SUMMER 2021

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A Year in Review

KATHRYN MULLIGAN
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Middle Market Growth
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Working on this edition of *Middle Market Growth* has me thinking about the days before we printed last year's summer issue at the end of April 2020, and our last-minute edits to reflect the evolving state of the pandemic.

Our cover story for that edition featured Family RV Group, a collection of recreational vehicle dealerships. Although the article was underway before most of us heard of COVID-19, its focus turned out to be timely. Sales surged as people used RVs as a way to self-isolate after exposure to the virus, and to travel or camp during the lockdowns. We tried to incorporate new information as the situation changed, including Family RV's designation as an essential business, and its new policies for keeping showrooms safe. We had to cancel our photoshoot altogether.

For me, that edition encapsulates the confusion and uncertainty that we all experienced last spring, when there was little information about the disease and everyone was scrambling to adapt.

That makes it all the more incredible to look at where we are today. Instead of laying off workers, middle-market companies are now struggling to fill open positions. Deal activity is such that investors are concerned about whether the partners they rely on for due diligence, quality of earnings and other critical functions can support the high transaction volume. Family RV Group was part of the 2021 deal deluge—its investor, Kidd & Company, sold the business to the country's largest privately held RV dealer, RV Retailer, in March.

That rapid pace of change is forcing every organization to be nimble in order to survive, and ACG's media group is no exception.

You're likely reading this letter in print, a format that we believe still has a place, even in the digital age. We'll continue to use these pages to report on long-term trends and serve up in-depth articles with staying power. We also know that a fast-changing world requires outlets for reporting on real-time developments. To complement print, we're using ACG's GrowthTV video channel, the *Middle Market Growth* Conversations podcast, and our website, middlemarketgrowth.org, to address developments that happen between our print production cycles.

The days of "all the news that's fit to print" are long gone, so we won't promise that in these pages. What you will find is reporting and commentary on the enduring trends affecting the middle market. For timely coverage in between issues, join us online. //

We Are Back!

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

While it's been a difficult 15 months for ACG and many of our members, we are seeing more signs of light at the end of the tunnel for the middle market. Happily, most ACG professionals I interact with are talking about record-breaking levels of activity. Although a few sectors remain sluggish—and our deepest sympathies go out to all who have been impacted by the pandemic—it sure looks like we are about to experience some semblance of what we considered normal just 15 months ago.

One of the many bright spots is ACG's recent announcement that it will resume live events. For more than a year, our organization—which depends heavily on face-to-face, one-on-one deal-making—was hampered by the inability to meet each other in person. For two consecutive years we had to cancel InterGrowth, ACG's premier national networking event, and our chapters lost the vibrancy of face-to-face connections.

Video conferencing works well in some cases, but it can't make up for the in-person interactions that are critical for networking and growing the middle market. As the pandemic loses steam, we are now gearing up for the next InterGrowth, starting April 25, 2022, in Las Vegas, and it is incredibly exciting to see hundreds of local events happening across all of our chapters!

As businesses get back to normal, some changes are here to stay. The pandemic flipped the script for many and accelerated trends that were already heading in a particular direction. One major trend due to COVID-19 is remote work. As a prime example, our ACG headquarters is now a fully remote operation with employees working in various states. It's given our organization the flexibility to draw market-leading talent from across the country, and it lowers our costs.

Another trend stemming from COVID-19 is the growth in the home improvement sector, which is highlighted in this edition. As more people have worked from home, they've had the time and inclination to focus on improving their surroundings. Other trends in sectors like private-label food and fashion resale, also featured in this issue, are capturing the interest of middle-market investors.

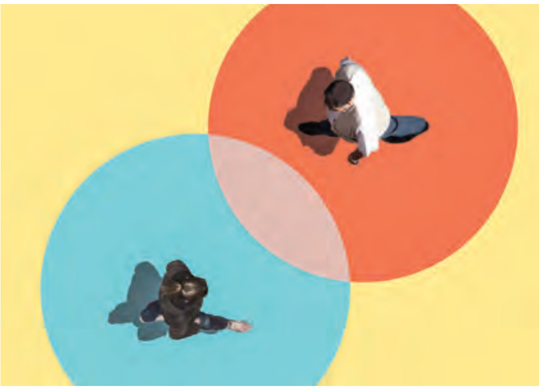
The pandemic is waning, and the middle market is roaring back, adapting in new and amazing ways to a "new normal." ACG members are on the front lines, standing ready with flexible capital and creative advisory solutions to rapidly restore jobs and economic growth—our core mission! //

SUMMER 2021

GROWTH STORY

Can the Pandemic Darlings Sustain Their Growth?

Industries that were hit hard by COVID-19 – like travel, concerts and restaurants – are now starting to show signs of life. But what about businesses that flourished during the pandemic? Can they continue to climb? We explore what's next for three such verticals: home improvement, private-label manufacturing and fashion resale. 26



TREND

Marketing Meets PE Business Development

A decade ago, private equity firms didn't have to market themselves, but competition is changing that. The new marketing responsibilities are falling largely on business development professionals, whose roles are starting to look much different than they used to. 38

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IN THIS ISSUE


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

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MMG CONVERSATIONS

The State of Direct Lending in the Middle Market

Garrett Ryan, partner and head of capital markets at Twin Brook Capital Partners, joins the podcast to discuss how deal activity has evolved since March 2020 and the current state of middle-market M&A.

In the interview, sponsored by Twin Brook, Ryan talks about the types of transactions that are moving forward in today's environment, including leveraged buyouts, add-on acquisitions and change of control situations.

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Building a Smart Employee Benefits Program

Authors: Will Glass, senior vice president (left), and Brian McGratty, vice president (right)

Company: McGriff–Employee Benefits Division

Expertise: Will Glass and Brian McGratty specialize in national accounts for McGriff, the fifth-largest insurance brokerage firm in the U.S. Their focus for the last 18+ years has been on multi-site, multi-state employers. To date, this unique approach of RDI/CORE has saved clients millions of dollars while still maintaining the highest level of benefits.

▸ At what point should an employer look at funding alternatives for their health care spend?

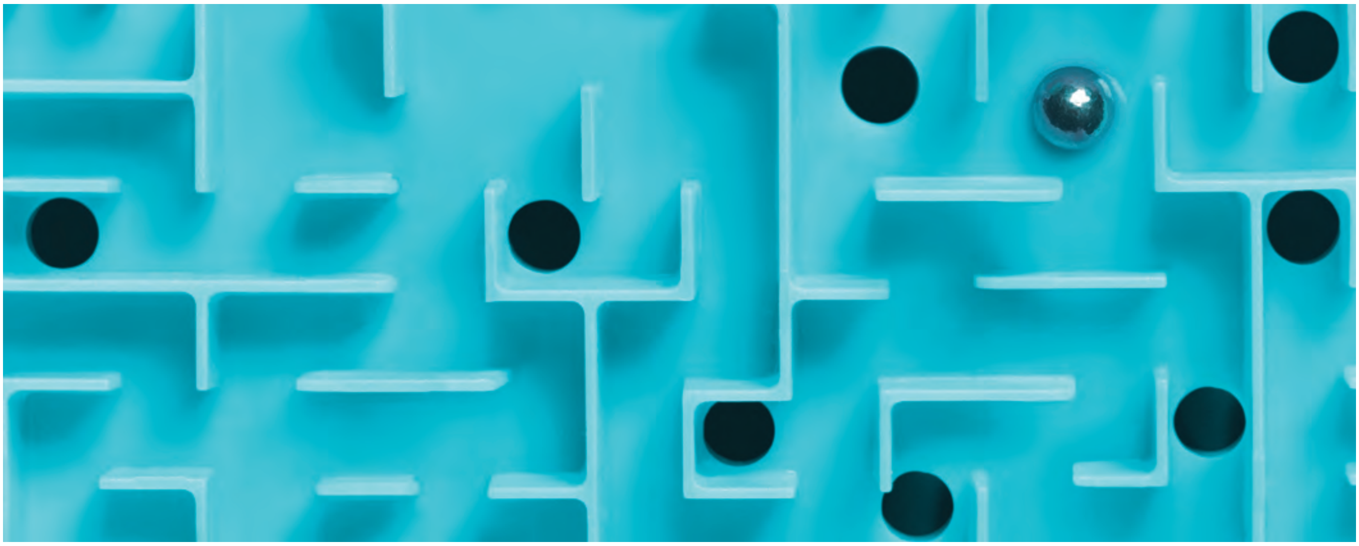
There are many variables to assess when looking at funding alternatives. They include employee count, industry, demographic factors, geographic challenges and, ultimately, risk tolerance. Despite popular belief, the size of an organization is perhaps the least important variable. After a careful assessment of these variables, a program can be built with the appropriate insurance and protections in place to allow an employer to take on limited risk. By taking on this risk and leaving the standard, fully insured market, an employer gains tremendous control over volatile premium fluctuations, thereby allowing complete customization of their program.

▸ How can an employer offer consumer-directed health care products and still drive employee retention?

Consumer-directed products like health savings accounts (HSA) are extremely popular; however, employers have concerns about funding an HSA knowing that employees can take those funds with them upon separation. Our clients have found tremendous success offering health reimbursement accounts (HRA) alongside an HSA. There are many advantages of an HRA, one being that the employer-funded dollars are rolled back to the employer upon separation. Employees with significant HRA dollars are less likely to abandon those accounts and leave the organization. Another advantage is the avoidance of "fund erosion," where employees must drain HSA funds to cover high-cost prescription drugs. HRAs allow for a prescription drug co-payment.

▸ What is the best way for an employer to offer a wellness program that drives engagement and maintains privacy for the employee?

Our clients have successfully managed this by incentivizing employees to engage with their provider. Employees are afforded the opportunity to receive incentive-based funds for simply establishing or maintaining a relationship with a primary care physician. This puts the employee on their own path to health with their provider. The employer is simply "funding" their incentive for this voluntary behavior, which has not only reduced the overall health care spend of the employer but has helped with retention and in some cases identified potentially life-threatening conditions. //



Driving Success at PE-Owned Firms: How Operators Can Avoid the Pitfalls

By Lawrence Siff

Operating a private equity-owned company presents unique challenges, especially for CEOs and CFOs. Since the PE firm's goal is to sell the company, they will likely be focused on value creation within a short period of time. For this article, I spoke with four CEOs and two CFOs who have been serial portfolio company leaders (often with multiple PE owners at the same time) about mitigating some of the challenges faced while leading a PE-owned company.

"DEVELOP AN HONEST AND TRANSPARENT RELATIONSHIP WITH YOUR SPONSOR. TREAT THEM AS YOUR PARTNER."

PORTFOLIO COMPANY CEO

Insights that emerged from those conversations for the first-time CEO or CFO of a portfolio company include:

Do your homework up front. Speak with leaders of other portfolio companies to find out what it's like working with the PE firm. As one of the CEOs I spoke with said, "You need to know what their style is; what kind of information they want and how often; what their philosophy is; and how they handle ambiguity and bad news. Some PE firms are heavily involved and others are more passive; some want to know immediately if there is any bad news and others prefer to wait until the weekly call."

Treat the PE firm as your partner. "Develop an honest and transparent relationship with your sponsor," advised one CEO. "Treat them as your partner." All six executives said that PE firms "don't like any surprises." Your job as CEO or CFO is to "deliver on your financial commitments, keep them well-informed, be aggressive, constantly make improvements, and astonish them with your initiatives," said another. For example, one focused on selling more to their existing customer base, resulting in substantially increased EBITDA, in addition to expanding overseas.

Get out of the gate quickly. Once you take PE money, the gun has gone off and the race has started. Have a well-developed 100-day plan. "IRR and CAGR are critical within a

> "THE RIGHT PEOPLE IN THE RIGHT PLACE GIVES YOU MORE TIME TO WORK ON YOUR STRATEGY."
>
> PORTFOLIO COMPANY CEO

48-60-month period," said one CEO. Another advised not lingering over unsuccessful initiatives. "You test a new concept, it doesn't work, own it, learn from it, and move on."

Communication and preparation are key. All six executives emphasized that you cannot be half-prepared—ever. Talk through any issues with data as your driver. One CEO noted that you have to "roll up your sleeves and get in the weeds" so you will be able to answer the tough, detailed questions. You may be accustomed to relying on intuition and experience, but for the PE firm you have to justify your answers with analysis.

Understanding debt. All six executives commented on the role of debt. One CEO stated, "The initial challenge for me was having more operating leverage into our company, so we became more analytical, tracking where every dollar was being invested." This led to a comprehensive review of the sourcing capabilities, which the company shifted to a more cost-effective bidding model. A CFO pointed out "you don't want to find out your covenants the first time you trip them," because that would put you in a precarious position with your lenders and shareholders.

Reporting demands. Communication will typically be with the CEO and CFO. Your PE firm may want to attend other meetings, such as sales, in addition to board meetings. According to one of the CEOs, you have to "distill all operations down to key components and gain alignment with the PE firm." A lot of time will be dedicated to forecasts, focusing on risk and opportunities, as well as upsides and downsides. Have your facts lined up, focus on the issues, and recommend solutions.

It's about strategy and execution. Strategic planning applies not only to your overall goals for the company but to your relationship with the PE firm as well. According to one CEO, "We consistently under-promise and over-deliver." He also emphasized the importance of having a reasonable growth plan that you can execute on, being able to come up with solutions, and have levers that you can pull. The results speak for themselves: This CEO has built the company four-fold through a combination of organic growth and acquisitions.

Strong teams win. You have to, as one CEO said, "surround yourself with a strong team that you can trust and give autonomy to. The right people in the right place gives you more time to work on your strategy." If you don't have the right people in place, get rid of dead weight and find the people who will help you reach not only your goals but those of the PE firm.

Listen and learn. One CEO noted that most CEOs react or respond to the PE firm, thinking that's what's expected of them, instead of really trying to understand what they are saying. Another said, "What I've learned is that you have to put yourself in the sponsor's shoes: Ask why they are asking the question."

The PE firms often see gaps that you as an operator don't see. "They are sponsoring you to have reliable execution, a strong track record, and a demonstrated history of treating the shareholders as partners," one of the CEOs noted. PE firms have deep financial knowledge which, for example, can translate into leading the companies to negotiate a better debt facility. The focus of PE firms is on strategy, growth initiatives, where to invest, and most importantly where not to, so they don't spend much time looking in the rearview mirror. From an M&A standpoint, a strong relationship with your PE firm can tip the scales in your favor. Beyond this, a number of the CEOs discussed the vast resources PE firms have with regard to operating partners and world-class executives in human resources, manufacturing and distribution, as well as international relationships and expertise.

The PE firms bring discipline that help companies identify all the risks and opportunities. By understanding the unique challenges of being owned by a PE firm, you will be able to extract the most value from the situation, build a successful relationship, and have an exit that satisfies everyone. //

Lawrence Siff is a strategic advisor to the middle market as the CEO of Neptune Advisors and C Level Community.

This article is part of ACG's Private Equity-Backed Executives Series, sponsored by RSM US LLP, a leading accounting, tax and advisory firm dedicated to the middle market. Learn more at rsmus.com. Find more content from the series at middlemarketgrowth.org.

Expanding Internationally Requires Employer Compliance, FX Awareness

Factoring fluctuating foreign currencies and rigorous employee protections into deal-making

By Phil Albinus

"BUYERS AND SELLERS NEED TO UNDERSTAND WHICH REGULATIONS APPLY TO THEIR TEAMS AND AGREE ON WHO PAYS FOR BENEFITS, ADJUSTMENTS, EXTRA COSTS, AND OF COURSE, IN WORST-CASE SCENARIOS, SEVERANCE, BEFORE CLOSING THE DEAL NEGOTIATIONS."

DIANE ALBANO
Chief Revenue Officer, Globalization Partners

The world may be your oyster when it comes to cross-border mergers and acquisitions, but there is a sea of complexity that could threaten the success of a transaction without adequate planning and support.

When acquiring companies in new geographies, buyers often are caught off guard by complications stemming from foreign currency markets and nuanced employment laws. During a virtual event in May titled "Streamlining the Cross-Border M&A Process," presented by ACG, Globalization Partners and Cambridge Global Payments, panelists outlined some of the top employment and currency risks facing deal-makers and how to get ahead of them.

Sealing the Deal

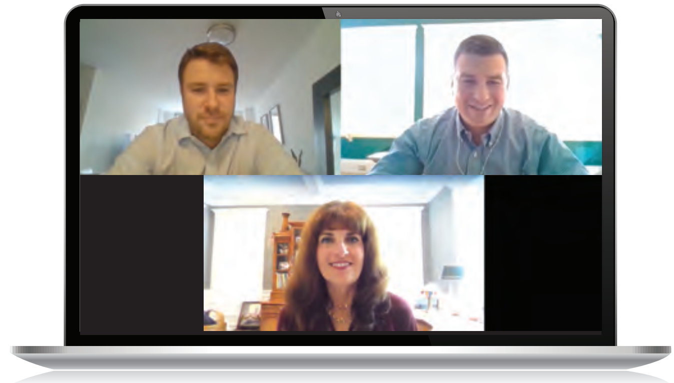
As a company enters a cross-border transaction, the most important thing it can do is partner with local legal and human resources specialists, according to Diane Albano, chief revenue officer for Globalization Partners, whose AI-driven employer of record platform helps companies to grow a global workforce. Globalization Partners was the event's presenting sponsor.

