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MIDDLE MARKET Growth

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Driving through the Night

Family RV Group is steering its dealership business through industry changes – and now, a pandemic

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FROM THE EDITOR

Turbulent Times for the Auto Sector

KATHRYN MULLIGAN
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The last several years have been challenging for the automotive industry, the focus of this issue of *Middle Market Growth*. Global supply chains have been battered by international trade conflicts, starting with the first round of steel and aluminum tariffs two years ago. After the U.S. and China reached a "phase one" trade deal earlier this year, things were looking up for the auto sector. Then the coronavirus appeared in China and quickly spread to countries across the globe.

As I'm writing this, the virus has infected nearly 2 million people worldwide and wreaked havoc on businesses and supply chains. Although the full extent of the damage is still unclear, *MMG*'s associate editor, Benjamin Glick, has been speaking to experts about how to mitigate risk as much as possible and deal with the impact of COVID-19 (p. 12).

Even before the tariffs and the spread of the virus, the automotive industry was undergoing rapid change in response to technology in the form of autonomous vehicles, electrification and ride-hailing services, disrupters that are covered in this issue's "A Qualified Opinion" (p. 20).

Once the public health crisis is behind us, technological advancements will again present new investment opportunities. So will more traditional businesses, particularly in niche segments that cater to an enthusiastic customer base, like RV owners. In this issue's cover story, we look at Family RV Group, a collection of local dealerships backed by investment firm Kidd & Company (p. 22). We delve into how the RV market is changing in response to demographic shifts and customer needs, and how Family RV Group is steering its dealerships through the uncertainty of a pandemic.

Despite recent headwinds, there may be a silver lining for the RV industry. For one, taking off in a camper could be a means of "social distancing." At press time, Family RV Group's dealerships remain open for business, and at least one medical professional has purchased a unit to park in their own driveway, to avoid infecting relatives.

For other prospective customers, an RV could be a welcome escape from the news cycle and reports of illness, market turmoil and skyrocketing unemployment. With all the negative news, what better time than now to hit the road? //

Kathryn Mulligan

ACG Joins Fight to Help Businesses Survive COVID-19 Disruption

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

In response to the coronavirus pandemic, the U.S. federal government acted with unprecedented speed and financial firepower to bolster the economy. They were right to move fast, but the rules to qualify for the small business lending program left out thousands of businesses desperately in need of capital, which put millions of jobs on the line. Since the CARES Act was passed, ACG has been working to address those gaps and bring them to the attention of influential policymakers.

The program in question, known as the Paycheck Protection Program, excluded many businesses backed by private equity. Under the Small Business Administration's "affiliation rules," the total number of employees across a private equity firm's portfolio is used to determine whether an individual business qualifies for a PPP loan. That has put many PE-backed companies above the 500-employee threshold, making them ineligible for much-needed emergency aid.

In letters sent to federal officials—including House Speaker Nancy Pelosi, SBA Administrator Jovita Carranza and Treasury Secretary Steven Mnuchin—ACG has described how essential the PPP loans are for companies to survive and to continue to employ millions of Americans.

ACG has been working closely with other industry groups in their advocacy efforts on Capitol Hill. We also published data collected through an ACG member survey in early April, in which 77% of respondents reported that the survival of their business is on the line, while 92% said that exclusion from the PPP would result in layoffs.

At press time, the eligibility criteria for the small business lending program has not been amended to address the affiliation rules. Even eligible businesses have had difficulty accessing funds in the early days of the program's rollout. These are issues that ACG is monitoring closely, and we'll continue to advocate for meaningful change.

ACG Global is also working closely with our network of chapters. At both the local and national levels, we've been producing virtual content in partnership with industry experts to share best practices and insights for navigating the current environment. Meanwhile, on our new video channel, GrowthTV, ACG has been talking with CEOs, lawmakers and subject matter experts.

Once the pandemic is behind us, expect to see us interviewing speakers and members at ACG events across the country. Through this magazine, GrowthTV, podcasts and social media, we're in an even stronger position to share valuable insights from across the ACG community that's accessible wherever our members are. //

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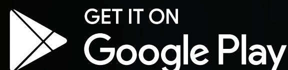

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GROWTH STORY

Driving Through the Night

Once associated with retirees, recreational vehicles are gaining traction with a younger demographic. Across its 12 dealerships, Family RV Group is catering to the industry's growing customer base with a diverse range of RV models. That mix of inventory played a critical role in helping the company get through the last recession, and it's keeping those lessons in mind now as it steers its dealerships through the fallout of the COVID-19 pandemic. 22

Getty Images/xavierarnau

TREND

Business Development Grows Up

While much deal origination is still shoe leather and personal relationships, the profile of the private equity business development professional is changing. Middle-market firms are building business development teams, implementing new technology and evaluating the path for advancement. 30

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GROWTH TV

At Home with the Middle Market

In the inaugural episode of the "At Home with the Middle Market" series on ACG's GrowthTV, ACG CEO Tom Bohn talks with Martin Okner, president and COO of dpHUE and chairman of the ACG Global board of directors. They address how dpHUE, a beauty and hair care company, is responding to disruption from the COVID-19 outbreak, supporting independent stylists and thinking about the role of in-person meetings in the future.

VIDEO Find this interview and others at acg.org/growthtv.

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Life After COVID-19: Will Disruption Drive Opportunity in Auto?

NAME

Title: Ted Morgan

Company: Plante Moran

Location: Detroit

Expertise: As a principal in Plante Moran's strategy and operations management consulting practice, Ted Morgan focuses on manufacturing and private equity clients. Prior to Plante Moran, he worked for several automotive suppliers, including Magna International, in growth and operations roles.

▸ How will the coronavirus outbreak impact the auto industry?

Prior to the coronavirus pandemic, the auto industry was changing in response to electrification, ride sharing and autonomy. Now, in the midst of a global crisis, many automotive facilities have been forced to shut down—but for how long? No one can predict the short- and long-term impact of the coronavirus, but the reality is that people are still driving vehicles. Plus, economic uncertainty tends to be a positive growth driver for many areas in the aftermarket.

▸ Why is the automotive/original equipment (OE) supplier market an attractive space?

For the past several years, the global auto industry has produced about 90 million vehicles annually, with parts made by thousands of suppliers, many of which were thriving prior to the pandemic. The automotive/OE supplier market will suffer in the short term; however, vehicle demand should rebound then stabilize coming out of the pandemic. Auto companies will be looking to meet pent-up demand and are already rolling out incentive programs to entice buyers, an approach that worked coming out of the Great Recession. What's more, miles driven globally have increased steadily over the past few years—and over the past two decades for the U.S., including during the Great Recession—which also drives increased car demand over time.

▸ Why is the aftermarket attractive for private equity?

With more miles being driven and about 250 million vehicles in operation in the U.S. alone, drivers need services to keep their cars and trucks running. In addition, the average age of a vehicle on the road is 12 years—an all-time high. More time on the road means more repairs needed, like maintenance for items ranging from tires, brakes and fluids, to larger items such as HVAC and suspension systems.

▸ Where does the opportunity lie?

Attractive growth opportunities will continue to be a function of what the auto industry has been through and where it's headed. We expect to see distressed investment opportunities, as some part suppliers will not be able to handle production stoppages and related working capital challenges caused by the pandemic. In addition, products that support weight reduction initiatives, increased electronics, active safety or electric powertrains are just a few examples of product segments that will outpace overall industry growth.

If the capital-intensive nature of the automotive/OE supplier doesn't work for your business model, stick to the aftermarket. From maintenance and repair centers to road-striping businesses, service companies present a major opportunity. If you go this route, managing a skilled workforce will be essential. //

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Predicting Part Demand in the Evolving Auto Industry

By Kathryn Mulligan

The way vehicles are designed and how drivers engage with them will affect the business of parts suppliers. If cameras work better, why does a car need mirrors? As more vehicles use electric power, mufflers get smaller or are removed entirely.

Based on its analysis of the automotive market, Plante Moran has projected whether demand for various products will rise or fall among original equipment manufacturers (OEMs) for new vehicles and the aftermarket. For some parts, like audio and entertainment components, the trend is already taking hold; for others, it could take 15 or 20 years before it appears.

For companies that produce parts that are at risk, it's a good time to evaluate where the market is going and to adjust accordingly. Those looking to sell will need to demonstrate to a buyer that they're adapting their model and planning for the future.

"None of these downward-trending products are going away tomorrow," says Ted Morgan, principal at Plante Moran. "But understanding longer-term demand for vehicle components will drive a supplier's product strategy."

Here's a look at three part categories and where they're headed:

Infotainment, Audio and Telematics: Demand in this category—which includes stereo, GPS and navigation systems—is projected to outpace industry growth among OEMs and the aftermarket. These systems become more advanced every year, and automakers want to include the latest technology in their new vehicles.

In the aftermarket, owners of older vehicles who want to upgrade their systems are driving demand, as are auto enthusiasts who want to enhance their car with a new touchscreen that can accommodate Apple CarPlay and Waze. Safety features, such as rearview cameras included with new models, are another common upgrade for older vehicles.

"NONE OF THESE DOWNWARD-TRENDING PRODUCTS ARE GOING AWAY TOMORROW. BUT UNDERSTANDING LONGER-TERM DEMAND FOR VEHICLE COMPONENTS WILL DRIVE A SUPPLIER'S PRODUCT STRATEGY."

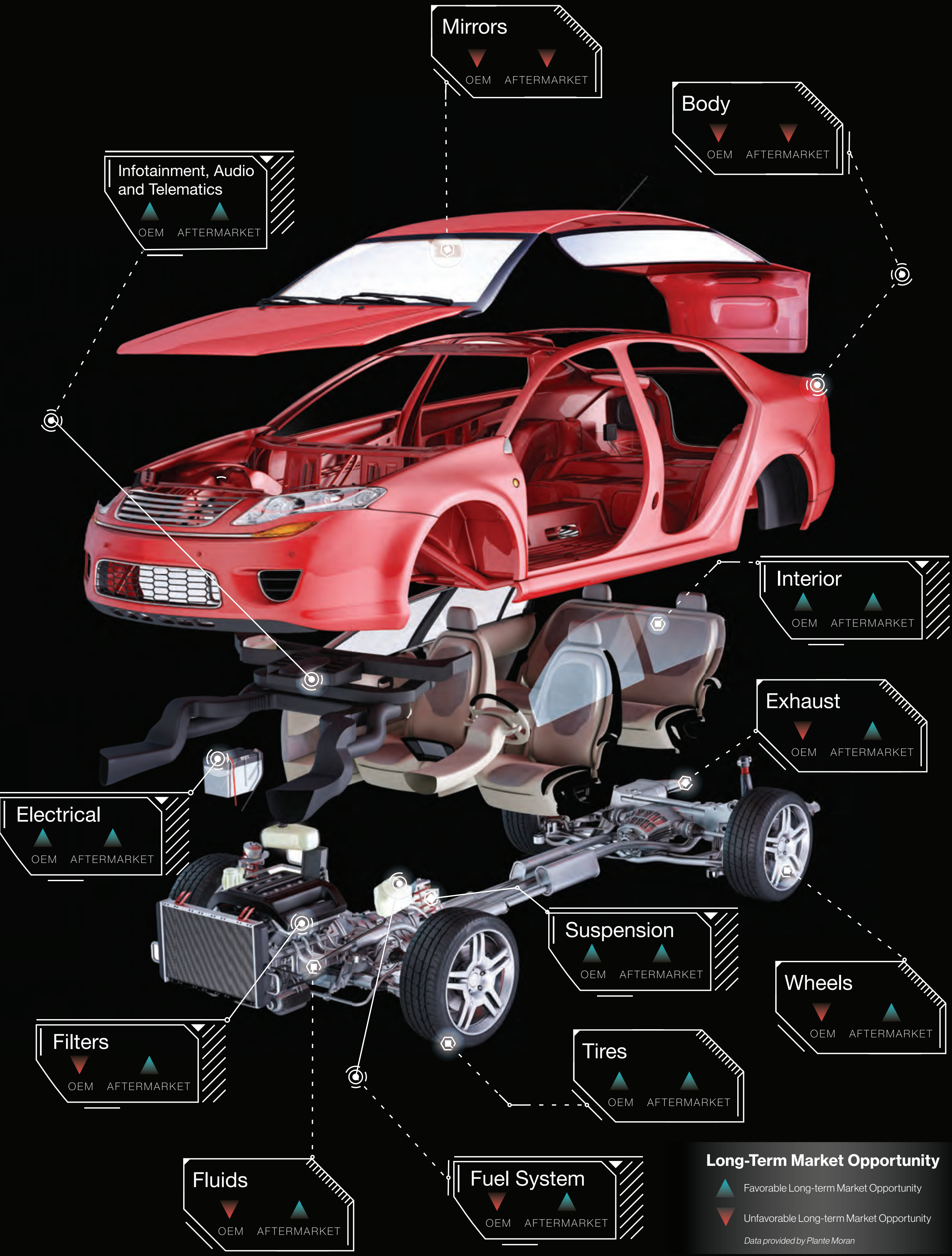
TED MORGAN
Principal, Plante Moran

Exhaust: Demand for exhaust components, such as mufflers or catalytic converters, is expected to decline over time for OEMs, due to the industry's move toward electrification. As more vehicles operate using a battery rather than gasoline, automakers will need fewer parts to control the gases or noise created by an internal combustion engine.

