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MIDDLE MARKET Growth

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Bridging the 21st Century

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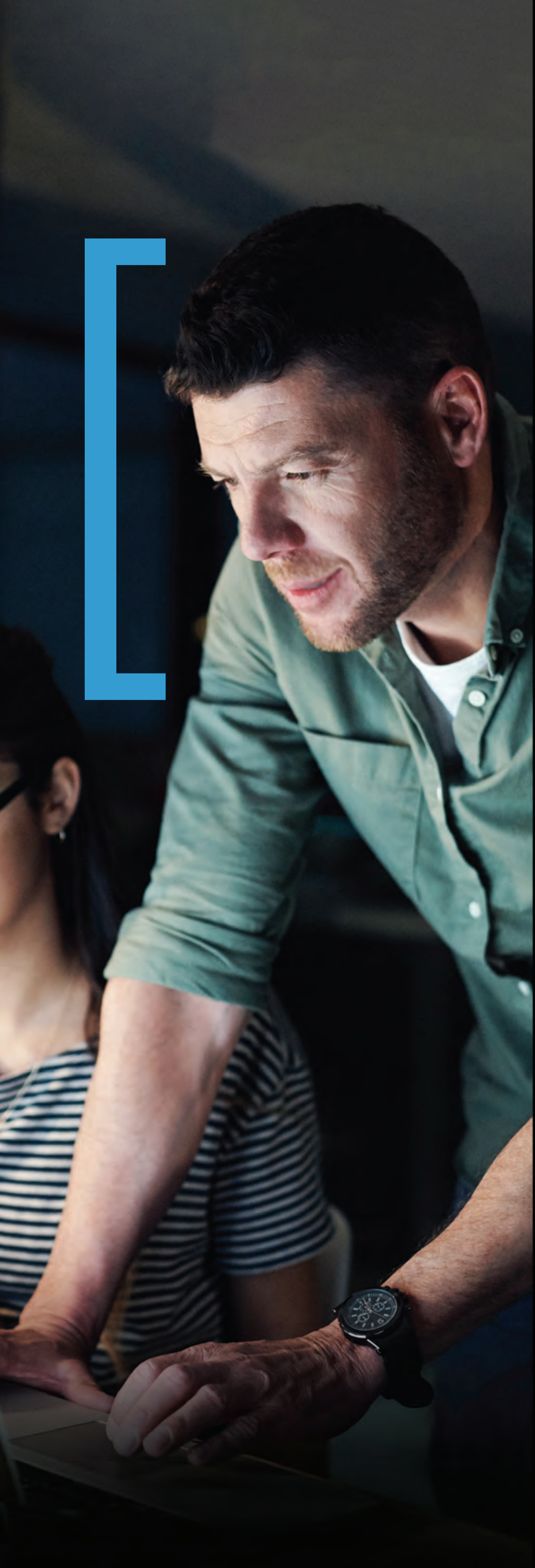

FROM THE EDITOR

Innovative Infrastructure

KATHRYN MULLIGAN
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Middle Market Growth
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Lately, I've been on the lookout for a particular type of cellphone tower. Specifically, one camouflaged as a tree, cactus, flagpole or church bell tower.

I don't have much room to discuss the origin of tower concealment (although it's a rabbit hole I recommend), but the trend illuminates a broader point: Infrastructure is everywhere, and it looks different than it used to.

Highways, railroads and power grids remain crucial to commerce and everyday life. The importance of traditional infrastructure hasn't diminished, even if public funding has. In this issue's Midpoints column (p. 8), John Gabbert looks at the federal infrastructure bill that was expected as President Trump took office and its potential to leverage private investment. When that legislation stalled, infrastructure funds had to look for other places to park their capital.

Even with fewer government-led projects than expected, there are still plenty of attractive opportunities for investors, particularly in energy and telecommunications infrastructure.

The latter is highlighted in our cover story (p. 22) through the lens of Vertical Bridge, which has grown with support from private equity and Canadian pension plan CDPQ. The towers constructed and acquired by Vertical Bridge make it possible to use Google Maps when driving down a rural highway or to text a friend from an apartment in Chicago. In order to deliver on their promise, autonomous vehicles and the internet of things will require that this infrastructure be installed everywhere—not just in urban centers. Without companies like Vertical Bridge, which has helped expand connectivity in rural areas, innovation can't reach its full potential.

Our coverage in this issue extends beyond infrastructure to include buildings and construction. In A Qualified Opinion (p. 20), Stout's Jim Owen describes what's driving M&A in the construction vertical and how businesses can prepare for an eventual economic downturn. On the heels of an inverted yield curve and other indications of a slowdown, writer Joanne Cleaver asked investors and business leaders about weathering the Great Recession and how they're calibrating their decisions as another downturn looms (p. 30).

When investing during a recession, one private equity founder advised showing restraint amid falling asset prices and focusing only on the best opportunities. Like a cellphone tower masquerading as a palm tree, quality targets might just be hiding in plain sight. //

Kathy Mulligan

A New Day for ACG

TOM BOHN, CAE, MBA
President and CEO, ACG Global

The Association for Corporate Growth is an impactful organization with 14,500 members who provide the expertise, operational resources and capital that make growth possible in the middle market.

As you know, this segment is an engine of economic growth and job creation, something that wouldn't be possible without you: the private equity firms, investment banks, lenders, attorneys, accountants and others who support middle-market companies.

Part of what attracted me to ACG was the vital ecosystem that it serves. ACG chapters across the globe convene deal-makers and leaders who not only drive M&A, but whose activities ultimately create jobs, fund public pensions and support broader economic growth. This is a powerful network, thanks to ACG's nearly 60 chapters and the industry volunteers who serve at the local level and on the ACG Global board of directors.

I'm excited to join ACG as president and CEO, and I'm ready to lead the organization into its next phase. My greatest priority is to strengthen its core offerings—increasing the value of membership, supporting chapters and communicating the contributions of the middle market to policymakers, the media and the general public.

I believe in running an association like a growth-oriented business, one that prioritizes its members the way a for-profit company serves its customers. I helped my previous association, the North American Veterinary Community, to double their reach and revenue and develop new offerings. And while I'm coming to ACG from outside the industry, I've held roles at financial services associations and I was a founding board member of Heart + Paw, a private equity-backed pet care company.

But even with that experience, I know I have a lot to learn. Since joining ACG, I've been getting up to speed on the latest issues and trends impacting middle-market M&A, and I want to hear from you: What are the concerns or challenges you're facing in your business? What role has ACG played in your work and career, and how can we do it better?

Going forward, expect to see changes at ACG Global in the way that we serve our members, our chapters and the broader middle-market ecosystem.

It's a new day for ACG, and I'm proud to be part of it. //

Cover and above photo by Josh Ritchie

GROWTH STORY

Bridging the 21st Century

The fast-paced evolution of wireless communication requires corresponding infrastructure to support it. With backing from private equity and Canadian pension plan CDPQ, Vertical Bridge is laying the groundwork for wireless connectivity across the U.S. with a growing portfolio of towers, including in rural communities. 22

TREND

Thriving Through a Downturn

With the Great Recession in the rearview mirror and signs of slowing growth, private equity leaders share their insights from the last downturn and how they're preparing for the end of the current economic cycle. 30

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MMG CONVERSATIONS

Mobility Could Create 100,000 Jobs in the Next Decade. Will the Workforce Be Ready?

Jessica Robinson, co-founder of the Detroit Mobility Lab and president and executive director of the Michigan Mobility Institute, sat down with *Middle Market Growth* during the Great Lakes ACG Capital Connection to talk about training the engineering workforce of the future and how the skills gap threatens to limit the growth of mobility businesses in Michigan and beyond.

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Where Will All This Infrastructure Money Go?

One of the earliest expectations as the Trump administration took office revolved around infrastructure spending. There were whispers of bipartisan cooperation on the issue, with the potential for government spending to stretch into the trillions of dollars.

Those expectations spurred a surge in private equity fundraising in the infrastructure asset class. Blackstone targeted a $40 billion fund, which would have been the largest of its kind. The ambitious fundraise didn't go as planned, and last July the firm announced an initial close of $14 billion. Others aimed just as high, including Global Infrastructure Partners, which is poised to raise a record $20 billion for its fourth fund. Brookfield Asset Management and KKR are among the firms taking in billions for infrastructure. All told, over $77 billion has been raised in the asset class since January 2017, including $37.5 billion in 2018 alone. As of November, the average fund size in 2019 was a mind-boggling $5.2 billion, according to PitchBook data.

Even with infrastructure legislation apparently off the table, funds have plenty of options. The American Society of Civil Engineers gave the U.S. a D+ grade and estimated the costs of necessary infrastructure upgrades to be around $4.6 trillion. And America isn't alone. Trillions of dollars will be needed to build and repair infrastructure globally.

Against that backdrop, those billion-dollar funds don't sound so big.

Fixing crumbling infrastructure isn't easy—projects tied to government spending can be highly regulated, vulnerable to politics and subject to delays. Promising alternatives for PE investors are two high-growth industries in need of new or improved infrastructure. Energy is one. The U.S. is now the world's top energy producer, and with increased production comes a greater need for specialized infrastructure to transport and deliver it. There are certainly pockets that need fixing or improving, but the more attractive opportunity is building new energy infrastructure from scratch.

The other high-growth opportunity is telecommunications, specifically around high-speed connectivity. In an article last year, McKinsey acknowledged the uncertainty surrounding 5G while noting that "it is easy to envision the emergence of new and innovative test cases" for the network. One of its biggest uses is the internet of things, which enables objects and machines to send and receive data, creating potentially lucrative applications across industrial and consumer categories. Autonomous vehicles would rely on the new network, too.

Mobile users are also expected to flock to 5G. It's predecessor, the 4G network, launched in 2009—in the early innings of the mobile revolution. Ten years and many mobile device users later, the faster speeds of 5G will undoubtedly be in high demand.

Even without an infrastructure spending bill, funds have plenty of ways to use their capital. Private equity firms like to fix things, but in recent years they've shown an interest in growing things, too. At this moment, they have an opportunity to do both. //

JOHN GABBERT
Founder and CEO,
PitchBook

▲ From left, ACG Cincinnati volunteers Joe Laugherty, Vaco; Jay Rush, Clark Schaefer Hackett; and Jeff Wuenker, The Bauke Group

ACG Cincinnati Helps Executives Find Their Next Role

Benjamin Glick

Garth Geist is a firm believer in the power of networking. When he separated from his previous employer in June 2018, he didn't wait to start leveraging his connections.

"My new job was to find my next job," he says. "Each and every day, I went to every networking mixer and meeting organization I could find."

Geist hit the ground running, but after months of searching, he hadn't made much progress. Eventually, he began attending events hosted by ACG Cincinnati, where organizers invited him to take part in their Executive Career Transition Roundtable program.

Launched in 2017, the monthly series was created by ACG Cincinnati to help ACG members and senior executives like Geist find their next role, which often can be more challenging than a traditional job search.

According to the Bureau of Labor Statistics, the unemployment figure for senior-level professionals was 1.7% in October 2019, nearly half the national average. Yet with fewer openings, finding an executive-level position can take time.

"A rule of thumb is it takes one month for every $10,000 of a person's salary before they find their next job," says ACG Cincinnati Executive Director Marcie Taylor. "[Which] is not a quick search, particularly if [executives] want to stay in Cincinnati."

The invitation-only roundtable series helps recently displaced executives find their next position and develop new skills. During a two-hour session each month, participants spend the first half discussing a particular topic and the second half networking.

One of the most well-received topics covered by the program was social media and how to leverage online platforms during a job search. A meeting last fall featured social media consultant Kendra Ramirez, who presented on best practices for LinkedIn.

Other sessions have addressed franchising opportunities, how to become a full-time business consultant, and tips for personal financial planning over the course of a job search.

Taylor developed the program with support from three ACG members: Joe Laugherty, a partner at management consultancy Vaco; Jeff Wuenker, a strategic career adviser for The Bauke Group, a training and coaching firm; and Jay Rush, a business development executive at Clark Schaefer Hackett, a CPA and advisory firm.

The first meeting drew fewer than five people, but a month later, there were more than 25. “Word kind of spread from there,” Rush says.

Today, the three members continue to play a large part in organizing and supporting the program. “They really do the heavy lifting,” Taylor says.

Most of the program’s participants have 20 to 30 years of experience, according to Taylor, and the prospect of having to look for work can be daunting. Providing support for them is a crucial aspect of the roundtable series.

“This is a time when the most confident men and women are dealt a body blow,” Taylor says. “You become very loyal to a group that has taken the time to help you as you are looking for your next opportunity.”