Local expertise is the best route to smooth employee transfers and deal negotiations, and it can help companies avoid fines after a cross-border transaction, Albano said. She recommended seeking experts before due diligence and engaging them throughout the transaction.

Foreign currency is another area to consider before acquiring a business outside of one's home market, and advance planning is key, according to Andrew Howlett, channel partners and alliances manager at Cambridge Global Payments, a provider of integrated cross-border payment services

“DEFINITELY HAVING AS MUCH OF IT PLANNED OUT, WORKING WITH A SPECIALIST AND HAVING A GAME PLAN CERTAINLY ELIMINATES A LOT OF THE RISK. THE ULTIMATE GOAL IS REALLY JUST TO CREATE VISIBILITY AND HAVE STRUCTURE AROUND WHAT YOU’RE LOOKING TO ACHIEVE.”

ANDREW HOWLETT
Channel Partners and Alliances Manager,
Cambridge Global Payments



and currency risk management solutions, and a sponsor of the event.

“Essentially, you’ve got to know: When are you going to be planning to purchase the currency? What are going to be the compounding risks involved when you’re looking to purchase that currency and actually deliver it? How likely is the project to go ahead? These are all questions that vary on a case-by-case basis,” he said.

Prior to a transaction, buyers should also consider whether to use a foreign currency hedge, and if so, what type. Further, they will need to determine whether to hedge against things like dividend and profit repatriation.

Understanding a new market that a company plans to enter will prevent future surprises related to foreign currency exchange. For example, deal-makers should be aware of the varying levels of difficulty for converting foreign currency back into U.S. dollars, Howlett said.

China and Brazil are among the countries with restrictions on repatriating funds. Howlett suggested evaluating the process for extracting money from a particular country before making an investment.

Considerations at the portfolio company level include whether the target business has its own foreign exchange exposure, and whether it is buying goods from another country that will require the company to convert currency.

Deal-makers should also inquire as to whether the company will pay salaries in another region, and if the new owner will need to fund operations and then convert funds into local currency.

Asking those questions ahead of time will help smooth the process.

“Definitely having as much of it planned out, working with a specialist and having a game plan certainly eliminates a lot of the risk,” Howlett said. “The ultimate goal is really just to create visibility and have structure around what you’re looking to achieve.”

Employer Compliance

Another common pitfall faced during a cross-border M&A transaction comes when transferring employees. Building compliant employment contracts requires specialized knowledge of a country’s local human resources practices and labor laws, according to Albano.

That process can be time-consuming, and when more than one country is involved, it can take even longer. “If you’re compiling contracts for transferring employees in multiple countries, the time investment multiplies,” she said.

Companies likely face two overarching types of contract negotiations, of which each nation has its own version, Albano added. For example, the U.K. has a rule called Transfer of Undertaking (Protection of Employment). Most of Europe has a similar application, wherein the buyer must provide the same conditions of employment, pay and benefits for the seller’s staff. Conversely, companies based in the Asia-Pacific region and South America are more likely to manage acceptance arrangements during acquisitions.

“Employment contracts that are already in place demand intricacy when renegotiating. This adds another round of negotiations to the table, and if staff don't accept the new conditions, they will need to be given severance packages," Albano said.

She added, "Buyers and sellers need to understand which regulations apply to their teams and agree on who pays for benefits, adjustments, extra costs, and of course, in worst-case scenarios, severance, before closing the deal negotiations."

An alternative for both parties, she noted, is working with a global employer of record to match existing contracts for workers in order to avoid disruption when transitioning employees.

Panelists advised deal-makers to marshal the right resources early to avoid delays.

Dissecting benefits and trying to understand what's being offered, particularly across multiple jurisdictions, can take up significant time during a deal, according to Kevin Burke, director of private equity, M&A and venture capital at Globalization Partners, who served as the panel's moderator.

IP Protection

Intellectual property is an additional area to consider when transitioning employees as part of a cross-border transaction.

If an organization decides to rehire former employees as independent contractors, the value that they generate for the company could be jeopardized.

"By shifting employees in a contractor situation without the correct paperwork, which is a route some executives do take, the buyers are at risk of fines for worker misclassification and even loss of their intellectual property," Albano said. "Transitioning

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"I HAVEN'T SEEN [A LACK OF CULTURAL UNDERSTANDING] FULLY KILL A DEAL, BUT IT CERTAINLY HAS BEEN A PAIN POINT AND IT'S CRITICAL THAT YOU DO UNDERSTAND THOSE CULTURAL DIFFERENCES AND ARE ABLE TO ADAPT TO THE NEEDS OF THAT PROFESSIONAL, BECAUSE AT THE END OF THE DAY, THEY'RE CRITICAL IN THAT DEAL."

KEVIN BURKE
Private Equity, M&A and Venture Capital, Globalization Partners

employees need a compliant home that also protects your business."

Companies must understand the different international definitions of a contractor to avoid significant risks and liabilities. When entering a relationship with a contractor in China, for example, the Chinese government considers any worker who contributes to an organization's business, or who is subject to a company's rules or policies, as an employee. Therefore, if local authorities determine that a contractor falls under the legal description of an employee, a company may be subject to penalties for taxes and benefits on any salary paid to the employee, Albano said. And it's not just China, she noted. Many countries take a similar view of employment.

Payroll Pain Points

When setting up payroll for incoming employees in a new country, employers may find that there are local requirements when it comes to salary and benefits that they must adhere to in order to stay compliant.

For instance, setting up payroll in another country might entail entity setup, which is costly and slow; contracting payroll providers in each country where the buyer will acquire teams; or using an employer of record, such as Globalization Partners, to handle payroll, taxes and other HR concerns in every single country via one provider, Albano said.

She recommended sourcing payroll providers in each individual country where employees are based, in order to meet the local regulatory requirements and cultural expectations.

Foreign exchange rates are another variable to be aware of, as companies try to estimate the value of a currency ahead of a pay period. "The foreign currency market never stays the same, so you won't know what the value of currency is going to cost until you get to that point," said Howlett.

Cultural Awareness

Even as they look to stay compliant with employment laws and manage their foreign currency exposure, cross-border deal-makers shouldn't neglect an understanding of the norms in countries they're entering.

Although he said he hasn't worked on a deal that fell apart due to lack of cultural understanding, Burke noted that it can still create complications and delays. "I haven't seen it fully kill a deal, but it certainly has been a pain point, and it's critical that you do understand those cultural differences and are able to adapt to the needs of that professional, because at the end of the day, they're critical in that deal."

Similarly, it's important to understand the nuances of currency and their impact on international sales.

Howlett cited the ease of transacting in euros for a European country, and why it might provide a competitive edge to companies within the eurozone over an American competitor.

"If you're a U.S. company, and you're trying to sell to a French company, a German company is going to be able to price their products in euros. Now, the U.S. company could have a superior product, but when it comes down to the conversation of actually selling to that French company, and then the price is in euros, and that's their base currency—the U.S. company can often be at a disadvantage," he said.

One way for the American company to avoid that is by pricing goods in the local currency, Howlett added.

Strategies like this can help a multinational company stay competitive, he said, because "it's easier for that French company to make a purchase in euros than it actually is to pay the manufacturer in U.S. dollars."

The event concluded with a virtual networking happy hour that followed the panel discussion, with drinks provided courtesy of Globalization Partners. Registered attendees who opted in ahead of the event received supplies for three different cocktails from the Post Meridiem Spirit Company to mix and sip during the happy hour. //

Eager Consumers Rev up Growth in Powersports

Post-pandemic interest expected to drive aftermarket demand

By Benjamin Glick

The COVID-19 pandemic helped reacquaint consumers with the great outdoors. It also minted a new group of customers in the powersports segment, leading to a surge in demand for sporting equipment and presenting opportunities for aftermarket manufacturers and retailers.

The powersports market—which includes off-road vehicles like ATVs, boats and jet skis, and snowmobiles—grew at a remarkable pace over the past year. According to a report from investment bank PJ Solomon, the total market grew by 18% throughout all of 2020, and accelerated to 25% in the final quarter.

"I'd characterize it as white hot," says Justin Hillenbrand, a partner and co-CEO of private equity firm Monomoy Capital Partners, who also leads the firm's powersports investments. "I don't think there's another way to describe it."

During the pandemic, CDC guidelines allowed many outdoor activities to continue, and federal stimulus packages fueled consumer spending. A number of people left urban areas for roomier accommodations in suburban and smaller communities, where they were more inclined to purchase recreational products.

"It's not surprising when you have the entire population stuck at home for months. They try and figure out what they can do within their own confines—whether that's riding a bike, an ATV or a snowmobile. The desire to be outside is immense," Hillenbrand says.

Patrick Furlong, a director in the consumer retail group of PJ Solomon, estimates around 40%-50% of new unit purchases in the powersports equipment market in 2020 were from first-time buyers.

The introduction of easier-to-handle, family-friendly vehicles like three-wheel motorcycles and side-by-sides—a kind of off-road utility vehicle—and the addition of safety features like seat belts, anti-lock brakes and roll cages that started prior to the pandemic have helped powersports manufacturers win millions of new customers.

"This wasn't a fluke. This was a proactive effort by a lot of these [original equipment manufacturers] and brands over the last 10 to 15 years to create a product that's more appealing to a more diverse range of consumers," Furlong says.

Brands like BRP and Polaris have been designing equipment for a younger and more diverse customer base. The only powersports segment to contract in 2020 was on-road motorcycles (by 3%, according to PJ Solomon figures), which are typically marketed to baby boomers and older customers.

"When you look at marketing material from powersport equipment manufacturers today, it's friends and family around a campfire, not a bunch of guys parked outside a bar," Furlong says.

Combine increased enthusiasm in powersports with new equipment like electric vehicles, which are typically easier to ride and maintain, and the spike in interest in the segment has staying power that will likely outlast the pandemic. "There's going to be a lot more people that are enthusiasts next year than there were a year ago," Furlong says.

Aftermarket Aftermath

The boost in purchases of powersports equipment over the last year

"YOU SAW THE HUGE UPTICK IN THE OEM PURCHASE, AND NOW YOU'RE GOING TO SEE THE FAT TAIL OF THE AFTERMARKET PLAY OUT FOR THE NEXT FIVE YEARS."

JUSTIN HILLENBRAND
Partner and Co-CEO, Monomoy Capital Partners

will likely translate into future sales for companies that make and sell customizable parts for those vehicles.

"You saw the huge uptick in the OEM purchase, and now you're going to see the fat tail of the aftermarket play out for the next five years," Hillenbrand says.

As older vehicles trade hands and find new owners, consumers are unlikely to find parts needed for repairs or customizations because their original manufacturer has discontinued support. This situation hands the advantage to third-party and aftermarket manufacturers and repair shops. Market research firm Global Market Insights released a report in February that projects the value of the powersports aftermarket will exceed $14 billion by 2027.

"While new and used vehicle purchases can be more episodic, those vehicle sales provide a longer-term benefit to the aftermarket," says Jeff Derman, a managing director at PJ Solomon in its global consumer retail group. "Riders can make even a used vehicle feel new and different by accessorizing it. The good news for the aftermarket is accessories purchases occur repeatedly over the vehicle's lifetime, so the increase in ridership coming out of 2020 should provide tailwinds for the aftermarket that persist."

This isn't lost on Hillenbrand. Monomoy has built an investment niche focused on companies in the powersports vehicle aftermarket. Among its portfolio companies is Motorsports Aftermarket Group, a distributor of aftermarket powersports products and accessories, which the firm acquired in 2017 for a $300 million debt-for-equity swap.

"We have a lot of exposure to the space right now," says Hillenbrand, who adds that Monomoy is also looking into more outdoor and powersports opportunities in the camping space, like towable trailers and RVs.

PJ Solomon's Furlong and Derman, who have recently worked on deals involving powersports e-commerce, aftermarket and dealership businesses, expect more of these companies to go to market and take advantage of increased valuations.

"There's an enormous amount of activity. Deals are getting done and there's certainly a high degree of buyer appetite to tap into this category," Derman says. "There clearly are strategic companies and financial sponsors who are trying to position themselves for where the category evolves to once we all have an understanding of the new normal."

Among the deals announced this year is re-owned powersports retailer giant RumbleOn's acquisition in March of dealership chain RideNow Powersports for over $575 million. That same month, investment firm Clearlake Capital Group injected additional development capital into powersports aftermarket accessories maker Wheel Pros. In 2020, Wheel Pros purchased Zbroz Racing, an aftermarket manufacturer of snowmobile parts.

In May, private equity investor Kinderhook purchased Victory 1 Performance, a maker of high-performance vehicles, for its powersports company Race Winning Brands. And the private equity division of Morgan Stanley announced its acquisition of Nivel Parts & Manufacturing, a maker of aftermarket equipment, including for off-road vehicles.

Despite the recent activity and optimism in the space, challenges persist.

During the early months of the pandemic, homebound consumers bought up existing inventory. Disrupted international supply lines and closed factories meant supplies were cleared out nationally. Import challenges for powersports brands have only increased as a months-long semiconductor shortage continues to grip manufacturers, and as global trade recovers from the pandemic, Hillenbrand says.

Although industry data showed a spike in purchases for new equipment in 2020, the details become fuzzy around the sale of used equipment, which is likely a far larger segment of the market, according to Furlong.

In addition to disrupted supply of vehicles from overseas, powersports is also suffering from a spike in the cost of raw materials, like plastic resin and steel.

Still, Hillenbrand expects consumer interest will continue to drive new growth. "This newfound enthusiasm for powersport activities is likely going to sustain itself for some time," he says. //

Investors Clean up in Car Wash Space

Drawn in by quick returns, newcomers should focus on customer service – or get hosed

By Benjamin Glick

The next time you run your vehicle through the local car wash, odds are you may see private equity dollars at work.

In the last year, there has been an unprecedented uptick in interest from investors looking to acquire car wash businesses, even as industry-watchers caution about the challenges involved with running these companies effectively.

Of the more than 4,500 car wash businesses indexed by Grata, a company search engine, over 98% are independently owned. Fewer than 1% have any private capital backing—but that's starting to change. Between 2017 and 2020, the number of deals involving car wash companies increased from one to 14, according to Grata analysis.

This year, 14 such deals have been completed as of May, according to Grata. Considering that each company could represent dozens of franchise locations, that translates to hundreds of auto cleaning facilities entering private equity ownership in just five months.

Nepfin's lower middle-market deal tracker recorded a similar number of car wash transactions in 2021, including the purchase of Riptide Auto Wash by Imperial Capital, Motor City Car Wash by Wafra, and HyperShine Car Wash by Skyknight Capital.

One of the most active acquirers in the space is Mammoth Holdings, a portfolio company of Atlanta-based Red Dog Equity, which owns 14 car wash businesses with over 60 locations across the Southern and Midwestern U.S. The company acquired three car wash brands in the first months of 2021 alone.

One reason for the uptick in car wash acquisitions is the potential for a quick return on investment. According to Harry Caruso, the founder and CEO of Car Wash Advisory, a broker focused exclusively on the space, there has been a proliferation of sale-leasebacks, a strategy where a business generates a return on investment costs by selling its real estate and then leasing it back from a purchaser. This didn't exist in the car wash space a few years ago, according to Caruso, but now it's becoming a common practice.

"There are instances where you can

“THE BIGGEST MISUNDERSTANDING IS THAT CAR WASHES ARE TURN-KEY, ABSENTEE BUSINESSES—THEY’RE NOT.”

HARRY CARUSO
Founder and CEO, Car Wash Advisory

buy a car wash for $2 million and the day you close on buying it, you can sell the real estate for $2.5 million and still own the business,” says Caruso, whose firm now fields dozens of calls per week from high net worth individuals and large private equity funds like KKR inquiring about opportunities in the space.

Caruso explains that the private equity investors his firm has worked with were tasked to find assets that would maximize returns in the wake of the pandemic. “And car washes were on the top of every single fund list,” he says.

The recent acquisition spree isn’t the first for the industry. In the late 1990s and early 2000s, there was a short-lived boom, driven by large companies like Mace Security International, the maker of Mace Pepper Spray. The company shifted away from its main business and began acquiring regional car wash chains in 1999, becoming one of largest providers in the U.S. at one point.

Wash Depot Holdings, a Massachusetts-based car wash company, was nearly acquired by Mace, but the deal fell through. The overall industry started to decline around the same time. In 2000, Mace began posting net losses, and by 2005 it had sold off all of its car and truck wash businesses. Wash Depot later declared and emerged from bankruptcy, according to court documents.

The collapse of car washes likely stemmed from a misunderstanding of the industry. Most facilities are automatic, and that can give owners the impression that revenues are as well.

“The biggest misunderstanding is that car washes are turn-key, absentee businesses—they’re not,” Caruso says. “The average car wash consumer does not know what blend of chemicals you’re using. So, it all comes down to the service.”

The large car wash chains let customer service fall behind as they scaled up, and as a result, customers took their business elsewhere, according to Caruso, who worries that institutional investors and other acquirers are about to repeat history.

“This time is actually worse,” he says, given the increasing number of investors entering the space.