The aftermarket, however, is trending in the opposite direction, due to demand from auto enthusiasts who want to outfit their vehicle with a louder muffler, for example. "Exhaust is one of the first things to get retrofitted after a car comes off the dealership lot," Morgan says. "There is a really nice opportunity for exhaust manufacturers who want to make a specific type of muffler or exhaust component that will give an owner the performance they're looking for."

Mirrors: Now that mirrors are no longer the only way for drivers to see around their cars, the part is projected to experience declining demand among OEMs and in the aftermarket. Cameras have become a fixture in new vehicles to provide an enhanced view for drivers and illuminate blind spots. For the autonomous cars of the future, 3D cameras and sensors will enable vehicles to navigate roads and identify obstacles.

This new technology will impact the aftermarket, too. In the future, consumers are likely to outfit an older vehicle with a camera system rather than replacing its mirrors. //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Long-Term Market Opportunity
Favorable Long-term Market Opportunity
Unfavorable Long-term Market Opportunity
Data provided by Plante Moran

Private Markets Respond to Coronavirus Disruption

By Benjamin Glick

Michael Butler had a front row seat to the coronavirus outbreak. As chairman and CEO of Seattle-based investment bank Cascadia Capital, he witnessed the West Coast city grind to a halt as those testing positive for the coronavirus surpassed 1,000 in Washington on March 17.

A day earlier, Cascadia received a letter of intent from a prospective client that Butler did not expect to hear from. It was an industrial company based in Italy, a country with more than 30 times the number of COVID-19 cases as the state of Washington at the time, in addition to a national quarantine and strict domestic travel restrictions. What's more, the company said they wanted to close a deal in fewer than 45 days.

Middle-market private equity firms across the U.S. reported a similar race to close deals that were in progress, as state governments began limiting commercial activities to "essential" businesses and telling residents to stay home. Although some deals in advanced stages have made it to the finish line, many were put on hold. At the same time, travel restrictions have made it more difficult to hold sourcing meetings or perform due diligence.

Even as deals are put on pause and companies wait to come to market, identifying new opportunities isn't a top priority for many investors as they turn their focus to businesses they already own. "Deals that are pretty far along are continuing to get done," Butler says. "And then we see a lot of private equity funds that have put their arms around their portfolios."

Many firms are focusing on supporting their portfolio companies to ensure employees are safe, operations remain up and running, and that cash is available to get them through the downturn.

The next few months could be rocky for private equity portfolios, as the U.S. enters a recession. But if history is any guide, PE-backed businesses may weather a slowdown better than their publicly traded peers.

According to a recent PitchBook report, private equity investments trailed public indexes in 24 of the 28 quarters since 2001 when the S&P 500 total return was up 5% or more. Yet for all 21 quarters when the index's total return was negative, private equity portfolios outperformed

“THE SUPPLY-SIDE ISSUES WERE EASIER TO MEASURE, AND THEREFORE PREDICT AND POTENTIALLY FIX OVER THE LONG TERM.”

EVA DAVIS
Co-Chair of Private Equity Practice, Winston & Strawn

the public markets. “The drawdown the public markets are experiencing in Q1 2020 is likely to be more extreme than what the private markets will realize,” the report’s authors wrote.

Although public exchanges experienced a rebound early in the second quarter of 2020, extended lockdowns could lead to more volatility in the future.

Supply and Demand

Even if private companies are likely to fare better than their publicly traded peers, that’s cold comfort for those facing challenges on both the supply and demand fronts.

Still, the shock to supply chains from the coronavirus outbreak in China could have been worse. Due to earlier changes made in response to the U.S.-China trade dispute, many midsize companies with supply sources in China had already begun to insulate themselves from disruption, according to Eva Davis, co-chair of law firm Winston & Strawn’s private equity practice.

When the virus began to spread in earnest in February and factories in China shuttered, many businesses that had taken steps to mitigate their exposure to Chinese suppliers were in a good position to transition to suppliers elsewhere in Asia.

But since then, concerns about supply have been overshadowed by a collapse of demand. Moves by governments to close businesses and limit movement by residents have created a more difficult set of challenges. “The supply-side issues were easier to measure, and therefore predict and potentially fix over the long term,” Davis says.

To help their companies survive the drop in consumer spending, private equity firms may need to inject more capital into their businesses. Others are instructing their companies to draw down their credit lines, which could become difficult as the economic fallout deepens. “There’s some real key concerns about credit markets and valuing risks going forward,” said Robert Dye, senior vice president and chief economist at Comerica Bank, speaking during a webinar hosted by ACG in March.

In the event of a credit crunch, PE firms and their portfolio companies could lean on lending sources from outside the traditional banking system.

In a February report, the Financial Stability Board estimated that nonbank capital providers, including PE firms, held $50.9 trillion of assets. Meanwhile, the total of outstanding leveraged loans is around $2 trillion, with $1.3 trillion held by institutional investors, according to testimony at an SEC Committee hearing last September.

Once M&A activity picks back up, the economic crisis could prompt PE investors to adopt more conservative capital structures and place greater scrutiny on underwriting practices, according to the PitchBook report.

Davis has seen a growing number of private equity firms include earn-out clauses in their deals. A portion of the promised capital would be kept in reserve until conditions improve and the company can show that it’s growing again. Cascadia’s Butler has seen firms paying more attention to “material adverse changes” clauses in deals to address coronavirus risks.

If there’s a silver lining to the market disruption, it could be the end of historically high prices for companies, although the impact on valuations remains to be seen. And it’s still too soon to tell when dealmaking will resume, and when an economic recovery will begin.

Early into the economic crisis, some economists were forecasting a V-shaped recession, characterized by a rapid decline followed by an equally swift economic recovery.

But now that shelter-in-place mandates have kept shoppers at home and businesses closed into April, some are revising their forecasts.

One alternative trajectory, described by RSM US Chief Economist Joseph Brusuelas in an interview with CNBC on April 13, is that of a “Nike swoosh,” with a deep downturn and an elongated recovery. But as the situation evolves, that prediction could change, too.

“There’s more that we don’t know than we know,” Brusuelas said. “It’s forecasting on a very cloudy day.” //

VIDEO
Business leaders describe guiding their companies through a crisis. Watch their interviews at acg.org/growthtv

Bridging the Corporate Gap

ACG St. Louis provides strategic acquirers a place to connect

By Benjamin Glick

During a meeting late last year with a large telecommunications company, Brent Baxter was surprised by some of the questions coming from the multibillion-dollar acquirer.

Eighty percent of the company's acquisitions are below $150 million, putting them squarely within the middle market. Still, its corporate development team asked Baxter, a managing director at investment bank Nolan & Associates, foundational questions about representations and warranties insurance—coverage regularly used in M&A transactions.

"They're competing in acquisitions with private equity in the middle market and their knowledge of it is way behind," Baxter says. "And they're being advised by Goldman Sachs and Credit Suisse."

The conversation was the latest confirmation for Baxter of the need for more corporate development resources in the middle market, something he has advocated for more than a decade.

▲ Corporate leaders socialize at an ACG St. Louis Corporate Peer Group meeting

Creating Compelling Value

As a way to bring together members of the corporate community, ACG St. Louis formed its Corporate Peer Group more than 10 years ago, while Baxter was assisting the chapter as membership chair. He had noticed there were few programs devoted to corporate development, even though about a third of the chapter's 350-plus members are employed by large companies. "There was a desire for those individuals to create stronger local networks, but there were limited options for them," he says.

Now, the group convenes six times a year for two hours on a Tuesday morning. A typical meeting starts with an introduction of a member, who shares information about their company and describes a recent acquisition, challenge or strategy.

Members of the Corporate Peer Group range from chief financial officers and corporate counsels to treasurers, controllers, business development and chief strategy officers, and directors of M&A strategy.

The meeting might include an expert speaker, panel or Q&A session. Some sessions focus on a specific theme, like reps and warranties insurance or cybersecurity. Past speakers have included business owners and chief financial officers of multibillion-dollar companies. "We're always looking for ways to enhance the member experience," says Gregory Coonrod, vice president and corporate controller at Barry-Wehmiller Companies, a manufacturing technology and services provider, and a member of the Corporate Peer Group since the beginning.

At one early meeting, members of public relations firm FleishmanHillard discussed their first potential acquisition in a particular South American country and their concerns about risk. Immediately, a participant from industrial giant

Emerson volunteered to give the PR firm pointers and to set up a subsequent meeting. "That wouldn't have happened without the network," Baxter says.

Soon after, a large manufacturer and a health care provider agreed to work together on a project to address disruption in their respective industries, an idea that stemmed from a conversation at a Corporate Peer Group meeting.

The group formalizes the collaboration among ACG St. Louis members that's been happening since the chapter was founded in the late 1980s. "Many of the members of the Corporate Peer Group are close personal friends of mine," says Steven Rasche, executive vice president and chief financial officer at Spire, a public utility company. "We've all gone through good and bad deals together."

According to Rasche, over the years the group has helped him transition into new roles, source new opportunities, and solve problems when managing recently acquired companies. "The most valuable thing is the relationships we've built," he says. "That's what makes this group so cohesive and such a compelling value proposition when somebody's thinking about joining ACG."

Like many in the group, Rasche is equally devoted to offering help as he is to receiving it. On multiple occasions, he says he's used his prior experience working in the health care, manufacturing and energy industries to help program participants navigate the complexities of growing a business.

> "THE MOST VALUABLE THING IS THE RELATIONSHIPS WE'VE BUILT. THAT'S WHAT MAKES THIS GROUP SO COHESIVE AND SUCH A COMPELLING VALUE PROPOSITION WHEN SOMEBODY'S THINKING ABOUT JOINING ACG."
>
> STEVEN RASCHE
> Executive Vice President and CFO, Spire

Like Rasche, Coonrod is eager to share his experience from more than 110 transactions he's been involved in over his 25-year career. "Almost every time, somebody will say, 'Hey, have you ever done a deal that looked like this? And how did you handle these things?' That helps make the group more valuable to me, too, because I'm able to share more of what I know."

Trust is a major underpinning of the program, which it promotes through an interactive and confidential environment. Limiting the group to corporate development professionals also helps keep people engaged, members say.

"I love bankers and lawyers and accountants, but they don't really understand managing working capital," Coonrod says. "It's nice to have some other people to say, 'Hey, how are you dealing with X, Y, Z?' I think that's really the benefit of putting likeminded people in a room."

Building a Corporate Community

Having held leadership roles at ACG St. Louis, Baxter has gone on to join the ACG Global board of directors—he's currently vice chairman—and has helped launch corporate development programs on a national scale.

As part of those efforts, he looked at the breakdown of ACG's membership and found there are more than 1,000 corporate members across the organization.

Those members tend to be concentrated in certain markets, where local ACG chapters have higher-than-average corporate participation.

"We have a very large corporate constituency, but it is siloed in a handful of chapters who have launched successful corporate initiatives," Baxter says.

Today, about 30 ACG chapters have corporate programs or are working to develop them. Last fall, ACG Global launched its Strategic Acquirer Summit with help from Baxter, who served as co-chair alongside Lion Equity's head of business development, Aaron Polack.

ACG's community of lawyers, accountants, attorneys and other advisers can be a draw for corporate development professionals looking for transaction services, especially as those acquirers expand into smaller markets in search of targets.

But as ACG St. Louis has shown, there's also value in spending time with other corporate development leads. Although the Corporate Peer Group has grown since its launch a decade ago, would-be members must apply to join and wait to be accepted.

