FALL 2021

MIDDLE MARKET DealMaker

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ANASTASIA DONDE
Senior Editor,
Middle Market Growth
adonde@acg.org

Welcome to *Middle Market DealMaker*

In this issue, we'd like to introduce you to the new *Middle Market DealMaker*, which focuses exclusively on M&A professionals and their pressure points. ACG will now publish this title along with *Middle Market Executive*, which covers operational and leadership topics.

As we were putting this issue together, it occurred to me just how dynamic the market is. The pandemic still shrouds a lot of conversations—indeed, COVID-19 was mentioned in most leads in the articles in the forthcoming pages. But the market seems healthy and active, if not operating on steroids.

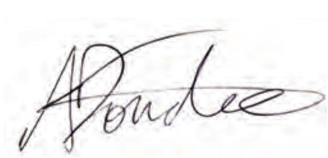
Our cover story talks about unprecedented deal activity as M&A professionals try to get deals done before the end of the year. Many are looking to make up for lost time due to COVID lockdowns and to get ahead of the Biden administration's proposed changes to capital gains tax rates. Some investors are focusing on tapping assets that have experienced a "COVID bump," while others are examining long-term performance prospects.

Although we're moving away from an industry-focused format in *DealMaker*, we will still cover sector trends as they arise. This edition offers a variety of sector topics, including the active investment scene in building products, new and emerging opportunities in fintech, as well as developments in life sciences and pharma M&A.

A topic on the minds of many dealmakers is digital transformation, which promises to impact both transaction opportunities and existing holdings. Two vice presidents from Clearsight Advisors discuss trends in what they call the "Knowledge Economy" (pg. 16). The pandemic accelerated digital technology adoption, priming IT services and related businesses for a competitive transaction environment and eye-popping valuations.

While digital acumen is certainly top of mind for many market participants, several experts in this issue also highlight the importance of in-person communication. Monomoy Capital's director of business development discusses the higher likelihood of in-person meetings leading to management presentations or transactions (pg. 12). Some of the biggest middle-market fundraisers this year also note the difficulty of lining up new LPs through virtual meetings (pg. 20).

Whether you're pursuing your investment opportunities on Zoom, on the road or at industry conferences, we hope that these pages will offer you some insights into today's dealmaking environment. And we look forward to introducing our readers to the new *Executive* edition early next year. //



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

Gearing up for a Busy Fall

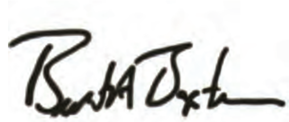
As we introduce you to this new edition of *Middle Market DealMaker*, we might also welcome you back from your summer vacations or time spent at the beach. Hopefully, our readers had more opportunity to take trips and see family this year as opposed to last.

While the market—and the world at large—still carries risks driven by the coronavirus pandemic and other sociopolitical headwinds, middle-market M&A is rocking on all cylinders. After a brief decline in transactions in the first half of last year, deal volume and activity roared back in full force and now private equity professionals, investment bankers and other market participants are so busy, they barely have time to look at all the deals available to them.

Some of the investment bankers I've talked to have even had to say no to new clients or deals because of bandwidth issues. Private equity professionals have echoed this notion in the cover story, with some saying they will turn away companies quickly at the outset, not having enough time to diligence everything in the market. Most M&A professionals are trying to get deals done before the end of the year and any potential tax changes.

While many businesses are continuing remote work and market participants have gotten used to doing business "in the new normal"—with virtual meetings and other digital tools—there is still no replacement for face time. Several articles in this magazine and in previous ones, reference that point. To that end, ACG will give dealmakers and their advisors the opportunity to connect in person at many popular events across the country through the end of the year. Check out acg.org for a list of events in your region.

Autumn is often busy with conferences and M&A activity, as private equity players and service providers aim to get deals and revenue on the books before the end of the year. This season in 2021 is shaping up to be even more active than usual because of the pandemic, new legislation and other factors. We hope we can be a valuable resource to you—through both our events and content—as you close out a successful 2021 and look forward to a restful holiday season. //



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Cover and above illustration by John Tomac

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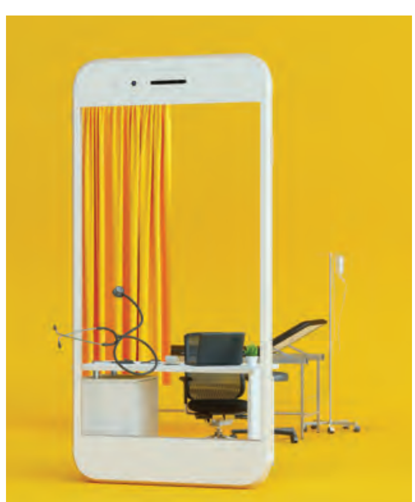

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Trend Watch

THE LATEST IN DEALS, FUNDRAISING AND PEOPLE MOVES IN THE MIDDLE-MARKET COMMUNITY

BUILDING MOMENTUM

The COVID-19 pandemic and other market headwinds drive flurry of building products deals, as large PE-backed platforms gobble up smaller regional players

BY ANASTASIA DONDE

The technology and health care sectors have enjoyed a boost in activity in recent years as existing trends—spurred by the coronavirus pandemic—pushed deal activity and valuations to record levels. Investors have been tapping into cybersecurity and online learning companies, as those businesses flourished during lockdowns and work-from-home environments. In health care, pharma services and telehealth have also enjoyed an M&A boom.

Meanwhile, in a less glamorous part of the market, industrials investors have been quite busy buying up building products companies, both large and small. Investment activity tied to new home construction or "housing starts" tends to be cyclical and before the pandemic, "private equity firms were worried about the next downturn and investing so late in the cycle," says Tim Webb, managing director in the industrials group at investment bank Harris Williams.

"By leading to a brief downturn, COVID-19 has essentially reset the conversation," Webb adds. "The other positive dynamic is the fact that building products helped bring us out of that downturn and has been very strong ever since."

Activity in the sector was boosted by a migration away from cities, with many offices going remote and the virus initially spreading quickly in large, heavily populated urban areas. Millennials are buying their first homes and existing homeowners are reinvesting in their houses after spending a year at home, Webb explains.

"The fundamental factors that make building products so interesting—millennials buying their first house and an aging housing stock—have been building for quite a while," says Ajay Kumar, principal at Bain Capital Private Equity.

The firm purchased US LBM, a large specialty building materials company at the end of last year. Since then, US LBM has made many add-on acquisitions under Bain's roof. The Buffalo Grove, Illinois-based company

> **People want to improve their living spaces and the environment is ripe for that activity.**
>
> **Tim Webb**
> Managing Director, Harris Williams

offers a variety of products, including windows, doors, roofing and cabinets.

"When you look at the macro data—low interest rates, a large undersupply of housing, strong home equity positions, a financially healthy homeowner—it's easy to see why remodeling activity will remain strong. People want to improve their living spaces and the environment is ripe for that activity," Webb says.

Remodeling, Inside and Out

When it comes to specific pockets of building products, Webb has seen investment across the board, but particularly in outdoor areas, as well as indoor kitchens and baths. "We have seen a lot of activity focused on exterior living, both on the products and services sides," Webb says. "During the pandemic, people have been hesitant to allow contractors into their homes, so they have focused on improving outdoor living areas. COVID-19 has also fueled a desire to expand usable outdoor spaces and we believe that trend will likely continue."

When it comes to indoor areas, the buzz is around kitchen and bath remodeling. "We're also seeing activity in kitchens and baths, which are both highly visible areas and the most remodeled rooms in the home," Webb says. "Those projects tend to involve everything from hardware to lighting and bigger-ticket items like cabinetry."

West Coast private equity firm Platinum Equity has been active in the space. The firm signed a deal to acquire Cabinetworks, one of the largest manufacturers and distributors of kitchen and bath cabinets in the U.S., in April. In July, Platinum announced it was purchasing Paramount Global Surfaces, a Miami-based flooring company that develops, imports and distributes porcelain tile and other hard surface floor coverings often used in kitchen and bath remodeling.

"Certain pockets like outdoor living and DIY projects clearly saw increased activity during the pandemic," says Bain Capital's Kumar, who is on the deal team for US LBM. "Demand is strong across the board, especially for sectors tied to new residential construction, and for the types of professional-install projects like kitchen or bath remodeling that had to be delayed during last year's lockdowns. We see a long backlog of projects stretching well into 2022," he adds.

Smaller Add-Ons

While US LBM, the Platinum Equity acquisitions and other well publicized deals in the sector are too large to be considered middle market, the space is ripe for the buy-and-build strategy, which targets smaller businesses.

"Private equity firms have aggressively pursued large building product distribution platforms because of the opportunity to buy smaller players," says Webb, who has worked with US LBM and SRS Distribution in the past. Both had previously changed hands among several private equity groups. SRS, a residential roofing distributor based in McKinney, Texas, is currently owned by Leonard Green & Partners. The Los Angeles-based firm bought the company for $3 billion in 2018 and SRS has since gone on to make other acquisitions of smaller businesses, including most recently Chicago-based Acorn Roofing Supply.

"From a business standpoint, there is no doubt that scale is an advantage on the distribution side. COVID-19 highlighted this advantage: We saw larger, scaled platforms perform well, while the smaller mom-and-pops tended to struggle a bit more," Webb says. "We expect to see larger, well-capitalized platforms continue to make acquisitions and further build scale."

The Sterling Group, a Houston-based private equity firm, has been especially busy with add-ons this year, buying up multiple additions to its portfolio companies Artisan Design Group and the Fencing Supply Group. The latter was formed under Sterling's ownership in March as a platform focused on building a group of independent fencing and outdoor living product distributors. Southlake, Texas-based Artisan Design is a dealer of flooring products and services that was acquired by Sterling in 2018.

Both Webb and Kumar say they see a long runway for activity in the space ahead. "We have completed more than 10 add-on acquisitions since our initial investment in US LBM and expect to remain quite active going forward," Kumar says.

Webb adds he's seeing a lot of activity in the space from long-term building products investors, as well as new entrants. He thinks that the trends surrounding building products right now suggest the industry's growth isn't as tethered to market cycles. "The resilience of the sector has changed the perception of cyclicality in building products." //

In-Person Is the Essential Currency of PE Business Development

As we emerge from the pandemic, eye contact and the last-call cocktail have the highest bang for the buck and are poised for a comeback

BY STEPHEN MADSEN, MONOMOY CAPITAL PARTNERS

In the year since the arrival of COVID-19, we've all spent a lot of time parsing data and thinking about what will stay the same and what will change as the world now reopens. One near-and-dear topic to us at Monomoy Capital has been the impact of the pandemic on deal sourcing within private equity. How will COVID, remote work and Zoom change the landscape and the process for cultivating deal flow?

While we are not soothsayers, we would bet our business development budget that the future has a lot of face-to-face meetings in it for private equity firms, investment banks, intermediaries and business owners.

Having crunched the numbers, we feel confident that in-person

2 Year Relative Effectiveness

Considering Quality & Quantity

Interaction Type	Deal Leads Sourced per Interaction	Teasers Sourced per Interaction	Books Sourced per Interaction	IOIs Sourced per Interaction	MPs Sourced per Interaction	LOIs Submitted per Meeting
City Visit	0.62	0.2	0.15	0.052	0.038	0.021
New York Meetings	0.46	0.16	0.11	0.05	0.024	0.009
Conference	0.58	0.2	0.13	0.037	0.017	0.008
BD Call	0.29	0.12	0.08	0.017	0.008	0.002

Note: 2018 & 2019 Deals—measured June 2020

meetings are the most powerful tool in the deal sourcer's arsenal. Our data shows that a deal sourced during an in-office meeting on the road is nearly 5x more likely to result in a management presentation than a deal sourced on the phone or over Zoom. In other words, the context in which a deal is first sourced has a substantial bearing on its success in our funnel. We have furthermore found a strong, proximate relationship between in-person meetings and incoming deal flow that does not exist with phone calls or Zooms.

