical device manufacturer for aortic repairs. The deal for Jotec is intended to expand the buyer’s product portfolio and drive long-term growth beyond the five year horizon, according to CryoLife CEO Pat Mackin.

Founded in 2000, Jotec manufactures endovascular stent grafts and cardiac along with vascular surgical grafts used in newer forms of aortic surgery. An endovascular stent graft is a fabric tube supported by metal wire scaffolds that reinforces weak spots in the aorta. CryoLife is acquiring the Hechingen, Germany-based target for \$225 million.

Atlanta-based CryoLife also distributes a variety of medical devices and implantable living tissues to more than 80 countries worldwide. The buyer’s implants are used in cardiac and vascular surgical procedures. The

deal for Jotec gives CryoLife access to the \$1.2 billion U.S. stent graft market.

“We believe this acquisition will enable CryoLife to deliver sustained, high single-digit revenue growth, while also diversifying our revenues into a significantly larger addressable market,” states Mackin. “In addition, the acquisition will leverage our global infrastructure and accelerate our ability to go direct in Europe, and will foster considerable cross-selling opportunities between the CryoLife and JOTEC

product portfolios.”

Demand for more personalized treatment options, and constant changes in the healthcare sector continue to keep medical device companies busy. Recent deals include: Vance Street capital LLC’s purchase of the cardiovascular manufacturing tools business from W.L. Gore & Associates Inc.; Arlington Capital-backed Avalign Technologies’ acquisition of medical device distributors Thortex and Millennium Surgical.; Boston Scientific’s (NYSE: BSX) deal to buy heart valve replacement maker Symetis; Teleflex Inc.’s purchase of Vascular Solutions Inc. for \$1 billion; and Medtronic plc’s (NYSE: MDT) acquiring of HeartWare International Inc. for nearly \$1.1 billion. GTCR also launched a platform company to fund medical device deals. Vinson and Elkins is acting as legal counsel to CryoLife, while Walder Wyss Ltd. is serving as legal counsel to Jotec.

— By Kamaron Leach

## Vance Street adds Gore’s cardiovascular tools manufacturing biz

Vance Street Capital LLC is acquiring the cardiovascular manufacturing tools business from W.L. Gore & Associates Inc. As part of the deal, the Los Angeles-based PE firm will form a new platform company in Fermatex Vascular Technologies.

Fermatex Vascular will operate from the two manufacturing facilities that Vance Street is buying from Gore. The Wall Township, New Jersey-based operation designs braided tubing, extrusions, and moldings used in the cardiovascular device market and medical industry.

Vance Street Capital is a private equity



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firm that backs middle-market businesses in the medical, aerospace, defense and industrial sectors. Fermatex Vascular is the fourth investment from Vance Street's second private equity fund. The PE firm also acquired A&E Medical in February 2016 from the same fund. Vance Street-backed A&E Medical bought RTI Surgical's cardiothoracic closure business in August.

"Fermatex provides an exciting platform for growth and enables us to partner with a strong team with world class capabilities in the manufacturing of complex medical catheter components,"

states Vance Street partner Mike Janish. "This latest acquisition will enable us to leverage Vance Street's considerable expertise and relationships and create a world-class catheter engineering and manufacturing company."

Founded in 1958, Gore manufactures a variety of electronics, fabrics, industrial, medical and consumer products. Headquartered in Newark, Delaware, Gore makes products derived from resins and fluoropolymers. The seller has manufacturing facilities in the U.S., Germany, the U.K., Japan, and China.

Demand for more personalized

treatment options, an increasing aging population, and a constant change in healthcare technology has kept medical device manufacturers busy. Recent deals include: Arlington Capital-backed Avalign Technologies' acquisition of medical device distributors Thortex and Millennium Surgical.; Boston Scientific's (NYSE: BSX) deal to buy heart valve replacement maker Symetis; Teleflex Inc.'s purchase of Vascular Solutions Inc. for \$1 billion; and Medtronic plc's (NYSE: MDT) acquiring of HeartWare International Inc. for nearly \$1.1 billion. GTCR also launched a platform company

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to fund medical device deals.

Paul Hastings LLP is acting as legal adviser to Vance Street Capital. PricewaterhouseCoopers Corporate Finance Global Network is serving as financial adviser to Gore, while Greenberg Traurig LLP is acting as legal adviser.

— By Kameron Leach

## Data security providers become pivotal

Enlightenment Capital has invested in CyberCore Technologies LLC, a security technology and services provider. CyberCore will use the investment to accelerate its plans to expand its capabilities and customer reach.

CyberCore, based in Elkridge, Maryland, provides (IT) services and security software technologies to both public and private sector clients. Founded in 2000, the company was previously backed by Roark Capital before it was acquired in 2011 by Moelis Capital Partners, which will remain invested in the company.

“CyberCore has a consistent track record of providing vital technology and services to some of the most demanding customers in the government space,” states Enlightenment Capital partner Jason Rigoli.

Enlightenment Capital is a middle-market private investment firm based in Chevy Chase, Maryland. The firm provides senior debt, mezzanine debt and equity financing to businesses involved in the aerospace, defense and government sector. Enlightenment Capital partners with management teams, equity sponsors and businesses that protect critical infrastructure, develop cyber and data technology, engineer aerospace systems and safeguard national security.

IT and data security has become pivotal as a tsunami of data piracy has victimized businesses across the board with data theft. The recent breach at Equifax, which exposed millions of



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consumers to potential fraud and has thrown the credit bureau's operations into turmoil, is but the latest high-profile example. In this environment, dealmakers are actively seeking to acquire security providers from the middle-market. Among recent developments, PCM Technology Solutions UK Ltd. bought The Stack Group; ManTech International Corp. (Nasdaq: MANT) acquired cloud service management provider InfoZen for \$180 million; Honeywell International Inc. (NYSE: HON) purchased Nextnine; Open Text Corp. (Nasdaq: OTEX) bought Guidance Software Inc.; Zix Corp. (Nasdaq: ZIXI) acquired email encryption provider Entelligence Messaging Server; and Symantec Corp. (Nasdaq: SYMC) announced plans to buy Fireglass for undisclosed terms.

— By Kameron Leach

## Carlisle buys roofing materials producer

Carlisle Cos Inc. (NYSE: CSL) is purchasing Accella Performance Materials, a manufacturer of

recycled rubber products, from private equity firm Arsenal Capital Partners in a \$670 million cash transaction.

Accella Performance makes formulated polyurethane systems and recycled rubber materials used in the process of landscaping, roofing, tire filling, air sealing, producing chemical resistant coatings and sealants. Under the terms of the deal, Maryland Heights, Missouri-based Accella Performance will join the buyer's Carlisle Construction Materials division.

Carlisle manufactures products for the commercial roofing, agriculture, mining, construction, aerospace, defense, foodservice, healthcare, sanitary maintenance, transportation, industrial, protective coating and auto refinishing sectors. The Scottsdale, Arizona based buyer reported approximately \$3.7 billion in sales in 2016. The deal for Accella Performance brings new products, technologies and market diversity to the Carlisle Construction Materials division.

“Accella provides an excellent adjacent opportunity into the attractive polyurethane market, which includes spray polyurethane foam and liquid applied roofing,” states Carlisle CEO Christian Koch. Both markets are expected to grow annually at 10-15% through 2020, outpacing broader construction market growth.”

Accella Performance has made a handful of add-on acquisitions under the ownership of Arsenal. In 2015, the target acquired insulation foam maker Premium Spray Products and also bought IPS Polymer Systems. In 2014, Accella purchased flat-proofing systems maker Zeus Tyrefill Systems and granules manufacturer RDT Manufacturing LLC.

— By Kameron Leach



## PCM accelerates U.K. growth plans

PCM Technology Solutions UK Ltd, a subsidiary of PCM Inc. (Nasdaq: PCMI), is moving forward with plans to expand in the U.K. with the purchase of Stack Technology Holdings Ltd (The Stack Group).

Founded in 1979, The Liverpool, England-based Stack Group owns two cloud data centers and touts itself as a specialist in the management of information technology services, including

cloud and infrastructure management, IT security, virtualization, data services, and unified communications. The target also owns two cloud data centers.

“The acquisition of The Stack Group is a key milestone for our new U.K. segment to further support our clients’ needs in the services and solutions market,” states PCM Inc. CEO Frank Khulusi.

The Stack Group will compliment the services Bootle, England-based PCM Tech with additional vendor accreditations and expertise in hybrid cloud, networking, security, data management and the digital workplace. The buyer touts Cisco Systems

Inc. (Nasdaq: CSCO), Dell Inc. (Nasdaq: DELL), NetApp Inc. (Nasdaq: NTAP), VMware Inc. (NYSE: VMW), Ubiquiti Networks Inc. (Nasdaq: UBNT) among its list of customers.

Financial terms of the deal were not disclosed.

At a time when data security is urgently needed to protect everything from massive databases to mobile devices, dealmakers are acquiring security providers from the middle-market. ManTech International Corp. (Nasdaq: MANT) acquired cloud service management provider InfoZen for \$180 million; Honeywell International

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Inc. (NYSE: HON) purchased Nextnine; Open Text Corp. (Nasdaq: OTEX) bought Guidance Software Inc.; Zix Corp. (Nasdaq: ZIXI) acquired email encryption provider Entelligence Messaging Server; and Symantec Corp. (Nasdaq: SYMC) announced plans to buy Fireglass for undisclosed terms.

— By Kamaron Leach

## Audax chases OTC healthcare brands

Audax Private Equity has bought Wellspring Consumer Healthcare, a distributor of branded hygiene and cosmetic products, from private equity firms Sentinel Capital Partners and Ancor Capital Partners. The buyer anticipates building Wellspring “through organic growth and add-on acquisitions,” according to Audax Group co-CEO Geoffrey Rehnert.

Wellspring is a North American manufacturer of over-the-counter pharmaceuticals, specialty prescriptions, and cosmetic brands. The Sarasota, Florida-based target has a portfolio of products that span the skin care, feminine hygiene, and gastrointestinal care categories. Wellspring’s portfolio of brands includes: Bactine, Bonine, FDS, Emetrol, Micatin, Gelusil, Glaxal Base, Barriere, and K-Lyte. The company was first acquired by Sentinel and Ancor in November 2011.

Headquartered in Boston, Audax backs lower middle-market companies with up to \$35 million in Ebitda. Audax has been rather busy recently. In July, the PE firm bought industrial cleaning and maintenance service provider EnviroVac Holdings LLC. Audax also combined two companies to form an automotive aftermarket parts distributor called

APC Automotive Technologies in May. The firm previously won Mergers & Acquisitions’ 2015 Mid-Market Award for Private Equity Firm of the Year.

Sentinel is a lower middle-market

Wellspring Consumer Healthcare



private equity firm based in New York. The firm backs businesses with up to \$65 million in Ebitda across the aerospace and defense, business services, consumer, distribution, food and restaurants, healthcare and industrial sectors. Sentinel has also been busy with acquisitions lately. The firm acquired women’s apparel distributor Cabi Holding Co. LLC; purchased home show operator Marketplace Events; marketing training company Corporate Visions; auto parts maker Driven Performance Brands; restaurant operator Fazoli’s Group; and relocation service provider Total Military Management.

Financial terms of the Wellspring deal were not disclosed. Houlihan Lokey (NYSE: HLI) and Sawaya Segalas & Co. served as financial advisers to Wellspring, while Ropes & Gray LLP served as legal counsel to Audax.

— By Kamaron Leach

## Actua begins winding down operations

Actua Corp. (Nasdaq: ACTA) has reached deals to divest three majority-owned businesses in

separate transactions for \$549 million. After the divestitures are completed, Actua is planning on winding down its company operations.