There are other pitfalls in the car wash business that investors might overlook. For instance, inclement weather can spell bad news for car washes: A prolonged winter can keep operations closed and droughts can cut off facilities from water. During recessions, car washes are one of the first activities consumers postpone.

But focusing on company culture is one way to break out of the boom-bust cycle, according to Caruso.

“The key to being a good investor in the car wash space is the people,” he says. “The companies that can keep good managers and have a serious culture will always be the ones that are head and shoulders above the rest.” //

Finding a Niche

"A hybrid or online experience is very different than on-ground learning, and I think that's one of the things that faculty members learned during COVID when everything had to shift rapidly to online; you can't just throw your on-ground course on Zoom. You have to really have a purposeful learning design approach, which is what we do."

JOANA JEBSEN,
President, O'Donnell Learn, on what it takes for a higher education company to remain relevant.

"The genesis of our health care effort was really examining the consumer and where they are today, recognizing that we had developed a large tool kit for serving, addressing, improving retention, improving visit volume and engagement with the consumer. But at the same time, recognizing that the legacy consumer products that we had invested in ... in many cases were under demand pressure or competitive pressure, and asking ourselves: Where can we take our consumer franchise and focus on the consumer in a service or product where there's more secular demand growth? And the answer came out as health care."

STEPHEN CELLA,
Principal, Sun Capital Partners, on the origins of his firm's health care strategy.

"When you're thinking about Amazon ... they have to build a lot of their businesses around the lowest common denominator. It has to apply for books, it has to apply for bicycles – and that's everything from how they build out their fulfillment network, how they market their product, how they merchandize on their website. That has opened up avenues for specialization in an e-commerce and digital environment.

ERIC KAU,
Operating Partner, Norwest Equity Partners, on the competitive landscape in e-commerce.

"THERE'S STILL A TON OF LITTLE [CBD] BRANDS THAT HAVE POPPED UP IN THE LAST TWO YEARS. THERE'S MORE COMING OUT ALL THE TIME. WHAT I EXPECT TO SEE DEFINITELY IS A LOT OF M&A HAPPENING WHERE SINGLE-BRAND COMPANIES END UP AS PART OF BROADER PORTFOLIO COMPANIES."

SMOKE WALLIN,
CEO, Vertical Wellness, on the M&A activity he expects to see within the CBD industry.

Newly Listed BurgerFi Serves up Sustainable Beef to Clean-Eating Clientele

The Florida-based "better burger" chain focused on delivery technology, ghost kitchens and curbside pickup to boost business in 2020

By Editorial Staff

Last year was undoubtedly difficult for restaurants. Many saw closures or declines in sales due to the coronavirus pandemic. Some 90,000 restaurants shuttered long-term or for good, according to a May report from the National Restaurant Association. And many are still down in revenue and staff by $290 billion and 1.7 million jobs, respectively.

Some fast-casual concepts that primarily focused on delivery and take-out pre-pandemic, or had unique concepts, managed to thrive. BurgerFi International, a Florida-based fast-casual chain focused on clean beef, recently secured a SPAC investment, opened several new ouposts and plans to continue expanding.

The company was acquired by Opes Acquisition Corp, a special purpose acquisition company, in December. The transaction took the business public on the Nasdaq stock exchange and valued it at $100 million. CEO Julio Ramirez says the company's focus on the "better burger" is what drew investors to the business. "[BurgerFi] is uniquely positioned to appeal to consumers' increasing needs and wants for fresh, all-natural delicious food sourced from quality suppliers with responsible practices," he says.

BurgerFi's focus on delivery, ghost kitchens, as well as app and technology development, helped the business grow in 2020. The company opened 11 new locations last year and plans to open 30 more this year. It also started nine delivery-only ghost kitchens. "We focused on optimizing our off-premise ordering channels to allow a seamless experience for our guests," Ramirez says. The company started offering curb-side pickup on its website. Digital and delivery sales grew 64% in 2020.

BurgerFi's revenue rose by 32% in the first quarter compared to the same quarter last year. New store openings and digital sales drove most of the growth, the company's earnings report said.

Since going public in December, the stock has declined from about $16 per share to $10 per share as of mid-June, though it is still trading at a healthy 5x multiple on revenue.

Lion Point Capital, a New York-based hedge fund, is one of the largest shareholders in the business, according to Yahoo Finance, with a 15% stake.

Looking ahead at expansion, Ramirez has his sights set both near and far. "We will continue to pursue our cluster market strategy and aggressively develop company and franchise restaurants primarily in Florida and throughout the Southeast and Eastern seaboard," Ramirez says. New locations will include traditional brick-and-mortar restaurants, as well as airport locations and ghost kitchens.

BurgerFi has also been expanding in the Middle East. In January, it announced six new locations in the region. "The population and demographics in the Middle East fall within our target market," Ramirez says. "The average age is about 32. There are many families with many children. They have high income and enjoy eating out and delivery," he adds.

BurgerFi has earned several accolades in recent years, including being named to the top spot of Fast Casual's Top 100 Movers & Shakers in May this year. The business is set to join the Russell Microcap Index at the end of June. //

Dr. Alex Mehr

Co-Founder and CEO, Retail Ecommerce Ventures

Dr. Alex Mehr is the co-founder and CEO of Retail Ecommerce Ventures (REV), an investment firm that buys distressed brands and transforms them into e-commerce success stories. REV's holdings include Radio Shack, Pier 1 and Dress Barn, among others. Mehr recently appeared on ACG's GrowthTV to discuss the challenges that brick-and-mortar retailers face and how to determine their value in today's disruptive environment. The following is an edited and condensed version of that interview, which is available in full at acg.org/growthtv.

"WE'RE LOOKING FOR THOSE COMPANIES THAT ARE LEFT BEHIND, BUT THAT HAVE REALLY GOOD BRANDS. WE PURCHASE THE BRAND, AND THEN WE DO THAT TRANSITION TO E-COMMERCE OURSELVES."

Q Based on consumer behavior and overall market trends in retail, how strong is the deal pipeline for the remainder of 2021, and will there be more distressed activity?

A The pace of bankruptcies that happened last year probably will not happen this year. But the thesis is still valid. When there's a technological shift, there are companies that are on the right side of it, and there are companies that are left behind. Sometimes that technological shift happens all of a sudden, like in the pandemic, or during normal years it is a trend that's happening, but it doesn't bunch up like it did last year.

It's not just brick-and-mortar to e-commerce. There have been all sorts of technological shifts, or changes in business modality, that have happened over centuries. And there are always companies that are left behind. We're looking for those companies that are left behind, but that have really good brands. We purchase the brand, and then we do that transition to e-commerce ourselves.

Q What is the biggest mistake you see businesses make as they add e-commerce capabilities?

A A lot of times when I walk into these companies, I see that they are operating their e-commerce site as if it's another store, which it's not. E-commerce is really not the same as running a store. It takes a different mentality in terms of merchandising and overall strategy. In terms of logistics, technology and marketing, everything is different about it.

A lot of times, e-commerce is an afterthought. A company may decide that it's going to sell through e-commerce because it feels it has to, but it's such a small percentage of the business that the board doesn't really appreciate it, and the CEO is motivated by their own compensation package. If there's this small thing that maybe pays off in five years, it isn't really relevant to the CEO for that year's bonus. The CEO is going to be focused on the thing that moves the needle now, and in doing so, e-commerce always becomes an afterthought. It's a pattern that I've seen over and over again. And it just doesn't work out that way.

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

> "E-COMMERCE IS REALLY NOT THE SAME AS RUNNING A STORE. IT TAKES A DIFFERENT MENTALITY IN TERMS OF MERCHANDISING AND OVERALL STRATEGY."

Q When REV is looking at a brand that's struggling and you're considering buying it, how do you determine its value in an environment where everything is changing so quickly?

A I think the interesting thing about REV is that we have used this exact formula of purchasing a strong brand and launching it as e-commerce-only quite a few times. We purchased nine brands in 2020. Because of that, I now have a data set of what the brand was beforehand, in terms of the number of people that went and purchased on a monthly basis—it's called monthly active users—based on the strength of the brand itself, and based on category. We've purchased brands in home goods, fashion, electronics, sporting goods and other verticals.

Because of that, I can look at data in a table and say, this looks like it's similar to this other brand, or it's similar to this one, but twice as big. Based on that, I know what I can expect post-transition. And then I work backward to the price. That's a specific advantage that we have—we can price these rather accurately now. //

CAN THE PANDEMIC DARLINGS

Sustain THEIR Growth?

The COVID-19 outbreak sparked an economic reshuffling unlike recessions that came before it. Mass layoffs in travel, hospitality and other hard-hit industries led many consumers to cut back on spending. Those that kept their jobs redirected their dollars toward new activities or in-home entertainment.

The new hobbies and spending habits decimated some sectors and boosted others. Industries that were hit hard—like travel, concerts and restaurants—are now starting to show signs of life. But what about the industries that flourished during the pandemic? Can they continue to climb?

Technology is the most-cited example of a sector elevated by the stay-at-home orders. From Netflix to Zoom, tech-enabled entertainment and communication platforms will almost certainly remain a fixture of daily life. But technology wasn't the only industry to thrive.

Living spaces became a greater focus for people spending more time at home, fueling a burst of enthusiasm for renovations, upgrades and new furniture. Home improvement businesses reaped the rewards.

So did private-label food and beverage suppliers. Limited capacity at restaurants and hesitant diners led to more foot traffic at grocery stores. As shoppers stocked up on canned foods and staples, many were watching their wallets and opting for private-label goods over branded products.

Price sensitivity also may have contributed to the growing interest in secondhand clothing, as did climate consciousness. The pandemic coincided with a spate of wildfires, hurricanes and flooding that drew some consumers toward more sustainable options, including recycled apparel and accessories.

Home improvement businesses, private-label foodmakers and fashion resellers each have had a good run, so we set out to explore what comes next for them: What happens when all the bathrooms are remodeled, restaurants return to full capacity, and clothing stores launch their new fashion lines?

Was the pandemic just a blip for these three industries, or a launchpad for lasting growth? //

BY KATHRYN MULLIGAN

Kathryn Mulligan is *Middle Market Growth*'s editor-in-chief.

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Home Improvement

AFTER LOCKDOWN

BY HAL CONICK

During the pandemic, Susquehanna Private Capital made its first two investments in the middle-market home improvement sector. It invested in Mosquito Authority, a mosquito control franchise business, as well as Premium Service Brands, which has franchised brands that specialize in services such as painting, housekeeping and garage door repair.

Susquehanna wasn't alone in its investments—American consumers and investors alike spent money on home improvement during the pandemic. Despite the U.S. economy shrinking by 3.5% in 2020, the home improvement and repairs market grew by more than 3%, to $420 billion, according to the "Improving America's Housing 2021" report by the Harvard Joint Center for Housing Studies.

Mergers and acquisitions slowed across the building products market in 2020, according to investment bank Capstone Partners. But Capstone reports that midway through the year, strategic buyers and private equity investors resumed activity and M&A rose more than 100% from the second to third quarter.

Both companies Susquehanna invested in held steady in their growth over the pandemic, adding more franchises. But Kyle Squillario, co-head investor at Susquehanna, believes that the home improvement story is bigger than the pandemic. "Even pre-pandemic, we were bullish on home services as a category," Squillario says.

Squillario has a hypothesis as to why the home improvement boom will continue: The housing market is getting younger. Millennials and Generation Z are now huge factors in buying houses, and he believes that will mean good things for any home services company for years to come.

A millennial himself, Squillario remembers seeing a survey that found that 32% of millennial dads reported not owning a hammer, something only 7% of baby boomers could say. If younger generations relied on professionals for other services, he believed that would hold consistent with homes. If you outsource other skills of expertise in your life, he reasons, why would you try to install your own drywall?

"We're the do-it-for-me generation as opposed to the do-it-yourself generation," he says.

AH Equity, located in Panama, also made its first investment in the home improvement industry—and the U.S. market—during the pandemic. It invested in the North Carolina furniture store Hickory Park Furniture Galleries after being introduced by a broker in July 2020. The furniture dealer has increased its revenue amid the coronavirus outbreak, an unexpected tailwind, say Rafael Quinn and Lucas Valderrama, co-managing directors of AH Equity.

But for Quinn and Valderrama, that tailwind was simply a bonus. They believe that the industry's potential stretches far beyond the pandemic.

"One of the first things we do when we look at a company or an industry is visualize this industry 10 years down the line," Quinn says. "We obviously believe people are still going to be using sofas, using dining room tables, [but] the method that they use to buy that furniture could change."

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"A SHORT BUMP IN SALES BECAUSE OF THE PANDEMIC IS NOT GOING TO DRIVE OUR OVERALL INVESTMENT DECISION. IT MIGHT HELP GET US OVER THE HUMP TO MAKE A DECISION, BUT IT'S NOT GOING TO BE THE DRIVING FORCE OF WHY WE DO SOMETHING."

RAFAEL QUINN
Co-Managing Director, AH Equity

Case in point: More than 30% of Hickory Park Furniture Galleries' sales now come from digital sales, a number they believe will increase in the coming years. *Surface* magazine reports that 14% of all online sales will be furniture purchases by 2022.

But like Squillario, AH Equity had an even bigger reason for investing in Hickory: The North Carolina population boom. The state's Office of State Budget and Management said that North Carolina gained nearly 100,000 new residents in 2019 and 2020, the fourth biggest grower of all states. North Carolina's booming population even gave it a new seat in the House of Representatives.

"A short bump in sales because of the pandemic is not going to drive our overall investment decision," Quinn says. "It might help get us over the hump to make a decision, but it's not going to be the driving force of why we do something."

"MY MAIN REGRET IS THAT THE VIRUS HAS PROBABLY DRAWN MORE ATTENTION TO THE INDUSTRY THAN THERE HAD BEEN PRIOR."

KYLE SQUILLARIO
Co-Head Investor, Susquehanna Private Capital

PROJECTED STRENGTH

The aftermath of the pandemic won't have much of an effect on Susquehanna's businesses, according to Squillario. He expects them to keep growing. But he does believe that the pandemic has had the effect of attracting other investors.

"My main regret is that the virus has probably drawn more attention to the industry than there had been prior," Squillario says.

And there's good reason for that attention. According to Brand Essence Research, the global home improvement market is currently worth $849.3 billion, but it's projected to grow 4.5% a year until it reaches $1.2 trillion in 2025.

It seems that there's more than a pandemic bubble to the current home improvement boom. Quinn, Valderrama and Squillario all expect their businesses to become even stronger after the public health crisis abates. Squillario notes that these businesses offer recurring services—he avoids home improvement companies with revenue based on projects. Rather than one-and-done deck jobs, there will be many houses to clean, rooms to paint and mosquitos to spray.

Across the home improvement market, Squillario says that he'll be interested to watch whether other investors diversify what they buy. Although HVAC or plumbing businesses offer investors a lucrative recurring revenue model, he wonders whether buyers could be scared off by the talent shortage in these industries, or the need for licensure.

He also questions whether investors will target project-based businesses, like roofing and restoration, which have fewer returning customers than furniture sellers or mosquito spraying companies.

For now, investors seem satisfied to participate in a market that has strength beyond bored homeowners sprucing up their houses—particularly in growing population centers like North Carolina, where AH Equity's furniture business is located.

"It's a fortuitous event to have the little mini bump we're getting and the increase in spending [on] that consumption," Valderrama says. "That was helpful, but I would say it was more important to have seen that long-term trend that we're seeing in the state, because that's what will carry us for the next five to 10 years." //

Hal Conick is a writer based in Chicago.

PENCHANT FOR

Private Label

BY JOANNE CLEAVER

Private-label groceries were out of sight but well within reach for cost-conscious consumers who shopped virtually during the pandemic. Now, as shopping habits realign with the rush to reopen the economy, private-label suppliers see a rare chance to redefine themselves.

In hopes that consumers' newfound enthusiasm for home cooking will continue, these third-party food and beverage manufacturers are experimenting with new recipes, packaging and modes of marketing for their products, which sell under retailers' house brands.

Still, their ambitions will only go as far as a fragmented supply chain will take them, say investors and consultants.

"EVERYBODY THOUGHT THAT THE DEMAND FOR THE PLAIN LABELS WOULD COLLAPSE, BUT PEOPLE STARTED LOOKING AT THE AMOUNT OF MONEY THEY WERE SPENDING EATING OUT."

WILLIAM MADDEN
Co-Founder, Whole Brain Consulting

Some pandemic preferences delivered unexpected lifts, says Robert von Furth, managing director of investment banking for Chicago-based Stout, an investment banking and advisory firm.

House-brand baked goods and familiar frozen foods, like lasagna, delivered comfort, thrift and convenience to stressed-out, overworked, homebound Americans over the past year and a half. Convenience foods designed for entertaining and eating on the go—such as store-brand trays of cut vegetables and single-serve fresh lunches—withered under bans on socializing and traveling.

All of that is reversing as management of the COVID-19 public health crisis morphs from urgent to chronic, says von Furth.

The focus on correcting bad habits tolerated during the lockdown will be a boon for house brands that deliver formulations that celebrate health and wellness with flair, predicts von Furth. Consumers are in an experimental frame of mind, and that means that private-label goods have a moment to assert their benefits for wallets and waistlines.