Running with the Right Crowd

When Geist attended his first roundtable meeting in September 2018, he was impressed by the caliber of participants. While there, he struck up a conversation with organizer Joe Laugherty. Laugherty put Geist in touch with contacts that eventually led him to Cincinnati-based supermarket chain Kroger.

In December 2018, Geist was hired by Kroger and continues to work in enterprise sourcing for the retailer.

> “YOU HAVE TO RUN WITH THE RIGHT CROWD AND BE IN THE RIGHT PACK TO GET THE RIGHT OPPORTUNITY. THAT’S WHAT ACG AND THE EXECUTIVE ROUNDTABLE REALLY DID FOR ME.”
>
> GARTH GEIST
> Enterprise Sourcing Manager, Kroger

He credits ACG Cincinnati’s program with helping him find his current role.

“You have to run with the right crowd and be in the right pack to get the right opportunity,” Geist says. “That’s what ACG and the Executive Roundtable really did for me.”

Geist is still in touch with people he met during the monthly events, and he has directed others to the program as a tool for their career planning.

“That’s where I’d say the real value in the Executive Roundtable is. There are resources out there you can tap into if you’re just willing to roll up your sleeves and do your part,” Geist says. //

ACG® | Strategic Acquirer SUMMIT

Developing a Corporate Community

ACG Global hosts inaugural Strategic Acquirer Summit

By Kathryn Mulligan

Although corporate development professionals across industries face a similar set of issues, there are few opportunities for them to come together and hear from their peers.

To fill that void, the Association for Corporate Growth hosted its first Strategic Acquirer Summit on Nov. 4-5. The program featured panel discussions on topics such as divestitures, finding the right buyer, building successful deal teams and competing against private equity firms.

▲ A group of attendees from St. Louis at the summit

During one session, panelists discussed the growing use of representations and warranties insurance by corporate buyers. According to Matthew Wiener, senior vice president at Aon, representations and warranties insurance has been used by private equity over the past five years. But that has changed in the last several years. “We will place more than 750 representations and warranties insurance policies in the U.S. alone this year and expect more than 40% to be for public companies,” he said.

Reps and warranties claims are noticed on approximately 20% of the policies issued with Aon, according to Wiener, and the period between initial notice and resolution can range from a couple of months to over a year, depending on the nature of the claim and level of engagement by the insured.

“Reps and warranties are an area where we’re seeing insurers most eager to pay claims,” said Sarah Mitchell, counsel at law firm Vinson & Elkins, during the panel session. “Insurers are anxious to prove they have claims-paying history.”

More than 120 attendees registered for the summit, representing organizations ranging from occasional acquirers in the lower middle market to acquisitive multinational organizations like Kimberly-Clark and Microsoft.

During an onstage interview highlighting best practices in cross-border dealmaking, Robin Sitver, vice president of global business development for diabetes care at Johnson & Johnson, described the importance of adapting to local cultural norms. For example, when discussing a transaction with a group outside the U.S., “it helps if you hold the meeting in their local time,” she told the audience. (**cont. on p. 14**) »

"Success comes when you can speak with conviction about the points that make the deal a strategic fit. You can get deals passed that you may not have the same amount of conviction [around], but those are the ones that tend to be trouble."

MARK DAUENHAUER
Director, Mergers and Acquisitions,
The Dow Chemical Company

"Our transition services agreement looks like a telephone book, because there are pages for every single country."

ROBIN SITVER
Vice President, Global Business Development, Diabetes Care,
Johnson & Johnson

"We play up St. Louis and our Midwestern roots when we think it matters to sellers. A Midwest-based business can be perceived differently than Northeast-based investment firms. It also can depend on the specific industry."

ANDREW FULFORD
Vice President of Corporate Development,
HBM Holdings

"WE HAVE TO DELEGATE AS MUCH [OF THE INTEGRATION] AS POSSIBLE TO THE ENTREPRENEURS. WE USED TO DO A LOT MORE HAND-HOLDING, BUT IT WAS TOO MUCH AND WE REALIZED THAT WASN'T SCALABLE."

ABE MINKARA
Managing Director,
Mark Cuban Companies

"When negotiating with an acquisition target, it works best when the corporate development team talks with the founder or CEO directly. We like to communicate principal to principal."

KATE ANISSIMOV
Google

"If you go back 10 or 15 years, a lot of tech companies had a one-size-fits-all approach to integration, and over the last five years, they have realized that is not effective. Most of the tech companies today identify the value drivers and then structure the integration plan based on those value drivers."

PAT BELOTTI
Director, M&A Venture Integration, Microsoft

"I don't want an acquisition to be held up because of real estate or a security function. During due diligence, I'll look for lease terms and I'll look for pictures of the property, so I can do everything that I can to ensure that the team remains productive when it's integrated."

LISA STEWART
Senior Real Estate Manager - Venture Integration, Microsoft

"I have had to wear every hat on [the M&A] stage, including being the ultimate decision-maker and the primary negotiator – while still making sure that my business keeps running so that what they are buying is viable on Day 1."

ANGIE MACPHEE
Partner, Baker Tilly

Following each panel, conference attendees continued the conversation in smaller groups. For example, after the insurance panel, a roundtable discussion addressed how to evaluate cybersecurity during due diligence. One participant described a deal that fell through after a third party contracted by his organization discovered an earlier security breach at the target company.

Many conferences catering to a corporate audience prioritize programmed sessions over relationship-building, something the summit tried to improve upon through the roundtables and dedicated time for networking, according to Aaron Polack, head of business development at Lion Equity Partners and a co-chair of the event.

"I've been to events where you sit in the same seat all day," he said. "Attendees appreciated the designated opportunities to build their peer network and to use them as a sounding board."

Looking Ahead

During his economic update presentation at the summit, Gus Faucher, chief economist for PNC, described the state of the global economy and identified areas of risk and opportunity.

Although growth in U.S. manufacturing remains flat, historical data suggests its slowing performance may not spread to other sectors. Faucher pointed to a period several years ago when the overall economy continued to expand even as manufacturing activity slowed.

Still, other threats persist. Finding qualified talent remains a challenge for business growth, and corporate debt poses a risk that Faucher called "the biggest fault line for the U.S.

> “WHEN YOU DO A GOOD JOB, TWO PEOPLE HEAR ABOUT IT. WHEN YOU DO LOUSY, 20 PEOPLE HEAR ABOUT IT.”
>
> EMMITT SMITH
> Pro Football Hall of Fame Running Back, Businessman and Entrepreneur

▲ Emmitt Smith (left) with ACG Global Board Chairman Martin Okner

economy.” That, along with corporate real estate, where prices have increased, are areas to watch. “It’s easy to see how it could become a problem in six to nine months,” he said.

One bright spot is consumer spending, which makes up two-thirds of the U.S. economy. “The biggest reason for optimism is what’s going on with consumers,” Faucher told the audience. “Since 2017, incomes have grown faster than spending, so there’s not only spending growth but household savings growth.”

Trendspotting

A strong economy buoyed by consumer spending could bode well for corporations represented in the room, but selecting the right acquisition targets can still be daunting. During the summit’s closing keynote interview, Emmitt Smith, the NFL Hall of Fame running back-turned-entrepreneur, described how he chooses investments.

“There are a lot of shiny lights out there. Everybody has the next hot thing,” he said. “As an athlete, there are a lot of things coming at you.”

Knowing how much he’s able to spend is the most important consideration, said Smith, who has run real estate, construction and technology businesses since retiring from football. Next is having the foresight to know where an opportunity will lead him.

In the late 1990s, Smith learned of a burgeoning tracking technology known as RFID. Through that solution, he saw a chance to address the rampant counterfeiting happening with autographed sports goods and luxury items.

As a professional athlete, Smith was used to signing footballs and jerseys, but when they were resold to collectors, there was no way to verify the signature was actually his. In fact, often it wasn’t. “In sports memorabilia, fraud is everywhere,” he said.

He was inspired by the potential for RFID tracking and recalled writing up a patent in 2002, which formed the basis for his company PROVA. Today, PROVA’s proprietary technology helps authenticate sports collectibles and merchandise, along with luxury and consumer goods. It’s been more than 20 years since Smith spotted the potential of RFID tags and the technology has since become commonplace in the retail industry. “I had the vision to see things and that it was heading in that direction,” he said.

Attendance at the summit was limited to corporate strategic acquirers, along with eight sponsoring organizations: Aon, Baker Tilly, Grant Thornton, Merrill Corporation, Riveron, Sheppard Mullin Richter & Hampton LLP, Polsinelli and PNC.

For Brent Baxter, managing director at investment bank Nolan & Associates and the summit’s co-chair, the highlight was seeing the engagement among attendees and their interest in sharing their own experiences with each other.

“It speaks to the commonality of what they do for a living,” said Baxter, who also serves as vice chairman of the ACG Global board. “It doesn’t matter if it’s industrial or consumer goods, the process and practice of corporate development is common. The trends and deal issues are the same, which speaks to why this event resonates.” //

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Huron Capital's Quest to Build a Safety Services Giant

By Benjamin Glick

When James Mahoney, a senior partner at Detroit-based Huron Capital, describes the market segment he's focused on, he puts it in simple terms: "It's about protecting lives."

The impact of natural and man-made emergencies has underscored the importance of a building's ability to prevent accidents and protect occupants.

However, after looking into the investment landscape for fire detection and security services, Huron discovered the industry was heavily concentrated at opposite ends of the size continuum. "We saw a market that was very fragmented," Mahoney says. "There were a handful of large players that dominate the top and a very large number of small players, but a relative void in the middle."

Those conditions presented an opportunity and in 2015, Huron partnered with industry veteran Terry Heath to launch Sciens Building Solutions, a buy-and-build platform focused on design, installation and maintenance services in the fire detection and security services vertical.

Since then, Sciens, now based in San Francisco, has acquired numerous businesses and is focused on growing in most major cities across North America.

One of Sciens' offerings is specialty fire suppression services. Among the company's clients are sophisticated office and commercial buildings, where conventional water sprinklers can damage or destroy sensitive electronic equipment. "You don't want to flood an entire data center," says Mahoney, who also serves as Sciens' director. The company acquired a business that offers dry-agent fire suppression capabilities.

SCKREPKA/GETTY IMAGES

Security is the other area where the platform differentiates itself. Instead of focusing entirely on surveillance equipment like cameras, Sciens helps organizations develop security countermeasures like access control—such as using cards with a sensor that allow a user to open doors—and mass communication, which could deter an intruder or quickly and uniformly alert building staff. "In this day and age, you have events where a school needs to notify students and staff and get everybody out or gather in a certain location," Mahoney says.

Sciens also employs an in-house engineering department that can help clients design a more secure building layout.

While Sciens is only a few years old, the businesses it acquires have decades of experience that integrate with the platform's strategy. Sciens looks to acquire family- and entrepreneur-owned businesses, some of which have been in the market for nearly 40 years, according to Mahoney.

Those legacies have helped Sciens win contracts with local and federal governments—including the military—as well as patrons in higher education, health care and hospitality. That work will help as the company looks for opportunities to expand to every major city in the U.S. and Canada. "Anywhere you have a lot of people you need to protect," Mahoney says. "That would be an area of interest for us." //

PERSPECTIVES // Constructive Insights

"There are new forms of infrastructure that we're just starting to imagine. If you can envision a world where in cities and urban environments there's beyond-line-of-sight drone flight – which is an expansion of current flight rules – that's going to require a virtual, digital infrastructure or set of rules about where those vehicles can travel above our heads."

JESSICA ROBINSON,
Co-founder of the Detroit Mobility Lab and president and executive director of the Michigan Mobility Institute, discussed how mobility advancements are driving new infrastructure needs at the Great Lakes ACG Capital Connection

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"Many times we're that subcontractor that's pushing the team to go onto a new platform, to try this new technology. Anything we can [do to] collaborate, be more efficient, getting rid of the faxes and getting rid of the paper, and having that immediate information – that has really been a key component of our team that now clients depend on."

KARLA NUGENT,
Co-founder and chief business development officer for Weifield Group, speaking at ACG Denver's Rocky Mountain Corporate Growth conference about adapting to technological disruption in the construction industry

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"While slowing global growth has dominated the recent news, homebuilders are well positioned to weather the political and market storms, adding legs to the second-longest expansion in the sector's history."

LAURA DIETZEL,
Partner at RSM US LLP, writing about the outlook for homebuilders on RSM's "The Real Economy" blog and middlemarketgrowth.org

"WE OUGHT TO BE CONCERNED ABOUT CYBER [ATTACKS]. AND IT'S NOT ONLY THE [ELECTRICAL] GRID, BUT IT'S OUR FINANCIAL SYSTEM, IT'S THE MOST INTIMATE DETAILS OF OUR LIVES, IT'S OUR ELECTORAL SYSTEM. ALL OF THOSE, FRANKLY, ARE VULNERABLE."