CVC Growth Fund, an affiliate of CVC Capital Partners, will acquire VelocityEHS for \$354 million. Velocity provides software services to help businesses comply with health, safety and environmental regulations. The deal also includes Actua’s majority stake in insurance technology company Bolt Solutions.

“We have been proactively pursuing investment opportunities in the EHS compliance software market due to its strong secular tailwinds,” says CVC Growth managing director Aaron Dupuis. CVC raised an \$18 billion fund in 2017 to seek software deals.

Separately, Envestnet is buying wealth management technology company FolioDynamix for \$195 million. Chicago-based Envestnet says the acquisitions will add complementary trading and brokerage tools to the company’s existing services. Envestnet provides research data software to financial advisers and institutions.

“We are pleased to reach these agreements with CVC and Envestnet, as they are the successful result of a comprehensive strategic review process undertaken by our board,” says Actua CEO Walter Buckley. Radnor, Pennsylvania-based Actua is financial services-focused cloud technology company.

Evercore Inc. (NYSE: EVR) is serving as financial adviser to Actua, and Dechert LLP is providing legal advice. RBC Capital Markets and Fried Frank Harris Shriver & Jacobson LLP are advising CVC. J.P. Morgan Securities LLC (NYSE: JPM) and Mayer Brown LLP are advising Envestnet.

— By Demetri Diakantonis

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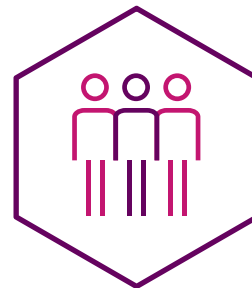
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# Despite headwinds, transatlantic dealmaking continues to thrive



## For middle-market buyers and sellers, the U.S.-U.K. investment corridor remains the world's busiest.

By Elliot M. Kass

**D**espite fears that geopolitical concerns would stunt middle market M&A activity between the U.S. and Britain, interest among dealmakers on both sides of the Atlantic remains strong.

In both markets, Deloitte's latest US/UK M&A Deal Monitor finds that private equity and corporate buyers continue to pursue a shrinking supply of non-public targets, which are often located in lower cost markets outside the hotspots of London, New York and Silicon Valley.

### A deal making dip

**F**or the first half of 2017, global deal volumes eased 3.3 percent from the record levels set in the first half of 2016, according to the report. Further, U.S. M&A activity in the U.K. dropped by almost 15 percent during the period from a very hot first half in 2016, as concerns over Brexit clouded the market. In contrast, first-half U.K. M&A activity in the U.S. rose by almost 10 percent from the previous year, as British investors looked to purchase revenue growth in the U.S.

Mixed year-over-year showings aside, the report finds that U.S.—U.K. deal flow remains the world's biggest bilateral corridor, signaling upbeat prospects for global dealmaking overall. While concerns persist over regulatory and tax uncertainties in the U.S. and Brexit in the U.K., Deloitte sees the outlook for transactional activity in the corridor remaining bullish.

At 2017's midpoint, technology remains the hottest sector for the middle market, as businesses across sectors move quickly to adapt to a rapidly changing marketplace and heightened competition, says Deal Monitor co-author and

Deloitte's U.S. leader for the U.S.-U.K. M&A corridor, Andrew Wilson. In a promising sign for continued strong M&A activity, he notes the current boom encompasses both traditional and next-gen companies from multiple tech sectors, as well as companies from many other industries that offer, big data capabilities, innovative technologies and sector-specific expertise.

### Funding still accessible

**M**&A activity in the U.S.-U.K. corridor has flourished for several years, with asset competition and capital availability remaining strong throughout the deal cycle. But instead of signaling an imminent end to the cycle, as is often the case, Wilson argues that with large amounts of capital waiting to be deployed, supportive financial conditions and continuing easy access to cash, a thriving M&A marketplace has the potential to get even stronger in the second half of this year and beyond.

Despite recent interest rate tightening by the U.S. Federal Reserve, M&A deal funding remains easily accessible for many borrowers. With covenant-light financing available, debt for middle market borrowers is actually getting cheaper, Wilson notes, and companies are seeking to leverage deals at five times Ebitda or more in many cases.

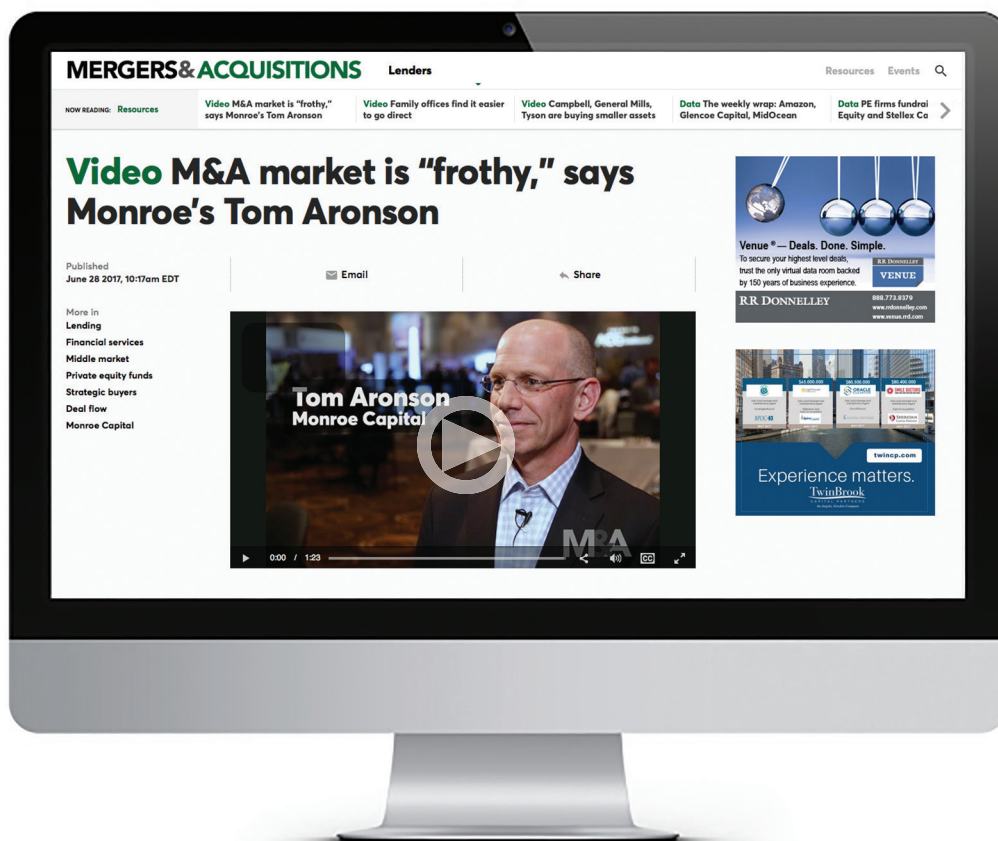
"The M&A market shows few signs of slowing down, with dealmakers putting aside geopolitical, economic and regulatory concerns in an effort to grow their bottom lines," Wilson states. For many mid-market deal makers, he adds, investing in the U.S.-U.K. corridor is no longer a second-best route to organic growth, but has become a their primary growth strategy. **M&A**

“

Technology remains the hottest sector for the middle market, as businesses across sectors move quickly to adapt to a rapidly changing marketplace and heightened competition.

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# Instrumental Players

in Middle Market Private Equity



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Bob Woosley | National Private Equity Practice Leader, FD Fund Administration and FD

### How would you characterize M&A market conditions today?

The M&A market remains very robust and it remains predominately a "sellers' market". If you have a solid company with \$5 million or greater in EBITDA you are in a great position. Good deals are hard to find and we are seeing many control buyout funds create minority investment funds in order to access new opportunities. We are also seeing new funds focused on smaller transactions, as the lower end of the market appears to be less efficient from a valuation standpoint.

### Is the getting harder for private equity firms to raise funds?

Not from our vantage point. We are seeing established funds successfully raising new follow-on funds without much difficulty. The investor profile continues to expand, with professionalized family offices becoming much more active as fund investors. The traditional institutional limited partners are maintaining and, in many cases, expanding their asset allocations in the private equity sector.

### What types of firms are able to raise new funds today?

We are seeing a lot of activity with new U.S. real estate funds, particularly from international entities. U.S. real estate appears to be a very attractive market. In traditional private equity we are seeing new funds being raised, and many times the new

funds are larger than their previous funds, which is indicative of investors rewarding good track records.

### Are you seeing more emerging managers trying to raise funds?

Definitely. We continue to see a large number of emerging managers appearing on the scene. Many of these managers have deep fund experience at other shops and are able to leverage their track records. The funds we see struggle are the ones who are trying to break into the industry for the first time.

### Have additional regulatory requirements changed reporting?

Yes and no. Private Equity firms that are public entities are regulated by the SEC and, as a leading fund administrator we watch the regulatory environment closely—particularly in today's political climate.

Since the 2016 election there has been uncertainty around the roll back of Dodd-Frank. Private equity firms should not view this as an opportunity to defer compliance matters as SEC oversight remains in full effect. Paying close attention to allocations of fees and expenses and ensuring valuation practices are consistent with investor disclosures should continue to be a top priority. In addition, conflicts of interest, pay-to-play violations as well as performance marketing and advertising are at the top of the SEC priority list.

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We have a lot of respect for organizations like the Institutional Limited Partners Association (ILPA) that are trying to create standards surrounding private equity reporting.

**What trends are you seeing from investor requirements on managers?**

There is no question that there is an increased awareness from limited partners seeking to understand how managers operate their business from a controls and best practices standpoint. Transparency and governance are at a premium. We are seeing investors asking, and in many cases requiring, managers to deploy qualified third-party administrators to handle the fund accounting, investor relations and the treasury management functions. We believe that trend will continue.

**How is technology changing things for private equity firms?**

Platforms continue to evolve to make the operations of the managers more efficient and effective. Leading fund administrators, such as ourselves, are always seeking the latest technology tools and bringing them to bear

for the benefit of the managers. Recently we have evaluated and deployed powerful technology in areas of audit management, financial reporting, and regulatory reporting that are truly cutting edge. In our opinion, it should not be the job of fund managers—who have a lot on their plate—to stay abreast of the latest software solutions. This is one of the advantages of deploying a third-party fund administrator, who should have the cutting edge technology and can help a manager avoid the software costs almost entirely.

**What do you expect from the industry going forward?**

In the short-term we see the industry remaining robust and continuing to deliver good returns for their investors. We expect the trend toward outsourcing fund administration to continue to accelerate based on investor expectations as well as smart managers who want to focus their resources on their core value proposition—the creation of value for their investors.

There is no question that there is an increased awareness from limited partners seeking to understand how managers operate their business from a controls and best practices standpoint.



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Broadstone is a sponsor and manager of diversified real estate investment offerings for investors and institutions seeking income-oriented alternatives to the public equity markets. The company currently serves 2,500+ Shareholders of its two privately offered real estate investment trusts (REITs). Both offerings remain open for investment by investors on a monthly basis. Shares are offered via private placement.

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# Sale Leaseback Transactions in PE



Broadstone is a sponsor and manager of diversified real estate offerings for investors seeking income-oriented alternatives to the public equity markets. The company's Broadstone Net Lease, Inc. (BNL) real estate investment trust (REIT) is a privately offered, publicly reporting entity seeking single tenant, net-leased commercial properties and portfolios via sale leaseback, assumption, and UPREIT transactions between \$5 – 300+ million.