Tracing Flow to Its Source

Since Q2 2017, we've logged every relevant deal we hear about on a watchlist. We don't just log in-market deals where we've received teasers, but every whisper of every pitch and every possible deal. If an investment banker tells us they expect to pitch a sell-side engagement on behalf of an unnamed, family-owned industrial parts manufacturer with $25 million of EBITDA sometime in the next three months, we ask follow-up questions and log the deal lead on the watchlist. If we hear a rumor that XYZ Advisors is selling a portfolio company of ABC Capital in consumer products, we log that on the watchlist and call into XYZ. We also track every interaction we have with intermediaries, lenders and deal flow sources—phone calls, in-person meetings at conferences, in-person meetings in their offices, in-person meetings in our office.

In a typical year, we log more than 1,500 such interactions with more than 1,000 unique contacts across the industry. We know that at a typical ACG Intergrowth, we source between 50 and 60 unique, new deal leads; and we know that traveling to Cleveland for meetings on a city visit typically yields three to five new deal leads per trip with a high conversion down the funnel. We know what we "see" in the market isn't subject to selection bias or wishful, anecdote-driven thinking.

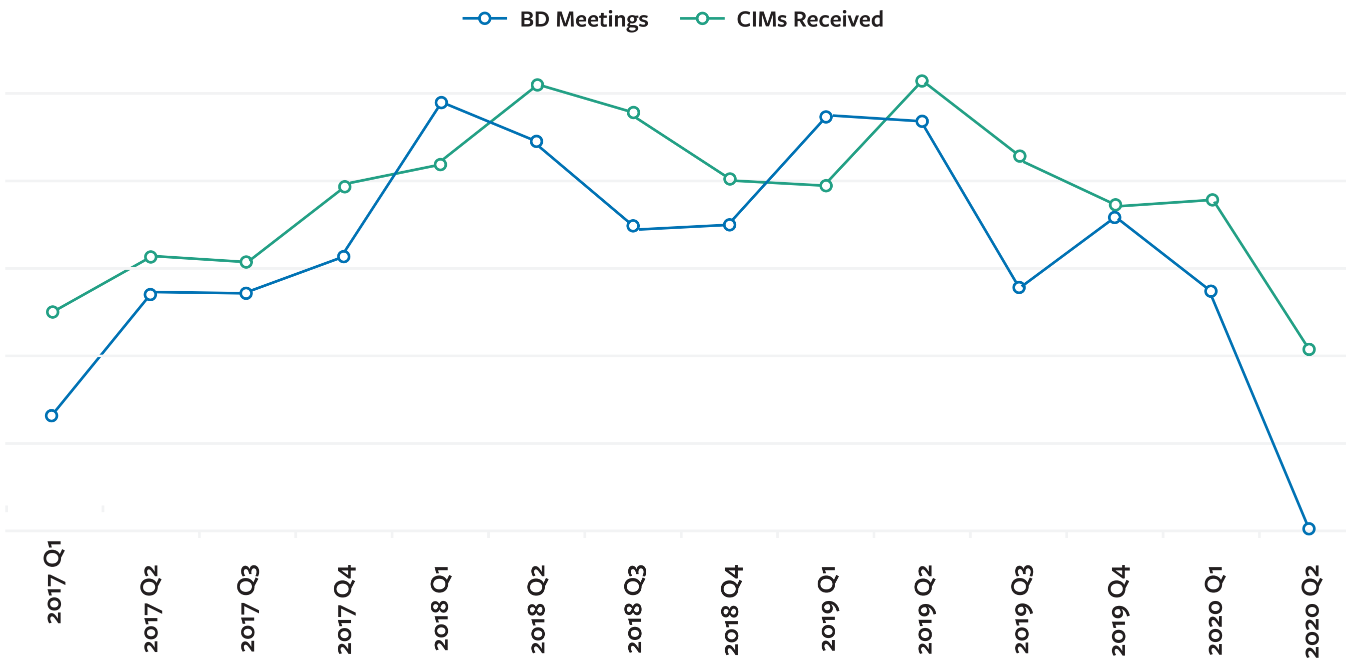
> **"Our data shows that a deal sourced during an in-office meeting on the road is nearly 5x more likely to result in a management presentation than a deal sourced on the phone or over Zoom.**

In-Person Activity Drives Deal Quality (as measured by conversion down the funnel)

We can trace the majority of the Confidential Information Memorandums—CIMs, in industry parlance—we review each year back to the first interaction where we heard about the transaction before receiving the teaser. That tracking allowed us to draw out a sharp contrast in quality between deals where our first interaction was an in-person visit vs. a phone call or a Zoom—a split that widens the deeper down the deal funnel you drill.

Over a two-year study period, we looked at the effect of

In-Person Meeting Activity to Deals Received



how we first found a deal on its success in our funnel. We classified our activity into city visits (i.e., trips to a given city to meet bankers on their home turf), New York meetings (mostly in our office), conference meetings and BD calls. We then looked at the results of each of those types of meetings in terms of how many deals we sourced per interaction. We found that in-person meetings held during city visits were a little more than twice as likely to result in a new deal lead than a phone call or a Zoom. Moreover, there was a clear hierarchy between meeting types showing that city visits were the highest quality interactions, followed by meetings in and around New York, followed by conference meetings and finally phone calls and Zooms.

Moving down the funnel, those same, high-quality city visits were three times as likely to generate deals where we submitted an indication of interest. Shockingly, city visit meetings were nearly 5x more likely to generate a management presentation than a call and more than 10x as likely to result in a letter of intent (admittedly, at the letter of intent stage, we're getting down to very small sample sizes). In line with our data around sourcing deal leads, a conference meeting was >2x more likely to generate a deal that went to a management presentation than a call. Put another way, we found that it took 125 BD calls to source a deal that will result in a management presentation, but only 26 city visit meetings or 59 conference meetings to accomplish the same.[1]

What's more, these trends held through 2020 and into Q1 2021 when travel was mostly shut down, but deal work continued. Even though no one was on the road and we were all on Zoom, the in-person relationships we'd built prior to the pandemic continued to generate deal activity and give us priority attention in the transactions where we signaled interest.

[1] So, you're saying I can do 5x the number of phone calls and get the same outcome as traveling? I guess that is one way to read this data. Of course, a typical city visit has five to eight meetings with two or three calls woven in throughout the day. Figure you need to make between 27 and 43 calls per day to get the equivalent number of MPs out of a calling only effort. That's two full-time hires or one very overworked BD professional. Either way, best of luck retaining good BD talent on that strategy.

In-Person Activity Drives *Quantity* of Deal Flow

Between 2017 and the onset of COVID in early 2020, what we saw in our data was clear: In-person interactions have a clear positive relationship to deal flow.

Over that period, we found that the quarterly correlation of meeting activity to CIMs was 0.751 (known in statistics as the coefficient of determination or R squared, and where 1.0 indicates perfect correlation). In contrast, the R squared between BD phone call activity and deal flow was significantly lower and has remained so through Q1 2021 and the period of the COVID-19 pandemic. The high statistical correlation between in-person meetings and deal flow suggests to us that in-person activity drives deal volume across our whole funnel.

Some Things Never Change

While we can't explain exactly why in-person meetings drive more deal flow than calls and Zooms or why they move so much better through our funnel, we believe there may be several factors at work.

- A high-touch approach pays off in the later stages of a deal. As transactions move down the runway, we are keenly aware that capital is a commodity. Authentic personal engagement and enthusiasm about the opportunity before the process even began becomes a differentiator as the process moves forward. Showing this type of engagement will help you be in the final group of bidders when your competition is the voice on the phone, the face in the box or the Johnny come lately bidder. The intermediary and/or the seller know how engaged and sincere you've been throughout the lead up to the deal. Bankers can only make so many calls with critical guidance in competitive processes—and, on those occasions when that guidance has come to me, it's because of the enthusiasm for the deal expressed in person and the vested personal relationship built with the banker on the other side.

- Paying attention helps. If more than three people are on a Zoom, at least one face is usually looking off screen at their e-mail (I've done it, and so have you). An undistracted face-to-face conversation substantially increases the chances of real engagement and connection around a particular opportunity. What companies do and who they serve can often be complicated, which can make it hard to gain understanding and insight in an "elevator pitch" type situation. In the few in-person meetings I've had since the pandemic, I've been struck by how much more I learn about different industries, companies and their histories from a live source. Face-to-face meetings are vastly more conducive to developing genuine interest, as opposed to the sort of "swipe right," check-the-box type interest developed when you're not paying full attention.

- Conversation duration matters. If you search your memory, you might remember that conferences (along with the after parties) used to be full-day affairs and dialogue would go late into the night. Our data shows that forums conducive to longer conversations lead to better outcomes (hence city visits are more effective than conferences, which are better than calls). Spend three hours having dinner with a banker and you may just find out that their client with reasonable valuation expectations only wanted to go to 10 buyers, but they don't have the traction they were looking for. I've gone the distance as the late-arriving buyer; have you?

- At the same time, working to achieve early engagement and understanding also helps reach the proverbial "quick no" to a transaction. There are few PE funds more annoying to an intermediary than the ones that take every book and throw out IOIs with abandon to get management meetings—only to finally dig in and change their mind once they start actually paying attention.

On the Road Again...

We've been through more than a year of traumatic change and disruption in all our lives. It's definitely going to be exciting (and a little strange) to get back out on the road and figure out the new nuances of personal interaction.

At the end of the day, business development in PE remains a relationship business where personal connections are always going to trump phone or online contacts. I look forward to waving to you across the TSA PreCheck line in the very near future! //

STEPHEN MADSEN is director of the Business Development & Capital Markets team at Monomoy Capital. Madsen runs point on business development and origination and works with intermediaries, family owners and corporations to source new investment opportunities. Madsen came to Monomoy from Intralinks Dealnexus, an online deal sourcing and deal marketing platform, where he was Manager of Global Business Development & Origination. Prior to Dealnexus, Madsen started his career in expert networking at Gerson Lehrman Group and Coleman Research Group.

The Wild West of Knowledge Economy M&A

The push toward digital transformation ignited by the coronavirus pandemic is remaking the M&A landscape with unusually high valuations, quickened auction processes and unprecedented deal activity

BY BRENDAN CURRAN AND JUSTIN LOEB,
CLEARSIGHT ADVISORS

Since the pandemic first walloped the world 18 months ago, the resulting economic impacts have been far from universal. In advising businesses in what we call the "Knowledge Economy," Clearsight's focus area, we recognize the confluence of macroeconomic factors at work in creating today's unprecedented M&A market. The Knowledge Economy includes IT services, management consulting, digital transformation, life sciences and strategic consulting, cloud and data analytics, compliance and cybersecurity.

Following a brief period of uncertainty, Knowledge Economy businesses are on an epic roll. Extraordinary demand from clients is fueling incredible growth, robust valuations and a very atypical M&A market. We explore what's creating this "Wild West" moment in M&A, from the competitive dynamics to the evolving strategies for both private equity firms and corporate acquirers.

