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MIDDLE MARKET Growth

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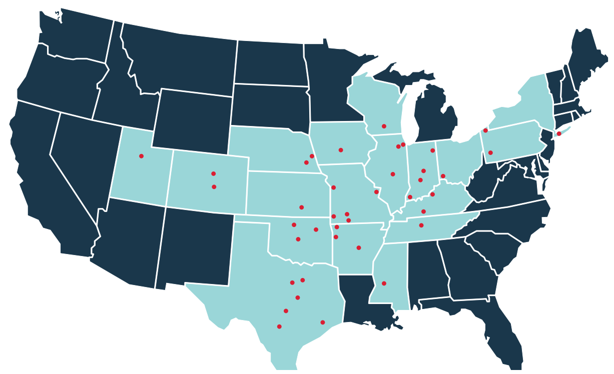

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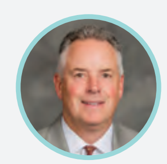

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- Commitment to BKD's Unmatched Client Service standards

Getting in on the SPACtion

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

SPACs are all the rage these days, and for good reason. By March, SPAC fundraising had already eclipsed the $83.4 billion raised in 2020. They've become a formidable force in the market, presenting yet another path to exit for middle-market business owners and investors. With big names getting in on the action—Bill Gates, basketball star Steph Curry and Grammy award-winner Ciara, to name a few—it's no surprise they're drawing attention.

Flash and novelty aside, SPACs are having a meaningful impact on the deal landscape. Depending on who you talk to, these blank check companies pose a competitive threat that is driving up prices, a welcome source of capital available to buy businesses, another financing vehicle for private equity firms, or a flash in the pan.

In our cover story (p. 30), writer Bailey McCann explores private equity's role in institutionalizing SPACs and some of the challenges and risks for SPAC issuers today, ranging from limited partner inquiries about how resources are allocated between PE funds and SPACs, to increasing scrutiny from regulators.

DHG LLP, an accounting and advisory firm and an ACG Official Sponsor of Growth, looks at SPACs from another angle in their "Portfolio" article (p. 50), where they highlight risks to consider before partnering with a blank check company.

The spotlight on SPACs ties in with this edition's focus on the technology sector. Also covered is cross-border deal activity involving Canadian technology companies (p. 38), how Zoom and drones are transforming due diligence (p. 10), and much more.

Deciding which stories to run in *Middle Market Growth*'s tech issue was an interesting challenge, thanks to the blurred line between technology and, well, everything else.

Our health care-themed issue in the winter featured a cover story about how medical practices are using technology to improve the patient experience. Our forthcoming summer issue will focus on consumer products—and likely on e-commerce, supply chain technology and other tech-enabled innovations that are taking the industry by storm. As a magazine focused on business and M&A, every issue of *MMG* is now a tech issue, given how central technology has become to running a company and doing a deal.

Depending on how the SPAC trend evolves, perhaps every issue will be a SPAC issue, too. //

EXECUTIVE SUMMARY

With Grata, Tech Meets Deal-Sourcing

BRENT BAXTER
Chairman, ACG Board of Directors, and Managing Director, Nolan & Associates

Looking at the tech companies that have thrived over the past year, it's remarkable how recently some of them entered our lives, and how different our pandemic experiences might have been without them.

Most of the food delivery apps we've come to rely on popped up within the past 10 years. Netflix has been around longer, but it was only a little over a decade ago that the company introduced its streaming-only subscription, and it took years to build its content library into what it is today.

That tends to be how it goes with groundbreaking technology: We don't know we need it until suddenly we can't live without it. A similar phenomenon is happening with deal-sourcing, as technological innovation makes the process faster and more precise.

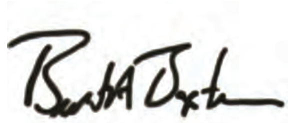
To that end, last year ACG announced a partnership with Grata, a search engine for identifying small and middle-market businesses. Grata uses machine learning, natural language processing and online data to collect information about target companies, and to process and interpret it effectively. Users can search the Grata database by keyword, size, ownership, business model, growth and past funding. Grata's technology can also identify "lookalike" businesses that resemble successful investments in a user's portfolio.

The Grata partnership includes discounted subscription rates for ACG members. The company's data is also the foundation for Next Target, a newsletter introduced by ACG this year that you've likely seen in your inbox. ACG editors are using Grata's platform to highlight emerging areas for investment and contextualizing the data with interviews and reporting.

Plenty of services track deals that have already happened; Grata and Next Target are forward-looking, with insights to help you find high-quality businesses today and into the future.

Even as technology makes deal-sourcing more efficient, I believe a successful transaction will always require strong personal relationships—between buyer and seller, management and owner, and advisors and their clients.

ACG continues to be the home for networking in the middle market, and the place to build relationships that underpin successful transactions. Grata's innovative sourcing technology doesn't replace those human connections—rather, it helps you know where to look. Like Netflix, one day we'll wonder what we ever did without it. //



Cover story illustrations by Mitch Blunt

GROWTH STORY

Up in the Air: SPACs & Private Equity

The numbers don't lie: $83.4 billion was raised for special purpose acquisition companies in 2020, a number that was surpassed early in 2021. This boom was fueled in part by private equity, which helped institutionalize SPACs. So where do things go from here? 30

TREND

Canada's Tech Secret

A decade ago, Canada was considered a backwater for U.S. investors looking for opportunity. Fast-forward to today and investors have found innovative companies and real success in this North American technology powerhouse. 38

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NEWS

MMG WEEKLY
Stay up to date on middle-market trends, ACG events and industry news.

NEXT TARGET
Uncover emerging investment trends and data-driven insights from ACG technology partner Grata in this newsletter.

Sign up at *middlemarket growth.org/ subscribe.*

MMG CONVERSATIONS

Seeking Diversity? Think Outside the Box.

On the podcast, Cornelia Cheng, managing director of western region investments for Brightwood Capital Advisors, and Rich Grant, director of business development for Northlane Capital Partners, discuss how middle-market firms can become more diverse, equitable and inclusive. As members of ACG's DEI Task Force, Cheng and Grant talk about the goals of that group and the work that's ahead.

PODCAST Find this interview and others by searching for "Middle Market Growth Conversations" in Apple Podcasts and Google Play.

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The Power of Group Purchasing

BY THE NUMBERS // GPOs can be a vital resource for maintaining or increasing profitability

JORDAN ZAPOTECHNE

Title: Chief Revenue Officer

Company: Enterprise Purchasing Group

Location: San Clemente, California

Expertise: Jordan Zapotechne serves as EPG's chief revenue officer where he utilizes his expertise in sourcing, logistics and strategic leadership to drive revenue growth by leveraging and aligning innovation within EPG's portfolio of suppliers.

▸ How can EPG help companies navigate through the pandemic?

One of the most important aspects of protecting the bottom line is managing operating expenses. That said, for many businesses, purchasing less during the pandemic also meant losing the volume discounts from suppliers that they had worked so hard to obtain. In times like this, when cost savings are essential but buying power is low, a group purchasing organization (GPO) can be a vital resource for maintaining or increasing profitability. By leveraging billions of dollars in aggregate purchasing volume, members of group purchasing organizations gain access to pricing beyond what they could negotiate on their own, and often require no minimum purchasing volume to obtain the best possible pricing. During the pandemic, this kind of security allows businesses to dedicate attention and resources to other vital areas of the company.

▸ Where do businesses tend to save with GPOs?

A good GPO will have hundreds of suppliers on contract and offer the ability to reduce costs across nearly every expense category. This comes with its own hurdles, though, as it can be daunting to filter through a laundry list of contracts and understand how they will truly benefit your company. The answer? Expert analysis to identify the most impactful and addressable spend categories for each unique company. Once a GPO knows where and how you spend your dollars, their experts will provide detailed analysis and suggestions for contracts that will have the greatest impact on the bottom line. Notable categories of savings include shipping, human resources, IT/technology, office supplies, corporate banking and purchasing cards, payment processing, rental cars and facilities/utilities.

▸ What is EPG, how did it get started and what is its vision?

EPG is a free group purchasing organization that primarily serves investment groups and their portfolio companies.

EPG leverages more than $60 billion in annual purchasing volume to provide members with competitive, scalable contracts and solutions for reducing operating costs and creating more profitable businesses. EPG was formed by experts in shipping and e-commerce.

Although it provides savings to all industries, EPG has a continued vision of investing in the support of e-commerce businesses. For many businesses, transitioning to some form of direct-to-consumer or e-commerce model will be crucial to survival, and EPG wants to help them thrive in that process.

On average, EPG members save 20-45% on small parcel shipping, 25% on ocean container freight, 15% on office supplies, 15% on human resources, and 20% on IT/technology. //

Drones, Zoom and Glassdoor Fuel 'New Diligence'

The pandemic sparks use of new tools for evaluating investments

By Phil Albinus

"THEY TOOK DIFFERENT CAMERA ANGLES FROM ABOVE, FROM THE SIDE, EVERYTHING IN MOTION AND ALL OF THE EQUIPMENT WORKING IN REAL TIME."

KEVIN MANNING
Managing Director, Head of Investment Banking, Stout

For many deal-makers, the lockdowns last spring brought business to a standstill until something remarkable happened: They found new ways to meet with clients and close deals. In this new age of reduced in-person meetings, a near stoppage of business travel and the unprecedented rise in employees working remotely, PE firms also adopted new methods of conducting the often time-consuming and most detailed part of closing a deal: due diligence.

Welcome to the age of "new diligence." Say goodbye to extended business trips and pricey hotel stays, and say hello to virtual meet-and-greets and intensive data-sharing sessions via Zoom or Microsoft Teams. Virtual conferencing is among the technologies that became a critical enabler for nearly every business meeting during the COVID-19 pandemic, a development that still astounds some deal-makers.

"If you had told me we could close a nine-figure deal 100% via Zoom a year ago, I would have laughed at you," says Steve Raymond, managing director of The DAK Group, a middle-market investment bank.

Raymond and his team followed their clients' lead and held presentations, fireside chats and due diligence sessions using the ubiquitous video tool, and they haven't looked back.

"We happened to work with a business that was operating in a distributed environment and they pivoted very quickly in May and June of last year. That business went 100% virtual," says Raymond.

Droning on

For investors, the due diligence process has traditionally included visiting a business looking to sell, and taking

in the intangibles that a prospectus doesn't show. Due diligence teams often visit sprawling factory floors and fulfillment centers to get a sense of the workplace, the state of the equipment, production processes and more.

Enter drones, the remote-controlled flying devices that can record high-quality videos inside a factory or hover over the outside of a building.

Kevin Manning, managing director, head of investment banking at Stout, is a drone convert. Last summer, one of the investment banking firm's clients didn't want people jumping on planes, walking through facilities and "spooking" employees, so Manning's team hired a drone videographer to create a 20-minute video of the hybrid manufacturing and distribution site. The video featured understated music and narration that explained the company's mission and its operations.

"We were able to have the COO of the facilities play and pause the video and describe everything that we're looking at. They took different camera angles from above, from the side, everything in motion and all of the equipment working in real time," says Manning. "You really got a sense of what was going on in that facility, and we found that the buyers were very complimentary of that approach."

Drone footage also improved upon the pre-pandemic practice of potential buyers or investors walking through a noisy and potentially dangerous factory floor. In that setting, asking questions can be next to impossible, due to "the noise of the machines at work, the distractions, not following what they're speaking about because there's forklifts and people flying around you," Manning says. "Someone's asking a question in the front, people in the back can't hear or the operators themselves sometimes misinterpret the question because of the noise. This was a breath of fresh air."

He adds that video footage can be rewound and potential investors and buyers can review certain processes that would be lost on a live tour.

The video tours can also be a selling point, says Melvyn Peters, vice president at The DAK Group. For a sell-side transaction involving a gourmet bakery company, Peters and his team honed in on specific components and processes within their bakery's operations that also highlighted the facility's cleanliness. The short video was professionally filmed and featured testimonials from management and employees.

"Not to give away the secret sauce here, but the company also decided to send [the video viewers] a customized basket of baked goods so they could eat while watching the video and then have a virtual fireside chat and management meeting that would have been in-person before the pandemic," says Peters.

Some investors opted for a more down-to-Earth virtual tour during their due diligence. While evaluating a network of nursing homes, Liddy Karter, managing partner of middle-market investment firm Mizzen Capital, took a virtual tour of the facility to interact with staffers and residents via an executive's smartphone. "The manager of the nursing home took us around virtually, essentially using their phone to connect us with those people, and even one of the residents who was in his room," she recalls. "He was willing to talk to us through FaceTime, so that was good. It wasn't perfect, but it was pretty good."

Not every investor is sold on virtual meetings. "If we had our druthers, I think we would have liked to wait until later in the year in order to have an in-person meeting with a larger group without the need to wear masks, sit six feet apart, etc., but the sellers had a timeline that they were working toward and it was an opportunity that we didn't want to miss out on," says Jonathan Pressnell, partner at Blue Point Capital Partners, a middle-market investment firm.

"Personally, I think I have a new appreciation for the in-person, casual-social interactions that happen during a deal. The amount of qualitative information we get about teams and »

"I WOULD SAY FOR OUR WORK STREAM OF DILIGENCE, THE ACCOUNTING, TAX AND HR WORK IS GOING TO STAY OVER ZOOM."

CARLOS FERREIRA
National Managing Partner, Private Equity Services, Grant Thornton LLP

individuals during those types of meetings is invaluable, and I think we really had to work hard to replicate and supplement those types of interactions," he adds.

Measuring Corporate Culture

One of the biggest challenges during the due diligence process remains measuring corporate culture.

Although potential buyers ask for data on employee retention and turnover, workplace injuries, workers' compensation claims and employee salaries, getting the feel of an office or factory floor cannot be found in the cells of a spreadsheet.

The pandemic has made it harder to gather that intelligence. "One of the things I usually like to do when I go into a factory is get a sense of employee happiness and morale. And you go to the bathroom and see if there's a lot of nasty graffiti, or if it's really a happy place, and doing that remotely is hard," says Mizzen Capital's Karter.

She and her team now check Glassdoor, Reddit and Facebook forums for employee reviews and comments. "In some ways, people are more honest online," she says.

DAK's Peters says his due diligence teams are relying on employee surveys more than they had before the pandemic. "They find creative ways to interact and ask questions like: Do you feel valued? Do you feel that you have opportunities for advancement? When was the last time that you went out to eat or did something fun with your superiors?" says Peters.

"I think most of them paid a lot more attention to the survey, because even generally spending time on site has been difficult," he adds. "I think that's going to be something that probably continues, at least until everyone gets the vaccine jab."

Even with Zoom, alternative data and drones, face-to-face meetings still have their place, says Carlos Ferreira, national managing partner for private equity services at Grant Thornton, an audit, tax and advisory firm.

"I would say for our work stream of diligence, the accounting, tax and HR work is going to stay over Zoom. I cannot see us requiring teams to travel to company locations anymore," he says, adding that some family-owned businesses said they admired his team's willingness to visit their offices and factories in the middle of the crisis.

"Especially when you're dealing with middle-market companies that are family-owned and -operated, where their business is essentially their entire livelihood, that personal touch is exceptionally important." //


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Antitrust Regulation Could Lead to Uptick in Tech Carve-outs

Pent-up demand also bodes well for divestitures

By Benjamin Glick

This year could prove to be an active one for technology divestitures, as some tech giants consider shedding assets ahead of new antitrust measures while others take advantage of high prices as they focus on their core strategies.

At a time when the two major political parties in the U.S. often are at odds, they're increasingly finding common ground when it comes to reining in large tech companies.

In February, Sen. Amy Klobuchar, D-Minn., and a host of other lawmakers introduced the Competition and Antitrust Law Enforcement Reform Act, a bill that would overhaul antitrust regulation nationwide and could lead to a breakup of technology giants like Facebook, Twitter and Google's parent company, Alphabet. Around the same time, Sen. Josh Hawley, R-Mo., proposed a resolution that would limit the M&A activity of dominant tech firms.

While both parties, for now, agree that Big Tech should be subject to stricter antitrust regulation, their reasoning differs. Republicans, by and large, want legislation to target large tech companies for their outsized influence on the American public, while Democrats have set their sights on anticompetitive business practices, says Michael Marhofer, chair of the private equity group at law firm Benesch, Friedlander, Coplan and Aronoff LLP.

"I'd be surprised if something doesn't come out of Congress this year that reshapes antitrust law and gives some heightened scrutiny on deals with tech companies," he says.

Stricter antitrust laws could stop deals in motion or spur divestitures from large tech companies. Both would create assets that may be of interest to smaller companies and investors, according to a report that Marhofer co-authored in February.

That will put more businesses for sale in the market, which would help deal flow in the middle market, he says.

If the federal government is able to advance its antitrust agenda against big tech firms, it could look to expand its focus beyond Silicon Valley giants. Marhofer says the government will likely target any company that has

> "I'D BE SURPRISED IF SOMETHING DOESN'T COME OUT OF CONGRESS THIS YEAR THAT RESHAPES ANTITRUST LAW AND GIVES SOME HEIGHTENED SCRUTINY ON DEALS WITH TECH COMPANIES."
>
> MICHAEL MARHOFER
> Private Equity Group Chair, Benesch, Friedlander, Coplan and Aronoff LLP

more than 50% market share in an industry.

"It's everybody, not just tech," he says. "Any dominant firm in a segment of a market, or industries that haven't consolidated, they could be ones that have to pay even more attention."

The extent remains to be seen, but antitrust fervor bodes well for buyers of midsize assets, Marhofer says. "It's certainly something that should drive deal flow and some nice opportunities for the middle market."

Not everyone expects increased antitrust regulation to spark an uptick in carve-outs in the middle market.

Although Thomas Waldman, a shareholder at law firm Stradling, says some deals may happen as a result of antitrust litigation, it's unlikely to benefit middle-market deal-makers.

"If you're starting from tens of billions of market cap and you're selling 10% of your business, you're talking about an $8 billion, $10 billion or $12 billion business," he says. "That doesn't look much like the middle market."

Regardless, buyers should still follow the legal issues affecting tech giants, Waldman says, because they may impact terms for smaller deals.

Processes developed and regulatory responses to large carve-outs regarding antitrust standards, tax benefits, employment regulation, and the treatment of stock options and other incentives may be applicable to middle-market acquirers, according to Waldman.

"Regulators aren't going to expect terms to be much different for a middle-market divestiture than it would for a multibillion-dollar divestiture," he says.

A Hotbed for M&A

Whether or not Congress mints new antitrust legislation this year, other factors could contribute to an increase in tech carve-out activity.

The pandemic gave companies a lot of time to think about their long-term strategies and identify non-core assets, which is prompting some to try to sell them, Marhofer says. "It's a good time to sell. Regardless of the antitrust situation."

Valuations that corporations can garner for their non-core divisions today are attractive, and even more so for assets in the technology, media and telecom (TMT) vertical, according to Aaron Polack, the head of business development at Lion Equity Partners, a private equity firm based in Denver focused on acquiring non-core divisions from larger corporations.

"TMT is and will continue to be one of the hotbeds for M&A," he says. "It's a sector that has fared very well and is one of the more engaged silos for activity."

Furthermore, high levels of dry powder suggest buyers are eager to make acquisitions. According to a survey completed by Lion Equity, 85% of respondents plan on looking at small tuck-in acquisitions. Many corporations are interested in buying tech assets to accelerate their digital transformation road map, including emerging digital technology such as AI, IoT, blockchain and 5G telecommunications.

One Equity Partners is among the private equity firms looking at rolling up technology businesses to add value for its portfolio companies.

In July 2020, it acquired the chip-making division of the Sparton Corporation. The carved-out entity, now called Spartronics, produces electronic components for aerospace, defense and health care, among other industries.

Konstantin Ryzhkov, a managing director at One Equity, says the firm plans to drive growth at the company by leveraging digitalization, automation, IoT and the 5G roll-out, and focusing on synergetic add-ons. Spartronics made its first add-on acquisition in January.

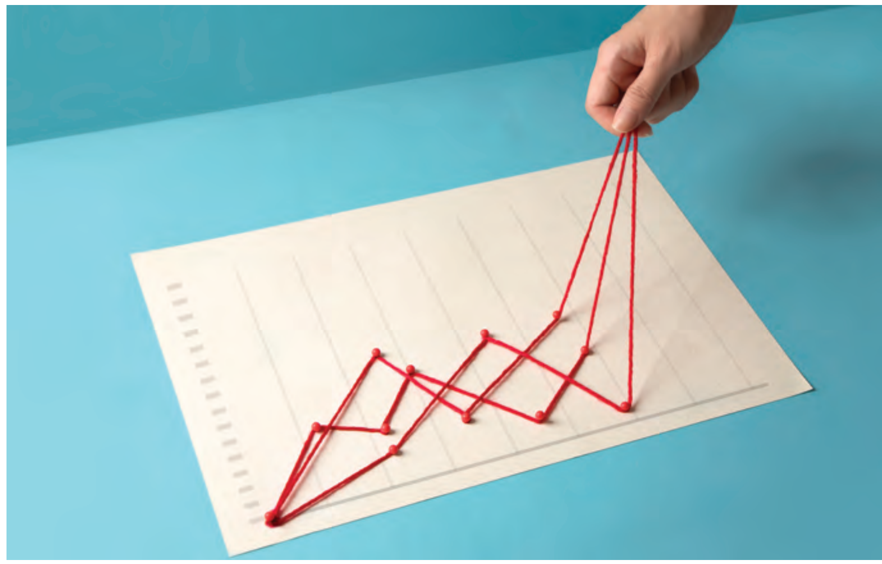
"We'll likely have more transformative combinations to come from this platform," Ryzhkov says, adding that he expects other companies will be doing the same. "I think this trend will continue."