"That just ensures we're maintaining the balance of the group," Coonrod says. //

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Tech in the Time of Coronavirus

JOHN GABBERT
Founder and CEO,
PitchBook

Greetings from Seattle. PitchBook is a tech company headquartered in a tech city, and as proud as we Seattleites are of the innovation happening around us, the coronavirus outbreak has been humbling.

The appeal of living in a "smart city," where technology and infrastructure are intertwined, has taken on a brand-new meaning—the smartest things we can do right now are wash our hands and work from home.

After striking a city like Seattle, which has technology in its DNA, perhaps the coronavirus outbreak will light a fire for developing and scaling technology that can improve public health.

A few companies have been working on disease-tracking technology for years. One, a Toronto company called BlueDot, has been around since 2014 and traces its roots to the SARS epidemic of 2003. Its founder, Dr. Kamron Khan, settled in Toronto just as the city braced for 44 deaths and $2 billion in losses thanks to SARS. Ten years later, his idea to use artificial intelligence to track the spread of disease secured its first round of seed funding. BlueDot completed a Series A round last year and operates on less than $10 million of VC financing, according to PitchBook data.

Its social contribution is surely worth more than that. BlueDot's early warning system was in full swing in 2016 when the Zika virus ravaged Brazil. According to its website, the company predicted a Zika outbreak in Florida six months before it happened.

This time around, BlueDot was ahead of both the World Health Organization and the Centers for Disease Control and Prevention in tracking the coronavirus. Rather than relying on official announcements from the Chinese government, BlueDot's algorithm used news reports and airline data to predict its spread. Airline ticketing data offered clues to the coronavirus's next destinations: Bangkok, Tokyo, Seoul and Taipei.

Once an outbreak infiltrates a large urban area, what can the city do to mitigate it? One option is thermal imaging, which is already used in many large airports. In a case like coronavirus, thermal imaging cameras can detect elevated body temperatures before the infected person even knows they're at risk. That could save valuable time, both for the patient and the community.

The ideal smart city offers other options if all else fails. Robots can come in handy, as we've seen in Wuhan, the Chinese city where the coronavirus outbreak began. A company called JD Logistics is deploying robots to deliver essential items to residents. Others, like meal-delivery robot maker Pudu Technology, also sprang into action, helping to reduce the chances of cross infection. According to CNBC, a sterilization robot made by Youibot was created, "start to finish, in just 14 days."

It will be worth studying how Wuhan handled the outbreak to determine what should be incorporated into the smart city concept going forward. Although the iron-fist policies used in China would be hard to justify in North America, some of their technological solutions deserve a second look. //

PERSPECTIVES // Leadership Insights

"[Carmex is] first and foremost a brand, which we didn't really appreciate until a few years ago. You see the machinery and all the capital that goes into manufacturing, and you think that is the biggest part of the business. If the manufacturing goes away, the brand will continue. But if the brand goes away, you have an empty building. You really need to nurture the brand."

PAUL WOELBING,

President of Carma Laboratories Inc., speaking at ACG Wisconsin's February luncheon about running lip balm-maker Carmex, a third-generation family business.

"My lack of technology knowledge was actually probably one of my biggest gifts, now looking back, because I didn't really know what was or wasn't possible ... I thought, if I could use this app and replicate its functionalities over and over, why don't I create a system in which people can build their own app? [At the time], they were completely inaccessible to anyone who didn't have tens of thousands of dollars."

MAGALY CHOCANO,

CEO of web design firm Sweb Development, speaking at ACG Austin/San Antonio's February luncheon about the 2009 launch of Sweb Apps, the first platform for users to build their own iPhone applications.

"I like data. I like detail. But I don't like to just sit and read spreadsheets. I like to take our project reports into project review, and I like the team to tell me what the report says. Then you start to peel back the onion a bit, about if they really understand what the data is telling them: Is the project in good shape? Not-so-good shape? What are the pinch points? That really tells me about the quality of thinking on the team."

BARBARA RUSINKO,

President of Bechtel Nuclear, Security & Environmental Inc., speaking at ACG National Capital's "Portrait of Success" event in February.

"GOOD DESIGN, BREAKING TABOOS, TALKING ABOUT THINGS IN A DIFFERENT WAY AND PROVIDING SOLUTIONS FOR THE WORLD—I FOUND MY CALLING."

ANTONIA SAINT DUNBAR,

The founder and CEO of Antonia Saint NY, a maker of comfortable shoes for women, speaking at ACG New York's Women of Leadership conference in January about her path to entrepreneurship – including as co-founder of feminine hygiene company Thinx.

The Arrival of Seamless Parking

By Benjamin Glick

Finding a parking space is something drivers do every day without much thought. Dan Roarty was among those who didn't pay much attention to it, until the founders of Chicago-based tech company Arrive approached him in 2017 to talk about parking's role in the future of mobility.

"We talked about car-sharing, ride-share scooters and bikes, fractional ownership of cars, electric vehicles, autonomous vehicles and hyperloops," says Roarty, who is now Arrive's president and chief operating officer. "What became clear to me is that parking was a necessary ingredient to the success of all of those things."

With decades-old meters and ticket machines spread across thousands of operators throughout the U.S. and Canada, the parking industry was unable to integrate the latest mobility platforms, like mobile phone applications, let alone those in the future—but it was fertile ground for innovation.

In its early days, Arrive focused on its mobile apps, SpotHero and ParkWhiz, which help drivers reserve parking spaces in lots and garages. The company today has hundreds of properties that use its technology in dozens of cities across North America.

Arrive also boasts other innovations, including "beacon technology," which integrates the company's software with new vehicle models, allowing them to automatically pay for parking without coins, cash or cards.

In an effort to expand its offerings beyond apps, Arrive has built relationships with third-party companies, such as Ticketmaster and Amazon, to create what the company calls a "seamless" parking experience.

When a customer buys tickets through Ticketmaster, for example, the vendor offers the option to include the cost of parking in their purchase. Using information from Arrive, Ticketmaster also provides directions to the parking space. Similarly, if a user asks Amazon's Alexa for help finding a spot to park, the virtual assistant uses Arrive's technology to locate one.

Arrive has also established relationships with event venues like Madison Square Garden, airlines and car rental services.

This focus on building partnerships is what attracted NewSpring Capital to invest in Arrive in 2018, according to the firm's general partner Glenn Rieger, who was part of the $20 million deal.

"Other companies focus too much on marketing, and that's not where our interest was," he says, praising Arrive's focus on relationship-building. "We'll get to many more customers that way."

Even as other mobility technologies advance, Roarty sees a bright future for parking infrastructure, especially as urban populations grow.

He envisions parking areas becoming "multimodal hubs" that will seamlessly bundle mobility services from rentable scooters and bikes, locations where Uber and Lyft drivers can temporarily park their vehicles outside of peak hours, and charging stations for electric cars. When the time comes, these hubs can house autonomous vehicles while they await their next passenger.

"Even if there are less cars on the road, higher population density is certainly going to mean fewer parking spaces," Roarty says. "So, the hype for the available spaces will continue." //

Michael Robinet

Executive Director, Automotive Advisory Services, IHS Markit

As executive director in IHS Markit's global automotive advisory practice, Michael Robinet works with decision-makers at suppliers and OEMs in the fields of supplier strategy/profitability, global production forecasting and tracking future product programs. He analyzes sourcing and production strategies to serve OEM, supplier and government entities throughout the global auto ecosystem. He recently spoke with *MMG* about disruption in the automotive sector.

"IN THE AUTOMOTIVE SUPPLIER SPACE, THE APPROACH ISN'T SO MUCH TAKING A BUSINESS THAT'S UNDERVALUED AND GROWING IT OVER THE NEXT FIVE OR SIX YEARS ANYMORE. INVESTORS ARE HAVING TO BE A LITTLE MORE STRATEGIC NOW."

Q What are the major disrupters in the automotive industry today?

A The coronavirus outbreak has caused significant disruption to global supply chains, and its impact has been felt acutely in the automotive industry. But even before the outbreak, there were five to six major disrupters the industry was dealing with that weren't around even 15 years ago. Two key ones are electrification and autonomous technologies.

Electrification refers to any vehicle that is assisted by an electric motor, known as an e-motor, at some point in the journey—whether a "mild hybrid" that uses an e-motor to launch the vehicle, or a fully electrified automobile, which makes up only a small share of the electrified market.

Electrification generally requires a new set of components, such as more efficient e-motors and charging structures, in addition to traditional engines and transmissions in most cases. Original equipment manufacturers, known as OEMs, are also planning for how to shift resources internally to develop electrification technologies to gain better fuel economy and meet higher emissions standards going forward.

Autonomous technology is disrupting the industry in a different way. It has become a fixture in modern vehicles, through blind spot detection, automatic emergency braking and adaptive cruise control, to name a few. This has been disruptive for manufacturers because including these features adds cost, yet customers don't want to pay more.

There has also been disruption caused by tariffs—first the steel and aluminum duties and then the tariffs on Chinese goods. I recently spoke with a client that is having to bring work out of China and into North America. That's music to the ears of the White House, but it's going to raise costs. China has achieved scale and capability producing particular components, and it will be costlier to produce them in North America.

There are other disrupters, too, including a lack of talent, new companies entering the market, and the industry's globalization.

Q What's prompting OEMs to look for global suppliers?

A When the automotive industry was ascending in North America, OEMs were just looking for capacity. As a supplier, if you had a beating heart and you had the capability to produce a component with high quality, you were in. Cost was important, but the OEMs didn't care much if you didn't have capacity in Europe or China.

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

Fast forward to today, and the automotive industry has been globalizing for many years. Now, OEMs are looking for global suppliers. One reason is they're seeking scale. Another is that they want to deal with fewer suppliers. Say an OEM is building a car in three or four different parts of the world, and it's buying windshield wipers from three or four different suppliers. If there's a recall, it will have to recall four types of windshield wipers and deal with multiple suppliers when it would prefer to deal with just one.

Working with a single supplier can also provide greater leverage. It puts an OEM in the position to say, "You're supplying our windshield wiper system and you're doing a really nice job, but we have all this volume for you and we're looking for better price."

Q How has private equity interest in automotive suppliers changed?

A Looking back at the last decade, private equity funds became active in the automotive supply market between around 2011 and 2015. Investors saw volumes rising and multiples beginning to increase, but the industry was still recovering from the challenges it faced during the Great Recession.

Over the last few years, as suppliers became more profitable and their valuations grew, private equity pulled back and became more measured. With volumes starting to decline again, investors are beginning to revisit opportunities in the space.

Some funds are looking for consolidation opportunities among automotive suppliers, particularly smaller family-run companies that they can pull together to drive synergies.

Others are looking for critical technologies, or suppliers that will be key to electrification or autonomous driving. Private equity is also looking closely at data monetization and opportunities to capture or own data that will be valuable to OEMs and retailers.

The recent COVID-19 outbreak and subsequent impact on both supply and demand dynamics may open even more opportunities to engage in automotive through distressed suppliers. The combination of market shifts, increased competition, the GM labor stoppage late last year, and the impact of the COVID-19 crisis are certainly impacting supplier financials. This may be an ideal time to seek opportunities in the automotive supply base. //

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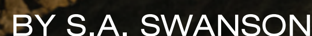
Driving through the Night

Family RV Group is steering its dealership business through industry changes – and now, a pandemic



When Chuck Jung was growing up in the 1970s, he hated being asked what his father did for work. Other kids would answer with “engineer” or “banker.” When Jung said his dad sold campers, they’d respond with “funny looks on their faces,” he recalls. “Like, ‘What is that?’”

Jung has since joined his family’s chain of RV dealerships, and he’s found that people are now eager to talk about his line of work. But public perception is just one of many changes the RV industry has experienced since Jung’s father started his business in 1968.

Prior to the start of the coronavirus outbreak earlier this year, the RV industry had made significant gains over the previous decade. The number of units shipped rose from 165,700 in 2009 to 406,100 in 2019, thanks in part to the growing ranks of millennial RV owners, who look to recreational vehicles as a way to have new experiences—from tailgating to a weekend road trip. “It’s about lifestyle,” says Bob Ginnan, Family RV Group’s president and chief financial officer. “It’s not just camping anymore.”

Over the last several years, the Jung family business has grown, too. Originally called Colerain RV, it rebranded as Family RV Group after investment firm Kidd & Company acquired it in 2016. Kidd & Co.’s investment has helped Family RV grow its geographic footprint to 12 locations through acquisitions, while making operational improvements and finding new ways to serve customers. In the years since Kidd & Co. invested, the company’s revenue and head count have more than doubled.