RETIRED ADMIRAL JAMES STAVRIDIS,
NATO's 16th Supreme Allied Commander for Europe, speaking during ACG Philadelphia's M&A East conference

Jim Owen

Managing Director, Stout

Jim Owen is a managing director and head of engineering and construction in Stout's Investment Banking group. His career has included roles at M&A advisory firms and as head of the private equity-backed investment firm he founded. Owen has extensive experience in the construction, engineering, utility services and industrial services sectors. He recently corresponded with *MMG* about trends impacting M&A involving construction and engineering businesses.

"MARGIN PRESSURE IN MANY TRADITIONAL CONSTRUCTION SEGMENTS, AS WELL AS LABOR SHORTAGES AND A BATTLE FOR TALENT, IS DRIVING ACQUISITION DEMAND AMONG BOTH DOMESTIC AND INTERNATIONAL STRATEGIC BUYERS."

Q What are the long-term trends driving investment in the construction and engineering sector?

A There are many trends affecting private equity investment in the sector, but three in particular have converged to ratchet up interest: aging infrastructure, the challenges of climate change and increasing regulation.

Much of the installed infrastructure in the U.S. is nearing the end of its useful life. Utilities, transportation and power generation in particular have saddled public and private owners with maintenance and upgrade costs that often exceed replacement costs. Not only are these aging assets more vulnerable to severe weather events, which have become more damaging and frequent, but their replacements must be more resilient to these threats. Resilient infrastructure requires specialized planning, engineering, construction and maintenance for new builds and existing or modified infrastructure. All of this is being governed by more stringent regulations and requirements for preventive maintenance, inspection and integrity services.

Q Where are the greatest opportunities for PE investors in this space?

A The current market dynamics have not gone unnoticed. We've seen the creation of specialized groups to offer early planning and consulting services to owners of assets being retrofitted or built for long-term sustainability and resilience. Specialized inspection firms are incorporating new technology—from drones to robotics to remote-operated vehicles—to gain efficiencies and improve safety.

Every expanded service can create a recurring revenue stream via long-term contracts and master services agreements, and provide a rich data stream that must be captured, interpreted and stored.

PE firms are focused on businesses that can evolve, adapt and grow within this dynamic environment, placing particular emphasis on the people: from senior management to department heads, project management and technology departments.

Q Describe deal volume and valuations in the construction and engineering sector.

A Although 2019 started slowly, volume has increased since March, led by factors including strong credit markets, strategic acquirers seeking growth and diversification, and private equity sellers taking advantage of high valuations.

The credit markets underpin valuation, and while initial leverage reads

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Visit *middlemarket-growth.org* to hear Jim Owen on the Middle Market Growth Conversations podcast.

don't always lead to over-leveraging at closing, they provide a lift in valuations for PE buyers. Non-bank debt, seller financing and other structuring remain widely available.

Margin pressure in many traditional construction segments, as well as labor shortages and a battle for talent, is driving acquisition demand among both domestic and international strategic buyers.

We are seeing valuations for attractive firms running one to two turns higher than historical averages, while valuations for very desirable assets, such as engineering, consulting, inspection and testing firms, are approaching double digits. Plus, the time from launching a sale process to closing has shrunk considerably. Not all sellers want to go through a broad sale process, so good firms can still be acquired at reasonable multiples.

Q How should construction businesses prepare for an economic downturn?

A The construction sector tends to lag an economic slowdown due to the long-term nature of projects and the fact that most large owners have multi-year capital expenditure plans. Still, examining firms that fared better in the last downturn offers key insights.

The kiss of death for an engineering or construction firm is leverage. Interest expense squeezes cash flows and heavy leverage limits the flexibility to grow ahead of a slowdown and to survive (or flourish) during a downturn.

Diversification across end markets, geographies, customers and projects can soften the blow in any one area, since not all facets tend to slow at the same time. The West Coast, Gulf region and Northeast, which are seeing demographic-driven spending growth, should fare better than average. Government spending can increase to spur job growth, and a balanced blend of recurring revenue from maintenance and inspection work can offset declines in new-build and capital expenditures.

Lastly, having a strong management team in place, along with solid systems and procedures, will drive success even if the overall economy slows. //

Bridging the 21st Century

How one privately held company is advancing wireless communication

◄ From left, Vertical Bridge co-founders Mike Belski, Alex Gellman and Bernard Borghei with a flagpole "stealth" tower

Photos by Josh Ritchie

BY S.A. SWANSON

"The way I describe our company is, we're a real estate business," Alex Gellman says. "We just happen to be specialized in antenna sites."

Gellman is co-founder and CEO of Vertical Bridge, which owns and master-leases communications infrastructure, providing locations for wireless networks to operate in all 50 U.S. states. Its holdings include towers, utility transmission structures, rooftops and billboards.

In a way, the company is also in the business of church steeples, flagpoles and artificial pine trees. Those are some examples of Vertical Bridge's "stealth structures," designed to conceal antennas and help the towers blend into their surroundings.

Just as stealth structures don't resemble conventional communications infrastructure, Vertical Bridge looks different than many of the dominant players in its industry. The company, based in Boca Raton, Florida, is privately held with fewer than 200 employees, but it regularly competes with large public companies that employ thousands.

Gellman and his co-founders, Bernard Borghei and Mike Belski, see that as an advantage. Vertical Bridge's large public competitors "tend to be a little less entrepreneurial, by definition, because they're so successful," Gellman says. "We want to counter that by being very entrepreneurial."

That sentiment is shared by Borghei, Vertical Bridge's executive vice president of operations. "For us, entrepreneurship comes in the shape of being fast, friendly and flexible—thinking outside the box to create opportunities »

VERTICAL BRIDGE

Business: Owning and master-leasing communications infrastructure, including towers, utility transmission structures, rooftops and billboards

Year founded: 2014

Co-founders: Alex Gellman, Bernard Borghei and Mike Belski

Employes: About 180

Largest investor: Digital Bridge Holdings LLC

that others in the same sector haven't focused on or handled effectively," he says. "We also believe that good entrepreneurs are disciplined investors."

To launch Vertical Bridge, the co-founders invested millions of their own money. The three share a passion for entrepreneurship, says Borghei—one that extends beyond just launching a business around a good idea.

"THE WAY I DESCRIBE OUR COMPANY IS, WE'RE A REAL ESTATE BUSINESS. WE JUST HAPPEN TO BE SPECIALIZED IN ANTENNA SITES."

ALEX GELLMAN
Co-founder and CEO, Vertical Bridge

THE SECOND ACT

About four months before Gellman, Borghei and Belski founded Vertical Bridge in January 2014, they completed the sale of a similar business, Global Tower Partners, which owned and leased towers and other structures for wireless communication.

The three joined Global Tower Partners soon after it was founded in 2003 by Marc Ganzi, who would later co-found Vertical Bridge's largest investor, Digital Bridge Holdings LLC. Ten years after Global Tower Partners launched, American Tower Corp. bought the business for an estimated $4.8 billion.

The sale came after Global Tower Partners' majority investor decided it was time to exit.

"We had to comply," Borghei says. "But it didn't mean that we were ready to leave the sector behind."

Following the sale, Gellman, Borghei and Belski had millions to invest as seed capital, along with a proven track record of owning and leasing communications infrastructure.

Their new venture would follow a model similar to their previous company. Wireless carriers pay to place antennas and related equipment on Vertical Bridge's towers, rooftops and the occasional fake flagpole. "I think this business was probably about as low risk of a startup as you can have," Gellman says.

Still, low risk carries no guarantees, Borghei acknowledges. "No matter how good you are, there's always that element of the unknown: 'OK, will we be successful again?'"

The team didn't wait long to find out—about a week after closing the Global Tower Partners sale, they signed the lease for Vertical Bridge's first office.

The three founders—along with Digital Bridge co-founders Ganzi and Ben Jenkins—contributed approximately $40 million to launch the new venture. "I think up to the first 33 employees, we were funding the company and we didn't even blink," Borghei says. But after recognizing that they had a short time frame to buy some high-quality assets, the company decided to look for outside capital.

By November 2014, after six months of courting investors, the founders had raised about $750 million of equity, providing much-needed resources to devote to expansion. Since 2014, the company has closed more than 250 deals, ranging from two towers to several hundred.

Vertical Bridge also builds its own towers, and those efforts have accelerated. During the past six years, the company built about 700, outpacing Global Tower Partners, which built about 600 structures over a decade. According to Gellman, 2018 was the first year that Vertical Bridge built more towers than it bought, thanks to high asset prices and low interest rates. "We can build them for a lot less than it costs to buy them," he says.

▲ In 2018, Vertical Bridge built more towers than it bought. Pictured: the co-founders with a model tower

PERKS OF BEING PRIVATE

The founders' entrepreneurial spirit and their willingness to put up their own money helped attract investors, Borghei says. "They told us, 'We knew your track records, we knew the experience, but we also wanted to see if the hunger was still there.'" The founders' personal financial stake in the business proved they were serious.

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▲ From left, Vertical Bridge co-founders Mike Belski, executive vice president of leasing and marketing, and Bernard Borghei, executive vice president of operations

Today, the company's largest investor is Digital Bridge, which declined to disclose the investment size. Ganzi, who started Global Tower Partners, is the firm's co-founder and CEO. Vertical Bridge's other investors are The Jordan Company, Goldman Sachs Infrastructure Partners, Stonepeak Infrastructure Partners, the California State Teachers' Retirement System, The Edgewater Funds, Dock Square Capital LLC and Canadian pension fund CDPQ.

Ganzi, who also serves as executive chairman of Vertical Bridge, says there are two major advantages of being private. One is thinking long-term without the pressure of quarterly results. The other is intel about its competitors, which include American Tower Corp., Crown Castle and SBA Communications. "We know a lot more about our larger public competitors than they know about us," he says.

Vertical Bridge also sees advantages in permanent capital compared with the shorter time horizon of traditional private equity. Long-term commitments make up about 40% of its investments. Within five years or so, the goal is to shift completely to direct investments from sovereign wealth or pension funds. That's a better fit, according to Gellman, because Vertical Bridge's customers—like Verizon, AT&T, T-Mobile and Sprint—are long-term businesses. "We want to match that by being a long-term partner for them," he says.

PARTNER FIRST, DEAL SECOND

Among the company's long-term investors is CDPQ, a Canadian institutional investor that manages funds primarily for pension and insurance plans. In April 2019, it acquired a 30% stake in Vertical Bridge.

CDPQ has invested directly in infrastructure for more than 20 years. Today, its infrastructure portfolio represents about 7% of its CA$326.7 billion of overall assets, and it plans to increase that to approximately 12%, says Olivier Renault, CDPQ's vice president of infrastructure for North America.

"It's a natural class for long-term pension fund investors like us," Renault says, adding that clients are driving an "enormous appetite" to increase the infrastructure portfolio, due to the long-term, stable nature of such investments.

The Vertical Bridge investment was driven by CDPQ's strong interest in the telecommunication sector. Renault points to increasing data consumption and the need for more digital infrastructure. The sector also helps diversify CDPQ's infrastructure portfolio, which was built around energy and transportation assets, including airports, highways, and wind and solar farms.

Another important consideration for CDPQ was Vertical Bridge's management team and their track record. "Our model here is definitely 'partner first, deal second,'" Renault says. He cites alignment of culture and philosophy as essential criteria for investing. "What we've learned is that it is absolutely essential to find the right partner first and then do the deals, even if it means a smaller deal up front that ramps up into something bigger."

Over the past six years, Vertical Bridge has certainly transformed into something bigger. It now has about 180 employees, and its customers include the Big Four national wireless operators, along with regional players like U.S. Cellular. The company also serves government agencies, like the FBI and Homeland Security, that have their own communication network and use third-party infrastructure to deploy it.

From 2018 to 2019, Vertical Bridge grew revenue at a rate in the upper teens, which its leaders attribute to the company's ability to be fast and flexible when serving customers.

Gellman recalls how T-Mobile purchased a large chunk of 600-megahertz spectrum a few years ago at a Federal Communications Commission auction. That lower spectrum has longer wavelengths, which can pass through buildings and other structures more easily than higher frequency bands. The signal is also able to travel long distances, making it ideal for rural areas.

T-Mobile told Vertical Bridge it wanted to be "first on the air"—meaning, the first company to transmit that specific signal for wireless network use. Being the first mover would be a competitive advantage for the carrier, allowing T-Mobile to increase coverage and capacity in targeted cities.