The M&A Landscape

The Knowledge Economy experienced tremendous growth throughout the pandemic for a multitude of reasons. For one, Knowledge Economy businesses were able to pivot to remote work quickly and effectively given their own digital expertise. As with other industries, employees were more productive as they worked longer hours at home, uninterrupted by commutes or travel. IT services and digital transformation businesses also experienced a surge in demand for their solutions. In helping other companies pivot to digital and shore up their internal IT offerings, Knowledge Economy businesses scaled dramatically, and strategic acquirers and PE investors noticed.

While PE firms took a clear but brief pause in 2020, partially to allow debt capital markets to return, they refined their investment strategies and came back with a vengeance this year. Now, record levels of dry powder and newly minted funds are massively increasing competition for the highest quality assets. As competition increases, PE firms are getting more creative about the assets they invest in. This is especially evident in the dramatic increase in the number of PE firms excited about investing in the Knowledge Economy. How sponsors structure deals—and even how they pursue targets—is changing as well. Say goodbye to the old process and hello to pre-emptive offers (more on that later!).

Competition for Quality, Golden Assets

Creative investing can take many forms, but the organic growth of the Knowledge Economy put dollar signs in investors' eyes. IT services and digital transformation became top of mind for virtually every C-suite, and leapfrogged other items on their agenda, out of necessity for their business to survive. The pandemic accelerated digital infrastructure and transformation overnight, as opposed to five or 10 years down the line, priming Knowledge Economy companies for growth as they helped other companies and industries navigate their sudden pivot to digital.

Clearsight Advisors was founded a decade ago on the premise of the burgeoning Knowledge Economy. In those 10 years, the industry continues to evolve in new and interesting ways, catalyzed of late by the pandemic. Digital transformation, one of the fastest growing subsectors within the Knowledge Economy, enjoyed active M&A pre-pandemic and has since exploded with investment activity. In 2018, PE drove 22% of the digital transformation deal volume. By comparison, this figure has increased to 29% as of Q2 2021, according to Pitchbook. Overall, the amplified interest and investment in the Knowledge Economy from both new and existing players creates increased competition for assets experiencing strong organic growth.

Strategic acquirers can pivot their investment strategies quickly to capitalize on this growth in the Knowledge Economy. Through the shift to digital, companies increasingly relied on their IT services providers, who took that as a sign to bulk up their offerings. IT consulting firms are now looking to move up market by acquiring strategy consulting firms and simultaneously looking

BRENDAN CURRAN is a vice president who has advised on over 30 transactions totaling in excess of $3 billion in value.

JUSTIN LOEB is also a vice president at Clearsight, has experience in M&A and capital raise transactions and currently leads the firm's sponsor coverage efforts.

down market at staffing firms. Not to be outdone, accounting firms are also showing interest in digital transformation assets as they seek to bolster their capabilities and reputations as thought leaders. In expanding their services, we have seen some interesting strategic combinations, including Cognizant's acquisition of IT staffing firm Hunter Technical Resources. The transaction supports Cognizant's path toward a one-stop shop of management consulting, IT services and outsourcing for their clients.

As the M&A strategies at a growing number of corporate acquirers mature, the PE community takes note of the creation of a growing number of exit options for their target investments. Additionally, PE firms look to the incredible public market valuations for many of the highest-flying Knowledge Economy subsectors with the thought of a future public offering as the right liquidity event. Some public market success stories such as Epam (NYSE: EPAM), Endava (NYSE: DAVA) and Globant (NYSE: GLOB) averaged a 39.5x EBITDA multiple through Q2 2021. Indeed, GlobalLogic's former PE backers, Canada Pension Plan Investment Board and Partners Group, generated a solid exit in selling to Hitachi for $9.6 billion, at 37x EBITDA. More importantly, these success stories and exit valuations go a long way in convincing PE investment committees of a profitable, viable platform in a subsector. While a growing number of new funds' investment theses focus on the Knowledge Economy, existing funds are being deployed tangentially to capitalize on industry tailwinds. In applying principles from previous investments (e.g., staffing businesses) and getting a foothold in the Knowledge Economy, PE investors can translate their experience to a system integrator or custom software engineering business. With readily available money and overflowing interest, how this competition plays out in the M&A process also defies norms.

> **"In helping other companies pivot to digital and shore up their internal IT offerings, Knowledge Economy businesses scaled dramatically and acquirers and PE investors noticed.**

Tradition Thrown to the Wind in the Deal Process

On the demand side, acquirers and investors are now trying to differentiate themselves by altering the traditional deal process. We increasingly see buyers attempt to pre-empt processes, hoping to knock out the competition and lock up the deal quickly. Additionally, while breakup fees—binding agreements of money-owed if a deal falls through—are not uncommon in public deals, we are now seeing PE firms introduce breakup fees into our processes, often as early as in their Indications of Interest stage. Buyers are also more prepared than ever to move quickly through diligence on an asset, especially priority assets. But as teams only have so much bandwidth to evaluate the dramatic increase in new opportunities, buyers continue to refine their M&A strategies out of necessity. If a buyer wants a deal, they go hard and fast, but if there's any hesitation, they will bow out early.

Turning to the supply side, management teams are calculating how to take advantage of the tailwinds in their industry. While some are simply riding the wave of the active market, others are capitalizing on their PPP loans and weighing potential capital gains tax changes in 2022. More private companies are becoming comfortable investing in sell-side market studies and quality of earnings to ensure a more seamless marketing process. This pre-market due diligence in turn helps buyers move quickly on an asset, continuing to fuel the competitive M&A market.

When the pandemic first gripped the world 18 months ago, we were unsure how it would affect businesses. Today we find ourselves in a surprisingly active M&A market with record valuations for Knowledge Economy businesses, spurred by an accelerated demand for anything digital at the enterprise and consumer level. Competition is at an all-time high among investors and strategic acquirers looking to snatch up companies with these valuable capabilities, resulting in a changed M&A process. As these trends show no signs of abating, differentiation and creative business strategies will be key for both acquirers and private companies looking to successfully transact. A trusted advisor like Clearsight can help Knowledge Economy businesses navigate these and other uncertainties to forge ahead in this Wild West of M&A. //

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CHICAGO'S MIDDLE-MARKET VETERANS HAUL IN BILLIONS IN BANNER YEAR FOR PE FUNDRAISING

Long-time middle-market investors in the Windy City were some of the biggest fundraisers this year, while specialty funds on the East and West Coast rounded out the list

BY ANASTASIA DONDE

Private equity fundraising is going strong this year, undeterred by the pandemic. Forty-two U.S. mid-market private equity funds were raised in 2021 through mid-July, according to alternative investment data provider Preqin. Those funds collected $37.2 billion compared to 77 funds and $68 billion in all of 2020. In 2019, the total raised was $50 billion across 58 funds.

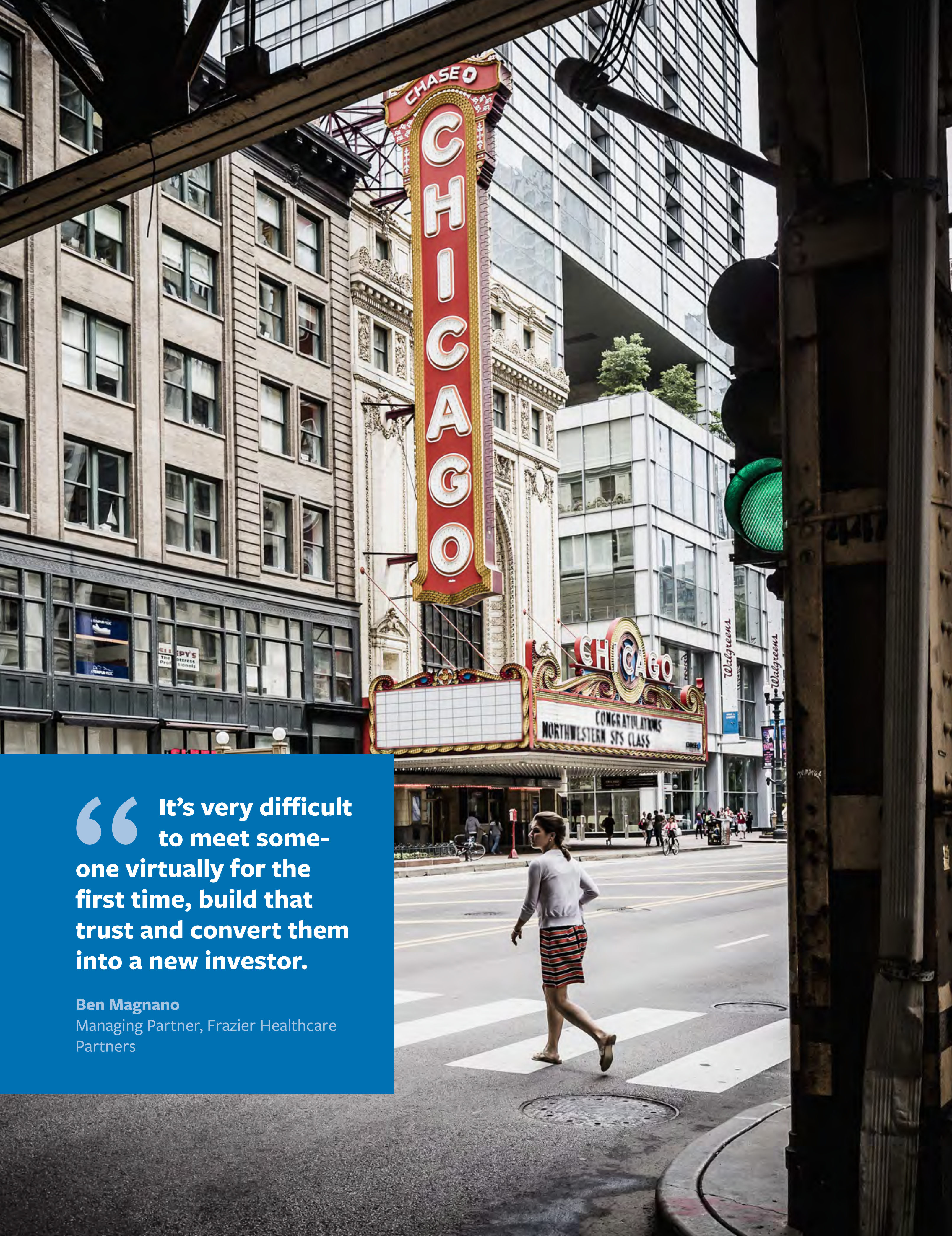
Some fund managers say courting new clients is difficult without in-person meetings, but they've continued to raise large sums of money from existing investors.

Of the seven funds highlighted in *Middle Market DealMaker*'s inaugural fundraising report, three were household names in Chicago—thought by many to be the heartland of middle-market investing.

Windy City Darlings

Madison Dearborn Partners closed its eighth fund at its $5 billion hard-cap in June, according to *Pensions & Investments*. The firm has invested in U.S. middle-market companies since 1992 and takes its name from the location of its offices at the intersection of Madison and Dearborn streets in downtown Chicago.