Ryzhkov named managed services, IT services and software product development as just a few areas that One Equity is eyeing for new platforms, as well as strengthening its existing portfolio companies. //

Market Memes Could Troll Private Investors

Volatility could surface in the secondary and commodities markets

By Benjamin Glick



The GameStop-Reddit fiasco that unspooled earlier this year shined a light on the market volatility that can erupt when investors are driven by emotional impulse and social media hysteria.

Although this incident was mainly contained in public stock exchanges, it raised concerns that trading fads could spill over into private markets as well.

"The big risk for private investors is that some of these narratives that catch fire and wash across the financial landscape can impact their ability to make deals," says Karl Schamotta, chief market strategist at Cambridge Global Payments, a provider of cross-border payments and currency risk management.

In the case of GameStop, an organized group of amateur investors communicating on message boards was able to prop up the value of the video game retailer, along with movie theater chain AMC and other companies, ultimately causing a hedge fund to implode.

The ability for financial trends to spread quickly and widely online has drawn comparisons to internet memes. But instead of jokes, these memes and mass movements can cause unexpected shocks in financial markets.

Retail investors, and even some professionals in foreign currency exchanges, have acted increasingly in response to information shared on social media platforms. One research paper as far back as 2015 suggested that influential accounts on Twitter could predict the movement of foreign currency exchange markets.

Private equity and other investors are somewhat insulated from these kinds of events, but they're not immune, Schamotta says. An unexpected movement in the value of foreign currencies could be enough to raise the cost of an overseas transaction to the point it could derail an entire deal.

"We can have a situation in which a meme hits the financial markets and seems really localized but actually impacts exchange rates and makes cross-border deals more expensive or entirely undoable," he says.

Further, some warn that traditional due diligence and risk management practices aren't enough to account for the dislocation of prices for companies caused by speculative bubbles fueled by amateur traders.

"There's risk inside investors' portfolios. That risk is really being exacerbated today, and it shows up in the form of human behavior, which traditional risk measures do very little to mitigate," says Julian Koski, chief investment officer at New Age Alpha, an asset manager that helps investors identify and avoid a portfolio mispricing risk caused by human behavior.

Private markets don't have much exposure to the vulnerabilities in the stock market, but increasing volatility in share trading could have knock-on effects for M&A transactions, especially when it comes to valuations.

"The public comparables that private investors are going to use in a transaction can be dramatically skewed because people are doing irrational things in the stock market," says Andy Kern, senior portfolio manager at New Age Alpha.

Koski and Kern argue that most private investors haven't accounted for these human risk elements in their risk-management plans. As a result,

"YOU COULD START TO SEE BUBBLES FORMING—AND POPPING—IN PRIVATE EQUITY."

MARK HIGGINS

Co-founder and Chief Analytics Officer, Beacon Platform

they could end up paying more for a company if traders inflate the price of a publicly traded business that's used to benchmark the value of a private asset.

Secondary Concerns

As private financial markets become increasingly accessible to the masses, they could face some of the same risks that exist in public exchanges.

Because private equity assets are held for long periods—and difficult to attain by non-professionals due to strict regulation—they're typically out of reach for day-traders and amateur investors. But that could change as activity increases in the secondary market, where limited partners sell pre-existing commitments in private equity funds to third-party investors. The growth in secondary exchanges and the technology behind them could open up private equity to shorter-term investment, and the risks that come with it.

The market for secondary PE assets reached its high-water mark in 2019 with $85.4 billion in transactions, according to a report from investment bank Setter Capital. Secondary transaction volume is expected to exceed $89 billion this year.

Buying equity positions in private companies has historically been accessible only to institutional and wealthy investors, but a reduction in technical barriers could allow more short-term traders, including amateur investors, to participate in secondary exchanges, according to Mark Higgins, co-founder and chief analytics officer at Beacon Platform, a provider of data analytics software for the finance industry.

Software providers like Paris-based Palico have begun opening up the private equity secondary market to experienced and novice investors alike.

Higgins says it's only a matter of time before non-professionals can buy and sell equity in private companies. "It's not an app that's on your phone yet, but it's moving that way," he says.

Federal regulations like the Securities and Exchange Commission's accredited investor rules continue to restrict investment in private equity funds, although it's unclear whether those rules apply to the secondary market. Regulators haven't yet issued specific guidance.

If the secondary market opens up to non-professionals, that could mean many of the same risks currently facing public market investors could spread to private markets as well: Traders could buy up interests in a fund one day and then dump them the next. "You could start to see bubbles forming—and popping—in private equity," Higgins says.

As a result, private investors may need to monitor areas that their counterparts in public markets are familiar with—like social media mentions and other signals that could presage unexpected position purchases or sell-offs in secondary positions. "You'll want to have data scientists, quants and developers as part of your firm," Higgins says.

It's not just secondary transactions where private equity firms could become vulnerable to crowds of untrained investors. Another area is commodities.

Trading platforms like ETrade allow users to buy and sell commodities futures. An influx of amateur traders could replicate the volatility seen in the stock market, while impacting a fundamental area of the financial sector, Cambridge's Schamotta says. Crucially, such trading could have a long-term impact on companies' valuations and financials.

For example, a small or midsize energy business could see its revenue stream completely altered by a surge in trading activity. If that were to cause a price collapse during a transaction, it could upend deal terms entirely.

"If you're a deal-maker and you're involved in mining or oil and gas, there is the possibility that we see some of the same sort of dynamics spilling over at some point and affecting the ability to make deals in the long run," Schamotta says.

He suggests that company leaders put a risk policy in place in the event of an upset. "By documenting that on paper, you bring a lot of discipline to the process, and this helps you mitigate the number of surprises that the stakeholders might be exposed to," he says.

While Schamotta doesn't view recent market memes as entirely negative, they could significantly shape deal-making in the future.

"It's the new normal," he says. "I think we're going to have to adapt to a world in which financial markets are no longer dominated by professionals, and that there's going to be more extreme and more violent moves in the months and years ahead." //

“WE JUST HAVE TO REMEMBER THAT YOU CAN UTILIZE TECHNOLOGY TO IDENTIFY CHALLENGES, BUT AT THE END OF THE DAY, IT IS PEOPLE THAT UTILIZE THOSE TOOLS.”

Using Tech to Drive DEI

How technology tools paired with new ways of thinking can help companies create more diverse, equitable and inclusive workplaces

Achieving diversity, equity and inclusion in the workplace requires more than memos and an updated employee handbook. Kanarys, a technology platform that takes a holistic approach to solving DEI challenges, is enabling companies to take immediate action toward systemic change. *Middle Market Growth* recently interviewed Star Carter, co-founder, chief operating officer and general counsel for Kanarys about the Dallas-based company’s platform and approach. The following is an edited and condensed version of that interview, which is available to view in full at acg.org/growthtv.

Q How does Kanarys help to advance diversity, equity and inclusion?

A Kanarys takes a very data-based approach. We start with data analytics and we walk alongside our partners and go all the way through to providing initial insights, recommendations and then strategy implementation. That’s why we start with the data and analytics first, because it’s important to do those surgical interventions that are tailored specifically for your organization. There’s a reason why diversity and inclusion have been stagnant. People tend to implement the best practices, but we haven’t really seen enough improvement and progress with diversity and inclusion.

Q What role can technology play in achieving DEI goals?

A We work with companies of all sizes, from the middle market all the way up to large enterprises. My favorite company segment to work with is the middle market, because these companies tend to be newer in the diversity and inclusion journey. Kanarys can really help them build that DEI strategy and foundation. What we see with the middle market is that often these companies don’t have substantial data around diversity, equity and inclusion, so technology can be used to collect and analyze that data and help them measure and track progress. It allows a company to see how it’s doing with its own DEI efforts and internal benchmarking over time, as well as external benchmarking and comparing itself to other companies. With our technology, these middle-market companies have the information that they need to get very specific about their interventions based on that data.

Q What types of data does Kanarys collect and analyze?

A We’re looking at both employer-related data and employee-related data. With the employer data, we’re looking at the systems, policies and procedures that are in place. What do you do when you perform your hiring process? What’s your process for promotional advancement? Do you communicate this to your employees? What about when you are interviewing prospective employees? Are you disclosing pay bands? Are you asking them about their salary history? These are the kinds of data points we’re collecting. Once we understand that, then we have a sense of where our company partner is on their DEI journey from the employer side. This is important because a lot of times we see these biases creep specifically into the policies, the procedures and the systems that exist at a company.

We're also gauging and assessing the perception of employees. According to research from Boston Consulting Group, 96-98% of companies above 1,000 employees have diversity programs, but 75% of the underrepresented employees feel like they do not personally benefit from them. We're big believers that we want to understand the perception of the employee. You would be shocked how many companies have never asked employees questions around DEI.

Q What are the limitations of using technology to achieve DEI goals?

A Technology is a tool that middle-market companies should definitely utilize, but who are the creators of that technology? They are people. When you have a group of technologists and engineers, a lot of times what you get is technology that doesn't take into account diverse perspectives. Some of those biases creep into the technology, because all of us have unconscious biases.

One example is facial recognition. As a result of not having diverse creators, there were several times in which facial recognition did not work for Black and Brown individuals who were utilizing that technology. We have to diversify technology used in the AI and machine learning fields.

The second limitation that comes to mind is enabling, and the perception that technology itself is going to solve issues related to diversity and inclusion. We just have to remember that you can utilize technology to identify challenges, but at the end of the day, it is people that utilize those tools. You have to go beyond the tool.

Q Are there any dimensions of diversity that tend to get overlooked by companies as they embark on a DEI journey?

A Given the recent #MeToo movement, and what I coin as the "racial pandemic" with George Floyd and beyond, there tends to be a focus on race and gender. But there are so many things that go into diversity. When we're talking to our middle-market companies, we also want them to consider other demographics, like veteran status, and with respect to women—how many of the company's employees are mothers? How many of them are responsible for elder care? You also have to consider different generations that approach work differently, and LGBTQ and religious minorities who are also factors of diversity.

As we talk to our current clients and to prospects, we recognize that diversity is extremely important, but historically, a lot of companies have only focused on the diversity side. They have to understand the importance of equity and inclusion, which are different.

When I'm talking about equity, I'm talking about fairness—are your policies and procedures fair across your entire workforce? In terms of inclusion, the belonging portion of it means making sure that folks feel like they're empowered to not only be at the table, but to speak up for the things that are important. Spread your diversity demographics to beyond just race and gender but focus on the equity and inclusion part of DEI as well. //

ACG and SAP Discuss Partnership and Middle-Market Technology Solutions

Tom Bohn, CAE, MBA
President and CEO, ACG HQ

Greg Petraetis
Senior Vice President and General Manager, Midmarket and Partner Ecosystem, SAP North America

Nick Maglaris
Vice President, Midmarket Strategic Innovations, SAP North America

With only a three-to-five-year window to grow an investment, private equity firms need to implement significant cost savings and efficiencies to produce desired outcomes. To that end, business software technology is key to increasing equity value.

During ACG and SAP's joint virtual event, "Maximizing the Value of M&A through Technology," on May 4, ACG CEO Tom Bohn talked to top SAP executives about how the company's software helps private equity firms meet their goals in the middle market.

During the discussion, SAP North America's Greg Petraetis, senior vice president and general manager, midmarket and partner ecosystem, and Nick Maglaris, vice president of midmarket strategic innovations, explained how SAP technology is positioning middle-market companies to grow into global leaders.

Below is an edited and condensed version of the conversation.

Tom Bohn: Although SAP is perceived as a large enterprise-focused company, it has a growing presence in the middle market. Can you talk about SAP's middle-market strategy and how SAP partners with portfolio companies?

Greg Petraetis: In the middle market, we deal with growth companies. These are companies that don't want to be small and medium-sized businesses. They want to be the next billion-dollar company.

Middle-market companies represent a $68 billion market for software in 2022, and it's growing at a 20% compound annual growth rate. As they move from being innovators to disruptors to category leaders to global leaders, they are looking to profitably scale their businesses through technology.

We are making that available through SAP and the 3.5 million people that surround our company in our ecosystem. We are bringing in innovation best practices to help support these growth goals. The promise is to help them profitably scale the business and deliver something on time and on budget that supports their growth objectives.

When I look at why 1 out of every 3 of these companies is backed by an investment firm, it's just a great fit because expectations are high.

We are giving investment firms an opportunity to partner with us, collaborate and even co-innovate in support of our served industries.

TB: Nick, you spearheaded a collaborative approach between our two organizations to create the SAP Mergers and Acquisition Ambassador Program. Can you talk about how that came together?

Nick Maglaris: At the end of 2020, we were looking for a third-party organization that focuses on mergers and acquisitions in the middle market, and ACG fit the bill. In about six to eight weeks, we formed a partnership.

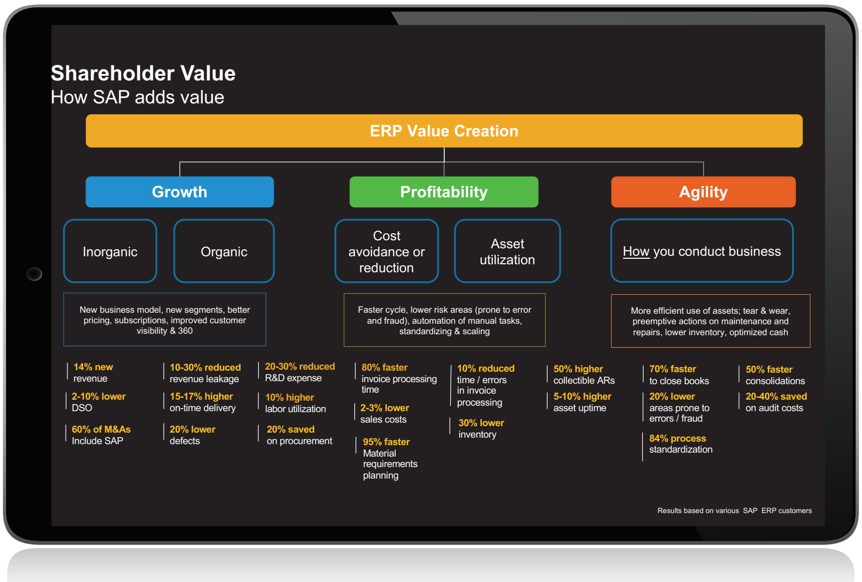
A lot of big companies are running SAP—in fact, 77% of the world's transactions are running SAP. In the middle market, we rely heavily on the collaboration and co-innovation of your partners.

The SAP Mergers and Acquisition Ambassador Program was built on the premise of reaching the influencers of private equity and select advisory firms.

Together, we built a sales and marketing consortium focused on SAP, ACG and the SAP ecosystem to help identify and build solutions to drive middle-market growth.

TB: What are some of the innovative programs where SAP is helping companies grow using technology?

GP: We have a number of different programs, but I'll highlight one we announced earlier this year, called Rise with SAP, which helps customers achieve aspirational growth objectives.



It's not software-as-a-service or infrastructure-as-a-service. It's transformation as a service. We realize that for companies to truly transform their businesses, they need a holistic offering.

Rise with SAP offers a concierge service for customers to move their business processes to the cloud, launch new business models, manage them, enhance them and profitably scale them in a highly managed fashion.

It brings together everything customers need to transform their businesses in a way that works best for them, regardless of their point of departure or how fast they want to move. We realize the transformation is a journey, so Rise with SAP allows customers to continually evolve.

Private equity firms like it because there's no high-cost, up-front investment. But there is a reduced cost of ownership, and there is a fast time to value.

We've modeled a 20% reduction in operating costs over the first five years. There is flexibility for these companies to grow, so we start with something we call a "value life cycle journey." We lead with a business case that's going to be specific and impactful to profits and losses.

We look at the capabilities of SAP and map those to our customers' business goals, and we benchmark what they can reasonably accomplish against best practices.

It's a thoughtful way to get started to align with the executives at those organizations and the private equity firms that support them. We are seeing very predictable rates of return and helping them meet their objectives on time and on budget.

TB: How does SAP add value for middle-market companies and help them address their pain points?

GP: The first thing we look at is how we can help achieve growth, whether inorganic or organic. How do we help the customer achieve true profitability through cost-avoidance or making the most of their assets? Finally, how do we help them achieve agility to generate that type of rapid scale?

I look at a company like Impossible Foods or LiveKindly Collective. They are using technology to help with new plug-and-play business models in the cloud, and the technology is helping to support their hyper-growth globally. They are transforming specific business processes as they move their businesses to the cloud. A good example is day sales outstanding (DSO). We are showing companies that by reducing DSO by just 2%, they can save millions of dollars per year.

Or look at a consumer products company like Epson, which is improving its manufacturing processes. Some companies are seeing as much as a 20% reduction in defects per unit and a 30% reduction in order lead time.

Another company that we're working with is Vari, a workspace innovation company. Vari is addressing everything from changes to consumer buying patterns, to challenges surrounding supply chain and optimization as they moved from B2B to B2C sales, as people worked from home during the pandemic. Their inventory carrying cost reduced 10% to 15% on average, and their planner productivity improved by an average of 20% to 30%.

We are proud to have Moderna as a customer, too. The broader pharma industry is often achieving 17% higher on-time delivery using our platforms, and 20% or lower stock-out on inventory levels, and 100% visibility into their inventory.

When you look at the mission-critical objectives that they are satisfying in many cases—especially in the course of this pandemic—it is translating into saving lives.

So are there tangible benefits to be had? Absolutely. But where they come to life is in these customer stories, and we've curated hundreds of these over the last six months. We are excited about what we are doing with our middle-market customers, and we are proud of the opportunity to support their ambitions. //

TRANSFORMATION ON YOUR TERMS AND YOUR TIMELINE

Introducing RISE with SAP

If you want to succeed in today's world, you have to constantly adapt your business. Planning for this continual evolution requires that you not only be *ready* for change, but that you change the way work gets done.

This demands a redesign of your business plans and processes, and that demands new thinking and new technologies that unlock new ways of doing business.

RISE WITH SAP | Business Transformation as a Service

Wherever You Are, Wherever You Want to Be

RISE with SAP brings together the solutions and services you need for true business transformation – in one package – regardless of where your business stands now or where you want it to go. It is SAP and an entire ecosystem of partners helping you chart your change on your terms and your timeline.

SIMPLICITY BY THE BUNDLE

A single offer on a single contract simplifies procurement and makes it easier to manage your vendors.

SAP S/4HANA Cloud – and integrated, extended solutions powering SAP Business Technology Platform – keep your organization agile and responsive.

The world's largest business network helps you collaborate across your company and across SAP's supplier, logistics, and asset intelligence networks.

OUTCOMES WITHOUT MAJOR INVESTMENTS

Realize the value of your investment sooner, with up to 20% reduction in TCO over five years.*

One platform breaks down silos and integrates data, intelligent technologies, and ERP software.

Savings, speed, and decision-making are all improved, all across your company.

HELP AT EVERY STEP

SAP analyzes your processes against industry standards, offering you tailored recommendations of where to focus your efforts.

Tailored training and tools support you as you move from your current ERP environment.

22,000 SAP partners are ready to provide any additional support you need.

*RISE with SAP allows customers to realize the value of their investment sooner, with up to a 20% reduction in TCO over five years for SAP S/4HANA Cloud, private edition as compared to a traditional ERP deployment.

TCO reductions and timelines are modeled estimates from interviewed company data taken from the following IDC studies: ECC and SAP S/4HANA TCO study (Nov. 2020) and IDC SAP S/4HANA Business Value Study (March 2020). Timelines and estimates are intended for illustrative purposes only, and SAP makes no guarantees as to actual results.

Technology Continues to Drive the Middle Market

"Private equity is in its infancy [when using alternative data]. There are a handful of firms that are adopting it, but it's a fairly small number. Some are investing and growing their teams by adding data scientists and engineers and data sets. It's growing, but it's early days in the PE world."

JASON HILLS,
Chief Revenue Officer for Facteus Inc., discusses how deal-makers need to embrace alternative data

"As you have multiple generations with varying needs and unique levels of technology experience, it's difficult to find that perfect solution to meet all of your various different users. Aligning those expectations, timelines, training and open communication are core to a successful implementation."