FAMILY RV GROUP

Year Founded: 1968, as Colerain RV

Headquarters: Cincinnati, Ohio

Number of Locations: 12

Brands: Candy's Family RV, Colerain Family RV, Dunlap Family RV and Northside Family RV

Investor: Kidd & Company

But over the past several months, the coronavirus pandemic has emerged as a new threat. The public health and economic crises have put pressure on many industries, including RV dealerships, creating a challenge that Family RV is tackling head on.

MOTORHOMES FOR MILLENNIALS

In the years before Kidd & Co.'s investment, Colerain RV consisted of three dealerships in Ohio and one in Indiana. Jung, his brother and a business partner managed all four locations.

At the time, Jung was watching an industry-wide trend toward consolidation, visible among original equipment manufacturers and parts suppliers, as well as RV dealerships. When his father opened Colerain's first location, in Cincinnati, he had more than a dozen local competitors. Today, Family RV Group is the only one left.

It was against this backdrop that, in 2014, Jung had an opportunity to purchase a fifth dealership. But he knew that he and his partners weren't equipped to manage five locations, prompting them to seek an outside partner—Kidd & Co. "They had the knowledge

◄ Above: Colerain Avenue Carriage House, where Colerain Family RV set up shop in 1968
Below: The Jung clan, whose family values continue to characterize Family RV Group today

for creating a platform that manages multiple locations, where you're not driving yourself nuts," Jung says.

Although recreational vehicles weren't top of mind for Kidd & Co. when it learned of Colerain through one of its portfolio company owners who knew Jung, the firm decided to take a look.

"It wasn't as if we sat at a whiteboard and came up with the investment thesis that RVs were going to be a trend going forward. But we're always interested in learning about new businesses," says Ken Heuer, principal at Kidd & Co., a family office that makes direct private equity investments in lower middle-market companies.

One development boosting the industry is an influx of younger buyers. Those between 35 and 44 years old accounted for 20% of RV owners in 2018, up from 18% in 2015, based on data collected from RV registrations. Those aged 25 to 34 made up 8% of the market, up from 5%.

Prior to the coronavirus outbreak, the RV Industry Association projected that the number of RV owners aged 30 to 45 would reach 72 million by 2025, 13% higher than in 2015. Meanwhile, the ranks of baby boomers are

"THEY HAD THE KNOWLEDGE FOR CREATING A PLATFORM THAT MANAGES MULTIPLE LOCATIONS, WHERE YOU'RE NOT DRIVING YOURSELF NUTS."

CHUCK JUNG
Executive Vice President, Family RV Group

expected to grow, too. The number of RV customers aged 55 to 74 could reach 79 million by 2025, a 15% increase from 2015.

Those dual trends spell opportunity for RV dealerships. "While at the same time that you've got people generally living longer, by the same token, you've got people getting into the lifestyle earlier," Heuer says.

▲ A dealership lot in Lexington, Kentucky, operated by Northside Family RV, one of Family RV Group's four brands

KIDD IN AN RV STORE

When Kidd & Co. was considering investing in the business, Heuer appreciated that Jung and his partners had a demonstrated track record of acquiring and integrating three dealerships. It showed they were knowledgeable and ready to scale. Before the deal closed, Kidd & Co.

»

> “IT’S ABOUT LIFESTYLE. IT’S NOT JUST CAMPING ANYMORE.”
>
> BOB GINNAN,
> President and CFO, Family RV Group

▲ Above: For the growing ranks of millennial customers, RVs are a way to have new experiences

installed the company’s first chief financial officer, paving the way for even more M&A.

According to Ginnan, who joined as the company’s second CFO in January 2018, Family RV starts by looking for dealers with brands that it already carries, or would like to. From there, it evaluates the management structure, what the dealership is doing well and where Family RV might be able to help.

The dealership’s attitude toward customer service and satisfaction is another important consideration—Family RV wants to make sure it meets the high standards it sets for itself. “We’re looking for loyal customer bases, which goes to the culture and values of the dealership and its reputation,” Ginnan says.

The company’s acquisitions have given it a broad geographic footprint. Today, its 12 locations loosely follow the I-75 corridor: three in Ohio, two in Indiana, three in Kentucky, three in Tennessee and one in northern Georgia.

“We’ve actually had people that have moved their families to another city, and guess what? We happen to have another location there, so they stay working with us,” Jung says. “Our competitors, most of them can’t do that.”

Family RV’s stores tend to be within four hours from another location, making them easier to manage. The company has looked at opportunities in California, Washington, Colorado and Arizona, but Heuer says they’re not interested in a single, far-flung location. If they were to enter a new market, they’d likely create a similar cluster of stores, located in a growing metropolitan area.

Heuer sees no shortage of opportunities for dealership acquisitions. “They command low multiples to begin with, but there’s so much

“WHILE AT THE SAME TIME THAT YOU’VE GOT PEOPLE GENERALLY LIVING LONGER, BY THE SAME TOKEN, YOU’VE GOT PEOPLE GETTING INTO THE LIFESTYLE EARLIER.”

KEN HEUER,
Principal, Kidd & Company

opportunity to improve their revenue and profitability by managing them much more professionally,” he says.

According to the National RV Dealers Association, about 75% of its 1,200 retail members have fewer than four locations. Although dealer consolidation hasn’t reached the level of the broader automotive industry, it’s beginning to move in that direction. “There are still a lot of independent operators looking for an exit strategy,” says Phil Ingrassia, RVDA’s president, adding that he regularly receives calls from investors with questions about the industry.

At the time of Kidd & Co.’s investment in 2016, Colerain was one of the first RV dealerships to partner with private equity. Since then, other firms have entered the industry. In one notable example, Redwood Capital Investments partnered with a group of executives in 2018 to form RV Retailer LLC, which now has more than 1,200 employees across seven states and more than $1 billion in annual revenue. In February 2020, it announced plans to acquire its 30th location. Another privately held company, Campers Inn RV, also has used M&A to expand in recent years, growing from 10 locations in 2015 to 27 at the end of 2019.

Over the last five years, two private equity-backed dealerships have gone public: Camping World Holdings, formerly owned by Crestview Partners, and Lazydays Holdings Inc., which Wayzata Investment Partners LLC acquired in 2009 before selling to Andina Acquisition Corp. II in 2018.

“All of this M&A activity speaks to the interest from public market and private investors to get into a growing industry with attractive investment and consolidation opportunities,” Heuer says. “Despite the recent COVID-19-related market disruption, I believe the long-term attractive characteristics that drew us, as well as many others, to this industry remain present.”

HOME ON THE ROAD

Through its own M&A activity, Family RV Group has assembled a collection of dealerships that operate under four brand names: Candy’s Family RV, Colerain Family RV, Dunlap Family RV and Northside Family RV. At each site, the company aims to provide an experience that shoppers, particularly millennials, have come to expect. Customers can now text the sales or service department to ask questions. “We are continually evaluating the use of technology across

“THESE ARE HOUSES THAT GO DOWN THE ROAD AND BOUNCE AROUND, AND THINGS HAPPEN. YOU WANT TO MAKE SURE YOU KEEP YOUR CUSTOMERS OUT THERE DOING WHAT THEY WANT TO DO.”

BOB GINNAN,
President and CFO, Family RV Group

our dealership operations, looking for ways to become more efficient,” Jung says. That includes connecting salespeople’s cell phones to inventory and experimenting with iPads for service department workers.

Case studies show that over a lifetime, an RV owner might purchase anywhere from six to 10 recreational vehicles. They upgrade to new models or look for different features to fit their lifestyle at the moment—whether they’re a single adult, married with kids or empty-nesters.

Price points and features vary by type of vehicle. Towable RVs, which hook up to the back of a car or truck, retail for between $10,000 to $100,000 or more and represent about 85% of Family RV’s vehicle sales. The company’s motorized RVs range from $60,000 to $400,000.

More expensive models include high-tech amenities like sound systems integrated with Amazon’s Alexa, and televisions that can tuck behind cabinets to save space when not in use. A customized RV could cost upwards of $1 million, but Family RV doesn’t carry products that expensive, according to Ginnan.

In an industry where products undergo significant wear and tear after they leave the lot, providing support after a sale is critical. “These are houses that go down the road and bounce around, and things happen,” Ginnan says. “You want to make sure you keep your customers out there doing what they want to do.”

That’s a challenge for RV dealers, because their product has all of the mechanical elements of a car, along with features like cabinets and refrigerators—and in some cases, fireplaces and flat-screen TVs—that tend to break down over time.

To get ahead of potential problems, Family RV trains its staff to ask questions about how customers use their vehicles. “Our philosophy is to be experts in the industry for the RV enthusiast,

which simply means we need to be knowledgeable at all points of contact with our consumers," Jung says.

For example, if someone comes in for warranty work on a towable RV, the service representative might learn that it's used in the Smokey Mountains, away from camp sites or level surfaces. In that case, the RV's default set of stairs will cause the towable to move when someone enters or exits. The Family RV rep can suggest stairs whose height can be adjusted to the ground, so the towable doesn't shift. That can help ensure customer safety, Jung says.

RIDING OUT THE STORM

From the start, Kidd & Co. was impressed by Family RV Group's ability to thrive during the last recession. According to Heuer, Jung and his partners were conservative in capitalizing their business. Even as other companies were struggling to survive, the Colerain team was buying low-priced inventory from other manufacturers that were going out of business. "By 2010, they were very well-positioned and were making even better margins than they had going in because of how they had weathered that storm," Heuer says.

The company's diverse inventory helped, too. There are a wide range of RVs that span homes on wheels to trailers towed behind a car or truck. About 80% of the units sold across the industry fall into the latter category. During a recession, large motorized RVs present a liability for a dealership, due to their cost. "Nobody was buying those big units when you didn't know if you had a job the next day, or whether you could get credit," Heuer says. With a mix of RV styles, the company was able to shield itself as consumer preferences changed.

That experience will help Family RV face the enormous economic repercussions of the COVID-19 outbreak. As of mid-April, the number of cases of the disease continues to climb in the U.S. and residents are being encouraged to stay home.

"When there is uncertainty in the economy and general panic like we are seeing now, the very near-term impact to our business is that

consumers may be worried about bigger issues than buying an RV, like their health and the stock market," Heuer says.

At the same time, there are factors that may favor the RV industry: low interest rates, "social distancing" and a sharp uptick in remote work.

Heuer notes that Family RV has a daily management meeting to stay on top of the latest developments and will continue to adapt its selling and service practices to protect the safety of its employees and customers.

At press time, the service departments at each of Family RV's dealerships remain open, while their showrooms are either open to consumers or accessible by appointment, depending on the site. Several customers in the medical field have recently purchased units to self-quarantine from their family, even if just to park in the driveway.

Having weathered a downturn before, Heuer is optimistic about Family RV's future. "Since the longer-term trends are still very favorable, any near-term impact will hopefully be short-lived and will likely just push pent-up demand a little more into the future," he says. //

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

Business Development Grows Up

Middle-market private equity firms formalize a critical role

BY BAILEY McCANN

Origination has always been a foundational part of private equity—general partners need deals if they want to continue to exist. Indeed, nearly every private equity shop has a pitch deck detailing its "unique" approach to finding deal flow.

Business development veterans like Ted Kramer at HKW, Chris Cathcart at The Halifax Group and Bob Landis at The Riverside Company have shown that proprietary origination can be a career-defining track. Until recently, they were outliers, but that's starting to change.

While much deal origination is still shoe leather and personal relationships, business development is growing up and the profile of the business development professional is changing. Middle-market firms are hiring business development teams, implementing new technology, and closely tracking sponsor portfolios, intermediaries and relationships.

"This was not a job 10 years ago," says Brendan Burke, managing director at Capstone Headwaters, a private equity financing and advisory firm. He attributes the changes happening in business development to limited partners, who want to understand where deals are coming from as they compare funds. The amount of activity within the middle market has forced investors to utilize data more than ever before. As a result, LPs have come to expect a formalized approach to origination. »

"THERE'S NO PLAYBOOK... THEY HAVE TO UNDERSTAND HOW TO BUILD THE RELATIONSHIPS, SIZE MARKETS AND INTERPRET A WIDE RANGE OF DATA POINTS."