Pritzker Private Capital collected $2.7 billion for its third fund in July. The firm is the investment arm of the wealthy Pritzker family that built its fortune by founding and expanding the Hyatt Hotels. The fund money was raised from other family offices, LPs and international investors. The Pritzkers are long-time investors and entrepreneurs in the Chicago area. J.B. Pritzker is currently serving as governor of Illinois, while his brother



> **“It’s very difficult to meet some-one virtually for the first time, build that trust and convert them into a new investor.**

Ben Magnano
Managing Partner, Frazier Healthcare Partners

The Highlights: Middle-market funds raised in 2021

Fund Manager	Fund	Final close size (USD mn)	Final close date	Vintage	Strategy	Core sector	Headquarters
Madison Dearborn Partners	Madison Dearborn Capital Partners VIII	5,000.00	6/10/21	2021	Buyout	Diversified	Chicago, IL
Pritzker Private Capital	PPC III	2,700.00	7/28/21	2020	Buyout	Diversified	Chicago, IL
Wind Point Partners	Wind Point Partners IX	1,500.00	2/16/21	2019	Buyout	Diversified	Chicago, IL
Frazier Healthcare Partners	Frazier Healthcare Growth Buyout Fund X	1,400.00	5/27/21	2020	Buyout	Healthcare	Seattle, WA
Crosspoint Capital Partners	Crosspoint Capital Fund I	1,300.00	4/13/21	2020	Growth	Information Technology	Boston, MA
BBH Capital Partners	BBH Capital Partners VI	1,215.00	5/27/21	2020	Buyout	Diversified	New York, NY
Shamrock Capital Advisors	Shamrock Capital Growth Fund V	1,000.00	6/9/21	2021	Buyout/ Growth	Telecoms & Media	Los Angeles, CA

Source: Preqin Pro, public announcements, media reports

Anthony Pritzker heads up the investment firm.

Also in Chicago, Wind Point Partners, which got its start in 1984, closed its latest fund with $1.5 billion in February. The firm touts its executive network of former public and private company CEOs, who provide insights to portfolio companies.

Investment Targets

Even though these fund managers are raising ever-larger funds and can do bigger deals, many are still focusing on the middle market, with Wind Point targeting $100 million-$500 million enterprise value companies.

Pritzker Private Capital has a wide band around its target size that includes the middle market. The firm's sweet spot is in the $200 million to $1.5 billion EV range, says Michael Nelson, head of investing.

Part of what draws investors to Pritzker is the firm's 20-year history in building businesses, Nelson says. "That's coupled with 45 investment and operating professionals," he adds, setting Pritzker apart from smaller family investment firms.

Pritzker typically targets manufacturing, food, packaging, healthcare and specialty materials companies. "We see opportunities that many others don't and most of our

> **"Most of our deals are done outside of the auction process.**
>
> **Michael Nelson**
> Head of Investing, Pritzker Private Capital

investments are done outside of the auction process," Nelson says. The firm typically invests in family-owned companies or those that have management teams as significant stakeholders.

The PPC III fund has made two investments so far: ProAmpac, a Cincinnati-based flexible packaging company that specializes in food service and retail, and Vertellus, an Indianapolis-based specialty chemicals manufacturer. Nelson says his firm was drawn to ProAmpac's "strong leadership team and focus on sustainability," as most of its materials are recyclable.

The investors in the PPC III fund were all returning clients from the previous PPC II fund, which raised $1.5 billion in 2018. The firm has grown its client base among European and Asian investors in recent years, Nelson says.

Like Pritzker Private Capital, Seattle-based Frazier Healthcare Partners also saw more investment from international LPs, according to Ben Magnano, managing partner at the firm. Frazier closed its 10th fund at $1.4 billion in May. The firm invests exclusively in healthcare. The sweet spot for its target companies is around $20 million-$40 million in EBITDA.

In the past two funds, Frazier's clientele has increased significantly among investors in Europe, Asia and the Middle East. They now make up about 35% of the LP base—up from 15% previously. Most of the LPs in the recent fund are re-ups, Magnano says, as it's hard to find new investors that Frazier executives haven't met in person. "It's very difficult to meet someone virtually for the first time, build that trust and convert them into a new investor," Magnano says.

Nevertheless, the recent fundraising effort was successful, with the current fund raking in almost double that of its $800 million predecessor. The firm is focusing its investment efforts on tech-enabled healthcare and pharma services right now.

Frazier's first investment from the new fund was the purchase of a 50% stake in CSafe Global. The Dayton, Ohio-based company provides cold storage and shipping services to pharma and life sciences companies. "CSafe telemetry solutions allow customers to know where their products are at any given moment in real time," Magnano explains.

More recently, Frazier's portfolio company, North Carolina-based Parata Systems, acquired another pharma automation company, Quebec-based Synergy Medical. Parata offers a portfolio of blister, pouch and vial packaging solutions delivered via high-speed automated robotic dispensers.

42 **U.S. mid-market private equity funds were raised in 2021 through mid-July**

$37.2 BILLION **Was collected by U.S. mid-market private equity funds in 2021 through mid-July**

Coast-to-Coast Collectors

Rounding out the list of notable mid-market fundraisers so far this year is Shamrock Capital Advisors, an investment firm in Los Angeles that collected $1 billion for its fifth fund in June. The West Coast firm specializes in media, entertainment and communications.

On the East Coast, Crosspoint Capital Partners in Boston closed its first fund at $1.3 billion in April. The vehicle focuses on cybersecurity and infrastructure software. The firm's senior management hails from Symantec, other large tech companies and big private equity players like Bain Capital, Thomas H. Lee Partners and HGGC.

Also on the East Coast, BBH Capital Partners, the private equity arm of investment bank Brown Brothers Harriman, collected $1.2 billion for its sixth fund. BBH makes equity investments ranging from $40 million to $150 million. It pursues a diversified investment strategy that includes healthcare, technology, media, telecommunications and business services. //

CHRIS GESSNER
Partner, Peninsula
Capital Partners

SIMON DAVISON
Co-founder, Escapology

The Science of the Deal

Escapology teams up with Peninsula Capital to build a dominant entertainment brand

Like players trying to decipher clues to break out of a room within a set time frame, Escapology, an operator of escape room entertainment venues, is working to solve a challenge of its own: how to continue to grow and maintain its position as the world's largest escape room company.

Founded in 2014 and headquartered in Orlando, Escapology has 57 locations around the globe, including 52 franchised and five owned outposts. The company is active in countries including the U.S., Canada, Chile, Ecuador, United Arab Emirates and Spain.

Escape room patrons work together in teams to uncover clues, solve puzzles and complete tasks in order to advance through the room and ultimately "escape" the spaces—which often are decorated based on a theme, such as "train car" or "stately manor."

Last year, Escapology set out to find another player to add to its team, one that could provide capital and help the company achieve its mission of becoming the largest, greatest escape room company in the world.

"We want to be a household name," says Escapology co-founder Simon Davison. "We were looking for a partner who shared our values to grow this company as big and best as we can."

That's where Peninsula Capital Partners enters the game. The Detroit-based investment company specializes in providing junior capital, including subordinated debt, preferred stock or common stock—either as a minority or control investor—to middle-market companies.

Peninsula believes it can help Escapology realize the goal of growing to about 200 locations, including 15 to 20 corporate-owned locations, over the next few years.

One obstacle to expansion is the cost of building corporate stores, which run about $500,000 each.

"The real financial upside for the business is to open corporate venues and we've known that for a while,"

▲ "Mansion Murder" escape room in Orlando

Davison says. "We wanted the capital to do that and to make sure we stay abreast and at the sharp end of the escape room game industry."

Peninsula finalized the deal in July and is already working with Davison and his partners, Paul Davison and Simon Millington, to achieve their goals.

"We're able to provide capital, and we have the experience of having done expansions before with businesses in the franchise space," says Chris Gessner, partner at Peninsula.

He says Peninsula has already identified some initiatives to help the business grow, including strengthening the second tier of management, adding franchise support staff and turbocharging the franchise and corporate-owned store openings.

"We're walking the fine line between growing quickly and building on a strong foundation," Gessner says. "What the Escapology team has built is already pretty spectacular, but I think everyone recognizes that we need to build the foundation a bit more sturdy if we are going to be two, three or four times the size."

Getting Creative

Like a knotty problem within a game room, Gessner says the road to the partnership between Peninsula and Escapology was not without some challenges, including, most notably, the COVID-19 pandemic.

Escapology's first outreach to Peninsula occurred in June 2020, when the pandemic caused businesses throughout the entertainment industry, including escape rooms, to shut down or severely limit their capacity.

While Peninsula was intrigued, it couldn't find a way to structure a deal that made sense. That changed in February 2021, when Peninsula was approached again by Escapology.

"After several months we re-engaged when there was a little more clarity about the pandemic," Gessner says. "There were still a lot of questions, but we felt like we could put forward a proposal that made sense for everybody."

He says Peninsula crafted a creative deal "that got them (Escapology) excited, because it provides the proper amount of liquidity on the front end and the proper amount of motivation to achieve our investment goals on the back end."

Davison says the deal allows him to continue to run the business, and to work with a partner that shares his vision.

"I always said if we ever got into a transaction like this, I wanted the freedom to run the business on a day-to-day basis," Davison says. "It is critical for me because I need to enjoy my work."

Gessner says Peninsula doesn't try to fix what isn't broken.

"What Peninsula tries to do is to improve on what's been done, but not to upset the apple cart and try to start over," he says. "We recognize when people have already built really great businesses."

While opening 200 locations is one way of judging growth and success, Davison says he's really not wrapped up in those metrics.

"It's not driven by numbers, in my mind," he says. "It is driven by making sure we stay ahead of the game, keep an eye on competitors and achieve that objective of being the best escape game company in the industry."

Another way to gauge success, for instance, is to keep an eye on online reviews posted by players who are passionate fans of escape rooms.

Even though the pandemic is not yet over, Gessner says he feels confident about Escapology's long-term future.

"We're in this for the long run," he says. "We're not short-term, short-fuse investors. We're very patient. If there were a scenario like COVID that impacted the company in the future, we know it's a transitory issue. We take a long-term view and stand ready with whatever support is needed." //

Sale-Leaseback Gives Life to Innovative Investment in Funeral Homes

Ben Franklin's oft-cited saying that there is nothing certain in life except death and taxes holds true for Garnett Station Partners, a private equity firm that saw potential in funeral homes—especially those with real estate assets—as a stable and successful investment.

To transact in this niche industry, the firm turned to STNL Advisors, a real estate consultancy that helped Garnett craft a solution to the challenging issue of how to finance its initial acquisition of 26 funeral homes.

It wasn't the first time that Garnett had used STNL's services.

"They really have been strategic partners with us for the last eight years," says Alex Sloane, managing partner and co-founder of Garnett. "They advise us on every single deal we do. We don't do a deal without their blessing, support and counsel."

When helping its clients fashion and find value in their investments, STNL specializes in out-of-the-box thinking and creative approaches. In the case of the funeral home investments, Garnett sought STNL's help to utilize a technique known as sale-leaseback, which was crucial to funding the purchase.

Sale-leaseback is a financial transaction in which the owner of an asset, in this case real estate, sells it and then leases it back from the new

> **A lot of advisors don't go out and actually see the properties. They will look at a spreadsheet, and look at Google Maps. But one of the first things we do is go and see each property.**
>
> **GLEN KUNOFSKY**
> Founder and President, STNL Advisors

owner. The funeral home deal hinged on Garnett being able to line up the investors who would purchase the real estate and lease it back to the subsidiary, which would operate the funeral homes.

"We had developed a thesis around consolidating funeral home businesses," Sloane says. "Core to that thesis was the ability to sell the real estate to a REIT and other real estate investors separately from the operating company. And that had never been done before."

Glen Kunofsky, founder and president of STNL, says his company was intrigued by the deal. He notes that sale-leasebacks are commonly used in industrial, manufacturing, retail, corporate headquarters and restaurants, but applying the strategy to funeral homes was a new frontier.