House brands were a bit of a port in the COVID-19 storm, as borne out by market share figures released in January by IRI, a Chicago-based market research firm. It found that major brands' share eroded by 1.3% in 2020, due in part to chaotic supply chains and consumers' penny-pinching.

While the overall push toward at-home cooking and consumption propelled consumer packaged goods to a 10.3% increase in sales, house brands captured 18% of that growth, according to IRI analysis, translating to a 0.2% increase in share for private labels. Alcohol, frozen food and "center store" shelf-stable pantry staples enjoyed the biggest lift—especially, as IRI noted, when shortages sent consumers to "pick up whatever was available."

The big story for 2021 will be how loyalties realign along with the supply chain, according to consultants. Pandemic lockdown shortages and glitches are still being untangled, says William Madden, co-founder of a food and beverage consulting consortium based in Chicago.

One of the biggest clogs is located in Americans' pantries. Facing accumulations of canned and shelf-stable goods, even those who are eager to return to dining out are likely to work through their stockpiles, Madden predicts.

That gives private-label marketers a little breathing room to re-establish their relationships with producers, he says. "It will take about three months for private label to secure their spot in the supply chain," Madden says.

Higher end store brands, like Meijer and Kroger, asserted their spots atop the food chain, claiming capacity to fulfill the torrent of consumer demand. "It was the commodity

private-label suppliers that got crushed," says Madden. "Everybody thought that the demand for the plain labels would collapse, but people started looking at the amount of money they were spending eating out. Suddenly, they had money to buy the higher quality goods and those premium products all saw fantastic growth. That's what people have now in their pantries."

And, as consumers flock back to the aisles, private-label brands have a rare chance to reintroduce themselves with new twists on flavors and packaging at sweet price points. The newfound novelty of shopping in person will likely open a brief but lucrative window for consumer discovery, say consultants.

The abrupt shift to online grocery ordering and home delivery derailed the traditional private-label mode of marketing: winning on price, side-by-side on the supermarket shelf, explains Ricardo Cordero, CEO and founder of Ricardo Food Group, Inc., a New York City-based firm that invests in, develops and consults for private-label suppliers.

Enthusiasm for private label will also snap back as consumers giddily resume much-loved grocery shopping habits. "When I log in to Instacart, I see what they want me to see," Madden says. "When I go to the grocery store, I see what I want to see. As consumers hit the stores, they'll see those price differentials."

Store leadership is counting on private-label cache to offset the anticipated drop in grocery revenue as at least some consumers start eating out more. "The private-label profit margins are what stores need to weather the drop in sales overall from the snap back to eating out," Madden says.

Now, private-label goods are determined to reclaim "cart awareness" with consumers who both resorted to comfort foods and experimented with cooking and baking while at home during the pandemic, Cordero says.

If working from home continues, that won't be a tall order, because consumers will cultivate new habits and preferences as they integrate familiar brands into workdays that are still contained to home offices.

"The more you associate your brand with daily life, that carries over to private label and store loyalty," Cordero says.

The emerging national obsession over shedding pandemic pounds is likely to merge with merchants' determination to introduce organic, high-protein, low-carb and other health-signaling formulations to consumers who want to trim costs along with their waistlines.

As supply chain kinks straighten out, new product ideas that have been percolating will rapidly roll out, Cordero predicts.

"A lot of new entrepreneurs who started companies with private-label goals—they had time to work on their ideas," he says. "And direct-to-consumer marketing wins during the shutdown showed them the loyalty that you can build with private labels." //

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

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Recycled Fashion's

LONG RUNWAY

BY ANNEMARIE MANNION

The old tune "Second Hand Rose" that laments "even clothes I'm wearing someone wore before" doesn't apply to today's consumers who are proud to purchase previously worn luxury fashions and, as a result, are supporting a fashion resale industry that's growing by leaps and bounds.

The old attitude that looked askance at wearing secondhand apparel is changing as more consumers purchase pre-owned, high-end fashion items as a way to keep discarded clothing from clogging landfills and to lead a more sustainable life.

The pandemic gave the already growing resale market a lift when brick-and-mortar retailers were forced to close throughout the U.S. and consumers flocked online to shop.

Fashion resellers that were already operating online or were able to move online quickly benefited during the pandemic, and fashion resellers as a whole continued to experience growth that had begun even before the public health crisis.

"The resale industry in general is growing at a faster rate than general retail," says Carolyn Thompson, president and CEO at Resale Global. "That's because of consumer demand for sustainable shopping opportunities. People want to be able to reuse things and live a sustainable lifestyle."

Resale Global offers technology that allows resellers to improve the efficiency of their businesses and reach more customers. Users are able to cross-post a single entry of an item for sale across various websites and social media platforms, including Facebook, Instagram, eBay, Poshmark, Tradesy and others.

ThredUp, an online consignment and thrift store that publishes an annual report on the industry, is similarly bullish on fashion resale. It expects the online secondhand market to soar 69% between 2019 and 2021. At the same time, it projects that the broader retail sector will shrink 15%.

ThredUp expects the size of the secondhand fashion market to reach $64 billion by 2025, with $28 billion coming from the traditional thrift and donation sector, and $36 billion coming from resale. By comparison, the total market was $28 billion in 2019, with $7 billion coming from resale.

Interest in the industry is evidenced by the IPOs of resale marketplaces Poshmark in early January and The RealReal in 2019, and by an investment by luxury conglomerate Kering, the owner of brands Gucci and Laurent. Kering took a 5% minority stake in French luxury resale platform Vestiaire Collective in March.

Ariel Ohana, co-managing partner of Ohana & Co., an independent investment bank that acted as exclusive financial advisor to The RealReal during its growth equity financing from private equity firm Great Hill Partners in 2017, says even major luxury retailers no longer see fashion reselling as a threat.

"Luxury retailers used to hate seeing their products being sold at a discounted price and secondhand," he says. "Now they realize that those [resale] companies actually are allowing their old customers to buy more, and they're bringing in new customers because the people who buy secondhand aspire to one day buy original."

> "OUR OPINION IS THAT THE M&A ENVIRONMENT IS REALLY HOT RIGHT NOW, ESPECIALLY BECAUSE OF HOW WELL THE RESALE INDUSTRY HAS CONTINUED TO GROW AND HOW STRONG IT IS."
>
> ELISE WHANG
> CEO and Co-Founder, LePrix

Another business serving the fashion resale industry is LePrix, an online B2B and B2C platform for businesses to sell and source pre-owned luxury items in the United States.

Elise Whang, CEO and co-founder of LePrix, says the fashion resale industry is made up of many mom and pop businesses, which she adds can sometimes be a plus.

"Small businesses have an advantage," she says. "They are leaner and can pivot faster. We saw some businesses that really got creative during the pandemic."

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“LUXURY RETAILERS USED TO HATE SEEING THEIR PRODUCTS BEING SOLD AT A DISCOUNTED PRICE AND SECONDHAND.”

ARIEL OHANA
Co-Managing Partner, Ohana & Co.

Whang cites one seller that sold special-event wear, bridal and evening gowns prior to the pandemic. It switched to high-end hand bags when weddings and other events were canceled following the coronavirus outbreak. The company will continue to offer handbags and hopes to capitalize on selling special-event dresses when in-person events return.

Whang’s outlook is upbeat, and she believes fashion resale presents an attractive investment opportunity.

“Our opinion is that the M&A environment is really hot right now, especially because of how well the resale industry has continued to grow and how strong it is,” she says. “It’s a huge industry. We predict that there will be consolidation—M&A—in the next year to three years. This industry is maturing.”

Frank Glover, senior director of TEDCO, the Maryland Technology Development Corporation, which invests in and helps grow technology for entrepreneurial innovators, also believes in fashion reselling as an investment opportunity.

“When you see IPOs and you see them perform relatively well, that’s certainly an indication that there is investment interest in this industry,” Glover says. “And you can point to the demand in the market. Where there is demand, people are going to invest. We’re a demand-driven, consumer-driven economy.”

Glover says that businesses that provide infrastructure or solve a problem are compelling. LePrix, for instance, operates an arm of its business that offers resellers access to inventory of high-end products that can be difficult to source.

“Regardless of industry, I like to invest in big and growing market opportunities,” Glover says. “And then I like to look for the problems that a business solves. Certainly, one of the pain points [for the resale industry] is getting quality inventory across this market, because there is big demand. Resellers need to keep up with that demand.”

Knowing that her company is addressing one of the industry’s pain points is a positive for Whang, whose company is attracting interest from potential investors.

Despite such activity, she is focused on serving her customers and contributing to a more sustainable fashion industry.

“Our first priority is to create value for our customers and help power the circular economy, but we are open to ideas if the visions align,” she says. //

Annemarie Mannion is a former reporter for the *Chicago Tribune* and a freelance writer who covers business.


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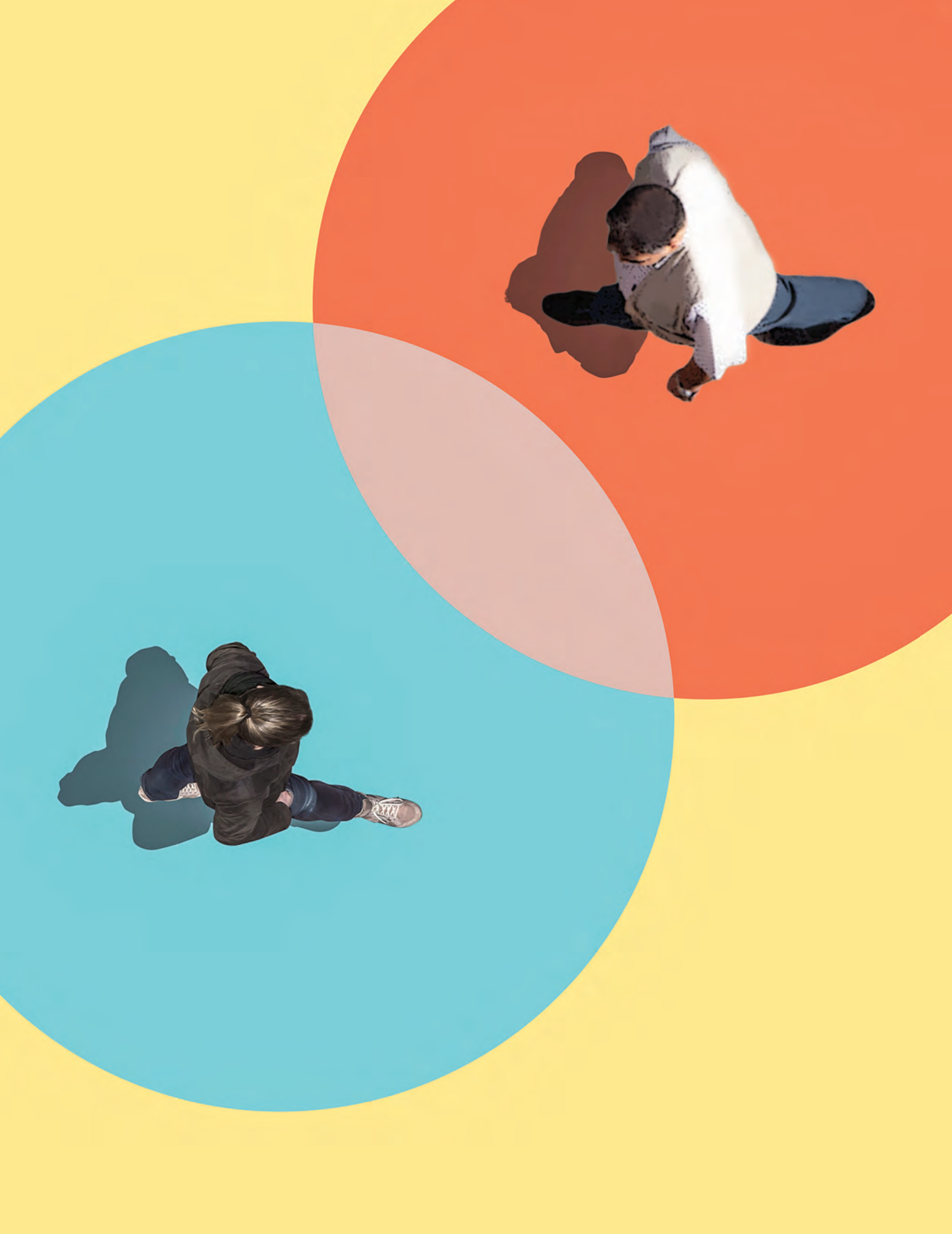

Marketing MEETS Private Equity Business Development

BY MEGHAN DANIELS

Marketing has not historically been top of mind for middle-market private equity firms. A decade ago, putting up a basic website and issuing a press release after closing a deal was the extent of a typical shop's marketing activities. Some firms didn't even have websites, or if they did, they purposefully didn't include their contact information on the site. "It was a badge of honor to be elusive," says Mark Gartner, principal and head of investment development at private equity firm Clearlight Partners.

No longer. Ten years ago, firms didn't have to market themselves because the competition wasn't nearly as intense as it is now. "Firms could be reactive, waiting for deals to come to them or to see if they prevailed in the auction process. That's not the state of the game right now," Gartner adds.

"IT'S THE BD ROLE THAT'S PUSHING FIRMS TO PUT DOLLARS BEHIND MARKETING TO IMPROVE THE BRAND AWARENESS OF THE FIRM."

JOANNE VERKUILEN
Founder and Managing Partner, MiddleM Creative

"We've seen a complete reversal in how private equity views marketing," agrees Jordan Selleck, CEO and co-founder of 51 Labs, a marketing agency for the lower middle market. As capital, operations and many of the other levers that private equity previously relied upon to source and close deals have become commoditized, digital marketing has emerged as a powerful differentiator. Selleck estimates that fewer than 5% of lower middle-market funded sponsors have even the basics of digital marketing, like regular LinkedIn and video content, a polished website and email marketing campaigns. Even if the numbers are slightly higher for middle-market firms, which may have more resources and be earlier adopters, there's still a huge opportunity for firms to enter the space and get ahead.

THE EVOLVING BD ROLE

Business development professionals are by and large the ones driving the push toward marketing—and those who aren't adapting run the risk of being left behind.

The rise of the dedicated business development professional is itself a response to the hyper-competitive private equity market. There is currently more than $750 billion in dry powder available to buyout funds, according to a 2021 Ernst & Young report. "Every year there are more dollars raised and more private equity groups in the market," says April Simile, business development partner at private equity firm Incline Equity.

As the market has become both more competitive and more fragmented, BD professionals play a crucial role in maintaining relationships with intermediaries, keeping firms top of mind, and managing the influx of data available in a digital deal environment. A 2019 poll by Navatar reported that 4 out of 5 private equity firms were considering hiring a dedicated business development director, while half already had one in place.

Now that the lion's share of firms have siloed BD as a separate function, the responsibilities of the business development professional are expanding. Intermediary outreach has traditionally been the bread and butter of middle-market private equity business development—a way to develop personal relationships and nab proprietary deal flow. But this strategy has become standard practice, so firms are looking for

new ways to gain an edge. “Marketing provides private equity firms the opportunity to communicate more frequently and efficiently to a crowded, fragmented and geographically dispersed set of audiences,” including intermediaries, business owners, and potential or current limited partners, says Simile.

“MARKETING PROVIDES PRIVATE EQUITY FIRMS THE OPPORTUNITY TO COMMUNICATE MORE FREQUENTLY AND EFFICIENTLY TO A CROWDED, FRAGMENTED AND GEOGRAPHICALLY DISPERSED SET OF AUDIENCES.”

APRIL SIMILE
Business Development Partner, Incline Equity

Rich Grant, who joined private equity firm Northlane Capital Partners in February as the firm’s first dedicated business development hire, says that marketing is a core part of his responsibilities. “Marketing definitely falls under the business development umbrella at our firm. It’s a never-ending process to connect with the market in the industries and sectors we’re focused in.”

The expansion of the business development role has made clear that the way firms are thinking about marketing is changing rapidly. “It’s the BD role that’s pushing firms to put dollars behind marketing to improve the brand awareness of the firm and ensure they are represented appropriately in media and creating personal relationships through digital marketing,” says Joanne Verkuilen, founder and managing partner of MiddleM Creative, a business development and marketing agency for the middle market.

The coronavirus outbreak has only intensified this shift, as in-person events and intermediary strategies premised on regular travel became impossible early in the crisis. “COVID changed the way private equity looked at digital marketing,” says 51 Labs’ Selleck. While private equity is and will always be a relationship business, travel bans gave many firms a much-needed push to experiment with developing these

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"WHAT WORKS IN OUR INDUSTRY IS AUTHENTICITY. BUT AUTHENTICITY IS VERY HARD TO COMMUNICATE THROUGH A COMPANY BRAND."

JORDAN SELLECK
CEO and Co-founder, 51 Labs

relationships via marketing strategies rather than relying strictly on in-person meetings and events.

"PE firms now have to be media companies. You can't get away with just the old-school BD strategies anymore," says Selleck.