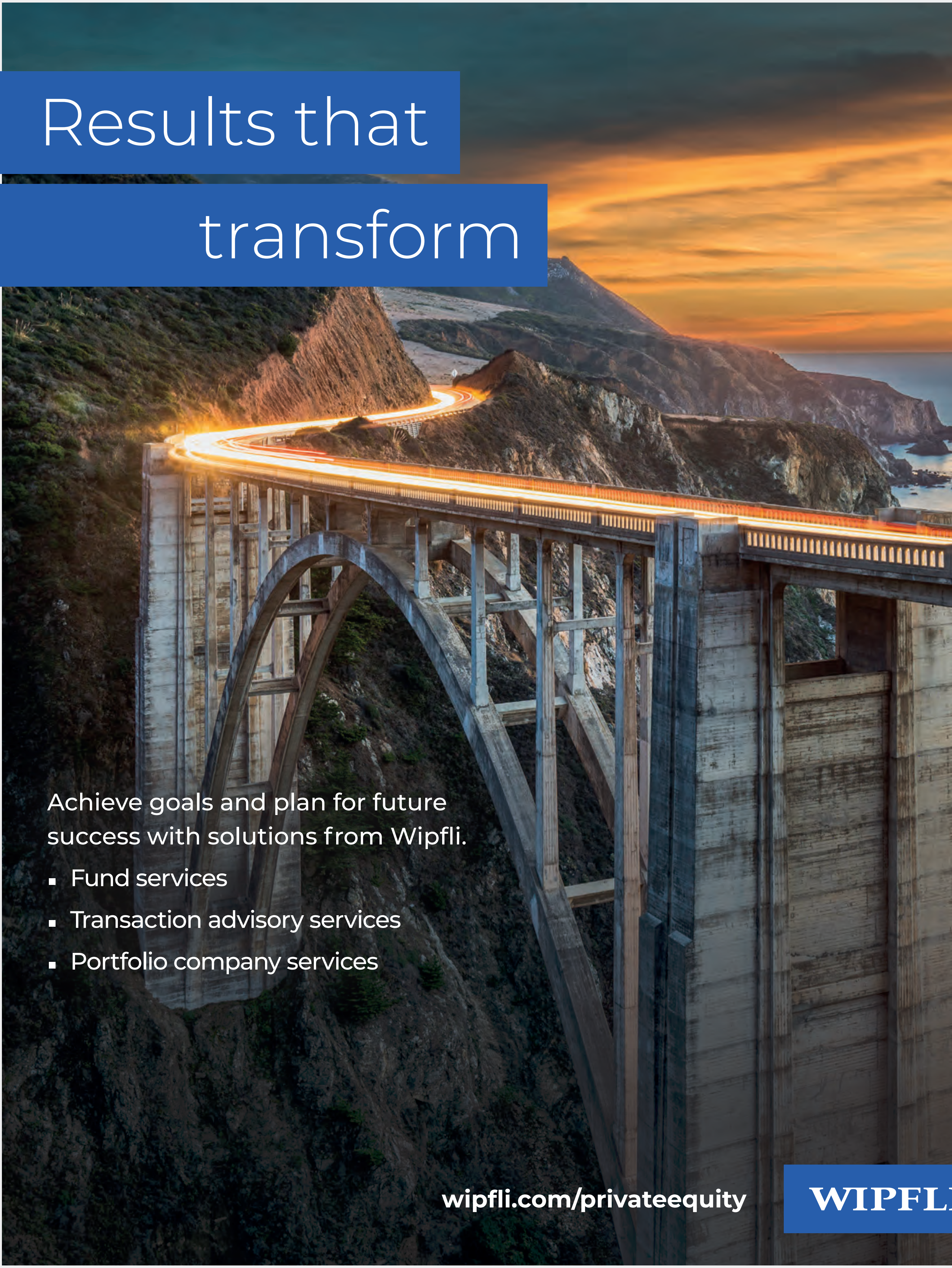
CHRISTINA CHURCHILL,
Consulting Principal for Family Offices, RSM US LLP, on the challenge faced by family offices as they adopt new technology systems

"We are seeing a lot of energy and power deals come to market, and technology is an active participant. In some regions, it's underperforming and in some it's overperforming, but everybody is looking at technology deals. There are lot of new technology companies buying new technologies and new talent."

BRIAN HWANG,
Director of Corporate Development & Global Partnerships for SS&C Intralinks, discusses his firm's Deal Flow Predictor

"THERE IS NOW SOMETHING CALLED ZOOM ETIQUETTE ... AND I FIND THAT PEOPLE ARE MORE RESPECTFUL WHEN SPEAKING OVER ZOOM. ALSO, A MEETING THAT TAKES THREE HOURS IN PERSON CAN BE DONE IN 90 MINUTES.

GRETCHEN PERKINS,
Partner at Avance Investment Management, on the impact of remote work and virtual meetings during the past year


Results that
transform
Achieve goals and plan for future success with solutions from Wipfli.
Fund services
Transaction advisory services
Portfolio company services
wipfli.com/privateequity
WIPFLI

Tackling the Tech Needs of SMBs

With two acquisitions under its belt this year and a rebrand set for summer, ECS/My IT takes on an overlooked market

By Phil Albinus

Amazon, IBM, and Google IT and cloud services might be a perfect fit for global enterprises with tens of thousands of employees, but these tech giants' offerings are often overkill for small to medium-sized businesses with 200 technology seats and no dedicated IT support. Enter firms like ECS/My IT, a Shreveport and New Orleans, Louisiana-based IT services company that focuses on the tech needs of the SMB sector.

While it offers and resells some of the services from the IT giants, ECS/My IT's back office, IT and compliance offerings allow clients to focus on their core businesses, says CEO Kevin Cook.

SMBs with 200 people are the company's "sweet spot," and it can scale up to 1,600 technology endpoints, according to Cook. "These are tight businesses and it's interesting to see how the industry has evolved to adapt to the needs of our clients, because that's what keeps us relevant," he says.

This looks to be a year of growth for ECS/My IT, thanks to its partnership with private equity firms Kian Capital and ParkSouth Ventures, which officially acquired the businesses last year. ECS (Enterprise Computing Services) merged with My IT in 2020 and plans to acquire more businesses in the coming months and to rebrand itself in June. In April, ECS/My IT acquired The Purple Guys (TPG), a Kansas City, Kansas-based managed service provider with more than 175 clients located in the Midwest. This acquisition is ECS/My IT's first foray in this region.

"With the acquisition of TPG by ECS/My IT, we'll be able to provide our client base enhanced solutions and offerings, broaden our geographic reach and strengthen the combined companies," said Jon Schram, president of The Purple Guys, in a press statement.

"We're not out looking for fixer uppers. We're looking for fairly sizeable, well-run, mature companies in the MSP (managed service provider) space that are in geographies that make sense for us," says Cook, who describes his company's growth strategy as "pretty aggressive."

Matt Levenson, partner at Kian Capital, says that finding the right fit was key to The Purple Guys acquisition.

"There's 20,000 MSPs out there, give or take, and a lot of them are not companies that we're going to be interested in for a variety of reasons. But even the ones that we are, they're getting a lot of inbound [calls] in a very competitive market," Levenson says. "You've got to hit people at the right time with the right message. Fit is not just fit from a systems and service delivery standpoint, but it's also a cultural fit."

ECS/My IT's new branding will start internally for employees and then move externally. "We've been working through a process to figure out who we want to be," Cook says. "We'll come together under one common brand and as we make acquisitions, we would then roll them up under the new brand." //

Kelley Powell

CEO and Partner, MacLaurin Group

Kelley Powell is CEO and partner of MacLaurin Group, a technology operating partner for private equity portfolios. She has served on executive teams for multiple private equity investments and is the best-selling author of "Courage to Lose Sight of Shore: How to Partner with Private Equity to Grow Your Business with Confidence." Powell serves as board member of ACG Richmond, KAYO private equity guide and host of MacLaurin Group's Intimate Conversation series.

"PE FIRMS WOULD BE BEST SERVED TO TREAT TECHNOLOGY DUE DILIGENCE WITH THE SAME IMPORTANCE AS FINANCIAL DUE DILIGENCE."

Q How should private equity firms approach technology due diligence?

A The key to a good private equity partnership is relationships. How PE firms and their operating partners interact with companies prior to a transaction is a litmus test for how everyone will engage post-transaction. Technology due diligence is no different.

Technology due diligence should not be scary, complicated or hard. Rather, it should be framed as an opportunity and investment to understand an acquisition target's existing technology, the growth you want to achieve, and how to get there together. Technology due diligence should allow for much more than running down a list of questions in a spreadsheet. If a PE firm is sending in a technical team for diligence with no guidance as to what they plan to do with the company if successful, then they are getting little to no value out of that spending.

For example, if you plan on increasing the sales of the company, ask yourself if the existing technology platform will scale to support the planned growth. What if there is a new product idea you plan to build or bolt on—can the platform cope? Do you understand the investment lift needed to build out business analytics? If you determine that your investment thesis requires significant investment in technology in order to achieve it, then far better to have a handle on the required investment prior to the close of the transaction than after the fact.

Q What impact can technology have in achieving growth or scale for a portfolio company?

A It depends on the company. One size does not fit all. Technology is generally the key to successful growth and scalability of a company. Yet, it is often not considered early enough in the process.

PE firms would be best served to treat technology due diligence with the same importance as financial due diligence. While any issues found can usually be solved, they almost always take longer and are more expensive than expected. Allowing time for technology due diligence early in the process will determine the true value of a deal.

With many of our technology due diligence engagements, we are often told the company is "in the cloud." We take the "trust but verify" attitude and perform a detailed look anyway, and we seldom find a setup without opportunity for improvement. Cloud architecture takes more than opening an account on Azure/AWS and deploying some servers.

MORE ONLINE

What should business leaders consider before migrating to the cloud? Learn more at *middlemarketgrowth.org.*

Many companies still need a push to move away from physical data centers and operate exclusively in the cloud, allowing them to remove unnecessary overhead and housekeeping to then focus on the core business. Last year should have been a wake-up call for those needing that push: Get out of the server business and get back to your core client-facing business.

Q How can private equity firms support portfolio leaders as they implement new technology?

A Think bigger. Think longer. There is a delicate balance between completing projects short-term, in order to more quickly realize the benefit early in the investment period, while keeping long-term growth top of mind. CTOs too often think short-term with projects because they have had to think of technology as an expense throughout their careers—where they need to cut costs—rather than to look at technology through the lens of investment for growth.

There are projects you can get done in under a year. Those projects and investments are easy calls to make because you are confident you will realize the return early on during the holding period. However, some projects—usually involving legacy modernization—are multi-year efforts. These investment-heavy initiatives are the ones private equity can support and get behind, and ease the tension with the CEO and board, which may push back.

Such projects always yield their value at the end, especially in the sale price, as the next PE firm does not have to contend with the outdated legacy systems, but can build upon the modern architecture to accelerate growth. //

UP IN

THE

AIR

Private equity helped SPACs take flight. Now, will new obstacles threaten the boom?

BY BAILEY McCANN | ILLUSTRATED BY MITCH BLUNT

Some say it started with Twinkies.

When The Gores Group took Hostess Brands public through a reverse merger in 2016, it was the culmination of a quiet effort happening within private equity to institutionalize special purpose acquisition companies—better known as SPACs.

Also called "blank check companies," SPACs raise money through an initial public offering with the promise that they will merge with an unspecified company, effectively taking that business public.

Prior to the pandemic, the SPAC market was slowly gaining steam as high-profile general partners like CC Capital Partners and TPG started looking seriously at the vehicle for taking midmarket and high-growth companies public.

By 2020, the SPAC market had grown into a multi-billion-dollar powerhouse, attracting hundreds of new entrants alongside private equity, including celebrities and retired athletes. Now, even Shaq has a SPAC.

IN THE YEARS AFTER THE HOSTESS DEAL, THE COMBINATION OF SUCCESSFUL SPAC TRANSACTIONS AND UPDATES TO THE APPROACH—LIKE THE USE OF PIPE CAPITAL—HAS DRAWN IN WELL-RESPECTED SPONSORS AND INVESTORS TO THE SPAC MARKET.

According to data provider SPAC Research, $83.4 billion was raised for new SPAC issuance in 2020. That number was surpassed early in 2021, as SPACs raised $100 billion in the first quarter alone. By April 2021, there were a total of 560 active SPACs, 434 of which were still seeking a target.

Yet launching a SPAC comes with risks. The market has drawn scrutiny from regulators and private equity limited partners, and signs of cooling this spring have raised the question: Can the SPAC boom last?

A SWEET DEAL

Prior to the 2010s, SPACs were known as the option for less-than-high-quality companies to go public with the help of less-than-high-quality sponsors. This left many investors with underperforming holdings once the deal went through. Meanwhile, SPAC rules allow investors to vote against a merger while still collecting interest on their share of the SPAC. Some investors became more interested in that arbitrage than in the company itself. The resulting dynamic created even more uncertainty about what would ultimately happen with a SPAC deal.

A sluggish IPO market in the mid-2010s led some private equity firms to reconsider the structure. Taking a company public through a SPAC has some distinct advantages. The timeline to market is shorter, ranging from months to up to two years. SPACs also lack many of the trappings of an IPO. Launching a SPAC doesn't require lining up an investment banking team to list the company and host a roadshow, and there is significantly less accounting and disclosure work. SPACs can also be a better fit for middle-market companies in niche industries, or tech companies that may not have an IPO-ready revenue structure.

Sponsors with a deep understanding of the midmarket and the technology industry started using SPACs to take companies public. Firms like CC Capital Partners, The Gores Group and TPG brought along their existing investor and investment banking relationships, effectively institutionalizing and destigmatizing the market, culminating in the SPAC boom that started last year. The acquisition of Hostess was one of the deals that helped pave the way.

Apollo Global Management and consumer industry investor C. Dean Metropoulos bought the Twinkies-maker in 2013 for $410 million. Ahead of Hostess' merger three years later with


Sno Balls
CupCakes
utz
Twinkies
Ding Dongs
Zingers
$

“IF YOU SEE THAT THE PIPE IS OVERSUBSCRIBED—THAT’S AN INDICATION THAT YOU’VE GOT A GOOD DEAL.”

JENNIFER KWON CHOU
Managing Director, The Gores Group

a SPAC sponsored by Gores, Apollo and Gores leaned on the PIPE market—private investment in public equity—to validate the company’s go-to-market story and valuation.

After a SPAC announces its intention to combine with a business, it “must offer its public investors the option to either redeem their common stock for the original purchase price or to sell their common stock to the SPAC in a tender offer,” according to a tip sheet published by law firm Mayer Brown LLP. “This redemption option inherently creates uncertainty as to the amount of cash available to the combined company following the initial business combination.”

By selling equity to private investors through a PIPE deal, the SPAC raises committed capital. Because the capital is committed, the PIPE money helps to estimate the SPAC’s valuation and how it is likely to trade.

“Initially, we used the PIPE market out of necessity to deliver more proceeds [in the Hostess deal],” explains Jennifer Kwon Chou, managing director at Gores. “But now it’s become a big part of our playbook, and you see it a lot with other SPACs in the market today. If you see that the PIPE is oversubscribed—that’s an indication that you’ve got a good deal.”

Gores Holdings, Inc., the SPAC sponsored by a Gores affiliate, announced on Nov. 4, 2016 that it had completed the acquisition of Hostess Brands in a deal valued at $2.3 billion.

In the years after the Hostess deal, the combination of successful SPAC transactions and updates to the approach—like the use of PIPE capital—has drawn in well-respected sponsors and investors to the SPAC market.

Interest from retail investors has bolstered this trend further. They can’t participate in IPOs, and a decline in the number of companies going public has led to fewer opportunities to invest in emerging industries. With SPACs, these investors have a new avenue to add companies like DraftKings or Skillz to their portfolios.

ALIGNING INTERESTS

Private equity helped to usher in the SPAC era, but there are still operational considerations for GPs and other investors. Raising a SPAC alongside existing private equity funds requires careful conflict mitigation when choosing potential target companies and identifying independent financing. Limited partners also have raised red flags about alignment of interests, given the different economics between SPACs and traditional GP transactions.

"It's often a question of bandwidth," explains Carol Anne Huff, co-chair of capital markets at law firm Winston & Strawn. "If a private equity firm decides to raise a SPAC, they'll need to be able to provide resources to manage that vehicle."

Even if managers have run concurrent investment strategies in the past, they may still have to address LP concerns about where the firm's leaders are focusing. "We have seen some smaller firms opt to bring in a new president just for the SPAC to deal with that so that there are clearly delineated teams," Huff says.

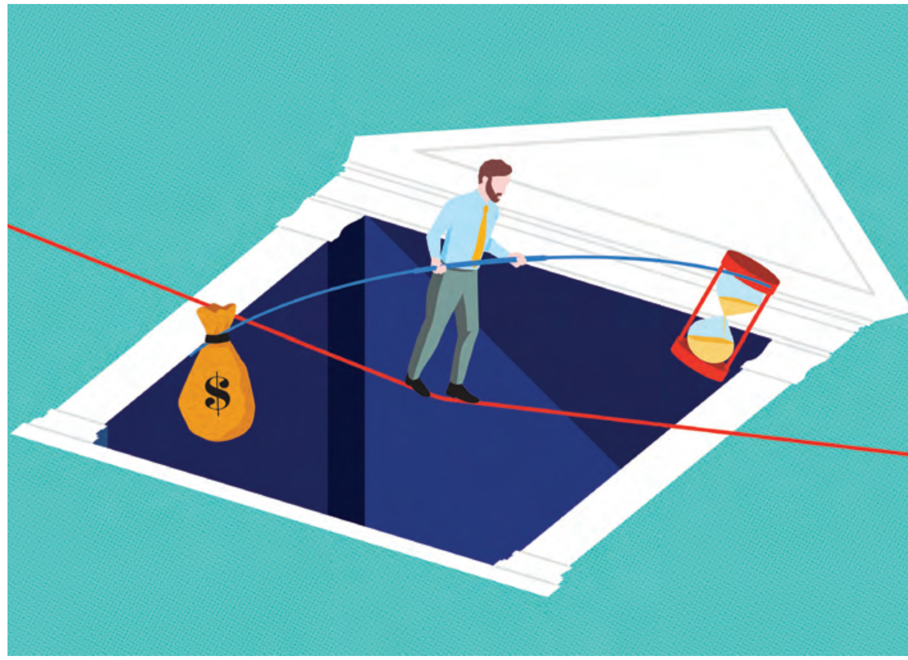
Dan Moore, co-portfolio manager of investment firm DuPont Capital's merger arbitrage strategy, which invests in a variety of SPACs, adds that evaluating the full slate of a sponsor's activities is an important part of the diligence process. "When we think about investing in SPACs, we aren't just looking at the target company; we're looking very closely at the team. There are a lot of repeat issuers in the SPAC space right now, so you can start to evaluate a track record."

On the other hand, if it's the sponsor's first SPAC, Moore and his team want to understand if the SPAC is its sole focus—and if not, what else the sponsor is involved in and where it's getting financing. "When you have this much money coming into a space this quickly, diligence is critical," he says.

Roger Aguinaldo, senior advisor at investment firm CC Capital, adds that it's important for LPs to understand the economics behind a SPAC and how they differ from a traditional private equity fund. CC Capital has been involved in several SPAC transactions focused on middle-market companies, in addition to traditional private equity investing.

Because SPACs operate on a shorter timeline and ideally end up in the public markets at a significant multiple within two years, it may be tempting for GPs to focus more closely on the SPAC than a traditional fund that's midway through the investment cycle. "I think it's totally fair for LPs to raise these issues, and GPs should be able to have clear answers on how they intend to manage the process," Aguinaldo says.

For some firms, the pivot to SPACs has meant a more comprehensive shift overall. Six years ago, The Gores Group decided to forgo raising its next private equity fund to focus entirely on SPACs. "We made a conscious decision to build a franchise in the space," says Gores' Jennifer Kwon Chou. "We have done a lot of work aligning our attention, as well as our diligence process, to make sure that we're going to continue being successful in SPACs." »



"I THINK IT'S TOTALLY FAIR FOR LPs TO RAISE THESE ISSUES, AND GPs SHOULD BE ABLE TO HAVE CLEAR ANSWERS ON HOW THEY INTEND TO MANAGE THE PROCESS."

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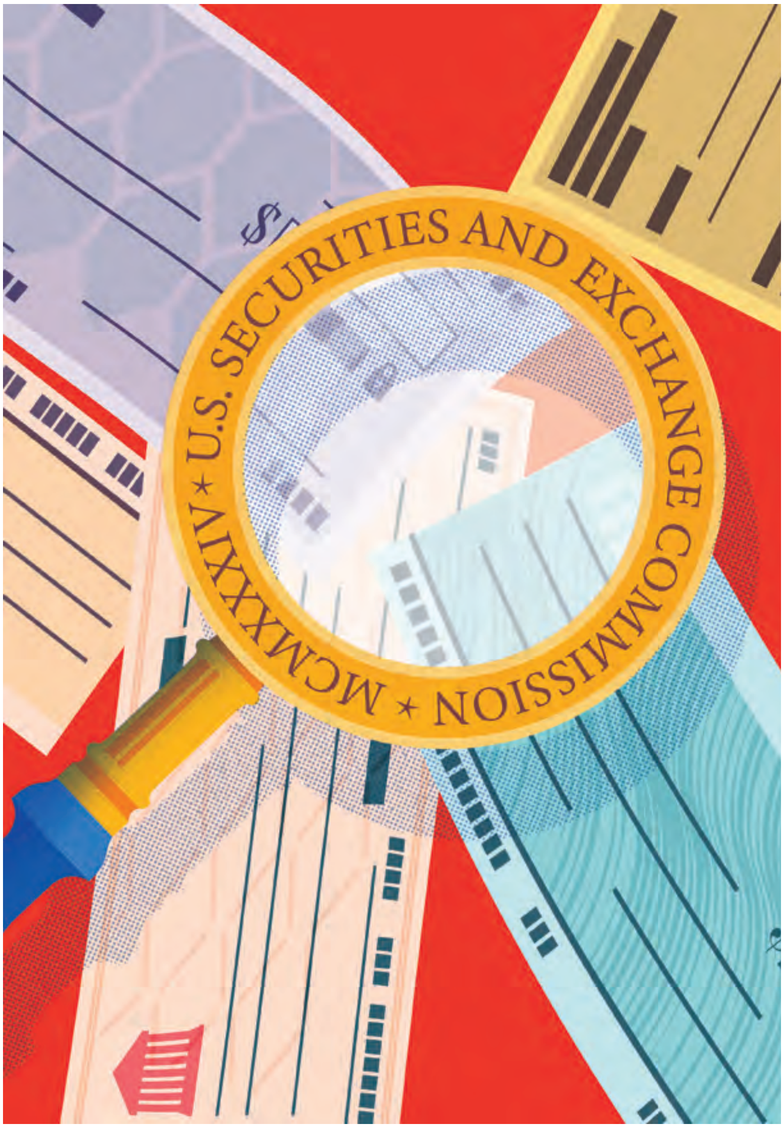


REGULATORS HAVE RAISED QUESTIONS ABOUT THE ACCOUNTING PRACTICES USED BY SPACS, AS WELL AS HOW ISSUERS DETERMINE THE PROJECTED VALUE OF A SPAC.

CATCHING UP OR SLOWING DOWN?

After watching companies with no revenue along with high-tech businesses in nascent industries go public through celebrity-sponsored SPACs, it can be tempting to view all this activity as just a flash in the pan. But plenty of strong companies are coming to market this way, too. In August, CC Capital used its SPAC Collier Creek Holdings to take potato chip-maker Utz public after nearly 100 years as a family-owned business.