Vertical Bridge suggested a region with plenty of available places for antennas. "They ended up signing leases to go on about 50 sites. They were on the air on those sites within 45 days, which is unheard of," according to Gellman, who says this type of telecommunication deal typically takes more than six months.

T-Mobile's need for sites isn't going to diminish, particularly since the FCC approved the company's proposed merger with Sprint. (At press time, the tie-up faces a lawsuit from states that oppose it.) As part of the FCC's approval, both companies committed to building a network within three years of the deal's closing using the latest mobile-phone technology, known as 5G, that would be accessible to 97% of the U.S. population. Within six years, the network must expand to include 99% of the population and include 90% of rural areas.

CONNECTING THE COUNTRY

To enable wireless carriers to offer their services in less-populated areas, Vertical Bridge has been building, buying and upgrading assets in rural America. Those upgrades were necessary because many older towers lacked the capacity and strength to allow for multiple wireless carriers to install their communications equipment on various heights of the same structure.

It's always difficult to make the business case for deploying wireless broadband outside of populous regions, according to Jonathan Adelstein, president and CEO of the Wireless Infrastructure Association. There are fewer customers, yet rural areas need connectivity at least as much as the rest of the country, because they

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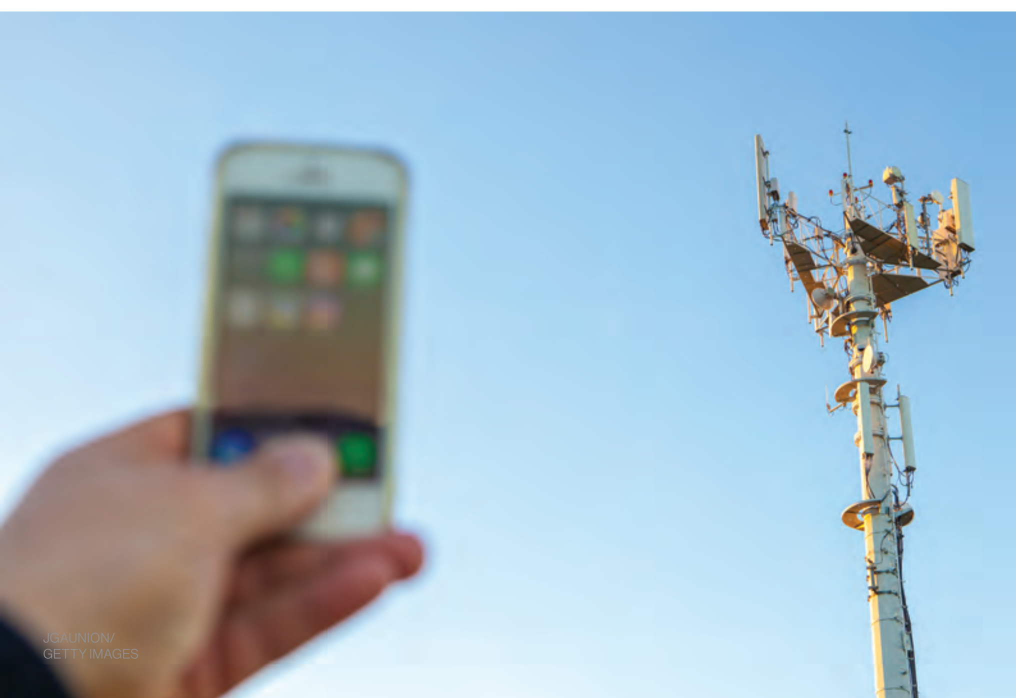


JGALIONE/
GETTY IMAGES

"NOBODY EVER THOUGHT 10-15 YEARS AGO THAT THE CARRIERS WERE GOING TO INVEST MONEY TO GET INTO THE RURAL PART OF THE COUNTRY."

BERNARD BORGHEI
Co-founder and Executive Vice President of Operations, Vertical Bridge

“YOU NEED TO REALLY GET A WIDE SIGNAL OUT BROADLY IN ORDER TO BE COST-EFFECTIVE, AND TOWERS ARE PERFECTLY POSITIONED TO PROVIDE COST-EFFECTIVE COVERAGE IN RURAL AREAS.”

JONATHAN ADELSTEIN
President and CEO, Wireless Infrastructure Association

are farther from health care services and cultural and educational opportunities.

While small cells or rooftop antennas are becoming more common in cities and suburbs, tall towers play a particularly important role in rural areas because they allow for signals to be transmitted over longer distances. “You need to really get a wide signal out broadly in order to be cost-effective, and towers are perfectly positioned to provide cost-effective coverage in rural areas,” Adelstein says.

Companies like Vertical Bridge are focused on deploying infrastructure that allows carriers to expand in rural areas, a development that until recently seemed unlikely, Borghei says. “Nobody ever thought 10-15 years ago that the carriers were going to invest money to get into the rural part of the country.”

Sometimes wireless carriers will build their own towers, but in other cases they’ll use those built by third parties, allowing them to stretch their budgets further. According to Adelstein, “They have more capital to invest in expanding to rural areas if they can rely on companies like Vertical Bridge to build this rural infrastructure.”

Vertical Bridge is one of the companies providing towers for a network that may help save lives across the country by connecting first responders. One of its customers, AT&T, was chosen by the First Responder Network Authority, known as FirstNet, to build and manage the first broadband network dedicated to America’s police, firefighters and emergency medical services providers. FirstNet will cover all 50 states, five U.S. territories and the District of Columbia, including rural communities and tribal lands.

SCRATCHING THE SURFACE

As it goes head to head with large, publicly traded companies, Vertical Bridge has positioned itself as a nimble competitor with a growing portfolio. At the end of 2019, it owned and master-leased more than 268,000 sites nationwide. But in recent years, more private players have emerged, presenting a new threat.

Ganzi estimates that there are more than 30 private tower companies in the U.S., whose holdings range from a dozen structures to a thousand. “All are very skilled at what they do, and in a private capital structure, they can be quite flexible and disruptive,” he says. “So, we’ve also got to be mindful that there’s now a lot more private competition out there.”

It helps to operate as a specialized real estate company, one that carefully vets its sites and offers flexible solutions for customers. Vertical Bridge also stands to benefit from a development that will continue to spur investment across the wireless infrastructure industry: 5G.

The fifth-generation wireless network will provide faster speeds and higher bandwidth, allowing for new applications. As Gellman points out, technology that we take for granted today—like Uber or the navigation app Waze—wasn’t possible before 4G launched a decade ago.

5G is expected to enable new technology that will affect daily life, such as connected devices that make up the internet of things, known as IoT. As that innovation accelerates, Vertical Bridge’s customers will need more structures to deploy their networks.

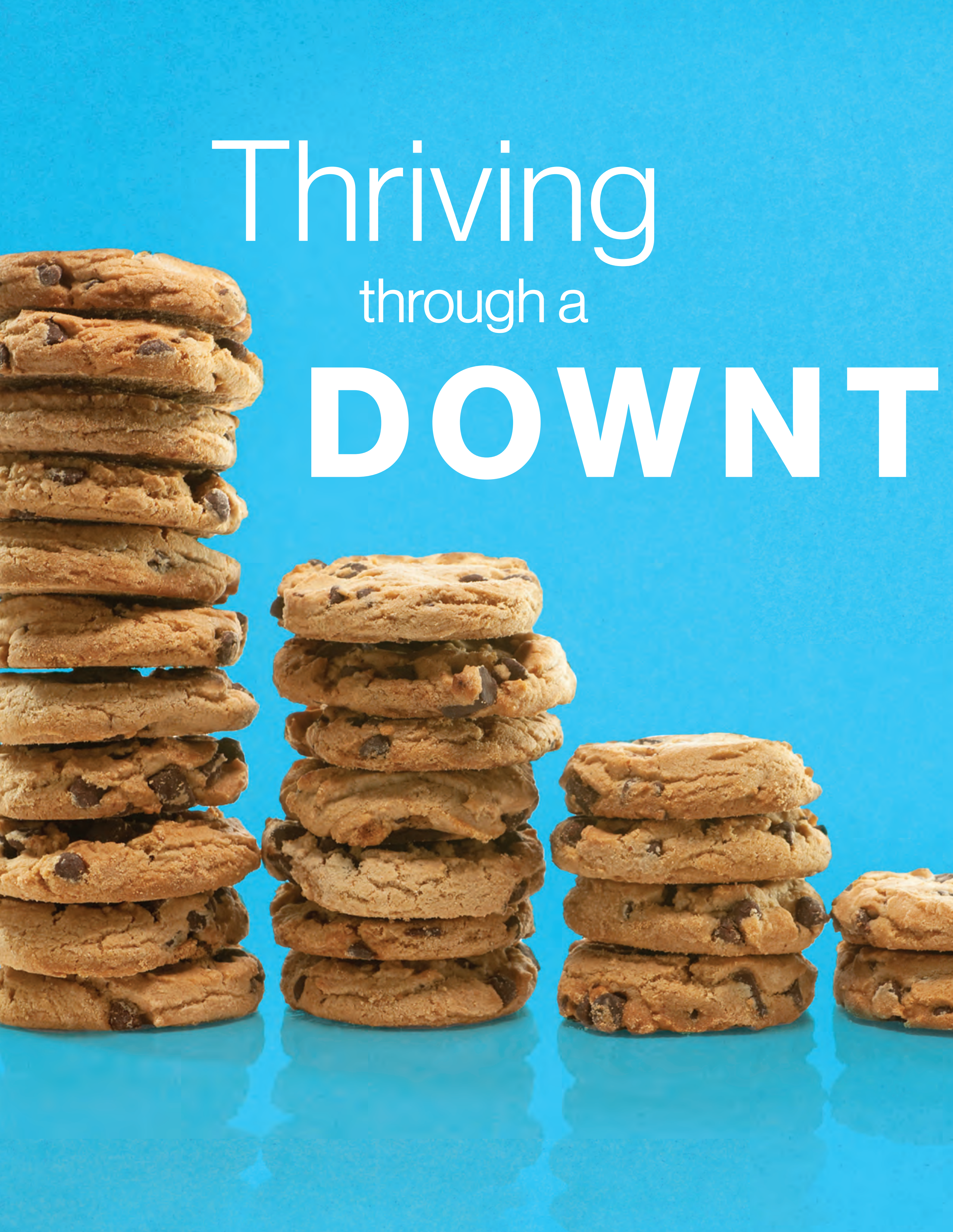
“Once you get that going, that’s when you start seeing true IoT applications being deployed and developed,” Borghei says. “We get very excited about it, and we haven’t even begun to scratch the surface.” //

S.A. Swanson is a business writer based in the Chicago area.

▼ Hiding in Plain Sight (clockwise from bottom left): Vertical Bridge's stealth structures include a "monopine" tower in Alaska; a flagpole tower in Florida; a "monopalm" tower in Texas; and a "guyed" tower in Colorado

MONOPINE, MONOPALM AND GUYED TOWER PHOTOS COURTESY OF VERTICAL BRIDGE; FLAGPOLE BY JOSH RITCHIE

Thriving through a DOWNT



URN

Recipes for success from the Great Recession

YOUNGVET/GETTY IMAGES

BY JOANNE CLEAVER

Cookie dough isn't a cute business for Loren Brill. She was very serious when she started her New York-based company, Sweet Loren's, in 2008.

Recovering from Hodgkin's lymphoma, which derailed her intention as a recent college grad to get a corporate job, Brill realized how much better she felt eating "clean" foods made with simple, unadulterated ingredients. As she refined her recipes to eliminate gluten and dairy products, she discovered a then-overlooked market of consumers who had to avoid those and other problematic contents.

Whole Foods was her first customer. Now, Sweet Loren's cookie dough is distributed through 10,000 grocery stores and Brill is gearing up for a Series A round of financing so she can expand into food service and coffee shops, and launch new product lines.

An infusion of $5 million to $10 million would be a safe bet, even if the economy falters, says Brill, now 35.

"People have to eat," even in a recession, she says, and those with allergies and preferences don't have many options when it comes to healthy sweets, especially at reasonable prices. "If anything, during a recession, people will want cookies more," she adds.

BRACING FOR A SLOWDOWN

If Brill is right, the U.S. might be reaching for the cookie jar soon. Indications suggest an economic slowdown is on the way. Investors and executives who weathered the Great Recession, which bottomed out in 2008 and 2009, say they are putting that searing experience to good use as they brace for a potential downturn.

When it inevitably hits, the end of the current market cycle will likely be less of a shock and more of a "softening," says Rob Holland, managing partner of CREO Capital Partners, a private equity group that owns the 505 Southwestern line of salsas and snacks, as well as Flagship Food Group and several other companies. "There's enough momentum to keep us from a repeat of 2008," he says.

Economists concur.