WILLIAM MATTHEWS
Partner, BraddockMatthews

"It used to be the case that if someone said 'What's your origination strategy,' that strategy was to sit on Park Avenue and wait for the phone to ring. A firm would look at 100 deals, bid on 10 and get five," Burke says. "Now, these guys are looking at 2,000 deals, bidding on 100, and they might get one. You've got to have a much stronger approach to coverage in that scenario."

Much of business development's evolution in the middle market comes down to scale. For many years, midmarket deal-makers and investment targets operated in a handful of bustling industries in existing financial markets, along with a few growing tier-two cities. As M&A activity has increased in midsize cities like Nashville or Jacksonville, Florida, middle-market private equity finds itself with a vastly larger opportunity set and the need for boots on the ground.

Technology helps—firms can use an array of customer relationship management tools that track meetings, portfolios and results, but they're not enough. Building in-person relationships is still critical, especially if GPs want to see deals early or be considered when intermediaries and founders look for bidders and partners. It's not just deals involving privately held companies, either. The growing number of sponsor-to-sponsor transactions means that GPs also have to keep tabs on portfolio companies that are already backed by private equity, in case there's an opportunity to pick them up when it's time to sell.

If the leader of the investment team is responsible for taking all of the introductory meetings, writing the deals, entering data and following up—on top of talking to investors—that person will hit their limits pretty quickly.

Against this backdrop, private equity firms have realized that building out a team of dedicated business development professionals not only helps expand coverage; it can also show investors that the firm has institutionalized its operations. That helps when it's time to talk to LPs about the next fund or approach them about co-investments.

'THERE'S NO PLAYBOOK'

While GPs agree on the value of business development, building a team is not always straightforward. "There's no playbook," says William Matthews, a partner at executive search firm BraddockMatthews, which focuses on the asset management industry. "You can't pull someone out of school and train for this role. They have to understand how to build the relationships, size markets and interpret a wide range of data points."

Those who end up in the role often come from investment banking or investor relations; others have held sales roles at advisory firms or deal-data providers. Senior-level business development professionals may have had experience on investment committees before deciding to shift into an origination role.

Most have an existing network of relationships, which is an important starting point. But in order to be successful, business development professionals must be good stewards of a GP's brand, and they need to be able to draw insights from investment data that help founders, intermediaries and investors understand the opportunity while feeling like they've spoken to someone who can deliver.

According to Gus Phelps, a principal at Summit Partners in Boston, successful business development people can demonstrate credibility within their firm based on their track record. That adds a layer of trust to external relationships, whether with investors, bankers, founders or service providers.

Still, business development teams are confronted with the issue of scale, prompting many to use in-person events hosted by the Association for Corporate Growth or other groups as a way to streamline their efforts and learn from their peers.

For example, Phelps leads a business development group called G7, which hosts multi-day meetings throughout the year to bring together GPs, bankers, lawyers and founders. Afterward, firms can determine where and with whom they follow up, but it's more efficient than trying to pull together all the threads individually. "We're always trying to stay a little ahead of the curve. That's the value," says Phelps, who also serves on the board of ACG's Boston chapter.

Heather Madland, a principal in business development at Huron Capital and a member of ACG Detroit's board, also sees the value of dedicated business development organizations. She co-founded a group called Amplify that works similarly to G7.

"It's not just about the opportunities," Madland says. "We're also sharing best practices. I asked our members five questions last year about what they were doing and insights from those answers ended up in my annual marketing plan for 2020." By exchanging ideas, firms can learn about data they might not be tracking and how it can be helpful. Or they might discover new operational efficiencies that help improve their processes.

> "IF YOU'RE INTERESTED IN SOMEONE'S PORTFOLIO COMPANY AND YOU START BUILDING A RELATIONSHIP WITH THE SENIOR PARTNER ON THAT COMPANY, PEOPLE ARE MORE LIKELY TO THINK OF YOU AT EXIT."
>
> HEATHER MADLAND
> Principal, Business Development, Huron Capital

Sharing skills and leads might seem counterintuitive, but these groups are rarely competitive. The trend toward industry specialization in the middle market means they likely aren't going head to head on the same deals.

A firm might only invest in health care companies, but finding its next investment still requires speaking to a wide range of investment bankers, lawyers and other intermediaries. That process is the same for a generalist GP, or one that only looks at tech companies. If you're a health care investor, neither present a competitive threat. Plus, as more private equity-backed businesses sell to other funds, it's »

valuable to understand what GPs are looking to sell.

"If you stay on top of portfolios, it's a way of showing conviction," Madland says. "If you're interested in someone's portfolio company and you start building a relationship with the senior partner on that company, people are more likely to think of you at exit."

VARIED EXPERIENCE

Business development professionals can come from a variety of prior roles and they bring that experience into their work. Private equity firms have started to recognize the value of that expertise along with the benefits of increased coverage. Business development professionals now interact with LP investors, walking them through the origination process. They may also work directly with the debt and capital markets side to line up financing, in addition to their origination responsibilities. It all comes back to scale and efficiency.

"If you're going to Denver for two days for a business development meeting, it only makes sense that you'd try to meet with a few LPs while you're out there," Madland says. She adds that relationships from past roles can be helpful,

> "WE'RE ALWAYS TRYING TO STAY A LITTLE AHEAD OF THE CURVE. THAT'S THE VALUE."
>
> GUS PHELPS
> Principal, Summit Partners

even if they don't directly relate to deal origination. If someone joined a firm with experience in the credit markets, for example, their connections can be useful when the investment team is thinking through financing.

The varied experience of business development professionals can also help create a more formalized career track for individuals in these roles. Summit's Phelps notes that within the business development team, younger professionals might spend more time on data management or meeting with new intermediaries while senior professionals on the team focus on maintaining relationships that are foundational to the firm's deal flow. Over time, senior professionals can bring new hires into those relationships while they continue to build their own networks.

Looking ahead, most private equity firms expect the business development role will continue to expand and become more deeply integrated in the operational structure of firms, yet the path for advancement remains unclear.

"We've already seen an evolution in the role that you weren't seeing even five years ago," Matthews says. "The $64 million-dollar question is where it goes. We ask our clients all the time if this is a partner track and the answers vary. But if you're providing value across multiple layers of the organization, that's significant."

Capstone's Burke agrees. "Senior people are eventually going to want to be recognized," he says. "It's a big risk for organizations to turn over a business development position because it takes out relationships. It's time-consuming to hire for. If you're not recognizing that person and they leave, it's going to hurt." //

Bailey McCann is a writer and author based in New York.

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For Manufacturers, U.S. Trade Policy Yields Mixed Results

The pros and cons of USMCA and tariffs

By Benjamin Glick

The Trump administration has distinguished itself from its predecessors by reshaping the nation's trade policy in ways that have proved to be both a boon and burden for American manufacturers.

In response to the updated trade pact between the U.S. and its neighbors and tariffs on Chinese imports, middle-market companies are adapting to a new trade regime and adjusting their operations accordingly.

One of the president's earliest trade objectives was to overhaul the North American Free Trade Agreement, a promise he made on the campaign trail. In October 2018, negotiators revealed the text of the revised pact, known as the United States-Mexico-Canada Agreement, or USMCA.

The document's automotive provisions are some of its most significant features and reflect how the industry has changed over the last 25 years.

Since NAFTA was established in 1994, there are now more automotive components produced using a wider variety of manufacturing techniques, and they rely more heavily on global supply chains, according to Harry Broadman, who participated in NAFTA negotiations as U.S. assistant trade representative during the Bush and Clinton administrations and is now managing director and chair of the Emerging Markets Practice at Berkeley Research Group LLC.

In order to qualify for preferential tariff treatment under NAFTA and USMCA, products must meet certain thresholds for materials that originate in the U.S., Canada or Mexico. Under NAFTA, 62.5% of an automobile had to come from within the trading bloc. Under USMCA, that threshold is 75%.

The USMCA also requires that at least 70% of the steel and aluminum used in a vehicle must come from North America. NAFTA didn't include provisions governing these materials.

The new agreement also includes new labor provisions for automakers and suppliers. At least 40% of a vehicle's parts must be produced by workers who make a minimum of $16 per hour, which is meant to incentivize American companies to relocate operations back into the U.S. from Mexico.

Broadman says that although the intention behind the Trump administration's revised trade agreement is to make the U.S. more competitive within the trading bloc, it could have the opposite effect in other geographies.

"The USMCA is going to serve to raise the costs of North American automobile manufacturers," Broadman says, adding that the elevated wage requirements in the agreement are designed to reduce Mexican firms' competitive edge over American producers. But he argues the higher wages will erode North America's ability to compete globally. "That's the fly in the ointment," he adds.

With the USMCA completed, U.S. Trade Representative Robert Lighthizer has said the administration will seek to update trade agreements with the European Union and the

United Kingdom, using the North American trade pact as a template. "[Lighthizer] sees the USMCA as a model to shop around the world," Broadman says.

Whether or not the USMCA is applied to other trade agreements negotiated by the U.S. will depend on its success in making the American automotive industry more competitive.

On March 13, Canada became the third and final country to ratify the USMCA. The agreement is expected to go into effect early this summer.

Tariffs Prompt Shift from China

While the sun rises on one trade issue, it sets on another.

The U.S. and China have taken the first steps to end an escalating trade war that's caused considerable disruption for more than two years, while middle-market companies assess the damage and look ahead to new risks.

On Jan. 15, the U.S. and China signed a "phase one" trade deal that is expected to tee up future talks on intellectual property, technology transfer, financial services, currency policy and dispute resolution.

As part of the agreement, China pledged to increase its purchases of U.S. goods. In return, the U.S. has rolled backed some of its tariffs. The pause in brinksmanship has injected confidence for middle-market companies in the U.S., says Peter Cogan, a managing partner at accounting firm EisnerAmper.

"The re-opening of trade between China and the U.S. with fair terms to both sides should strengthen the U.S. economy and spur growth in U.S. production of goods," he says.

The timing and contents of the next phase of the agreement are yet to be decided, and disruption caused by the coronavirus outbreak has dampened prospects for cross-border trade volume this year.

The trade war with China has been costly for U.S. manufacturers. Since February 2018—around the time that the Trump administration announced the first round of tariffs—American companies have spent approximately $46 billion on duties on imports from China, according to analysis by Tariffs Hurt the Heartland, a coalition that represents business and agriculture groups.

Pivot International, a product designer and manufacturer based in Lenexa, Kansas, has watched the trade war unfold. "We were in the middle of this and have been since it started," says President and CEO Mark Dohnalek.

Pivot had to triple the size of its global supply chain staff when the trade restrictions went into effect. "It took a lot more resources to pull off the same amount of work," Dohnalek says. "So we paid for it in some ways."

The company, whose products span a wide range of industries, was able to minimize its exposure to the trade war because of its diverse holdings across Asia.

Since 1987, Pivot has had a presence in the Philippines, where it concentrates its manufacturing in Asia, and it maintains a design office in Taiwan. By operating outside of China, Pivot was able to avoid direct exposure to the increased import duties in the U.S.

The company sources components throughout Asia, so when the trade dispute began, Pivot sought a few new vendors to mitigate risk. "We've been able to function very much like a large multinational corporation in a way," Dohnalek says.

Many midsize businesses with a presence in Asia stick with one country—often China. Since the beginning of trade tensions, that thesis is being challenged.

"This reminds everybody why they can't do single-sourcing for their supply chain in Asia," Dohnalek says. "You have to have a backup supplier and multiple manufacturers. I think this will truly put that in place philosophically."

Coupled with disruption from the COVID-19 outbreak, which began in the Chinese city of Wuhan, it's becoming increasingly difficult for U.S. companies to justify concentrating their supply base in China. That could drive a wedge in the country's dominance as a global manufacturing hub.

In March, the National Association of Manufacturers released survey results showing that more than half of respondents expect to alter their supply chains as a result of the coronavirus outbreak.

Manufacturers with government contracts may have yet another reason to broaden their supply network, as the U.S. government explores ways to restrict Chinese goods entering the country. White House trade adviser Peter Navarro said in March that the Trump administration was considering "buy American" laws that would require federal agencies to purchase American-made products in certain industries.

"China will always be a vital part of the global supply chain," Dohnalek says. "But it's going to be blended going forward. I don't think you're ever going to put that genie back in the bottle." //

From left, BKD's Christopher Dalton, Anthony Giordano and John Kmetz

Photos by Earl Richardson

Making Data Meaningful

BKD tools help companies improve their operations

It's a familiar refrain in business today: Data is a competitive weapon. That holds true not just for large corporations but also for mid-market businesses, if they have the right tools and expertise.