Although recent activity suggests that SPACs will remain a popular avenue for taking companies public for at least the next few years, it won't be easy for everyone, and it's not without some risk.

Despite record levels of fundraising, the SPAC market started to show signs of cooling off in March and April.

"We've seen a bit of a slowdown in the PIPE market, which has had a knock-on effect with SPACs," says Burke Dempsey, head of investment banking for Wedbush Securities, a wealth management and advisory firm. "A lot of folks are simply catching up, given the level of activity. But I think there is also a growing realization that there are a lot of SPACs out there looking for targets and they've got a finite amount of time to identify one. So I would expect the PIPE market and investors generally to spend more time scrutinizing potential deals to make sure everything lines up."

A little over a year into the initial boom, the catch-up period is also creating new barriers to entry for first-time SPAC issuers. There are already plenty of SPACs for investors to consider, and many of them are backed by repeat sponsors and well-capitalized veteran teams. If the PIPE market starts to dry up for SPACs, it could be challenging for new issuers to run a smooth process free of financing hurdles—especially if a proposed merger hits a speed bump and investors start voting against it.

There is also the question of identifying target companies. Mark Solovy, managing director at lender Monroe Capital, argues that plenty of companies could go public through a SPAC transaction, but founders and sponsors ultimately must share the same goals if a deal is going to be successful, just like in a private equity transaction. Solovy co-heads the technology and tech-enabled business services finance group as well as the SPAC group at Monroe, a repeat issuer.

"There are always a lot of dynamics at play when a SPAC issuer is trying to determine the best company to secure and complete a transaction with. You might see an experienced SPAC team pass on a company and then that company has more appeal to a different veteran team. Or a first-time SPAC issuer thinks they have a unique story with a certain target," he says. "However, it's going to take some time for all of that to shake out in the process. This is where an experienced SPAC investment team proves to be an advantage for a successful business combination."

Early data on the current generation of SPACs suggest the market tends to favor repeat issuers over first-timers, because they know SPACs well and can tell a compelling story for the public market. Meanwhile, the Securities and Exchange Commission is increasing its supervision of SPACs, which could put additional pressure on first-time issuers who aren't as well-versed in the process.

In March and April, the SEC began taking a closer look at the SPAC market, given the amount of money raised over a very short time frame. Regulators also raised questions about the accounting practices used by SPACs, as well as how issuers determine the projected value of a SPAC. The scrutiny has been effective at slowing down activity in the market, and some of the largest SPACs have updated their disclosures in an effort to stay on the right side of the regulations.

Market dynamics may also dampen SPAC activity going forward. Several high-profile SPACs have underperformed against investor expectations, which could have a chilling effect on new issuers. If both financiers and investors are taking a harder look at new SPACs as they come to market, it could keep overall transaction volume down.

It's too early to predict how the current SPAC boom will play out, but private equity may be in a good position either way. A continuation of the trend will benefit those firms that have launched SPACs of their own. On the other hand, if a significant number of the newly listed companies falter over the next few years, there will be plenty of public companies to take private. Watch this space. //

"A LOT OF FOLKS ARE SIMPLY CATCHING UP, GIVEN THE LEVEL OF ACTIVITY. BUT I THINK THERE IS ALSO A GROWING REALIZATION THAT THERE ARE A LOT OF SPACS OUT THERE LOOKING FOR TARGETS AND THEY'VE GOT A FINITE AMOUNT OF TIME TO IDENTIFY ONE."

BURKE DEMPSEY
Head of Investment Banking, Wedbush Securities

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

HOW CANADA BECAME A MIDMARKET TECH DESTINATION

BY HAL CONICK

A decade ago, Doyl Burkett flew to Ottawa to research an investment. It was the first time he visited Canada, and he was surprised by his reception—people hugged him in thanks for coming.

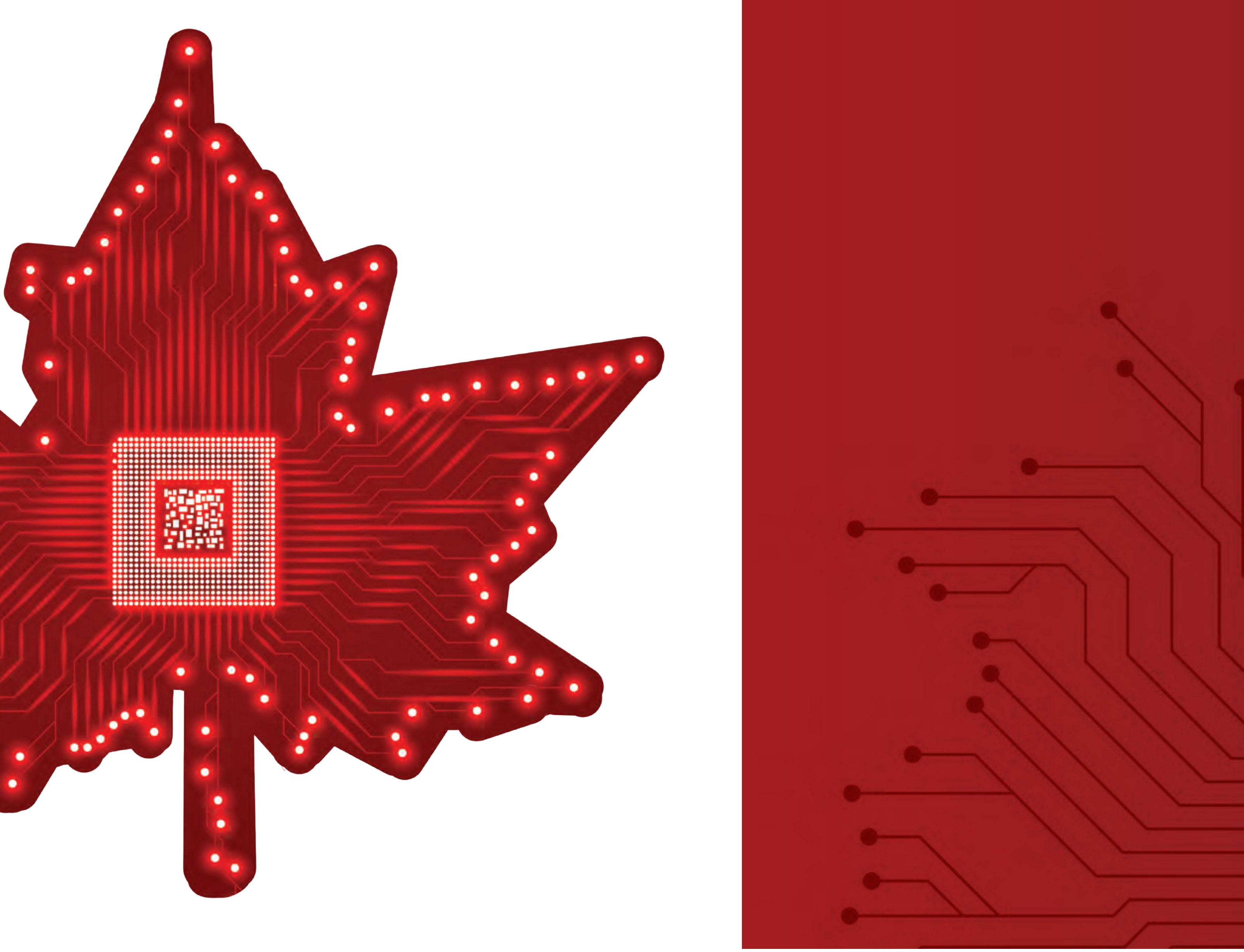
At the time, American investors were a rare sight in Canada. "A lot of U.S. investors won't even go there," says Burkett, co-founder of Integrity Growth Partners, an investment firm based in Los Angeles. "There's this mental block, one we've found is very lucrative to overcome. There are a lot of great opportunities there. But for whatever reason, historically, there just haven't been as many people going up there. Which is good for us."

Since then, Burkett and his co-founder, Scottie Wardell, have continued investing in Canada. They've found success in their niche of owner-run, midmarket software and technology companies.

But recently, investors from across the world have started investing in Canadian tech. It's good news for Canadian businesses, Burkett says, but a net negative for investors who held Canada as a well-kept secret.

SECRET NO MORE

Despite the pandemic, 2020 was a big year for private capital investment across Canada, according to CPE Analytics' Canadian Venture Capital Report. Venture capital investors disbursed $5.3 billion Canadian dollars to Canadian companies in 2020, a slight dip from 2019 when



investors set a record with CA$7.5 billion in disbursements.

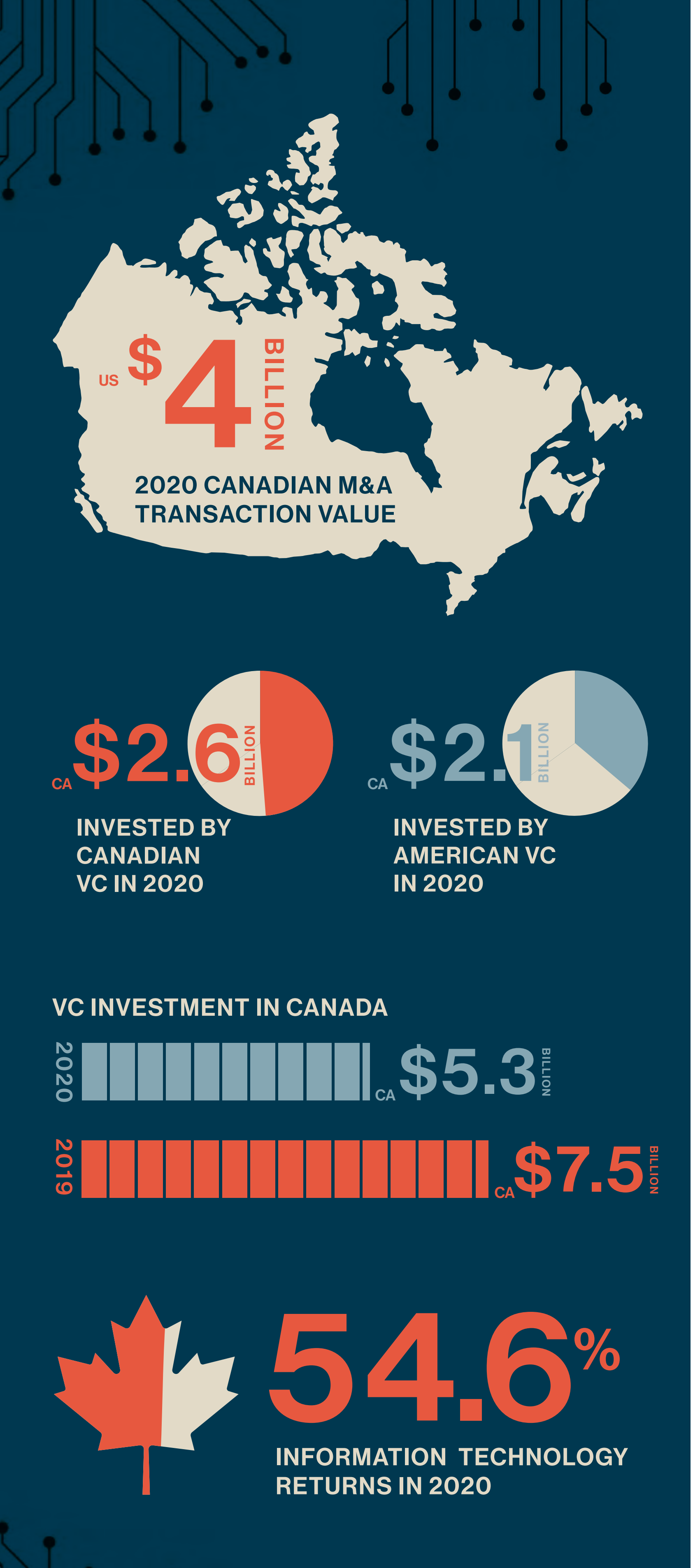
The numbers in 2020 were lower than they'd be if there was no pandemic, as U.S. investors pulled back a bit, but Canadian venture capitalists spent more than usual. Canadian investors disbursed CA$2.6 billion in 2020, while U.S. funds invested CA$2.1 billion.

And investments surpassed expectations. International Data Corporation predicted in March 2020 that the pandemic would substantially slow the Canadian tech market. But beyond a few weeks at the start of the pandemic, Shevaun McGrath, partner and co-head of private equity at Canadian law firm McCarthy Tetrault, says that the midmarket tech sector was stronger than ever, especially for software and health care tech.

Mergers and acquisitions deal value and volume also rose, according to MNP Corporate Finance's Middle Market M&A Update for Q4 2020. During the early days of the pandemic, there were $2.7 billion worth of transactions—by the end of the year, they were up to $4 billion. Technology did especially well in the midmarket, with information technology rising 7.4% in Q4. IT was the best performing segment of the year, with a return of 54.6%, largely because of companies developing e-commerce platforms.

After a strong showing last year, McGrath believes that the midmarket Canadian tech industry will keep growing.

"It's crowded for a reason," she says. "Because the assets are so attractive."



Sources: MNP Corporate Finance, CPE Analytics

A BRIEF HISTORY OF INCREASING COMPETITION

Canada wasn't always such a hotbed of tech. In the early 2000s, Canadian investor Jim Orlando described it more like a nuclear winter.

After the dot-com bubble exploded, Canadian investors were decimated. "You had, in a sense, a bunch of first-time funds that never made it onto fund two," Orlando says. For years, there was little investment in Canada's tech industry—even Orlando went to work in Silicon Valley.

But something changed around 2010. Tech giants, such as Microsoft and Amazon, opened R&D hubs across Canada—Orlando believes that they were drawn in by Canada's talented computer science graduates. McGrath echoes this, noting that the University of Toronto and University of Waterloo have well-regarded computer science programs, which make for attractive human capital.

In 2013, the Canadian government wanted to break the country out of its nuclear winter. It offered investors a program called the Venture Capital Action Plan. This program deployed $390 million in capital to venture capital and private sector funds across the country, which then invested that money in Canadian businesses.

Then, in 2015, one of Canada's home-grown startups, Shopify, went public. It proved that Canadian tech companies could grow large. Orlando—who had become an early investor in Shopify as a managing partner with OMERS Ventures in Toronto—said that investors became more confident about Canadian tech. More importantly, so did Canada's entrepreneurs.

"That was a really meaningful moment in the Canadian technology industry," Orlando says. "You had a standalone, independent, Canada-founded startup that went on to dominate its segment and go public on both the Toronto Stock Exchange and the New York Stock Exchange, simultaneously. That became a sign that this can actually happen in Canada."

Orlando, who now serves as managing partner of Canadian venture capital firm Wittington

Ventures, says that the Canadian tech market has matured over the past decade. Many Canadian tech entrepreneurs have gone on to found their second and even third business, something that would have been unusual 10 years ago.

And the nuclear winter appears to be over. There are now more investors like Burkett and Wardell from outside Canada, but also many more Canadian investors like Orlando.

"It gives more opportunities for Canadian investors to invest in Canadian companies," Orlando says. "Once you get into this midmarket range, all the growth equity shops in the U.S. don't even think about the fact that there's a border. They're looking at companies in Silicon Valley, just like they would look at a company in Chicago, just like they would look at a company in Toronto. They wouldn't distinguish on a geographic basis."

WHY INVESTORS LOVE CANADA

In Canada, relationships matter. Burkett and Wardell say that relationship-building is a cornerstone of their strategy in Canada, and a perk of working in the country. Everyone in the market seems to know each other.

This is far different from U.S. tech hubs. Doing business in Silicon Valley feels like being a contestant on "The Bachelor," Burkett says. Companies often send a page to collect the top bids, then decide on their partner from afar. But doing business in Canada's midmarket requires getting to know people and forming relationships. It's a market where reputations are made by way of social inroads.

For U.S.-based investors in a foreign country, this matters greatly, especially since Canada isn't quite so foreign. Jake Brodsky—a principal at San Francisco-based private equity firm Alpine Investors and co-founder and principal of Alpine Software Group (ASG), Alpine's software-focused arm—says that the people and systems in Canada were a great cultural fit, something that was helpful for understanding the market, companies and employees.

Although Canada feels familiar, U.S. investors will still face challenges on foreign turf. Some of the grants and tax credits offered in Canada, for example, aren't transferable if an investor moves a company away from Canada.

U.S. investors will also need to become aware of Canadian law, McGrath says, like the Investment Canada Act, which requires government approval for transactions of a certain size. Investors may be familiar with the law's American counterpart, the Committee on Foreign Investment in the United States.

"If the government determines that there are national security interests, then they can block the deal. In the tech industry, we're really careful to ask, question No. 1, 'Who are your customers?'" McGrath says. "Even if it's printer delivery, or something silly like that, our government has been very active in using their national security review process to put their finger on stuff that they think may be a national security issue."

But the main challenges lie at the crossroads of increasing competition and the need to form strong relationships. If an investor doesn't have relationships in Canada, they're starting from nothing. Brodsky's advice: Find a "river guide," someone who knows the Canadian market. Brodsky leans on executives at a company his firm invested in when he has questions.

Wardell advises staying true to your niche. For Integrity Growth Partners, that's the lower middle market, which has more companies and less competition. "You can still distinguish yourself and get to know these folks," she says. "That has allowed us to stay competitive and win really good deals in a market that's already quite competitive."

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> "ONCE YOU GET INTO THIS MIDMARKET RANGE, ALL THE GROWTH EQUITY SHOPS IN THE U.S. DON'T EVEN THINK ABOUT THE FACT THAT THERE'S A BORDER."
>
> JIM ORLANDO
> Managing Partner, Wittington Ventures

“IF INTEREST RATES STAY THE WAY THEY ARE, IF THE BRIGHT MINDS OF CANADA KEEP PRODUCING STUFF THAT WE’VE NEVER EVEN THOUGHT OF, I THINK THE DEMAND WILL REMAIN.”

SHEVAUN MCGRATH
Partner and Co-Head of Private Equity, McCarthy Tetrault

WHAT DOES THE FUTURE HOLD?

Orlando believes that investment in Canada will be slower in 2021, due to lingering effects of the pandemic. But he expects the market to pick up when more people are vaccinated and the Canadian border reopens. That might take a while, due to a turbulent start to Canada’s vaccine rollout. Only 2% of the population was vaccinated by mid-April, compared with 25% of U.S. residents, according to Oxford University’s Our World in Data.

Burkett and Wardell predict that pent-up demand will drive significant growth in the coming years. Even so, they’ll be watching whether certain types of companies that were successful amid the crisis—education technology, for example—can maintain their success.

McGrath expects Canada’s midmarket tech sector to be strong for a long time. While there are always ebbs and flows in markets, she doesn’t see ebbs coming anytime soon.

“If interest rates stay the way they are, if the bright minds of Canada keep producing stuff that we’ve never even thought of, I think the demand will remain,” McGrath says. “Canada is a nice, stable economy to invest in, and the global interest will remain. I don’t see it ending anytime soon.” //

Hal Conick is a writer based in Chicago.

There are other perks of investing in Canada’s middle-market tech sector, investors say, including:

Smaller markets. Doyl Burkett and Scottie Wardell cover companies in over 195 cities in Canada, but the vast majority come from Toronto, Vancouver, Montreal and Calgary. Focusing on these major metropolitan areas is more manageable – as Canada’s land mass is huge – and also lucrative. Toronto alone took in more than CA$1 billion in investments last year, according to the 2020 Canadian Venture Capital Report.

Less competition. While the competition in Canada’s tech sector is picking up, investors in Canada will compete with far fewer investors than they would in California.

Talented university students. Investors have noticed Canada’s talented workforce, but also its students. Jake Brodsky says that the Canadian government incentivizes Canadian graduates unlike anywhere else he’s visited. Many students come from overseas and the Canadian government entices them to stay after graduation.

Companies invest in students, too. One company Brodsky invested in works with engineers as they continue to earn their degrees. “Afterwards, they’re getting full-time offers to come and stay within our company and continue working on the product,” he says.

More foreign workers. Since 2016, many foreign workers opted for Canada over the U.S. amid the Trump administration’s limits on foreign work visas. Meanwhile, the Canadian government’s Global Skills Strategy program works to draw in foreign workers, often processing work visas within two weeks.

A stronger U.S. dollar. It’s easy math for investors: At press time, the exchange rate is 1 U.S. dollar for every 1.21 Canadian dollars.

Tax credits. Tax credits may be the biggest perk of doing business in Canada. For example, the Canadian Scientific Research and Experimental Development Tax Incentive Program, or SR&ED, offers an investment tax credit of 35%, up to the first $3 million, for research and development by companies working in technology, design, data and related fields.

“It basically takes on the cost for a company and allows them to become the bootstrapped company we’re looking for,” Burkett says. “If I’m spending $1 million in R&D in the U.S., that’s coming out of my pocket and it’s gone. In Canada, depending on how you spend it, you’re going to get a decent portion back. You can extend your runway longer in terms of burning capital and not having to raise capital because of SR&ED.”

ACG TORONTO CELEBRATES GOLDEN ANNIVERSARY

▲ Veteran private equity investors speak during the "Titans of the Industry" panel at ACG Toronto's 2019 ACG Capital Connection

Although most of the Association for Corporate Growth's 59 chapters are in the United States, one of ACG's oldest and most active outposts is located across the Canadian border.

Founded in 1971, ACG Toronto is the third-longest operating chapter in the ACG network, behind only New York and Chicago. It has established itself over the past 50 years as ACG's largest chapter outside of the U.S. and hosts more than 30 conferences and events annually that are attended by executives from across North America. Its marquee event, the ACG Capital Connection and Fall DealSource, attracts more than 700 investment professionals and 60 exhibiting firms from across the continent.