"The goal was to have the sale-leaseback co-terminus with the acquisition of these businesses, as most private equity wants," he says. "The real estate was such a significant part of the capital stack so, without the real estate, without buyers coming to the table, and us bringing the capital, there was no acquisition. Garnett's goal was to have the capital in place simultaneously to buy the businesses."

Kunofsky says the concept of sale-leaseback is not necessarily well understood or utilized as much as it could be. Other industries where STNL has applied a sale-leaseback approach include lumber yards, chemical plants and manufacturing facilities.

"The word speaks for what it is, but a lot of people don't understand that you don't necessarily need to own the real estate at the time of arranging the sale of the real estate," he says. "In Garnett Station's case, they were acquiring the business with the real estate so they didn't own anything yet. It all happened simultaneously."

And it had to happen fast. Garnett had a timeline of 60 days in which to line up the financing.

Sloane says involving STNL early in the process was crucial. He would advise any other firm considering such a transaction to do the same.

"They analyzed it with us from the very beginning and from every angle," Sloane says. "STNL came to the conclusion that they'd be able to do it. That really enabled us to execute our thesis. Without the real estate component, we would never have gotten comfortable to do this investment."

With that green light, STNL hit the road. The firm's professionals traveled a total of about 1,200 miles to visit every piece of real estate and learned about each funeral home, crematorium and cemetery.

"A lot of advisors don't go out and actually see the properties," Kunofsky says. "They will look at a spreadsheet, and look at Google Maps. But one of the first things we do is go and see each property. We want to understand what the pros and cons are in terms of the business, and what a potential buyer is going to be looking at. Then we try to decide what an investor would pay for these properties and what they should rent for."

Along the way, STNL learned a lot about the industry and the properties themselves. It also made use of the real estate expertise and relationships it has developed over the last quarter century.

"We took all that information and compiled a detailed marketing plan for private and institutional investors and did a confidential book with all the relevant information," Kunofsky says. "And then, we started speaking to the potential buyers. We made calls to explain the industry and the properties, and explain why it would be a good investment. We also explained how the business was going to be organized and financed."

Sloane credits STNL for helping to make the deal a reality, which ultimately proved fruitful for the firm. Four years after that 2016 transaction, Garnett Station sold the funeral homes. "We did very well for our investor group," says Sloane, whose firm went on to invest in 40 more funeral homes.

"What's so great about STNL is that they are so creative," he says. "They know the buyer universe, they knew our timing and constraints and were able to meet our timeline. They helped us create value." //

On the MOVE

MEAHGAN O'GRADY

Palladium Equity Partners, a middle-market private equity firm with nearly $3 billion in assets under management, has hired Meahgan O'Grady as director of business development, a newly created position. In her new role, O'Grady will work with all of Palladium's deal teams on sourcing and origination. She brings to Palladium deep relationships across multiple channels, including development teams of both public and private corporations, investment banks and proprietary sources such as entrepreneurs, industry executives, advisors and private wealth managers. O'Grady joins Palladium from KPS Capital Partners, where she was vice president, head of business development, mid-cap.

DEBORAH GALLEGOS

Earlier this year, Palladium added Deborah Gallegos to its team as a managing director. Gallegos brings to Palladium 25 years of investment experience having managed over $100 billion in assets over the course of her career. She previously served as chief investment officer for the New York City Comptroller, deputy state investment officer for the New Mexico State Investment Council, and director of Manager Research for Strategic Investment Solutions, now Verus Investments. Most recently, she was a senior investment manager at CSAA Insurance Group, an AAA insurer. Gallegos began her career in the Emerging Markets Equity Group at JPMorgan Asset Management.

MARIO R. MASRIEH

Private investment firm Trivest Partners has promoted Mario R. Masrieh to principal. Masrieh joined Trivest in 2019 as a vice president and is responsible for the analysis of investment opportunities, identification of strategic acquisition targets and monitoring of existing portfolio companies within the firm's non-control investment strategies, Trivest Growth Investment Funds. Prior to joining Trivest, Masrieh spent three years at private equity firm Gridiron Capital, after starting his career as an analyst at Morgan Stanley in the global consumer and retail team.

SPENCER LEDWITH

Trivest also promoted Spencer Ledwith to senior associate. Ledwith joined Trivest in 2019 as an associate and is responsible for the analysis of investment opportunities, identification of strategic acquisition targets and monitoring of existing portfolio companies within the firm's buyout investment strategies, the Trivest Mid-Market Funds. Prior to joining Trivest, Ledwith was an analyst at Raymond James in the Consumer & Retail investment banking group. Trivest was founded in 1981 and today has offices in Miami, Charlotte, Chicago, Los Angeles, Philadelphia and Toronto. The firm focuses exclusively on the support and growth of founder-led and family-owned businesses in the United States and Canada in both control and non-control transactions.

WILLIAM "BILL" ALLEN

Audax Private Equity added four managing director hires to its team. William "Bill" Allen joined Audax as a managing director focused on expanding Audax's investment capabilities in the financial services sector. Allen was previously a managing director at The Carlyle Group and brings more than two decades of investment experience in the financial service sectors across asset and wealth management, business services, capital markets, community banking, financial technology, insurance services and specialty finance.

MATTHEW CROSS

Matthew Cross joined Audax last year as a managing director focused on investor relations. Cross was previously a principal in the Client and Product Solutions group at Apollo Global Management, where he was responsible for building relationships with institutional investors across North America. Prior to that, Cross was a member of the business development team at Providence Equity Partners and worked at State Street as a member of its private markets consulting team.

ELENA L. TUTTLE

BBH Capital Partners, the private equity arm of Brown Brothers Harriman & Co., has added two new business development officers, both of whom are joining the firm as vice presidents to focus on investment sourcing and business development. Elena L. Tuttle, based in Charlotte, was previously a business development officer with PNC Business Credit in its Charlotte office, where she sourced and structured senior credit facilities for middle-market businesses pursuing management buyouts, recapitalizations, acquisitions, refinances, growth capital and turnarounds. Earlier in her career, she held various sales roles within PNC's Corporate & Institutional Bank in its Atlanta, Cleveland and Pittsburgh offices.

MEGAN LUNDY

Megan Lundy joined Audax last year as a managing director focused on investor relations, based in San Francisco. Lundy was previously a managing director and head of investor relations at Lindsay Goldberg, where she oversaw fundraising and investor relations. Prior to that, Lundy worked at DLJ Investment Partners on its investment team and at Barclays in the Global Communications and Media Investment Banking Group.

CORY MIMS

Cory Mims joined Audax as a managing director focused on business development. Mims was previously a managing director at ICV Partners focused on transaction execution, portfolio value creation and business development. Prior to that, Mims worked at TSG Capital Group as a principal where he was actively involved in all aspects of deal execution, including industry research, operations and financial due diligence, and transaction structuring and financing. Mims began his career in investment banking at Salomon Brothers in New York and London.

LANCE BELL

Mesirow Investment Banking has hired Lance Bell as managing director. In his new role, Bell will focus primarily on serving clients within the healthcare services sector. He joins Mesirow from Berkeley Research Group, the sixth-largest health care consulting firm in the U.S., where he was hired as a managing director in the Investment Banking group to establish the healthcare M&A practice.

YING LUCY FAN

North Sky Capital, which focuses on impact investing, has hired Ying Lucy Fan as vice president. She brings expertise in sustainable infrastructure investing, most recently in battery storage project development. She joins North Sky from Peak Power, an Ontario-based battery storage developer where she has served as director of commercial operations and transactions since 2018. Previously, Fan was a senior associate at New Energy Capital, where she worked for more than four years with Adam Bernstein, who is now North Sky's head of sustainable infrastructure. While at NEC, the two acted as sub-advisors to North Sky's 2010 and 2015 vintage infrastructure funds.

CHRIS BABICK

Monroe Capital, a boutique private credit firm, has added Chris Babick to its originations team as managing director. Babick will lead the firm's relationship sourcing and the origination of new business opportunities within the Southeast region. Prior to Monroe, Babick was a director at Manulife Investment Management, where he sourced, structured and underwrote private debt transactions to middle-market private equity sponsors and their portfolio companies. He has over 19 years of experience in private debt investing and corporate finance. Prior to Manulife, Babick was a director for THL Credit, where he was responsible for leading private debt investing for the Midwest region.

STACEY HUDDLESTON

Seacoast Business Funding, a working capital provider based in Boynton Beach, Florida, has hired Stacey Huddleston as vice president, business development officer. Huddleston is based in the Midwest and will focus on expanding the Seacoast portfolio in the region. He brings over 20 years of expertise in the financial and alternative lending space, providing creative solutions for businesses with complex financial needs. A division of Seacoast National Bank, Seacoast Business Funding provides customized working capital financing solutions to small and middle-market companies engaged mainly in business services, distribution, manufacturing and staffing with annual sales ranging from $1 million to $200 million.

KARIMA ALI-AHMAD

Based in Chicago, Karima Ali-Ahmad joins BBH Capital Partners as a business development officer from Guggenheim Partners, where she led business development and origination efforts specific to founder-, family- and entrepreneur-owned companies, with an emphasis on non-control investment opportunities. She began her career at Goldman Sachs, where she held various roles across the Operations and Investment Management divisions in New York and Chicago.

SOUNDS LIKE A PLAN

McGriff drives healthcare cost reductions for mid-market employers through a strategic platform

Will Glass
Senior Vice President (left)

Brian McGratty
Vice President (right)

Tanya Saffadi
Chief Human Resources Officer, Kushner

MCGRIFF CARRIES A LONG HISTORY OF providing risk management and insurance services for businesses of all sizes. While that specialty hasn't narrowed, the firm has a laser focus on multi-site, multi-state middle-market accounts, encompassing an innovative platform that saves clients big bucks and more than a few headaches.

William Miller Glass and his team at McGriff have centered their business on multi-site mid-market companies, a space rife with complex variables when it comes to healthcare. Via a recently inked partnership with the Association for Corporate Growth, Glass and the firm aim to further capture the market, specifically private equity groups and their portfolio companies.

"Most organizations are dealing with either local brokerage firms that don't have a line of sight on National exposure or large national players that don't treat the middle-market space with the respect it is due," says McGriff senior vice president Glass. "A company might be headquartered in Atlanta and have offices in Orlando, Dallas and New York. We specialize in understanding how different state laws impact these private equity groups in multiple states. There are different funding mechanisms, products and different carriers and the whole organization needs to be looked at in aggregate."

Some PE firms buy health insurance to cheaply cover their portfolio companies, an issue exacerbated by a shrinking number of reputable carriers as well as American Cares Act limits on deductibles, out-of-pocket maximums and payroll deduction scenarios.

Glass explains: "It becomes complicated for groups wanting to be creative in their benefits programs. Inherently, each product is very segmented. You could have an HMO product with a narrow network but want a consumer-directed health product with a national network. Dental, vision, life and disability may all have separate carriers that aren't talking to each other. It takes consulting and intellectual capital to put all of that together in a cost effective manner."

McGriff, the fifth-largest brokerage in the country, covers commercial property and casualty, corporate bonding and surety services, cyber, management liability, captives and alternative risk transfer programs, small business, employee benefits, title insurance and personal lines.

McGriff's *modus operandi* is bolstered by an "RDI" (risk, direction and incentive) approach, developed in 2008 by Glass and Vice President Brian McGratty. The RDI model is ideal for navigating the PE realm that McGriff officials believe is generally underserved.