BKD LLP may be nearly a century old—it was founded in 1923—but it's on the cutting edge of technology. Historically, the firm specialized in advising closely held companies, often family-owned. Today, with many of these companies being sold to private equity, the firm has developed expertise in using data to enable clients to make better business decisions.

"Through a combination of industry expertise and technology acumen, BKD offers our clients ways to find and leverage data to improve the operation of their companies and the performance of their investments," says Christopher Dalton, partner and national practice leader of transaction services at BKD.

It does so primarily through a consulting service called BKD Optics and a technology solution called Financial Performance Insights.

DEVELOPING DATA EXPERTISE

BKD's data expertise grew out of its transaction services team, which conducts buy- and sell-side due diligence for private equity firms and other corporate clients. Through that work, the team knew that small and medium-sized businesses often lack reporting on key metrics that private equity owners use to judge the sustainability of earnings and to identify opportunities for improvement.

"A lot of the information is there, it's just not easy to access," Dalton says. "The trick is to get the information out of the system, then aggregate it in a way that's meaningful to private equity firms so they can make better investment decisions."

Over several years, BKD's transaction services team developed expertise in aggregating that information, eventually calling its consulting service BKD Optics. Meanwhile, the firm recognized new ways to leverage this valuable data beyond transactions.

"Our transaction services group would put together this fantastic data book that showed the value drivers of a company. But then after the deal, that information would get put aside because updating it was time-consuming and expensive," says John Kmetz, national leader for BKD's private equity practice. BKD wanted to use those insights to help private equity clients run companies over the complete life of their ownership. "After all, these same things will be what a new buyer focuses on in five years," Kmetz adds.

NEW WAYS TO USE DATA

To provide valuable insights for its private equity clients, BKD developed a solution called Financial Performance Insights, also known as FPI.

FPI extracts data from various disparate systems and aggregates it into one place in a common format (a data warehouse), enabling the user to slice and dice it in different ways. FPI is a combination of a licensed corporate performance management solution, a data warehouse, data visualization tools from Microsoft and BKD's industry experience. (See sidebar on p. 41.)

The tool creates several advantages for private equity, including streamlining and speeding up the onboarding process for tuck-in acquisitions. Deals happen fast, but acquisition targets often

▲
BKD's profession-als help clients find and leverage data. Above are Christopher Dalton (left) and John Kmetz

> "THE TRICK IS TO GET THE INFORMATION OUT OF THE SYSTEM, THEN AGGREGATE IT IN A WAY THAT'S MEANINGFUL TO PRIVATE EQUITY FIRMS SO THEY CAN MAKE BETTER INVESTMENT DECISIONS."
>
> CHRISTOPHER DALTON
> Partner, BKD LLP

use different finance management systems. One company might use QuickBooks, for example, while another is on SAP. A lack of visibility and consistency of data across these businesses creates problems when trying to analyze synergies. But getting all the acquisitions in the portfolio company onto a single system can be expensive and time-consuming.

"Today, the private equity firm may have an analyst grinding away with spreadsheets. It's very manual and inefficient, and it doesn't leverage the power of cloud computing and the data analytics tools that are available," Kmetz says.

FPI also enables a firm to find and compare very granular data. The tool includes templates—developed through BKD's expertise—for reporting on very specific types of businesses. It goes beyond categories like "manufacturing" or "technology" and allows clients to dig deep into their niche drivers. It saves clients time and money because they don't have to build their own unique dashboards and reports.

For instance, a specialty chemical manufacturer and a recreational vehicle manufacturer would use different metrics to track production and inventory turns. The chemical-maker keeps tabs on batches, formulas and process time, whereas the RV company tracks activity along an assembly line.

"Both are concerned with inventory turns and with cash flow, but with FPI, you can drill down to the micro level in your vertical," Kmetz says.

Another example where FPI's templates prove valuable is in the software industry, where there can be major differences in revenue streams. Traditional software vendors make money from clients that purchase long-term licenses, whereas clients of software-as-a-service companies usually pay on a month-to-month basis. The metrics that drive these two flavors of software companies are so different that a solution for general software companies wouldn't be very useful.

PUTTING BKD EXPERTISE INTO PLAY

BKD clients use FPI in a variety of ways. Some PE clients buy one FPI license to manage their groups of companies. It's less expensive to use FPI to roll up all the financials into one reporting package than to replace all the legacy systems with an enterprise-level solution.

"PE groups don't necessarily have to implement planned integration immediately in order to be able to digest the business right away," says Anthony M. Giordano, president of BKD Capital Advisors. "The FPI dashboard enables them to look at the data from every angle. They can really get behind the numbers."

But if a private equity group plans to sell some

of the companies quickly, buying individual FPI licenses for each portfolio company is a way to maintain separate, standardized, high-quality financial reporting until the sale. They could even include the FPI subscription in the deal so the new owners start with the same quality of data. In that way, FPI removes a common roadblock to quick integration—it makes data available and consistent.

FPI can also accelerate transactions and helps the parties avoid "deal fatigue" from all the back and forth that happens when a buyer requests particular information in specific ways, says Giordano. The seller gets frustrated and the buyer grows impatient, resulting in the deal losing momentum and potentially falling apart.

"In this business, time can kill transactions," Giordano warns. FPI helps answer these questions quickly with standard tool sets. "Managing an efficient and timely diligence process is very valuable from the investment banking perspective," he adds.

GOOD DATA IS GOOD FOR ALL

Private equity firms, portfolio companies and privately held companies can all benefit from BKD Optics and FPI. Optics helps a company see a snapshot at a specific point in time, enabling it to analyze historical data in ways it may not have considered. Either as an extension of Optics or alone, FPI is a real-time tool that continually takes in and analyzes new data with reporting tools, helping a company see how it's doing and stay on track to meet goals.

Whether a private equity firm, a portfolio company or a privately held business, BKD offers expert advice and tools that enable organizations to find and take advantage of valuable data in ways that further their business interests. //

FINANCIAL PERFORMANCE INSIGHTS AND COVID-19

The COVID-19 pandemic has disrupted many lives and businesses, and it has highlighted more than ever the need for real-time data analysis on a mobile viewing platform.

Financial Performance Insights is a subscription service that combines BKD's deep industry expertise with market-leading corporate performance management, data warehousing and data visualization technology to provide a turnkey dashboard and reporting solution to midmarket businesses. FPI enables firms to:

- Rapidly consolidate reporting from disparate sources and financial systems
- Visualize value drivers, including key financial and operational data, in real time
- View dashboards through a personalized web portal, including via mobile devices
- Present pro forma results for add-ons – as if the transactions occurred prior to the closing date
- Present normalized "adjusted" operating results by applying EBITDA adjustments to reported balances, removing the noise from the numbers

GROWTH ECONOMY

MINNESOTA // 1998–2018

The number of jobs created by private equity-backed businesses in Minnesota grew at more than twice the rate of the broader business community over the past two decades. Meanwhile, sales at PE-backed companies grew more than 14 percentage points above other businesses in the state. Over the course of the last decade, information technology was an active area for M&A, accounting for 27.7% of private equity capital invested in Minnesota, although IT made up only 15.5% of deal volume.

SALES

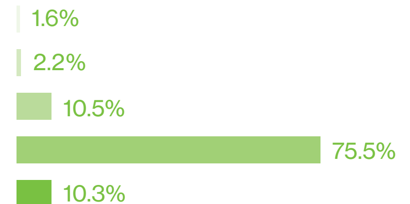
40%
SALES GROWTH IN PE-BACKED BUSINESSES

25.3%
SALES GROWTH IN ALL BUSINESSES

JOBS

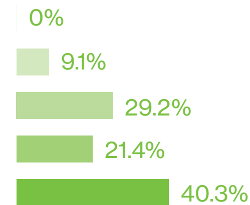
GROWTH IN PE-BACKED BUSINESSES	GROWTH IN ALL BUSINESSES	JOBS CREATED BY PE-BACKED BUSINESSES
56.3%	**23%**	**25,050**

SALES GROWTH % BY SEGMENT



JOB GROWTH % BY SEGMENT

0%



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

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

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

Improved Forecasting for Auto Service Retailers

SOUND DECISIONS // Driving a deal forward requires thoughtful data analytics

Kate Leverone
Managing Director, Dixon Hughes Goodman LLP

Forecasting revenue and EBITDA growth linked to acquisitions or greenfield expansion is both an art and a science, and it can quickly become one of the most scrutinized areas during financial due diligence. In order to make pro forma earnings adjustments meaningful and identify additional sources of value, there needs to be a sophisticated approach that's deeply grounded in thoughtful data analytics.

Financial due diligence requires the right balance between looking through the rearview mirror and the windshield. Pro forma adjustments are particularly relevant for multi-unit retailers in the auto service industry that have either experienced growth via geographic expansion, or that are considering expansion based on the investment thesis. Robust data analytics can help accurately depict the "certainty of the future" and better inform the due diligence process and findings for both buyers and sellers of multi-unit retail businesses.

Pro forma adjustments have historically been calculated based on past performance of the acquired locations or on general assumptions that greenfield stores may have operations comparable to their mature-store brethren. However, both methods rely on a limited set of historical data points.

Microsoft Excel has been used as the primary tool for analyzing the data. While a good analytical framework can be built in Excel, there are other advanced products available. Alteryx, TIBCO Spotfire and R are among the tools with enhanced data extraction, transformation and analysis components that significantly reduce the time needed to analyze large and varied amounts of data and to enhance the pro forma adjustment process.

Combining internal company information with external data can help mitigate risk and identify value levers. Examples of internal company data include location and site-specific attributes, historical financial performance and key performance indicators such as volume, price, product and margin trends. External data consists of demographic, geographic and competitor locations that can be found in census data or other sources in the public domain, or through third-party data providers. A modeling approach such as regression analysis can then be used to closely predict the revenue-to-EBITDA ratio for various locations upon maturity.

Every modeling approach has limitations. In the case of regression analysis, inadequate data or limited operational insight may be insufficient to support a robust analysis on existing or mature sites, or provide misleading conclusions. Exercise caution and consult with subject matter experts to understand and model the data.

Investing in data analytics efforts can better position sellers to maximize the transaction value by identifying defensible adjustments that can stand up to enhanced scrutiny during due diligence. Meanwhile, buyers can benefit from being more prepared to proceed, renegotiate, restructure or withdraw from a potential transaction or high-multiple purchase price.

There is additional value for acquirers that are armed with data analytics after the deal closes and during the integration and value-creation phases. This approach can be used to identify underperforming locations to inform turnaround procedures or to identify markets for future expansion. In today's competitive marketplace, the buyers and sellers who successfully drive a deal forward are those who understand the value of advanced analytics and data. //

Kate Leverone is managing director, private equity and transaction advisory services, for Dixon Hughes Goodman LLP. She is based in the firm's Atlanta office.

The Hidden Costs of Entity Establishment

GLOBAL VIEWS // What to consider before expanding abroad

Rob Wellner
Chief Revenue Officer, Velocity Global

Establishing a foreign subsidiary or legal entity is the traditional route for businesses expanding overseas. While this method ensures compliance with local laws and regulations, it's an expensive and time-consuming process that puts a significant strain on internal legal, human resources and financial resources.

Businesses need to budget at least $15,000 to $20,000 to establish a legal entity in most overseas markets. However, the total costs of entity establishment go far beyond initial setup. Establishing a foreign entity is a long-term commitment, so before businesses choose this route, they must consider five hidden entity-setup costs:

Registered office address: Most countries require a physical registered office address to establish an entity and receive a tax ID. Real estate or office space prices might be more expensive compared with the firm's headquarters location.

Resident director requirement: Resident directors are required for a tax ID, to sign paperwork for a business in the new market, and to go to court in the event of any legal issues.

Ongoing administrative costs: There are both direct and indirect administrative costs, including everything legally required to keep an entity compliant in the foreign market, and training all internal teams.

Entity teardown fees: Dissolving an entity typically takes three times longer and costs three times more than the amount required to establish the entity. In general, it is more expensive and time-consuming to dissolve an entity for companies in heavily regulated industries (such as banking), and those with higher annual revenues and a significant headcount.

Opportunity costs: Companies must consider what they could lose during the average four-month setup timeline, such as revenue or market share as a competitor gains traction.

Key Considerations

Since entity establishment is a long, complicated and expensive process, it's natural to wonder whether a company must establish an entity overseas, or if there are other global expansion options. Businesses must weigh the following factors to determine if entity establishment is the right choice:

Companies that must hold fixed assets: If your business is in an industry that requires a fixed asset to operate, like real estate or manufacturing, you must establish an entity in that market.