"It has been 10 years since the Great Recession and we're not looking at anything like that," says Michael Walden, a William Neal Reynolds distinguished professor and extension economist at North Carolina State University and a member of the graduate Economics faculty with The Poole College of Management. While home values have rebounded erratically, benefiting some regions more than others, overall household debt is lower and homeowners are not tapping their equity. "Households have become very frugal," Walden says. "In 2008, people loaded up on housing debt. It's the exact opposite now."

The National Association for Business Economics said in December 2019 that its members expect growth in the American economy to dip below 2% in 2020.

And there are signs some private investors are prioritizing cash, likely with a recession in mind. The 2019 UBS Global Family Office Report found that 55% of family offices foresee a recession in 2020. Consequently, many of those who expect a downturn are adjusting their investment strategies accordingly, seeking to minimize risk and to have plenty of cash available for unexpected bargains.

> "HOUSEHOLDS HAVE BECOME VERY FRUGAL. IN 2008, PEOPLE LOADED UP ON HOUSING DEBT. IT'S THE EXACT OPPOSITE NOW."
>
> MICHAEL WALDEN
> Professor, North Carolina State University Poole College of Management

ESSENTIAL SERVICES

As the longest economic expansion in U.S. history enters its late stages, one investment segment attracting private equity interest is B2B companies whose services become part of customers' core operations. Software as a service models and outsourced services relieve customers of margin-crushing overhead while requiring them to commit to long-term contracts, cementing cash flow for the businesses providing the services. When services are hard-wired into customers' operations, it's difficult for even lower-cost providers to uproot them, investors say.

Drawn to the outsourced services model, in 2008 Incline Equity Partners bought a stake in a company that installs and operates washers and dryers in college housing complexes.

"It's the definition of a recession-resistant business. The fundamental demand is not affected by the economy's performance," says Jack Glover, a founding partner of Incline, citing the never-ending flow of laundry. The business also offers a surprisingly consistent stream of cash-flow enhancements. Having sold the company and reacquired it in 2019, Incline now plans to upgrade old-school washers and dryers with smartphone-enabled, app-based payment systems. Replacing quarters with digital coins will rapidly lower maintenance costs, Glover predicts.

> “IT CAN BE TEMPTING TO PURSUE THE NEXT SHINY OBJECT, BUT THERE NEEDS TO BE DISCIPLINE SO YOU DON’T BECOME OVEREXTENDED AT THE WRONG TIME.”
>
> JEFFREY STEVENSON
> Managing Partner, VSS

ISSAURINKO/GETTY IMAGES

Another “essential services” business that Incline bought in the depths of the recession is Apex Analytix, which installs and manages specialty accounting software to recover unintended overpayments to vendors and suppliers. Apex Analytix charges a flat fee plus a small slice of the revenues it recaptures for its clients. It’s the ultimate recession-resistant company because it uncovers money to channel to its clients’ bottom lines—an especially appealing proposition when other sources of revenue go dry.

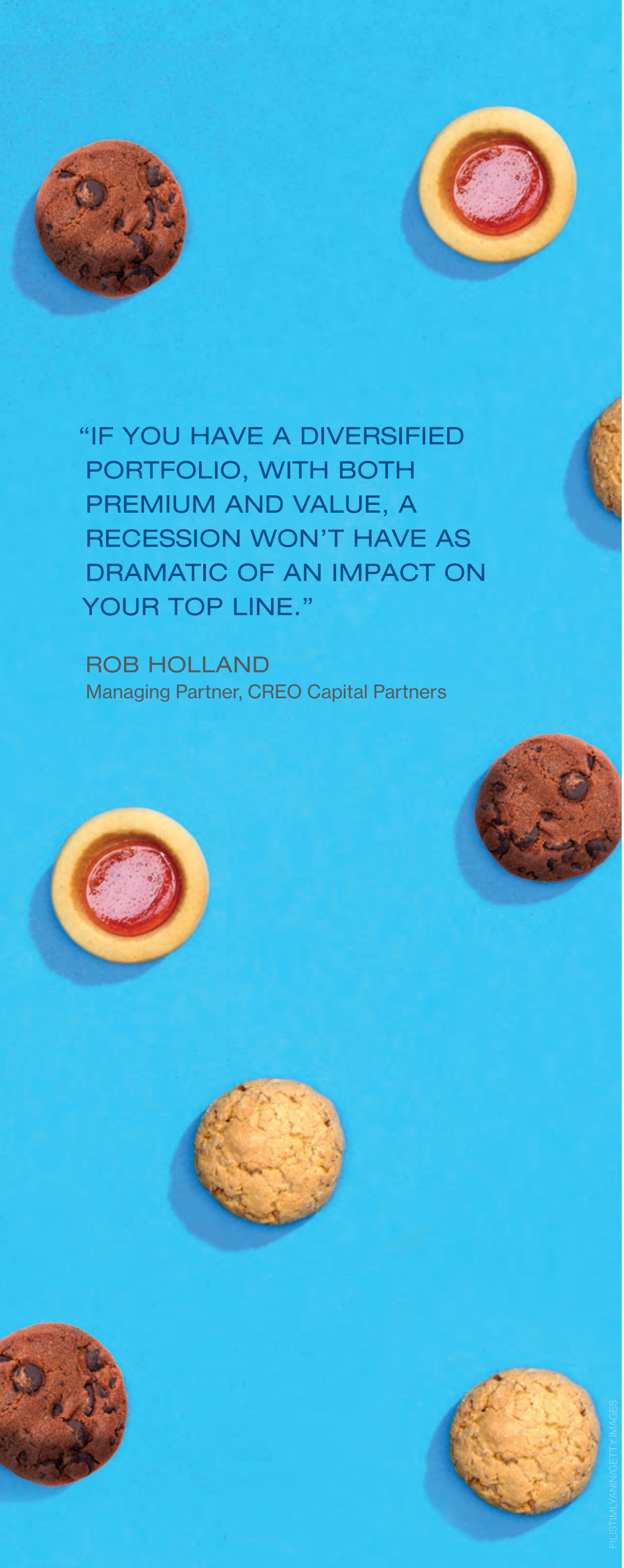
Jeffrey Stevenson, managing partner of VSS, a New York-based private investment firm that focuses on the lower middle market, is eyeing a potential downturn from a very different perspective than he had in 2007.

Back then, VSS was still investing in media, where it had its roots. “Media is driven mostly by advertising revenues, which tend to be procyclical and easy to cut in a downturn,” Stevenson says. “In the Great Recession, media companies were negatively impacted by the cyclicality of advertising, the secular change from print to digital, and the leverage in typical deal structures back then.”

Now, VSS prefers companies that infiltrate customers’ operations.

In 2011, VSS acquired Strata Decision Technology, which streamlines health care financial operations, in part by detecting ways to trim costs and plan for capital improvements. “It is embedded in how the entire hospital operates, including clinical, operational and financial,” Stevenson explains.

The investment was attractive for many reasons. Strata, which was sold to Roper Industries in 2015, signed up clients for five-year contracts and had a 98% renewal rate, according to Stevenson. Plus, businesses with outsourced services can use technology to bring costs down from what clients can do on their own, making the services valuable even if the economy were to slow. Says Stevenson: “In a recession, there’s still a great need for services that lower cost.”



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"IF YOU HAVE A DIVERSIFIED PORTFOLIO, WITH BOTH PREMIUM AND VALUE, A RECESSION WON'T HAVE AS DRAMATIC OF AN IMPACT ON YOUR TOP LINE."

ROB HOLLAND
Managing Partner, CREO Capital Partners

BE THE ONE THEY PAY FIRST

Kodiak Building Partners rose from the ashes of the 2007 housing meltdown, in which Americans collectively lost 30% of their home equity.

The company was formed in 2011 when Wolverine Investors, whose partners all had experience in the building industry, led a group of private investors to acquire producers and suppliers in the housing and construction vertical. Their goal wasn't just to buy in time for the economic recovery; they aimed to create a basket of locally owned companies whose collective diversity was inherently stable.

Headquartered in Littleton, Colorado, Kodiak now owns 23 locally focused companies in 14 states. To further its growth, in 2017 it partnered with buyout firm Court Square Capital.

Through acquisitions, the company benefits from economies of scale, explains Kodiak controller Darius McCurty, and longer-term results are stoked not by increasing prices but by helping local company owners learn better ways to navigate the notoriously fickle industry.

"Raising prices on customers is the last thing we want to do," McCurty says. "It's about better buying and not carrying a lot of inventory and accounts receivable, and making sure you have good terms and conditions for local customers."

Relationships with local builders and contractors are the heartbeat of the industry. Kodiak coaches the finance staff at its companies on best practices for cash flow and customer management, always within the context of cultivating long-term relationships.

It's common in the industry for contractors to use personal guarantees to place orders, and those off-balance-sheet relationships translate to cash flow when times are tight—at least, that's how things played out in the last recession, says McCurty. "People owe companies, but they pay people they like. It's rapport that puts you at the top of the payment list."

BEWARE SHINY OBJECTS

While some CEOs might hanker for the bargain-hunting bonanza of a recession, great deals aren't as plentiful as one might think, says Stevenson of VSS. Growth-minded CEOs sometimes have to be reined in lest they buy based primarily on price, and in their excitement, overlook strategic fit and the fundamentals of a potential acquisition.

"It can be tempting to pursue the next shiny object, but there needs to be discipline so you don't become overextended at the wrong time," Stevenson says, referencing his aversion to adding excess debt to a business. He sometimes directs CEOs to turn their attention away from hunting down deals and to focus instead on building up talent and polishing operations.

For Incline's Glover, two words summarize his main operating insight from weathering the 2008 recession: "Buckle in."

Back then, he worked with executives of portfolio companies who had to make hard decisions quickly. The overriding goal of surviving a recession is to aim for the recovery, he says, rather than reacting to the fear and chaos of the moment.

Incline had pulled back a bit in 2006 and 2007, sensing an overheated economy and anticipating a recession, though it was taken by surprise by just how bad 2008 actually was, Glover recalls.

During a downturn, it takes a steady hand to identify the best opportunities among abundant reasonably priced targets, he adds. Privately owned companies that had spurned Incline's interest in the early 2000s were suddenly more than willing to sell—often for 10% to 20% less than they had previously demanded.

DIVERSIFY TO THRIVE

While Brill is right—in any economy, people still need to eat—it's also true that during a recession, consumers have shown a willingness to try unfamiliar brands in an effort to save money. Some permanently change their buying habits.

A McKinsey report found that about 18% of consumers traded down to lower-priced brands during the recession. Nearly half of those—46%—were pleasantly surprised by the quality of the cheaper goods.

That willingness to experiment could spark further growth in CREO Capital's portfolio, which is evenly split between private label and branded goods, according to Holland. Its private label offerings are distributed through grocery stores.

Some consumers find they prefer the lower-cost options over name brands and stick with them even as their disposable income grows during an economic recovery, Holland reports. While some consumers move down the prestige scale, others upgrade to fancier brands and specialty foods.

That explains why CREO's variety of offerings, found in retailers ranging from Whole Foods to Dollar Tree, grew its top line by 21% from 2007 to 2008, and then by 42% from 2008 to 2009—the worst years of the Great Recession. "In the years after the recession, the growth profile softened," Holland says. Now, it's back to 43% growth, driven by craft, premium and non-GMO brands that consumers crave.

"Yes, people have to eat, but they still have choices," he says. "It's not as simple as 'food is recession-resistant.' A recession brings some consumers into the world of value, and when the economy strengthens again, those consumers [are] retained."

The truism that consumers are much more open to alternatives in a recession is less comforting for investors in other categories. Household goods, electronics and similar purchases that can be put off don't follow the same pattern. People don't have to upgrade their television and wardrobe—at least not with the same urgency as purchasing food.

Still, the lesson holds for investors, Holland says: "If you have a diversified portfolio, with both premium and value, a recession won't have as dramatic of an impact on your top line." //

Joanne Cleaver has been covering entrepreneurship and business growth for over 30 years for national media, as both a staff and freelance journalist.

OSKER14/GETTY IMAGES

Bringing Joint-Employer Clarity to Construction

By Kathryn Mulligan

Determining which employees a company is responsible for has become difficult in construction, franchising and other industries, although it could soon get easier thanks to forthcoming rules from two federal agencies.

As of early December, the National Labor Relations Board and the Department of Labor are both expected to issue new rules in the coming weeks related to the joint-employer standard, which defines when an organization is legally liable for employees of a subcontractor, franchisee or other partner.

Businesses and advocacy groups have argued that the expansion of the joint-employer definition by the NLRB under the Obama administration has created uncertainty. In a 2015 case involving waste management company Browning-Ferris Industries, the NLRB determined that an employer that has exercised "indirect" or "limited and routine" control over employees of another organization could be required to bargain with a union representing those employees.

