MAR/APR 2020

MIDDLE MARKET Growth

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Growing a Healthy Portfolio

VMG's founder-friendly approach helps scale health and wellness brands

+ **DON'T MISS**
Native American Tribes' Expanding Investment Portfolios

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Association for Corporate Growth

Doing Well by Selling Good-for-You

KATHRYN MULLIGAN
Editor-in-Chief,
Middle Market Growth
kmulligan@acg.org

With our devices nearby at all times, we're constantly faced with new information about what's good for our health, our climate, our society. Some of that data debunks the wisdom of the past. It wasn't long ago that low-fat foods and breakfast were all the rage; today, it's high-protein diets and intermittent fasting.

In this health and wellness-themed edition of *Middle Market Growth*, we look at how changing consumer preferences are creating opportunities for food and beverage companies of all sizes. But customers also value something specific to entrepreneur-led small and midsize companies: authenticity.

In an era of Big Food and factory farms, many shoppers are looking to support brands they feel good about. One example is Lily's, a maker of stevia-sweetened chocolate whose founder and CEO are pictured on our cover. Not only is Lily's an alternative for those looking to cut sugar, it uses ingredients harvested through fair trade practices and donates a portion of its earnings to charitable causes.

Lily's is among the good-for-you products that retail at a premium to mass-market competitors, making them a luxury purchase for some. Yet there's evidence that wellness and sustainability hold appeal for a broad swath of shoppers. The head of Grove Collaborative, an online marketplace for natural household goods and consumer products profiled in this issue's Quick Takes, told me that the most active zip codes for his company are in Utah, Texas and Tennessee (p. 23).

Health care is another industry where traditional thinking has been upended. Amid the opioid crisis, cannabis-based treatments are being touted as a safer option for pain relief as more states liberalize their marijuana policies. A chance to move in early and participate in the industry's maturation has prompted many advisory firms to add cannabis-focused practices. Private equity is slowly but surely entering the space as well, a topic explored in this issue (p. 16).

Perhaps one day we'll look back and scoff at the sugar hysteria of the 2010s or discover that superfoods like kale and acai berries cause dementia. It's more likely that research into health and wellness will continue, as will our access to new findings. Never mind that such awareness is intertwined with our addiction to our devices, a source of stress and anxiety for many. Good thing there are meditation apps for that. //

ACG Is a Natural Fit for Corporate Acquirers

MARTIN OKNER
Chairman, ACG Global Board of Directors, and President and COO, dpHUE

Consumers today are focused on transparency and efficacy—what's in their products and how they work. Whether food, makeup or cleaning supplies, what we eat, wear and use in our homes is scrutinized more closely than ever.

However, consumers continue to raise the bar on their expectations of product performance. Small and midsize companies have been on the cutting edge of this trend. Their ability to be nimble and responsive to customers has paved the way for products with high-quality, natural and effective ingredients. For example, at dpHUE, the hair care and beauty company where I serve as chief operating officer, we developed our Apple Cider Vinegar Hair Rinse using a craft vinegar from a small-batch producer in northwest Nebraska. Not only is the ingredient high-quality and natural, it gives our product the perfect pH balance for improving and maintaining hair health.

Many of the innovative health and wellness offerings on the market originated with savvy entrepreneurs. As those companies mature and founders look to scale their brands, private equity plays an important role in taking them to the next level. In this issue's cover story, we look at that trend through the lens of VMG Partners, which has helped grow brands like Drunk Elephant, Justin's and Perfect Snacks for sale to corporate buyers. Shiseido, Hormel and Mondelēz are just some of the strategic buyers that have bought businesses from VMG. They're not alone—historically, corporate acquirers account for about half of private equity exits in the middle market.

As the place where middle-market relationships are built, ACG is expanding its programming for corporate professionals. ACG chapters across the country regularly host corporate events and peer groups, and in November we debuted our Strategic Acquirer Summit in Dallas.

For the first time, this year's InterGrowth will include a full day of programming tailored for corporate development professionals. The conference, which will take place on April 20-22 in Las Vegas, will feature the second annual Strategic Acquirer Summit on its final day. All corporate development professionals are welcome. For private equity firms, consider inviting your portfolio companies to attend. The April 22 program will also feature exclusive tracks for family offices and GPs.

If you interact with middle-market corporate growth or M&A in any respect, ACG is the place to do business. Through new tailored programming at both the national and local levels, ACG is making it easier than ever to access expert insight, build relationships and find your next deal. //


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GROWTH STORY

Growing a Healthy Portfolio

For 15 years, VMG Partners has invested in early-stage health and wellness brands, including Lily's and Justin's, and it has sold many of its businesses to strategic buyers. VMG's recipe for scaling founder-led brands includes more than just capital. Through collaboration and judgment-free problem solving, the private equity firm has helped small companies become major players in the growing health and wellness category. **28**

Illustration by Mitch Blunt

TREND

Native American Investors Chart a New Path

For Native American tribes with gaming operations, casinos have provided a source of revenue and operating experience. In an effort to diversify their portfolios, some tribes have set up investment arms to acquire midsize businesses, real estate and other assets. **36**

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MMG CONVERSATIONS

Inside the Opaque World of Family Office Investing

Elmer Kim, chief investment officer of the Hyatt Bangia Family Office, sat down with *Middle Market Growth* during the Toronto ACG Capital Connection to talk about investing on behalf of a family. Having spent more than 25 years working with family offices, Kim described how the model has evolved in Canada, and he offered his perspective on how advisers can build relationships with family offices.

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PUBLISHED BY THE ASSOCIATION FOR CORPORATE GROWTH®

EDITOR-IN-CHIEF
Kathryn Mulligan
kmulligan@acg.org

PRESIDENT & CEO
Tom Bohn, CAE, MBA
tbohn@acg.org

VICE PRESIDENT, COMMUNICATIONS
Karen Craven
kcraven@acg.org

DIRECTOR, CREATIVE & BRANDING
Brian Lubluban
blubluban@acg.org

MANAGER, CREATIVE & BRANDING
Michelle McAvoy
mmcavoy@acg.org

ASSOCIATE, MARKETING & COMMUNICATIONS
Benjamin Glick
bglick@acg.org

VICE PRESIDENT, STRATEGIC EVENTS & PARTNERSHIPS
Christine Melendes, CAE
cmelendes@acg.org

DIRECTOR, STRATEGIC DEVELOPMENT
Kaitlyn Fishman
kfishman@acg.org

SALES MANAGER
Joy Meredith
jmeredith@acg.org

ACG®

Association for Corporate Growth
125 South Wacker Drive, Suite 3100
Chicago, IL 60606
membership@acg.org
www.acg.org
For advertising inquiries, call (312) 957-4271.

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Harnessing Technology for Value Creation

SEAN EPSTEIN

Title: SVP and Global Head, SAP Private Equity

Company: SAP

Location: Arlington, Virginia

Expertise: Sean Epstein manages strategic partnerships and initiatives with private equity funds, institutional investors and family offices and helps drive portfolio companies' success throughout investment life cycles. He also leads SAP's global M&A program, supporting value creation during significant transactions.

▸ What impact does technology have in M&A?

Mergers and acquisitions present an opportunity for businesses to capitalize on new innovations to shield themselves from disruption and improve productivity. According to a recent Accenture survey, 85% of respondents said M&A pushed them to define a more robust digital and data strategy.

A company's post-transaction technology analysis should focus on capabilities that support the investment thesis. If international expansion is part of the thesis, for example, the company should look at technologies that support multi-currency and multi-language capabilities and longer-term next-generation procurement and supply chain capabilities. If the goal is to reduce indirect spending, improving visibility into current spending levels and optimizing procure-to-pay processes should be a focus. If the thesis includes increasing top-line revenue growth and multiple expansion through business model changes, Industry 4.0 technologies such as artificial intelligence, machine learning and advanced robotic process automation are likely candidates for technology investments.

▸ How are PE-backed companies using technology?

At SAP, we continue to see technology being used to drive efficiency, productivity and top-line revenue expansion at private equity portfolio companies. Automation continues to be of interest to many companies, but bots should not be deployed to automate antiquated processes; those processes must be reimagined before a company applies automation technology.

One of the top priorities for investors is to establish a consistent repository of data—a "single version of truth." They want to have complete visibility into product pricing and margins, understand customer and employee sentiment, and be able to identify risks and areas of opportunity in their supply chains.

For serial acquirers, it is essential to bolt on acquisitions quickly that provide new revenue sources, markets or geographies and customer engagements. These companies are investing heavily to ensure their digital resources are standardized and integrated across lines of business so that when new entities are added, there is a playbook to get them on board with minimal disruption.

▸ How does SAP work with PE funds?

For over a decade, SAP has invested in a dedicated team to support private equity funds and their portfolio companies globally across their investment life cycle. Drawing on SAP's more than 40 years in the business software space and as the largest cloud company in the world, the SAP Private Equity team helps investors accelerate value creation across their portfolio. The team provides thought leadership and executive education, global governance, preferential commercial terms, access to industry experts and benchmarks, and a host of services to support project and transaction success. //

KLAUS VEDFELT/GETTY IMAGES

Become a Better Networker in 2020

Experts share their tips

By Benjamin Glick

It's no secret that building relationships is foundational to success in business and other aspects of life—but no one said it was easy.

MMG asked three experienced networkers to share their secrets. Whether you're new to ACG or need a quick brush up for your next networking event, here's what they had to say:

Come Prepared and Arrive Early

In a survey conducted by LinkedIn, nearly 80% of respondents said networking is important, but more than one-third reported that they struggle with knowing what to say.

"One of my frustrations is everybody says you have to network, but nobody tells people what to actually do," says Marcia Nelson, a managing director at Alberleen Family Office Solutions and an ACG New York board member. She has spent more than 20 years in business development and has given numerous presentations about networking to universities and professional organizations.

Nelson's first piece of advice may seem obvious, but it's critical: Come prepared. She suggests finding an attendee list, if available, and identifying a handful of people to meet with.

On the day of the event, she recommends arriving early. It can be easier to meet people before the room gets crowded, and those initial connections may be able to make introductions to others later during the event.

Regardless of what time an attendee arrives, once a networking event has begun, it can be difficult to navigate the sea of conversations.

Inserting yourself into a conversation between two people can be difficult. Instead, Nelson recommends networkers focus on groups of three. "Only two of them are really engaged," she says. She suggests approaching the third, who will likely make introductions to the group—a tactic known as "triangling."

Nelson also recommends using a buddy system. Whether a co-worker or someone from an earlier conversation, a second person can help one networker cover more ground for a longer period of time than they could do alone.

A second person can help divide and conquer, while also providing a chance to recuperate. "It can be exhausting to talk to strangers," Nelson says. "So then go talk with somebody you already know. It's like recharging your batteries."

Set Realistic Goals

Tracy Vanneman, CAE, interim executive director of the Society for Industrial and Organizational Psychology, admits networking is not her favorite activity. "I'm never excited about going to a reception full of strangers," she says.

But instead of avoiding it, Vanneman has learned to overcome her reservations by setting small, achievable goals, such as approaching a person she's never met before, having a conversation topic in mind, or setting a limit on the amount of time she stays at an event. "Then I become much more comfortable and often end up having a little bit of fun in the process," says Vanneman.

Nelson offers another suggestion for those less comfortable with networking: "Strategically circle" a room by walking along its perimeter twice, using techniques like triangling to identify potential conversation partners.

For some, the challenge of a networking event is not having too few people to speak to, but too many.

Jeff Pfeffer, a managing partner at CapX Partners and an ACG member of 15 years, says a large problem even veteran networkers face at conferences is overscheduling. "I know lots of people who sit down and have meetings from breakfast to happy hour," he says. "By the end of the day, all they want to do is go into their hotel room and get into a fetal position."

Too much scheduled activity requires a lot of work and detracts from more spontaneous encounters that can yield productive relationships down the road. Pfeffer recommends a mixed schedule with some time set aside for unstructured conversation.

"Open timeframes to meet people and have engaging conversations is the right way to go about event networking," he says.

Observe Social Media Etiquette

Social media for business professionals is still a relatively new instrument. While rules aren't set in stone, networkers should tread carefully.

Identifying event attendees from a published list and researching them online before meeting is acceptable, but it's an easy line to cross, Vanneman says. "It's fine to learn that someone likes skiing if they list that in a professional bio on some website. It's not fine to ask them how they enjoyed their family vacation to the slopes last week if you learned about it by lurking around their Facebook page."

Further, networkers should not reach out to someone on social media unless they've spoken with them in person. "I typically reject blind LinkedIn requests from people I don't know," Pfeffer says.

The best way of establishing a new relationship after a networking event, experts say, is to learn how someone likes to communicate and use those preferred channels.

Know Your Audience

Pfeffer remembers a moment early in his career working in commercial banking when he introduced himself to a business owner who became offended after Pfeffer addressed him by his first name. "Those next 20 minutes felt like a year," he says.

"ONE OF MY FRUSTRATIONS IS EVERYBODY SAYS YOU HAVE TO NETWORK, BUT NOBODY TELLS PEOPLE WHAT TO ACTUALLY DO."

MARCIA NELSON
Managing Director, Alberleen Family Office Solutions

While social mores have changed since then, the encounter represents an important lesson: Know your audience.

The purpose of networking events for members of the M&A community is to source their next deal. In Nelson's view, that gives them license to be direct.