The expansion of the BD role means that many firms are looking for new skillsets when hiring. "Anyone who wants to get into private equity business development would benefit from having some type of marketing exposure," says Simile, though the necessary level of expertise varies depending on the target role and the maturity of the firm's marketing strategy. "For a head of BD, where you're coming in to start an effort, a strong marketing skillset is a requirement. At a firm with a more mature platform, that skillset is additive and there's an opportunity to teach and grow."

CULTIVATING AUTHENTICITY

Believing in the value of marketing is one thing. Conceiving and executing an effective marketing strategy that will truly differentiate a firm is another.

"What works in our industry is authenticity. But authenticity is very hard to communicate through a company brand," says Selleck. Company branding—touting a firm's experience, closed deals and industry connections—is where private equity firms have traditionally focused their marketing efforts. Focusing instead on individual partner branding is how firms can distinguish themselves from others in the field.

When Simile joined Incline to head up business development, the firm was focused on traditional marketing strategies like printed collateral, non-interactive websites and general public relations initiatives. "It's very difficult in these mediums to truly engage with your audience," Simile says. Under her leadership, Incline has built out a video-focused content strategy that "gives us an edge and gets people to remember us. We have a story to tell that transcends the attributes of our investment criteria—everybody has those. Of course, our investment strategy drives our success, but we get at that by talking about who we are, what we're passionate about, how we've supported our companies, and how we've had fun along the way."

Incline's videos—ranging from case studies from portfolio companies to quarterly news wraps to Christmas videos featuring partners in themed pajamas—help business owners, intermediaries and potential limited partners get a better sense of the team members' ethos, and by proxy, that of the firm. Incline measures the return on investment of their videos and other marketing efforts not only based on traditional quantitative metrics (like website traffic, time on page, social media reach and engagement, email campaign conversions and more), but also on qualitative, anecdotal feedback from bankers, management team members and others in their orbit.

"It's 2021," says 51 Labs' Selleck. "PE not having video is like someone still using an AOL account. Video has emerged as one of the most effective tools for conveying trust."

Long-form content can serve a similar purpose. "The key is to produce content that's actually useful to your audience, not just more about your criteria," says Clearlight's Gartner. "If you can think of one person who you want to respond to your piece, write it for that person. You'll find that there are more of those people out there than you think, and they'll respond to it."

Focusing on the tenets of good storytelling, staying away from "hyper-sanitized or inauthentic corporate speak," adapting posts to your audience's limited attention spans (e.g., with bullet points and headers), and emphasizing quality over quantity are some of Gartner's top tips for building out an effective content library.

"LINKEDIN WILL NEVER BE THIS GOOD AGAIN"

There are numerous ways to distribute content both online and off—direct mail, websites, email campaigns, paid bylines, social media and more. But right now, LinkedIn provides the most powerful opportunity for deal-makers. "LinkedIn will never be this good again," says 51 Labs' Selleck. "Those who get in early will reap the benefits down the road."

Selleck says 9 out of 10 private equity professionals he speaks with are reluctant to post on LinkedIn. According to an internal 51 Labs study of 335 private equity partners conducted in 2020, 77% had never posted on LinkedIn and 88% either had never posted or have done so rarely. "Where others are reluctant is exactly where the opportunity is. Partners don't post on LinkedIn, but they check it daily. LinkedIn is like Facebook was in 2010. There's a huge deficiency of content. That's why our clients can get ten, twenty, even thirty-thousand views on a single post," says Selleck.

The most effective posts tend to be those that transcend simple closed deal announcements or job openings. Ryan Grand, principal of deal origination at private equity firm HKW, got 75,000 views on a LinkedIn post all about how, as an introvert, he never expected to survive in the deal-sourcing world. Dan Lee, partner at investment firm Comvest Credit Partners, got 40,000 views after posting about a time his partners said he "wasn't cutting it as a manager." This type of personal vulnerability is not necessarily what audiences expect from private equity partners, but it clearly resonates.

"LinkedIn has become a platform for self-promotion," says Clearlight's Gartner. "It's all selfies and promotion announcements—a narcissistic beast that keeps getting fed. My philosophy is to be the show, don't be the commercial. If you can do that, you can really stand out."

It's a philosophy that's applicable not only to LinkedIn, but to all marketing efforts—something today's business development professionals should take to heart. //

Meghan Daniels is a freelance writer and editor based in Brooklyn.

▲
Ryan Irby, Partner, Transaction Advisory Practice, DHG

Opportunities Abound in Texas

Why deal-makers are flocking to the Lone Star State

States such as New York, California and Illinois—often considered the economic powerhouses of the nation—have lost headcount during the past decade, according to the U.S. Census Bureau's latest figures. Texas did just the opposite, thanks to an influx of people and businesses that are, in turn, putting the state on the map as a hub for M&A.

Census Bureau figures show Texas gained nearly 4 million residents from April 2010 to April 2020, bringing the state's population to 29,145,505. The Lone Star State's population grew so much between 2010 and 2020 that it roughly swallowed the state of Oklahoma, whose entire population totaled 3,959,353 as of April 2020.

Texas led the nation for the sheer number of residents added over the last decade. It holds the No. 3 position for percentage population growth from 2010 to 2020, according to Census Bureau data. The state's population shot up by 15.9% during that period, behind only Utah (18.4%) and Idaho (17.3%).

While this may surprise some, it's a trend Texans and deal-makers have been watching for years.

"Texas has been a hotbed of activity. The state has a welcoming environment for a number of reasons," says Ryan Irby, a partner in the Transaction Advisory practice of Dixon Hughes Goodman, a U.S.-based professional services firm.

For one, the state's economy has developed beyond the industries historically associated with Texas, such as ranching and energy. It's not tied to one or two industries anymore, according to Irby, and that breadth makes it attractive to all kinds of people and businesses. Additionally, there is a pro-business environment with a strong talent pool. "You are seeing more and more businesses and people move to Texas to take advantage of the great things the state has to offer," Irby adds.

Businesses are certainly relocating to Texas. According to the governor's Economic Development and Tourism office, there are 237 relocation or expansion projects currently in the works. That doesn't include the big-name companies that have moved recently or are planning to relocate. For example, Oracle moved its headquarters to Austin in 2020, while Apple opened its second-largest campus in Texas. Tesla is currently building a factory in the state.

With more than 25 colleges and universities, Texas offers businesses a strong labor pool. College graduates tend to stay in the state after graduation because of the low cost of living and the abundance of job opportunities. "We have excellent talent here coming out of great schools like The University of Texas, Texas A&M, Baylor, SMU, TCU, Texas Tech, Rice, etc.," Irby says. "Texas is a very attractive and business-friendly place for investors, owners and operators. Fundamental factors such as the absence of personal taxes, affordability, well-developed transportation infrastructure, low levels of business regulations, a central location and skilled workforce diversity creates momentum and bodes well for the future."

These trends are not lost on deal-makers, who are flocking to Texas—as evidenced by recent strong M&A activity. Year-over-year, deal value tied to Texas-based companies and private equity jumped by 201.5% in the first quarter of

Photo by
Justin Clemons

DHG is registered in the U.S. Patent and Trademark Office to Dixon Hughes Goodman LLP.

"THE DALLAS-FORT WORTH AREA OFFERS DHG GREAT OPPORTUNITIES TO PUT OUR TECHNICAL KNOWLEDGE AND INDUSTRY INTELLIGENCE TO WORK FOR THE BUSINESSES HERE."

TIM YORK
Managing Partner of Performance, DHG

2021, according to Mergermarket data provided exclusively to The Texas Lawbook.

Mergermarket reported that 25.5% of Q1 deals (81 deals; $19.6 billion) were tied to technology by value, followed by energy, mining and utilities with 17.4% (32 deals; $13.4 billion), and industrials and chemicals at 13.5% (50 deals; $10.4 billion).

As for where deal-makers are transacting within Texas, the Dallas-Fort Worth area, Austin and Houston top the list.

DALLAS-FORT WORTH

Tax incentives have made Dallas-Fort Worth a booming place for business. DFW was able to successfully attract many businesses such as Comerica Bank and Toyota North America, among others, to relocate.

"You have two world-class cities in a 30-mile distance. Dallas has evolved into a large financial services, manufacturing and distribution hub today, and Fort Worth is rapidly expanding with a growing technology and health care community," Irby says.

Private equity firms are attracted to businesses that service the region's growing population. The Halifax Group, a private equity firm with a niche for investing in franchise businesses, swallowed up a slew of Orange Theory Fitness (OTF) chains in the DFW area. OTF offers a high-end, distinct workout concept backed by science that caters to a customer base of mid-to-upper-class professionals—perfect for the DFW area.

"OTF is head and shoulders above the competition when it comes to a workout program, and we knew the DFW population would take to it," says Chris Cathcart, a managing partner with The Halifax Group. "DFW has had meaningful population growth and has been resilient in downturns like the Great Recession, which makes it an attractive market for us. You want to invest where you have natural population growth, and that's what we are seeing in the DFW area."

The appeal to investors extends beyond just population growth, Cathcart adds. "DFW has benefited from business- and growth-friendly economic policies and low taxes. The climate doesn't hurt, and the universities attract an educated and well-trained population," he says. "A number of factors are snowballing to make DFW a great place to invest."

Halifax has purchased 34 OTF studios in the DFW area over the last two years, and the DHG team has helped at every step of the way. "The OTF deal is a testament to Texas," says Steven Frank, a partner in DHG's Transaction Advisory practice, who has completed quality of earnings reports on the OTF companies for Halifax. "This brand is perfect for the current demographics of DFW," he says.

"We have known DHG for a number of years and they have been a fantastic partner. In our industry it's important for service providers to not only be excellent practitioners, but also have commercial expertise, which they do. DHG

understands our objectives, how we look at accounting and helps us make smart value-creation decisions for our businesses," says Cathcart.

Despite some hiccups that COVID-19 caused, Halifax's OTF business is still projected to show growth. "We have let the membership dictate how they want to move forward, but the membership base has been strong throughout. They love the concept and want to be a part of it. That's what makes it so attractive," says Bryan Wallace, OTF's vice president of finance.

DHG is certainly excited about working in the DFW area. "The Dallas-Fort Worth area offers DHG great opportunities to put our technical knowledge and industry intelligence to work for the businesses here. Our focus on the future helps our clients achieve their goals and allows us to give back to the local community. That's been our approach for more than 20 years and that's how we're looking to the future," says Tim York, managing partner of performance with DHG.

AUSTIN

Austin is considered an up-and-coming city with a great growth trajectory. "Austin has a really unique vibe with great food, live music and an overall buzz," Irby says.

The city has become popular with the tech crowd. Dell Computers was founded in the city and tech giants from all over the country have been relocating to the area ever since. Companies such as Apple, Facebook, Tesla and Oracle have all relocated to the city. According to the census, 56 companies relocated to Austin in the past 10 years. Since 2010, 94 company headquarters moved from California to Texas. Twenty-eight of those companies settled in Austin.

Deal-makers are ready to take advantage of what Austin has to offer. In April, Austin-based Arrive Logistics received a $300 million investment from ATL Partners. Founded in 2014, Arrive is a tech company that specializes in working with shippers and carriers to move products and supplies. In addition to expanding its workforce, proceeds from the new investment will let Arrive continue to invest in its technology and create new service offerings.

Other sizeable investments in Austin companies this year include software maker Quali, which received $54 million, and tech-enabled mortgage platform UpEquity, which raised $25 million.

"There is an entrepreneurial spirit that the community welcomes. It is becoming a technology-focused city, and is sometimes referred to as the new Silicon Valley. This culture is becoming more and more prevalent in Austin every day," Irby says.

Select businesses that have recently moved or are moving to Texas:

- Apple: Austin, 2021
- Caterpillar: Las Colinas, April 2021
- CBRE: Dallas, October 2020
- Charles Schwab: Dallas, November 2019
- Google: Houston, March 2021
- Hewlett Packard Enterprise: Houston, December 2020
- Oracle: Austin, December 2020
- Samsung: Austin, January 2021
- Tesla: Austin, December 2020
- Wayfair: Austin, April 2021

HOUSTON

Although Houston is still considered an oil town, it is diversifying. Last month, EnCap Investments raised $1.2 billion for its first fund dedicated to renewable-energy project developers, securing nearly two-thirds of the capital in the past six months.

The Houston-based private equity firm launched EnCap Energy Transition Fund I LP in 2019 after investing exclusively in the oil-and-gas sector for the past three decades.

"Houston still lives and breathes oil, but a variety of other industries are also growing, from health care to technology and manufacturing," Irby says. "Houston is a city to watch, particularly as the market continues to capture investors' attention going forward." //

Consumer Products M&A— How to Come Out Looking Great

SOUND DECISIONS // It takes a special mix of attributes to ensure success

Charles Morton
Co-Chair, Corporate Group, Venable LLP

As the M&A market enjoys unprecedented levels of activity, no sector has been more volatile than consumer products. With changing buying patterns, wild swings in consumer spending, and fear shifting toward wild optimism, the sector has been impacted by recent events in profound ways. Throw in a healthy fear of increasing taxes and you have the recipe for a wild, and very busy, ride.

The middle-market deal community is as busy as ever. Record levels of dry powder, low interest rates, rosy predictions of growth, a maturing private equity community and aging founders are fueling a sprint in activity. Many service providers have reached, or are nearing, capacity. These anecdotes, however, are not yet fully reflected in the data.

The apparent current level of activity contrasts from a generally weak 2020, particularly in the second and third quarters. For example, 2020 saw a 15% drop in consumer product-related transaction value compared to 2019, according to Bain & Co. There were, however, clear winners and losers in the world of COVID. For example, growing throughout 2020 were deals focused on insurgent brands—those brands outpacing category growth—for which acquirers were prepared to pay a premium. Even in last year's relatively anemic market, such deals continued the same two- to three-fold annual growth that they've experienced since 2015.

Capturing the Special Sauce

Identifying and capturing the economic driver of the target is at the heart of what any buyer must prioritize. For consumer product companies, often it takes a special mix of attributes to ensure success. The quality of the products themselves is clearly part of the story. The supply chain that ensures consistency, a strong manufacturing/production infrastructure, and a way to ensure ongoing product development and enhancement are essential. After production, sales channels that provide for sufficient avenues to market and appropriate price points are equally important. A team to ensure execution and a clear articulation of what sets the business apart, or brand identity, is also required.

In the midst of a robust market, where valuations are frothy, the need for buyers to perform adequate diligence could not be greater. One simple miss anywhere along the diligence journey could turn likely gains into losses. Where there is pressure to close the deal as promptly as possible, care is required, as are partnerships with supportive professionals to assist in analysis and deal execution.

As a seller, pre-sale preparation has never been more important. Seller-funded quality of earnings reports before instituting the sales process, audited financials (even if not done historically), buttoned-up key contracts, a list of all contracts requiring consent, and general corporate house cleaning can all help to speed the transaction.

On the buy-side, peeling through the numbers to be certain you are not paying for results that may have been an anomaly must be a central concern. In addition, for many consumer products, from food to health-related products, to anything manufactured overseas, the regulatory landscape continues to evolve rapidly. Understanding the current rules, and anticipating changes that may be coming, must be part of the analysis in any transaction.

In the world of consumer products M&A, deals are happening and, when done well, both the buyer and the seller can come out looking great. //

Charles Morton is a co-chair of Venable's Corporate Group and a past chairman of ACG.

Supply Chain: Moving Past the Global Pandemic

MID-MARKET TRENDS // How to address enduring supply chain challenges and disruptors

Anthony Casciano
President and CEO, Siemens Financial Services, Inc.

Bruce McIndoe
Founder, WorldAware and McIndoe Risk Advisory

TECHNOLOGY AND DIGITALIZED OPERATIONS WILL ENABLE MORE ADAPTIVE AND RESILIENT SUPPLY CHAINS.

In 2020, global supply chain vulnerabilities were exposed by the COVID-19 pandemic, disrupting manufacturing and provoking conversations about resiliency. The question was continuously raised: How do we ensure supply chains are reliable going forward? And if the pandemic wasn't enough to fuel a revision of the global supply chain, the March 2021 incident that left a massive container ship blocking the Suez Canal in Egypt for nearly a week was an extra nudge toward upgrades.

As we ease into a new version of normalcy with the slowing of the COVID-19 pandemic thanks to the growing availability of vaccines, the permanent influence of this global shock on our supply chain and emerging supply chain disruptors such as resource scarcity, climate change and congestion come into play.

Population growth will pose a significant challenge for the supply chain going forward. There are currently around 1.2 billion housing units in the world. To satisfy the growth trajectory of our population, we need 1 billion more housing units built in the next 30 years. This growth affects other resources as well, such as food and water, and raises concerns surrounding the connection between economic growth and natural resource use.

Rather than dwelling on these disruptors, it's important to understand how best to navigate them and the solutions that already exist, or are in development, to diminish their negative impact.

Along with the challenges that our supply chain faces, this understanding begins with realizing how the supply chain will change for the better going forward. Historically, trade has occurred horizontally from east to west due to how civilization developed and in modern times, where wealth resides in the United States and Europe. In the coming years, due to the rise of foreign nations, we can expect to see a transition to vertical trading from north to south. This hemispherical shift in supply chain will cause de-globalization and the Western Hemisphere will in theory become self-reliant, putting less strain on the supply chain.