Christopher J. Czarnecki | Chief Executive Officer, Broadstone

## What is a sale and leaseback transaction?

Sale leaseback real estate transactions enable companies and investors to capitalize on the value of their mission-critical real estate. A buyer such as Broadstone Net Lease (BNL) will pay to acquire the real estate and enter into a long-term lease, so the seller can efficiently redeploy the proceeds generated by the transaction. The new lease allows the tenant to continue to operate the real estate with the mentality of an owner; by signing a long-term lease the tenant maintains control of the property with flexibility of growth which is critical to their business operations, but they don't tie up precious capital in the process.

## What role do sale leasebacks play in the middle market PE space, and how can portfolio companies benefit from these transactions?

PE sponsors often seek to monetize the real estate as part of a transaction closing, to help fund the acquisition of the business, and potentially eliminate any conflicts that might exist with the previous owners. If a transaction has already closed, a sale leaseback presents a great opportunity for PE sponsors to continue to fund growth capital for the business, pay down debt, or even complete a recapitalization of the portfolio company. These capabilities serve as another arrow in the quiver of private equity fund managers, as they seek to grow and position portfolio companies.

## Do you consider a sale leaseback a replacement for more traditional applications of leverage?

Absolutely. "Augmentation" is a great way to think about it. A sale leaseback can easily be a capital differentiator if more traditional financing is less attractive or unavailable. For companies that are less conventional than most "industrial" or "service" businesses, and in need of some

alternative financing options, sale leasebacks can present a turnkey option. Additionally, a long lease term can provide a stable and predictable cost of occupancy for the tenant.

## What types of properties and industries are best-suited for sale leaseback transactions? What about deal size?

Essentially, any real estate that is integral to the business—this could be a restaurant, medical office, or industrial space. In terms of deal size, BNL has worked with sponsors on deals as small as \$5 million, and as large as \$300+ million. Deep relationships and the ability to grow and complete multiple transactions over time can be more important than deal size.

## How does a sale leaseback partner like Broadstone differentiate itself in the private equity marketplace?

Through reputation, access to capital, and experience working with sponsors in a variety of different industries and geographies. Because of our broader investment focus, and coverage of multiple sectors and industries, including industrial companies, medical, and retail, we have experience working across more than one industry with PE partners. That differentiation, surety of close, the ability to help be a part of the solution, and experience in closing acquisitions are key.

## Do most sale leasebacks occur before, after, or simultaneous to the leveraged buy-out itself?

The order of operations for financings of portfolio companies are dependent on the transaction itself. A slight majority occur at the time of closing, but it happens at all different points in the process. Shortly after a closing may help fund future acquisitions. Whatever the stage, whatever the transaction order, BNL is ready to perform as a sale leaseback partner.

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CEO | Broadstone

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**BROADSTONE**

## Instrumental Players in the Middle Market



Valuation Research Corporation (VRC) is a full-service, independent, global valuation firm focusing exclusively on valuations that offer judgment beyond modeling. The result provides an accurate and customized view of the value of a business. Since 1975, VRC's network of over 1,000 valuation professionals has provided objective, supportable conclusions of value to domestic and international clients.

Charles Sapnas, CFA, ASA | Senior Vice President

### How would you characterize M&A market condition today?

VRC has continued to see strong deal volume and pricing, despite some potentially negative factors including political uncertainty, anticipated interest rate increases and equity market volatility in certain sectors. Overall, it is still a seller's market and business owners are definitely realizing the benefits in prices paid, structure and other transaction related items. On the corporate side, many companies that have excess cash on-hand and limited organic growth or internal investment opportunities are making strategic buys with an aim towards acquiring new and disruptive technological assets, boosting growth and margins through synergies and diversifying products and services. On the private equity side, some sponsors still have a lot of dry powder to deploy and ample opportunities to raise additional funds. The availability of cash and favorable interest rates have contributed to a very active market for PE firms. We have seen competition between strategic corporate investors, who are able to justify higher prices through synergies, and more cautious and patient private equity buyers who must be able to support certain return requirements. Some of our PE clients have indicated that the increase in deal volume over the past couple of years has led to a reduction in quality targets, further contributing to competition and price.

### What change have you seen in multiples in recent years across industries?

Post the Great Recession, multiples have been increasing globally and across industries. However, multiples and pricing trends vary across different

sectors. In our practice, we have seen high multiples in healthcare, particularly in healthcare services, devices and supplies, contract research organizations, and medical and dental practice management groups. In the materials sector there have been some notable deals, with a lot of activity in the specialty chemicals and coatings industry—one notable deal was Sherwin-Williams' acquisition of Valspar at over 16X EBITDA. In the consumer and retail space we see continued strong deal volume with pricing somewhat moderated over 2016. In the IT sector, we continue to see an active market with high volume and multiples for targets with mobile and cloud-based technologies. Consolidation, diversification and market disruption are common themes, especially with strategic acquirers.

We also see certain deal structures such as roll-ups or consolidation of similar companies, which has been common in private equity, garnering higher multiples. These types of deals allow for operating leverage and increasing synergies with each add-on transaction, and multiples tend to grow with scale. From a volume perspective, the number of add-on transactions our private equity clients have completed have met or exceeded new deals or platform transactions. We believe this is generally reflective of the M&A market, in particular for private equity investors.

### In this technology-driven environment, how important is the people factor to valuations?

While technology does play a role in making the valuation process more efficient and secure for our clients, the most important element in providing

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#### CONTACT:

##### CHARLES SAPNAS

Charles Sapnas, CFA, ASA | Senior Vice President  
Valuation Research Corporation  
Direct: 609.243.7007 | csapnas@valuationresearch.com



successful valuation services is our experienced team of professionals. We don't believe in a mechanical approach to valuation; technology can only enhance the process, not automate the work we do given the level of professional judgment required and the unique issues that each engagement presents. My team's work is primarily utilized for complex financial reporting and tax compliance issues, so it is important that we ensure that our people have the appropriate experience and credentials to effectively identify key issues and make our clients lives easier. VRC invests heavily in its staff, and strongly encourages its analysts to pursue professional development and key credentials such as the CFA designation in order to enhance their analytical capabilities. With the nuances that are inherent in each valuation and the technical skill set required to deal with the valuation issues that we encounter frequently, the significance of specific practice area experience and the professional judgment that comes with that cannot be underestimated.

**What do you expect for the industry moving forward?**

Our expectation is that there will be

continued reliance on the valuation industry as an unbiased third party who provides opinions for boards, accounting and tax purposes. Over time, we see new interest and scrutiny, for example, limited partner investors in a private equity firm now questioning the firm's marks on its investments. As it pertains to M&A, the two primary uses of third-party valuation specialists are financial reporting and tax compliance requirements. We don't foresee reduced compliance requirements in the future; while the specific guidance and needs will likely change over time, compliance requirements are likely to increase, especially for public companies.

Charles Sapnas, CFA, ASA, is senior vice president of VRC and specializes in business enterprise valuations, purchase price allocations, and impairment analyses and intellectual property valuations for financial reporting and tax purposes.

Our expectation is that there will be continued reliance on the valuation industry as an unbiased third party who provides opinions for boards, accounting and tax purposes.

## Instrumental Players in the Middle Market

Richard Peterson is a Principal Analyst of Financial Institutions Research at S&P Global Market Intelligence. In his current role, Richard provides in-depth evaluation of capital markets activity from M&A transactions, IPO issuance and fixed-income underwriting. Also, he provides commentary for CUSIP Global Services' CUSIP Trends, a monthly compilation of new securities identifier trends. Previously he served as Chief Market Strategist at Securities Data Company and Senior Research Analyst at Thomson Reuters Proprietary Research. Richard is the author of *Inside IPOs* (McGraw-Hill) and has frequently appeared on CNBC as well as being quoted in *The Wall Street Journal*, *Financial Times*, *The New York Times* and *Barron's*. He has written an IPO column for CNET.com. Richard holds a B.A. from Rutgers University and a J.D. from Rutgers Law School.

Richard Peterson | Principal Analyst at S&P Global Market Intelligence

An abundance of capital has not translated into a flurry of deals for financial sponsors. While private equity firms are sitting on nearly \$1 trillion in available cash, or so-called "dry powder," the number and dollar amount of announced U.S. leveraged buyouts could see their lowest levels in several years if current trends continue.

As the disclosed dollar value for announced merger and acquisition activity involving U.S. targets tops \$900 billion this year, on its way to the fifth consecutive year of over \$1 trillion in activity, the amount of leveraged buyouts is in retreat. Year-to-date through September 18, just 733 transactions are classified as leveraged buyouts by S&P Global Market Intelligence, accounting for less than \$46.8 billion in disclosed deal value. Extrapolating those results for the remainder of the year suggests that 2017 could end with less than \$66 billion in disclosed LBO value from about 1,025 deals. Should that come to pass, it would represent the slowest year for U.S. LBOs since 2009 when 986 deals occurred with a total disclosed value of less than \$44.6 billion.

From the perspective of middle-market transactions, those where targets are acquired for a disclosed amount between \$1 million to \$500 million, the trends look to be more downbeat. In 2017, through September 18, our data shows only 66 announced deals with a total disclosed amount of \$6.36 billion. Extrapolating those results for the full year 2017, it would be reasonable to conclude that the current year would end with about 100 transactions with a total estimated value of under \$9 billion. Should those amounts be realized, it would represent the fewest number of deals

in this size range since 1995 when there were 94 LBOs between \$1 million and \$500 million.

Among middle market LBOs announced in the past months, we find that a typical transaction was priced at 9.7x a target's trailing 12-month EBITDA and 1.5x revenue. The top sectors for deals of this size include consumer discretionary with 28 transactions, information technology with 14 and industrials with 11. In terms of aggregate proceeds by sectors, middle market LBO deal value over the past twelve months was led by consumer discretionary with \$2.46 billion, information technology with \$2.27 billion and industrials with \$1.11 billion.

One explanation for the current landscape may be company valuations. At the start of 2007, a year when announced U.S. LBO value reached a record \$381.2 billion, the 12-month forward price-earnings ratio of the S&P 500 was 15.3x, according to S&P Global Market Intelligence data. That ratio now stands at 18.4x. Given that the current average transaction value-to-EBITDA ratio for an announced U.S. LBO this year is calculated at 10.8x, the lowest level since 2011 when full-year results posted a 10.5x ratio, there may be some hesitancy for financial sponsors to pursue deals with higher multiples.

Another possible culprit may be that several previous LBOs eventually were forced into protection from creditor claims through bankruptcy. An example of this development was Energy Future Holdings Corp., which was acquired by an investor group in February 2007 in a \$44.5 billion transaction but filed a voluntary bankruptcy petition in April 2016. Specialty retailer

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**Announced US LBO Transactions\***

Year	Number of Deals	\$ Value in Billions
2000	582	46.57
2001	543	23.84
2002	738	54.21
2003	779	56.17
2004	975	98.60
2005	1003	112.68
2006	1365	377.90
2007	1587	381.23
2008	1276	34.26
2009	986	44.56
2010	1214	88.64
2011	1156	74.73
2012	1313	107.89
2013	1133	125.75
2014	1173	94.32
2015	1172	80.94
2016	1071	88.99
2017**	733	46.73
<b>FY2017E</b>	<b>1025</b>	<b>65.36</b>

\* Data compiled September 18, 2017

\* Transaction values include assumed liabilities; excludes cancelled deals.

\*\* Through September 18, 2017

Sources: S&P Global Market Intelligence

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Toys "R" Us Inc., acquired by a private equity group in an \$8.4 billion transaction in May 2005, recently filed for bankruptcy, representing one of the largest such moves by a U.S. retailer. Such developments could throw cold water of the pursuit of big deals by financial sponsors.