Among those attendees are American investors, whose presence in Canada has increased over the past two decades. "A few American private equity firms opened satellite offices in Canada over the years, whereas others strictly use ACG Toronto and its calendar of events as a launchpad to conduct business," says Darin Brock, partner at private equity firm TorQuest Partners and a past chair of ACG Toronto's board of directors. The launch of ACG Toronto's Capital Connection 19 years ago and the recent introduction of DealSource have helped drive a steady increase in American investor participation over the past few years, he adds.

Vaughn MacLellan, a partner at law firm DLA Piper LLP and the current chairman of the ACG Toronto board, notes the abundance of opportunities for investors in the Canadian midmarket in industries ranging from mining, energy and commodities to consumer packaged goods, renewable energy, fintech, health tech, e-commerce, and many others. "Our companies and entrepreneurs have world-class businesses, assets, talent and ambitions, and they're hungry to do deals," he says.

This year marks ACG Toronto's 50th anniversary, a milestone the chapter plans to highlight through programs in 2021 and into 2022. It is also developing a recognition program to celebrate the history of the chapter – the founders, corporate sponsors and long-time volunteers who have helped to expand the chapter's activities and build the ACG brand across Canada, according to ACG Toronto President and CEO Mike Fenton.

As ACG Toronto enters its sixth decade, its leaders plan to increase the focus on tailored content for members, according to incoming board chairman Ben Gibbons, a partner with RSM Canada. Creating and hosting networking events will also remain a core component of its strategy.

"We will increasingly lead differentiated content and thought leadership relevant to middle-market companies that is focused on supporting the diverse needs and interests of our key member groups – capital providers, family offices, corporates and advisors to these groups," Gibbons says. "ACG Toronto will expand its voice across these member groups as well as lead and facilitate increasing dialogue across matters important to the member base, including areas such as diversity and inclusion, ESG and talent management."

Innovation Leads the Way

BKD's forward-thinking solutions to emerging problems

Over the last decade, the private equity industry has grown substantially and become increasingly competitive. That has driven up prices for good assets and made it hard for investors to sell portfolio companies at a profit, prompting private equity firms to rethink their value creation process and, in turn, lean into different strategies that may give them an advantage.

The professionals at BKD CPAs & Advisors, a tax and advisory firm with a presence in 40 different practice units, have been closely watching this evolution. The firm, headquartered in Springfield, Missouri, employs seasoned veterans in the private equity market who are constantly looking for ways to address the unmet needs of their clients.

To that end, BKD launched its innovation department three years ago to offer clients analytical insights about how to better use their resources and grow their businesses. Today, the innovation team is a nationally established group whose 11 members serve the entire firm.

"Principled innovation has always been one of the cornerstones of our culture of Unmatched Client Service®," says John Kmetz, BKD's national private equity practice leader and member of BKD's Growth and Innovation Governance Committee. "We had a lot of ad hoc efforts helping our clients address their challenges. Establishing an entire department dedicated to furthering innovation brought that all together and lets us be really intentional in thinking about our clients' future needs."

Dustin Bobbitt, innovation program manager at BKD, adds, "We realized we could do a more definitive job of helping our clients solve problems. There are some complex, in-depth problems that are unique to our clients, and we wanted to figure out ways to help be part of the solution as our clients look to transact."

The innovation team typically identifies a problem through client conversations and then works to find the best solutions. "It's sort of like a science experiment. We listen, then take everything apart and put it back together again, and make sure we built it better than it was before," says Bobbitt.

Here's a look at some of the most popular tools that BKD's innovation team has developed since its inception.

Illustrations by Berto Martinez

CYBERSECURITY FRAMEWORK ASSESSMENT TOOL (CFAT) & RED TEAM SIMULATIONS

Understanding the cyberthreats facing a company is becoming increasingly important. More data records were compromised in 2020 than in the past 15 years combined, in what is described as a mounting "data breach crisis," according to a recent study from technology analysis firm Canalys. In addition, over the past 12 months, 31 billion data records have been compromised. This is up 171% from the previous year and constitutes well over half of the 55 billion data records that have been compromised in total since 2005, according to Canalys.

Cases of ransomware—a specific type of attack that encrypts servers and data to block access to a computer system until a sum of money is paid—have been on the rise. The number of reported incidents is up 60% compared with 2019.

As BKD watched cyberthreats become an increasingly large problem, the firm knew early on that assessing this risk would be critical to its clients. In 2020, BKD's innovation department launched a web-based service to help clients assess inherent and residual cybersecurity risks to their organizations. The assessment tool, known as BKD CFAT, helps users evaluate risks by leveraging guidance from nationally

▲
BKD's Innovation Team, from left: Adam Coats, Logan Stewart, Barbara Fadeyi, Claire McCune, John Yoo, Lindsey Frealy, Dustin Bobbitt

“THERE ARE SOME COMPLEX, IN-DEPTH PROBLEMS THAT ARE UNIQUE TO OUR CLIENTS AND WE WANTED TO FIGURE OUT WAYS TO HELP BE PART OF THE SOLUTION AS OUR CLIENTS LOOK TO TRANSACT.”

DUSTIN BOBBITT
Innovation Program Manager, BKD

▲ The BKD Denials Management dashboard provides visual analysis of claim-based information to help users make informed decisions on their organization claim denials

recognized organizations and government entities, such as the National Institute of Standards and Technology. The tool assists users with documenting how current controls are implemented. BKD then helps clients determine what they can do to protect themselves better. “We are dedicated to helping with cybersecurity because it’s become so important, especially today,” says Bobbitt.

BKD Red Team emulates attacks on clients to expose their weaknesses and identify areas where they are vulnerable to cyberthreats. “The practice is meant to help strengthen awareness and ultimately result in finding digital attack solutions that are unique to each client,” Bobbitt says. “Cyberattacks have become more complex and businesses need to protect themselves. We are forward-thinking about where the risks are, and we help our clients find those risks before it’s too late.”

HEALTH CARE DENIALS MANAGEMENT TOOL

At the end of 2020, BKD launched its new Denials Management tool, designed to help clients uncover the root causes of insurance claim denials and monitor performance trends over time. The tool provides a consolidated resource for claim denials, as well as real-time insights for users.

“The question is: Why are the denials happening? We are trying to minimize the denials by creating awareness as to why they are happening in the first place,” says Daniel Clark, managing director of BKD’s Health Care Performance Advisory Services division. “Targeting prevention of claim denials, as opposed to refiling and appealing claims, reduces denial rates and costly rework while improving patient satisfaction.”

The tool has proved popular with clients, especially today, given that health care organizations are under extreme pressure to identify and assess areas where money is being left on the table. With a rapid installation time and low maintenance, this tool is ideal for organizations that need to quickly identify opportunities for revenue capture.

"The tool helps users make sure the coding and claims are all done correctly and are ready for reimbursement," says Bobbitt. "There is a lot of risk in claim denial and a lot of the denials come from user filing errors. This tool helps mitigate these errors. Health care systems need to operate under the most streamlined processes possible, and the Denials Management tool allows them to do that."

BKD LEASEVISION

Adhering to regulatory compliance and considerations can be time-consuming and challenging. It can create uncertainty about what next steps look like as an organization seeks to continually adapt to shifting demands.

Using artificial intelligence technology, BKD has developed another innovative tool to help clients with the implementation of GASB 87 or FASB Accounting Standards Codification (ASC) 842 on lease accounting. The LeaseVision tool helps clients navigate the accounting rules and compliance issues related to these standards.

The AI-powered software begins by extracting key lease terms, allowing for easy review of the lease. Then, the BKD team provides a road map for implementing GASB's and FASB's lease standards. Lastly, the team helps clients develop lease amortization schedules. "The tool takes the manual processes out of the leasing process, which is important for companies that have a lot of leased space. It's efficient and effective," Bobbitt says.

AUTOMATION & DIGITAL TRANSFORMATION

Although "automation" and "digital transformation" are phrases that have been thrown around for quite some time, these trends have come to the forefront during the COVID-19 pandemic. Consumers have made it clear they crave a digital experience.

"Consumers want their information more streamlined, and they want efficient processes," says Bobbitt. BKD is looking to help clients with this need as it investigates potential solutions for helping clients digitize reports and financial statements and create archives without requiring a single keystroke.

The set of tools with transformative potential is a big one, but BKD isn't daunted. The firm is committed to continuing to explore emerging technology. "We are looking at drones, wearables, and how robotic processes can create automation," says Bobbitt. "All of these evolutions will lead our clients to change how they run their businesses, how they will hire, and how they will approach growth at their companies."

BKD employs mechanical engineers and a chemical engineer along with a diverse team of forward-thinking individuals, who are all working to understand how technology will impact businesses in the future.

"These technologies will affect every industry differently, but it will directly impact all our clients. We are working on figuring out how these innovations will impact—and more likely improve—business operations," says Bobbitt. "We understand that technology plays a role for our clients and that there will be a positive financial implication to using these technologies." //

> "PRINCIPLED INNOVATION HAS ALWAYS BEEN ONE OF THE CORNERSTONES OF OUR CULTURE OF UNMATCHED CLIENT SERVICE."
>
> JOHN KMETZ
> National Private Equity Practice Leader, BKD

Recruiting in a Virtual World

MIDMARKET TRENDS // How to hire, assess and onboard employees remotely

Shazia Subotic
Supervisor, Recruiting Services, Insperity

Face-to-face job interviews are generally a thing of the past. Except for certain highly skilled or executive positions, virtual recruiting is a powerful, safe and economical means to find, qualify and assess candidates, making it an essential competency for post-pandemic American businesses.

There is an important distinction between job advertisements and job descriptions. A job advertisement is a compelling summary that attracts candidates to an opportunity. It promotes challenging and meaningful work, great company culture, position benefits and required qualifications. A job description is an internal accountability document that is not necessarily written to attract job seekers, although recruiters can use job descriptions to provide further position details once qualified candidates engage.

Employers can publish position advertisements in media outlets and on social networking sites like LinkedIn. Companies can also seek candidates through virtual career fairs, which allow employers access to large numbers of potential candidates with targeted profiles. Candidates sign up for an interview hosted by employers in private video chat rooms. Large-group informational meetings held in virtual fairs are also very effective to develop interest among potential candidates.

Virtual Interviewing

After identifying great candidates, a company can conduct personal interviews in several virtual formats. Some firms have replaced telephone screening interviews with a pre-recorded video interview software, where candidates record a video and submit their answers to a list of screening questions.

Much like in-person interviews, video interviews provide a face-to-face exchange of information and key visual insights into the candidate's professional experience and demeanor. They also offer the candidate a window into your company's culture. Employers should supplement standard interview preparation with video meeting skills and logistical planning. These include having a high-quality video camera with a robust internet connection, a quiet room with good lighting and a professional background.

Virtual processes can also apply to assessments and background checks. Employers can use readily available online assessments to assess personality, aptitude, computational and quantitative abilities, and more. It is always best to conduct reference and background checks prior to extending an offer. Employers must conduct reference checks carefully and in accordance with federal and state privacy and other employment laws.

Virtual Onboarding

One challenge of remote recruiting is employee onboarding. Companies must welcome new employees, instruct them in company values, instill in them culture, and launch their productive career. This is partly accomplished by establishing a healthy employer brand and interviewing for cultural fit. Corporate culture should be discussed and demonstrated throughout the recruiting process.

Virtual onboarding should include manager and colleague video welcome and orientation meetings. One-on-one meetings, "lunch & learn" calls, and a delivery of supplies and some company swag will create a sense of belonging. A nominal gift such as flowers sent to the new employee's spouse or a food gift box for the family is also an endearing touch.

Culture is built over time, but these gestures are a good start. //

Shazia Subotic is a supervisor of recruiting services for Insperity in Houston.

Beware of These Five SPAC Risks

SOUND DECISIONS // Potential pitfalls of blank check companies

John Stewart
Partner, Dixon Hughes Goodman LLP

Partnering with special purpose acquisition companies (SPACs) is becoming an increasingly popular alternative to the traditional, and potentially complex nature, of an initial public offering for growing companies. If you are considering SPAC investment, be cognizant and aware of the following risks:

Misaligned Goals: Many SPAC management team members have a professional investment background and do not necessarily have expertise in the specific market segment in which the target company is focused. It is important that both SPAC management and the operating company management agree on significant issues, such as target markets and key operating metrics, at a granular level.

Deal Collapse: Although a SPAC and an operating company may enter into exclusive negotiations, it is less than certain that the acquisition will actually be completed. There are deals that never made it to the finish line after months of due diligence (financial, tax, legal, HR, IT, etc.), as well as more meetings and calls than teams care to remember. These deal collapses were driven by a variety of factors, including changes of heart by either the buyer or the seller, or external environmental factors, including turbulent financing markets and the global COVID-19 pandemic.

Delayed Timelines: Typically, a SPAC has a limited time horizon in order to invest. During this time, the SPAC must not only identify a target and negotiate a deal, but also complete the deal and comply with all reporting requirements. While a SPAC acquisition may require less time than a traditional IPO, the merged company must still comply with all Securities and Exchange Commission filing requirements, including complex financial statements and other financial reporting requirements, which can take significant time to prepare.

The Responsibilities of Being Public: It is sometimes said that going public—despite its challenges—is easy, while *being* public is the hard part. Many private companies are not prepared to be a public registrant and do not possess the sustainable processes and controls required for the rigors of public company financial reporting. Of course, the company has been "closing our books on a monthly basis for management reporting."

However, the current team should also be able to produce timely and accurate quarterly financial information (including international consolidation, tax provisions, share-based compensation, etc.), with appropriate reviews, and a Form 10-Q due to the SEC within 45 days after the end of the quarter.

Talent Attrition: All companies face the risk of key employees leaving for "another opportunity." In the case of a SPAC-acquired entity, the cultural and regulatory environment can change overnight as the company becomes a public registrant. While many employees may view this as an opportunity, there is the risk that some employees, including key members of management, may leave pre- or post-transaction.

SPACs are exciting investment opportunities for taking a business to the next level, but participants must be aware of the known risks. Considering how you plan to accommodate potential outcomes can help create a successful investment.

For more information about SPACs and the IPO market, reach out to DHG at info@dhg.com. //

John Stewart is a partner in the Raleigh office of DHG. He serves as co-managing partner of DHG Technology and is involved with the private equity services group for the firm.

Opportunities and Limitations in Senior Lending

MARKET TRENDS // Beware debt covenants when investing in tech

Deborah J. Enea
Finance Partner, Troutman Pepper

Alexandra E. Ciganer
Senior Associate, Troutman Pepper

Technology companies come uniquely positioned to benefit from the "new normal." These businesses, including earlier-stage and private equity-backed enterprises, have enjoyed great success as work and home life have moved online. Tech-focused buyout vehicles represented the third- and fourth-largest private equity funds raised in 2020, while the ninth-largest fund focused on technology investment, fueled by the robustness of the tech sector and the increased value of technology stocks.

But there are risks. Growth in this sector may lead to increased opportunities for tech companies to access senior debt. Technology companies considering incurring senior debt, or adding to existing senior debt, should be aware of restrictions in senior debt facilities prohibiting common transactions. These are also known as covenants. A violation, or breach, of a covenant may lead to a company default under debt facilities.

Transactions to increase revenue and cash flow, to acquire and retain customers, and to position investors for an exit by way of an IPO or acquisition may be restricted, and technology companies may need consent from their senior lenders to undertake a transaction—or they may need to negotiate an exception from the covenant.

Restrictions in debt facilities ensure borrowers remain in good financial condition to repay their loans. For example, covenants that prohibit borrowers from making distributions and investments are designed to limit borrowers' use of cash. These covenants limit a company's ability to pay dividends to equity holders, to downstream investments to subsidiaries, to provide company loans to officers and investors (e.g., to cover tax elections or purchase company stock), to repurchase company stock, and to make acquisitions.

Other standard covenants restrict borrowers from incurring debt and granting liens on company assets, other than certain exceptions. Common debt arrangements—such as equipment leases, corporate credit cards, convertible or bridge notes to investors, trade credit or secured debt—should be negotiated exceptions under debt facilities.

Any disposition of company property or assets is generally restricted under senior debt facilities. This restriction broadly applies to assignments, sales or leases of inventory and equipment; selling or issuing capital stock; and using or transferring company cash to another person or entity. Technology companies that license intellectual property should seek an exception under their debt facilities to continue to do so.

Senior debt facilities also include restrictions on fundamental changes. These covenants disallow acquisitions, mergers or consolidations, subsidiary formation, changes to company name or principal location, and material changes in company ownership or governing structure. The use of joint ventures or special purpose entities is also frequently restricted under senior debt facilities.

Despite the seemingly competing interests of protecting repayment versus facilitating growth, many senior lenders in the tech lending space understand their clients' business needs and are invested in their long-term relationships. Technology companies considering engaging in restricted transactions should work with their senior lenders to obtain consents or negotiate exceptions to ensure a beneficial outcome for all parties. //

Deborah J. Enea is a finance partner in the Finance and Restructuring practice group at Troutman Pepper and **Alexandra E. Ciganer** is a senior associate in the Finance and Restructuring practice group at Troutman Pepper.

Elizabeth R. Glowacki, associate in the Finance and Restructuring practice group, assisted with this article.

WHITE WOLF CAPITAL

Hungry Like a Wolf

Miami private equity firm continues to build out its precision machining platform

North America is home to about 30,000 precision machining companies, according to Miami-based private equity firm White Wolf Capital. These shops offer a broad range of production, machining, engineering and fabrication capabilities catering to a wide range of end customers and industries. What's been missing is the number of players consolidating this sector.

White Wolf is playing its part to change this paradigm. In February 2017, White Wolf launched its buy-and-build platform, Consolidated Machine & Tool Holdings LLC (CMT). Since then, the firm has built out a business portfolio specializing in precision machining, fabrication, assembly and design of engineered components used in aerospace, defense, military, space, telecommunications and industrial applications.

Since inception, the platform has acquired/merged nine precision machining companies with 11 locations across the U.S. and Canada, each garnering \$5 million to \$20 million in annual revenue. CMT's aggressive acquisition stance continues in the first quarter of 2021 with another \$250 million in the deal pipeline thus far.

"Customers are excited about having a one-stop vendor that can perform all of the services they need," says White Wolf Vice President Andres Gutierrez. "It has been a good year for CMT despite the pandemic. The company is now in a position to capitalize on the backlog and business development it built over that time."

Founded in 2011 by former Cerberus Capital Management executive Elie Azar, White Wolf makes control private equity investments in midsize manufacturing, business services and information technology companies with revenues of up to \$200 million and EBITDA of up to \$20 million. As a relatively untapped and highly fragmented market, precision machining fits neatly into the buy-and-build strategy White Wolf employs across industry sectors.

AN ONGOING BUILD

White Wolf formed CMT as a broad service offering for the nation's top aerospace, defense, military, space, telecommunications and industrial customers. Under White Wolf's leadership, CMT matured from two shops in 2018 to nine shops in 2020, growing to 10 locations in the U.S. and one in Canada.

After forming the platform company, the firm embarked on a careful acquisition strategy that still defines the platform today. White Wolf's first purchase under the CMT banner in 2017 was Astro-Tek Industries, a California precision machining company that builds specialized equipment utilized by Tier 1 aerospace and defense companies. LCP Machine—a Florida-based CNC machining firm serving the aerospace, defense, energy and industrial sectors—joined CMT's ranks soon after.

White Wolf continued building on the CMT platform in the years since, closing on seven acquisitions in 2020

IMAGES PROVIDED BY CMT

"OUR PEOPLE ARE UNDOUBTEDLY OUR MOST VALUABLE ASSET, AND IT'S GREAT TO SEE EMPLOYEES FEELING GOOD ABOUT BEING PART OF A PRIVATE EQUITY-OWNED COMPANY."

RICH LEGGIO
Managing Director, White Wolf Capital

in an industry where many companies such as CMT were deemed essential, even as the COVID-19 pandemic shuttered factory doors nationwide. When scouting an acquisition, the intangibles of a company are as crucial as the potential ROI, notes Rich Leggio, managing director at White Wolf.

"There's no quick checklist," Leggio says. "However, we stick to industries we know well. Assuming that the overall deal makes sense in terms of valuation/ financial performance, the most important thing we look for is cultural fit and alignment of interest and goals. We love partnering with growth-oriented, motivated management teams who are interested in that second 'bite of the apple.' We obviously understand ownership and management's desire to take chips off the table and diversify their holdings, but we prefer situations where strong, motivated leadership is looking to re-invest/roll into the new partnership and together embark on an aggressive growth strategy. While there are no guarantees, the objective is to make their rolled portion at exit become more valuable than its value at entry."

Healthy machine shops—even those on the lower end of the middle-market scale—generally have at least one Tier 1 customer. Nurturing sustained, long-term relationships with industry giants immediately illuminates the quality of work taking place on site. White Wolf also targets firms focusing on difficult-to-machine metals and components, an aptitude that itself tends to attract blue-chip clients.

Social distancing, face masks and additional precautions resulted in 80% to 90% workforce attendance across all CMT locations in 2020. From April to June last year, the platform grew its defense industry customer base as non-essential sectors shut down supply chains.

Fallout from the COVID-19 crisis did require some adjustments during the due diligence phase, White Wolf says. The firm hired various consultants to conduct virtual facility tours when in-person presentations were not possible.

As last year's robust deal flow carries into 2021, White Wolf and CMT are also focusing on integrating its portfolio companies onto the same ERP, payroll and accounting system, as well as rationalizing purchasing (i.e., strategic sourcing) and harmonizing insurance coverage. Rounding out management teams and refreshing brands with a CMT-centric logo is another facet of this vital build phase.

"There's plenty of value to be added at each location," Gutierrez says. "Leaders are stepping up as we try to promote from within, which is always a pleasure to see our valued portfolio company partners progressing."

In fostering CMT's ongoing growth, job creation continues to be a powerful motivator in light of the coronavirus tsunami that deluged so many markets.