The technology needed to strengthen the supply chain is already in existence or development and includes advanced farming, power generation and storage technology, modular recyclable materials, robotics and more. For energy, health care and industrial companies, Siemens enables upgrades to new technology along with the financing needed to empower new business models and solutions.

While there are many challenges and disruptors facing the global supply chain, there are also reasons for hope. As more companies adopt new technology and digitalize their operations, the supply chain will become more adaptive and resilient. **//**

Anthony Casciano is president and CEO of Siemens Financial Services, Inc. He also leads its IoT efforts in the United States.

Bruce McIndoe is founder of WorldAware and McIndoe Risk Advisory.

This article is a follow-up to the July 2020 article by Anthony Casciano: "Adapt Your Supply Chain to New Realities."

NextTarget
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The Case for Investing in Early Childhood Education

By Candace Adorka

Mark Gartner is a father of two young children; he's also head of investment development at Clearlight Partners, a private equity firm. Gartner drew inspiration from his own life to develop an investment thesis around private preschools.

"Generally speaking, a well-managed mature school can generate $2-3MM of annual revenue with 20-30% EBITDA margins. If you assume a build-out cost of $500K-1MM, then there is good rationale to grow via a greenfield, or de novo, strategy," Gartner writes.

His confidence in this market was virtually unshakable as he developed it early last year – then the pandemic happened. By August, 20% of childcare workers were out of a job, and 80% of childcare providers were expected to close permanently. The federal government has since bolstered the industry, and unemployment rates are ticking down – indicators that bode well for a strong recovery for the childcare industry.

Procare Solutions provides business management software to childcare companies. The company polled its 30,000 users to track how the industry is responding to the pandemic. According to its March report:

- 60% of centers closed after March 2020
- 76% of those centers have now reopened

Centers are operating at 58% of their pre-pandemic capacity, the highest point since bottoming out at 13% last April.

Procare's user data suggest the childcare industry is recovering, especially in states that are experiencing a population boom. Idaho, for instance, is at 94% of centers reopened at 75% capacity. This is in line with what Derek Cummings – head of the Creation Village school in Florida – is seeing in his community: "Here in Florida, because unemployment is so low, the market is back. Our demand and waitlists are growing each day. We have a high volume of interest, and I think the market is definitely back from what some of the centers we know of are saying."

> "WE HAVE A HIGH VOLUME OF INTEREST, AND I THINK THE MARKET IS DEFINITELY BACK.
>
> DEREK CUMMINGS
> Head of School, Creation Village

Cummings goes on to explain why he's bullish about the future of the industry: "I do believe that there is a strong movement within policy, whether it be from a state level or federal level, to support people going back to work and having a place for their child. … I think the market is going to continue to grow and strengthen. I also believe that you will see a lot more corporate partnerships working with centers themselves." CONTINUED ON PAGE 52 ››

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CONTINUED FROM PAGE 50 » For investors who agree with Cummings' outlook and are ready to investigate the market, Gartner gives detailed advice about the characteristics to look for in a target. Some of his criteria have been used to filter within the Grata search platform, giving a sense of how many potential targets exist in the North American market.

The baseline search found 395 companies with two or more locations.

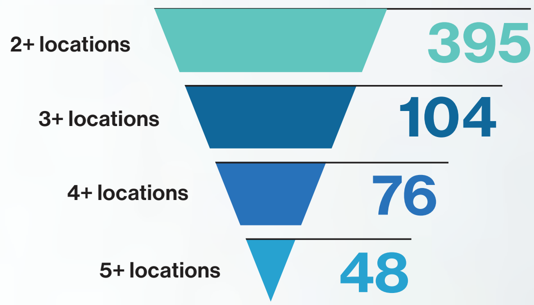
OWNERSHIP

98% Independent

1 PE platform

3 Private subsidiary

MULTI-SITE PRESENCE

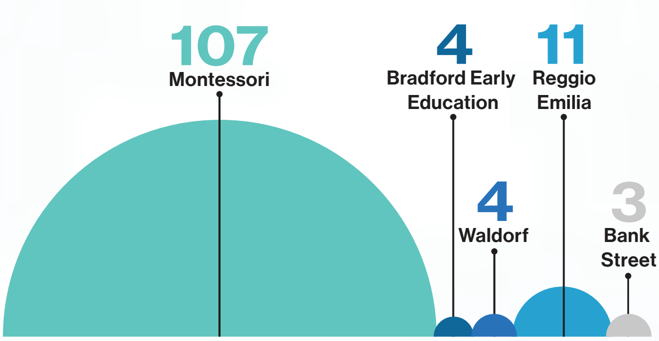


ACCREDITATION

REPUTATION

40 Boast their good reputations or high ratings on their websites

PEDAGOGIES



This article was adapted from the Next Target newsletter, which features forward-looking analysis of niche industries. Next Target is part of a partnership between ACG and Grata, a search engine for companies.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CANDIDATE
WITHOUT SORTING THROUGH HUNDREDS THAT AREN'T.
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QBE

Food Product Manufacturers Shift to Post-Pandemic World

Insurer QBE and broker Lockton partner to help address the labor shortage and other concerns as the U.S. economy recovers

While many consumer food product manufacturers fared well during the COVID-19 crisis compared with companies in the hospitality, retail and airline industries, they did see their risks change and grow. With more people eating at home more often, for instance, many saw demand rise but struggled to find enough workers. That struggle continues as the economy recovers.

"The labor shortage has become one of the primary concerns for our consumer food product customers," explains Tom Fitzgerald, president of Specialty & Commercial Insurance at QBE North America. "To help them solve for this and other risks, we partner with a select group of insurance brokers, leveraging each other's strengths to bring value to clients as trusted advisors."

The long-term partnership between QBE North America and Lockton Companies is one example.

"As a broker, our job is to find the best risk management and insurance partner for our clients," explains Matthew Klein, senior vice president and team leader, Food and Beverage Practice, Lockton Companies. "We take a holistic view of a customer's risks and then see how our complementary products and services can help them navigate those risks."

Regarding the labor shortage, Lockton's services include analyzing the competitiveness of a customer's employee benefits package against those of rival employers in the area, notes Klein. Lockton also surveys employees about what is most important to them to help companies optimize how they spend on employee benefits and the workplace environment to improve employee retention.

> "MIDSIZE MANUFACTURERS MAY NOT HAVE THE SCALE TO HAVE A DEDICATED RISK MANAGEMENT FUNCTION."
>
> BOBBY STEINSDOERFER
> Senior Vice President, Retail P&C Underwriting, QBE

WORKER SAFETY

Those services work in tandem with services provided by QBE as part of the insurance program.

"Worker safety is always a top concern at manufacturers, where injuries tend to be more frequent and severe compared to many other industries," says Bobby Steinsdoerfer, senior vice president, Retail P&C Underwriting, QBE. "It's a big part of keeping staff morale high and the workforce at full capacity. It also affects a major portion of the overall insurance premium spent by manufacturers. Therefore, anything we can do to improve safety pays significant dividends."

In one case, QBE performed a loss control survey for a coffee manufacturer that uncovered increased risk due to various manual lifting tasks, such as loading 8-foot-tall plastic silos with heavy equipment in a confined space, as well as manually moving 150-pound bags of coffee beans. These were a leading cause of sprain and strain injuries.

Based on that finding, QBE conducted onsite Job Hazard Analysis supervisory training that included a safe lifting program, online courses and ergonomic risk assessments on a variety of tasks. Within about two years, the program cut the coffee manufacturer's Workers' Compensation loss ratio roughly in half.

"Midsize manufacturers may not have the scale to have a dedicated risk management function," says Steinsdoerfer. "The services we provide in concert with our broker partners such as Lockton can help these manufacturers improve worker safety and thereby reduce labor supply issues."

WORK CULTURE AND BRAND REPUTATION

In addition to employee benefits and worker safety, QBE and Lockton note that companies face increased pressure on maintaining a fair and respectful work culture to attract and retain employees and protect their brand reputation.

"While culture and brand reputation have always been important issues, movements such as #MeToo and Black Lives Matter have elevated sensitivity to discrimination and harassment issues, so employers have to get this right," notes Fitzgerald. "The problem for midsize manufacturers is the lack of robust legal and HR departments to implement strong policies and procedures and stay on top of constantly evolving regulations."

While Employment Practices Liability insurance can provide coverage for costs related to legal defense, settlements or jury awards to employee claimants, and even public relations costs, the best defense is to avoid issues in the first place.

To help, employers who purchase Employment Practices Liability insurance from QBE also get access to a complimentary service that offers unlimited documented and confidential advice from employment law attorneys, online training courses on topics such as sexual harassment prevention, a state-specific employee handbook and policy builder, and federal and state regulatory updates.

PLANNING TO INCREASE AUTOMATION

In another effort to combat the labor shortage and improve efficiency, food manufacturers have ramped up efforts to automate the production process, but the acceleration of this trend brings new risks. Cyber vulnerability is one, especially with the increased use of the Internet of Things (IoT)—devices and sensors that monitor and control equipment or processes.

"Food manufacturers weren't heavy buyers of cyber insurance early on because, unlike health care or financial services companies, they didn't keep a lot of sensitive customer information that was a common target in early cyber breaches," Klein notes. "For the same reason, they were slower to adopt strict IT controls. But the proliferation of ransomware attacks has changed all that—as the recent shutdown of meat processor JBS showed. We work closely with customers to evaluate their risks, suggest resources for strengthening their controls and response plans, and secure proper insurance coverage."

Beyond cyber risk, Steinsdoerfer notes the importance of broker-carrier teamwork to stay on top of equipment that is brought in for increased automation throughout the insurance policy term. This equipment can be very expensive and insurance values need to be adjusted accordingly. Furthermore, physical labor tasks may change with new automation and require a new assessment of ergonomic risks.

Labor supply, brand reputation and cyber vulnerability are just three of the many challenges facing food manufacturers today. QBE and Lockton also see growing concern about inflation, supply chain and regulatory actions. By working closely together to understand these risks from the customer viewpoint, they can tailor an insurance program and related services to help customers move forward with confidence toward a post-pandemic world.

QBE North America is part of QBE Insurance Group Limited, one of the largest insurers and reinsurers in the world. Lockton is the world's largest privately owned independent insurance brokerage firm. //

TOM FITZGERALD
President of Specialty & Commercial Insurance at QBE

BOBBY STEINSDOERFER
Senior Vice President, Retail P&C Underwriting, QBE

MATT KLEIN
Senior Vice President and Team Leader, Food and Beverage Practice, Lockton Companies

CASE IN POINT

DICKINSON + ASSOCIATES

Maximizing the Value of M&A Through Technology

Every merger and acquisition is unique. But that doesn't mean growing middle-market firms need to reinvent the wheel for every acquisition. Instead, Pregis LLC relies on an acquisition playbook and SAP technology to support rapid integration and standardization. Using a playbook, Pregis has completed acquisitions in as little as 90 days.

Pregis, a leading manufacturer and provider of protective products and innovative packaging solutions, is growing aggressively with acquisitions as its core strategy. The firm, sponsored by global private equity firm Warburg Pincus since 2019, has completed eight acquisitions in only six years with a top-end value of $100 million.

Through its acquisitions, Pregis has shifted from a product-based company to a solutions- and services-based company in different verticals and go-to-market channels. Most recently, Pregis acquired the technology to manufacture the EverTec® mailer and also opened a 300,000-square-foot facility to expand manufacturing capacity with plans for two more facilities.

In addition to manufacturing and products, Pregis' IQ Center, located in Illinois, provides a collaborative physical environment in which customers work through business challenges and solutions. The firm leverages learnings from customers to continually enhance their platform.

"WE CAN CUSTOMIZE OUR SAP PLATFORM TO FIT OUR BUSINESS AS OUR NEEDS CHANGE OR TO MEET UNIQUE REQUIREMENTS. THE PLATFORM IS EASY TO SCALE UP, ADD TO OR EXPAND. SAP IS THE DIGITAL CORE THAT GLUES OUR ACQUISITIONS TOGETHER AND SUPPORTS OUR AGGRESSIVE GROWTH STRATEGY."

JEFFREY MUELLER
Vice President and CIO, Pregis

CREATING VALUE FOR PE FIRMS QUICKLY

To drive value to private equity owners as soon as possible, acquisition speed is critical. To help it integrate its acquisitions seamlessly and meet its growth goals, Pregis turned to Dickinson + Associates, an SAP Gold Partner. Dickinson + Associates helps clients analyze challenges and goals and then recommends SAP solutions and other services based on this analysis.

For Pregis, Dickinson + Associates recommended the SAP S/4HANA platform as the best digital solution for Pregis' platform-based approach to market growth and expansion. It's been an excellent fit. "We can customize our SAP platform to fit our business as our needs change or to meet unique requirements. The platform is easy to scale up, add to or expand," says Jeffrey Mueller, vice president and CIO, Pregis. "SAP is the digital core that glues our acquisitions together and supports our aggressive growth strategy."

Dickinson + Associates, a Navisite company, has been a full-service SAP partner for more than 20 years, providing its clients with end-to-end support, from initial engagement to selecting the right software to integrating the platforms and post-deployment optimization.

Flexibility and nimbleness are key characteristics of the SAP platform, notes Brad Wolfe, vice president, corporate development, Dickinson + Associates. That flexibility is a key benefit for Pregis. "Our core processes are incorporated into our acquisition template, but the platform is flexible so that we can adjust the template as our business needs change," adds Mueller.

Information is power, and with a consistent data model, Pregis is now able to access data across the enterprise and is confident that data is secure against cyberattacks or security breaches.

BEYOND TECHNOLOGY

Pregis relies heavily on its technology platform when sizing up a potential acquisition. "One of our most important considerations is to make sure that we have the ability to leverage the platform and its touchpoints," Mueller says. "The platform allows us to get the entire acquisition right and integrate not only the technology but people and processes as well."

Pregis leaned on Dickinson + Associates to make sure that SAP suited their needs perfectly. Pregis had been on an early version of SAP's HANA platform and the company was concerned that they needed to upgrade. Dickinson + Associates put Pregis in touch with the appropriate people at SAP and ensured that Pregis would get the support they needed.

Technology acumen wasn't the only reason Pregis chose to partner with Dickinson + Associates. The ability to solve business challenges and grow revenue by streamlining and standardizing processes was critical. "The Dickinson team has excellent business skills in addition to technology expertise," Mueller says. "We have long-tenured employees who are used to doing things a certain way. Dickinson helped us with change management and getting people on board with new processes."

Dickinson + Associates brought a diverse team with the right skills to the engagement. Teams remained largely the same through multiple acquisitions, lending consistency and an intimate knowledge of Pregis' strategies and goals to each acquisition, notes Mueller.

STRATEGIES TO DELIVER VALUE FAST

Every middle-market company approaches M&A differently. Wolfe recommends that firms stick with best practices and develop a strong methodology to standardize and optimize processes and data structures. "You need a proven process that can support integration speed," Wolfe explains.

A playbook is invaluable. The vision for the playbook starts at the top. "The playbook ensures alignment on the goals of the entire organization," Wolfe says. "Once you have alignment, you can execute by following the playbook."

Mueller suggests that middle-market companies approach acquisitions methodically using a step-by-step approach. And each acquisition should have its own timeline based on its unique attributes. However, it's important to take it slow. "Implement technology in phases instead of trying to do everything all at once," he says.

Taking it slow also minimizes risk. "In the beginning, keep it simple. Complete the integration quickly and once the initial integration is done, use technology to continually innovate and improve," Mueller recommends.

Lastly, look for a partner that understands your business and the nature of M&A. "Acquisitions can come at you fast and can be difficult to plan for. Once you have the building blocks right, you can better roll out acquisitions that meet your business imperatives," Wolfe says. //

BRAD WOLFE
Vice President, Corporate Development, Dickinson + Associates

"THE PLAYBOOK ENSURES ALIGNMENT ON THE GOALS OF THE ENTIRE ORGANIZATION. ONCE YOU HAVE ALIGNMENT, YOU CAN EXECUTE BY FOLLOWING THE PLAYBOOK."

CASE IN POINT

PREMIKATI, INC.

A Trusted Procurement Partner

Premikati harnesses SAP Ariba software to meet clients' buying needs

Procurement is a complex process for all businesses, with midmarket firms facing the same challenges in managing spend and suppliers as their larger peers. While procurement can require substantial resources to navigate, Premikati, Inc. is busy streamlining the often-chaotic operation for its midsize clientele.

Utilizing SAP Ariba software, the Indianapolis-based consulting company allows customers to control spending, cutting through tedious paperwork and PDFs by automating each step of the buying process.

"We think of ourselves as a procurement/contract management organization," says Chad Buchanan, COO and general counsel at Premikati. "We look at your processes and your pain points, and help figure out a better path forward."

Part of that guidance is an investment in technology, namely an integrated SAP Ariba procure-to-pay solution. Staffed by a team of certified Six Sigma Black Belt experts, Change Masters and procurement professionals, Premikati offers a range of business and legal outsourcing services all harnessing SAP Ariba technology.

A SIMPLE-TO-USE SYSTEM

Premikati is a global SAP Ariba BPO partner, using the software to perform contract management services for large enterprise companies as

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CHAD BUCHANAN
COO and General Counsel, Premikati

well as entities accruing under $500 million in annual revenue.