Finally, the recent introduction of the Trump Administration's tax plan, which offers such proposals as a reduction of the corporate tax rate from 35% to 20% and the partial limitation of deductions for net interest expenses, on first impression may serve as a catalyst for deal activity. Yet, the final bill as yet to be written and could possibly not be effective until next year whereby the lack of legislation may be a near-term drag on the private equity industry. As evidence, at the close of the third quarter of 2017, just \$10.9 billion in U.S. LBO deal value has been announced. That followed a rather robust second quarter of 2017, which saw over \$24 billion in announced LBOs. Based on the latest results, the announced U.S. LBO

**Announced US LBO Transactions - Announced value between \$1mm to \$500mm**

Year	Number of Deals	\$ Value in Billions
2000	249	22.53
2001	209	14.15
2002	273	18.23
2003	283	23.34
2004	305	28.68
2005	290	26.41
2006	348	31.92
2007	361	34.09
2008	297	17.91
2009	260	10.13
2010	256	17.82
2011	234	17.49
2012	230	21.06
2013	183	16.47
2014	151	12.62
2015	128	9.70
2016	115	12.86
2017**	66	6.36
<b>FY2017E</b>	<b>92</b>	<b>8.83</b>

\* Data compiled September 18, 2017

\* Transaction values include assumed liabilities; excludes cancelled deals.

\*\* Through September 18, 2017

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quarterly deal value stands at its lowest level since the first quarter of 2010 when \$10.3 billion in deals took place.

Looking ahead, with the expectations of a multi-year low for LBO activity, the probability for a significant rebound in 2018 is debatable. While firms have an abundance of capital to deploy, high multiples have apparently deterred buyers. These observations coupled with the uncertainty of any tax reform proposals remain to be seen whereby firms may be hesitant to commit funds. In sum, the sidelines may be the location of choice for some private equity firms near term.

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\*Source S&P Capital IQ platform



# Help in today's competitive market

The M&A market is hot and private equity firms are struggling to win deals. According to S&P Global Market Intelligence, from the beginning of the year through September 18, 2017, S&P data shows only 66 announced deals with a total disclosed amount of \$6.36 billion in the middle market, which is defined as transactions of between \$1 million to \$500 million. It's not unreasonable to conclude that the current year could end with about 100 transactions with a total estimated value of under \$9 billion. Should that happen, it would represent the fewest number of deals in this size range since 1995 when there were 94 deals with transaction size of between \$1 million and \$500 million closed.

The numbers make one thing obvious: it's competitive and private equity firms need to spend as much time as possible finding and winning deals today. The good news is there are products and services that can help dealmakers by saving them valuable time. However, in today's fast paced market it's hard for dealmakers to quickly pinpoint the products that could be most helpful. Here is a look at some useful tools that are transforming the industry.

## Deal Making Services

While using an investment banker or business broker is still the predominant way for companies to raise money and find buyers, more companies are turning to online deal portals. Axial Networks Inc. is one of the more successful online networks that sellers and buyers are turning to deal flow. The founders of Axial, which started in 2010, have built a platform that helps CEOs of private, mid-sized companies connect with advisers, investors and buyers as they look to grow or exit their businesses.

"It's a business development tool that enables investors, lenders, advisers and CEOs to connect with the most relevant partners at the right time," says Peter Lehrman, Axial chief executive. "Particularly in a fragmented and highly competitive market, investors are looking for more efficient ways to discover deal opportunities and the old way isn't cutting it anymore. We're seeing all types of capital providers turn to Axial to supercharge

their deal-sourcing efforts."

Mark Jones, a partner with River Associates, which closed on its seventh fund in June 2017 with \$285 million, is familiar with Axial and companies like Axial and sees the benefit of them, particularly in the lower middle market. "I see the value on the smaller end of the market. It's valuable when you are looking for add-on acquisitions. These platforms give eyes to smaller companies that are commonly represented by brokers and they don't have the resources to reach a broader audience. These platforms can be a supplement," says Jones.

Devin Mathews, a partner with ParkerGale Partners, which closed on its first fund last year with \$240 million, agrees. "These types of sites are good for sourcing add-ons in the consumer or industrial space."

## Finding Expertise

No deal is completed without traditional financial due diligence. However, in today's world where people's actions can easily play out in the public, online, or elsewhere dealmakers are looking for a little more than the traditional due diligence that used to do. You are seeing more and more buyers do reputational due diligence and Anti-Money Laundering/Know Your Customer (AML/KYC) due diligence.

As part of reputational due diligence many firms are opting to conduct negative news searches. Providers like CT, comb through thousands of press outlets and alert clients to any red flags or negative information that could be potentially impactful.

"The risks around transactions have increased, and many lenders and buyers are requiring these types of due diligence searches," says Ian Bone, who heads up new product development for CT's due diligence offerings. Since formalizing their offering in late-2015, CT has seen a 3X jump in volumes of these searches.

Prior to doing any due diligence on a company, private equity firms have to get a foot in the door. Some are

doing that with the help of outside companies. Companies like Apex Leaders and GLG help private equity firms build their knowledge of a sector, company or brand by introducing them to knowledgeable industry leaders. For example, if a private equity firm is looking at buying a widget company these providers will make introductions to people who have operated in the industry, know the company of interest and/or have a good understanding of industry trends. "This helps us evaluate target companies and it allows us to show up well prepared for management meetings. The management meetings are so important and this inside knowledge can really separate us from the competition," says Jones.

ParkerGale will also work with companies like Parthenon-EY from time to time to help them perform third party market diligence. "We find this very helpful when we are trying to understand who the stakeholders are, the size of a market and what the trends are in the market," says Mathews.

### Fund Administration

No private equity firm sets out to build a giant back office, but over time, as funds and firms grow, back-office fund administration processes can take on a life of their own. "A lot of firms start off small, and they have a small back office, but the next thing you know, they have a big operation. They never raised a fund with the intention of becoming experts in fund administration, that's not what they want to do," says Robert Woosley, national practice leader at Frazier & Deeter, an accounting firm that offers fund administration services to private equity firms and real estate firms through FD Fund Administration.

Since FD Fund Administration started operations in January 2013, the firm has added 19 new funds, representing more than \$8 billion in new committed capital. "We knew there was a need for this. A lot of firms start off small, build strong reputations and grow. They create their own back office, but that's not their sweet spot. Their sweet spot is finding deals, creating value and putting investors' capital to work," says Woosley. "We understand administration is not their core."

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

ture, a software company that specializes in fund administration, only 30 percent of the assets under management in private equity and real estate funds are administered by third-party fund administrators, but that number is expected to increase to 45 percent by 2018.

"It's the easiest way to get started when you have a new fund. It doesn't mean you have to outsource all your LP relationships to them, but it can help immensely," says Mathews.

In addition to fund administration, outsourcing compliance and regulatory needs is becoming more commonplace. "It's really hard to keep up with regulatory changes, LP requests and SEC requirements and we have to be on top of all of those things so we find it very helpful to work with consultants to keep up-to-date," says Mathews.

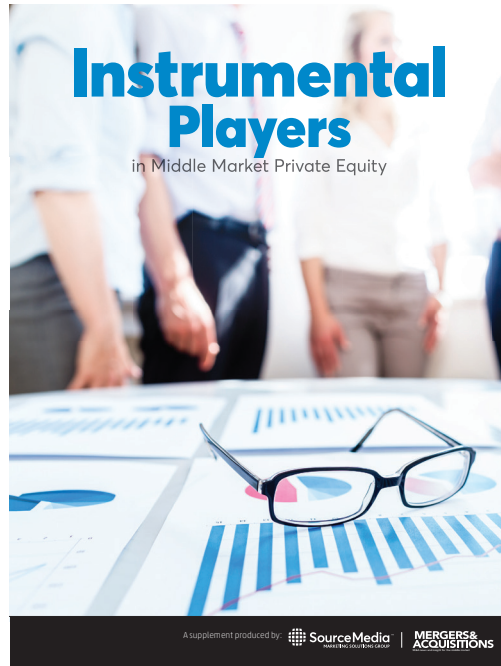
### VDRs

Virtual data rooms, or VDRs, are now as much a part of the M&A industry as auctions. The virtual data room software niche continues to grow at a steady pace. According to research firm IBIS, the VDR market has grown around 7.9 percent per year over the last five years and had revenues of more than \$800 million in 2017.

Because of fierce competition in the space, virtual data room providers are offering more services before the sale to entice sellers to work with them. For example, companies are increasingly using the virtual rooms to store documents permanently, keeping them in a constant state of readiness for sale opportunities that can pop up when least expected.

Virtual data room companies are also trying to stay on the cutting edge of technology to gain the upper hand with competitors. For example, RR Donnelley made an investment in Peloton Document Solutions last year to give users a more engaging experience. Leveraging video and other media content, Venue Deal Marketing, powered by Peloton, replaces hard copy and PDF deal books with interactive documents, revolutionizing how companies communicate their value and manage their M&A and financing process.

"We used Peloton for a deal and we really liked it. It allows the management team to present in a more compelling way and because it's digital they can track who is looking and clicking on what. I expect to see more of this going forward. It makes the information stand out," says Mathews.



## MERGERS & ACQUISITIONS

A SUPPLEMENT PRODUCED BY SOURCEMEDIA MARKETING SOLUTIONS GROUP



# Private Equity Perspective



## The China Syndrome

DANIELLE FUGAZY

Until recently, middle market deal activity with regards to China meant one of two things: 1) Finding lucrative ways for U.S.-based private equity firms to outsource their portfolio companies' manufacturing needs to China, or 2) finding ways for those companies to sell into the Chinese market and take advantage of the country's burgeoning middle class. During the past several years, however, the focus has shifted.

Today, Chinese-related dealmaking revolves around engaging Chinese buyers interested in investing in the U.S. In 2016, Chinese investors acquired \$45 billion worth of U.S. assets and another \$40 billion in European assets, as the greater part of a total of \$104 billion in completed M&A transactions worldwide. That made China 2016's second largest global investor, behind only the United States.

Historically, Western brands have a reputation of being safe and of high quality, which puts them in demand with Chinese consumers. "Chinese companies are becoming more mature, and they are much more capable of running larger businesses. They are looking for ways to grow, and they can't do it by just looking domestically. They want to buy U.S. brands to bring them back to China," says Daniel Wang, a managing director who is leading Harris Williams & Co.'s efforts in Asia.

As Chinese buyers become more aggressive,

however, the Committee on Foreign Investment in the U.S. (CFIUS) has blocked a growing number of acquisitions. CFIUS opposition caused digital map maker NavInfo Co. to call off its plans to buy a stake in HERE Technologies, and the White House recently blocked Chinese-backed Canyon Bridge Capital Partners' takeover of

Lattice Semiconductor based on CFIUS' recommendations.

Nevertheless, the list of recent deals completed by Chinese investors goes on and on and most observers predict that their interest in the U.S. will

continue to grow. And while most of the deals to date have taken place in the larger market, that will likely change. Globally, China's outward foreign direct investment is expected to average between \$140 billion and \$275 billion annually over the next decade—which will undoubtedly impact the middle-market as dealmaking activity continues to ramp up. **M&A**



Adobe Stock

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Chinese companies are becoming more mature, and are much more capable of running larger businesses.

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# The Buyside



## Brewing Coffee

DEMITRI DIAKANTONIS

**U**.S. consumer appetites have been steadily heading up market. And people are not just hungry for better quality food; they are also thirsty for exceptional coffee. As consumers display a willingness to pay more for top-shelf brews, premium coffee providers will attract more attention from buyers than mainstream brands. JAB and Farmer Bros. are among the strategic buyers seeking M&A.

“We will add several premium coffee brands to our portfolio that can build upon our focus in the coffee segment.”

To wit, JAB Holding Co. has been aggressive with acquisitions in the premium coffee sector and coffee products provider Farmer Bros. Co. (Nasdaq: FARM) is also looking for targets.