The Labor Department's standard, which has not been meaningfully revised in over six decades and causes similar uncertainty, establishes that an employer that is "not completely disassociated" could be liable for labor law violations under the Fair Labor Standards Act.

The subjectivity baked into both agencies' standards has made it difficult to determine whether a business is, in fact, a joint employer, according to Mark Smith, an attorney at Rhoades McKee. If a general contractor requires that employees of its subcontractor take a drug test, is it considered a joint employer? Can setting their schedules qualify as control?

"It's almost impossible in the form of legislation or even case law to anticipate and address every single circumstance that may lead to the conclusion that someone is or is not a joint employer," Smith says.

Operating with Uncertainty

Ambiguity about what constitutes a joint-employer relationship has raised questions in many industries, including construction, whose business model relies on a degree of involvement with other organizations' employees.

In testimony before Congress, Edward Martin, president and CEO of Tilson Home Corporation, spoke about the ambiguity of the joint-employer standard and whether scheduling activities could put his home-building company at risk of liability. He cited the role of the construction supervisor in ensuring subcontractors are scheduled on time to meet customer deadlines. Under the NLRB's Browning-Ferris test, that activity could make Tilson a joint employer, subject to collective bargaining with members of the specialty trade groups it works with.

But without the ability to set schedules, Tilson's business would be impossible, Martin argued. "This would be akin to ordering a pizza, but allowing the delivery service to show up at the driver's discretion," he said during his testimony.

In addition to scheduling, a general contractor is typically responsible for enforcing safety practices and training, which could be perceived as affecting terms and conditions of employment, according to Denise Gold, associate general counsel at the Associated General Contractors of America, known as AGC. Often, construction contracts—particularly those involving federal contractors—legally require that general contractors exercise control over their subcontractors, even when that involvement could expose them to joint-employer liability.

Despite concern about the broadened standard, its effect on AGC members has been minimal. "We have not heard of any direct impact on our members to date in any substantial way," Gold says. "But there is the concern that there could be in the future, and therefore some may be changing some of their business practices and contracts as needed, to the extent feasible."

The NLRB likely did not intend to target the established practices of subcontracting in the construction industry, Gold says. Instead, she suspects the agency was more concerned about the use of staffing agencies in construction and other industries.

As the construction industry faces a worsening labor shortage, more companies could begin using staffing firms and thus open themselves up to joint-employer liability, according to Gold. Although she hasn't yet seen an example, it's something AGC is watching closely.

Planning Ahead

To avoid being implicated as a joint employer, Smith has worked with clients in the construction industry to review their contracts to determine if they could be found to be a joint employer with a subcontractor or staffing agency. In cases where they could be found liable, he helped them take steps to address areas that might be perceived as control functions.

Other industries, such as franchising, have felt the impact of the broadened standard more directly through litigation. In a comment letter submitted to the NLRB, the International Franchise Association cited data showing that "the number of joint employer claims under NLRB jurisdiction involving franchise businesses have increased five-fold" in the four years following the Browning-Ferris case.

Litigation, along with precautionary legal fees and changes to operations, has become a consideration during dealmaking.

Michael Lotito, shareholder and co-chair of the Workplace Policy Institute at law firm Littler, has observed an impact on M&A from the uncertainty around the joint-employer standard, as well as related mandates that restrict a company's ability to classify workers as independent contractors rather than employees—notably in California's "AB 5" law.

"I've had two equity firms talk to me in last four to five weeks—one told me they decided not invest in California companies because they can no longer figure out what the potential liability is, and another told me they've turned down three deals because they're concerned about the kinds of issues talked about," Lotito says.

Businesses and their advisers are awaiting the release of the new rules, which are expected to provide a clearer and more narrow joint-employer standard.

In a 2014 case, a group of McDonald's workers sued the local franchise where they worked along with the parent company, alleging labor law violations. Last October, an appeals court sided with McDonald's position that the company wasn't a joint employer and couldn't be held responsible for the actions of its franchisee.

The McDonald's case may be a bellwether for the forthcoming rules from the National Labor Relations Board and Department of Labor. Lotito and Smith expect the rules will narrow the definition.

Claiborne Guy, director of employment policy and practices at AGC, hopes to see more construction-related examples in the final rules that illustrate what constitutes a joint-employer relationship and what does not. While he and Gold acknowledge that there are times when a joint-employer finding is valid, a clearer set of rules will help construction businesses understand the nature of their relationships.

"It does allow our contractors, especially the smaller ones, to move forward with a lot more certainty and to be able to plan without the worry of having to finance a lawsuit," Guy says. //

MORE ONLINE

The Association for Corporate Growth submitted comments to the NLRB and DOL about the need for greater clarity in the joint-employer standard. To learn more about ACG's advocacy initiatives, visit *acg.org/public-policy*.

SEC Official Meets with PE Firms, Outlines Regulatory Priorities

By Benjamin Glick and Ben Marsico

> "MEETING THE SEC STAFF GIVES PERT MEMBERS THE OPPORTUNITY TO LEARN ABOUT NOT ONLY THE CURRENT KEY REGULATORY ISSUES BUT ALSO WHAT IS COMING DOWN THE PIKE."
>
> SCOTT GLUCK
> Special Counsel, Duane Morris LLP

Compliance professionals from middle-market private equity firms met last fall with a senior member of the Securities and Exchange Commission's Office of Compliance Inspections and Examinations for a conversation about the agency's examination priorities.

The meeting, hosted by ACG's Private Equity Regulatory Task Force on Oct. 2 in San Francisco, addressed issues that middle-market funds are facing and provided a platform for compliance officers to meet with the OCIE outside of the examination process, which often centers around document requests and the advice of counsel.

"This event was a great opportunity to engage with the SEC," says ACG PERT steering committee member Joshua Cherry-Seto, CFO and CCO at Blue Wolf Capital Partners. "Hearing directly from a senior OCIE examiner on the issues [the OCIE is] focused on provides valuable insights for our firm's compliance practice."

The meeting highlighted up-and-coming issues that the OCIE is watching, along with common deficiencies that the agency has found in previous examinations.

The OCIE office conducts activities in four primary areas: promoting compliance, preventing fraud, identifying and monitoring risk, and informing policy. The office conducted over 3,150 examinations of investment advisers and others involved in the securities industry in fiscal year 2018, a pace it plans to maintain in 2020.

The OCIE generally prioritizes instances of outright fraud, misrepresentations to retail investors and risks posed by "registrants responsible for critical market infrastructure," such as securities exchanges and clearings agencies, according to the agency's website.

However, the designated examiners of private equity and hedge funds in the OCIE's private funds unit focus on a more specific set of issues. Up-front disclosure of fees and expenses, conflicts of interest and valuations are often reasons private equity funds receive so-called "deficiency letters" after an examination. PERT members say dialogue with regulators is essential for compliance practitioners to avoid such findings.

During the October roundtable discussion, an SEC representative spoke about those issues, along with subscription lines of credit, cybersecurity, affiliated service providers, GP-led restructurings and other areas the OCIE is watching closely.

"It is always good for middle-market private equity firms to meet with SEC staff," says Scott Gluck, special counsel at Duane Morris LLP and PERT's outside counsel. "This allows PERT members to learn which areas the SEC is most focused on and take steps in those areas to avoid compliance deficiencies."

PERT, which recently became ACG's first special interest group, is committed to increasing dialogue among middle-market private equity CFOs, CCOs, COOs and general counsels. Created as a national peer network to share best practices, PERT provides members with a monthly regulatory newsletter, access to quarterly calls covering issues such as fees and expenses, limited partner agreements and cybersecurity, plus invitations to member-only receptions and access to meetings with regulators.

"It is often difficult for middle-market private equity firms to keep abreast of key issues that the SEC is concerned about, apart from periodic enforcement actions and speeches," Gluck says. "Meeting the SEC staff gives PERT members the opportunity to learn about not only the current key regulatory issues, but also what is coming down the pike." //

CONTACT

To take advantage of future opportunities to help shape ACG's advocacy efforts, join ACG's Public Policy Interest Group by contacting *policy@acg.org*.

From left, Summit Leadership Partners' Dan Hawkins, Todd Fryling and Corinne Mason

Photos by Rick Hovis

The Human Side of Value Creation

Summit Leadership Partners helps PE firms leverage their leaders

While business acumen and financial resources have long been part of the private equity playbook, today's market requires investors to pay particular attention to another type of capital—human capital.

"Before five years ago, the driver of value creation in private equity was predominantly financial engineering and M&A," says Dan Hawkins, founder and president of Summit Leadership Partners. "But today, the growth engine of many of these middle-market companies is their talent and their organizational capability."

Helping private equity firms achieve peak performance is what Summit is all about. Its highly qualified organizational performance team advises private equity firms and portfolio companies on how to align talent, management teams and organizational structure with business strategy.

Founded in 2014, Summit employs a team of partners and principals who all have behavioral science expertise and operating backgrounds with successful public and private companies. By supporting an effective data-driven approach to talent, Summit helps its private equity clients achieve their investment goals.

"We are advisers and catalysts of change on how to align talent and organizational capability with growth strategy and investment thesis," Hawkins says.

THE VALUE OF HUMAN CAPITAL

Increasingly, private equity recognizes the important role of human capital in the success of an investment. Some firms have even created dedicated positions focused on assessing and managing talent. According to *Harvard Business Review*, more than half of private equity firms have one or more individuals tasked with ensuring the firm and its portfolio companies have the right leaders and staff in place. Among Summit's private equity clients, more than 80% have an in-house talent lead.

And yet, many of these leaders are spread thin across numerous portfolio companies. Often, it is more advantageous for an outside firm to help catalyze organizational change.

Ineffective management teams and a shortage of good leadership talent can also limit the ability of a company to meet the expectations of private equity investors. This makes retaining executives in portfolio companies and helping them grow with the business even more important, says Jack Scott, operating partner and head of human capital at FFL Partners, a middle-market private equity firm.

The fresh perspective of a third party helps. "Summit provides clarity and very direct feedback to help an organization take a harder, closer look at itself," Scott says. "They bring very specific expertise, as well as a great touch with people and a great ability to deliver feedback in a very constructive manner."

HOLISTIC FOCUS

Summit works holistically rather than on a service-for-hire basis. Its team understands the big picture by studying a company's value creation plan and growth objectives. The team then zeros in on specific roadblocks and recommends incisive solutions. (See sidebar on page 43.)

Summit's experts understand private equity firms' accelerated timetable and their goals for an investment. "We can look at their

»

▲
The Summit management team, from left: Heather Gordon, Rhapsodi Douglas, Rob Greenhalgh, Dan Hawkins, Corinne Mason, Todd Fryling and Tiffany Hemmings-Prather

organization and help them understand what strengths they can leverage and what areas might get in the way of growth," says Summit Partner Todd Fryling.

Summit follows a methodical, data-driven process that involves collecting and analyzing data on leadership, structure, talent gaps and organizational performance.

"We do this full CAT scan of the organization," including both a quantitative and qualitative assessment, Fryling says. Summit's team interviews senior leaders and conducts focus groups.

According to Summit Partner Corinne Mason, the use of data such as psychometrics helps reveal what needs to change and why. Recently, Summit launched and patented an online diagnostic tool for clients to identify organizational performance strengths and gaps quickly. The firm offers a proprietary tool that gathers organizational performance data deeper in the company.

NAVIGATING MIDMARKET CHALLENGES

Founder CEOs can unknowingly be an obstacle to growth, often because they can't let go of decision-making, believe they know the business best, and have an emotional attachment to the company. In one engagement, Summit recommended reducing a founder CEO's direct reports from more than 30 to less than 10 and coached him and the new management team on how to lead a larger company.

As an enterprise grows rapidly, the entire management team may need new skills and new ways of working together. "We coach executives not only on how to scale themselves individually, but also how the team can operate at a higher level," Hawkins says. Will the CEO that ran a $100 million company be able to manage a $400 million company? Will the executive team need to reconfigure in order to manage at the enterprise level?

It can be challenging to make sure everyone is on the same page as a company grows. Summit's research shows that only 67% of team members understand which decisions are theirs to make. While 60% are aligned on the growth priorities, fewer than 30% agree on how to achieve them.

Sometimes, newly configured management teams can get "stuck," according to Mason, arguing the same points over and over without making any progress. As part of its support, Summit

“WE ARE ADVISERS AND CATALYSTS OF CHANGE ON HOW TO ALIGN TALENT AND ORGANIZATIONAL CAPABILITY WITH GROWTH STRATEGY AND INVESTMENT THESIS.”