"People are there for deal conversations," she says. "I think it's appropriate at an ACG meeting to say 'Hey, I have three deals in the market that might be of interest to you. Can we set up a time to talk about them?'"

However, that doesn't mean launching into a half-hour pitch presentation.

Pfeffer warns that being too straightforward can end a deal even before it begins. "You don't want to be the over-eager, programmed elevator speech-pitcher," he says. "Practice good question-asking and listening first so you know your audience."

Pfeffer recommends exercising some humility if discussion turns to dealmaking. Offer ways a business relationship could benefit a potential partner first and then work out reciprocal details later.

"That creates positive momentum where people say, 'This is someone worthy of a business and networking relationship,'" he says.

Nelson agrees, but part of the humility doctrine is to recognize that not every interaction is going to end in a deal. "If you're not a fit, that's okay," she says. "Just get the business card and then move on." //

Eye of the Beholder

Midsize beauty brands find new ways to resonate with customers

By Nicole Thompson

Enabled by social channels and shopping apps, many consumers are bypassing legacy beauty companies in favor of boutique luxury and direct-to-consumer brands. Smaller companies are seizing the opportunity.

Despite having fewer resources, a focus on storytelling and transparency is helping small and midsize brands win market share against well-established competitors.

dpHUE is one midsize beauty company that is using social media in innovative ways to communicate with customers. Using B2B and B2C channels, the company leverages content to expand its reach.

In 2017, dpHUE launched an in-house content studio, dpHUE House, which doubles as an invitation-only Los Angeles hair studio whose visitors have included Jennifer Aniston, Miley Cyrus and Gwyneth Paltrow.

Led by celebrity colorist and dpHUE House Co-founder and Chief Experience Officer Justin Anderson, the content studio has supported personalized communications and influencer endorsements. From the brightly lit studio, Anderson records a podcast, "In the Chair," which features "hair-chair conversations" and personal stories told by Anderson and his clients. Video clips and photographs of the studio are prominently featured on Instagram accounts belonging to dpHUE, Anderson and countless celebrities.

IRA_EVVA/GETTY IMAGES

Influencer collaborations are another effective part of dpHUE's strategy. Recently, Anderson partnered with former "Laguna Beach" star Kristin Cavallari on a co-branded, heat-activated highlighting blonding brush, which lightens and conditions hair. The product appeared during an episode of "Very Cavallari," Cavallari's show on the E! network. A QR code was displayed on the screen along with the brush, enabling viewers to scan the code and purchase the product.

Going NaturAll

Celebrity endorsements are powerful, but a good personal story can go a long way in fortifying a brand's narrative. Take NaturAll Club, a Philadelphia-based subscription service for kinky- and curly-haired women. Muhga Eltigani, the company's 28-year-old founder, began her journey as a college student with hair damage, a handful of fruit and a modest YouTube following.

Frustrated by the damage caused by chemicals in her hair products, Eltigani started looking for alternatives. When she couldn't find anything on the market, she decided to create a product herself. After learning that avocado can benefit hair and skin, Eltigani began blending the fruit in her dorm room to create a fat-rich conditioner. >>

Fast-forward eight years and NaturAll has grown to 412,000 Instagram followers and received millions in venture capital and private equity funding, including a $5 million infusion from the New Voices Fund for women-of-color entrepreneurs, created by Shea Moisture Co-founder Richelieu Dennis.

Avocado is still a mainstay in NaturAll's products. Since Eltigani founded the company in 2016, its portfolio has expanded to include dozens of natural products whose ingredients fit with the brand's wellness priorities, according to a company spokesperson.

Beauty Gets a Makeover

As they face off with innovative upstarts, large brands are adopting some of their competitors' strategies. Shortly after dpHUE House launched in October 2017, L'Oréal and Avon built content studios of their own.

For Martin Okner, president and chief operating officer of dpHUE, the new content studios weren't so much a threat as a reflection of the modern beauty landscape.

"I'm not scared of another brand opening a content studio," says Okner, who also serves as ACG Global's board chairman. "Brand positioning and influencer relationships are what define the experience and consumer connection."

Building awareness will be key for legacy brands as they try to hold on to their share of the growing global beauty and cosmetics market, which is expected to reach $800 billion by 2021, up from $532 billion in 2017, according to Orbis Research.

As they try to compete in today's environment, large beauty companies are developing new products and reimagining their marketing efforts, and some are looking to add new lines through M&A and partnerships.

PHOTO COURTESY OF dpHUE

> "WHAT MAKES THE BEAUTY INDUSTRY UNIQUE IS THAT SUCCESS CAN BE BASED ON HOW WELL YOU PRESERVE AND LEVERAGE YOUR BRAND STORY."
>
> MARTIN OKNER
> President and Chief Operating Officer, dpHUE

In November, global beauty company Coty announced it had acquired a 51% stake in Kylie Cosmetics, founded by 22-year-old reality television star Kylie Jenner. The deal will help Coty, whose brands include CoverGirl, Rimmel and Clairol, appeal to younger shoppers and reach Jenner's 270 million social media followers.

In addition to targeting the next generation of consumers, large brands are recognizing the importance of inclusivity in their product lines, having historically catered to customers with lighter complexions and Caucasian hair types.

Enter Barbadian singer Robyn Rihanna Fenty, better known as Rihanna, and her Fenty Beauty brand.

In 2017, Rihanna partnered with luxury goods company LVMH to launch Fenty Beauty. With 40 shades of foundation, the collection offered makeup products for women of all skin tones, including darker complexions. Fenty Beauty has since expanded its line further to include 50 shades of foundation and concealer.

According to *Forbes*, the brand's sales are expected to exceed $200 billion by 2025, thanks in part to the buying power of African American shoppers, who make up a large share of the overall beauty market.

According to Nielsen data, in 2017 African American customers spent $54 million on ethnic hair and beauty aids, accounting for 85.6% of the category's sales. In the broader beauty marketplace that year, black customers spent $473 million on hair care, a $4.2 billion market; $465 million on skin care, a $3 billion market; and $127 million on grooming aids, an $889 million market.

Last summer, LVMH announced that Rihanna would launch a new apparel brand, Fenty, becoming the first woman of color to have a label at the fashion house.

An Honest Approach

The era of one-size-fits-all has run its course in the beauty industry, having evolved toward products that cater to a wider array of skin and hair types and colors. But customers don't just want personalization—they also want to know what's in their products.

Consumers today want to understand what they're putting on their bodies, and many are opting for all-natural, organic or sustainable alternatives to the drug store staples of the past.

That doesn't require every company to go clean-label in order to survive, so long as they're honest and transparent in communicating with customers, according to dpHUE's Okner, who has worked in the beauty industry for 15 years.

"What makes the beauty industry unique is that success can be based on how well you preserve and leverage your brand story. It's OK if all of your ingredients aren't natural, as long as you're transparent and don't try to 'greenwash' and sway others with a natural ingredient story," he says. "It's about being true to your brand." //

Pot Stirs up Private Equity Interest

By Kathryn Mulligan

VICTORIA BEE PHOTOGRAPHY/GETTY IMAGES

Although few U.S. private equity funds invest directly in cannabis, the evolving legal landscape and maturation of the industry have generated new interest and raised questions about where and when to get involved.

Cannabis businesses generally have relied on wealthy individuals, family offices or public markets for capital. Jeff Mathews, managing director at investment bank Ackrell Capital, estimates that by mid-2018, there were only six to 10 U.S. private equity funds that invest in the space. Today, he says there are 20 to 25, and they're raising larger pools of capital—$50 million to $150 million funds, compared with $10 million to $15 million funds a few years ago.

Private equity remains largely on the sidelines, even as cannabis legalization has spread across the country. Colorado and Washington were the first states to allow recreational marijuana use in 2012. Since then, nine others have adopted legal recreational use, and 33 states now permit the use of cannabis for medical purposes.

The legal change has drawn some new funds to the industry and prompted others to graduate from ancillary businesses to outfits that touch cannabis directly, like growers and retailers. The industry's growth also has spawned niche businesses like seed-to-sale tracking software, workforce management solutions and lab-based testing services, all of which are attracting investor interest today.

Focused Funds

Too few quality companies and high valuations pose a challenge for deal-makers in many industries, but that is not the case in cannabis, where investors say there is plenty of opportunities and not enough capital.

As the industry has grown and cannabis businesses have proliferated, federal prohibition has largely prevented them from accessing credit. "They've had to rely on equity, which is expensive, but good for investors," says Codie Sanchez, managing director at private equity firm Entourage Effect Capital, based in Fort Lauderdale, Florida.

Sanchez's firm is among those serving the cash-starved cannabis market. Since it launched in 2014, the firm has invested in 43 companies. It invests across the cannabis value chain, and tends to look for businesses with $10 million to $75 million in revenue.

Early on, Entourage invested in cultivation businesses, multistate operators and real estate, but as the industry evolved, so did the firm. Its second fund moved away from cultivation and license-aggregation—buying up licenses in varying states to package and sell them—in favor of retail brands, biotechnology, technology and ancillary services businesses, in tandem with strong operators that are moving toward profitability.

Entourage has since increased its focus on sophisticated retail operations, particularly those with delivery capabilities, along with biosynthesis and consumer analytics, Sanchez says. The firm announced its third fund in October with a target of $150 million and indicated it will focus heavily on distressed opportunities.

Like Entourage, Salveo Capital invests across the cannabis value chain. The Chicago firm, which launched in 2016, began by investing in businesses that don't deal with cannabis directly. "Ancillary companies can operate across state lines and internationally and they also require less capital," says Managing Partner

Michael Gruber. "Touching-the-plant companies have fewer sources of capital as they grow." He adds that "the murky regulatory environment and shallow executive talent" were challenges to investing directly in cannabis early on, but that has changed thanks to the influx of executives from other industries like technology, finance and pharmaceuticals.

Salveo, which typically co-invests with other funds, has since expanded the breadth of its investments. It currently has 20 portfolio companies that span growing and processing, manufacturing, retail, software and other cannabis subsectors.

Gruber points to several areas of high opportunity. Strong brands with the potential to scale nationally is one. Another is health and wellness. As the stigma around cannabis diminishes, Gruber expects people to seek out cannabis as part of their daily regimen, much like aspirin or herbal tea. "I feel the general trend is that more and more people will use [cannabis] frequently throughout the day in smaller doses—micro-doses, where they're fully functional, but they get the health benefits," he says.

Last year, Salveo led a Series A investment in KelSie Biotech, a company that leverages science and product development. The company has developed tablets that dissolve under the tongue to provide formulations of CBD and THC for a variety of applications, such as improving sleep.

Gruber also cites testing and compliance as an area of opportunity. Vaping-related deaths drew attention to the products' safety. As a result, he expects to see more regulations for cannabis and hemp, creating demand for testing labs and services.

"WE THINK THE TIME IS RIGHT NOW TO JUMP ON THE CANNABIS PRIVATE EQUITY OPPORTUNITY."

CODIE SANCHEZ
Managing Director, Entourage Effect Capital

High Hopes

While deals abound in the cannabis industry, private equity is treading cautiously.

Discomfort with federal prohibition or stipulations in bylaws are among the reasons funds have abstained from cannabis investing. Those that are active tend to have an exclusive focus on cannabis because of the expertise needed. "The industry is pretty diverse and requires a lot of attention to understand nuances from state to state, country to country and market to market," Mathews says. It also can be difficult to persuade traditional institutional investors to buy in, he adds.

Even as their own funds wait it out, some private equity firm partners are committing to cannabis funds as limited partners to gain experience in the industry. "Private equity GPs do it to learn quickly," Sanchez says. "I anticipate going forward that learning curve ramps up and they start investing in companies directly."

The scarce capital available in the industry is spread widely, creating "a slew of small providers," Sanchez says. "The diffusion of capital means people are not allocating capital to create kings of each sector. We aim to change that by creating an ecosystem of investors, and companies that can be king-makers."

If and when cannabis is legalized federally, large consumer goods brands, agriculture giants, retailers and other corporations likely will look to acquire cannabis businesses. "If you have one of them that has scaled, you're likely to be an attractive target," Mathews says. He points to Constellation Brands' acquisition activity in the Canadian market as a sign of what's to come in the U.S.

Federal legalization is likely several years away, but prohibition isn't necessarily a bad thing for investors.

While acknowledging the positive benefits of decriminalization and access for consumers, Sanchez says that "for investors, it's actually OK if we have a few more years pre-legalization. It gives companies longer to incubate before large conglomerates come in to buy them and compete."

The SAFE Banking Act could become law before nationwide legalization, although Sanchez doesn't expect it to pass this year. The bill, which would enable banks to lend to cannabis companies without legal repercussions, was passed by the U.S. House of Representatives and awaits a Senate vote.

Once companies have more access to credit, either through a cannabis banking bill or broader legalization, it could cut into investors' advantage.

"Eventually, these companies will have differentiated funding sources," Sanchez says. "That's why the limited capital that exists and the incredibly depreciated valuations mean we think the time is right now to jump on the cannabis private equity opportunity." //

A Peerless Network

ACG Philadelphia's forum for portfolio company leaders

By Benjamin Glick

PHOTO COURTESY OF ACG PHILADELPHIA

▲ A group of private equity-backed company leaders meet for ACG Philadelphia's PEER program.