The latter recently completed a \$42 million acquisition of coffee roaster Boyd Coffee Co., a Portland-based distributor of coffee products to restaurants, hotels, convenience stores and healthcare facilities.

The purchase, according to Farmer Bros. CEO Mike Keown, is part of the company's strategy to grow at the high-end through acquisitions. “We will add several premium coffee brands to our portfolio that can build upon our focus in the premium coffee segment,” Keown recently told investors.

Other strategic buyers in the food and beverage space are also looking to brew more coffee. Nestlé is acquiring a majority stake in Blue Bottle Coffee, a U.S. manufacturer of premium coffee roast, for an undisclosed amount. Blue Bottle began in 2002 as

a home delivery business serving roasted coffee and now operates a chain of cafes. With its new capital infusion, Blue Bottle plans to build out a digital program that will serve customers both within and outside the U.S. and expand its product line of consumer-packaged goods. The target expects to add 25 new cafes in the U.S. by the end of 2017, up from its current 29, and enter three new markets including Boston, Miami and Washington, D.C.

JAB, the investment vehicle of Austria's billionaire Reimann family, has been growing its coffee pantry through M&A. In addition to buying Panera Bread, JAB

previously purchased Krispy Kreme Doughnuts, Peet's Coffee & Tea, and Stumptown Coffee Roasters. Coffee drinkers are raising their standards and haven't been reluctant to spend more for a better taste.

As they do, investors will pour money into first-rate roasters. **MA**



Farmer Bros.

# Finance Finesse



## Will the Credit Bubble Deflate or Burst?

KAMARON LEACH

**W**ith investors deploying an abundance of capital to debt funds, should lenders and private equity firms be concerned?

It's likely that many middle-market dealmakers have heard the current credit market described as "better than ever", or even mimicking a utopia. Given the overarching availability of debt financing, however, it is likely that the current environment cannot sustain itself.

The Carlyle Group (Nasdaq: CG), Antares Capital, Audax Private Equity, Madison Capital, Littlejohn, Gryphon Investors, and THL Credit are a few among the long list of lenders and private equity firms to have raised debt capital between 2016 and 2017. In today's credit market, with basis points between 400 and 425, such broad exposure has paid off for investors. However, as the middle market approaches what dealmakers like Mark Jenkins, Carlyle's head of credit, describe as a credit bubble, investors may begin to deploy capital less frivolously and shift toward targeted sectors.

Let's rewind a moment. The overextension of bank balance sheets during the financial crisis of 2007 led to a credit squeeze and dramatic fall in asset prices. Back in 2006, the market reached spreads of 200 bps and many thought it was ready to implode, "but it took nearly two and a half years to happen," according to Jenkins in a white paper detailing the current credit landscape. The Carlyle credit chief expects the credit market to cool down as central banks that support the banks' balance sheets begin to pull back. "So, the

main thing to focus on right now is that we have had over eight years of balance sheet support from the central banks," he notes in the white paper.

During a downturn, debt capital is generally a safer investment vehicle compared with the stock market; nevertheless, investors will still want a healthy balance between equity and credit. If central banks continue to pull back their balance sheet support, traditional firms will likely do less fundraising, while investors seek to diversify their portfolio in other areas or even with sector-specific funds.

"Some of these leveraged providers for private credit are getting concerned about how easy it is to raise capital," says Mike Weinmann, the managing director at healthcare-focused investment firm CRG. "These aren't the private credit funds; these are the banks that are lending to the private credit funds."

Though Weinmann expects this abundance of credit "will stick around for a while," he anticipates that investors will push toward the higher quality of names backing the funds in the event the credit market begins to cool down.

As with anything good that commences, low-cost debt financing will have an end date as well. Should the credit market begin to tighten, as these private equity professionals expect, firms should anticipate making necessary adjustments sooner rather than later. **MA**

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As the middle market approaches what dealmakers describe as a credit bubble, investors may begin to deploy capital less frivolously.

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Cover Story



# Made t



**Amazon's  
acquisition of  
Whole Foods  
has catalyzed  
dealmaker  
interest and  
activity in online  
meal delivery**

By Demitri Diakantonis

**o Order**

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With business booming in stay-at-home meal preparation, would-be acquirers are scrambling to adapt to changing eating habits.

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**D**riven by consumer demand for quicker, easier and healthier food options, the online meal-kit delivery sector has reached a tipping point. Sales are set to grow by 30 percent over the next three years, and a wave of a middle market M&A activity is quickly rising.

“Everybody is looking for cleaner and healthier foods and everybody is looking for convenience,” says Duff & Phelps managing director Josh Benn. That will translate into more online food sales. Currently at about \$8.4 billion, or 1 percent of 2016 overall food and beverage sales, according to Euromonitor, the online meal segment is expected to reach \$11.5 billion, or around 1.3 percent of the total, by 2020.

Loftier consumer demand is driving M&A activity. According to PitchBook, there were six meal-kit delivery deals in the U.S. through September of this year—compared to seven for all of 2016, just four in 2015, and a total of six for the prior three years.

With business booming in stay-at-home meal



William Blair

Mike Siska

preparation, would-be acquirers are scrambling to adapt to changing eating habits. While meal-kit distributors have been around since the 1990s, they found it difficult to get consumers to trust the quality and freshness of online grocery deliveries. “The home meal-kit business has a logistics and packaging impairment that’s expensive to solve,” notes William Blair managing director Michael Siska.

### A new tune

**B**ut egged on by growing familiarity with online shopping in general, and high-profile deals like Amazon’s purchase of Whole Foods in particular, consumers have started to change their tune.

Duff & Phelps



Josh Benn

Kainos Capital



Sarah Bradley

With its \$13.7 billion acquisition of Whole Foods last summer, deep-pocketed Amazon (Nasdaq: AMZN) is now poised to shake up the home grocery delivery business. Whole Foods private-label products are currently available for purchase on Amazon.com, and the natural grocer's 450-plus stores provide local distribution outlets for Amazon customers. The online retail gorilla has already started offering meal-kits for home delivery and plans to deliver them in under an hour.

"I think we are at an inflection point in the industry," observes Kainos Capital partner Sarah Bradley. "The Amazon-Whole Foods merger is putting pressure on grocers to address online delivery."

"There always has been pressure on grocery store chains," adds Siska. "If anything, the Amazon deal just brought it to the forefront."

Grocers are not the only ones feeling the heat. Businesses like Instacart, a San Francisco startup that provides online shoppers with same-day delivery from a variety of retailers like CVS Health Corp. (NYSE: CVS) and Petco, will face intensified competition.

"From the beginning, we've been committed to helping grocers compete online," says an Instacart spokesperson. "That's more important than ever, given that Amazon just declared war on every supermarket and corner store in America. We already work with over 160 retailers across the country and look forward to partnering with many more."

Peaking consumer interest and intensified competition has supermarkets, restaurants and e-commerce outlets all eyeing the market for home meal-kit delivery. Kroger Co., (NYSE: KR) for instance, North America's largest supermarket chain, has already added meal-kits to its shelves and is considering divesting its convenience store business, which would free it to focus on online delivery and other technology-driven food distribution efforts.

"We understand that today's marketplace is shifting rapidly," says Kroger CEO Rodney McMullen. "Kroger's success has always depended on our ability to proactively address changes by focusing relentlessly on our customers."

But while Kroger mulls its future, its rivals are already taking steps to ensure theirs. Here we take a closer look at four of the most recent notable deals in the online meal-kit sector:



Plated

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Kroger's success has always depended on our ability address changes by focusing relentlessly on our customers.

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The question  
is can  
traditional  
retailers  
adjust their  
formats fast  
enough?  
”

## Albertsons acquires Plated

Albertsons Cos. has seen the food delivery sector's future, and in late September North America's second largest retail food distributor bought Plated to keep pace.

Plated is a New York-based startup that makes meal-kits, and the acquisition is viewed as an attempt to appeal to the fast-growing market for online meal delivery. Through its more than 2,300 stores, Albertsons will give Plated access to a new segment of customers, while Plated gives the supermarket chain a way to counter the Amazon-Whole Foods assault on the grocery business.

Founded in 2012, Plated received nationwide exposure when its founders appeared on the reality television show “Shark Tank” in 2014. That led to an investment from TV personality and Canadian businessman Kevin O’Leary. Plated also raised \$95 million from several venture capital firms, including Greycroft Partners and Formation 8.

Plated woos food-conscious consumers with fresh ingredients and flexible meal plans. Its offerings include 17 new recipes each week, and feature dishes such as chicken Marsala with roasted potatoes and feta-stuffed lamb burgers. Best known for its Safeway chain of supermarkets, Boise, Idaho-based Albertsons plans on promoting Plated's meal-kits in its stores, as well as through digital channels such as mobile apps and web sites.

This last effort will be critical, as consumers increasingly shift from traditional shopping methods to placing online orders through mobile devices.

“There’s no business that I can think of that isn’t being affected by connectivity,” says Jones Day partner Robert Profusek. “The question is can traditional retailers adjust their formats fast enough? There will be a lot of activity because any

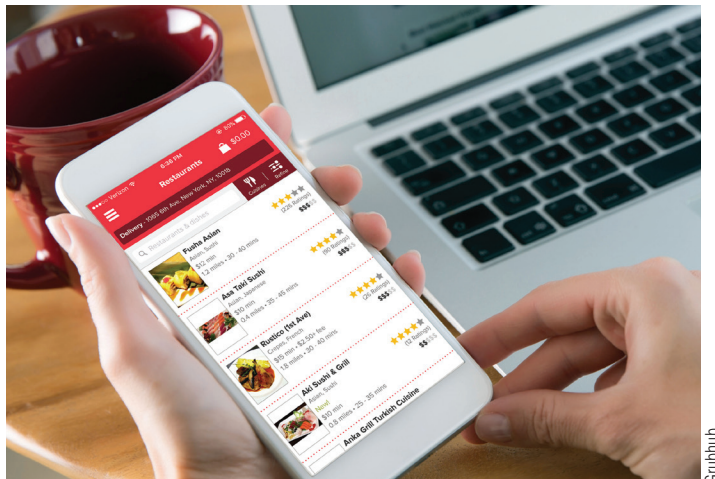
business, unless they move towards technological advances, will be stopped in their tracks.”

“To compete and win customer acquisition over time, leading brands are going to need to innovate and establish loyalty through their differentiated platform offerings,” agrees Purple Carrot CEO Andy Levitt, which has partnered with Whole Foods to sell meal-kits.

Acknowledging as much, Albertsons CEO Bob Miller allows that “Today’s consumer is looking for a variety of personalized shopping alternatives,” adding that the Plated acquisition “is the latest example of Albertsons Cos. meeting our customers wherever and however they like to shop.”

## Grubhub buys Yelp Eat24

Grubhub Inc. (NYSE: GRUB), the mobile online food ordering service, is a rapidly growing fish in a pond that is quickly getting much larger. Viewed by analysts as a possible acquisition target itself, last August, Grubhub moved to make itself less digestible by acquiring



Eat24 from Yelp Inc. (NYSE: YELP) for \$287.5 million.

The addition of Eat24 will expand GrubHub's base to more than 75,000 restaurants and add around 50,000 orders to its daily volume—about a 16 percent increase.



“Adding Eat24’s large diner base and thousands of restaurants to our platform will accelerate Grubhub’s mission to become the most comprehensive marketplace connecting takeout diners and restaurants,” asserts Grubhub CEO Matt Maloney. The Grubhub platform encompasses the Grubhub, Seamless, AllMenus and MenuPages online brands.

For Chicago-based GrubHub, the Eat24 purchase is only the latest in a series of deals aimed at increasing its national presence. Also last August, the company acquired a piece of Groupon Inc.’s (Nasdaq: GRPN) food ordering platform, OrderUp, which focuses mostly on college campuses in 40 markets across the U.S. Two months prior, in June, the company bought Fodder, a Boston-based online food delivery service.