Companies with an extensive budget: Although country-specific variables influence cost, entity setup costs are $15,000 to $20,000 on average, and they can cost around $200,000 annually to maintain.

Companies hiring a lot of workers: A high headcount and no legal entity raises concern with the local government, signaling that the firm is potentially using misclassified foreign independent contractors—which leads to severe financial and legal penalties.

International PEO: An Alternative Option

Although entity establishment is a common global expansion method, it is not the best choice for many firms. The good news is that entity setup is no longer the only compliant option. Companies that want to test foreign markets quickly, with less risk and a lower financial commitment, can partner with an International Professional Employer Organization. //

Rob Wellner is chief revenue officer for Velocity Global, a leading provider of global employment solutions. Wellner draws on 12 years of experience in capital markets to help organizations expand internationally, including using Velocity Global's International PEO service. Learn more at VelocityGlobal.com/acg.

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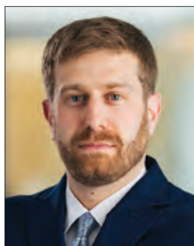
Autonomous Vehicle Outlook

PE LAW // Technology progresses as regulators watch closely

Philip von Mehren
Partner, Venable LLP



Ariel Wolf
Counsel, Venable LLP

Self-driving vehicles have the potential to transform the U.S. transportation system for the better. From increasing public safety, to improving mobility for the elderly and expanding transportation access for the disabled community, autonomous vehicles, known as AVs, offer an array of benefits that will drive positive change for decades.

Private equity, venture capital and growth equity funds that understand these benefits, the legal framework and the technology are likely to make the best investments in this emerging sector.

Recent years have brought exciting technological advances, contributing to a robust ecosystem that has begun to flourish. Hundreds of companies are racing to develop the pieces that will make fully self-driving vehicles a reality: autonomous driving software, complex sensors that can perceive and analyze the outside world in real time, computer simulation that teaches the AV software about edge cases, precision mapping capabilities that are necessary for AV routing, connectivity devices for vehicle-to-vehicle communications, telematics applications to handle the vast quantities of data being generated, and many other technologies.

Policymakers at the state and local levels have acted in turn to address the emergence of self-driving vehicles. Some have welcomed AVs and implemented policies intended to encourage AV testing, while others have maintained a skeptical approach and have sought to restrict the ability of AVs to operate. The multiplicity of regulatory approaches has complicated the picture for AV developers, which lack a consistent, national framework to use as the basis for designing compliant vehicles. Congress has tried to craft such a law, but thus far it has not been able to complete the task.

In the absence of a federal law, the executive branch has adopted the pro-innovation posture of offering agency guidance on many key issues related to AVs—such as system safety, object detection and response, and crashworthiness—but has not sought to impose legally binding rules that would stifle the industry and potentially pick winners and losers in the technological race.

According to guidance provided by the U.S. Department of Transportation in 2017 (and updated in 2018 and 2019), manufacturers of AV technology are encouraged to submit a "voluntary safety self-assessment" to the department to "demonstrate how they address—via industry best practices, their own best practices, or other appropriate methods—the safety elements contained" in the guidance. The document also includes information related to the unique and separate federal and state roles in overseeing AV design, performance, licensing and operation.

In 2020, policymakers are continuing to focus on AVs. The scope of issues at play has increased, with growing discussion and debate surrounding the collection and use of AV data, minimum insurance requirements, liability and cybersecurity, to name a few.

The Transportation Department has announced several new initiatives, including amending existing occupant protection regulations to accommodate AVs that lack driver controls, updating the petition process for seeking an exemption from federal motor vehicle rules that inhibit AV deployment, finding a path forward for passenger-less delivery vehicles, and several others. //

Philip von Mehren is a partner at Venable LLP and serves as co-chair of the firm's Corporate Group in New York. **Ariel Wolf** serves as counsel at Venable and leads the firm's Mobility and Transportation Technology team.

What's Ahead for the Leveraged Loan Market

BANKING SENSE // In a volatile market, systemic risks require caution

Deborah J. Enea
Partner, Pepper Hamilton LLP

Justin A. Wood
Partner, Troutman Sanders

As the coronavirus pandemic upends the economy, the financial health of the leveraged loan market has been impacted. The long-term effect of the pandemic on the leveraged loan market will depend on inherent market risks, the extent of the pandemic and the government's response to the crisis.

State of the Leveraged Loan Market

As of late last year, the total of outstanding leveraged loans was estimated to be just under $2 trillion, with $1.3 trillion held by institutional investors, according to testimony at an SEC Committee hearing last September. The average leveraged transaction has total leverage of 5.5 times EBITDA, which is more disciplined than before the 2007-2008 financial crisis. In the middle market, banks continue to face increased competition from nonbank lenders that do not face the same regulatory pressures. This competitive environment—particularly in the sponsored leveraged buyout space—has forced banks to make accommodations on pricing and covenants to maintain market share. Looser covenants, including covenant-lite loans and less stringent underwriting standards driven by increased competition and migration of sponsored-deal terms from the large-cap markets to the middle market, had led to greater market risk. In addition, EBITDA continues to be defined in expansive ways through the use of EBITDA add-backs, resulting in the possibility that leverage is higher than what is reported.

Impact of the Coronavirus Pandemic

In the near term, the pandemic has increased the use of revolver facilities for cash-strapped companies or, where a company has no immediate use of the funds, to make withdrawals out of an abundance of caution. Lenders allowed $215 billion to be drawn down between March 5, 2020 and April 9, 2020, as tracked by S&P's Leveraged Commentary & Data service. During this period, companies also deferred or modified cash payments to conserve cash.

The longer-term impact of the pandemic on the leveraged loan market is uncertain. It will be determined by the extent of the pandemic and the government's response. Without external relief, or long-term, meaningful access to liquidity, companies will likely default on payment obligations and miss financial covenants. Fitch Ratings has revised its default forecast as of March 27 for U.S. leveraged loans for 2020 to 5%-6%, up from 3% previously forecast. This equates to $80 billion, surpassing the previous high of $78 billion in 2009. Defaults are expected to be highest in the energy, nonfood retail, restaurant, and travel and leisure industries.

Another concern is the ability of companies to refinance loan obligations upon maturity. According to S&P's LCD, March 2020 was the first month since December 2008 that the primary syndicated loan market did not have any new issuances. As reported by Refinitiv LPC, new money lending in middle-market sponsor-backed deals in the syndicated loan market during Q1 2020 was $7.6 billion, down 15% from Q4 2019 and 13% year over year. The slowdown in new lending could be a bellwether for refinancing opportunities. Some lenders have signaled a willingness to work with companies on waivers, payment deferrals and forbearances. Companies should proactively reach out to their lenders when liquidity challenges arise or in anticipation of refinancing. //

Deborah J. Enea is a partner in the Financial Services Practice at Pepper Hamilton LLP. **Justin A. Wood** is a partner in the Finance & Restructuring Practice at Troutman Sanders. Effective July 1, Pepper Hamilton will combine with Troutman Sanders to become Troutman Pepper Hamilton Sanders LLP (Troutman Pepper).

Split's Creek: Human Analysis Separates Itself from AI

SOUND DECISIONS // Thorough due diligence requires more than machines

Joelle Scott
Chief Operating Officer, Corporate Resolutions

In the past, the background investigations business was defined by access: who could get what and by what means. Today, with easy access to thousands of sources, the importance is not who can get the information (we all can) but rather its quality.

"Knowledge is power" is an axiom often used when talking about investing; the same is true for due diligence. Understanding the tools and knowing where to go and how to decipher documents is what separates a useful background investigation from a receipt-style printout of records billed as a "risk report."

Artificial intelligence, known as AI, has penetrated every aspect of our lives—from cars to health care to devices used in our homes. In many industries, AI's application is technologically beneficial. In the investigations game, however, AI is contradictory to the objective of a background check.

"SEASONED INVESTORS KNOW THAT IMPORTANT TRANSACTIONS REQUIRE HUMAN ANALYSIS; IT IS THE DIFFERENCE BETWEEN FICTION AND FACT."

The damage of misinformation, especially false positives, impacts both sides of the deal: Investors look foolish and sellers must defend themselves against misdirected accusations. Inaccurate findings and assumptions arise from automated due diligence solutions. Seasoned investors know that important transactions require human analysis; it is the difference between fiction and fact.

Insulating your reputation is critical. Consider this scenario: An automated "red flag" review turns up online criminal records for the talented CEO of the company you're looking to buy. When asked, the CEO tells you it was one minor altercation from years ago and the charges were dropped.

This was a situation one of our clients faced, and experienced investigators discovered that the story had quite a different spin. The CEO was lying and the multiple, repeat criminal charges were quite serious, revealing a questionable character. Thankfully, our client had the complete picture and ultimately walked away from the deal, knowing the CEO's misrepresentations and behavior were too risky.

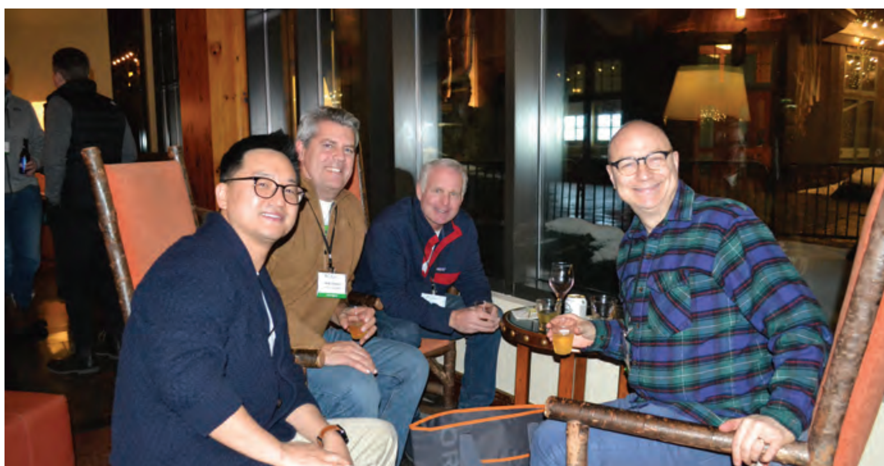
There are many other examples that illustrate how human analysis saved the day, including reading court documents in a civil lawsuit and discovering a corporate culture of sexual harassment; deciphering legal summaries in contract actions to find fraud and money laundering; and sifting through a banal social media account to reveal a publicly problematic "following" (read: addiction) of pornography. Delivering critical information and providing a useful narrative can only be properly executed through a thorough human examination of information.

Deal flow predictions change daily, but what is certain is that investors should never compromise due diligence—no matter the environment. //

Joelle Scott is chief operating officer of Corporate Resolutions Inc. She has over 20 years of experience in investigative due diligence.

ACG ATLANTA ▸

Private equity and M&A professionals gathered for the Atlanta ACG Capital Connection in February. The event brings together intermediaries, corporate development officers, accountants, lawyers, senior lenders and other deal-makers to network with top private equity and mezzanine capital providers. The event's keynote address was delivered by NBA superstar-turned-businessman Shaquille O'Neal (pictured), who has invested heavily in Atlanta-area businesses.



◂ ACG NORTHEAST DEALMAKING AT THE MOUNTAIN

ACG chapters from Boston, Connecticut, New Jersey, New York and Philadelphia organized the 15th annual ACG Northeast Dealmaking at the Mountain in January. More than 150 dealmaking professionals gathered for networking and alpine activities at the Stowe Mountain Resort in northern Vermont. Pictured on the slopes, from left, are Ethan Boothe, EisnerAmper; Jack Schwarten, SS&C; Jamie Worrell, Strategic Retirement Partners; and Spencer Macalaster, Risk Strategies Company.

The format and venue allowed for a deeper level of connections between attendees, and opportunities to hear from relevant speakers in a relaxed atmosphere near Mount Mansfield in the Green Mountains. Pictured from left are Young Kim, CBIC; Jack Gaziano, Silicon Valley Bank; Jed Hall, CBIC; and Michael Silverman, CBIC.

◂ ACG KANSAS CITY

In February, ACG Kansas City awarded Phil Worden with the 2019 Edward Stacy Crumm Distinguished Service Award. Worden was an ACG Kansas City founding board member, served as chapter president and on ACG Global's board of directors, and leads the Corporate Peer Group in Kansas City.