Leading a company backed by private equity comes with its own nuances, something more executives are realizing as the number of U.S. private equity-backed companies continues to grow. Many are looking for guidance as they navigate relationships with outside investors.

For more than three years, ACG Philadelphia has hosted its Private Equity-backed Executives' Roundtable, or PEER, where leaders from local portfolio companies gather to discuss working with private equity owners and share best practices.

"Those CEOs and CFOs are looking for resources and an understanding of the private equity ecosystem. And what better place to get it than ACG?" says Stephanie McAlaine, ACG Philadelphia's executive director.

According to a 2019 McKinsey report, the number of U.S. companies with backing from private equity firms doubled between 2006 and 2017, from an estimated 4,000 to 8,000—and that number continues to increase.

ACG Philadelphia launched its program in 2017 after market research revealed there could be as many as 1,000 executives of private equity-backed companies in the Philadelphia region.

McAlaine and a dedicated committee gathered a group of portfolio company executives and asked them about the issues they face. "We couldn't stop them from talking," McAlaine says. "It was so clear that they had so much to learn from one another."

Today, about 150 executives participate in PEER programs throughout the year. The group meets four to five times annually to discuss topics such as managing a board of directors, planning for a future exit, improving talent management and optimizing relationships with private equity partners.

A typical meeting brings together executives with varying levels of exposure to private equity. Some are brand new to private equity ownership, while others have worked at multiple portfolio companies. PEER gives them a venue to exchange best practices and tested solutions and helps prepare them for what's ahead.

Ellen Purdy, CFO for Office Practicum, a software provider serving pediatric behavioral medical practices, has found PEER to be a valuable sounding board. "The roundtables are all very interactive. We've learned a lot from each other," says Purdy, who serves on the PEER steering committee and on ACG Global's board of directors. "The relationships that formed during our meetings and afterward are as much a part of the experience as the actual roundtable discussions that we have on the topic," she says.

The more PEER events that executives attend, the more likely they are to take advantage of the other programs the chapter has to offer, and some have signed up as members of ACG Philadelphia. "They see the value in the network," Purdy says. "They help support the whole ecosystem of the middle-market growth community in the chapter area that they're in."

PEER events have begun to draw leaders from companies that don't yet have private equity backing and are considering bringing on an equity investor. "This is a great window for them to see the opportunities and challenges of outside capital," McAlaine says. //

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Food Tech Is More Than Meal Kits

Everyone needs to eat, yet what they're consuming and how it's made and transported is changing, thanks to technology.

While much of the attention—and dollars—devoted to disruption has focused on delivery apps and meal kits, the impact of "food tech" is much broader.

In one example, disruptive technologies are being used to enhance the nutritional profile and taste of food, such as meat substitutes, which are gaining mainstream appeal. In January, *Reuters* reported that Impossible Foods, a maker of plant-based meat alternatives, had pulled out of talks to become a major supply partner of McDonald's, saying it wouldn't be able to produce enough burgers. Meanwhile, Impossible's rival Beyond Meat has partnered with Burger King and White Castle, albeit on a smaller scale.

It would have been next to impossible (no pun intended) to convince people 10 years ago that meatless burgers would soon become ubiquitous—not to mention delicious—but they have established staying power. Last summer, UBS estimated the plant-based meat market will grow from $4.6 billion in 2018 to $85 billion by 2030, or about 28% annual growth. According to PitchBook data, venture capital financing in the space hit a record in 2019 at nearly $660 million.

Lab-grown protein has also attracted investor interest. Unlike plant-based products, lab-grown meat and dairy try to replicate animal cells through molecular biology and tissue engineering. Those technical processes have slowed lab-grown meat's development and adoption, but there's reason to root for these synthetic proteins. For one, cell-based yogurt could be made lactose-free. With over half the world's population experiencing lactose intolerance to some degree, there's a large market to break into. According to PitchBook figures, last year the lab-grown meat industry attracted over $460 million in venture capital financing, up from $101 million in 2018.

Food tech can also help maintain freshness. Hazel Technologies, for example, makes small chemical packets, like those you find in packages of beef jerky. Throwing one of these bags into a produce shipment can extend the shelf life of some fruits and vegetables by almost two weeks. Reduced food waste means less land would be required to yield an equal amount of edible produce, making a significant impact on farming.

Disruption in the supply chain doesn't garner as much attention as takeout apps, but meaningful change is also happening to food procurement.

Food traceability is one application, with the goal of putting Brussels sprouts on the blockchain. By assigning an identifier to each individual vegetable, produce could be tracked from the field to a store shelf. If perfected, the technology will go a long way toward minimizing food contamination outbreaks.

Uber Eats and Hello Fresh were just the vanguard of the food revolution. Food tech's potential is yet to be fully realized, as is the financing that could propel the disruption even further. //

JOHN GABBERT
Founder and CEO,
PitchBook

Grove Collaborative Makes It Easy to Go Green

By Kathryn Mulligan

Every young business has a target customer in mind, and Grove Collaborative was no different. Before Stuart Landesberg launched Grove, which sells safe, earth-friendly household and personal care products, he assumed he'd be reaching someone like himself: an environmentally conscious urban professional without much spare time.

Landesberg thought of the idea for Grove while working long hours at a private equity firm and buying household items based on convenience. That didn't square with how his environmentally progressive parents raised him. "When I was 10 years old, I thought all paper towels were brown and that every family had compost in the backyard," he recalls.

Landesberg founded the business in 2012, and after several iterations over its first four years, the San Francisco company settled on its current model. Today, shoppers use Grove's platform to buy natural, environmentally friendly household products like dish soap and paper towels, along with personal care products such as vitamins and tampons. After a customer's first order, Grove sets up personalized recurring shipments that shoppers can customize.

By 2016, Landesberg had discovered that Grove's customers weren't who he initially expected. Rather than clustering in large coastal cities, a typical Grove customer "ended up being an aspirational young family—in a sentence, a 29-year-old mother of two working as a substitute teacher in Lawrence, Kansas," he says.

JCHIZHE/GETTY IMAGES; BLACKRED/GETTY IMAGES

Today, the company's best-performing zip codes are in Texas, Utah and Tennessee.

Many Grove users are shopping for natural and sustainable products for the first time, Landesberg says. The company's surveys reveal that half of its customers are brand-new to the natural-goods category, having previously bought household products at retailers like Target or Wal-Mart.

Half of Grove's business comes from third-party brands, such as Mrs. Meyer's and Seventh Generation. The other half comes from the five brands it owns, three of which it developed in house: its flagship Grove Collaborative brand; a bamboo-based paper products line called Seedling; and Honu, a line of natural supplements. It also acquired two brands: Rooted Beauty, a personal care line, and Sustain, a period care and sexual wellness business.

Grove's broad reach, enabled by its direct-to-consumer model and suite of products, has fueled rapid growth, helped in part by $250 million of capital it has raised since inception.

The company, which has over 900 employees, reported $104 million in revenue in 2018 and doubled that in 2019, according to Landesberg. Last year, ACG San Francisco named Grove the winner of its annual Growth Award.

Landesberg is happy to have been mistaken about his customers initially, both because it "allowed Grove to address a broader market," he says, "but also because the impact of switching someone who was previously using conventional [products] to natural ones is one of the biggest impacts we can have." //

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PERSPECTIVES // A Healthy Outlook

"We strongly believe that the wellness-plus-pharmaceuticals channel will ultimately be the place where the most dollars are spent [in cannabis]."

MICHAEL GRUBER,
Managing partner at Salveo Capital, speaking during an ACG Chicago panel titled "The Rapidly Evolving Cannabis Industry: What's Next?"

"There are a lot of tools that private equity can bring to the table [for physician practices]. I think there's a lot more thought today around how we incentivize these doctors to succeed post-acquisition and how we take care of that next round of physicians – the junior physicians who don't own equity or a substantial piece of equity in the initial transaction."

TOM TURMELL,
Founder and managing director of TMT Capital Partners, speaking on the *MMG* Conversations podcast

"Patients want to be able to access their health care on demand – wherever they are, whenever – just like they do with entertainment."

MATT WOLF,
Director, health care senior analyst, RSM US LLP, speaking on the Privcap podcast

"THE CONSUMER IS SMARTER AND MORE SAVVY AND MORE EMOTIONALLY ATTUNED, AND THEY CAN DETECT WHEN THEY'RE BEING PITCHED A MARKETING CAMPAIGN AS OPPOSED TO A DEEPLY VALUED AND PURPOSE-DRIVEN BRAND ETHOS.

CHRISTOPHER GAVIGAN,
Co-founder and chief purpose officer for The Honest Company and founder and CEO of Prima, speaking on the *MMG* Conversations podcast"

Dr. Ronit Molko

Founder and CEO, Empowering Synergy

Dr. Ronit Molko is the founder and CEO of Empowering Synergy, a provider of specialist health care and consulting services for private equity investors and service providers with a focus on the autism, traumatic brain injury, home health and senior health care sectors of behavioral health. A licensed clinical psychologist and board-certified behavior analyst, Molko is the co-founder of Autism Spectrum Therapies, which she led until 2014, and author of the book "Autism Matters: Empowering Investors, Providers and the Autism Community to Advance Autism Services." Molko corresponded with *MMG* about M&A activity in the autism services industry.

"ALTHOUGH RELATIVELY NEW TO AUTISM SERVICES, PRIVATE EQUITY PLAYS AN IMPORTANT ROLE IN THE INDUSTRY."

Q How much M&A activity is happening in the autism services industry?

A There has been a dramatic increase in M&A activity. Over the past five years, there were over 75 transactions. Last year saw the highest activity, with 25 deals completed. Now there are over 20 "platform" companies looking to scale services organically, expand into new markets, and acquire smaller competitors. Over 80% of the service provider market remains highly fragmented and it's still in an early growth phase, supporting the rationale for consolidation. Even more deal flow is expected in 2020.

Q What's driving M&A and private equity investment in this industry?

A Increasing demand for services is one driver. The incidence of autism has continued to grow—today, 1 in 59 children in the U.S. is diagnosed with autism. The demand for support and services still far outweighs the supply of providers.

Additionally, the funding for autism services has expanded considerably. In 2019, Tennessee became the 50th state to require health benefit plans to cover medically necessary treatment for autism.

Although relatively new to autism services, private equity plays an important role in the industry. Because the market is relatively unsophisticated from an operational perspective, investors are providing capital needed for growth and expansion of services, managing risk and compliance, and professionalizing the industry from a business and operational standpoint.

Q What are some of the risks of investing in autism services providers?

A Talent and data present two key risks in this industry.

Registered behavior technicians and board-certified behavior analysts are the drivers for growth and service delivery, yet the industry has faced challenges with both groups.

There is high turnover among registered behavior technicians, who provide daily intervention in clients' homes, in a clinic or center, or a hybrid. Annualized attrition rates range from 50% to 125% for the in-home service delivery model. For center-based services, attrition rates can be as low as 10% to 15% and up to 50% to 60% for small providers.

MORE ONLINE
Find more interviews at *middlemarketgrowth.org.*

Board-certified behavior analysts make up the supervisor tier, and their credential is a requirement for commercial, federal and state funding sources. The market continues to experience a shortage of these professionals, which impacts a provider's ability to meet the regulatory requirements of funding sources and the ethical requirements of the credentialing board.

With respect to data, the autism market does not have the outcome data that is typically available in other areas of health care—such as group studies to determine the effectiveness of a medical intervention. Instead, the outcomes of autism therapy are determined individually, based on each client's unique needs and goals. As autism services moves toward a value-based reimbursement model, the lack of widespread outcome data presents challenges in establishing new models of reimbursements and new standards of intervention and outcomes.

Q How can emerging technologies be used to improve autism services?

A Technology has the potential to improve outcomes for service providers, autistic individuals and business owners.

Tools embedded with artificial intelligence and machine learning are already changing diagnostics and self-management. Companies have introduced wearable technologies to help adults manage daily activities, such as navigating their environment, coping with anxiety and interacting socially. Meanwhile, several companies are piloting technologies to diagnose autism in one session, a diagnostic process that now can take up to a year.

Technology will also transform the service provider market. Existing technological tools for practice management and business optimization are marginally adequate at best. They largely do not support effective daily data dashboards and predictive analytics, and most companies are still managing their businesses with limited real-time operational visibility.

Many providers are attempting to develop technologies to manage the nuanced aspects of clinical programming, data collection and reporting, compliance and employee activities, and operational aspects such as scheduling. //

Growing a **Healthy** Portfolio

ABOVE PRODUCT IMAGES AND IMAGE ON PAGE 32 COURTESY OF VMG PARTNERS

VMG's founder-friendly approach helps scale health and wellness brands

BY S.A. SWANSON

If you want to make a quick trip to the grocery store, don't go with Robin Tsai or Wayne Wu, general partners of private equity firm VMG Partners.

"It becomes a very long, drawn-out process," Wu says. "We enjoy taking a look at every item on the shelf, both things that are a part of our portfolio and new and interesting things that we find."

Since 2005, the San Francisco-based firm has invested in early-stage health and wellness brands, including Kind Bar and the maker of Pirate's Booty. Led by its five general partners, VMG has invested in 42 companies and sold 18 of them to strategic buyers—often large publicly traded companies like Mondelēz International and Hormel Foods.