"For a private equity group with 100 businesses representing 15,000 employees, we can provide the level of service and commitment they haven't been getting," Glass says.

Delivering the goods

McGriff offers a unique strategy by delivering clients every possible funding option, allowing for a balance of risk alongside the highest level of benefit. Utilizing the RDI philosophy, McGriff creates programming that lets customers share risk, incentivizing employees to engage providers and ultimately become better health care consumers.

Under RDI, workers receive incentive-based funds for establishing or maintaining relationships with primary care physicians. In this scenario, the employer is funding incentives for voluntary behavior, reducing healthcare costs and, in some cases, identifying life-threatening conditions among participants. Clients adapting to this model have shown an increase of less than 2% annually to their medical budget—not to mention millions of dollars saved on health plans.

Kushner, a New York City-based real estate developer, is a successful test case for the model's overall effectiveness, says Glass. With 27 locations and 800 employees, Kushner dealt with numerous variables when determining its place in the standard, fully insured market.

In 2018, McGriff conducted a study of Kushner's insurance program, finding the company had overpaid on its health care spend. The brokerage helped customize a new program, immediately driving cost reductions before renewal, then incorporating the new plan in year two.

Thanks to its health care changeover, Kushner saved tremendously in 2020, with year-to-date savings even greater in 2021. Consumer-directed health products are boosted by a carefully crafted wellness initiative built on incentivizing voluntary medical examinations.

"There are incentives for getting a routine physical exam, getting lab work and then doing a health risk assessment," says Glass. "The company creates monthly initiatives around preventive measures identified to avoid catastrophic illnesses. The key to any wellness is voluntary actionable items that are rewarded."

A tremendous benefit

Tanya Saffadi, chief human resources officer at Kushner, brought McGriff's services over from a former employer for the brokerage's hands-on customer service and talent team.

"They're specialists. I have a lot of trust in them," says Saffadi. "With other brokers, many times you feel like you're a cash cow, where they're coming in and tweaking the plan, or upping the deductible on you. McGriff is more creative, more on top of what's happening. They know all the trends."

With McGriff in the network, Kushner now has its medical, dental and life insurance benefits all coordinated. Gaining more control of healthcare spend has been especially crucial amid the ongoing pandemic, where McGriff has made itself even more available with sometimes weekly virtual meetings.

"When we go to properties we're acquiring, we always compare benefit plans," Saffadi says. "Nobody wants to hear their costs will double compared to another company. 98% of the time our benefits are better and cheaper than what they previously had."

Although the pandemic hasn't changed McGriff's RDI model, the ever-shifting nature of the crisis led to a focus on CORE, defined internally as Culture, Operational excellence, Risk mitigation and Employee experience. In practice, the program evaluates employer pandemic response, from risk mitigation on vaccines to policies around hybrid work.

Staying abreast of the newest trends is a company mantra, one backed by numbers. For instance, McGriff typically hits about 60% participation in its most common wellness platforms. Additional metrics include individual employee healthcare savings of $4,200 annually compared to standard insurance plans.

It's not uncommon to hear stories about mobile preventative exams revealing a dire condition requiring immediate medical help. The potential to save lives through cutting-edge health plans is an incredible motivator, Glass says.

"We sprint to the office or run to the airport to see our clients," he says. "We're putting ourselves out there as far as research—or working with legal and compliance teams—so our clients know what's out there on the fringe. Employees are seeing tremendous value both with benefits and reduced costs. At the end of the day we want each and every employee to see true value in their benefits program." //

What's Next

FINTECH, ESG AND OTHER INVESTMENT IDEAS TAKE CENTER STAGE

Payment Innovations Drive Investor Interest in Fintech

Investors and businesses see growth in integrated payments and "buy now, pay later" platforms

BY BENJAMIN GLICK

Financial technology has had a banner year as more companies adopt integrated payment technology and investors and other buyers line up to acquire them. Appetite in the fintech space is also driven by shifting consumer behavior as so-called "buy now, pay later" platforms gain footing and generate new value for midsize companies. These businesses allow consumers to pay off a purchase over a period of time without any interest charged to the buyer.

There have been 125 M&A transactions involving fintech companies in the U.S. and Canada so far in 2021, the highest ever recorded in the software segment by Grata, a search engine for companies and a partner of the Association for Corporate Growth. The second-highest year for M&A activity in fintech was last year, with 102 transactions—nearly twice the volume as the year before.

Like many market segments over the last 18 months, some of the activity can be explained by the pandemic, according to Robert Freiman, a director in Houlihan Lokey's Data & Analytics Group who focuses on financial technology and payments. Investors and their companies stepped up acquisitions to digitize functions like vendor payments and quickly build up e-commerce capabilities.

But the pandemic only tells part of the story. Companies and investors are also becoming more discerning in the types of payment software they implement at their businesses.

Only a few years ago, Freiman says, it was common for software providers to focus solely on processing digital payments—but that has changed.

"Gone are the days where [payment processors] can walk into a merchant or business and say 'Hey, we can help you accept credit cards. Please sign us up,'" he says. "Now everybody accepts five or more forms of payment. So, the question is: What else can you do for my business?"

Today, buying or building a valuable payment processing business requires integrating other features, like software for accounting, inventory management, bill pay, invoicing, data analytics, loyalty and more.

However, Freiman says success in payment processing is not only about having software with a lot of features, but tailoring it to fit certain market niches, like hospitality, nonprofits, or auto dealerships, for example.

Demand for integrated payment software serving niche markets can be seen in recent transactions.

In the restaurant space, restaurant management software company Toast acquired extraCHEF in June, and Mad Mobile bought restaurant payment platform CAKE in August.

In June, WorkWave, a portfolio company of Advent International, FTV Capital and NB Private Equity Partners, acquired Real Green, a payment processor for lawn care and landscaping companies.

Clearent, a payment processing service provider for dry cleaning businesses, was acquired by Xplor Technologies, another portfolio company of Advent, FTV and NB Private Equity, in February.

Freiman adds that more acquisitions could be coming for integrated payment providers that service parking and legal services.

Market access may be another reason integrated payment services are attracting investor interest. The heated fintech market is driving up multiples. According to Brendan Ryan, the co-head of technology and services for investment bank Raymond James, it's common to see high-growth fintech companies with multiples venturing north of 10x-20x EBITDA.

Jim Douglass, a partner at investment firm Fulcrum Equity Partners, says he has also seen some areas of fintech, like person-to-person payment software, become out of reach for most private equity investors. He cites American Express' purchase of Kabbage for $850 million as an example.

> **"Beyond their limited potential as an investment target, the key benefit offered by BNPL providers may come in the partnerships forged with companies.**

"It's a big boy game now. There are large companies competing in those spaces," Douglass says.

But the integrated payment industry remains relatively untouched and highly fragmented. According to Grata figures, 276 out of the 306 integrated payment providers tracked by the search engine are independently owned, and nearly half have no financial backing.

Douglass cites a figure from the Small Business Administration as the reason he's optimistic about future investment potential for integrated payment providers: 30 million small businesses across the U.S. "That's a lot of businesses integrated payments can reach," he says.

According to Douglass, his firm is also carefully looking at integrated payment offerings that serve vertical markets.

In July, Fulcrum took a minority stake in a data company called Virtuous, which helps nonprofit organizations in fundraising and marketing with built-in payment processing. "That's a great space for a fund like ours," Douglass says.

But investors don't need to acquire integrated payment providers to get value from them. One of Fulcrum's portfolio companies, Kevel, announced in July that it would partner with the Swedish payment processor Klarna.

Additionally, Fulcrum continues to do business with a former portfolio company, Fattmerchant, which provides integrated payment services for several of Fulcrum's software companies.

Buy Now, Pay Later—Today

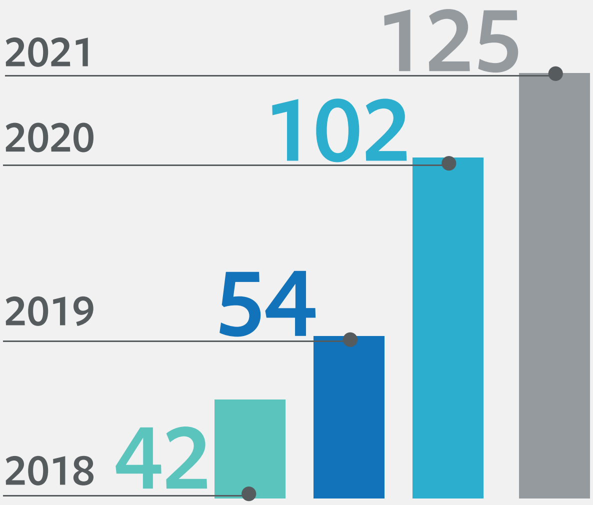
Consumers are shifting their habits when it comes to buying products on credit, and middle-market businesses could stand to benefit.

"Buy now, pay later," or BNPL, offerings at retailers are a rising trend in the consumer products space. According to data from Adobe Analytics, these short-term financing plans saw a 215% year-over-year spike in volume in the first two months of this year.

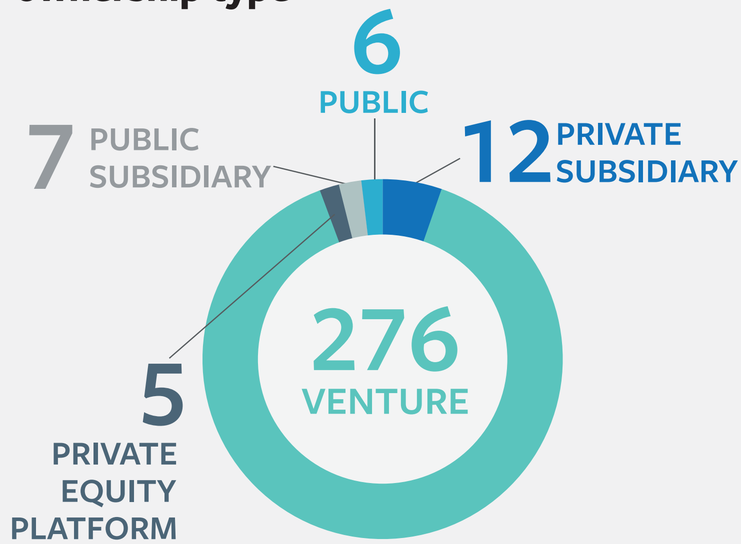
In a BNPL transaction, a customer making a purchase at a retailer will enter into an agreement to pay off a product over a period of time—the most common duration is four months. When the time is up, the customer will have paid off the product, usually with no interest.