ACG NEW YORK ▸

ACG New York held its 12th Annual Healthcare Conference and Bourbon Tasting at the Metropolitan Club in February. More than 450 senior capital providers and health care industry professionals gathered for the event to discuss future trends in the health care industry.

◂ ACG ORANGE COUNTY

Deal-makers gathered on the slopes of Mammoth Mountain Ski Resort in Mammoth Lakes, California, for ACG Orange County's 5th Annual Mammoth Deals Ski Conference in January. Participants enjoyed outdoor activities and formed meaningful business relationships during the event's panel and networking opportunities. Members of ACG Los Angeles, ACG 101 Corridor, ACG San Diego and ACG San Francisco were also in attendance. Pictured from left are Mark Orlando, Siena Lending Group; ACG Orange County President Andrea Casaw; and Palmer Thornton, Excelsior Capital Partners.

ACG ORLANDO ▸

In February, ACG Orlando held its 2020 Private Equity Outlook and Wine Tasting. Chapter members and guests enjoyed a selection of fine wines along with an assortment of Spanish tapas. The event is an opportunity for local private equity and family office professionals to build business relationships. Pictured from left are Rafel Romero, Emigrant Capital; Ian Garland, Shoreline Equity Partners; Kyle Madden, KLH Capital; and Michael Poole, PCE Investment Banking.

◂ ACG RICHMOND

Five finalist teams competed in ACG Richmond's 9th Annual ACG Cup competition in February. The contest gives students from across Virginia's top MBA programs invaluable insight into M&A, investment banking, private equity and corporate finance. Pictured from left are the contest's winners, from Georgetown University's McDonough School of Business: Kang Zhang, Peian Wang, Keisuke "Casey" Adachi and Chao Sun.

ACG SAN DIEGO ▸

ACG San Diego kicked off its inaugural ACG San Diego Capital Conference, which drew M&A professionals throughout Southern California in February. Attendees had the opportunity to meet with the region's leading investment banks, private equity investors, business owners and executives. The event provided networking opportunities, informative panels and dealmaking in the heart of the city's bustling Gaslamp District. Pictured are attendees with ACG San Diego Executive Director Judy Susser-Travis (center).

◄ ACG CHICAGO

In February, ACG Chicago's NextGen Leaders held their annual NextGen Trivia Night at the Haymarket Pub & Brewery west of the city's downtown. The event provided M&A deal-makers under the age of 40 the opportunity to showcase their triva skills and network with peers. Pictured are Paulina Siodlak, Alvarez and Marsal; Ryan Schafer, NewSpring Capital; Alison Wolfe, Riveron; and Katie Ehrhart, CIBC.

ACG CHICAGO ▲

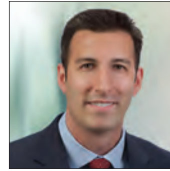
More than 200 deal-makers from across the Midwest and beyond gathered for ACG Chicago's 8th annual Middle Market Manufacturing Conference in February. M&A professionals in the manufacturing and industrials sectors explored the state of investment opportunities and learned about the latest trends in the space, including technology and emerging markets. A panel session about additive manufacturing featured moderator Gail Holmberg, Fortium Partners; Jon Walker, EOS North America; Kevin Slattery, The Barnes Group Advisors; and Pat McCusker, Fast Radius.

CONTACT

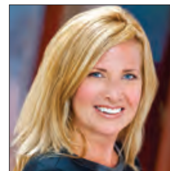
Want to share photos from your recent chapter event? Email us at editor@acg.org.

ACG Global has added **JACKIE D'ANTONIO** and **MATTHEW HICKMAN** to its senior leadership team in Chicago. D'Antonio joins as vice president of media to oversee ACG Global's publications and multimedia channels, including the Middle Market Growth Conversations podcast series and GrowthTV, ACG's video channel. She joins from the North American Veterinary Community, where she was vice president of media strategy and operations. Hickman joins ACG Global as executive vice president of membership and growth strategies. He oversees membership initiatives, sponsorships and partnerships, and works closely with key stakeholders. Prior to joining ACG, he most recently served as vice president of strategy at the American Academy of Optometry.

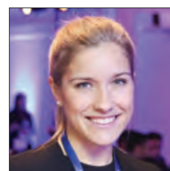
DANIEL FORGUSON has joined The HFW Companies LLC—a St. Louis-based holding company focused on architecture, engineering and construction (AEC) industry professional services—as a founding partner and chief financial officer. Forguson works closely with the corporate development M&A team in evaluating and acquiring member firms and ongoing portfolio optimization. He is accountable for financial planning and analysis, accounting and project controls. Forguson has 15 years of leadership experience in the AEC industry.



ALEX CONTI has been promoted to managing director of UHY Corporate Finance. Based in the firm's Farmington Hills, Michigan, office, Conti leads a team of professionals dedicated to executing transactions at all levels, including due diligence, restructuring and capital sourcing. He works closely with business owners to value companies and negotiate deals.



Professional services firm Sikich LLP has named **CHERYL ASCHENBRENER** and **TIMM BELLAZZINI** as national co-leaders of the firm's Transaction Advisory Services practice. Together, they oversee the team of transaction advisory services professionals and are responsible for the strategic direction and growth of the practice, as well as serving as trusted advisers for some of the firm's marquee clients. Alongside their team, Aschenbrener and Bellazzini provide buy-side and sell-side advisory and diligence, quality of earnings reports, deal structuring and more.



EMILY DAVIES has been promoted to partner of Linde Equity, an investment counsellor and fund manager based in Vancouver. She is responsible for research and analysis of Canadian and U.S. listed securities, assists in management of the Linde Equity Fund and oversees business development. Prior to joining Linde Equity, Davies worked in equity research and investment banking at RBC Capital Markets.

The Anderson Group, a lower middle-market private equity firm based in St. Petersburg, Florida, announced it has promoted JUSTIN FLOOD to partner. Since joining Anderson in 2007, Flood has been involved in more than 40 transactions spanning a wide range of industries and situations, including recapitalizations, special situations and turnarounds. He continues to be responsible for sourcing, evaluating and executing investment opportunities and working with management teams to implement operational improvement plans and growth strategies.

Neptune Financial Inc. (NepFin), a debt capital and data provider to the lower middle market, announced that JAY SCHIFF and KARIN KOVACIC have joined the firm. Schiff joins as senior managing director on NepFin's investment team, which he leads out of the firm's New York office. He brings three decades of private credit investment experience and has focused on the middle market since 2003. He joins NepFin from Curator Capital, where he led private debt businesses. Kovacic joins NepFin as managing director on the investment team, serving as a primary point of contact on deal origination. Based out of the firm's New York office, Kovacic brings more than two decades of experience, most recently as managing director at Monroe Capital.

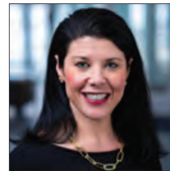
ANDREW PHELPS has joined Investors Bank's Healthcare Lending Group as senior vice president to develop and manage the unit's expansion into new markets and to form alliances with companies that are currently financing health care businesses, which includes building relationships with private equity firms and investment banks. Phelps will be responsible for developing, managing and growing a portfolio of loans and offering the banks' ancillary products for the national health care sector, with a focus on the post-acute, senior housing and provider sectors. Based in Charlotte, North Carolina, Phelps will operate from Investors Bank's commercial lending offices in Newark, New Jersey.

DAVID KEFFER has joined aerospace and defense company Northrop Grumman Corporation as corporate vice president and chief financial officer. In his role, he reports to Kathy Warden, the company's chairman, CEO and president. Keffer previously served as a general partner for Blue Delta Capital Partners in McLean, Virginia, and is a former board member of ACG National Capital and an active member of the chapter.

TODD FELDMAN has launched The Rocket Factory, a strategic marketing firm engineered specifically for founders and executive-level leaders of early-stage, midmarket and maturing high-growth companies. In addition to its standard consulting services, the firm is entering public beta for Launchpad by The Rocket Factory™, a subscription remote-based advisory service for early-stage startups. Prior to starting The Rocket Factory, Feldman most recently served as chief marketing officer at the Virginia Credit Union, based in Richmond, Virginia.

CHRISTOPHER W. NOLAN has joined Dresner Partners, a middle-market investment bank headquartered in Chicago, as managing director in the firm's New York City office. Nolan will support Dresner Partners in the areas of consumer, with an emphasis on food, beverage and agribusiness, and industrials, with an emphasis on chemicals. He has more than 30 years of investment banking and corporate M&A advisory experience, having worked at Salomon Brothers, Deutsche Bank, Rabobank and PwC Corporate Finance.

JENNIFER OLIVER was promoted to partner by law firm MoginRubin LLP, where she focuses on M&A counseling on antitrust issues, navigating CFIUS, merger clearance and complex antitrust, business, privacy and investment litigation. Oliver joined the firm in 2017, after nearly 10 years practicing as a complex business litigator in the New York office of Weil, Gotshal & Manges LLP. She is based in MoginRubin's San Diego office.



MARGARET JORDAN has joined Sikich LLP, a global professional services firm specializing in accounting, advisory, technology and managed services as the business development director for Northeast Ohio. She brings over 15 years' experience in business development strategy, lead generation, project management and growth development for mid- to large-sized businesses. Jordan's industry experience includes work with manufacturers, contractors, private equity firms, agribusinesses and more.

MORE CAREER INFO

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

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IT'S THE SMALL THINGS

TRENDS IN AUTOMOTIVE AND MOBILITY // Here, there and everywhere

1

Spreading Mobility to Small Town America

Access to transportation is becoming challenging for the nearly 60 million Americans living in rural areas, especially as they age. An overreliance on driving and a lack of high-speed internet availability are limiting access to transportation services for rural adults over the age of 65 – a population expected to increase by 77% in the coming decades. That challenge presents an opportunity for entrepreneurs and philanthropic organizations to serve this demographic. –CITRIS and the Banatao Institute

2

Happily Ever Aftermarket

Sales in the global automotive aftermarket are expected to reach $513 billion by 2027. Digitalization of automotive repair and component sales, along with advanced manufacturing technology, is expected to boost profits in the aftermarket. Increasing adoption of semi-autonomous, electric, and hybrid and autonomous vehicles is further expected to bolster aftermarket sales as more innovative products open up more opportunity for aftermarket manufacturers. –Grand View Research

3

Teens Leaving the Driver's Seat

About a quarter of 16-year-olds had a driver's license in 2017, a sharp decline from 1983, when half of this age group had licenses. Teenagers are reaching driving age at a time when most have access to ride-hailing services such as Uber and Lyft. When they reach their 20s, more are moving to big cities with mass transit, where owning a car is neither necessary nor practical. –*The Wall Street Journal*

4

Keeping Mobility in the Hyperloop

A planned hyperloop between Chicago and Pittsburgh has put Ohio at the center of the experimental high-speed rail project being pursued by Elon Musk's Hyperloop Transportation Technologies. According to a 2019 feasibility study, a hyperloop capsule would carry around 30 passengers at speeds of up to 700 mph, completing a route between Chicago and Pittsburgh–with stops in Cleveland and other cities–in around an hour. The project must now undergo an environmental impact study, but it has received support from state and federal authorities. –Northeast Ohio Areawide Coordinating Agency

5

Governments and Rideshares Team Up

Some ride-sharing companies are being subsidized by governments to get people from outlying areas to public transportation hubs. Transit authorities are creating dedicated offices devoted to advancing automated technologies, and autonomous vehicle shuttle companies are already operating services in some city centers, replacing select public bus lines or extending services into new or outlying areas. –World Economic Forum

6

Mapping the Driverless Future

Existing mapping technology is useful for navigating an unfamiliar city, but that won't cut it for machines. It could take ultra-precise location technology to unlock widespread adoption of autonomous vehicles. Scape, a London-based startup, expects it can do just that. The company's algorithm uses street signs, storefronts and lampposts in its database of images from cities around the world to anchor a user's location to the centimeter. Scape wants to use this technology to lay the information infrastructure for driverless vehicles, drone delivery and augmented reality. –*MIT Technology Review*

– Benjamin Glick

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Twin Brook Capital Partners is a direct lending finance company focused on providing tailored, cash-flow based financing solutions to private equity-owned companies with EBITDA between $3 million and $50 million, with an emphasis on those with $25 million of EBITDA and below. With its dedicated team and flexible product suite, Twin Brook has closed over 450 transactions with 80+ different middle market private equity firms since being founded in 2014.

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