“In addition to the secular offline to online trend, diners are increasingly turning to food delivery for everyday occasions and restaurant owners and operators are embracing this opportunity more and more,” Maloney told his investors. “We’re being opportunistic in terms of M&A; we’re being aggressive on partnerships.”

## Nestlé USA backs Freshly

As U.S. consumers shift their tastes from packaged convenience foods to fresher fare ordered online, the stakes couldn’t be higher for food giant Nestlé SA. The company’s North America division owns the DiGiorno, Häagen-Dazs and Hot Pockets food brands and represents 20 percent of its packaged food sales worldwide. But, according to Euromonitor, that market share is eroding.

In response, last June the Swiss-based food giant took a minority stake in online meal provider Freshly, leading a new \$77 million

round of funding for the purveyor of health-oriented, pre-cooked foods. According to Nestlé, a new plant in Maryland should allow Freshly to serve about 93 percent of the U.S. population with prepared meals that can be heated in two to three minutes.

“While most food choices are still made in supermarkets, it’s clear that consumers are responding to a growing universe of direct-to-consumer options,” acknowledges Nestlé USA CEO Paul Grimwood.

Founded in 2015, New York-based Freshly offers a rotating menu that includes gluten-free, high-protein, low-carbohydrate and vegetarian options through an online subscription service. Cooked meals are delivered directly to consumers. In addition to Nestlé, the company has received funding from Highland Capital, Insight Venture Partners and White Star Capital.

Its stake in Freshly will do more than just broaden Nestlé’s product portfolio. The food maker will also get access to the online seller’s customer data to support its efforts to better target consumers.

“Nestlé will gain visibility into Freshly’s advanced analytics and its highly effective distribution network,” says Grimwood, “and Freshly will benefit from our R&D, nutrition

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Consumers are responding to a growing universe of direct to consumer options.

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Purple Carrot

# Introducing The New



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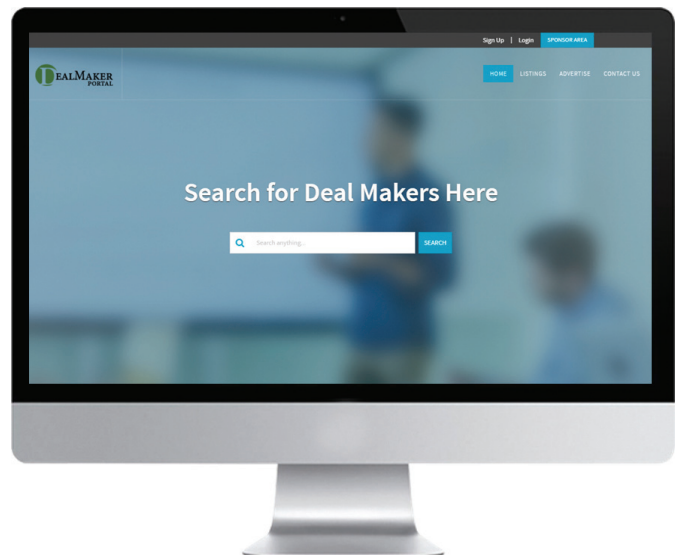
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Nestlé’s Freshly investment dovetails with its support for the Terra food and farming technology program, through partnerships with the Dutch bank Rabobank and technology accelerator RocketSpace, also entered into earlier this year. The Terra R&D initiative is aimed at developing healthier and more sustainable commercial food products.

“We’re experiencing a seismic shift in the food industry,” declares Rui Barbas, Nestlé USA’s chief strategy officer. “Our partnership with Terra is just one way in which Nestlé can play a leading role in meeting quickly evolving consumer expectations and explore new disruptive technologies and business models.”

## L Catterton invests in Home Chef

Until recently, private equity firms have been holding back from investing in the food delivery market. But that is starting to change.

In the latter part of 2016, PE firm L Catterton Partners poured \$40 million into meal-kit delivery service Home Chef, taking a stake in its future growth. It seems likely to pay off.

Since its inception, Home Chef has grown exponentially. “Just this year, we’re up by about seven times,” noted founder Pat Vihtelic at the time of the infusion. Vihtelic quit his job as an investment banker in the summer 2013 to launch the home food prep service.

Chicago-based Home Chef delivers more than 1.5 million meals a month and covers about 97 percent of the U.S. population through facilities in Atlanta and Los Angeles, as well as Chicago. The company provides fresh

ingredients and recipes for meals that consumers can easily prepare at home. Menu items include fare like mozzarella-stuffed meatball sliders and Thai red curry chicken. For a set price of \$9.95 per serving, customers choose how many people they are cooking for and set any dietary preferences or restrictions.



Home Chef

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Demanding schedules get in the way of prioritizing what we are feeding our families and ourselves.

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“In today’s fast-paced world, demanding schedules get in the way of prioritizing what we are feeding our families and ourselves,” says Vihtelic, articulating one of the chief trends behind the meal-kit boom. “At Home Chef we strive to accommodate our customers’ busy lives.”

L Catterton was formed in 2016, when French luxury goods maker LVMH Moët Hennessy Louis Vuitton SE combined its private equity group, known as L Capital, and its real estate investment unit with the consumer-focused private equity firm Catterton. The newly combined firm is based in Greenwich, Connecticut and London with offices across Europe, Asia and Latin America.

When it comes to the blossoming meal-kit delivery sector, L Catterton is an early mover among private equity firms. But its roots are French and, if nothing else, the French know food. Other PE firms, take note.



Guest Article

# Resolving Post-Closing Disputes





## These three best practices can help dealmakers avoid disagreements over routine price adjustments.

Vincent Biemans

**T**he purchase price in private M&A transactions is often subject to post-closing adjustment mechanisms related to the target company's working capital, cash, and net debt as of the closing date. Such mechanisms help facilitate the negotiation of the transaction on a cash free/debt free basis with normalized working capital. Ideally, these adjustments also help ensure that the seller gets paid for what it delivers (including any profits realized through closing), and the buyer only pays for what it actually receives (and not, for example, for inventory the company no longer has).

Such post-closing adjustments are often implemented smoothly, the purchase price is trued-up, and the parties are off to the races with their new business or fresh capital. Yet there are those cases where the parties may disagree on the size of the adjustments called for, and a neutral accountant is asked to resolve the dispute.

On the theory that it's best to avoid any disagreements in the first place, here are three best practices to minimize any post-closing haggling.

### 1. The adjustment mechanism should fit the transaction.

Putting in place a working capital adjustment mechanism is premised on the assumption that the amount of working capital matters from a valuation and business standpoint. But this is not always the case. In situations where its valuation impact is limited, ensuring that this sort of adjustment mechanism is not entered into the purchase agreement as one of many "customary" provisions can help avoid disproportionately large disputes.

Here's an example of how this might play out:

The target company operates a technology based-business, whose products and services have become outdated. The buyer is a rapidly growing company with a different product and is interested in the target company for its existing infrastructure, back-office, and otherwise already scaled up business as it seeks to accommodate its own growth.

Berkeley Research Group



Vincent Biemans

A customary working capital adjustment provision is included in the agreement, with the amount of working capital to be determined in accordance with GAAP. The buyer agrees to pay \$20 million for the target, but as a result of the seller's pre-transaction business struggles, the \$12 million value assigned to inventory is very high relative to the purchase price.

Post-closing the buyer takes the position that the company's inventory is outdated and that GAAP calls for a sizeable inventory allowance for excess and obsolete inventory. The buyer then asks for a \$10 million purchase price adjustment, which equates to a 50 percent discount of the original purchase price.

In this example, the buyer was not paying for the inventory as part of an operating business. Rather, it was paying for the target company's business platform. If the seller had recognized the impact of the provision upfront, it would not have agreed to its inclusion.

Similarly, in the opposite situation, if the target had purchased additional inventory leading up to the closing, the buyer would not have wanted to pay for it through the adjustment mechanism.

This entire situation could have been avoided by using an alternative to the standard working capital mechanism or by carefully customizing it.

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Putting in place a working capital adjustment mechanism assumes that the amount of working capital matters from a valuation standpoint.

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“All too often, the target’s historical accounting practices are simply incorporated into the purchase agreement.”

## 2. The target’s accounting should go beyond a summary schedule.

Balance sheet adjustment mechanisms, such as working capital adjustments, rely on comparing the relevant amount as of the closing date to a target amount. Both are often determined using the seller’s historical accounting practices and/or GAAP.

But using the target’s accounting in this way assumes that the requisite accounting information is available and consistent—and that the company’s accounting practices are clearly defined. When this is not the case, it can wind up being costly for either the seller or the buyer, depending on the given situation. In these circumstances, an honest common-sense assessment of the company’s accounting and underlying documentation can prevent a lot of problems.

Here are some examples of what to watch out for:

- The target company grew using a buy-and-build strategy that involved many M&A transactions, including some that took place within the past few months.
- The target is a carve-out from a large multinational that crosses legal, divisional and geographical boundaries. And while it is a large purchase for the buyer, it represents less than 1 percent of the seller’s market cap.
- The target has grown rapidly and its accounting department appears to be in a permanent state of chaos. During due diligence it is readily evident that the information flow is slow and dependent on the institutional knowledge of a few accounting personnel.

Yet all too often, the target’s historical accounting practices are simply incorporated into the purchase agreement by referencing an exhibit schedule (partial trial balance) or historical financial statements. This can be a recipe for a dispute. It can also be avoided by simply making sure that the accounting practices to be applied are crystal clear. This can be simply accomplished—at least before the transaction—by including support schedules and narratives that underpin the agreement’s summary schedule.

## 3. The impact of the adjustment mechanisms should be considered during the final negotiations.

It is not uncommon for buyers to receive a last-minute discount on the purchase price in connection with due diligence findings. For example:

- A manufacturer of custom products may have a dispute with a customer about a shipment delay, and during the diligence period the customer cancels a significant order.
- During a plant tour, the buyer spots outdated equipment on one of the production lines that will need to be replaced.
- The buyer notices that, while the target company’s inventory turns appropriately on average, some inventory items turn too fast and others not at all.

In each of these instances, the buyer would receive a discount that may overlap with the working capital adjustment:

- For the custom product cancellation, the negotiated discount can effectively overlap with a write-off of work in progress and the recognition of a contingent payable.
- For the production line upgrade, the required investment can partially overlap with a write-off of the spare parts inventory.
- For the inventory segmentation, the discount to boost inventory for popular items can effectively overlap with the write-off of obsolete inventory.

In each of these examples, the issue is not necessarily the negotiated discount or accounting adjustment itself, but the potential overlap between them. Since the adjustments are generally only made as of the closing date, and not in the target working capital, the buyer may be presented with an opportunity to use the post-closing working capital mechanism to ‘double-dip’ and demand a discount without offering a compensatory write-off. But if the negotiator for the seller is aware of the potential overlap, this can be easily sidestepped.

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*Vincent Biemans is a managing director of Berkeley Research Group, LLC and the coauthor of *M&A Disputes: A Professional Guide to Accounting Arbitrations* (Wiley).*



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# What does the Equifax data breach mean for mid-market M&A?

**Riverside's CIO discusses what widespread data theft means for dealmakers and their target companies.**

**By Elliot M. Kass**

**M**anagement kept mum for six weeks. Then on September 8th, Equifax, one of the three principal U.S. credit agencies, finally acknowledged that its computer systems had been breached and the personal data for 143 million U.S. consumers—nearly half the country's population—had been compromised.

Anxiety over this cyber theft has been sky high, with everyone from the man in the street to high ranking government officials expressing outrage that Equifax didn't do more to safeguard the public. The upshot is that consumers and businesses are now warier than ever of doing business with companies that fail to protect their privacy.