For every founder-led company that VMG helps transform into an acquisition target, there's another reason for Tsai and Wu to pause in the grocery aisle. "We'll say, 'All these crazy things happened with this company, and this other company had to switch co-manufacturers,'" Wu says. "We annoy our wives, because sometimes they just want to buy peanut butter."

PORTRAITS COURTESY OF VMG PARTNERS

“WE ENJOY TAKING A LOOK AT EVERY ITEM ON THE SHELF, BOTH THINGS THAT ARE A PART OF OUR PORTFOLIO AND NEW AND INTERESTING THINGS THAT WE FIND.”

WAYNE WU
General Partner, VMG Partners

VMG PARTNERS

Year Founded: 2005

Investment Focus: Early-stage consumer brands

General Partners: David Baram, Kara Cissell-Roell, Mike Mauzé, Robin Tsai and Wayne Wu

Number of Investments to Date: 42

Exits to Strategic Buyers: 18 companies sold to buyers that include Mondelēz International, Hormel Foods, Shiseido and others

▲ From left, Robin Tsai and Wayne Wu, two of VMG’s five general partners

GUILT-FREE DISCOVERIES

VMG’s investment focus—health and wellness—is a category that’s increasingly pervasive. That’s reflected in its portfolio, which spans food and beverage, supplements, skin care and even pet food.

In addition to Tsai and Wu, VMG’s general partners are David Baram, Kara Cissell-Roell and Mike Mauzé. The firm doesn’t attribute deals to any one individual—instead, the team celebrates its wins collectively.

When evaluating a potential investment, EBITDA is low on VMG’s list of criteria. Instead, the firm considers whether a company could become an iconic brand in the future. According to Wu, the VMG team asks, “Are consumers buying and coming back for more? Is the category large enough? And is there a health and wellness trend happening within that category that’s incrementally changing for the better?”

VMG has a reputation as a founder-focused investor. It looks for entrepreneurs that share its vision for where a business will be in three-to-five years. It’s hard enough to groom an early-stage business into an acquisition target, says Tsai, but “it’s almost impossible if you don’t have the same goals from the outset.”

Unlike some private equity models, VMG doesn’t employ a one-size-fits-all approach. “What sometimes happens in our industry is someone has one singular success, and then they try to extrapolate what worked there and throw that into the next business,” Wu says. In contrast, VMG pulls from a large sample size of data and knowledge to guide companies based on their needs. Instead of issuing directives, it suggests best practices to help founders meet their goals.

Before VMG invested in Lily’s—a producer of stevia-sweetened chocolate products—in 2018, founder Cynthia Tice says she didn’t have any experience with private equity. But she knew VMG had a reputation for being founder-friendly and that the firm focused on natural products, both of which were

COVER AND ABOVE PHOTO BY JULIA VANDENOEVER

▲ Lily's founder Cynthia Tice

important to her as she sought to maintain Lily's values.

She recalls a memorable early conversation with Wu. "He said, 'Let's sign an NDA and then we'll review your business, and if we're interested, we'll tell you. And if we're not interested, we'll tell you why.'" Tice says she appreciated that forthright approach: "It's remained such a true part of our relationship—transparency and openness, and just real fairness."

That mindset is crucial for VMG's emphasis on fixing problems faced by early-stage businesses, instead of pointing fingers. "We're used to the turbulence that all those businesses have," Tsai says. "We're not going to be surprised when things go sideways because things always go sideways with small businesses."

Bill Creelman, founder and CEO of sparkling water-maker Spindrift, discovered that was true when a business crisis struck in the midst of his discussions with VMG. After more than five years of building the Spindrift brand, he was about to lose the rights to the name. "We had a coexistence agreement and it was challenged," Creelman says. "I had to sit down with Robin [Tsai] and explain that we were likely going to have to change our name."

VMG's reaction was comforting, he says. "They told me that these things happen, and let's try to figure out a way to resolve that." Over the next couple of months, VMG's counsel helped solve the name dispute. "Today we are Spindrift," Creelman says. "That was incredibly telling and gave me a lot of confidence in terms of how they would react when things inevitably go wrong."

SOUP-TO-NUTS GUIDANCE

Justin Gold knows how it feels when things go wrong. The company he founded, Justin's, a maker of nut butters and snacks like organic peanut butter cups, faced two catastrophic events in 2010. First, Justin's vice president of sales and marketing, who'd been instrumental in growing the company, died of brain cancer. A few months later, Justin's faced a recall after its supplier was linked to salmonella-tainted products sold through Trader Joe's. Because the supplier didn't keep good records, "they had to recall everything that came out of their factory, which implicated us," Gold says.

He calls that period "the lowest I'd ever been." He questioned whether he was working with the right suppliers and contract manufacturers, and whether he could take his namesake brand to the next phase of growth. He recalls wondering, "Can I scale this business if it does take off and is successful?" As Gold says, he wasn't looking for more funding; he was looking for "smart money."

Gold met with about a half-dozen equity investors and VMG was not initially at the top of his list. Although the firm had the most capital under management and was the largest organization overall, Gold's perception

“THE TRUTH IS, SO MANY OF THESE BRANDS HAVE INCREDIBLE BACK STORIES—DIFFICULT TIMES, GREAT WINS.”

ROBIN TSAI
General Partner, VMG Partners

was that “bigger isn’t necessarily better.” But VMG changed his mind at their first meeting. Unlike other firms, the VMG team came with data about Justin’s business and the broader market. At that meeting, “they taught me things about my company and my category that I didn’t already know,” he says. “The other companies came to the meeting completely uninformed.”

As VMG helped Justin’s develop into an acquisition target, it used the same general approach it applies to all of its portfolio companies: Consider the priorities of a strategic buyer in a particular product category and work from there. “We really think about building backwards,” Tsai says. Depending on the category—whether it’s food and beverage or personal care and beauty—strategic acquirers will have different priorities around metrics like revenue growth or gross margins, he adds.

Financial performance isn’t VMG’s highest priority when working with young businesses. For early-stage companies, other metrics matter, too, such as intellectual property and supply chains. To develop those areas, companies need the right team. “That’s probably the thing that we spend the most amount of time on right at the beginning: evaluation of the current team, trying to understand whether or not there are near-term holes that we want to fill,” Tsai says.

In the case of Justin’s, Gold agreed the business required new leadership. “What I didn’t want to do was hold back my organization,” he says. In 2014, former Celestial Seasonings president Peter Burns took over as CEO.

When VMG invested in 2013, Justin’s had 13 employees. Over the next two years, that grew to 45. Gold estimates the company’s margins improved by about 25%. He credits VMG with ensuring Justin’s had critical details in place, such as intellectual property rights. VMG also helped with another important improvement. When the firm invested, Justin’s had two contract manufacturers—within a year, that

▲
Justin's founder Justin Gold partnered with VMG to help scale his business

increased to eight. This helped drive down costs, created capacity to scale and provided redundancy.

When food giant Hormel Foods acquired Justin's in 2016, the company's growth rate was in the double digits, which was "extremely interesting to us," says Fred Halvin, Hormel's vice president of corporate development.

Justin's also had significant market share in the premium nut butter category, which would complement Hormel's Skippy brand. "The question was, has it been professionalized enough to be owned by a large organization like us?" Halvin recalls. The answer was yes. He credits VMG with building a strong team and establishing policies and discipline within the company that made Hormel comfortable.

When evaluating a business, Hormel looks for brands that are in the top two market positions within a growing category. It wants to see operating profit margins of 13-15%. For younger businesses, it will settle for lower margins if there's a path to increase them within three or four years, Halvin says.

Three years ago, Hormel would only consider businesses with roughly $50 million in annual revenue. Now the company looks at earlier stage businesses between $5 million and $20 million—particularly ones that have a point of differentiation and can leverage Hormel's scale to accelerate distribution. Consumers looking for new experiences are becoming more aware of these brands through social media, Halvin says, noting that wasn't as much the case five years ago.

Hormel works to maintain the brand integrity of its acquisitions, which is why Justin's operates as a standalone business. "There's a DNA that's associated with how the consumer perceives the brand," he says. Hormel doesn't want "the large corporation footprint" to overshadow a company's image.

PERFECT PARTNERS

Like Hormel, Mondelēz International's acquisition strategy has followed shifts in consumer behavior. That includes snacking as a meal replacement. Glen Walter, executive vice president and president, North America, at the food and beverage conglomerate has seen that evolution firsthand.

"When I was growing up, you got three square meals and my mom or dad would say, 'Snacking is going to ruin your lunch and your dinner,'" he says. In November, the company released a report, based on a Harris poll, indicating that 60% of adults (and 70% of millennials) preferred to eat multiple small meals throughout the day, rather than a few large ones.

Mondelēz has "a bold ambition to be the leader in broader snacking," Walter says, and that means adding new snacks to complement its portfolio of iconic brands, which include Ritz and Oreo.

In 2019, Mondelēz bought Perfect Snacks, a maker of refrigerated protein bars, from VMG. The business fit with Mondelēz's view that refrigerated snacking is a growing category. Through Mondelēz's due diligence, it found that VMG had helped Perfect Snacks make informed decisions that not only delivered financial

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ABOVE AND RIGHT PHOTO BY JULIA VANDENOEVER

“I’VE WORKED IN A LOT OF COMPANIES IN 35 YEARS BUT HAVE NEVER RUN ANYTHING THAT WAS GROWING THIS FAST.”

JANE MILLER
CEO, Lily’s

returns but set up the business for the future, Walter says.

For one, VMG helped Perfect Snacks expand its retail footprint. When VMG invested in 2015, the company’s products were sold at 5,000 retailers. By the time Mondelēz purchased Perfect Snacks, its bars were available at 27,000 retailers, including Target, Trader Joe’s, Starbucks and Walmart.

As the first refrigerated bar on the market, getting into stores wasn’t easy at first. As Bill Keith, Perfect Snacks’ CEO and co-founder, recalls, “We told VMG, ‘We’re having a tough time getting through the clutter in the refrigerated section.’” The firm helped Perfect Snacks change its pricing strategy, after analyzing pricing data and looking at strategies that worked for other VMG companies. “That was a big boost for us,” Keith says.

Sharing information across the portfolio and fostering collaboration are vital to VMG’s success. “It’s hard enough building an entrepreneurial brand, just in itself,” Tsai says. “Having any type of edge—where they can move a little quicker, increase their odds in all these different facets—can really help increase the overall profitability and odds of success.”

In one example of that collaboration, VMG connected Lily’s with Perfect Snacks, which had a strong analytical team and robust forecasting models. Both companies were growing rapidly, so it was helpful for Lily’s to learn how Perfect Snacks had developed internal tools to tie consumption to shipments, says Jane Miller, Lily’s CEO. Brought in by VMG, Miller also served on Justin’s board.

Now, when VMG brings new portfolio companies on board, it asks Lily’s to give an Analytics 101 presentation, to show how valuable those forecasting models can be for a fast-growing business.

Having access to insights from peers can be useful for companies growing at a rapid clip. In December 2019, wellness data tracker SPINS reported that Lily’s 52-week revenue was $75 million, up 83% from the year before. “I’ve worked in a lot of companies in 35 years but have never run anything that was growing this fast,” Miller says.

Since VMG invested in Lily’s in 2018, the company has introduced about 25 new products, including chocolate-covered caramels and chocolate-covered popcorn. Its staff has grown from four employees to 40 and expanded its retail footprint significantly. Last year, it added new retail customers, including Walmart and Target, and further expanded its product offerings in stores where its relationships predated VMG's investment, like Kroger, Publix and Whole Foods.

Spindrift's Creelman says his company, too, has benefited from the advice of other VMG holdings, on topics like hiring and supply chain—a critical area for his business, which sources produce for the natural fruit juice used to flavor Spindrift sparkling water.

Spindrift offered three flavors when VMG invested in December 2015; today, it has 10. Over that period, the company's headcount has tripled, from around 30 employees to 110.

▲ VMG brought in Jane Miller (left) to lead Lily's as CEO, pictured with founder Cynthia Tice

GRAB THE POPCORN

Even as it works hard to build early-stage companies into attractive acquisition targets, VMG also wants to support and guide as many entrepreneurs, strategic buyers and retailers as possible—regardless of whether they will ever join the portfolio, acquire a VMG company or sell products from a VMG brand.

"A core fundamental criticism we have of our industry is that folks are too deal-focused, where they're constantly chasing the next deal," Wu says. Instead, he believes that by giving back to the community, deals will follow. In his view, being a good citizen in the better-for-you category helps bring more attention to health and wellness products.

The category is certainly drawing attention, and the ascendance of healthier products is on full display in grocery aisles. Although their spouses might dread a family shopping trip, for Wu and Tsai, these errands hold an almost cinematic appeal.

"I love knowing the back story of so many of these brands," Tsai says. "It's almost like ... when you're watching a movie, you're only seeing the finished product, you're only seeing what folks are excited to show you. But the truth is, so many of these brands have incredible back stories—difficult times, great wins."

VMG's role in the narrative arc of these businesses contributes to the allure. "I think that each one is kind of a story unto itself," Tsai adds. "It's just very cool to have been part of that." //

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

Illustration by
Mitch Blunt

Native American Investors Chart a New Path

Tribal investment strategies aim to diversify revenue

BY JOANNE CLEAVER

Casinos did a lot more for Native American tribes than bring in cash: They sparked tribes' interest in economic development and long-term business ventures.