DAN HAWKINS
Founder and President, Summit Leadership Partners

sits in on team discussions and offers advice and solutions. “When we work with them as a team in real time, we can call out things that might need to be tackled head on and intervene to suggest new ways they might approach it,” she says.

All of this helps the bottom line. “Research suggests that the faster you can get a newly structured team to a place where they have a common understanding of key business priorities and required behavioral principles, the more high-performing they are going to be,” Mason says. “We think about this as the accelerator pedal for a high-performance executive team.”

Indeed, a survey by the National Center for the Middle Market found that CEOs of organizations with an unclear culture reported an average revenue decline of 2.7%; those with a deep and aligned culture reported 10.8% revenue growth.

PIVOTING STRATEGICALLY

Private equity firms know all too well how difficult a transition to a new strategy or business model can be.

Having watched retail industry growth shift online, Implus, a sporting goods, fitness and outdoor accessories company, knew it had to augment its brick-and-mortar business with a comprehensive digital and e-commerce model, but it needed help to do so. Its investor, Berkshire Partners, brought in Summit to assess the company’s structure and leadership team.

“They helped us determine what we needed to do to support the future direction of the business,” says Implus CEO Seth Richards. Summit continues to advise the company as it implements the recommendations, and it doesn’t sugar-coat that advice. “They tell us things that we need to hear, and not necessarily what we want to hear,” Richards says.

Those hard truths are necessary, especially at a time when private equity firms are looking for new ways to create value. Investors are finding that developing the human capital of their portfolio companies produces a significant return on investment.

For Implus, the assessment and guidance from Summit helped strengthen the company and drive growth from digital initiatives.

“There is always a sound reason behind their recommendations,” Richards says. “Overall, we’ve had a very positive outcome for our organization.” //

HOW SUMMIT LEADERSHIP PARTNERS CREATES VALUE

- **Diligence support:** Advises on key leadership and organizational issues during due diligence.
- **Organizational assessment:** Assesses management team performance and organizational structure.
- **Talent assessment:** Delivers insight on key leaders, hiring decisions, executive development and team integration.
- **Executive team performance:** Improves management team effectiveness through structure, strategic alignment, development of team operating protocols and more.
- **Leadership performance coaching:** Prepares leaders to scale the company by helping them develop the right capabilities.
- **Deeper leadership assessment and talent strategy:** Develops talent strategy to ensure bench strength and capabilities for strategic growth and high performance.
- **Ongoing support:** Diagnoses and corrects causes of low organizational performance.

Creative Applications of Sale-Leasebacks

SOUND DECISIONS // Real estate concessions can unlock additional capital

Nico DePaul
Executive Managing Director, STNL Advisors

Sale-leasebacks have long been an effective capital solution for private equity groups, operators, franchisees and franchisers. Utilized as a financing vehicle, sale-leasebacks allow a company flexibility within its capital structure to redeploy capital into the core business, reduce long- and short-term debt, make distributions, and fund new developments or remodels.

A standard lease in today's market is typically 10-20 years, with base rent subject to increases annually or every five years. The sales proceeds generally are used to pay down debt, fund capital expenditures and finance growth.

Sale-leasebacks can be a prevalent piece of the capital structure in an acquisition of a company along with traditional bank debt, mezzanine debt and credit lines. In a sale-leaseback transaction, an owner and operator sells their property to an investor in exchange for a lease commitment by the operator as the tenant.

SALE-LEASEBACKS CAN BE AN EXTREMELY USEFUL SOLUTION FOR MANY GROUPS WHO ARE TRYING TO EXPAND, REDUCE DEBT, FUND CAPITAL EXPENDITURES OR MONETIZE THEIR EXISTING REAL ESTATE.

More recently, private equity groups, franchisees and operators have used sale-leasebacks to expand their companies through acquisitions, leveraged buyouts, mergers or roll-ups. Through this strategy, these groups can simultaneously sale-leaseback their facilities along with their acquisition of the business. This provides business operators the ability to take on an acquisition they may not have previously had the capital to secure. In many cases, the sale-leaseback of the real estate can be valued more than the purchase price of the operating business and the underlying real estate.

In addition to business acquisitions, sale-leasebacks can be a useful tool for opening new locations or renovating existing facilities. In an acquisition, an operator can use sale-leasebacks to fund the development of a new location by entering into a contract to purchase a property and finding a sale-leaseback buyer who will close under the terms of the operator's purchase contract. This technique can allow operators the ability to fund new developments or improve existing ones.

One of the newer, more creative forms of sale-leasebacks is utilized by operators who do not presently own the real estate of their business but are subject to an existing lease. Most tenants who are presently under a lease are not aware that they can create that same sale-leaseback model through STNL's "Buy and Recast" strategy.

Through a Buy and Recast approach, a tenant purchases property back from the existing landlord. Once the purchase agreement is executed, the operator can market the property with the intention of selling to a sale-leaseback investor. The purchase price and new lease terms are combined to determine the current property value and cost of the renovations to recalibrate, or "recast," lease terms. In most cases, the tenant is never taking title to the property, as the current landlord will deed the property directly to the sale-leaseback purchaser.

Regardless of the strategy that is employed, sale-leasebacks can be an extremely useful solution for many groups who are trying to expand, reduce debt, fund capital expenditures or monetize their existing real estate. //

Nico DePaul is an executive managing director with STNL Advisors, which provides real estate consulting services to private equity firms and operating companies.

Tax Changes Could Impact Private Equity in 2020

PE TAX // New rules offer opportunities but require attention

Jeremy Swan
Managing Principal,
CohnReznick LLP

Jonathan Collett
Partner,
CohnReznick LLP

The Tax Cuts and Jobs Act of 2017 has impacted virtually every business taxpayer, including private equity firms and their portfolio companies. After nearly two years, investors continue to grapple with the myriad new tax rules that may weigh on their dealmaking decisions and business models—from the positive effect of lower corporate tax rates to the June 2018 South Dakota v. Wayfair decision by the U.S. Supreme Court regarding sales tax.

As 2020 begins, here are three critical tax issues expected to impact private equity, along with suggestions for how firms and their portfolio companies should approach them to avoid potential pitfalls:

State and local tax. Nexus laws determine the state(s) in which a company has a filing responsibility. Before the Wayfair decision, physical presence in a state determined where a company was required to collect sales tax, known as its sales tax nexus. Now, sales tax nexus can also be created through economic activity.

Private equity firms buying or selling a portfolio company need to be aware that the Wayfair decision could significantly impact the company's financials. If a company owes tax due to the identification of nexus in states where it has not been collecting sales tax, the tax liability, penalties and interest can be steep.

Stakeholders on both sides of a transaction should consider conducting a nexus study as part of their overall due diligence process. This will allow them to better assess any state tax nexus risks and, if warranted, implement purchase price adjustments, indemnifications or escrow accounts.

International tax and GILTI. The U.S. Treasury and IRS have finalized global intangible low-taxed income, or GILTI, regulations for U.S. taxpayers owning an interest in controlled foreign corporations—multinational companies with more than 50% of the total voting power or stock value owned by U.S. shareholders. New GILTI regulations allow these companies to allocate a portion of specified domestic expenses to their foreign subsidiaries and employ unused foreign tax credits, thereby lowering their overall tax burdens.

The procedures and calculations surrounding GILTI, and many other evolving international tax regulations, are complex and will continue to change. Private equity investors in companies with multinational operations should seek to develop a proactive and holistic tax strategy for their foreign investments, if they have not already done so.

Business interest expense deductions. Modifications to the tax code are imposing limitations on business interest expense deductions. In the past, most companies could fully deduct business interest expense. Pending rule changes, which are viewed by some as creating greater parity for debt versus equity financing, are prompting private equity investors to reassess their deal structures moving forward.

Like the new state, local and international tax rules, it is still unclear how modifications to business income expense deduction regulations will impact deals and deal financing. Our advice to private equity investors is to get out in front of these changes sooner rather than later, now that 2020 has begun. //

Jeremy Swan is the national director of CohnReznick's Financial Sponsors & Financial Services Industry practice and leads the efforts of the firm's M&A Consulting Services practice.

Jonathan Collett is a partner of CohnReznick and a member of the firm's Financial Services Industry practice.

GROWTH ECONOMY

IOWA // 1998-2018

The number of jobs created by private equity-backed businesses in Iowa grew at more than three times the rate of the broader business community over the past two decades. Meanwhile, sales at PE-backed companies grew at more than five times the rate of other businesses in the state. Deal activity in Iowa has remained steady, with dozens of transactions per year since 2015, notably Blackstone's purchase of Fidelity & Guaranty Life for $1.8 billion in 2017.

SALES

115.1%

SALES GROWTH IN PE-BACKED BUSINESSES

22.6%

SALES GROWTH IN ALL BUSINESSES

JOBS

GROWTH IN PE-BACKED BUSINESSES

45.6%

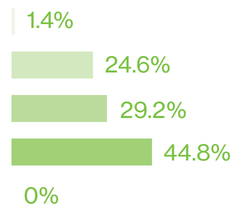
GROWTH IN ALL BUSINESSES

14.1%

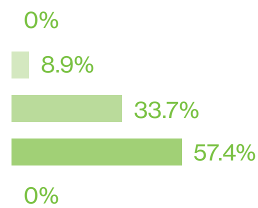
JOBS CREATED BY PE-BACKED BUSINESSES

3,859

SALES GROWTH % BY SEGMENT



JOB GROWTH % BY SEGMENT



- Small: Less than $10M in sales
- MM Seg 1: $10-50M in sales
- MM Seg 2: $50-100M in sales
- MM Seg 3: $100M-1B in sales
- Large: More than $1B in sales

MORE ONLINE

See the impact of middle-market private equity on your state at *GrowthEconomy.org*.

All stats are from PitchBook and the Business Dynamics Research Consortium at the University of Wisconsin-Extension.

ACG NEW ENGLAND FALL CONFERENCE ▸

More than 200 M&A professionals from across the region came together for the 5th Annual ACG New England Fall Conference in Newport, Rhode Island. Attendees gathered to foster new relationships and reconnect after the summer and hear updates from seasoned executives on industry-specific topics. Pictured from left are Tom Stapleton, Corporate Valuation Advisors; Frank Marcucci Jr., Corporate Valuation Advisors; Dorene Stockman, Owens Group; Dimitri Skambas, Bannockburn Global Forex; and Brendan Kiernan, Mirus Capital Advisors.

◂ ACG AUSTIN/SAN ANTONIO

ACG Austin/San Antonio's October lunch featured Paul Zipp, president, COO and CFO of James Avery Artisan Jewelry, as its speaker. During his talk, Zipp described how he has worked to preserve the legacy of the family-owned Central Texas jewelry-maker since he joined in 2012 as CFO. Pictured from left are ACG Global board of directors member Paul Gautier, Cary Street Partners; Zipp; and Larry Anthis, chapter president.

◂ ACG CHICAGO

ACG Chicago held its 10th Annual Food Industry Conference at the City Center hotel in the city's downtown. The event drew 173 M&A professionals, who gathered to hear from industry leaders and network with forward-thinking experts who are driving growth in the industry. Giving the keynote at the event was Luke Zahm (pictured), the host of the Milwaukee PBS television program "Wisconsin Foodie" and the owner and chef at Driftless.

ACG DALLAS/FORT WORTH ▸

Nearly 700 attended ACG Dallas/Fort Worth's 14th Annual Wine Tasting event held at the Fashion Industry Gallery in downtown Dallas. The event featured 20 wines, all with at least a 93 rating. It brought together the area's M&A community. Pictured from left are Elizabeth Pospick, Baker Tilly; Roddrell Sykes, Frost Insurance; David Washburn, Katten; Daniel Vermeire, CFA Dallas; Stephanie McNelis, Bridgepoint Consulting; and Ericka Lappo, Bridgepoint Consulting.

◄ **ACG TENNESSEE**

ACG Tennessee held its 5th Annual Sporting Clays Shoot, which drew nearly 70 attendees. The event was held on the banks of the Cumberland River at the Nashville Gun Club and was sponsored by law firm Burr and Forman. Pictured from left are David Fischer, Monroe Capital; Diane Wszalek, Republic Business Credit; Bill Benning, First Tennessee Bank; Todd Wooten, Fifth Third Business Credit; and Tate Parker, Coface North America.

ACG RICHMOND ►

At the Jefferson Hotel in Virginia's state capital, more than 300 leaders in the M&A industry gathered for the 19th Annual Virginia Capital Conference. Attendees, including representatives from more than 30 private equity firms, gathered for more than 10 hours of net-working time. This year's keynote talk was presented by former NFL player Tim Hightower (left), pictured with Lisa Hedrick, ACG Richmond conference chair; Jessica Barnes, Cherry Bekaert; Greg Bishop, ACG Richmond chapter president; and Kelley Powell, MacLaurin Group.