"Our people are undoubtedly our most valuable asset, and it's great to see employees feeling good about being part of a private equity-owned company," Leggio says. //

NextTarget

Powered by ACG & Grata

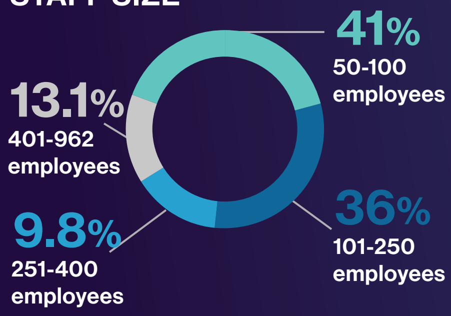
Securing Business Creates Opportunity Post-Pandemic

Much of the long-term effects of 2020 remain to be seen, but one safe bet is the prevalence of remote work. A recent study from McKinsey estimates as much as 25% of the workforce in the U.S. could work from home three to five days a week.

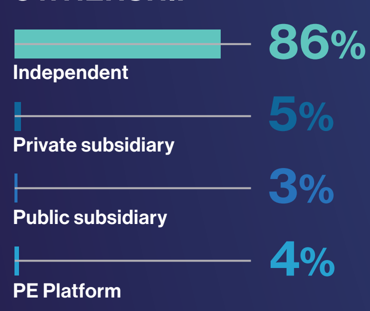
With this new normal, businesses are regrouping and planning for what comes next. Cybersecurity and IT professionals will have to upgrade temporary fixes and rushed implementations into more efficient and effective solutions. They will have to reinvest in the basics that may have been put on the back burner due to the spike in remote work:

- Endpoint detection and response
- Identity and access management
- Vulnerability and patch management

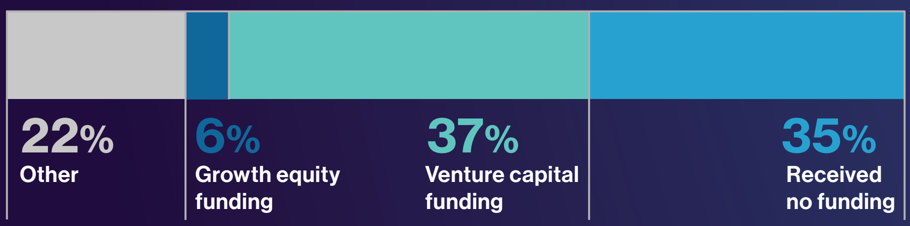
STAFF SIZE



OWNERSHIP



FUNDING & ACQUISITIONS (2007 TO PRESENT)



According to another McKinsey report, these areas represent spending priorities to safeguard businesses of all sizes during today's business conditions.

With these conditions in mind, we used Grata – a search platform for companies – to map out the niche market offering foundational cybersecurity solutions. The result includes 122 middle-market companies in North America. The analysis finds that the market has had venture capital funding but is maturing for private equity investors to build verticalized platforms. //

FIND US IN YOUR INBOX

Look out for upcoming editions of Next Target. In each newsletter, we consider how the world is changing and what opportunity lies therein for private equity. Next Target is part of a partnership between the Association for Corporate Growth and Grata, a search engine for companies. The aim is to provide middle-market professionals with forward-looking insights backed by niche market analysis from the Grata platform.

ACG members get free access to the Next Target email with content that explores growth areas within the technology, health care and manufacturing sectors, and more. Don't miss future editions on the second and fourth Wednesdays of each month.

Answerthink Powers High Performance Life Science Firms

JOHN McGRATH
Principal and Managing Director, Answerthink

KEVIN STOLARSKI
SAP Marketing Director, Answerthink

The biopharmaceutical industry is one of the most active sectors for mergers and acquisitions, yet private equity firms are becoming more deliberate and even cautious when considering potential deals with growing biotech and pharmaceutical companies. With an increase in regulatory pressures and the realization that few biopharmaceutical companies will get their product off the ground, many institutional investors have reservations when it comes to life science M&A deals.

Investors will be most attracted to life science organizations that have developed new business models that allow them to scale easily and have made efforts to improve their operational efficiency through technology. This efficiency is easily obtained through SAP products combined with Answerthink services.

Answerthink is an SAP platinum partner and leader in deploying SAP S/4 HANA and services. EzLifeSciences, a preconfigured, rapidly deployable, and scalable solution for life science organizations, accommodates both business growth and acquisition strategy. With an end-to-end services model that includes sales, consulting, support, hosting, and training, Answerthink addresses critical business challenges so investors can focus on growing profitability in a tough and demanding market.

To further differentiate their expertise, Answerthink is a member of United VARs, a global alliance of SAP resellers. United VARs addresses the requirements of multinational implementation projects by offering one implementation team with global management responsibility. This powerful SAP partner network provides a comprehensive portfolio of SAP solutions, consulting, and services, as well as outstanding local support in more than 90 countries.

"When businesses ask us 'Why SAP?' our response is simple," says John McGrath, Principal and Managing Director for Answerthink. "Life science companies face rapid and ever-changing demands such as managing R&D, going commercial, ramping up manufacturing, and expanding internationally, as well as supporting mergers and acquisitions. With SAP, you can support and manage these challenges without having to look for other solutions," McGrath adds.

Answerthink's solutions also speed up acquisitions. With an average implementation time of six to eight weeks, companies realize value quickly. EzLifeSciences addresses common roadblocks in FDA regulations, production, and data management.

"Answerthink is a one-stop shop for small- and mid-sized fast-growing companies, providing pre-configured solutions and expertise from our associates who average 18 years of industry experience," adds Kevin Stolarski, SAP Marketing Director, Answerthink.

Investors are looking for companies that embrace innovation while realizing the value of their investment. With RISE with SAP, along with Answerthink's EzLifeSciences solution, we bring together everything you need to transform these acquisitions into businesses that work best for you. //

ANSWERTHINK FAST FACTS

- A Hackett Group Company
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- SAP Hana Certification
- SAP Cloud Certification
- SAP Hosting Certification
- SAP Application Managed Services Certification
- SAP PCOE Support Certified
- 450+ SAP Implementations

Answerthink™

Ensuring M&A success through SAP technologies

ACG@WORK

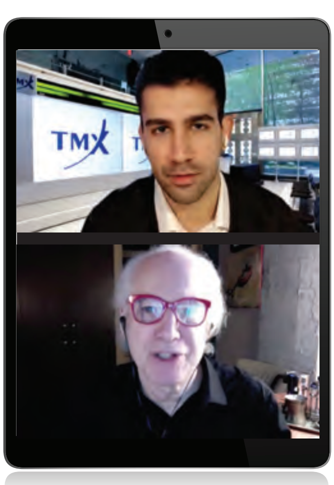
ACG chapters quickly adapted their in-person events to an online format in response to the pandemic. These virtual gatherings proved so successful at bringing together ACG members from across the globe that they're likely to stick around, even after in-person conferences resume. Here's a look at some of the recent virtual events hosted by ACG chapters.

2021 HEALTHCARE: M&A PERSPECTIVES ACROSS THE NATION

Five ACG chapters from the Southern and Western U.S. organized a joint virtual panel on health care deal-making for private equity and strategic acquirers. Chapters from San Diego, Tennessee, Austin/San Antonio, Houston and Dallas/Fort Worth held "2021 Healthcare: M&A Perspectives Across the Nation," which drew 450 attendees. Discussions covered opportunities in health care technology, patient services and pharmaceuticals. Pictured, clockwise from top left, are Becky Gregg, Brentwood Capital Advisors; David Crean, Objective Capital Partners; Mike Malloy, Raymond James; and Kayla Marsh, BKD CPAs & Advisors.

ACG DENVER

M&A professionals gathered for ACG Denver's annual Rocky Mountain Corporate Growth Conference to tackle the questions shaping the landscape of the middle market. Panels included highlights from a survey of midsize companies spanning the eight states that make up the Rocky Mountain region sponsored by Dietrich Partners in collaboration with The Ohio State University's National Center for the Middle Market. Pictured is Celia Dietrich of Dietrich Partners and Doug Farren of the National Center for the Middle Market.



ACG CHICAGO

ACG Chicago hosted Starbucks Co-founder Zev Siegl (pictured, bottom) as part of its NextGen CEO Connect event series. Now a speaker, coach and startup mentor, Siegl shared lessons learned from his experience building Starbucks in its early days, new venture startup strategies and more. He later fielded questions from ACG Chicago's young professional members during a discussion that was moderated by George Khalife (pictured, top), vice president of the Midwest U.S. office at the Toronto Stock Exchange.

ACG SAN FRANCISCO

ACG San Francisco's Women in Business network held a virtual cooking class using items participants had on hand. The class was led by Emma Gabay (top, second from left), the founder and CEO of Cuiscene Studio and the creator of the blog "Inspired Foody." Participants made bourekas and cocktails, all while getting clues to solve a puzzle box with a prize inside for each attendee.

ACG TORONTO

As part of ACG Toronto's expansion into the Ottawa financial market, the chapter held its second annual Ottawa Conference. The virtual event focused on emerging trends and opportunities in the Canadian M&A sector in the wake of the pandemic. The event's keynote presentation was delivered by Wayne Pommen (pictured, right), the president and CEO of consumer installment loan provider PayBright, which was acquired by San Francisco-based Affirm Holdings in January. Pommen now serves as vice president of the combined entity.

> BUYING SOMETHING AND PAYING FOR IT OVER TIME IS NOT EXACTLY A REVOLUTIONARY INNOVATION ... WHAT'S CHANGED IN THE LAST FIVE YEARS IS THAT [TRADITIONAL PAYMENT METHODS] HAVEN'T TRANSLATED WELL TO E-COMMERCE ... AND A BUNCH OF FINTECH COMPANIES HAVE GROWN TO FILL THIS NEED.
>
> WAYNE POMMEN
> President and CEO, Paybright, speaking during ACG Toronto's Ottawa Conference.

ACG NEW YORK

ACG New York held its 13th Annual Healthcare Conference, which drew more than 300 senior capital providers and health care industry professionals. The event's panel sessions discussed future trends in health care and where to find the best deals. Kicking off the event was a fireside chat with Dr. Sachin Jain, CEO of SCAN Group and SCAN Health Plan, about trends shaping health care beyond COVID-19. The discussion was moderated by Andrew Colbert, senior managing director at investment bank Ziegler.

ACG EDMONTON

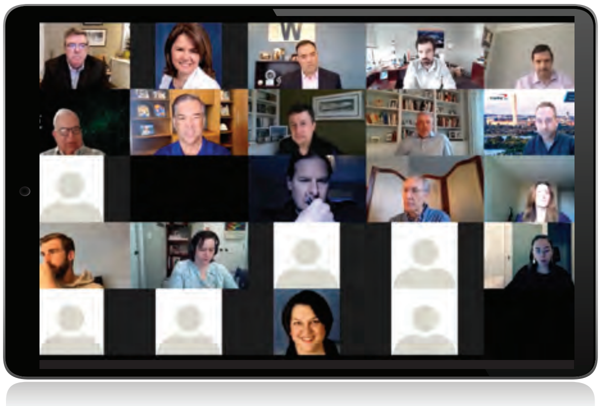
M&A professionals from across western Canada gathered for ACG Edmonton's 9th Annual Corporate Growth Summit. The virtual event was held over the course of three days, and focused on technology and innovation. The event's panels concluded with a conversation between Shawn Kanungo (right), a speaker and general partner at consultancy firm Queen & Rook, and Michele Romanow (left), an entrepreneur, venture capitalist and cast member on CBC's "Dragon's Den."

"THE BIGGEST CHALLENGE OF THE NEXT FIVE TO 10 YEARS IS GETTING EXECUTIVES AND BOARDS SPEAKING THE LANGUAGE OF RISK-BASED HEALTH CARE. GOOD DOESN'T LOOK LIKE MORE SURGERIES; GOOD LOOKS LIKE LESS SURGERIES BECAUSE PEOPLE ARE HEALTHIER."

DR. SACHIN JAIN
CEO, SCAN Group and SCAN Health Plan, speaking at ACG New York's Healthcare Conference

ACG ATLANTA

ACG Atlanta held its annual M&A South event, this time in a virtual format. The event drew M&A professionals from across the U.S. Kicking off the event was a keynote address delivered by Apollo Global Management and Ares Management Co-founder Tony Ressler (top right), who was joined by entrepreneur John Hope Bryant (bottom left), former NBA player and Atlanta Hawks Co-owner Grant Hill (top left) and Sam Johnson, vice chair of markets and accounts at Ernst & Young (bottom right).



ACG NATIONAL CAPITAL

ACG National Capital hosted a panel session this spring titled "Getting Deals Done During Covid," which featured some of the most active players in the Washington, D.C., metro area deal community. Panelists discussed how they closed deals successfully during the pandemic. Among the panelists was Kirk Konert, a partner at private equity firm AE Industrial, which sold middle-market spacecraft component manufacturer Redwire earlier this year to a space-focused SPAC. Other speakers included Michael Lustbader, Arlington Capital Partners; Randy Phillips, Leidos; and Dave West, ECS/ASGN.

ACG CINCINNATI

As part of its annual program focused on venture capital investing, ACG Cincinnati held a panel discussion about investment in agriculture and sustainability. During the session, titled "Creating a Sustainable Society: The Role of Venture Capital," attendees heard from multiple early-stage investors and business leaders, including Mike Zelkind (pictured), CEO of 80 Acres Farms, a company that uses a combination of robotics and renewable energy to grow produce in urban environments.

FEATURED UPCOMING ACG EVENTS

For a full list, visit acg.org/events

- **ACG Pittsburgh** – 2021 Executive Women's Symposium – June 2-4
- **2021 Mid-South ACG Capital Connection** – June 17-18
- **ACG Los Angeles** – 10th Annual Private Equity Roundtable Golf Tournament – June 17
- **ACG Philadelphia** – 2021 Annual Member-Guest Golf Outing – June 28
- **ACG New York** – 2021 Summer Dealmaking Conference – July 28-29
- **ACG Seattle** – Northwest Middle Market Growth Conference 2021 – Aug. 5
- **2021 Great Lakes Capital Connection** – Sept. 8-9
- **ACG Charlotte** – Deal Crawl 2021 – Nov. 3-4

MEMBERS ON THE MOVE

Guardian Capital Partners, a lower middle-market private equity firm managing more than $600 million in regulatory AUM, has named CHRISTOPHER FUGARO as a partner. Fugaro joined Guardian in 2010 as an execution investment professional and took an active role in several Guardian portfolio companies. As Guardian expanded, he implemented the firm's deal origination strategy and has directly sourced 13 investments, including both platform and add-on investments, representing approximately $185 million of invested equity for Guardian and its co-investors. Today he oversees all platform and add-on investment deal sourcing strategies for the firm.

Pritzker Private Capital, a family direct investment firm, promoted BENJAMIN BARRY to vice president of the Chicago-based firm's Services team, which aims to deploy capital in the services sector by partnering with growth-oriented supply chain, industrial and commercial services businesses. Barry has been a member of PPC's Services team since 2017, when he joined the firm as an associate. In his new role, he will be responsible for helping source and lead the execution of PPC's investments in the services sector. Prior to joining PPC, Barry served at Valicor Environmental Services and worked as an associate at Summit Partners, where he sourced and executed investments in the technology sector. Barry began his career as an investment banking analyst at Robert W. Baird & Co.

North Sky Capital has hired ANGELA "ANGIE" WOOD as chief financial officer for the Minneapolis-based private equity and sustainable infrastructure investment firm. North Sky's long-time CFO, Denise Galvin, will be transitioning to a part-time role as senior advisor, where she will continue to provide advice on strategic decisions. Most recently, Wood served as CFO and chief compliance officer of Sawtooth Solutions, an SEC-registered investment advisor. Prior to that role, Wood was vice president of finance and administration and CCO of Mill City Capital, a Twin Cities private equity firm, where she also managed the financial, treasury, administrative, human resource and compliance functions. She also served for 14 years as a tax accountant at PwC and Baker Tilly.

In more North Sky Capital people news, the investment firm has hired DALE FREUDENBERGER as an operating partner. In 2006, he co-founded FLS, a solar thermal systems company that was based in Asheville, North Carolina, and he eventually served as the company's first COO. In 2013, Freudenberger was promoted to CEO of the re-named FLS Energy and helped steer the company to a successful exit. Since 2010, North Sky's sustainable infrastructure funds have invested more than $600 million in more than 30 middle-market infrastructure investments in North America, targeting market-rate returns and measurable social and environmental impact in alignment with the United Nations' Sustainable Development Goals.

Troy, Michigan-based alternative commercial financing lender Great Lakes Business Credit has named RICH BOOMS the company's new senior underwriter. Booms boasts more than a decade of underwriting and relationship management experience, including asset-based lending, leveraged finance, purchase invoice finance, small business banking and private client lending. He has also held senior finance management positions at Sterling Bank & Trust, Alpine Capital, US Bank and Wells Fargo Capital Finance.

LEN LAPORTA has joined boutique investment bank The DAK Group as managing director. As a veteran with three decades in the investment banking space, LaPorta has advised on and negotiated transactions for a diverse set of industries. Prior to joining DAK, he was a managing director at several investment firms, the most recent being Pickwick Capital Partners where he led the firm's diversified industrial and manufacturing sector practice. Previously, he was the owner of Crystal R&D, a precision contract manufacturing firm specializing in medical devices, aerospace and highly engineered products. He also served in the United States Navy for five years as a Surface Warfare Officer.

New York-based private equity firm Capstone Equities has announced that it will self-manage its portfolio of hotels with the launch of Rebel Hospitality. To lead this venture, Capstone Equities hired hospitality veteran BRIAN SPARACINO as president and chief executive officer. Sparacino was formerly managing director with Evolution Hospitality. He previously spent more than a decade in various senior leadership roles with Interstate Hotels & Resorts, which included overseeing Blackstone-owned portfolios, and creating and leading Interstate's independent lifestyle division, INTRIGUE Hotels & Resorts.

Prairie Capital Advisors, a corporate advisory and investment banking firm headquartered in Oakbrook Terrace, Illinois, has added JOHN WALLER as a managing director in the firm's investment banking group. Waller boasts nearly 25 years of investment banking experience, and has provided mergers and acquisitions services to private companies, large corporations and PE firms. His work includes the sale of companies in industries ranging from medical device components to video surveillance systems to heavy-duty trucks and industrial pumps. Prior to joining Prairie, Waller worked at Lincoln International, Credit Suisse and Plaisance Advisors, a firm he founded and ran for more than 10 years.

ANTHONY "TONY" R. CALLOBRE has joined Blank Rome as a partner in its finance, restructuring and bankruptcy practice group and financial services industry group in the law firm's Los Angeles office. Callobre will represent lenders and borrowers in commercial loan transactions, with a particular focus on asset-based lending and fund finance. Prior to joining Blank Rome, he served as a shareholder at Buchalter Nemer and was a partner at Bingham McCutchen.

MEMBERS ON THE MOVE

Mno-Bmadsen, the non-gaming investment arm of the Pokagon Band of Potawatomi Indians, has named JULIO MARTINEZ as chief executive officer of the independent entity. Martinez is the former chief financial officer of the investment vehicle, and has been serving as acting CEO since January. Martinez's election to the CEO role was met with a unanimous vote by the board of directors, according to a press statement. The Dowagiac, Michigan-based firm Mno-Bmadsen, whose name is derived from the Pokagon phrase "the good path," has grown its investment portfolio to include more than 300 employees within the family of companies, more than $140 million in combined annual revenues and a growing federal contracting operation.

COLLEEN HALEY has been appointed chief executive officer of Quality Metalcraft/Experi-Metal Holdings Corporation (QMC-EMI), a provider of stamping and joining assemblies for the automotive, commercial vehicle, aerospace and defense industries. Haley will lead the Livonia, Michigan-based company through its next phase of growth in the mobility market. She previously served as group vice president of operations for Parker Hannifin, a Fortune 250 company and global provider of motion and control technologies. She also spent more than 15 years at Yazaki Corporation, a global automotive parts supplier, and served on the management team at ALCOA, the world's eighth-largest producer of aluminum.

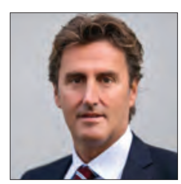
Atlanta-based private equity firm Resurgens Technology Partners has added a number of industry professionals to its team: JON INGRAM (top) as principal of portfolio operations, EDWARD KENNA (middle) as vice president of portfolio operations and NIGEL BROWN (bottom) as operating executive for sales. Ingram and Kenna will work together to manage value creation initiatives across Resurgens' portfolio. Ingram brings more than 20 years of M&A, strategic planning, sales and marketing experience to the team, and was most recently senior vice president of corporate development at Applied Systems, an insurance technology firm. Kenna spent four years working at Raptor Technologies, a school safety solutions provider, and previously was an investment banking associate in the technology group at Stephens. Brown has more than three decades of experience leading global sales organizations for technology-focused organizations and previously served as president of Global Channels and Alliances at Micro Focus.

Infinedi Partners, a private equity firm focused on partnerships with founder-owned businesses, has hired HENRY BLYNN as a senior associate. In this role, he will execute and manage new and existing private equity investments on behalf of Infinedi. Previously, Blynn served as an associate at Harvest Partners and as an analyst at Jefferies LLC. Infinedi Partners is based in New York and was founded in March 2018 by Jay Hegenbart.

Northlane Capital Partners, a middle-market private equity firm that focuses on health care and business services, promoted JJ CARBONELL (top) to principal and hired RICH GRANT (bottom) as director of business development. Carbonell joined the Bethesda, Maryland-based PE firm in 2013, where his current investments include VMG Health, Brandmuscle and Firma Clinical Research, and his realized investments include Science Care, Advarra and Avalon Laboratories. He began his career as an analyst at Wells Fargo Securities. Grant brings more than 15 years of sales, marketing and business development experience with private equity-related companies, including Growth Operators and SourceMedia. Grant is also co-chair of the Diversity, Equity, and Inclusion Task Force for the Association for Corporate Growth. In this newly created role at Northlane, Grant will work jointly with the investment team on marketing and investment sourcing activities.