A BNPL provider typically makes money from interest paid by the retailer, which essentially takes out a small loan for the product. Despite

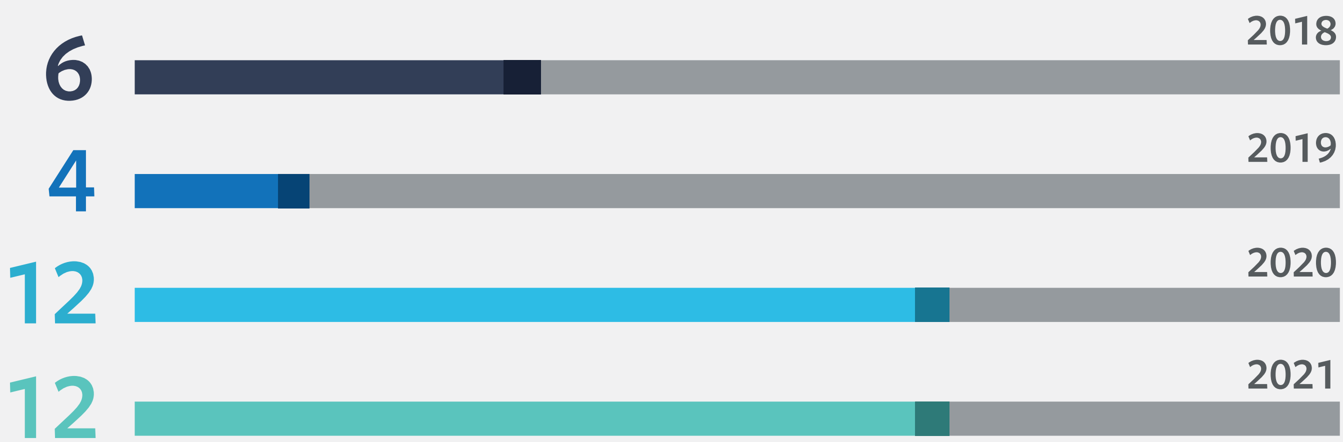
Fintech software M&A activity in the U.S. and Canada



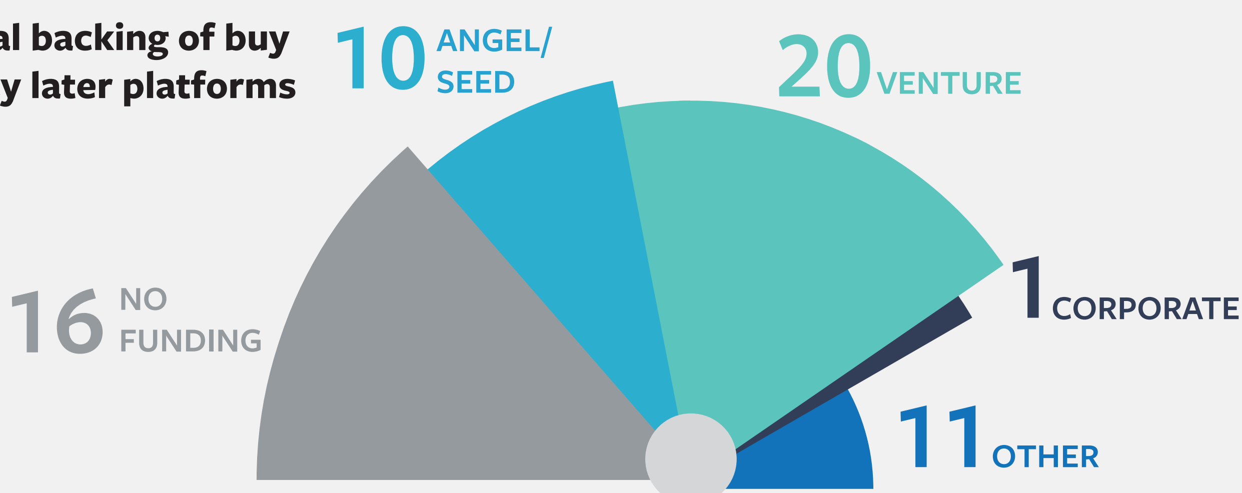
Integrated payment companies by ownership type



M&A events involving integrated payment providers



Financial backing of buy now, pay later platforms



Data provided by Grata

those costs, it's a worthwhile arrangement for retailers: If customers feel more comfortable buying an item with an interest-free installment plan, they're more likely to buy more or pricier products. According to Adobe's report, consumers are using BNPL plans to place orders that are 18% larger than in 2020.

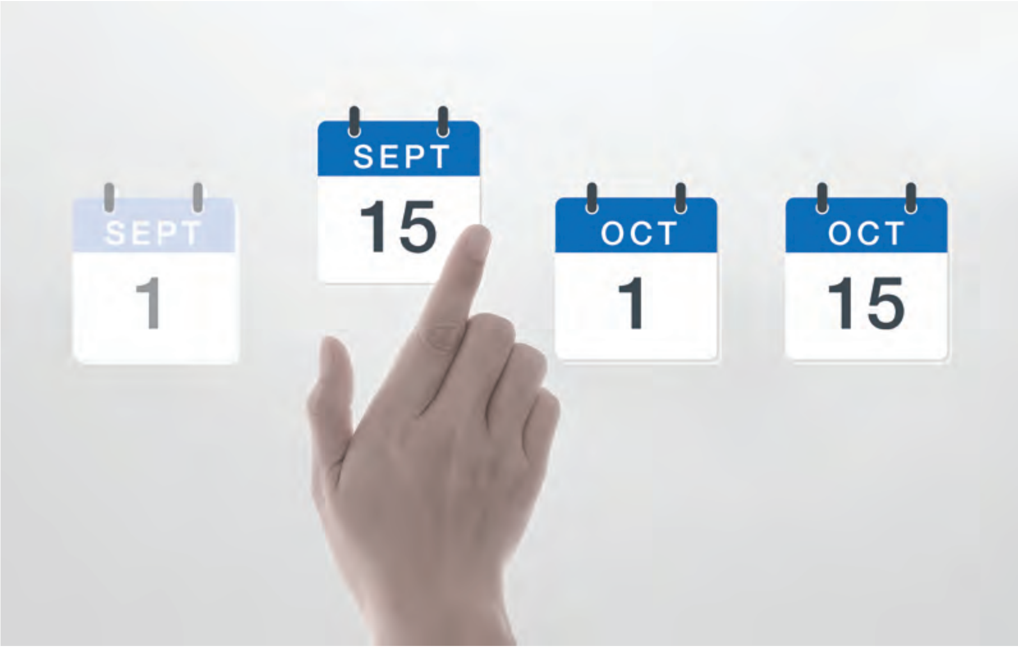
Custom Neon, a manufacturer of custom-designed LED neon lights and signs headquartered in Kansas City, Missouri, saw an even greater surge. After using multiple BNPL providers for its U.K. and Australia locations, the company found that the payment plans pushed its average sale price up by 23%—from $815 to over $1,000, according to the company's co-founder and CEO, Jake Munday.

"We realized that customers were willing to purchase a higher sign value because they had the option to pay in more affordable installments," says Munday, whose company has done design work for clients that include Coca-Cola, Facebook and The Grammys. "We have definitely seen an increase in revenue since adopting them."

Custom Neon uses Clearpay in the U.K. and Afterpay, Paypal and Limepay in Australia. The company plans to add Klarna as the BNPL option for its U.S. customers.

As an acquisition target, BNPL providers may be immature for PE investors. While many companies are in the later stages of venture capital financing, none of the around 60 BNPL companies indexed by Grata have received investment from a PE firm.

Beyond their limited potential as an investment target, the key benefit offered by BNPL providers may come in the partnerships forged with companies.



Tal Riesenfeld, the co-founder of BNPL provider Sunbit, says the company has reached more than 8,000 locations nationwide since it was founded in 2016, and is adding more than 400 businesses and tens of thousands of new customers per month.

"We have been seeing exponential demand for our buy now, pay later solutions—especially as more businesses are seeing the value in offering their customers a flexible payment option," Riesenfeld says.

Other financing plans exclude a large portion of customers because they don't qualify. At Alfa Dental Management, a dental group with eight locations across Florida, nearly 60% of patients were denied financing for procedures, according to the company.

After Alfa began offering a BNPL option through Sunbit, that trend reversed and eventually financing approvals reached 90%. Within four months, Alfa saw more than $1 million in new revenue from patients who otherwise would have gone without dental care, according to the company's CEO, Tom Tursonoff.

"Sunbit has filled a financing void that other financing options simply can't, and it has given our patients access to treatment that we didn't have before," he says.

Coachella Valley Optometry began offering BNPL options for its patients with Sunbit's platform this year. In less than three months, the company—with two locations in Southern California—increased sales by more than 66% and raised revenue by around $95,000.

"I only wish I found this tool sooner," says Athena Brasfield, an optometrist and owner of the practice.

Moving ahead, Sunbit's Riesenfeld expects to see continued expansion of BNPL platforms into businesses like auto service and repair, dental, optical and elective healthcare. //

NEVIN RAJ
Co-Founder & COO, Grata

Why ESG Is Here to Stay

“Search behavior under-scores the growing interest in ESG.

Over the past 15 years, interest in environmental, social and governance (ESG) factors has created a noteworthy investment opportunity for private equity firms. As Bain Capital noted in a recent report, “ESG isn’t just a nice thing to do. It is becoming a critical element in gaining market share, engaging employees and raising capital.”

However, the growing attention paid to ESG raises a question: How can you quantify the validity of this type of investment without the wealth of empirical evidence that PE firms typically have at their disposal?

ESG constitutes a set of criteria applied in investment decisions to analyze organizational operations in the context of social and environmental consciousness. These types of investments have become more prevalent as many PE firms attempt to connect to a new generation focused on ethical concerns.

Although there is still skepticism toward ESG, Grata believes that the trending data is worth noting. Economic stakeholders are displaying clear behavior that seems to legitimize an ESG strategy; for example, 79% of consumers polled in a 2020 Capgemini survey said they would change buying preferences based on sustainability.

Dealmakers appear to be taking note of this change in behavior, based on increases we’ve observed in the Grata platform across two metrics: search queries and questions directed toward the customer success team. Both of these data points indicate increased interest in ESG investments, despite the lack of empirical data. Most notably, inbound support requests to our team have substantially increased in the past year.

Ultimately, there will be skepticism around ESG until data emerges on the level of financial returns, but we see Grata users increasingly looking for opportunities in this arena. We believe that the increased traffic indicates a shift in interest toward investment opportunities that fit within the ESG framework.

Among the Grata search results for companies in this category is Hemitecture, which makes home insulation and “concrete” from hemp. This sustainable process absorbs carbon dioxide and offsets the company’s carbon footprint. In light of building material shortages, consumers are increasingly likely to target alternatives to traditional construction, which inevitably raise a number of ethical concerns.

Another example is Green Apple Cleaners, a company initially started because new parents didn’t want to use harmful chemicals when washing their children’s clothing. The company’s process of using liquid carbon dioxide rather than gas CO_2 offers a cleaner alternative. Parents in 2021 are more and more aware of the factors that affect their children’s health; therefore, it’s impossible not to see the value of a service that provides peace of mind to the consumer.

Grata believes that ESG investment opportunities will continue to grow beyond their niche beginnings and should be targeted as viable alternatives to traditional investment. The push by consumers to take a stronger stance on green products and processes indicates that there is built-in value in an ESG strategy already. And as more companies begin to shift their focus toward the core principles of ESG investments, so too will the M&A community. //

NEVIN RAJ is the chief operating officer and co-founder of Grata, a B2B search engine for discovering small to middle-market private companies. At Grata, Raj is responsible for leading operations of the business, from sales and marketing to customer success and data initiatives.

MEGG WITHINTON
Vice President, Enterprise Analytics

“Accelerated growth requires a renewed focus on talent strategy.

HR Priorities for the 2021 Economic Rebound

As we conclude 2021, it's becoming evident that concerns about a slow economic recovery related to the lingering effects of the COVID pandemic are not the reality SMBs are facing. In fact, many businesses are experiencing growth at a rate that in "normal" times would be challenging, but today's social and business environment carries additional challenges.