Over the past decade, innovative tribes have applied lessons learned from the casino business to designing and launching investment entities. Through subsidiaries dedicated to buying companies and real estate, tribes are branching out beyond their geographic borders to become economic development forces in neighboring communities.

The tribes have plenty of assets to work with. Revenues from tribal gaming are growing at about 4% annually, according to trade group Casino.org. In 2018, there were more than 500 Native American-owned casinos and tribal gaming revenue totaled $35.7 billion.

The gaming industry was spawned by a 1988 Supreme Court decision that allowed tribes to wield their status as sovereign nations to open casinos and sports betting facilities within their borders. After the Indian Gaming Regulatory Act was passed, tribes spent the next two decades opening casinos and learning how to run them.

By 2008, the industry had matured. Tribes that gained experience and confidence running large operations through gaming started to make small acquisitions within the casino supply chain. For some, success with vertical integration prompted them to look for new sources of revenue in other industries and beyond their geographic borders.

"Tribal populations are growing and tribal budgets are increasing, but the gaming market is mature," says Kurtis Trevan, CEO of Gun Lake Investments, a Grand Rapids, Michigan, subsidiary of the Match-E-Be-Nash-She-Wish Band of Potawatomi Indians, of which he is a citizen. "You have to find other sources for asset diversification."

But this type of approach is new for many, and developing the appropriate investment infrastructure can take time.

"Historically, tribes have not created strong investment strategies," says Trevan, explaining that it usually takes three to five years for a tribe to establish an autonomous investment operation with the appropriate legal and financial structure.

Tribes that have established the framework have gone on to make investments in privately held operating companies, real estate and other assets, joining private equity firms and family offices in the search for quality deals.

INVESTING FOR THE FUTURE

When the Pokagon Band of Potawatomi Indians set up its investment arm in 2011, it chose the »

name Mno-Bmadsen, which translates to "good path" in the tribe's native language—an apt choice, given its investment philosophy.

"We're making investments and growing for our future and future generations by following the good path," says Troy Clay, CEO of Mno-Bmadsen and a citizen of that band.

The underlying goal of Mno, based in southwest Michigan, is to make investments that will benefit tribal citizens well into the future, while also respecting the natural environment. Like many tribes, Mno intends to use investment returns to diversify the Pokagon Band's business interests and revenue streams. Following the good path also means fostering strong relationships and investing in tribal business talent through leadership development programs.

"WE'RE MAKING INVESTMENTS AND GROWING FOR OUR FUTURE AND FUTURE GENERATIONS BY FOLLOWING THE GOOD PATH."

TROY CLAY
CEO, Mno-Bmadsen

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Above: Kurtis Trevan, CEO, Gun Lake Investments

Troy Clay, CEO, Mno-Bmadsen

Mno incubated for four years before opening for business. One of its first steps was to branch out from the casino industry by investing in suppliers and adjacent businesses. Mno has since expanded into professional services, construction services, commercial real estate services and manufacturing, which comprise its four actively managed investment portfolios.

Its manufacturing portfolio, for example, was formed in 2017. Mno created a suite of complementary manufacturing companies, starting with a majority stake in Accu-Mold, a company based in Portage, Michigan, that creates industrial molds. Next, it invested in Michiana Global Mold, a Mishawaka, Indiana, maker of injection molds for the rubber and plastic industries. In 2019, Mno acquired Enmark Tool & Gage, of Fraser, Michigan. Together, the industrial manufacturers form Mno-DREK LLC, with combined annual revenue of $7.5 million and about 125 employees.

Though each deal is different, Mno is typical of tribal investment operations in that it often leaves existing managers or former owners in place, even though it owns a majority stake in each company. At the same time, Mno is cultivating a pipeline of trained managers and staff who are members of the tribe.

"That is one of our overarching goals," says Julio Martinez, Mno's chief financial officer. The non-gaming investments and operations open new career paths for tribal members who had moved away to pursue careers elsewhere. And when young members of the tribe know they have a good chance of landing a job in the office or plant of a company owned by the tribe, there's an incentive for them to pursue higher education and expertise in skilled trades, Martinez adds.

A FAMILY OFFICE APPROACH

Although tribal investment entities may be recent entrants to the M&A world, their model shares much in common with another vehicle.

"A smaller tribe is usually comprised of one or more families, so their investment entity is like a family office," says John Upshur, managing principal of First Nations Capital Partners in southern California, who has worked with tribes on private equity investments since 1972.

The tribes Upshur works with typically prefer to take controlling interests in privately held companies whose owners are looking to exit, he says. Consistent with the approaches of other tribal asset managers, he looks for small companies with annual profits of at least $1 million that are typically valued at five to six times EBITDA.

Due diligence, deal structuring and financial reporting back to the tribe's business division and council are modeled after other private investment vehicles.

Investment managers within tribal investment entities are experienced in portfolio management. Fund managers earn fees and the tribe aims for better-than-Dow returns. "It's very much a traditional private equity fund," Upshur says.

Upshur, Mno and Gun Lake say capital is drawn from reserves very conservatively and only after the tribe has set up a separate investment committee to develop an investment mission and strategy.

Financial results are audited and top-line results reported back to tribal councils and members. Thanks in part to relationships developed for casino operations, tribes are well connected with regional business communities, professionals and investors, and they learn about investment and acquisition opportunities through those networks.

COMPETITIVE DIFFERENCE

Tribal sovereignty introduces potential advantages for businesses, but deals and operations must be structured carefully to capture the benefits.

In many cases, sovereign rights are grounded in centuries-old treaties and a fractious history of violation of those treaties by the U.S. government. Currently, the U.S. Bureau of Indian Affairs recognizes 573 tribes, and some states recognize additional tribes.

Federally recognized tribes are exempt from federal income tax and, in many circumstances, state income tax—a benefit to Native American-owned businesses that operate on tribal lands or, potentially, to some aspects of tribally owned businesses located outside the boundaries of tribal land.

Tribes also are well positioned to pursue and win minority preference contracts that can clear the way for abundant projects and cash flow, says Erika Weiss, an associate with Barnes & Thornburg LLP, in Grand Rapids, who co-heads the firm's Native American Law and Policy practice and is herself a descendant of the Little Traverse Bay Bands of Odawa Indians. She adds that businesses that operate on

> "TRIBAL POPULATIONS ARE GROWING AND TRIBAL BUDGETS ARE INCREASING, BUT THE GAMING MARKET IS MATURE."
>
> KURTIS TREVAN
> CEO, Gun Lake Investments

Indian reservations and employ tribal citizens can utilize federal incentive programs such as New Market Tax credits, which are designed to attract private capital to low-income communities, as well as wage and insurance tax credits.

There are also lending programs designed with tribal entities in mind. The Bureau of Indian Affairs will guarantee up to 90% of loans for projects on or near reservations that contribute to the economies of those reservations, Weiss says. She adds that the U.S. Department of Agriculture offers a similar loan guarantee program. Other federal departments also have contracting processes dedicated to tribes.

Although tribal designation can provide advantages for businesses, Native American investors are keenly aware of where and how they use them, Trevan says.

"There's no question that some tribes attempt to lead with sovereignty from a business differentiation standpoint. [At Gun Lake], we identify good opportunities first and then see if we can utilize our sovereign advantage," he says. "Sometimes we decide, no, that's not a proper use of sovereignty."

For instance, an early Gun Lake project involved a convenience store adjacent to the tribe's casino. Thanks to its tax arrangement with the state of Michigan, the tribe had the chance to sell gas and goods at a significant discount. But it chose not to, to avoid provoking a damaging price war with locally owned competitors. "We don't want to open ourselves to attack on the basis of unfair advantage," Trevan says.

WORKING TOGETHER

While many tribes are investing on their own, other vehicles have formed to pool resources. The Native American Venture Fund, for

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example, invests capital from tribes and external investors, such as wealthy individuals and opportunity zone funds, explains John Cataldi, managing partner for the New York-based fund.

NAVF engages in projects that are wholly owned by tribes, provide an economic boost for tribal communities and leverage tribes' sovereign rights. The fund's current holdings span tribal free trade zones, opportunity zones, logistics, pharmaceuticals, cannabis and carbon credits. Cataldi says NAVF intends to roll out funds throughout 2020.

As tribes gain experience with investing and working with external partners, they'll likely join forces with each other, Trevan predicts. "I'd be extremely disappointed if I didn't see bands of tribes to provide equity and debt to each other to support economic development," he says.

Recent news suggests that's already happening. In January, Gun Lake Investments and Waséyabek Development Company, the investment arm of the Huron Band of the Potawatomi, announced they were partnering to purchase the McKay Tower, a multi-use commercial building in Grand Rapids, for $17.5 million.

As with family offices, direct investing by Native American tribes is relatively new, and the model will likely evolve as strategies and partnership models are tested.

As tribes move beyond gaming, their long-term capital is supporting the expansion of small and midsize companies. The success of those investments, in turn, will advance the project's ultimate goal: sustainable wealth creation for future generations of Native Americans. //

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

SEC Moves to Update Aging Advertising Rules

By Benjamin Glick

Much has changed over the last half century, but if investment advisers want to get word out about their services, they're stuck in the 1960s unless the Securities and Exchange Commission changes a rule that restricts advertisements.

In November, the SEC proposed changes to rules governing advertising by registered investment advisers, including private equity firms, that have been criticized for being out of date.

The SEC's amendments to the Investment Advisers Act would replace the current rule's restrictions on advertising activities, which include general prohibitions on advertising practices, testimonials, third-party ratings and performance information on investments. The SEC's proposed update includes clear, consistent and reliable guidance around advertising activities and would revise rules that govern solicitations and record-keeping.

Registered private equity firms can be hampered by the SEC's advertising rule. For example, if advisers discuss one security with a prospective buyer, they must talk about all of them. "That may make sense in a portfolio of 70 publicly traded securities, but not when you have a fund that only has a certain number of investments," says Jason Brown, a partner in law firm Ropes & Gray's Asset Management Group.

Under the current rule, advertising encompasses any communication designed to gain or retain a client or investor, from a pitch deck to a website, making it difficult to share information about a firm. The vagaries of the types of testimonials that are permissible—whether from a portfolio company CEO or LP investors—also can hamstring PE firms. "The current rule was not drafted with a private equity model in mind," Brown says.

The last time the SEC updated its advertising rule was 1961, and they haven't kept up with changes in technology. Because the internet was not around at the time the rule was initially issued, electronic communication could be considered a violation, prompting some companies to request preemptively that the SEC write a letter indicating it would not take legal action against them, known as a no-action letter.

Relying on no-action letters is not a long-term solution. The no-action letters issued by the SEC signal the agency's views, but they are not binding, can be rescinded, and do not have the same effect as a rule.

"When rules are requiring no-action letters and guidance to provide for functionality, you know they're out of date," says Jacob Frenkel, a government investigations and securities enforcement attorney at Dickinson Wright, and a former senior counsel in the SEC's Division of Enforcement.

Under the newly proposed rule, an advertisement would include any communication by an investment adviser that promotes their services or that seeks to appeal to clients or investors. The rule would include several exclusions to what constitutes an advertisement, including oral communications and some information requests.

One change that stands to impact small advisers is permission to use testimonials and third-party ratings, which were previously prohibited under the SEC's advertising rules.

"Given the nature of the internet and social media today, this provides a tremendous opportunity for advisers to benefit from showcasing who they are through a medium that has not been allowed previously," says Mark Mersman, chief marketing officer at USA Financial, a financial services firm in Ada, Michigan.

While seen by many as a move in the right direction, the rule change also could present a heavy lift for small advisers as they try to comply with the new rules, Mersman adds. "[They] could unintentionally find themselves running afoul of the new rules, especially as it relates to new record-keeping obligations and ensuring that the advertisements are fair and balanced," he says.

Despite potential compliance headaches, Frenkel is encouraged by the agency's precedent to change with the times. "I think we're going to see an evolution within the compliance space itself," he says. ACG submitted a comment letter in favor of the advertiser rule change, which the SEC is expected to vote on later this year. //

PGIAM/GETTY IMAGES

SEC Proposal Widens Pool of Accredited Investors

New rule introduces knowledge-based criteria for investing in private markets

By Benjamin Glick

The private equity community welcomed a recent move by regulators to widen the pool of Americans eligible to invest in private companies.

While experts say the proposed change is unlikely to bring droves of Main Street investors to private equity funds, it could increase access to investment opportunities for financial services professionals who don't meet the current wealth-based qualifying criteria.

After issuing an initial proposal in December, the Securities and Exchange Commission is expected to announce new rules later this year related to accredited investor status, which defines who is allowed to participate in private securities offerings and invest in private equity or hedge funds.

The move comes in response to critiques from industry leaders, advocacy groups and even the SEC itself that the current accredited investor definition is overly restrictive.

The definition of accredited investor, which has not been altered since Congress established it in 1982, requires that an investor have an annual income that exceeds $200,000 or a net worth over $1 million in order to invest in private markets.

Unless they meet these criteria, even employees with a high degree of financial expertise—including those who work in private equity or financial services—are barred from investing as individuals.

The high standards were intended to ensure that individuals who invest in private companies can withstand a loss, but policymakers have suggested other metrics, like education or expertise, also should be considered.