PE firm TA Associates hired RAFAEL TELAHUN as a vice president in its Menlo Park, California, office and as a member of the firm's North America Services Group. Prior to joining TA, Telahun was an investment director at CVC Capital Partners. Earlier, he was the co-founder and CEO of a venture-backed technology startup. He started his career at Citigroup before joining Sun Capital Partners, both in New York. TA Associates' targeted sectors include technology, health care, financial services, consumer and business services.

Denver-based Arnold & Porter hired MICHELE ROWLAND (top) and JOHN RUPPERT (bottom) to serve on the law firm's corporate and finance practice. Working together for more than a decade at Ballard Spahr LLP, Rowland and Ruppert will focus on mergers and acquisitions, corporate and commercial finance transactions, restructurings and reorganizations, and general corporate matters. Rowland represents middle-market companies in a variety of transactions and strategies, including stock and asset sales, leveraged buyouts, auction sales, strategic add-on acquisitions and more. Ruppert focuses on mergers and acquisitions, private equity, and corporate and commercial finance, and represents private equity funds and portfolio companies in a variety of industries.



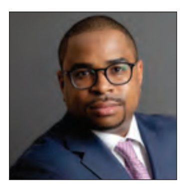
SK Capital Partners, a private investment firm focused on the specialty materials, chemicals and pharmaceutical sectors, has expanded its team with the addition of DANIELE FERRARI as senior director. Ferrari boasts more than 35 years of experience in the chemicals industry, most recently serving as the CEO of Versalis S.p.A., a European chemical company, and as chairman of Matrìca S.p.A., a bio-plastics firm. Ferrari started his career at Agip Petroli and Imperial Chemical Industries, before joining Huntsman in 1997, where he ultimately became the global President of Huntsman's Performance Products division.

MEMBERS ON THE MOVE

Vertu Partners Fund I, a private equity fund that focuses on high-potential technology businesses in the Canadian lower midmarket, has hired JASON SMITH as an operating advisor. A Canadian tech entrepreneur with more than 25 years of experience building fintech companies across North America, Smith founded Real Matters, a proprietary software platform that automates mortgage lending and insurance services and now serves a majority of the Tier I banks in the U.S. and Canada. Smith navigated the company from inception to scale and through five rounds of financing, including its IPO in May 2017. Vertu Partners Fund I is managed by Vertu Capital, a Toronto-based PE firm that focuses on growth-oriented enterprise software or software-enabled businesses in the Canadian lower midmarket.

Blue Point Capital Partners announced a trio of promotions in its investment team: JONATHAN PRESSNELL (top) to partner, EVAN COTTINGTON (middle) to vice president and BOBBY GREBENC (bottom) to senior associate. Pressnell has 12 years of investing experience, nine of which have been at Blue Point, where he supported deal sourcing, execution and value creation at several of the Cleveland-based firm's portfolio companies. Cottington has been in private equity since 2015 and with the firm since 2017, where he focuses on deal execution and portfolio management. Grebenc has been with Blue Point since 2017 and has focused on deal evaluation, analysis and execution.

Accounting and business consultancy RubinBrown has promoted TIM McCORMACK to partner in the Business Advisory Services Group. McCormack boasts more than a decade of providing transaction due diligence assistance to clients in the technology, manufacturing and distribution, services, hospitality, private equity and health care industries. Working in RubinBrown's Denver office, he focuses on middle- and lower middle-market transactions.



IMB Partners, a private equity firm focused on lower middle-market companies serving government agencies and electric and gas utilities, announced that FARRAH HOLDER (top) and DERRICK WEATHERSPOON (bottom) have both been promoted to managing directors. Holder joined IMB in 2016 and previously served the firm as a director. She leads deal sourcing, marketing and other business development activities and currently serves on the board of e&e IT Consulting Services. She previously co-founded ThinkNXT Marketing, a boutique marketing firm. Holder began her career as a financial analyst at Morgan Stanley. Weatherspoon joined IMB in 2020 and previously served the firm as a director. He leads the deal execution process and currently serves on the board of Ashburn Consulting. Before joining IMB, Weatherspoon was a vice president at The Carlyle Group, where he was a member of the Consumer, Media & Retail group within the firm's U.S. Buyout Fund.

IT'S THE SMALL THINGS

DECODING TECH INDUSTRY TRENDS // Logging on

1 Nearshoring Comes for Tech Talent

The COVID-19 pandemic highlighted the vulnerability of supply chains for manufacturers, prompting some to switch from suppliers and labor forces in Europe and Asia to ones closer to the U.S. The same might soon happen to IT and back-office tech support. However, the success of this so-called "nearshoring" trend will depend almost entirely on the viability of Latin America as an emerging regional player in AI and other cutting-edge tech sectors. – *Forbes*

2 Work from Home Disconnect

More companies are returning to the office as COVID-19 vaccinations pick up pace, and many are maintaining the work-from-home flexibility that began during the pandemic. But remote work could become a problem, according to research from Stanford economist Nicholas Bloom, which found employees who spent more time in the office than at home are more likely to be promoted. A shift to remote work could put women with children at a disadvantage. Bloom suggests companies follow the example of Microsoft, which requires employees to work from home at the same rate. – *Business Insider*

3 Investors Back DEI Tech

The heightened focus on accountability is creating opportunities for startups that specialize in diversity, equity and inclusion, or DEI. The number of DEI-focused startups has jumped more than 80% from 2019, while the market has more than tripled to $313 million, according to California-based RedThread Research. The space is beginning to attract investors and spur lucrative deals. In January, enterprise software company Workday acquired people analytics and employee engagement startup Peakon for $700 million. – *GeekWire*

4 Health Data Revolution

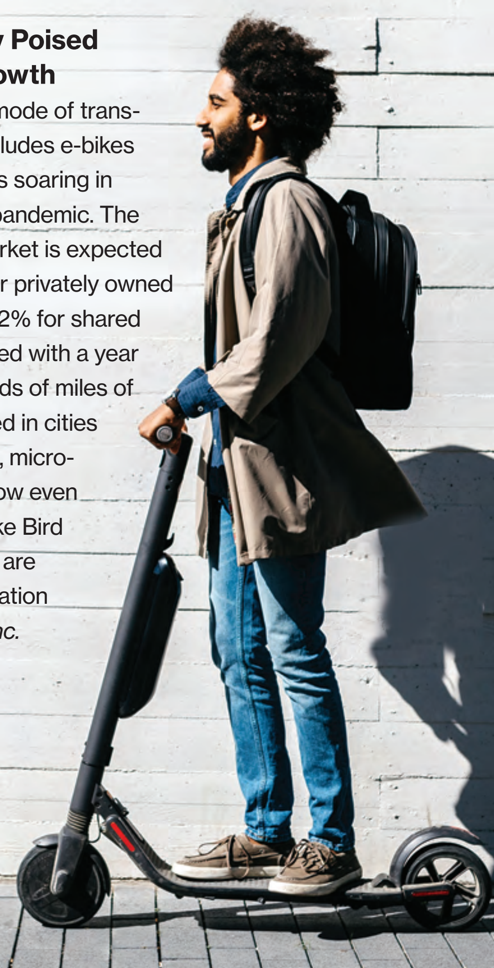
Health care's big data market is expected to reach nearly $70 billion in 2025, almost six times its 2016 value of $11.5 billion. The use of groundbreaking digital capabilities, such as AI, with health data has the potential to dramatically improve patient care. Working with Bain & Co., a European medical supplies distributor has applied AI through an app that uses image recognition to identify whether a wound is infected, substantially decreasing unnecessary antibiotics and shortening healing time. – *Bain & Co.*

5 Tech Helps Circular Economy Get Around

The move to a model of production and consumption that involves sharing, leasing, reusing and recycling existing materials and products, known as the circular economy, could recover $4.5 trillion in economic output by 2030. Digital processes to recycle plastic waste in the ocean, trace product origins with blockchain, and develop plant-based packaging are being considered to bring the circular economy into reality. Global software company SAP is shepherding technological approaches that both guide and accelerate circular solutions. – *GreenBiz*

6 Micromobility Poised for Macro Growth

Micromobility, a mode of transportation that includes e-bikes and e-scooters, is soaring in the wake of the pandemic. The micromobility market is expected to grow by 9% for privately owned vehicles and by 12% for shared vehicles, compared with a year ago. With hundreds of miles of bike lanes planned in cities around the world, micromobility could grow even more. Startups like Bird and many others are leading the innovation in the sector. – *Inc.*



– **Benjamin Glick**

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United Healthcare

[1]As of Q1 2021.

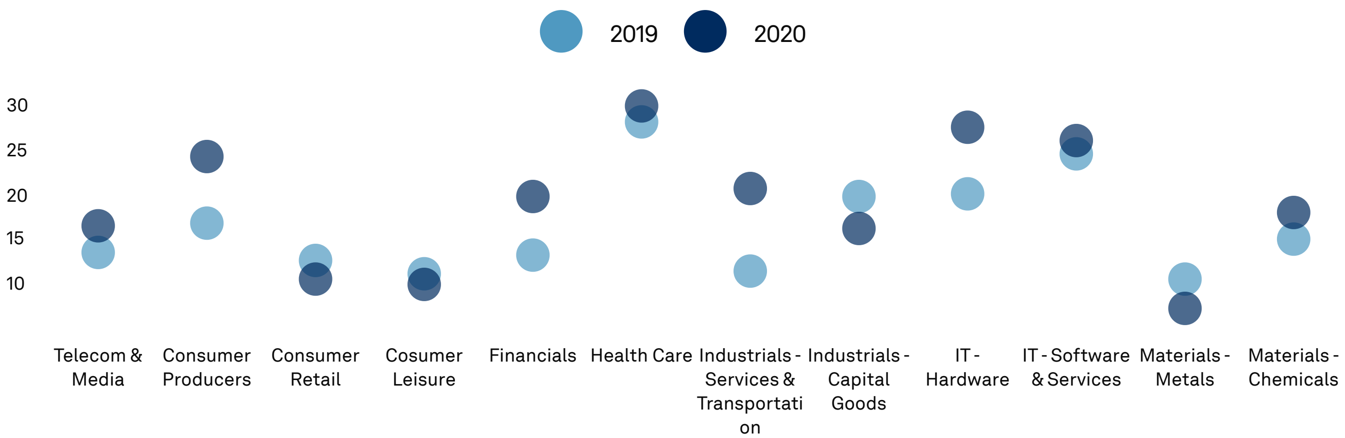
COVID-19 Impact and Recovery on Private Equity

Enduring one full year of the COVID-19 pandemic had clear impacts on Private Equity and Venture Capital activity across industries, globally. S&P Global Market Intelligence explored the uncovered trends, shining a light on areas most and least affected among deal-making, fundraising, and more. Though the specter of the COVID-19 pandemic still looms large, PE/VC professionals demonstrate optimism moving forward from the lessons learned and innovation emerged.

2020 Private Equity Trends

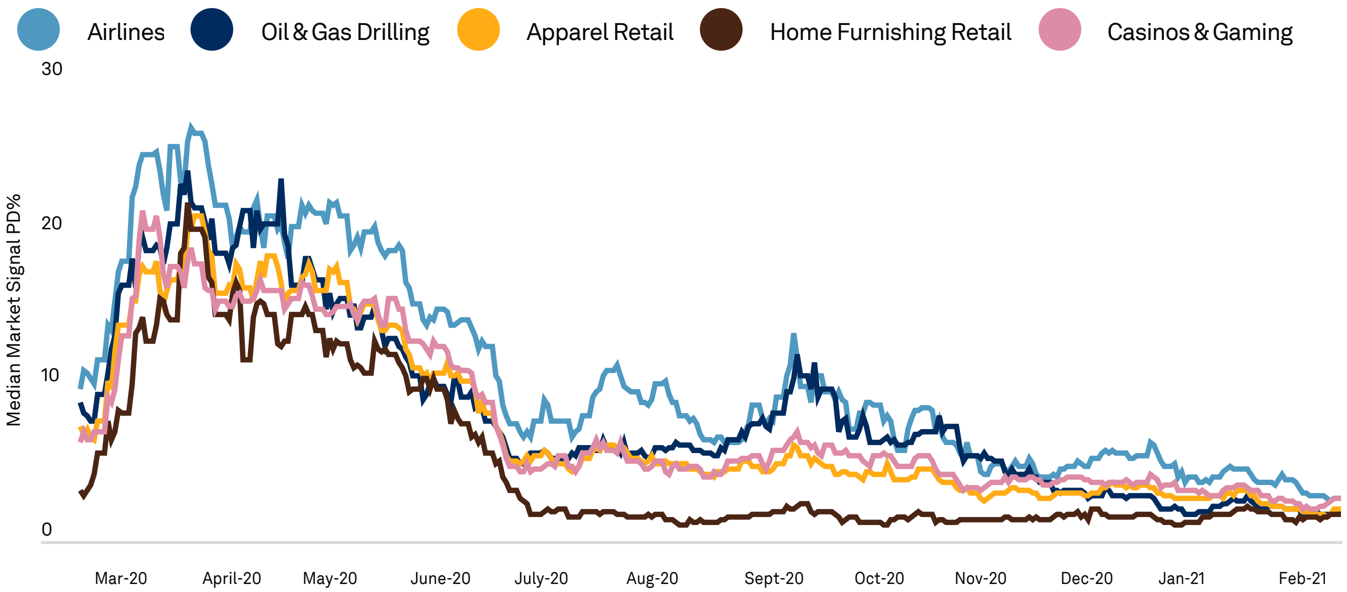
Private Equity Deal Multiples by Industry

Implied Enterprise Value/EBITDA (Average)



Data as of: March 31, 2021. Transaction data is from 1/1/2019 to 12/31/2020 and includes all M&A deals with PE/VC participation. Source: S&P Global Market Intelligence.

Top 5 Industries Impacted by COVID-19



Credit Analytics, Probability of Default Model Market Signals (PDMS), S&P Global Market Intelligence, as of March 2021. For illustrative purposes only.

Data as of: March 31, 2021. Transaction data is from 1/1/2016 to 12/31/2020 and includes only PE/VC buyer entry closed M&A and Rounds of Funding transactions, excludes Asset acquisitions. Source: S&P Global Market Intelligence.

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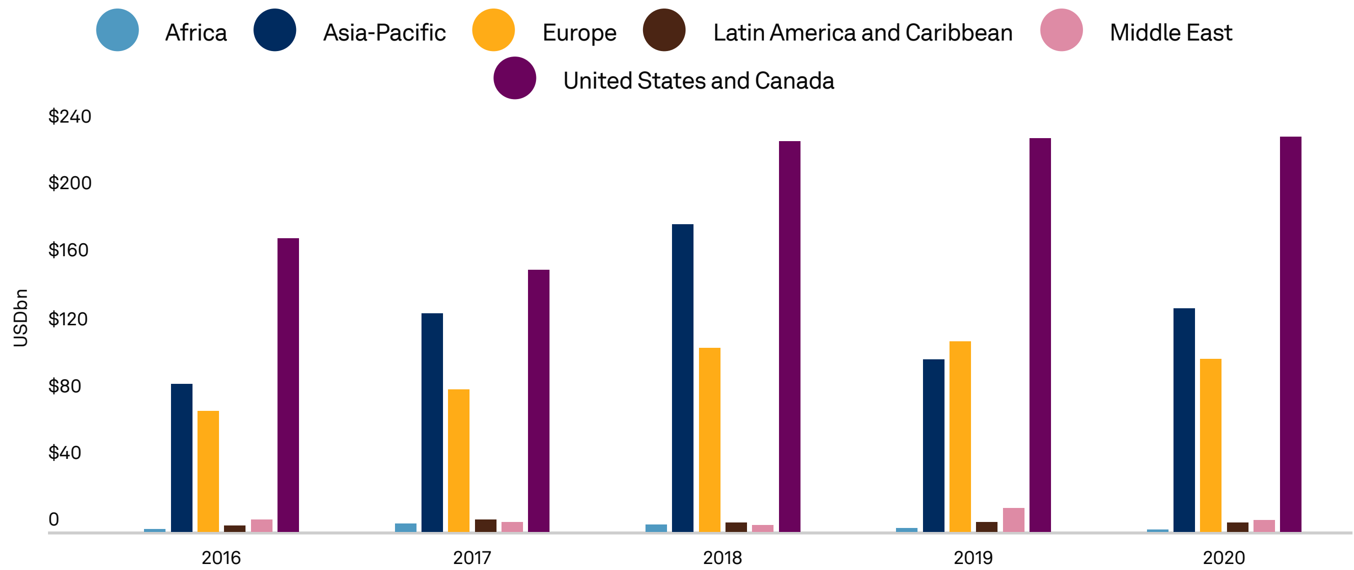
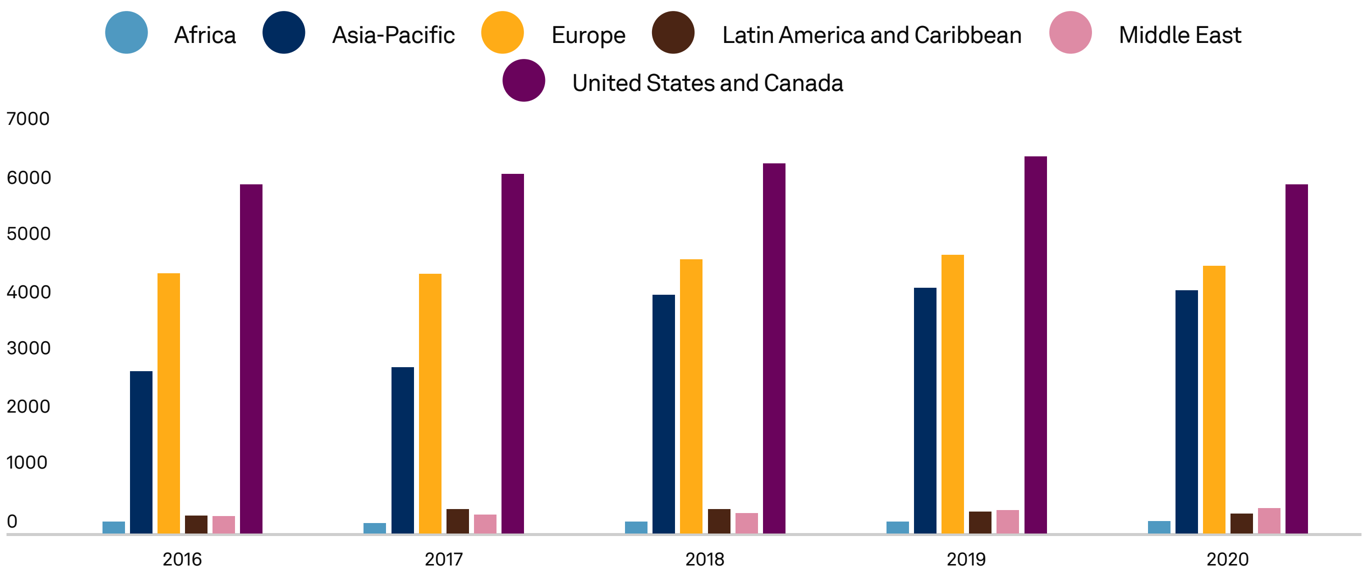
Private Equity Capital Deployed by Region

Deal Value ($Bn)



Deal Count



Data as of: March 31, 2021. Transaction data is from 1/1/2016 to 12/31/2020 and includes only PE/VC buyer entry closed M&A and Rounds of Funding transactions, excludes Asset acquisitions.
Source: S&P Global Market Intelligence.