One of Premikati's more recent additions to its client roster is Care Purchasing Services (CPS), a national group purchasing organization (GPO) dedicated to the senior living market. As a GPO servicing approximately 2,000 member organizations, aggregating purchasing volume with manufacturers, distributors and other vendors is vital to company success.

CPS connects members to hundreds of carefully vetted vendors in plant operations, food service, medical supplies and other industries. Bringing value-added programs to thousands of organizations nationwide—a strategy that includes consulting on every detail of procurement—necessitates both transparency and efficiency in the buying process.

Enter Premikati, which helped CPS implement a suite of SAP Ariba Spend Analysis software. Through this technology, CPS can easily gather and classify spend data based on updated company and industry standards. Spend visibility equates to more confident buying decisions, thanks to unique features allowing CPS to track marketplace development and compare spend to competitors.

"[SAP Ariba] rolls up that data, and CPS can use our sourcing tool to run RFP and reverse action to find better pricing," Buchanan says. "By using overall combined spend, they can negotiate better deals."

Put simply, CPS owns the system, while Premikati maintains its daily upkeep. Buchanan compares the CPS version of the tool to workplace sharing, where multiple companies use the same conference room.

"That's how the SAP Ariba marketplace works—CPS can have their members use the tool as well," Buchanan says. "They're utilizing best-in-class Ariba software to do this work, without each individual organization having to buy their own instance of Ariba."

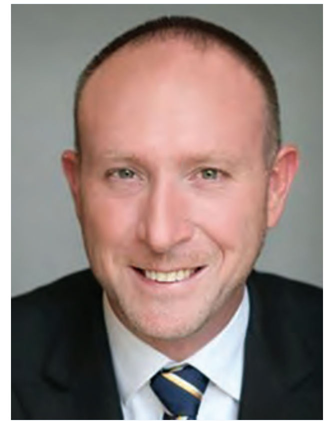
Additionally, smaller CPS member enterprises won't need the full software suite, which can cost upwards of $100,000 annually.

Buchanan says, "What's really unique is that a company not ready to buy their own version of the system can still utilize it from an organization like CPS. They're not getting every feature, but are still able to make purchases and get the best pricing. It's great to share Ariba instances across multiple buying organizations, where the top organization already has set suppliers and pricing."

The CPS version of SAP Ariba is a proof of concept, with rollouts across the member base tabbed for this year into 2022. As for Premikati, the company enjoyed a three-year growth rate of 600% prior to 2020, a jump Buchanan attributes to his firm's partnership with enterprise application software leader SAP, which dates back to 2015.

Launched in 2009, Premikati continues to pursue private equity, a space that Buchanan believes is ripe for the marketplace approach bolstered by SAP Ariba innovations.

"Getting that approach to work well for a variety of different companies is our top focus," he says. "We're also going after new clients for SAP Ariba, with a goal of doubling sales from 2020. 2021 will be a significant growth year for us." //



CHAD BUCHANAN
COO and General Counsel, Premikati

UTILIZING SAP ARIBA SOFTWARE, THE INDIANAPOLIS-BASED CONSULTING COMPANY ALLOWS CUSTOMERS TO CONTROL SPENDING, CUTTING THROUGH TEDIOUS PAPERWORK AND PDFS BY AUTOMATING EACH STEP OF THE BUYING PROCESS.

Fast 40 Awards Showcase Atlanta's Resilience

Ascendant tech sector and business diversity helped the region weather COVID-19

By Sue Ter Maat

Even in the middle of a global pandemic, Atlanta's middle-market companies continue to grow in an eclectic ecosystem dominated by the technology sector.

Those trends toward middle-market diversity and growing tech businesses are mirrored in the Georgia Fast 40, an annual award given out by the Atlanta National Chapter of the Association for Corporate Growth.

The Georgia Fast 40 recognizes the fastest-growing for-profit companies that are headquartered in Georgia. These companies created more than 6,600 new jobs and generated $2.4 billion of revenue growth over the last three years.

"The companies being honored this year demonstrate the strength and significance of the middle-market sector in Georgia," says Melanie Brandt, CEO of the Association for Corporate Growth's South Region and ACG Atlanta president and CEO.

To be eligible, the Fast 40 companies submitted three years of verifiable revenue and employment growth. The information was validated by national accounting firm Cherry Bekaert, which has an office in Atlanta. An ACG selection committee reviewed the applications and interviewed company leaders.

The companies are divided into two groups based on annual revenue. The lower tier generated between $15 million and $60 million, while the upper tier generated revenue that was more than $60 million up to $500 million. ACG Atlanta also added a third category this year, the higher middle-market tier, which recognizes fast-growing companies that generated between $500 million and $1 billion.

The highest-ranked upper middle-market companies in the top three spots were Parallel, a cannabis company, followed by Bitcoin Depot, a cryptocurrency ATM network, and Roadie, Inc., a package delivery service.

In the lower middle-market tier, Stord, Inc., a digital warehouse and distribution network, took the top spot while Grayshift, a provider of mobile device digital forensics, and Omega Bio-tek, Inc., a nucleic acid extraction and purification company, were in the second and third places, respectively.

Repay, a payment technology company, made its fourth appearance on the Fast 40 list since the award was introduced in 2008.

Because of COVID-19, the Atlanta chapter skipped the awards last year, Brandt says.

While the chapter moved forward with the award this year, it made some adjustments.

The Georgia Fast 40 awards are usually given to companies with sustained growth in the previous three years based on revenue and employment. But this year, the chapter changed the algorithm slightly to take into account the rough year in 2020.

Although 2020 proved to be a challenging year for the middle market, Atlanta's business-friendly environment helped companies get through it.

"In speaking with many CEOs, the supportive business environment and accessibility of capital are contributors to growth. By far, the biggest challenge is tightness of the labor market," says Michelle Galvani, chairperson of the Georgia Fast 40 awards and executive managing director with Wildmor Advisors. "We are proud to honor these companies and look forward to learning more insights online and at the celebration in June."

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> CEO of the Association for Corporate Growth's South Region and ACG Atlanta President and CEO

Technology Is Dominant in Atlanta

Once again, the technology sector dominated the Georgia Fast 40 as it has in past years. Of the companies honored in 2021, about a third were in the technology sector.

These companies represent a diverse array of tech, including software, financial technology, health care technology, logistics, SaaS, information technology and services, internet services, tech fitness, and defense and security technology.

Like the Georgia Fast 40, Atlanta is known for its growing high-tech businesses.

The city has been dubbed the "Silicon Peach" and the "Silicon Valley of the Southeast," and for years the Atlanta area has been known as "transaction alley" for its financial tech companies. About 70% of all payment transactions are handled there.

Alpharetta, a suburb of Atlanta, regards itself as the "Technology City of the South," due to its nearly 700 technology companies, and it's home to the Technology Association of Georgia.

Marketing tech is a growing sector, with Atlanta-based MailChimp as one of the most well-known companies.

Last year, *Business Facilities* magazine ranked the city as the No. 1 fastest growing tech hub, noting that Microsoft had announced it would invest $75 million in a new facility this year. The magazine also named Atlanta fourth among its "Cyber Cities" and No. 6 for startup ecosystems.

"Technology is the biggest trend in Atlanta, and it's on a hot streak right now," says Luis Reyes, partner at Cherry Bekaert. "We've had a number of unicorns like SalesLoft and Calendly. Both of these Atlanta-based companies hit the $1 billion valuation mark."

But how did this southeastern city, historically a railroad hub, become one of the nation's tech strongholds?

Reyes says that the Atlanta metro area, which accounts for more than 6 million residents in a state of about 10 million, had been dominant in real estate and construction. But as the country became more focused on technology, Atlanta did, too.

Atlanta was particularly poised to take advantage of this sector due its top-notch university systems, Reyes says.

Just like Silicon Valley has benefited from its proximity to top educational institutions, such as Stanford University and University of California at Berkeley, Atlanta's tech industry has been buoyed by local colleges, such as Emory University, Georgia Tech, Georgia State University, Morehouse University and Spelman College.

Instead of leaving for the East and West Coasts, more of these graduates tended to stay in the area, especially those with a technical or engineering background who start their own companies.

"You had more home-grown talent staying and not having to go to Boston and Silicon Valley to build a company," Reyes says. "You had a microcosm of all these things happening over time where the city grew up and became international. It created the opportunity for entrepreneurs to come here and make their money. All these companies then need suppliers and support companies to be around, so it's given people a lot of opportunities."

"ATLANTA IS NOT PARTICULARLY TIED TO JUST ONE INDUSTRY OVER ANOTHER. YOU HAVE A VARIETY OF BUSINESSES IN AREAS LIKE LOGISTICS, TECHNOLOGY AND OUTSOURCED CONSULTING BUSINESSES. IT'S A MICROCOSM OF THE U.S."

STEVE TYE
ACG Atlanta Board Director and Managing Director, Croft & Bender

Atlanta Attracts Diverse Middle-Market Sectors

While COVID changed a lot for many businesses, it hasn't affected how diverse Atlanta's middle market continues to be.

While some cities rely heavily on sectors such as hotels and restaurants, Atlanta's business ecosystem is a mix, says Steve Tye, ACG Atlanta board director and managing director at Croft & Bender.

This middle-market diversity trend is reflected in the Georgia Fast 40. This year, technology, health care and manufacturing represent the top three sectors with the highest number of companies on the list.

But the remaining businesses represent a wide variety of areas, including construction, financial services, cannabis, staffing, real estate, telecommunications, government contracting, consumer goods, pharmaceuticals, food manufacturing, life sciences, banking, electronic component distribution and general contracting.

"Atlanta is not particularly tied to just one industry over another," Tye says. "You have a variety of businesses in areas like logistics, technology and outsourced consulting businesses. It's a microcosm of the U.S."

Atlanta's diversity is due in part to Georgia's low taxes and business-friendly policies, which have attracted companies from across the country, he says.

For instance, Atlanta is regularly named as one of the best places to start a business. Last month, WalletHub named Atlanta as the 11th-best city to start a business, based on the business environment, access to resources and business costs.

In 2019, *Forbes* listed Atlanta as one of the best places for business and careers.

As a result, Atlanta is home to some of the most well-known brands, such as Delta, Coca-Cola, Equifax, United Parcel Service and The Home Depot, so it's well represented among Fortune 500 companies.

As more companies have moved to Atlanta, so have people who want to take advantage of the job market, Tye says.

Since 2010, Atlanta's population has grown to about 506,000, up nearly 80,000, while the state has experienced a similar trend with an increase of 10.7 million, growing by more than 1 million residents, according to the U.S. Census Bureau.

The diverse business environment also has attracted highly educated workers. According to the U.S. Census Bureau, about 52% of Atlanta's workforce has a bachelor's degree, compared to the national average of nearly 30%.

"Unemployment in Georgia is low, and I think it helps when you have talented people coming from outside the region," Tye says. "It's the Southeast's capital and an international city in the Southeast. All those things benefit Atlanta in the middle market. Companies here attract talented and the best-of-breed people across the country."

Because Atlanta's middle market represents a variety of industries, the city has been able to manage the impact of COVID-19 better than others.

While some retail and hospitality businesses are still struggling, other companies are performing well and have been able to get back to work quicker, since Georgia didn't impose strict shutdown orders like some other states, Tye says.

Most of the middle-market companies are coming back, and most managers believe the worst is over, he adds.

"The middle market has turned a corner, and it's going to get better. I think 85% of companies are back, setting aside restaurant and hospitality," Tye says. "Overall in the market, we are seeing revenue growth. People are bullish about how businesses are performing, at least for the rest of this year." //

Sue Ter Maat is the communications manager for the Association for Corporate Growth.

GEORGIA FAST 40
ACG ATLANTA 2021

HIGHER MIDDLE MARKET

- American Global Logistics
- Mountain Express Oil Company
- OneDigital
- Rubicon
- Secureworks
- unifi

UPPER MIDDLE MARKET

- Parallel
- Bitcoin Depot
- Roadie
- NPSG Global
- phobio
- MacStadium
- RubyCollins
- bioIQ
- wahoo
- CRH Healthcare
- East West (design • manufacturing • distribution)
- PDI
- Envistacom (Communications • Cyber • Intelligence)
- QGenda
- Advanced Urology
- Mountain Motorsports
- greenworldwide shipping
- DLH
- Avion Pharmaceuticals | Acella Pharmaceuticals — Two Companies, One Vision
- FiberLight
- REPAY (Realtime Electronic Payments)

LOWER MIDDLE MARKET

- STORD
- GRAYSHIFT
- omega Bio-Tek
- LeaseQuery (Built by Accountants for Accountants)
- fullstory
- catalyst nutraceuticals
- mysupplier
- Ansley Real Estate
- High Road
- Watershed Geo (Unearthing Solutions)
- Struxure
- Albion (Experience Driven)
- Intellum
- Flip Electronics (Making Obsolescence Obsolete)
- BELAY
- IBEX (IT Business Experts)
- Oversight (Nothing gets by you now™)
- SalesLoft
- Summit Spine & Joint Centers
- Kill Cliff
- Azalea Health

* Categories are determined by revenue size in 2020. Ranking is a formula of employee growth and revenue growth from 2018-2020. The list includes several ties, pushing the company count beyond 40.

ACG@WORK

The pandemic continues to recede from view as more people across the U.S. and the world receive vaccinations for the coronavirus. With the inoculations, venues across the country now are opening up and increasing capacity, and more ACG chapters are holding in-person gatherings and events.

However, some adaptations to the virus will likely persist for some time. The convenience of attending virtual panels continues to drive demand for virtual and hybrid events. ACG chapters also continue to collaborate to offer the same high-quality events members have come to expect. Here are some of the recent events hosted by ACG chapters.

ACG AUSTIN/SAN ANTONIO, ACG SILICON VALLEY AND ACG SAN FRANCISCO

ACG Austin/San Antonio, ACG Silicon Valley and ACG San Francisco hosted the second of a four-part virtual series, titled “Tech Trends from Silicon Valley to the Silicon Hills,” focusing on SPACs and IPOs. Panelists discussed the differences between the two vehicles, what makes them attractive to investors, and how companies can retain their culture after a transaction. Pictured clockwise from top left are C. Craig Lilly, Reed Smith; Kelly Zanfardino, Insperity; Phil Ilgenstein, Weaver; and Jan Robertson, SiVal Advisors.

ACG INDIANA

Local ACG members met in person to watch the first round of professional golf’s Masters Tournament at the Highland Golf and Country Club in Indianapolis during ACG Indiana’s “Master’s Gold Social Event.” Attendees also hit golf balls on both indoor simulators and heated outdoor bays and competed in contests for the longest drive and putting.

ACG NEW YORK

ACG New York held its 8th Annual Women of Leadership Summit, which was hosted virtually on the ACG Access platform. This year's summit focused on how women are shifting their professional direction in a challenging environment, while balancing their personal lives. Keynote speakers at the event included Stephanie Cohen, Goldman Sachs' global co-head of consumer and wealth management; Globalization Partners Founder and CEO Nicole Sahin; and Tessy Antony de Nassau, an entrepreneur, philanthropist and former princess of Luxembourg.

> DON'T GIVE UP, PUT YOURSELF TOGETHER, CREATE THAT COMMUNITY, BECAUSE EVERY WOMAN HAS A COMMUNITY AROUND HER. SHE IS NEVER ALONE AND EVEN IF YOU THINK YOU'RE ALONE, YOU'RE NOT.
>
> TESSY ANTONY DE NASSAU,
> Entrepreneur and former princess of Luxembourg, speaking on the Women's Economic Empowerment panel at ACG New York's 8th Annual Women of Leadership Summit

ACG KANSAS CITY

ACG Kansas City hosted a virtual meeting of sports and business leaders during its "Business of Sports Investing" event. Pictured are the three panelists, seated from left: Paul Edgerley, managing director of private equity firm VantEdge Partners; founder, former chairman and CEO of Inergy and current Kansas City Royals owner John Sherman; and sports broadcaster, speaker and author Joel Goldberg. The panelists discussed investing in professional sports, how sports relate to owning and running a company, and insight into the Kansas City Royals ownership group.

M&A WEST

Middle-market and M&A professionals gathered virtually for the annual M&A West Conference hosted and organized by ACG San Francisco. The three-day event included networking sessions, one-on-one meetings, and 13 panels featuring 48 middle-market experts discussing the future of M&A. The keynote address was delivered by a panel of professionals who discussed portfolio optimization in the post-pandemic climate. The keynote panelists included (clockwise from top left) Kristin Mauer, True Partners Consulting; Ron Tambasco, True Partners Consulting; Chris Volney, CBRE; and Elizabeth Knuppel, TCV.

ACG SOUTH FLORIDA

ACG South Florida presented a discussion on SPAC trends that addressed the regulatory climate, risks, business combinations and the challenges that arise when a company tries to "de-SPAC." Pictured clockwise from top left are speakers Alan Annex, Greenberg Traurig; Faquiry Díaz Cala, Lionheart Acquisition Corporation; David Nussbaum, EarlyBirdCapital; and Jim Cassel, Cassel Salpeter & Co.