At a House Financial Services subcommittee hearing in September, Rep. Patrick McHenry, R-N.C., noted that under current rules, former Federal Reserve Chairman Ben Bernanke wouldn't qualify as an accredited investor because he didn't meet its wealth standard. "He was chairman of the largest bank on the planet," McHenry said. "This is just one of the great limitations [of the standard]."

Broadening Investor Status

Stemming from calls to expand the accredited investor definition, the SEC drafted a concept release last June. During a public comment period, the proposal attracted support from asset manager BlackRock and industry associations like the Association for Corporate Growth and the Investment Company Institute. In December, the SEC formally proposed new rules.

The proposal added new qualifying categories based on professional knowledge, experience or certifications. For example, those with certain professional certifications and designations, such as a Series 7, 65 or 82 license, could qualify as accredited investors. According to the SEC, more than 691,000 people hold certifications and designations that qualify under the proposal.

The new rules also allow family offices with at least $5 million in assets to qualify for accredited investor status. This change allows a family office that otherwise meets the definition to preserve it even if a child or family member does not meet the income or wealth thresholds.

According to the SEC's fact sheet,

the proposed amendment will add limited liability companies that meet certain conditions, registered investment advisers and rural business investment companies to the list of entities that may qualify as accredited investors.

Clearing up Misconceptions

After the SEC released its proposal, a report in *The Wall Street Journal* suggested that "masses" of Main Street investors soon would be able to access private equity funds directly or through their 401(k)s.

Some industry-watchers and consumer groups feared newly eligible entrants to the market would be exposed to increased risk.

"If you turn salespeople loose on mom and pop, they will pitch [unregistered securities] hard to people who don't know enough to make a good decision," says Roger Hewins, president and founder of Team Hewins, a family wealth management firm based in Redwood City, California. "They will also be selling the worst and riskiest investments since the larger, smarter, experienced PE investors will get the good ones."

Yet the influx of investors to private markets may not be as vast as industry-watchers envisioned. Millions of Americans already meet the wealth standards; even if hundreds of thousands more qualify as accredited investors under the new rule, "that's a relatively small increase," says Mark Wood, an attorney and head of the securities practice group at Katten Muchin Rosenman.

Those investors that qualify under the criteria may not have the financial resources that funds seek, now that wealth is no longer a prerequisite to investing. "Private equity firms are not looking for someone to put in $5,000," Wood says. "It's not practical."

The change ultimately may not have much of an impact on private equity coffers or M&A, according to Ricardo Davidovich, a partner in the investment management and private equity practice group at law firm Haynes and Boone. "While there will be an increase in the number of accredited investors, based on the proposed rule, I do not think the increase will have a material impact," he says.

The change still could have a positive effect on private equity in other ways—as a tool to motivate financial professionals, for example. "This makes it easier to incentivize employees by giving them opportunities to invest in the fund," Wood says.

The proposal also could increase investor ranks meaningfully over the long term by freezing wealth requirements, rather than indexing them to inflation.

"Wage growth and increases in the value of assets will allow even more people to meet the thresholds over time," Wood says. Since the accredited investor standard was established, the number of qualified investors has grown from 1.3 million to more than 16 million.

The new rule appeared in the Federal Register on Jan. 15. It will undergo a 60-day comment period before it can be approved by the SEC. //

MORE ONLINE
Find updates and insight on policy issues at *middlemarketgrowth.org.*

Siemens Financial Services, Inc. President and CEO Anthony Casciano (right) visits Siemens' robotics lab with Senior Business Development Manager Miriam Singer and Research Scientist Xiaofan Wu

Photos by Jeff Wojtaszek Photography

Navigating Digital Transformation

Siemens USA helps clients craft effective IoT strategies

Over its more than 170-year history, Siemens has evolved beyond its manufacturing and engineering roots and expanded into new industries and geographies. The last decade, in particular, delivered significant change, with Siemens investing heavily in technology and innovation to reinvent itself into the largest industrial software company worldwide. This experience is now guiding Siemens as it helps clients undergo their own digital transformations.

The company remains headquartered in Munich, but Siemens' largest market is in the U.S. Its American subsidiary, Siemens USA, employs a workforce of 50,000 and generates $23 billion in revenue and $5 billion in exports each year.

Today, Siemens USA works hand-in-hand with customers pursuing transformations as they capitalize on one of the main drivers of the Fourth Industrial Revolution—the internet of things, better known as IoT.

"Our customers have the best of both worlds—the physical and virtual. Siemens still brings to the table the hardware and the industrial domain knowledge that helped us build the physical world years ago," says Barbara Humpton, CEO of Siemens USA. "Now we're bringing the physical world online."

That includes everything from making energy usage more efficient and increasing the reliability of transportation, to improving services, enhancing distribution and logistics, advancing health care, reducing downtime in manufacturing and making factories safer.

A dedicated Siemens team, led by Paul Kaeley, CEO of Siemens IoT USA, works closely with customers to create effective IoT strategies. "We partner with customers to develop solutions that are going to be relevant to their particular business problems with our unique advantage of being able to take our operational technology understanding and connect to IT," he says.

THE IoT OPPORTUNITY

Using IoT, data is collected from objects and machines, transferred via the cloud and processed using machine intelligence. It connects the physical world, analytics and apps on an end user's device.

Market research firm Gartner estimates that 8.4 billion connected "things" were in use worldwide in 2017, with 3.1 billion devices connected in business alone. By 2020, the company predicts businesses will have 7.6 billion IoT connections.

Linking the physical and digital worlds via IoT could generate up to $11.1 trillion a year in economic value by 2025, according to a report by McKinsey Digital. Organizations need to consider what they must do today in order to thrive tomorrow.

"This is the ultimate calculus," says Anthony Casciano, president and CEO of Siemens Financial Services, Inc. "Organizations must ask themselves, 'Am I prepared to participate in this next Industrial Revolution where connected

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"WE HAVE COMMITTED SIGNIFICANT RESOURCES TO ENSURE COMPETITIVENESS AS WE NAVIGATE THE WORLD OF INDUSTRY 4.0."

ANTHONY CASCIANO
President and CEO of Siemens Financial Services, Inc.

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Above: Barbara Humpton, CEO, Siemens USA

Paul Kaeley, CEO of Siemens IoT USA

Above right: Casciano (center) attends a presentation in Siemens' Princeton, New Jersey, office

devices change the way products are made and services and solutions are delivered?' To ignore this may cause many companies to fail in the long run."

TRANSFORMATIONAL VISION

Siemens was a step ahead 10 years ago when it started looking at how the revolution will affect the status quo. Over the last decade, it has made investments to prepare for the technological change underway.

"We have committed significant resources to ensure competitiveness as we navigate the world of Industry 4.0," Casciano says.

As it pursues this transformational vision, Siemens is working side-by-side with forward-thinking customers across energy, manufacturing, transportation and logistics, health care and cities.

Whether a company generates $10 million or $10 billion, supplies to large companies or directly to consumers, or employs five or 500, Siemens can help it utilize IoT to increase return on investment, reduce costs, stay competitive and potentially capitalize on top-line growth by accessing or creating new products and services.

"We have the tools to help our customers master the internet of things," Humpton says. "From an operating system that can process complex data analytics to a low-code platform that enables someone to write an application without even learning software programming."

Today, everything from a rover on Mars to the software in cars has been touched by Siemens software.

CREATING A ROAD MAP

To enable customers to explore the potential of IoT and find effective solutions, Siemens starts by asking which problems it can help them solve.

"It's really important for us to develop a strategy, typically via a value co-creation workshop, and understand how IoT is going to be relevant in solving a business's problems," Kaeley says. "We help businesses create a road map."

Kaeley cites the example of a multinational oil company for which Siemens created a virtual model, or "digital twin," of its electric power transmission system to help the company better manage its power supply and reduce platform down time.

The digital twin used sensors to collect real-time data, which was evaluated and simulated in a virtual copy of the asset. The result was to increase the platform availability from 95% to 98%. "Three percent was the equivalent of about three days of production," Kaeley says. "It saved the company $10 million."

Despite the potential financial benefits, Kaeley acknowledges that finding the time and resources to initiate an IoT transformation can be a challenge for businesses that are consumed by daily operations.

To make it easier for customers, Siemens offers

end-to-end capabilities that help them optimize IoT in a way that fits their business, from installing sensors on equipment to producing real-time data analysis.

While incorporating IoT into business operations may seem daunting, it doesn't have to be. "An IoT solution can begin with a single sensor on a machine sending information to a cloud platform," Humpton says. "It can start small and be scaled up to provide greater insights."

Some businesses may view money as an obstacle, but Siemens can help there, too. "We work with our customers to find the right financing solution so they don't have to compromise their bottom line to make investments that will pay off in the long run," Humpton says.

Advancing through its own transformation, Siemens understands the obstacles businesses face as they consider incorporating IoT. Says Casciano: "We live with the same challenges as our customers across industry, energy, health care and infrastructure."

ENTERING A NEW ERA

Ushered in by technological innovation, a new era of digitalization has now arrived, and Siemens is helping its customers achieve their own IoT-fueled transformations.

Every company's path toward IoT will be different, but Siemens can help them establish where they want to go and how to get there.

"IoT is a building block and you can create a beautiful house from it," Kaeley says. "But you need to know what you're trying to build."

While technology can add value for businesses and help them compete, it has an even greater purpose, adds Humpton. "We can also use it to change human lives in the world," she says. "That's our bigger mission at Siemens—to serve society, whether that's making communities more sustainable or building the workforce of the future." //

EXECUTIVE PERSPECTIVES ON IoT

While businesses are intrigued by the potential of IoT, a recent survey of 750 executives conducted by Siemens and the *Harvard Business Review* revealed how challenging it can be to contemplate change. Its findings showed:

- 74% of respondents believe IoT will be a competitive differentiator, yet only 36% use it in their core operations.
- 39% say IoT's most significant benefit is to reduce cost and increase profits.
- 62% of respondents are evaluating IoT.
- 11% are running IoT pilots.
- 8% are optimizing processes through IoT.
- 19% don't see a need for IoT.

Respondents cited modernizing existing operations and implementing change management processes as the two biggest barriers to adopting IoT.

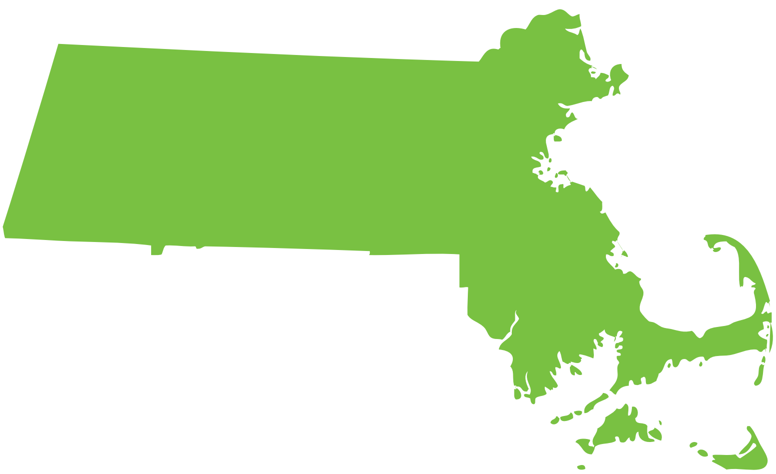
Even if the prospect of adopting IoT is intimidating, the first step toward leveraging its potential is to begin talking about it.

"We often say that the strategy is to keep a broad mindset of think big, start small and scale fast," says Anthony Casciano, president and CEO of Siemens Financial Services, Inc. "However, perhaps the best answer is to start the conversation. Fear of change or a lack of understanding of the imperative seems to be the greatest barrier to IoT adoption."

MASSACHUSETTS // 1998–2018

The number of jobs created by private equity-backed businesses in Massachusetts grew at more than five times the rate of the broader business community over the past two decades. Meanwhile, sales at PE-backed companies grew at more than 18 times the rate of other businesses in the state. Information technology has accounted for 23.7% of deal flow in Massachusetts since 2010.

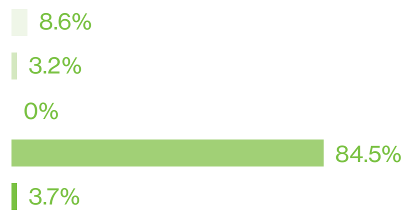
SALES



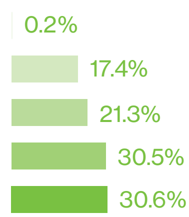
301.1%
SALES GROWTH IN PE-BACKED BUSINESSES

16.1%
SALES GROWTH IN ALL BUSINESSES

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

JOBS

GROWTH IN PE-BACKED BUSINESSES	GROWTH IN ALL BUSINESSES	JOBS CREATED BY PE-BACKED BUSINESSES
63.5%	**11.5%**	**28,052**

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.

E-Commerce Success Factors

SOUND DECISIONS // Vital insights for driving online business

Jeffry Golterman
Senior Director, Merrill Corporation

Because many health and wellness companies market directly to consumers, an effective e-commerce strategy is essential for financial success. But for many businesses, the challenges of building an e-commerce platform or leveraging a third party like Amazon can be daunting.