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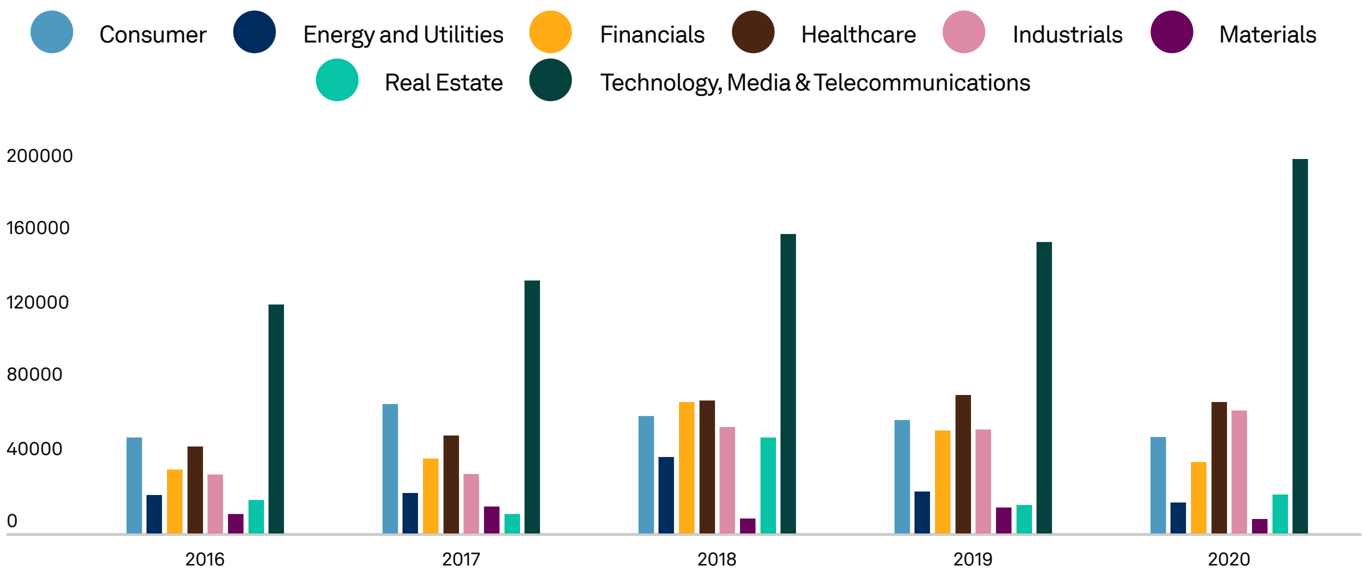
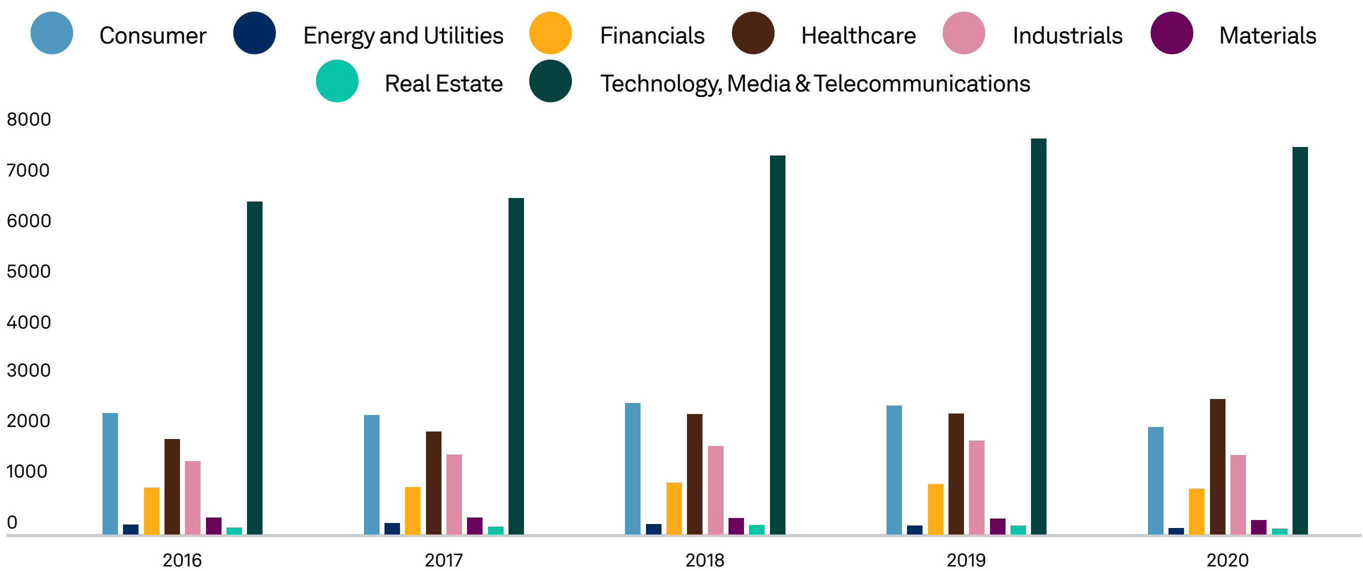
S&P Global Market Intelligence

Private Equity Capital Deployed by Industry

Total Transaction Value ($Bn)



Deal Count



Data as of: March 31, 2021. Transaction data is from 1/1/2016 to 12/31/2020 and includes only PE/VC buyer entry closed M&A and Rounds of Funding transactions, excludes Asset acquisitions.
Source: S&P Global Market Intelligence.

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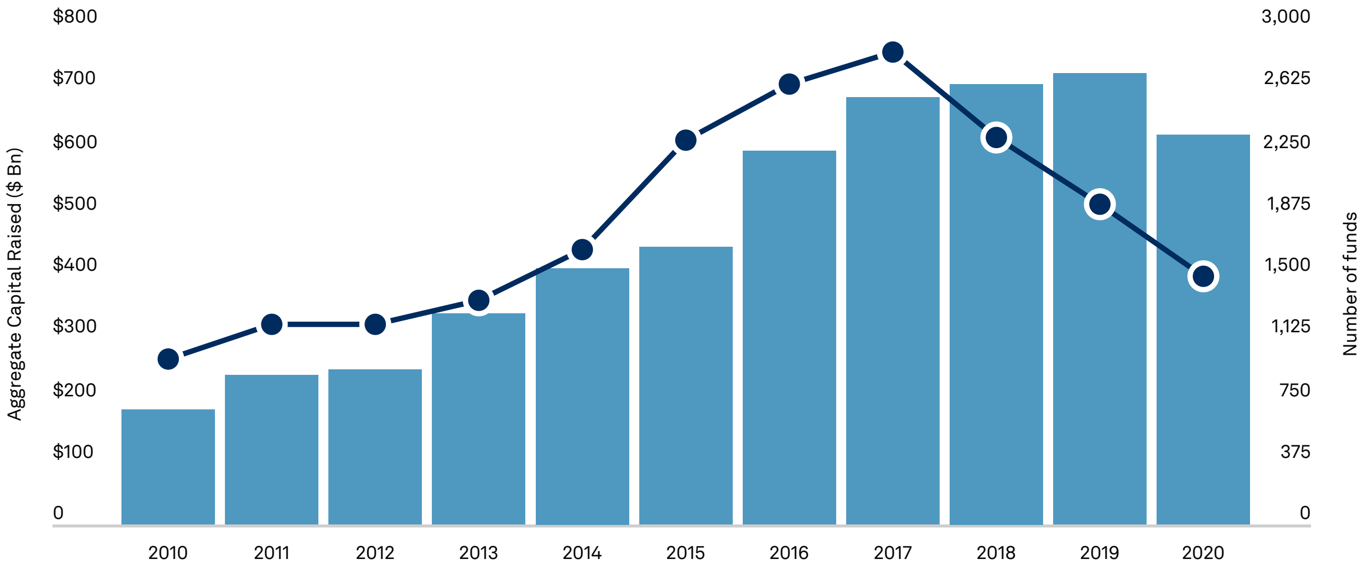
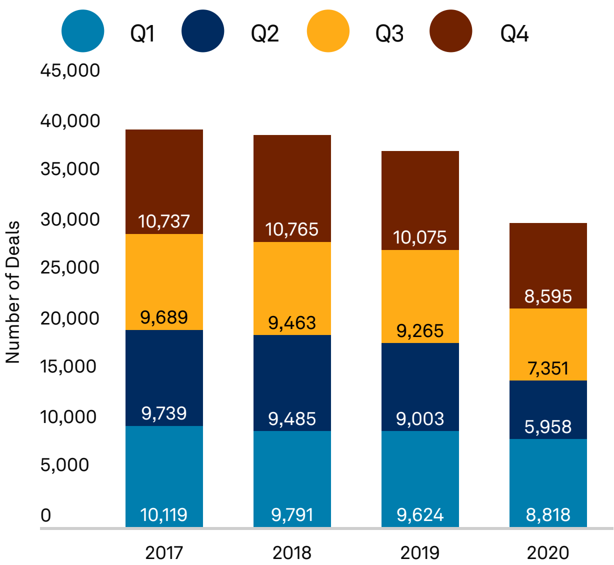
Global Fundraising Activity



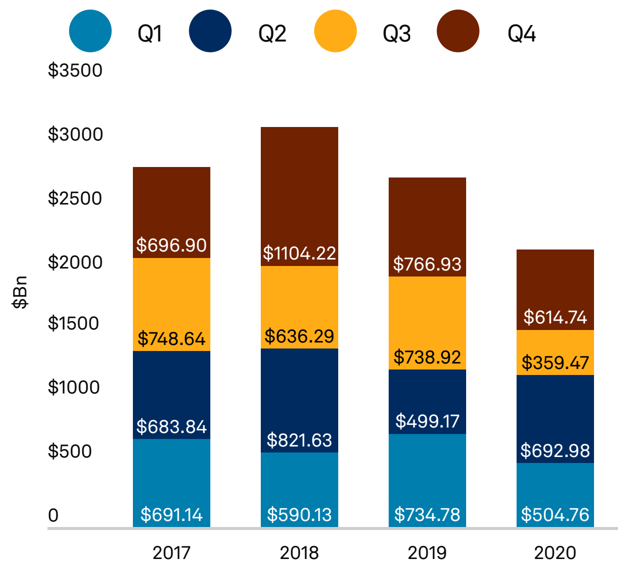
Source: Preqin. As of January 27, 2021 For illustrative purposes only.

Global M&A Activity

By Number of Closed Deals



By Transaction Value ($Bn)



Data as of: January 14, 2021. Transaction data is from 1/1/2017 to 12/31/2020 and includes only closed transactions. Source: S&P Global Market Intelligence.

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Global Key Developments

2020 has been a year like no other and the PE industry has felt the impact as well. But despite its challenges, the industry has proven resilient and adaptable to the "new normal." As the pandemic hit the market at the end of Q1 and going into Q2, the PE market saw an abrupt and strong decline in deal-making activity globally. Transactions were put on hold while GPs shifted their focus toward stabilizing existing portfolio companies and providing liquidity operational support. As the COVID-19 situation normalized over the summer, PE investors turned their attention back to executing deals, leading the industry into a strong rebound in the second half of the year. In fact, Q3 hit a three-year high with total transaction volume reaching $168bn, a 90% increase over the same period the year prior. Although deal count fell slightly in Q4 year-over-year, capital deployed was almost on par over the same period in 2019, bringing the total amount invested in H2 to $320bn. The top performer, Asia-Pacific, almost doubled the money invested in H2 over the same period in 2019, while North America registered a 30% increase in deal value in the second half year-over-year. The V-shaped recovery of PE deal activity in the second half of 2020 followed somewhat the broader public market sentiments. Remarkably, neither of the following COVID-waves and subsequent lockdowns have had a noticeable impact on the upward PE deal-trend.

The PE M&A Implied EV/EBITDA deal multiple in 2020 however, revealed the particularly vulnerable industries like Leisure, Retail and Capital Goods, all of which saw a declined multiple compared to the year prior. On the other hand, the sheer unstoppable institutional investors' appetite for PE asset class saw yet another successful year of fundraising activity despite the economic downturn caused by the pandemic. Although the overall number of PE funds raised declined for a third consecutive year, the $-amount raised remained on-par implying that larger funds are being raised and the investors money is being accumulated in the hand of few larger global PE players. And it doesn't stop there, as a few PE firms are either looking into or have already announced plans to tap into the even bigger retail investors market. The subsequent buying power in the market and the hunt for few remaining lucrative assets has driven up multiples in the more resilient and in-demand industry vertical like Telecoms and Media, Hardware & Application Software as well as Producers just to name a few.

Another prolific trend emerged during the pandemic – special purpose acquisition companies (SPAC). Growing numbers of private equity portfolio companies have merged with blank-check companies in 2020, allowing them to de-risk, de-lever, or be opportunistic in their outlook. The launch of these companies has grown exponentially in 2020. In the third quarter, SPAC IPOs accounted for 56.3% of normal IPOs in the U.S., the highest quarterly margin across the past two years, up from 26% in the same period in 2019. The trend continued into Q1 2021 with another whopping 277 new SPAC IPOs globally. Is this trend going to continue or will it find a rather short-lived end?

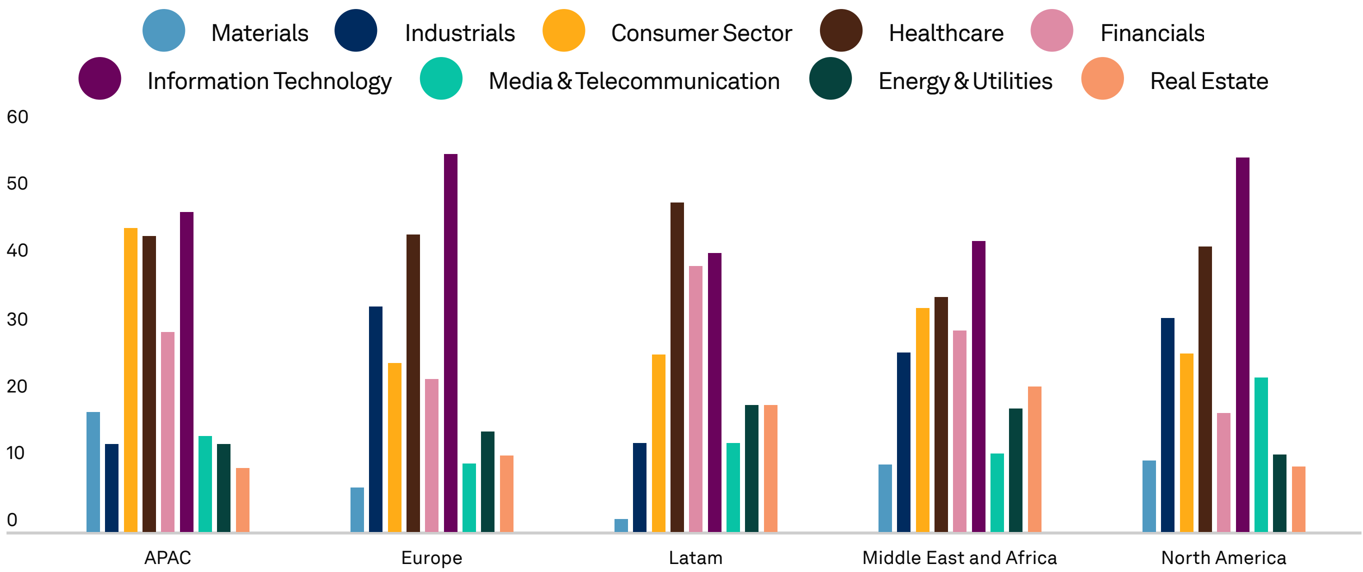
Regardless of short-lived trends, the S&P Global Market Intelligence 2021 global PE outlook survey revealed an overall positive and optimistic mood of General Partners going into the new year. Undoubtably, the knock-on effect of COVID-19 as well as the overall economic situation is still high up on the agenda items of every Portfolio Manager but our survey participants also remained positive about the overall PE deal making activity, fund raising environment as well as paying more attention to ESG adoption in their investment thesis. Please continue reading to explore other trends revealed by our survey.

Scan to learn more >

2021 Private Equity Outlook

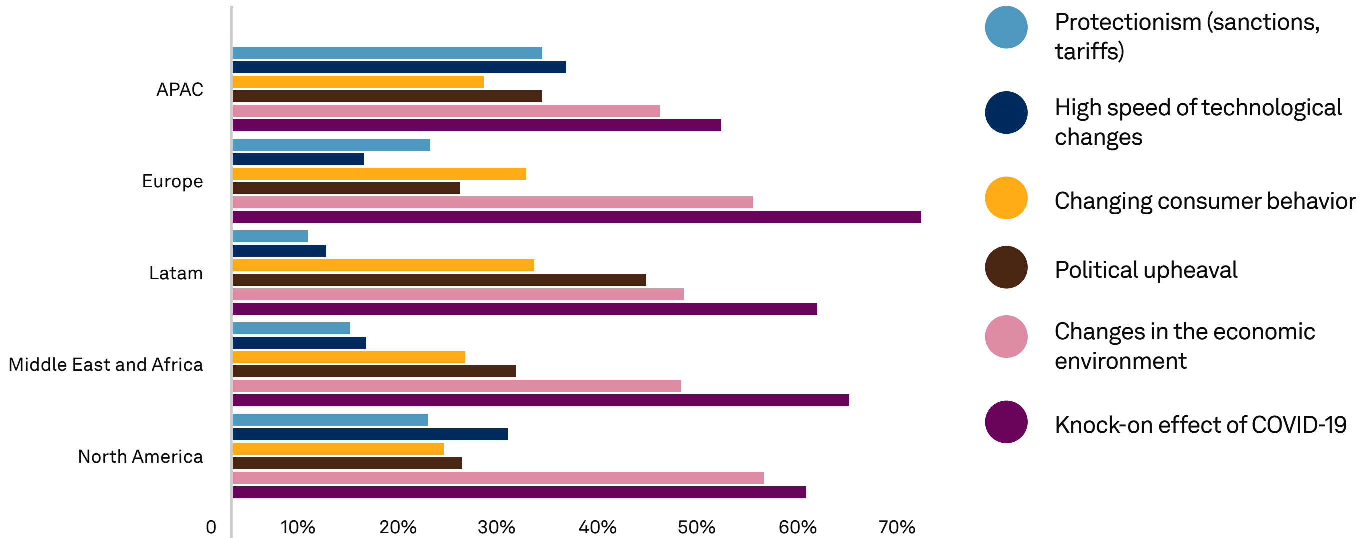
For the fourth consecutive year, S&P Global Market Intelligence conducted an annual survey among PE and VC professionals globally to gauge industry sentiment for the upcoming year. The study covered GPs' expectations around deal-making, fundraising and exit activity, investment preferences, threats to growth, and approaches to Environmental, Social and Governance (ESG) factors.

Projected Capital Deployment by Industry



For illustrative purposes only. S&P Global Market Intelligence - 2021 Global Private Equity Outlook.

Risk to Portfolios



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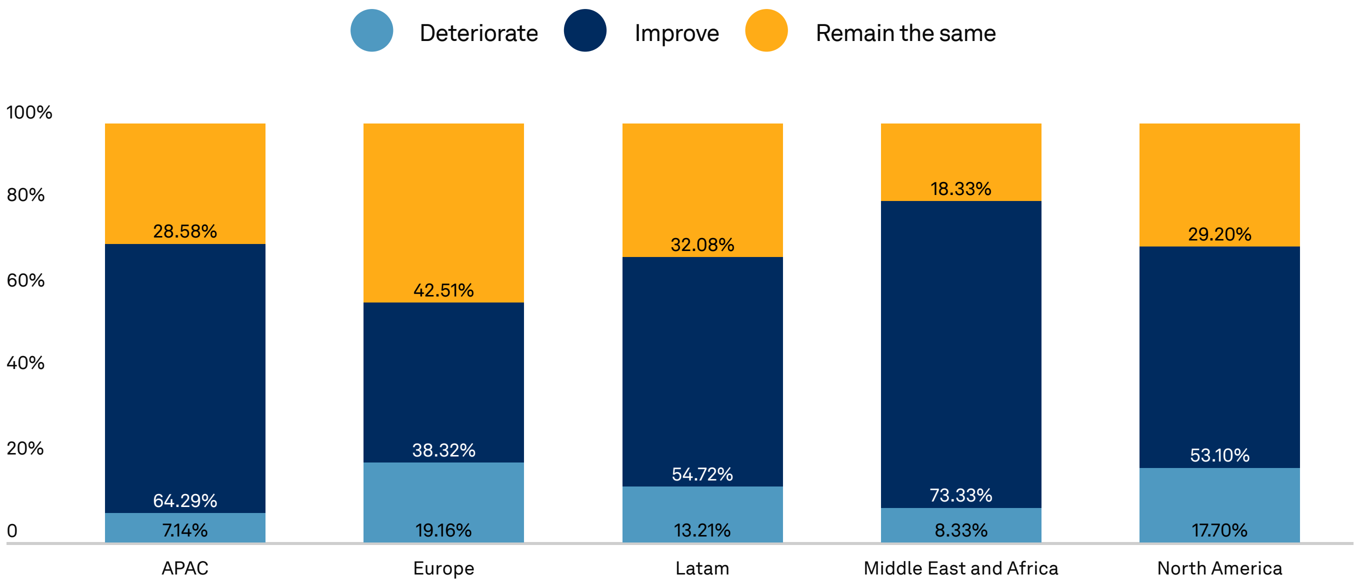
Upcoming Fundraising Conditions



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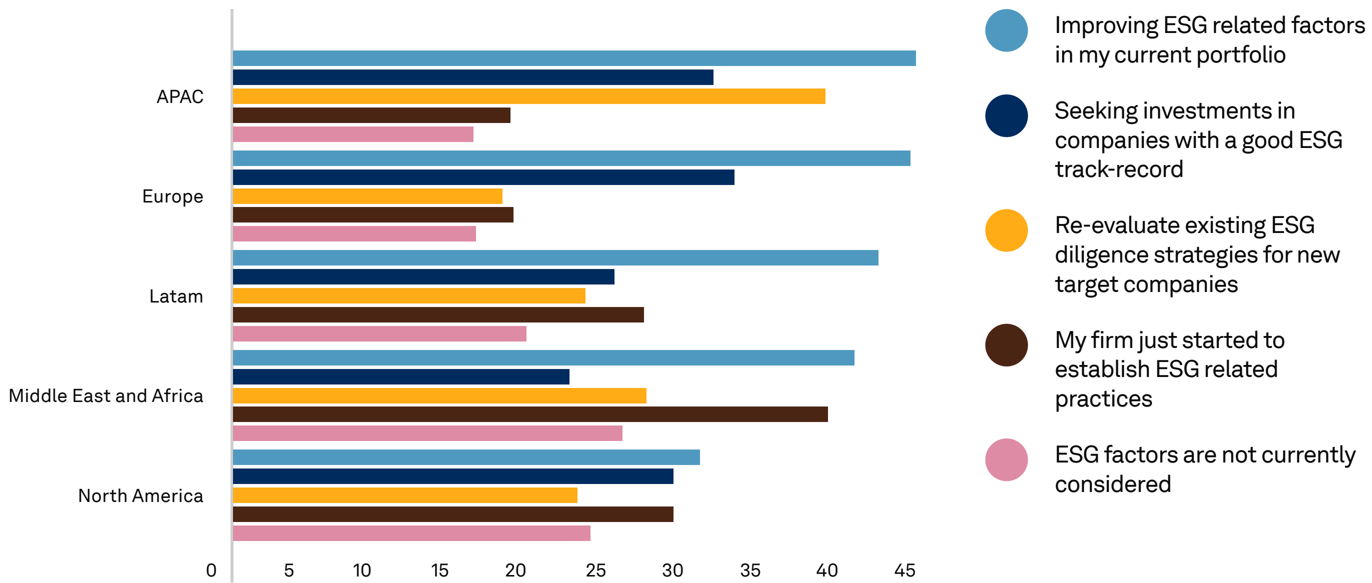
ESG Adoption



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