ACG TAMPA BAY

ACG Tampa Bay hosted its 5th Annual nine-hole Golf & Networking Social at the Vinoy Renaissance St. Petersburg Resort & Golf Club. ACG members took to the green while others enjoyed a networking barbecue later in the day.

ACG TENNESSEE

More than 60 ACG members and guests gathered virtually for the "Hot Chicken & BBQ During the Pandemic" event organized by ACG Tennessee. The panel discussion focused on two restaurateurs who weathered the changing culinary landscape during the pandemic: Brian Morris, a nationally recognized chef and director of operations for Hattie B's Hot Chicken, and Jay Schulte, a senior associate at Kemmons Wilson Companies and operating partner of Central BBQ. The discussion was moderated by Lamar Stanley, a director at GenCap America.

ACG DALLAS/FORT WORTH

In partnership with *D CEO* magazine, ACG Dallas/Fort Worth hosted its 2021 M&A Awards, which was held both virtually and in-person at The Westin Dallas Downtown. The awards recognized the region's top deals and deal-makers over the last year in four categories. Winners included Latticework Capital in the small deal category, Align Capital Partners in the midsize deal category, Rosewood Private Investments in the large deal category, and Pioneer Natural Resources in the billion-dollar-plus category. Pictured is Pioneer's Vice President of Business Development Christopher Paulsen.

"TOUCH REALLY MATTERS. WHETHER THAT IS A PERSONAL EXPERIENCE EATING YOUR FOOD, WHETHER THAT IS THE WAY THEY INTERACT WITH YOUR ONLINE PRESENCE ... BEING ABLE TO EMPATHIZE WITH THE CONSUMER EXPERIENCE FROM POINT A TO POINT Z AND TO SEAMLESSLY INTEGRATE THOSE, THAT'S SOMETHING WE'VE BEEN THINKING ABOUT."

JAY SCHULTE,
Senior associate, Kemmons Wilson Companies and operating partner of Central BBQ, on the impact of delivery-only restaurants – or ghost kitchens – as they gain a larger foothold in the industry


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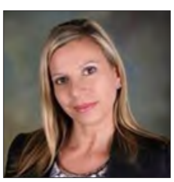
MEMBERS ON THE MOVE

IAN SYLVAN has joined the investment banking practice of CLA (CliftonLarsonAllen), a professional services firm, as a managing director. In this role, he will provide additional senior-level resources to the Oakbrook, Illinois, investment banking and M&A advisory practice. Sylvan has more than three decades of M&A advisory, investment banking, financing and related transaction experience. Prior to joining CLA, he was a managing director with Fifth Third Securities in the investment banking group and was a managing director and head of the M&A Advisory Group at MB Financial Bank prior to its acquisition by Fifth Third. In that role, he executed midmarket M&A advisory and capital-raising transactions.



DANIELA MESSINA, a Boston attorney and private equity veteran, has founded Portside Capital Solutions to provide strategic counsel to PE funds, single- and multi-family offices, emerging funds, independent sponsors and corporate clients. Messina served as director of business development for Nixon Peabody's PE and family office practice where she led initiatives including the strategic rebranding and oversight of the firm's deal-sourcing referral program. She served as deputy general counsel for the Massachusetts Office of Consumer Affairs and Business Regulation (OCABR) where she worked closely with various OCABR agencies. She currently serves as a board member of ACG's Boston chapter and on the Corporate Board Committee of The Boston Club, an organization for women executives and professional leaders.

Washington, D.C.-based private equity firm The Halifax Group has promoted JERRY L. JOHNSON to partner. Johnson was previously an operating executive with Halifax. As a partner, he moves from an advisory role to overseeing sourcing, evaluating and executing investments and supporting portfolio companies. Before joining Halifax, Johnson was senior vice president of corporate development, strategy and investor relations at niche manufacturer EnPro Industries and was a founding member and partner of middle-market PE firm RLJ Equity Partners.

NEAL ENGLAND has joined Founders Advisors investment bank as managing director for the firm's Dallas office where he will lead the business services practice. England brings more than 25 years of strategy development, executive operations, M&A and integration experience to the role. He will advise across all phases of the transaction process for middle-market clients. England has led and completed more than 40 buy- or sell-side transactions for technology or business services companies. Prior to joining Founders Advisors, he was managing director, HRM practice leader and global co-head for a Dallas investment banking firm and he began his M&A career at Staffing Resources. He also served in operational roles with U.S. Personnel as regional vice president.

DAVID CALDER has rejoined the firm Tower Arch Capital, a Salt Lake City, Utah-based lower middle-market private equity firm, as a principal. Calder will be responsible for sourcing, executing and managing new and existing investments across the firm's portfolio. Calder was a vice president with Tower Arch from 2015 to 2017. He rejoins the firm from The Halifax Group, a middle-market PE firm based in Washington, D.C., where he has worked since 2017, most recently as a principal. Earlier in his career, Calder worked at Leucadia National Corporation and in the investment banking divisions of Deutsche Bank Securities and UBS Investment Bank.

Secondary advisory firm Mozaic Capital Advisors has added **MYRA CHOO** as a director. Prior to joining Mozaic, Choo led the San Francisco office of MVision Private Equity Advisers where she was responsible for West Coast investor relations and advised on more than $2.5 billion of fundraisings. Choo also served as an investor relations professional at Thomas H. Lee Partners, as an advisor for the firm's Asia-based investor relationships. She began her private equity career at HarbourVest Partners, where she worked with Mozaic Co-founder Christine Patrinos as an investment professional in the primary partnership group.

Middle-market investment bank GulfStar Group announced the promotions of **CHARLES CRAIG** (top) to senior vice president and **MICHAEL GEORGE JADICK** to associate. Both will work in the firm's Houston office. Craig joined GulfStar in 2016 from Barclays Capital, where he worked in the Natural Resources Group. While at Barcap, he advised upstream and midstream oil and gas clients through business combinations and provided guidance on capital structure management. Prior to becoming an investment banker, he worked at Summit Power Group as a commercial developer and at Renewable Energy as a business development manager. Jadick joined GulfStar in 2018 from CIBC Capital Markets, where he worked as a summer associate in the Corporate Banking Group and underwrote senior debt and reserve-based loans for mid- to large-cap E&P clients.

Middle-market investment firm Norwest Equity Partners has hired **ERIC KAU** as an operating partner. The e-commerce veteran was chief operating officer at BoxyCharm, a cosmetic subscription company, where he served as operational head of several functions, including e-commerce, merchandising, technology and supply chain. Prior to that, he worked at Chewy.com, where he helped position the company for an industry record-setting $3.35 billion sale to PetSmart. He has also worked at Amazon as a general manager of its vitamin, diet and sports nutrition business unit. He held strategy and planning roles earlier in his career at Best Buy and Target.

MEMBERS ON THE MOVE

Monroe Capital announced that JAYRO YOO has joined the boutique asset management firm as director. Yoo will serve on the firm's Marketing & Investor Relations team and will be based in Texas. Prior to joining Monroe, Yoo was a vice president at DWS Asset Management, where he focused on raising capital for the firm's alternative investment platform. He also served as a senior portfolio specialist at MainStay/New York Life, an alternative investment specialist at Wells Fargo Global Alternative Investment Services and as a senior vice president at Salient Partners.

Align Business Advisory Services, an Orlando, Florida-based lower middle-market mergers and acquisitions advisory firm, has named two new managing directors for the firm. ROB CHEPAK (top) is managing director of business development and DEREK SWANSON is managing director of deal fulfillment. Chepak will be based near Naples, Florida, and will be responsible for Align's deal origination. Previously, he served as CEO and chief growth officer for TruDoss, a blockchain software platform for due diligence on high-value assets in supply chain and real estate. As the managing director of deal fulfillment, Swanson will be based in Trumbull, Connecticut, and will oversee deal execution for clients. He previously served as the senior vice president, strategy and corporate development, for Macromill. In the past year, Align has expanded from 10 consultants to 22.

Vistra announced that NAVITA YADAV, global head of capital markets, has relocated to London. Yadav will focus on the expansion of the advisory and administrative support firm's global capital markets businesses, particularly in Europe and the Americas. Over the last two decades, Yadav has driven revenue growth and profitability of capital markets and financial services businesses in Asia and Europe, according to a press statement. She has spent the past decade leading the development of Vistra's integrated platform to facilitate debt capital markets, securitization and private debt business for Vistra.

MATTHEW MCBRIDE has joined Boston-based Foley & Lardner LLP as a partner in its Fund Formation & Investment Management Practice Group. McBride hails from Proskauer Rose LLP, where he was a partner in the private funds group. In his career, he has focused on representing investment managers with an emphasis on representing private equity sponsors in connection with the establishment of private investment funds, fundraising activities, structuring of management company and in-house arrangements, and regulatory, compliance and governance matters. He has also worked with family offices in the formation of investment vehicles, in-house agreements and their investment activities.

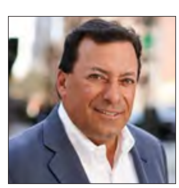
MEMBERS ON THE MOVE


Heartwood Partners has hired RON AHUJA (top) as senior associate and MIKE SUMME has joined as an associate. Both are involved with executing the Norwalk, Connecticut-based private equity firm's new investments and managing its existing investment portfolios. Prior to joining Heartwood, Ahuja served as an investment professional at First Atlantic Capital, a PE firm based in Manhattan, and he previously worked at Bain & Co. Summe previously worked as an analyst at Drum Capital management where he supported the investment team's execution of prospective direct investments, co-investments and primary fund investments.

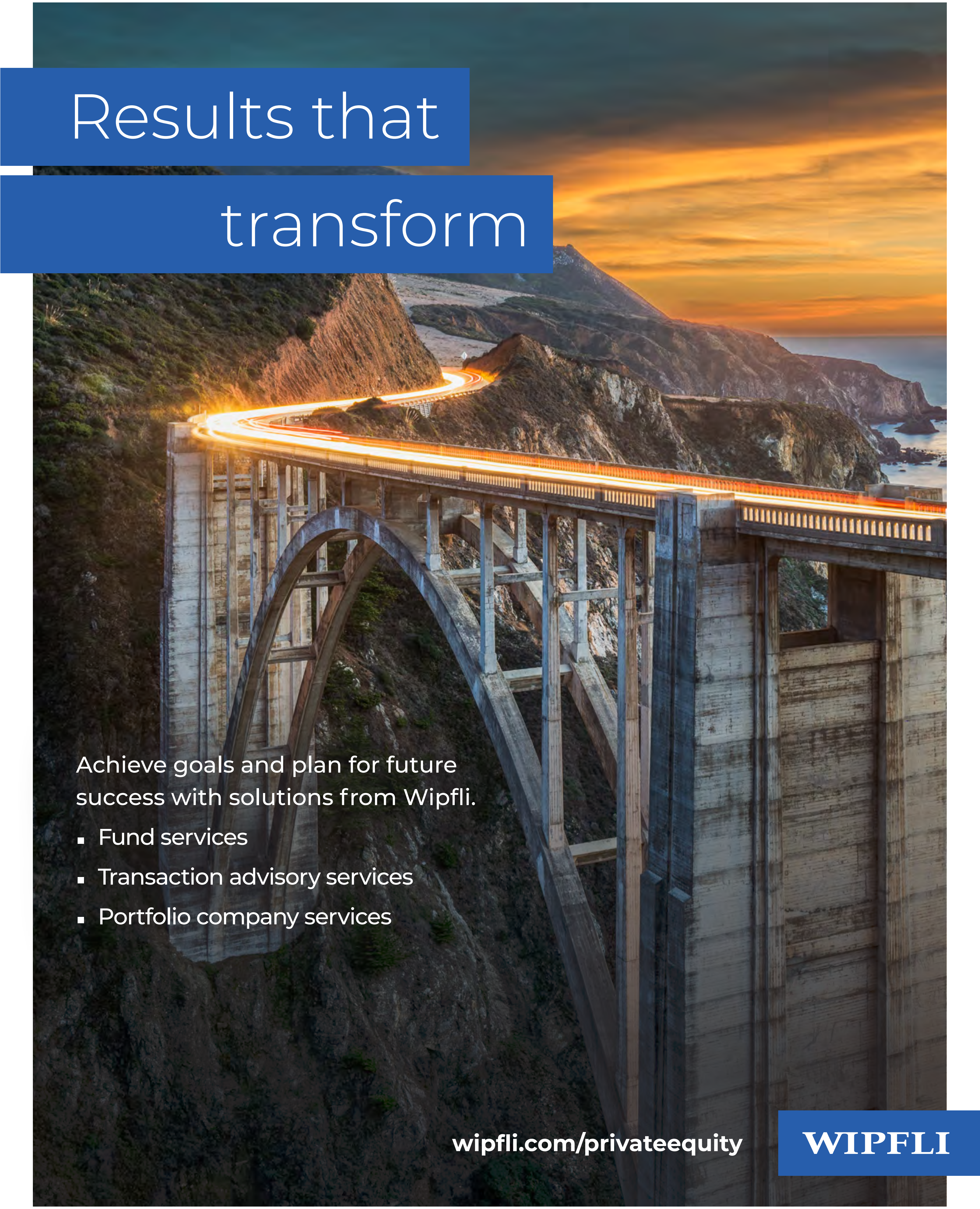

Crestmark, a division of MetaBank, has added JEFFREY MITCHELL (top) and MENA RIZK to business development roles of its commercial lending offerings. Mitchell is based in Tampa, Florida, and Rizk is based in Newport Beach, California. Both will report to Steve Hansen, group sales manager. Mitchell rejoins Crestmark after several years leading commercial loan originations and business development to middle-market companies, most recently at Woodforest National Bank. He worked at Crestmark from 2010 to 2015 as vice president, regional sales manager, East region. Rizk joins Crestmark from LSQ Funding, where he served as regional vice president and provided working capital solutions to companies through asset-based lending and factoring facilities.


CRAIG BASSEL (top) and RANDY GARTZ have joined Crestmark, the commercial finance division of MetaBank. As part of the commercial lending team, Bassel's work will be based in northern California and will report to Group Sales Manager Jim Farrell. Bassel most recently served as vice president, business development officer, for Wells Fargo Capital Finance, Commercial Services Group. Before that, he was a business development representative and regional sales manager for a southern California-based working capital company. Gartz is based in Houston, Texas, and reports to Group Sales Manager Steve Hansen. He previously served as executive vice president, corporate and commercial market manager, for Mutual of Omaha Bank and as Houston market president for Whitney Bank.

DAVID GAITO has been named head of direct lending for Fidelity Investments and will be based out of Fidelity's Chicago office. Gaito spent more than 20 years at PNC Financial Services Group in a number of senior roles, most recently as an executive vice president and division executive in PNC's senior secured lending group, a leading provider of financing to middle-market companies and private equity firms.



Middle-market advisory firm Paladin has hired GARY LEMBO as partner. Prior to joining Paladin, Lembo held leadership positions at BlackRock, Tennenbaum Capital Partners and CRG Partners. He was also managing director at Marathon Asset Management.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IT'S THE SMALL THINGS

RINGING UP TRENDS IN CONSUMER PRODUCTS // Paper or plastic?

1

Retail Rebound

Retailers selling nonessential goods closed their doors in order to stem the spread of the coronavirus, placing an unprecedented burden on stores nationwide. But retail sales soared in 2021. They increased 7.8% year-over-year in February and 28.5% in March. That reflects the bounce from 2020's low when stores were closed, suggesting what many economists are daring to call an emerging recovery for retail. – *Retail Dive*

2

City Home, Rural Clothes

The sharp increase in city-dwellers seeking outdoor experiences presents a notable opportunity for outdoor clothing brands. The outdoor apparel market is projected to grow by $3.9 billion between 2020 and 2024, as the global consumer base becomes more urban. Over 34% of outdoor customers currently live in cities, a figure that's expected to grow in coming years. – *Fashion United*

3

Safety Obsession

COVID-19 put health and hygiene front of mind for consumers around the world. Moving forward, companies are being encouraged to implement enhanced safety measures and innovations that target concerns to reassure consumers. Businesses that incorporate exceptional sanitation features into products and services, while communicating these benefits, will attract safety-obsessed consumers. – *Euromonitor*

– **Benjamin Glick**

4

E-commerce Fatigue Sets in

Data show that online experiences are not permanent substitutes for in-person ones. Around 46% of respondents to a poll from digital signage company Raydiant said they still prefer to shop in person rather than online. Those who prefer in-location experiences cite the ability to hold and directly view products, and the unique experience that a physical business provides. – *Forbes*

5

Consumers Back Activist Brands

It has become essential for brands to reinvent themselves to stay in sync with the discourse on bias and inclusivity. Market research firm Pipslay surveyed over 30,000 Americans and found that 49% of U.S. consumers view the overall trend of brand activism positively. The activism in question included changes made by brands like PepsiCo, Procter & Gamble, Mars and Hasbro to logos and product names to address social issues like racism and gender-neutrality. – *Marketing Dive*

6

Back on the Social Scene

If past recessions are any indication, consumer spending will sweep through all retail sectors as pent-up demand is unleashed. One difference, however, is that services have been particularly hard hit this time. As a result, companies that have a social element, like restaurants and entertainment venues, will undoubtedly benefit the most from the recovery.
– *McKinsey & Co.*

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