A recent Merrill Corporation webinar on successful e-commerce strategies unearthed vital factors that drive e-commerce success. Here are the most important steps companies should take:

Clarify a unique value proposition. Successful e-commerce strategies start by establishing a clear value proposition for the brand. Crafting content for website and digital marketing materials is easiest when messaging and supporting evidence of the brand's claims are clear to agency partners, web designers and demand-generation teams. Digital technology and e-commerce capability decisions can best support and even enable the unique value proposition when the value is 100% clear.

Ensure customer experience supports the brand promise. A brand promise can be enhanced by the digital and e-commerce customer experience. For example, a brand promise of excellent customer service can be brought to life by web chat. Same-day delivery is a unique offering only if the ordering platform is connected to the right third-party logistics partner.

Equally, a poor e-commerce platform choice can erode a brand's unique value proposition. For example, a health and wellness company may get lost in an overly general Amazon search that can show items as varied as books, dietary supplements and pet food. An alternative for a company would be to create a website to feature its own products and services.

Address the high bar of consumer expectations. While an Amazon experience might fall short for some health and wellness companies, it does set a high bar for e-commerce. Successful e-commerce strategies include support for a variety of shipping time frames, cost and payment options, and apps for mobile commerce. It's important to enable "window shopping" on social media sites such as Instagram and Snapchat and to provide newsletters for ongoing education. Handling returns, often via brick-and-mortar locations, is also essential.

Plan investments to drive scale and profitability. Ramping e-commerce quickly via Amazon or another platform may be worth the lower operating margins in the early years. However, midmarket companies with existing or potential private investors will attain higher valuations by addressing additional digital strategies. Those include targeting cost-reducing investments to stay below industry averages, and adjusting paid media, email and organic lead generators to optimize key marketing funnel ratios. Another strategy is to recession-proof product lines by being ready to launch lower-priced SKUs with lower-cost digital marketing. Finally, plan for above-forecast growth by ensuring e-commerce and digital marketing platforms and partners can scale should your health and wellness offerings become wildly successful.

An effective e-commerce strategy is table stakes for growing midmarket direct-to-consumer companies. Maximizing e-commerce success means investing in technologies that, at first, support the order-taking commercial engine, enhance the brand promise and, as the business grows, enable scale and drive increased profitability. //

Jeffry A. Golterman is a senior director of product marketing and M&A at Merrill Corporation with over 30 years of technology, M&A and product management and marketing experience. He leads Merrill's private equity segment business strategy.

New Guide Addresses Valuation Challenges

BY THE NUMBERS // Accounting trade group offers tips for navigating ASC 820

Kislay "Sal" Shah
Partner, BKD

In August 2019, the American Institute of CPAs (AICPA) issued a guide that addresses valuation challenges associated with ASC 820, part of the Financial Accounting Standards Board's Generally Accepted Accounting Principles.

ASC 820 requires private equity and venture capital investments to be stated at fair value, even though such investments are illiquid by nature and structure.

The AICPA's "Accounting and Valuation Guide" highlights relevant areas for auditors and valuation specialists working with private equity and venture capital funds, with helpful insight and examples. It covers topics such as complex structures, including those with multiple securities or those held across multiple related entities; adjustments for control and marketability; performance of back testing on realized investments; consideration of uncertainties and contingencies; and treatment of transaction costs.

One example from the guide that can be used to more accurately measure investments is calibration—a framework that assumes that at the initial recognition date, the valuation technique equals the transaction price. Then at the subsequent measurement date, unobservable inputs are used to measure fair value. Calibration helps in adjusting the valuation technique, which would reflect observable market data at the measurement date or adjust for the characteristic of the asset or liability that isn't captured. The key is to combat biases by having reasonable, consistent processes using available market data as of the measurement date.

Another important consideration from the guide concerns company control. ASC 820 raises an important question: When valuing private company interest where there are no observed transactions, should the enterprise value reflect a controlling or noncontrolling interest? The guide suggests the value of an enterprise should reflect assumptions that are consistent with the company's plans under the current ownership. It wouldn't be appropriate to add a control premium; if investor interest is aligned and the fund has information rights, adjustments for minority interest may not be necessary. If such information isn't available and the minority investor internal rate of return is higher, then a discount may be necessary.

An appendix in the guide illustrates various case studies with topics including equity investments in leveraged buyouts, initial transaction and calibration, value accretion in a real estate project, value fluctuation in real estate investment financed debt, effect of the value of senior equity interests when junior interests have control, reliability of information for an emerging market investment and subsequent rounds of financing.

The guide, which doesn't supersede any existing guidance, is nonauthoritative and is meant to be considered a best practice. Through case studies and illustrations, it serves as an important tool for addressing challenges when estimating fair value of private capital investments. //

Kislay "Sal" Shah, CPA, has more than 25 years of experience serving a full spectrum of investment management entities and is a frequent speaker and author on current industry topics.

What to Know About Transitional Services Agreements

GLOBAL VIEWS // Getting ahead of common challenges

Rob Wellner
Senior Vice President of Revenue, Velocity Global

Developing a transitional services agreement, or TSA, is a common step during the mergers and acquisitions process. While TSAs are routine, they are still complicated, time-consuming and not always well-received by a buyer or seller.

Before your firm drafts a TSA, there are essential elements and challenges you must fully understand. Below are a few commonly asked questions surrounding TSAs. Understanding them can help firms anticipate challenges and smooth the mergers and acquisitions process.

Transitional Services Agreements

Organizations use TSAs when the company, or a part of the company, is sold to another firm. A TSA outlines a plan for the selling company to hand over controls to the buyer. It typically covers critical services such as human resources, IT, accounting and finance, and any relevant infrastructure. TSAs are valid throughout a predetermined time frame—typically around six months.

> "THE TRANSITIONAL SERVICES AGREEMENT NEGOTIATION PERIOD IS CRITICAL. A POORLY DEFINED TSA RESULTS IN DISPUTES BETWEEN THE BUYER AND THE SELLER AROUND THE SCOPE OF SERVICES."

The TSA negotiation period is critical. A poorly defined TSA results in disputes between the buyer and the seller around the scope of services.

The Challenge for Buyers

One of the most stressful elements of a TSA for buyers is the lack of immediate control over employees and business operations. For example, during the transition period, buyers do not have 100% autonomy over new employees, and they cannot hire new employees. Buyers must also rely on sellers to take on liability of new employees, creating additional complexity.

The Challenge for Sellers

Just like buyers, TSAs create challenges for sellers because they contractually link the seller to the buyer beyond the transaction closing date. During the transition process, sellers must use internal HR, payroll and accounting resources for existing and new employees, even after the sale date.

TSA Alternatives

TSAs are common, but they are certainly not the only way to ensure a smooth transition. An International Professional Employer Organization, or International PEO, enables companies to complete the transaction without a TSA.

An International PEO makes managing employee transfers, payroll and other essential international M&A considerations far less overwhelming for firms. Companies can bypass TSA complexities by partnering with an organization that offers proven alternatives like an International PEO. **//**

Rob Wellner, Velocity Global's senior vice president of revenue, draws on 12 years of experience in capital markets to help organizations expand internationally, including using Velocity Global's International PEO service to overcome challenges associated with global M&A. Learn more at VelocityGlobal.com/acg.

Another Busy Year for Health Care

MID-MARKET TRENDS // Experience matters in this active sector

Tim Wentink
Managing Director, Twin Brook Capital Partners

Health care remains an active sector for middle-market leveraged finance, with interest spread across a broad spectrum of subsectors. Overall, health care is viewed as less cyclical than many industries because of positive demographic trends and non-discretionary types of services. Those characteristics have contributed to increased demand for deals in the space as we get further into the economic cycle.

Although the sector is broadly expected to outperform most others during a recession, investing in health care is very complex. There is no shortage of trends and risks that an investor must navigate in order to make good investment decisions. Health care is constantly in the news, with headlines focused on topics like excessive drug pricing, the opioid crisis, surprise billing, nurse shortages, Medicare for All, big data, artificial intelligence and efforts to repeal and replace the Affordable Care Act—just to name a few. However, the divided U.S. government is generally viewed as a safeguard for health care investors, given its inability to push through major legislative changes.

It appears 2020 will be another busy year for health care investing, creating robust opportunities for direct lenders. One subsector that has remained active for many years has been physician practice management, which includes specialty areas such as ophthalmology, dermatology, dental, orthopedic, gastroenterology, urology and podiatry. Managing a practice has become increasingly difficult for physicians to do on their own, and we expect this phenomenon to continue to drive attractive physician practice management deal flow in 2020 and beyond.

Other active health care subsectors include revenue cycle management, contract research organizations, medical device manufacturing, health care IT, payor services and clinician staffing. Due to relatively high valuation multiples, private equity sponsors may also look to exit investments earlier than planned, generating significant deal flow in secondary exits.

The healthy investment environment is expected to spur further competition among experienced health care lenders and draw new entrants to the space. When it comes to transaction execution, these new entrants can create additional risk by quoting high leverage levels without understanding key diligence concerns, such as the reimbursement and regulatory outlook, compliance risks, human capital issues and state-specific structuring requirements.

The complex nature of health care investing makes it important for private equity firms to partner with a lender that has deep health care expertise and a strong track record. This will make the process of closing a transaction smoother and is equally important when working through issues that may arise at a portfolio company post-close.

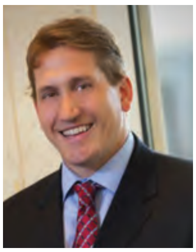
We expect to see more health care developments this year—especially as the presidential election kicks into high gear. Navigating the headlines as well as reimbursement and regulatory trends is par for the course for a seasoned health care investor, but it may prove difficult for new entrants.

Regardless of noise in the news cycle, we expect private equity activity in the health care space to continue, creating a robust set of attractive opportunities for lenders to deploy capital. //

Tim Wentink is a managing director at Twin Brook Capital Partners, where he focuses on the origination, evaluation, structuring and negotiation of new health care lending opportunities with private equity sponsors.

Quality of Earnings Reports Aren't Just for Buyers

SOUND DECISIONS // How sellers can minimize surprises



Craig Arends
Managing Principal, CLA

Selling a company, subsidiary or division may be one of the most significant events in your career. The stakes are extremely high because, while a successful deal is likely to yield great financial rewards, a bad deal can have devastating repercussions that last for years.

One way to diminish surprises is to understand how your counterparts across the table may gauge the financial health of your business and to understand how that aligns or differs from your own measurement.

In the context of mergers and acquisitions, potential buyers may get some level of assurance when the seller has the company's financial statements audited or reviewed. However, buyers typically do not—and should not—rely solely on audited or reviewed financial statements when making an investment decision. The purpose of an audit or review is to provide assurance that management has presented a company's financial performance and position it fairly, not to identify issues likely to be of interest to a buyer.

Here are some considerations for aligning expectations between buyers and sellers:

Quality of Earnings Reports

A sell-side quality of earnings report is focused on providing potential buyers with a deeper understanding of the business. This includes sustainable economic earnings; historical revenue and expense trends; historical working capital needs; key assumptions used in management's forecast; and tax, information technology, human resources and risk management matters, as appropriate.

For obvious reasons, buyers are particularly concerned with fair valuation. Because businesses often are valued based on a multiple of EBITDA, a sell-side quality of earnings report will focus on the "quality" or sustainability of the company's earnings.

Trend Analysis and Working Capital

Audit or review procedures may include analytics to understand trends and relationships over the historical period, but the reports do not comment on the market drivers behind those trends. Sell-side quality of earnings reports address key market drivers, sales strategies, customer relationships and customer churn, while also attempting to show whether the trends reflected in the financials are sustainable.

Buyers and sellers typically negotiate a target of working capital to be delivered at transaction close. The negotiated amount is usually based on the average working capital balances over the previous year. It should also consider recent growth trends; industry conditions; the seasonality of the business; and the specific composition of working capital accounts.

Qualitative Observations

Perhaps most importantly, the sell-side quality of earnings report may provide important qualitative observations arising from discussions with management. These observations may include key findings regarding the company's internal control structure, management and accounting team, and accounting information systems. Qualitative observations rarely appear in financial statements but may be just as important in helping a buyer make an investment decision. //

Craig Arends is the managing principal of the private equity practice at CLA and has more than 25 years of experience in public accounting and mergers and acquisitions. Contact Craig at craigarends@CLAconnect.com.

Choice-of-Entity Considerations After Federal Tax Cuts

PE TAX // Deciding between corporation or flow-through entity

Morgan Klinzing
Associate,
Pepper Hamilton LLP

Choosing the appropriate type of entity is a multifaceted analysis—one that was impacted by the Tax Cuts and Jobs Act of 2017, or TCJA. Here are the major considerations when making a choice-of-entity decision in the wake of that legislation:

Tax Rates

For C corporations, the new tax law reduced the federal corporate tax rate from 35% to 21%. Dividends received by noncorporate taxpayers are still taxed at a maximum rate of 20% (plus an additional 3.8% for taxpayers subject to the net investment income tax), resulting in an effective federal tax rate for noncorporate shareholders of 39.8%.

For flow-through entities, income is not taxed at the entity level and is instead included by the owners on their tax returns. The TCJA reduced the top noncorporate tax rate on ordinary income from 39.6% to 37% and provides a 20% deduction for certain business income. This 20% deduction reduces the effective federal tax rate on flow-through income for noncorporate taxpayers from 37% to 29.6%. Individual partners may also be subject to self-employment taxes or the net investment income tax.