In light of this, Mergers & Acquisitions asked Eric Feldman, the CIO for private equity firm The Riverside Co., to discuss the of the break-in's ramifications for middle-market dealmaking. Here are some of his insights:

## **M&A: Does the recent data breach at Equifax have implications for middle-market dealmakers?**

**Eric Feldman:** Yes. Whenever there's a breach, it definitely has an impact

on the dealmaking process. If nothing else, the spotlight on companies' vulnerability and the increasingly complex methods that are used by cyber criminals warrants a further look into the types of investments that dealmakers are pursuing.

[These types of events] are becoming part of the overall risk calculation that goes into the overall health of a target company. Middle-market companies in particular don't have the resources, the sophistication and certainly the capital to build a truly enterprise security program. So as part of the M&A process, it's important to understand what the risks are—including regulatory and legal risks, as well as reputational risks and risks to intellectual property.

This is a story that's not going to go away.

## **M&A: How should dealmakers manage these risks? How do they get started?**

**Feldman:** For middle-market companies, the first step is to understand the nature of the risks that they face. A company can try and determine this itself, but any self-assessment will be of



**Eric Feldman**

limited value, since it will be looking at the problem through a certain lens. It's better to hire a trusted third party, which has demonstrable experience performing security and vulnerability assessments and can take the client's culture and resource limitations into account, when determining the types of regulatory, IP and other types of risks that a company faces.

A third party with this type of expertise can help a mid-market company formulate a set of 'right-sized' remediation



strategies. The risks for a small manufacturing firm, for instance, one with say only one location and that operates in an industry that isn't a high-profile target for hackers, will be very different from those of a large multinational. So right-sizing the security strategy is critical. What works for a Citibank is not necessarily appropriate for the Riverside Co.

### **M&A: Are there other best practices middle-market companies should follow?**

**Feldman:** Once its assessment is completed and the risks that a company faces has been determined, management and the board need to consider them in a broader business context and prioritize their importance. Decisions need to be made about which of these risks pose the greatest threat and in what order they should be remediated.

At this point, governance becomes really important: The organization needs to identify an advocate who will be responsible for promoting and getting buy-in for its security program. Management needs to create policies that lay out the company's responsibilities and the obligations of its employees. These should include a set of 'acceptable use' policies for company equipment and devices like mobile phones.

But for a middle-market company to over-engineer these policies and create something that is unenforceable is arguably worse than not having any policies in place at all. Because once a company has a set of policies in place, it has significant legal exposure if it fails to live up to them. To avoid this, a company's policies should relate to its business dealings. They should be enforceable, and they should constantly evolve with the company's circumstances.

Then, once a company sets its security policies, it needs to train and educate its employees in those policies and embark on a security-awareness program. This doesn't have to be an expensive undertaking. It could be as simple as a quarterly email that the security committee sends out to remind employees what their responsibilities are.

The committee could also make use of third-party phishing tools. These are used by the Riverside Co. and many other private equity firms as part of a 'think before you click' campaign to educate their employees. If an employee clicks on something that he or she shouldn't, he's redirected to a page that reminds him to be a good corporate citizen.

There are also many other types of educational materials, like security awareness buttons and posters, that are freely available.

### **M&A: What other steps should a middle-market company take?**

**Feldman:** The company may also want to put some technical controls in place, and there are some free tools that are available, as well as others that are generally affordable.

Free tools include the encryption tools that are bundled in with both the Mac and Windows operating systems. And for a relatively modest amount of money, a company can invest in ...

- web content filters
- next-generation firewalls
- e-mail management platforms

... all of which guard against the most common security threats—including virus-laden e-mail attachments and malware-ridden web sites—that middle-market companies face.

Again, right-sizing the security solution for the middle-market is going to be the key to success.

The final, but very important aspect of good security governance is incident-response planning—how a company should respond if an incident takes place. This too does not need to be over-engineered, but the roles and responsibilities within an organization, if faced with a loss of data, need to be defined.

If there's one thing to learn from Equifax, it's that their incident-response planning was shockingly immature. Once they were faced with a breach, they failed to get ahead of the message—and exposed themselves to a whole slew of problems as a result. **MA**

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Once a company has a set of policies in place, it has significant legal exposure if it fails to live up to them.

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Guest Article

# The Deal is in the Data





## A new metric known as the Buyer Power Ratio is abetting negotiations for both sellers and buyers.

By Paul Koenig

For a deal to cross the finish line, experienced M&A professionals rely on months of painstaking planning and due diligence. In deals involving private target companies, an important part of that due diligence is analyzing previous “peer” transactions, or closed transactions that fit a similar mold to the transaction on the table. For deal-term negotiations between buyers and sellers, deal parties and their counsel often start with peer transactions to draft provisions on everything from financial and indemnification terms to closing conditions and dispute resolution provisions.

SRS Acquiom

### Hard to find data

During these negotiations, one of the issues that is usually debated is what deal terms are standard in the market. In these talks, deal parties often have to rely on surveys that aggregate terms from previously closed transactions. The limitation, however, is that much of this data is based on a limited range of deals that are not always reflective of the transaction at hand.

This is because data on private-target M&A can be difficult to find, unless the acquirer is publicly traded and has disclosed the deal terms to the Securities and Exchange Commission (SEC). Most of the transactions reported to the SEC are deals in which the deal size was large enough relative to the buyer’s size to render it “material” for SEC purposes. While such data is valuable, it excludes most transactions involving very large buyers purchasing smaller companies, which are normally not “material” from the SEC’s point of view. In other words, publicly



Paul Koenig

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One of the issues that is usually debated is what deal terms are standard in the market.

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available data on private-target M&A generally does not include many relevant transactions.

It is also important to recognize that M&A transactions involving privately held companies do not comprise a single, unitary market. Typically, a deal involving a very large buyer acquiring a small privately held company is very different from a deal involving a small buyer acquiring a large privately held company. Those deals should be viewed as belonging to different markets.

### The Buyer Power Ratio

To help rectify these limitations, SRS Acquiom partnered with the M&A Committee of the American Bar Association’s Business Law Section (ABA Committee) to examine how changes in the ratio of buyer to deal size

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Market data is  
a valuable tool,  
but is far from  
perfect in  
determining  
what the  
expected or  
best  
possible  
outcome  
should be.  
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affected expected outcomes. Rick Climan, an experienced M&A attorney at Hogan Lovells and former chair of the ABA Committee, led the study and conceptualized what the study's authors have termed the “Buyer Power Ratio.”

The BPR calculates the ratio of a public acquirer's market capitalization, at the time of signing the acquisition agreement, to the purchase price of a privately held company. For example, an M&A transaction in which the size of the buyer is 20 times the purchase price for the target company would have a BPR of 20. This ratio is a good predictor of the deal parties' relative leverage in deal term negotiations.

In what will not come as a surprise to experienced negotiators, the SRS-ABA Committee study shows that buyers generally get more favorable terms on certain key deal points as the Buyer Power Ratio increases. Conversely, sellers tend to get more favorable deal terms as it falls.

In conducting this study, we also used buyer and transaction size separately to filter the same data from some 400-plus transactions. But it was the BPR that was the best predictor of outcomes, while the results from the other filters were considerably more random. The authors believe that this is because BPR is the only filter that considers the relationship of the parties' respective sizes, as opposed to viewing them in isolation.

### Influencing deals

The Buyer Power Ratio, according to Climan, “is a powerful new tool for dealmakers. As more M&A practitioners get familiar with it, it's bound to influence the way future deal negotiations play out. To the extent they find it useful to consult statistics on market practice, buyers and sellers should be utilizing metrics like BPR, in combination with sizable data samples, to help them zero in on the precedents that matter most.”

In addition to allowing for more focused

negotiations between the lawyers, the BPR should also improve discussions between M&A attorneys and their clients. Many clients simply want to know that they're getting a fair deal. If data from other studies leads them to believe that the deal terms offered are not standard in the market, it could potentially derail a transaction. By demonstrating to clients that they are in fact getting a “market” deal for the specific type of transaction they are engaged in, M&A attorneys can use the BPR to better set expectations.

During a competitive sale process, the study data can help sellers assess the terms they are likely to be offered by the various bidders, while buyers can use it to anticipate what other bidders are likely to offer. Large serial acquirers can determine whether their “standard” deal terms are comparable to what their peers are generally obtaining.

The BPR is not the only factor that can affect the respective parties' negotiating leverage. Among other considerations that may come into play are the purchase price a buyer is willing to pay, the importance of the transaction to the buyer relative to its importance to the seller and the presence of competing bidders. The SRS-ABA Committee study did not attempt to measure the impact of these other factors on deal terms.

Market data is a valuable tool, but is far from perfect in determining what the expected or best possible outcome should be for any given transaction. Negotiations should be driven by reasoned analysis and logic. To the extent that an understanding of market data is helpful, however, the SRS-ABA Committee study and the application of the BPR allow for the most accurate information available.

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*Paul Koenig is an attorney, entrepreneur and co-founder of SRS Acquiom, a platform provider for managing M&A transaction payments, risks and claims.*



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**Jon Avina**



**Russell Casella**



**Christopher DeCresce**

## New Hires and Promotions By Kamaron Leach

Financial services law firm **Cooley LLP** has made several additions to its team:

**Jon Avina** was hired by **Cooley** as a partner in the firm's Palo Alto, California office. Avina, who previously served as partner at Wilson Sonsini Goodrich & Rosati, advises clients on IPOs and other corporate transactions.

**Calise Cheng** has also joined **Cooley** as a partner in the Palo Alto office. Cheng comes to Cooley from Wilson Sonsini Goodrich & Rosati, where she was a partner. She represents enterprise software, health and wellness, internet and energy businesses.

**Rachel Proffitt** has joined **Cooley** as a partner in its San Francisco office. She leaves Wilson Sonsini Goodrich & Rosati, where she was a partner. Proffitt advises clients in a variety of sectors, including enterprise software, health and wellness, internet, and energy.

**Russell Cassella** has joined middle-market private equity firm **Revelstoke Capital Partners** in Denver as a partner. Previously a partner at investment firm GCM Grosvenor, Cassella holds transaction sourcing and deal execution experience.

International law firm **Covington & Burling LLP** has promoted several new partners:

**Bradley Chernin** has been promoted from associate to partner at **Covington's** San Francisco office. Chernin advises companies on M&A transactions, venture capital investments, joint ventures and general corporate matters.

**Christopher DeCresce** was promoted from counsel to partner in **Covington's** New York office. DeCresce's practice focuses on capital market transactions, ranging mergers and acquisitions to public and private offerings.

**Sam Pyun** has been promoted from counsel to partner at **Covington's** Seoul, South Korea, office. Pyun advises clients on cross-border financings

and acquisitions in the energy, resources and infrastructure sectors.

**Kyle Rabe** was promoted from associate to partner at **Covington's** New York office. Rabe's previous experience includes representing clients on M&A, takeover defenses and sports media transactions.

**Ansgar Simon** has also been promoted from counsel to partner at **Covington** in the firm's New York office. Simon's tax practice advises on restructurings, M&A, recapitalizations, divestitures and spin-offs.

**Andrew Cialino** was hired by Rye, New York-based private equity firm **SFW Capital Partners** as vice president. Most recently head of sales at Axial, Cialino will oversee SFW Capital's deal origination efforts.

Middle-market private equity firm **Peak Rock Capital LLC** has made several new hires in its Austin, Texas office:

**Sean Colligan** has joined **Peak Rock Capital** as a principal. Most recently a director at Z Capital Credit Partners, Colligan joins with experience analyzing middle-market investment opportunities.