◀ ACG ST. LOUIS

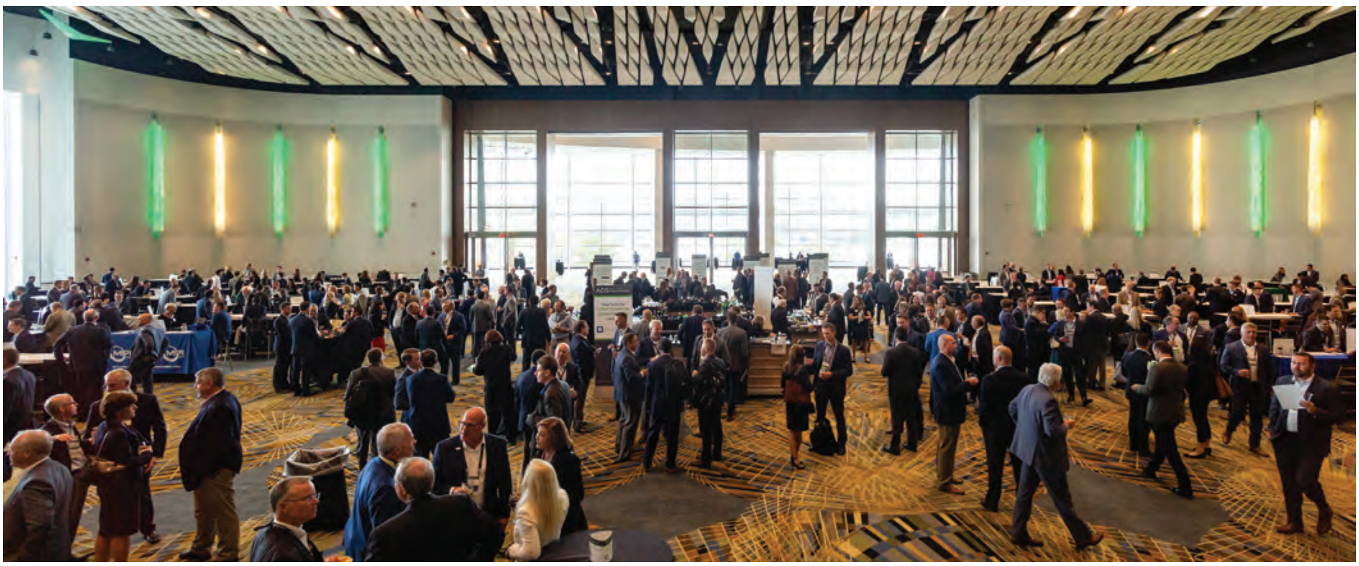
More than 150 ACG members grabbed their clubs and headed out to the pristine Meadowbrook Country Club for ACG St. Louis' annual Pro-Am Invitational, a signature event where Gateway PGA professionals are invited to play with foursomes of ACG St. Louis members. The invitational offers quality time to network with industry professionals, potential clients and corporate executives while enjoying a round of golf. Pictured from left are Ryan Roepke, RGA Private Debt & Equity; Stuart Noel, Compass Group Equity Partners; Bobby Pavelonis, professional golfer; David Kennedy, Parkside Financial Bank & Trust; and Ray Wagner, Thompson Street Capital Partners.

ACG TORONTO ▶

ACG Toronto hosted its 17th annual ACG Capital Connection conference at the Beanfield Centre in downtown Toronto. A record of more than 700 middle-market investors, intermediaries, advisers and business executives attended the event, which included networking opportunities and a full-day program of expert speakers. Among the sessions was a panel of veteran private equity investors who discussed their experiences weathering an economic recession and how they're preparing for the next downturn. Pictured from left are Seth Mersky, Onex; David Nowak, Brookfield Asset Management; Brent Belzberg, TorQuest Partners; John MacIntyre, Birch Hill Equity Partners; and Pascal Tremblay, Novacap. Nadim Hirji of BMO Bank of Montreal moderated the panel.

GREAT LAKES ACG CAPITAL CONNECTION ▶

In September, seven ACG chapters from across the Midwest and Mid-Atlantic regions and more than 1,000 M&A professionals from around the country gathered in downtown Detroit for three days of dealmaking and networking at the 11th annual Great Lakes ACG Capital Connection. Hosted at the TCF Center on Detroit's riverfront, the event showcased the city's vibrant business community. Additionally, attendees had the opportunity to hear from a variety of speakers, including during a fireside chat with Jay Farner, CEO of Quicken Loans, pictured top.



M&A EAST ▼

More than 1,300 M&A professionals from across the Northeast gathered for ACG Philadelphia's M&A East conference. Attendees participated in the event's dealmaking and networking sessions and heard presentations from keynote speakers, including former professional poker player Annie Duke, pictured.

ACG GLOBAL ▶

In November, ACG Global hosted its Strategic Acquirer Summit in Dallas, featuring programming and networking opportunities tailored for corporate development professionals. More than 120 registered for the inaugural event, which included sessions that addressed a range of topics relevant to corporate M&A: reps and warranties insurance, divestitures, building deal teams and competing against private equity buyers, among others. Attendees continued the conversation during roundtable discussions (pictured, top) and at the evening reception and dinner, where NFL hall-of-famer Emmitt Smith (pictured, bottom left) was interviewed onstage by Martin Okner, chairman of the ACG Global board and president and COO of dpHUE.

CONTACT

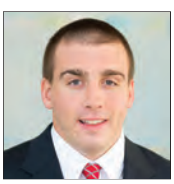
Want to share photos from your recent chapter event? Email us at editor@acg.org.

THE LADDER

TOM BOHN, CAE, MBA, has joined ACG Global as president and CEO. He will oversee initiatives that include strengthening the membership value proposition, supporting the operations of ACG's nearly 60 chapters, and increasing ACG's brand presence. He most recently served as president and CEO of the North American Veterinary Community.

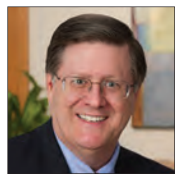
TRACY GREYMONT has joined ACG Wisconsin as executive director. In her role, she leads the chapter while working closely with its board of directors. Prior to joining ACG Wisconsin, Greymont was a network specialist at the Alliance for Strong Families and Communities.

STACY REPULT has joined Dallas-based private equity firm Juniper Capital Management. Repult brings more than three decades of financial experience and will contribute to the firm's strategic leadership, including assisting with deal sourcing, managing Juniper's portfolio of companies and participating in deal negotiations. Most recently, she served as chief financial officer of Nimbix Inc.



PAT DONAHUE has joined Wells Fargo Capital Finance as a business development officer in the Middle Market Loan Originations Group, covering the Northeast region. Donahue joined Capital Finance in 2016 as an associate. In his new role, he will cover middle-market private equity groups, advisers and other third parties, and collaborate with local middle-market banking teams.

Kirtland Capital Partners, a lower middle-market private equity firm based in Cleveland, announced it has promoted **CORRIE MENARY** to partner. Menary joined Kirtland in 2004 as an intern and returned full-time in 2005. She has since supported the firm in a variety of roles, including as a resource to the leadership teams of Kirtland's portfolio companies. Prior to joining Kirtland, she was an analyst in the Debt Capital Markets group at National City Bank (now PNC) and worked in the bank's credit underwriting department.



R. TIMOTHY BRYAN has joined Washington, D.C.-based law firm Shulman Rogers as chair of the firm's Commercial Finance practice group. Drawing on his 30-year legal career, Bryan brings to the role significant knowledge in the corporate finance arena, having concentrated on commercial finance transactions ranging from $5 million to more than $500 million across a wide range of industries. Bryan was previously a partner with law firm Duane Morris LLP.

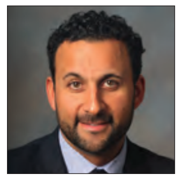
VIKASH MAGDANI has joined ACG New York as executive director. He will serve as the chapter's key management leader, overseeing day-to-day operations. His responsibilities include strategic planning, membership engagement, programming, sponsorship management and chapter operations management. Prior to joining ACG New York, Magdani led a multimillion-dollar private equity media portfolio at Buyouts Insider. Earlier in his career, he co-founded Nova Venture Partners and Capthorne Ventures, and served at the helm of the Oil & Gas Council.

NICOLE ROSCIANO has joined financial services provider Hilco Global as vice president and chief human resources officer, a newly created position at the firm. She joins Hilco from data company IRI, where she served as vice president for talent acquisition and organizational development, and as a strategic HR adviser to IRI's management team. Meanwhile, Hilco Redevelopment Partners, a division of Hilco Global, welcomed **MARK LEVY** to its real estate development team as executive vice president of industrial acquisitions. Levy will be responsible for expanding the acquisition team and strategy. He most recently served as executive managing director at JLL and as a member of the firm's regional executive leadership team.

MARK ABBOTT has joined Stout as a director in the Investment Banking group, working out of the firm's Detroit and Grand Rapids offices. He brings extensive experience providing merger and acquisition advisory services in the diversified industrials, distribution, transportation, logistics and automotive sectors, among others. He joins Stout from JSJ Corporation, where he led the firm's strategy and investment team.

LEN LOSQUADRO has joined C2FO within the Capital Finance group. Based in New York, Losquadro will be responsible for creating new business opportunities and strategic partnerships. His focus is on supporting the capital needs of small and medium-sized enterprises. Previously, Losquadro was director of business development with The Credit Junction.

CHRIS DALTON has been promoted to managing partner of BKD's Transaction Advisory Services practice. Dalton will be responsible for the overall leadership and strategic direction of Transaction Advisory Services, including due diligence, investment banking and M&A tax structuring. His promotion is effective June 1, 2020.



Wipfli LLP, a top 20 accounting and business consulting firm, announced the promotion of **MICHAEL L. VACCARELLA**, CPA, CGMA, CM&AA, from director to partner. Vaccarella leads Wipfli's Private Equity and Transaction Advisory Services national practice. He provides and coordinates buy-side and sell-side transaction diligence, as well as relationship management and consulting for corporations, family offices, private equity funds and their portfolio holdings.

MICHAEL RIVERA has joined ACG Los Angeles as CEO. Prior to joining ACG, he developed, launched and oversaw the University of Southern California Marshall Venture Capital Fund and the school's Founder Central Initiative. Rivera previously spent more than a decade as partner at 6th Street Investments and 6th Street Ventures and has also worked in commodity trading and government affairs.

MORE CAREER INFO

Watch for more career information in *The Ladder* monthly e-newsletter.

IT'S THE SMALL THINGS

THE BUILDING BOOM // Breaking new ground

1 Some Assembly Required

Marriott International is taking prefabrication to new heights with a 26-story hotel to be stacked in New York City. By assembling the property from modules of fully outfitted guest rooms, the company says it can cut its construction timeline, reduce waste and deliver a higher-quality end product. It expects the building to be constructed in 90 days and ready to accept guests by late 2020. – Marriott International

2 All Aboard

As public investment in high-speed rail programs stalls in the U.S., a growing number of private-sector companies are moving full-steam ahead. Virgin Trains USA is close to completing a line that will connect Orlando and Miami and is looking to construct an additional route between Los Angeles and Las Vegas. The Texas Central Railway, another private railroad company, has plans to link Houston and Dallas. – *OZY*

3 Green New Deals

Technological advancements and concerns over climate change are expected to drive renewable energy growth, with the global market projected to increase to more than $1.5 trillion by 2025, up from $928 billion in 2017. Hydroelectric power is expected to dominate over other renewables, such as wind, bioenergy, solar and geothermal.
– Allied Market Research

4 Sharing Spaces

A shortage of affordable housing has led some cities to look at co-living spaces as a cheaper alternative. Co-living arrangements typically house three or more people who share common areas, blending elements of a dorm, apartment and hotel. Last June, startup Starcity announced plans for the largest such development – an 18-story building with more than 800 units – in San Jose, California.
– *CityLab*

5 "Hipsturbia" Begins to Sprawl

In an effort to attract and keep employers, suburban communities are trying to increase the number of young residents. By adding 24-hour amenities, mixed-use development and easy access to mass transit, these hip suburbs – or "hipsturbia" – are replicating offerings of urban areas and positioning themselves for future growth. – The Urban Land Institute and PricewaterhouseCoopers

6 Waste Not, Want Not

With rapid growth projected for cities across the world, demand for clean water, more stringent regulations, and increasing environmental concerns are driving up the value of wastewater treatment. The global wastewater treatment market is expected to reach more than $211 billion by 2025.
– Meticulous Market Research

– Benjamin Glick


DEALS
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MAKING


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Association for Corporate Growth
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WORTHWHILE
INVESTMENT
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