If a business plans to reinvest all after-tax proceeds and not make any distributions, a C corporation likely provides a greater opportunity for growth as the after-tax proceeds are generally higher than those of a flow-through entity. Conversely, if a business plans to distribute all of its income, a flow-through entity is likely more efficient.

Income and Losses

In a C corporation, income and losses remain at the entity level. Net operating losses may no longer be carried back but may be carried forward indefinitely. However, the losses may only offset up to 80% of the corporate income. This effectively implements a 20% minimum tax in light of the TCJA's repeal of the corporate alternative minimum tax.

Meanwhile, income and losses of a flow-through entity flow through to its owners. The losses may be available to offset income from other businesses, subject to certain limitations.

If owners can utilize losses to offset income, it may be more efficient to operate as a flow-through entity. However, if the owners do not expect to be able to use the losses, it may be better to trap them in a C corporation so they remain available to offset future income.

Exit Planning

Many buyers prefer asset acquisitions over stock acquisitions because of the buyer's ability to obtain a step-up in the tax basis of the assets and immediately deduct 100% of the cost of certain assets.

An asset sale from a C corporation results in two levels of tax, while an asset sale from a flow-through entity results in a single level. Accordingly, C corporation shareholders often prefer to sell stock. Thus, a flow-through structure that minimizes the impact on the seller with respect to an asset sale may be preferred to maximize the purchase price.

The ideal choice of entity depends on the entity's business needs, including what the business does and the type of assets held, who the owners are, the type of income or loss that is anticipated and the expectations in an exit event. //

Morgan Klinzing is an associate in the Tax and Estates Practice Group of Pepper Hamilton LLP. Effective April 1, 2020, Pepper Hamilton will combine with Troutman Sanders to become Troutman Pepper Hamilton Sanders LLP (Troutman Pepper).

ACG ARIZONA ►

More than 200 M&A professionals and over 20 private equity firms from across the Western U.S. came together for ACG Arizona's sixth annual Taste of Private Equity wine tasting event. The event was held at the Andaz Scottsdale Resort and Bungalows, where attendees had the opportunity to network with accomplished professionals in the private equity field.

◄ ACG AUSTIN/SAN ANTONIO

ACG Austin/San Antonio held its seventh annual Private Equity Two-Step at the Plaza Club in San Antonio. Attendees gathered to learn from other business owners and advisers about how to raise capital successfully and grow their company.

ACG DENVER ▲

ACG Denver held the 12th annual Dealmakers' Forum. The event drew more than 200 attendees to the Hilton Denver City Center, where they learned from corporate executives looking to buy or sell businesses. They also heard from the broader M&A community about current trends and the impact on dealmaking activities. One panel focused on emerging industries and technologies. Pictured from left are panel moderator Tyler Mark, Bryan Cave Leighton Paisner; Jason Werner, Bryan Cave Leighton Paisner; Michael Wakefield, CAC Specialty; Joanne Baginski, Plante Moran; and Michael Geldart, Excellere Partners.

ACG DETROIT ▶

ACG Detroit's 14th annual Mingle Bells Networking and Charity Event drew 225 chapter members and guests to the Birmingham Country Club. Attendees helped raise money for the Downtown Detroit Boxing Gym Youth Program. ACG Detroit selects a different charity to benefit every year. Pictured from left are Nicole Preston, Doeren Mayhew; Tom Kelly, Wolfson Bolton; Sandy Kowalski, Doeren Mayhew; and Alissa Crawford, Doeren Mayhew.

◂ FLORIDA ACG CAPITAL CONNECTION

Around 600 attendees gathered in Boca Raton for the 18th annual Florida ACG Capital Connection. The event is organized by ACG Orlando, ACG North Florida, ACG Tampa Bay and ACG South Florida. Keynote speakers included Ellen Latham, creator and co-founder of Orangetheory Fitness, and former Pixar CFO Lawrence Levy (pictured).

ACG NEW YORK ▸

At the Yale Club in Midtown Manhattan, more than 120 M&A professionals gathered for ACG New York's annual Holiday Luncheon. Shown are Mary Chan, First Republic Bank; Corey Massella, UHY Advisors NY, Inc.; and Angela Raitzin, First Republic Investment Management.

ACG PITTSBURGH ▲

ACG Pittsburgh held its fourth annual Executive Women's Symposium Retreat at the Nemacolin Woodlands resort in southwestern Pennsylvania. Over 50 women participated in the two-and-a-half day event, which included keynote speakers, shooting clay, yoga, wine tasting, golf and building lasting business relationships.

ACG QUEBEC ▶

The Association for Corporate Growth welcomed the latest addition to its nearly 60-chapter network. ACG Quebec officially launched in January, growing the association's footprint in Canada. Pictured is ACG Quebec President Luca Giannini (center) with (from left) ACG Toronto President and CEO Mike Fenton; Daniel Charron, Réseau Capital; and Petrice Martin, BLG.

◄ ACG SAN FRANCISCO

ACG San Francisco held its 2019 Growth Awards Luncheon, which drew 120 attendees. Every year the chapter presents the Growth Company of the Year Award to companies that have demonstrated leadership in their industry with year-over-year growth, clarity of mission, employee involvement or go-to-market strategy. Pictured from left is Leigh Wasson, president of ACG San Francisco's board of directors, with the award finalists: Perry Patel, BPR Hotels; Stuart Landesberg, Grove Collaborative; Bentley Hall, Good Eggs; and Miyoko Schinner, Miyoko's Creamery.

ACG TORONTO ►

ACG Toronto hosted a four-part Leadership Luncheon series, one of which featured a panel discussion reviewing the current trends, challenges and opportunities in the Canadian cannabis sector. Speakers (from left) included Narbe Alexandrian, Canopy Rivers Inc.; Michael Garbuz, High 12 Brands; Rick Meslin, Cassidy Asset Management; Jason Alexander, Starseed Medicinal Inc.; Jonathan Sherman, Cassels LLP; and ACG Toronto Executive Director Mike Fenton.

ACG WESTERN MICHIGAN ▲

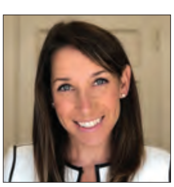
At The B.O.B entertainment venue in downtown Grand Rapids, ACG Western Michigan held its fourth annual Finance Feud. The trivia competition pit law and accounting firms, banks and consultants, corporations and universities against each other to help raise funds for the chapter's ACG Cup 2020 competition. The event's winners (from left) were Charter Capital Partners' Mark Streekstra, Dale Grogan and Mike Welch; and RDV Corp.'s Anna Kamp.

CONTACT

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

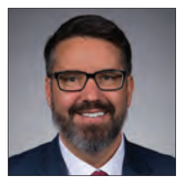
DHG LLP announced it has added KATE LEVERONE (pictured) as managing director on the transaction advisory services team in the firm's Atlanta office. DHG also announced several promotions across the firm. DUSTIN HAMILTON was promoted to managing director on the transaction advisory services team in Tampa, Florida; JAY STINE was promoted to managing director on the health care transaction advisory services team in Charlotte, North Carolina; and BRETT DUDNEY was promoted to managing director on the private equity assurance services team in Birmingham, Alabama.

MARCUS PILLION has joined Edgewater Capital Partners as an operating partner. Based in the private equity firm's Houston office, Pillion will work closely with Edgewater's transaction team to develop investment opportunities in engineered components and systems. He brings over 25 years of industrial market experience. Prior to joining Edgewater, Pillion served as CEO for TRITEC Performance Solutions, a global manufacturer of engineered polytetrafluoroethylene sealing solutions and assemblies.



Entrepreneur Partners, a lower middle-market private equity firm based in Philadelphia, announced the promotion of LORI LOMBARDO to principal. She is responsible for business development, as well as the evaluation, execution and pre- and post-closing support of transactions. Prior to joining Entrepreneur Partners in 2012, Lombardo managed teams in domestic and international lending and compliance at Bank of America Merrill Lynch.

NICOLE HITTNER, a partner in Ballard Spahr's Business and Transactions department and a member of its Private Equity Practice group, has been named co-chair of Ballard Women, the firm's affinity group for female attorneys and clients. Ballard Women focuses on the recruitment, retention and advancement of women at the firm. Based in Minneapolis, Hittner counsels private equity firms and other businesses on investment transactions, negotiating strategies and day-to-day operations.

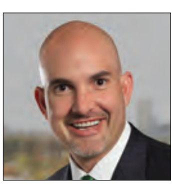


Insperity Inc., a provider of human resources and business performance solutions, announced it has opened a district office in Sacramento, California, and named JOSH SMITH as district manager of the new office, where he will help oversee area sales efforts. Smith has more than 20 years of sales and management experience. Prior to joining Insperity, he worked as a regional manager for a multinational computer technology corporation.

DANIELLE BASS was promoted to partner at Honigman LLP, based in Detroit. Bass is a member of the firm's Corporate department. She focuses her practice on transactional matters involving information technology, intellectual property and media, with an emphasis on commercial transactions. Bass also serves as co-chair of the programs committee for ACG Detroit.

ECI Partners announced that **SUZANNE PIKE** has been promoted to partner. Pike joined ECI, a London-based private equity firm, in 2011 to work on deal origination. She has led ECI's origination team for the past two years, sourcing deals across ECI funds 10 and 11, as well as multiple bolt-on acquisitions across ECI's portfolio. She also served as chapter president for ACG's UK chapter in 2019.

CHRISTOPHER REENOCK has joined boutique M&A advisory firm Carter Morse & Goodrich as a director in the firm's office in Southport, Connecticut. Reenock has spent his investment banking career advising family- and founder-owned businesses and corporate management teams across a variety of engagements in the middle market. Prior to joining CMG, Reenock was a director at boutique investment bank Sonenshine Partners.



LongueVue Capital Partners, a private equity firm based in New Orleans, announced that **GEOFF GLASS** (top) and **PETE ALLEN** have joined the firm as health care operating partners. Glass, a seasoned pharma services executive, will focus on life sciences. Allen, a health care executive with broad-reaching experience, will focus on medical devices and related contract services as well as health care supply chain services.

PAMELA MIRANDA recently transitioned to a new role within First West Capital in the firm's Toronto office. As a director with First West, she initiates origination, execution and portfolio management. Miranda is an expert in structuring flexible junior capital (subordinated debt, mezzanine and minority equity) thanks to her solutions-focused outlook and keen sense for business. She has more than 15 years of experience in finance, including corporate and junior lending, hedge funds, private equity, audit and accounting. She is an active member of the ACG Toronto chapter and co-founder of ACG Quebec.

LLR Partners announced it has promoted **SASANK ALETI** (top) and **MICHAEL LEVENBERG** to partner. Aleti is a leader on LLR's health care investment team. During his tenure at the firm, he also established and built LLR's investment focus on human capital management. Levenberg is a leader on the firm's industrial technology team. Since joining LLR, he has been dedicated to building its security industry practice and more recently broadened the firm's focus into other technology-oriented segments in the industrial sector. Both Aleti and Levenberg are based in Philadelphia.

MORE CAREER INFO

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

IT'S THE SMALL THINGS

HEALTH AND WELLNESS GETS IN SHAPE // No pain, no gain

1

Recharging Batteries with a Tech-free Trip

An increasing number of travel destinations are giving tech-addicted patrons a chance to disconnect. The Miraval Group, which operates resorts across the U.S., offers guests dozens of classes ranging from cooking lessons to nature hikes to fill the hours of a tech-free day. These resorts are part of a $639 billion global wellness tourism market, one that's growing twice as fast as the broader tourism industry. –*Fast Company*

2

Restaurants Make "Impossible" Possible

Amid the growing popularity of plant-based meat, a growing number of fast-food and fast casual restaurants, such as Burger King, Denny's, Del Taco and TGI Fridays, have added meat substitutes to their menus. Sales of brands that include Impossible and Beyond Meat increased 20% to $3 billion in 2018, according to a report by the Plant Based Food Association. –*Forbes*

3

Wellness Is for the Dogs

Between high-grade food, fitness trackers, cannabis-based supplements and more, pet owners are shelling out hundreds of millions of dollars into their pets' health. In 2018, pet health and wellness products generated around $636 million, according to a 2019 report from market research publisher Packaged Facts. –*Vox*

4

Building Better Homes

The housing development Villa Valencia in Cora Gables, Florida, offers ocean views and beach access. Its developer promises something else: a longer life span. With hospital-grade air, circadian living light and pollutant-free water, the project is part of a growing trend in real estate that supporters claim will lengthen residents' lives. This niche industry is expected to reach $180 billion by 2022, according to research by the Global Wellness Institute. –*Curbed*

5

A Diet for One?

A group of British researchers is getting closer to cracking the genetic code that could lead to personized diets. The study, called Predict, is the world's largest experiment on individual responses to food. The full data set will take years to analyze, but Zoe, a company founded by one of the study's researchers, is developing an app with the goal of offering individualized nutrition advice. –*The New York Times*

6

Beauty Breaks a Sweat

Complementing the "athleisure" trend in sportswear is the rising demand for makeup and other beauty products that cater to fitness lifestyles. Startups and incumbents alike are experimenting with "active beauty" products that include cosmetics and skin care products designed to resist heat and moisture. –*CBI Insights*

– Benjamin Glick

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