**Ralph DeBernardo** was hired by **Peak Rock Capital** as a principal. DeBernardo, who most recently served as vice president at Vista Equity Partners, will head up investor relations in his new role.

**Yunus Jaffrey** has joined **Peak Rock Capital** as a vice president. Most recently a vice president at H.I.G. Whitehorse Capital, Jaffrey brings experience leading syndicated debt investments across multiple industries.

**Toby Stoops** was hired by **Peak Rock Capital** as senior vice president of business development. Stoops joins **Peak Rock Capital** from Z Capital Partners as a director focusing on middle-market debt investments.



**Preston Thomas** has also joined **Peak Rock Capital** as a vice president. Previously a vice president at H.I.G. Capital, Thomas joins Peak Rock Capital with middle-market debt and equity investment experience.

**Brendan Wolf** has joined **Peak Rock Capital** as an associate. Wolf, previously an analyst at Houlihan Lokey, joins with professional experience focused on M&A, financial restructurings and capital raises.

Law firm **Kirkland & Ellis LLP** has welcomed two new partners:

**Anand Damodaran** has joined **Kirkland & Ellis** as a partner in the law firm's London-based

investment funds group. Previously a partner at Ropes & Gray LLP, Damodaran advises clients on credit and private equity funds.

**David King** was hired by **Kirkland & Ellis** as a partner in its San Francisco office. He comes from the Carlyle Group LP (Nasdaq: CG), where, as a principal, King has represented funds across the real estate, energy, infrastructure and power industries.

Investment banking firm **Raymond James Financial Inc. (NYSE: RJF)** has brought on several new hires, in addition to opening a new office in London:

**Cory Daugard** has joined **Raymond James** as a managing director in the firm's energy investment

banking practice. Previously the head of oilfield services at Houlihan Lokey Inc. (NYSE: HLI), Daugard has more than 23 years of experience in corporate finance and investment banking.

**Dominic Emery** has joined **Raymond James** as a managing director for private equity M&A advisory in the firm's new London office. Emery joins the investment firm from Investec, where he led the technology investment banking team.

**Joel Greenwood** was also hired by **Raymond James** as a managing director in London. Greenwood comes from Deloitte LLP, where as a partner he had more than 15 years of M&A advisory experience.

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Arsenal buys Cyalume, a military chemical product supplier  
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# People



**Michelle Eidson**



**Erik Falk**



**Dev Gopalan**

**Geoffrey Richards** has joined **Raymond James** as a managing director based out of New York. Previously, Richards served as head of Canaccord Genuity Inc.'s North American debt finance and restructuring division.

**Stuart Sparkes** has also joined **Raymond James** as a managing director in London. Sparkes holds more than 15 years of experience in the M&A advisory market and was most recently with Deloitte LLP.

**Michelle Eidson** was hired by the Chicago-based private equity firm **Shorehill Capital LLC** as a managing director. Recently a vice president at Platte River Equity, Eidson is responsible for Shorehill's business development and investment sourcing initiatives.

**Erik Falk** has joined New York-based asset management firm **Star Mountain Capital LLC** as a senior adviser. Previously the head of private credit at Kohlberg Kravis Roberts & Co., Falk will provide asset management and credit market expertise to Star Mountain CEO Brett Hickey.

U.S. law firm **Michael Best & Friedrich LLP** has expanded its Salt Lake City, Utah-based practice with several new additions:

**Jennifer Falk** was hired by **Michael Best & Friedrich** as a partner. Falk joins the firm's litigation practice group from Kruse Landa Maycock & Ricks LLC (KLMR).

**James Kruse** has joined **Michael Best & Friedrich** as a partner in the firm's corporate and transactions practice group. Kruse joins from KLMR, where he was a partner. He has more than 40 years of experience in securities law, corporate acquisitions and reorganizations.

**Ellen Maycock** was hired by **Michael Best & Friedrich** as a partner in its Salt Lake City office. Maycock brings more than four decades of commercial litigation and family law experience

from KLMR, where she was a partner.

**Lyndon Ricks** was hired by **Michael Best & Friedrich** as a partner. Previously, Ricks was a partner at KLMR and has more than 30 years of advisory experience on acquisitions and divestitures.

**Kevin Timken** has also joined **Michael Best & Friedrich's** office in Salt Lake City office as a partner. Previously an attorney at KLMR, Timken has experience in advising public and private companies on equity financings, securities matters and commercial transactions.

**John Felix** has joined San Francisco-based investment firm **White Oak Global Advisors LLC** as a managing director. Previously, he founded Consortium Finance, which specializes in middle-market investments.

**David Gershon** has taken on the role of partner at law firm **Sheppard Mullin Richter & Hampton LLP** in San Francisco. Gershon, previously a partner at Manatt Phelps & Phillips LLP, advises clients on M&A and corporate governance matters.

**Dev Gopalan** was named CEO of the San Francisco-based credit advisory firm **Angel Island Capital**. Most recently at KKR, as the head of its U.S. private credit division, Gopalan was also the principal for private debt at the Canada Pension Plan Investment Board.

**Patricia Grad** was hired by middle-market private equity firm **Arsenal Capital Partners** as senior managing director. Previously a director at Actis, Grad leads Arsenal's investor relations efforts in her current role.

**Peter Harwich** was hired by law firm **Latham & Watkins LLP** as a New York-based partner in the firm's M&A practice. Harwich joins from Allen & Overy, where as a partner he advised clients on joint ventures and spin-offs.



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# People



**Robert Kadlec**



**William Patterson**



**Paul Rubin**

**James Hickey** has joined Irvine, California-based executive search firm **McDermott & Bull** as senior managing director. Previously the national managing partner of private equity services at Tatum, Hickey has more than 20 years of experience working in M&A, IPO and SEC compliance.

**Joe Juliano** was hired by **Summit Partners** as a member of the growth equity investment firm's executive-in-residence program. Previously the CEO of software-as-a-service technology provider IQNavigator, Juliano will work with Summit's technology team to identify new investment opportunities.

**Robert Kadlec** has joined law firm **Duane Morris LLP's** Los Angeles office as a partner. Previously a partner at Sidley Austin LLP, Kadlec has more than 25 years of experience counseling clients on M&A and corporate financing matters.

Regulatory and compliance law firm **McDermott Will & Emery** has welcomed two new partners:

**Anh Lee** has joined **McDermott Will & Emery** as a partner in its Chicago office. Previously a partner at Kirkland & Ellis, Lee advises public and private companies on secured and unsecured financings, leveraged buyouts and credit facilities.

**Michael McStay** has also joined **McDermott Will & Emery** as a partner in Chicago. Most recently an associate at Ropes & Gray LLP, McStay advises clients on leveraged buyouts, equity restructurings and M&A transactions.

**Steven Levitsky** has joined antitrust law firm **Bona Law PC** as partner heading the firm's newly established New York office. Levitsky brings more than 30 years of experience advising domestic and international joint venture, compliance and large-scale M&A transactions.

**Wes Lucas** was hired by San Francisco private

equity firm **Gryphon Investors** as a partner. Previously the CEO of Sirva Inc. (Nasdaq: SRVA) and Sun Chemical, Lucas will co-lead Gryphon's industrial growth group.

**John McAcvoy** has joined New York-based **Blueprint Capital Advisors LLC** as a partner. Previously the president of Asset Management Finance, McAcvoy has more than 30 years of experience in various roles involving equity and debt capital markets.

**Anish Mehta** was named CEO of **CVC Capital Partner's** recently acquired international women's health assets business. Mehta joins with M&A and complex carve out experience, most recently as Allergan Plc's head of international business development.

**William Patterson** has joined Dallas-based investment banking firm **Commerce Street capital LLC** as a managing director. Previously a vice president at UMB Bank, Patterson will now focus on bank capital and business development in the southeastern U.S.

**Frederick Pilorget** has joined **Ogier** as a managing associate based in Luxembourg, Paris. Previously a senior associate at Stibbe Luxembourg, Pilorget advises corporate clients on joint ventures, restructurings and M&A transactions.

**Chris Puscasiu** has joined middle-market buyout firm **Presidio Investors** as co-managing partner. Based in San Francisco, Puscasiu previously served as the co-head of direct private equity at Canada's second largest pension fund, Caisse de depot et placement du Quebec.

**Paul Rubin** has taken on the role of partner at **Debevoise & Plimpton LLP's** Washington, DC office. Previously a partner at Ropes & Gray LLP, Rubin conducts due diligence for private equity funds and strategic acquirers in corporate transactions.

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Middle Market Week

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NOVEMBER 27-DECEMBER 1, 2017

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Monday

**November 27, 2017**

Reception

Tuesday

**November 28, 2017**

Family Office Breakfast Program

**November 28, 2017**

Capital Roundtable Program:  
Best Practices for Sourcing Private  
Equity Investment Opportunities

**November 28, 2017**

Deals & Divas Event:  
Angel, VC or PE: Finding The Right  
Equity Partner to Grow your Business

FEATURED EVENT

Wednesday

**November 29, 2017**

ACG New York:  
15th Annual Wine Tasting Gala

Thursday

**November 30, 2017**

Visit The Recently Lit 85th Rockefeller  
Center Tree

**November 30, 2017**

DC Finance's Family Office Real  
Estate Forum

Friday

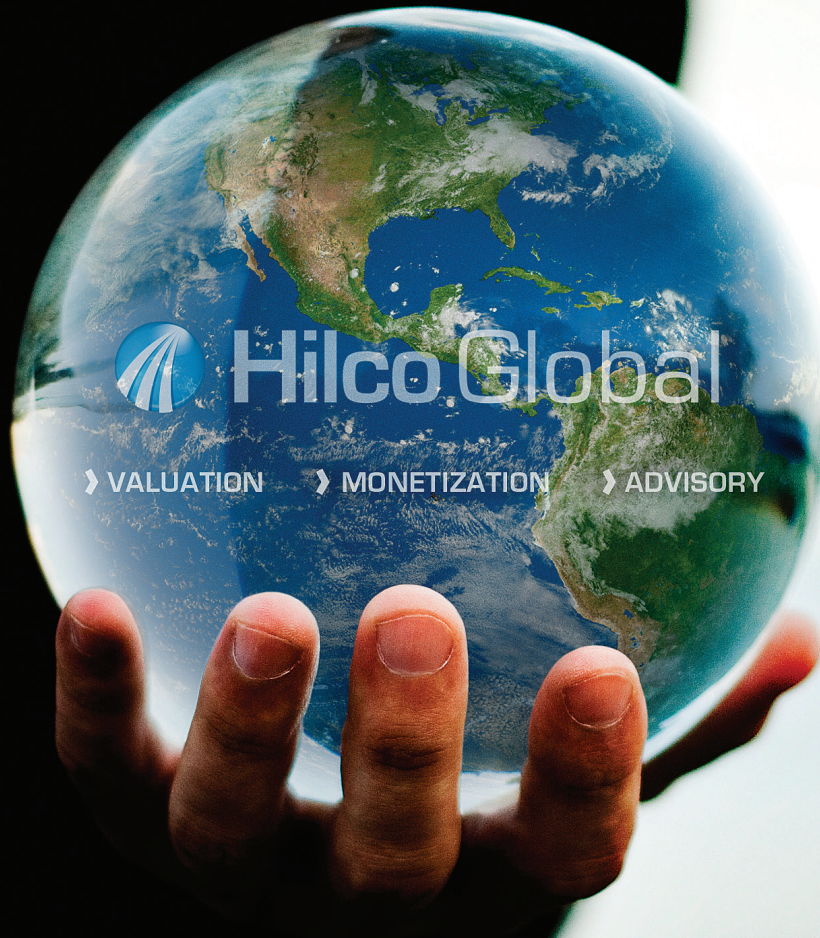
**December 1, 2017**

TBA

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