One key aspect of our strategy at Insperity is to stay very closely connected to our clients. Understanding their HR-related needs, priorities, and challenges helps us align our solutions and services to meet the current and emerging needs of our clients. In a survey of Insperity clients in April 2021 (footnote), 81% of respondents indicated their performance this year is expected to outpace that of 2020, with 31% expecting the year-over-year improvement to be significant. Slightly more than half (53%) expect to increase staffing levels this year and slightly more than a third (35%) expect to increase compensation. This is consistent with the signals we're seeing in the broader economy—the strong growth, the rising number of open positions, and the tough competition for talent.

To understand client perspectives in more detail, we conduct in-depth executive discussions with several hundred clients every year. Recently, many of these conversations have been focused on the current environment of fast-paced growth and what it requires of their organizations. What we've learned is that accelerated growth, although welcome, is requiring a renewed focus on talent strategy. This is consistent with our April survey, which showed the top HR priorities for our SMB clients are building and maintaining a strong culture, recruiting and retaining talent, and promoting employee wellness and well-being.

The focus on these intangible, employee-centric factors (compared to more structural aspects such as managing benefits costs) is a signal that SMBs understand the importance of a clearly defined talent strategy to support growth and fuel a high-performance organization. Our fast-growing clients describe an environment in which recruiting has become increasingly challenging, with significant competition for high-potential candidates. SMBs are racing to add large numbers of employees rapidly, but barely have time to onboard new hires before they're on to the next wave of candidates. If they are growing through mergers and acquisitions, they must integrate multiple workforces at a rapid pace, making it challenging to dedicate sufficient time and resources to ensure employees feel informed, valued and engaged through these accelerated transitions.

As SMBs continue to experience a strong rebound from the challenges of 2020, it is crucial for growing organizations to invest time and resources to develop and retain a robust workforce. Many organizations are rapidly expanding their teams, making clearly communicated onboarding practices and resource support more important than ever—particularly for organizations operating in a hybrid or virtual mode. With a strong employee-centric focus and a commitment to communication and culture, SMBs can establish the successful framework required to compete for and acquire the high-performing teams needed to support long-term performance and growth.

MEGG WITHINTON oversees a team at Insperity that ensures company leaders have the necessary market, customer and analytical insights to inform sound decisions and strategy.

The survey was conducted by Insperity in April 2021. It focused on key priorities, performance assessments, organizational priorities and HR concerns. Out of a total of 8,371 surveys, 487 were completed, which is a response rate of approximately 6%. This national survey has a statistical confidence level of 95% and a 4.3% margin of error. Responses represent small and midsize companies.

THE FUTURE OF WORK FOR **FINANCIAL PLANNING & ANALYSIS**

In a Q&A with Managing Partner Jon Essig, he discusses how to better streamline back-office, data and analytics functions to launch financial firms further along the path of digital transformation.

Q Jon, you and your firm focus on optimizing back-office finance functions including analytics, planning and consolidations. Often, in addition to ongoing business process optimization, you are consulted immediately prior to an acquisition to create processes and systems that will allow the company to scale. What has the last year taught us about financial analytics and reporting? And how has that changed finance?

For finance teams, specifically, it taught us that there needs to be a unified way of getting your data in one place to help drive decisions when timing is everything.

So, having that strong digital foundation enabled best of breed organizations to better respond to changes. If you didn't have this foundation, then that delayed decision making, made it hard to flex to new requirements and business models.

Businesses are realizing that to be agile, you need stability. Last year really forced companies to look hard and long at how far along they were on the digital transformation journey. One key question to help you assess your readiness is: are your repetitive back-office functions well defined, automated, with the proper reporting, controls and insights to improve the business? These back-office functions include: order to cash, procure to pay, accounting, reconciliations, financial reporting, operational reporting and even financial planning.

Q I want to dig into the concept of digital transformation through the lens of finance, because this is an industry that has talked about things like automation and better processes for decades. Why is digital transformation so important to finance now?

Finance obviously knows the tremendous potential for data but struggle with turning that data into actionable insights quickly enough to make a difference. That's because finance is taking in reams of information all the time. Using legacy approaches and tools means you're trying to find a needle in a haystack. To dynamically steer a company, a CFO needs real-time information so they can make decisions on the fly. They need technology that is flexible and business owned. And they need well-defined processes and KPIs to help produce automated insights.

But how can they do that if, say, they're waiting three days for highly paid analysts to compile the information? That time is the difference between projected shortfall and an actual shortfall.

Q What's the biggest barrier for moving into this future for finance? How do you recommend mitigating this barrier?

Not having the right foundation to power your enterprise data and analytics strategy is probably the biggest barrier. Many organizations still need to take care of the basics. But the expectation from typical CFO is now so much more.

Legacy, inflexible technology acts as an impediment and focusing your team's effort on maintaining this technology is a waste of talent.

We see an increased demand from finance for standard business content, easily extendible through the cloud. And thankfully our firm and others have stepped up to this demand to create better business content and roadmaps for companies. We help CFOs and back-office finance to focus on being an "internal consultant" driving business value. They can either automate or leave back-office functions to companies who can scale and automate these processes for you.

In our follow up article to be published this winter, we are excited to share some of the ways we are helping organizations, with our first spotlight on HR analytics and planning for mid-market to large enterprise value companies.

We make portfolio health care spending easier to navigate

Strategy is key in private equity and your portfolio's health care benefit spending. Let UnitedHealthcare's dedicated private equity benefits team show you how to lower your portfolio's health care costs—and free up more money for investment and growth.

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Learn more

To find out more about our dedicated private equity team, visit **uhc.com/pestrategy**

[1] As of Q1 2021.

United Healthcare

Features

NEW OPPORTUNITIES AND CHALLENGES THROUGH THE PANDEMIC AND BEYOND

Photo by Matthew Gilson

> **Whether it's a challenging situation or opportunity for growth, they've seen how we operate and know we'll be there to work hand-in-hand with them.**
>
> **Betsy Booth**
> Director, Twin Brook Capital Partners

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THE GREAT COMPRESSION

Biden's tax proposal, COVID-19 and an abundance of dry power push deal volume to record levels

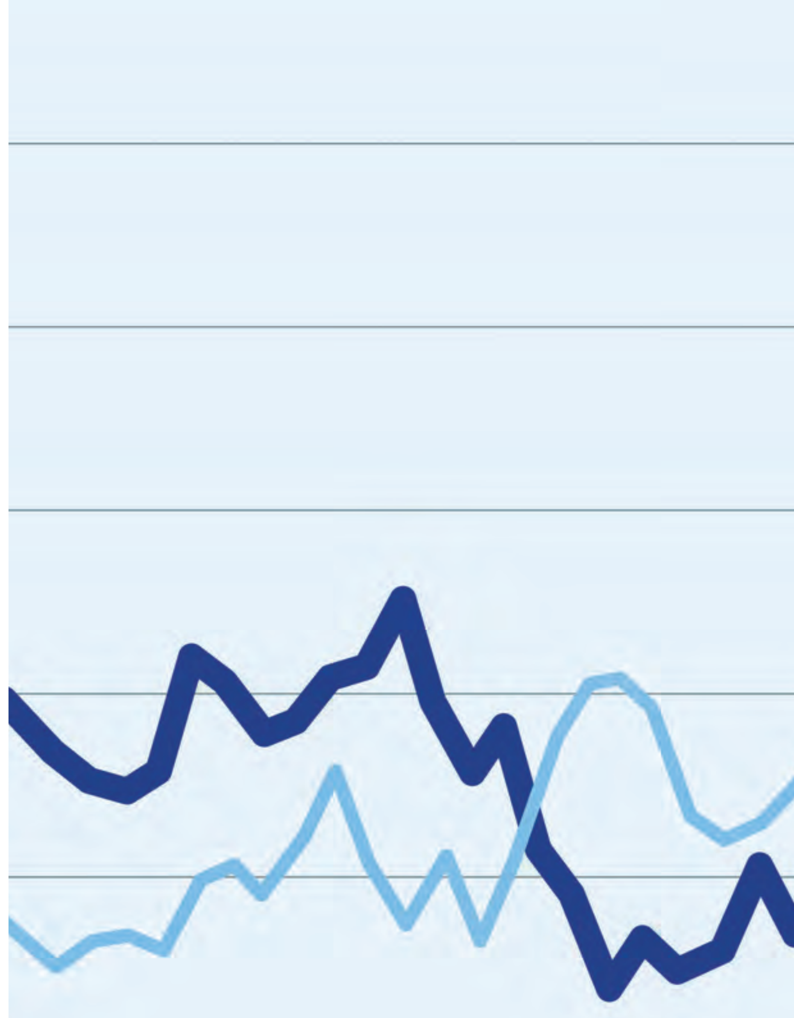
WRITTEN BY CARL WINFIELD
ILLUSTRATED BY JOHN TOMAC

Nearly two years into the COVID-19 pandemic, private equity is, once again, in Congress' crosshairs. A plan to change capital gains tax has become less controversial in Washington, making it almost unavoidable, and placing mid-market firms and service providers in the position of having to race to ensure that deals get done before any legislation is enacted.

"Everyone is at capacity," Winston & Strawn's Co-Chair of Private Equity Eva Davis says. "Among my group in Los Angeles, and across the firm, we're seeing more deals than ever on a per-attorney basis. Both volume and valuations are higher than ever."

The convergence of pent-up demand due to COVID, combined with the growing availability of vaccines and excess capital in the market has led to frenetic activity, Davis says. Now, with capital gains on the plate, the number of deals has increased dramatically.

"We are seeing three years' worth of deals coming to market this year: all of the deals that would



have come to market last year but didn't due to performance issues or market conditions; the deals that would normally be coming to market this year; and deals that might not have come to market until 2022, but have been accelerated due to concerns about higher capital gains taxes," says Five Points Capital's Director of Business Development Brent Kulman. "All of that is happening in a time of strong investor demand and continued low interest rates. It's a very attractive time to be a seller."

"Currently it's still a seller's market," Davis says. "They can get favorable terms now but, at some point—possibly between September and December—that's going to shift to the buyer," she adds. Sellers need to get deals closed as soon as possible in order to maximize the chance that their sales proceeds will be earned under a lower capital gains regime."

HISTORY REPEATED

President Joe Biden, in April, released the American Families Plan, which includes roughly $1.8 trillion in investments and tax credits designed to provide childcare, education and direct financial support to more than 120 million households over the course of the next decade. The initiative, if passed by Congress, also seeks to eliminate the provision that has allowed capital gains to be taxed at rates lower than regular income.

The White House has decried the "unfair" nature of the current tax regime and seeks to raise the capital gains tax rate to 39.6% from 20%. The carried interest "loophole," has also been targeted as a tool plutocrats use to enrich themselves at the public's expense.

Biden's proposal is the latest in a decades-long political struggle between Republicans and Democrats that has seen virtually no movement one way or the other.

"The carry issue came up about 13 to 14 years ago," says Alan Levine, Co-Chair of Morrison Cohen's Executive Compensation & Employee Benefits Department. "We've seen a couple of administrations and Congresses at this point, but nothing except for the Trump administration extending the holding period for carried interest."

Levine notes that the Tax Cuts and Jobs Act of 2017, failed to make any substantive change to the issue.

"Because the private equity holding period is typically longer than three years, I don't think that had a significant impact on solving what Congress had, at the time, perceived to be an issue," he adds.

Today, however, there aren't many who think Congress will restrict itself to legislating around the margins. In addition to President Biden's proposal, another introduced by Senators Ron Wyden and Sheldon Whitehouse—the Ending The Carried Interest Loophole Act—seeks to close the entire carried interest loophole, effectively making it impossible for private equity firms to defer tax payments.

"If there is an increase in capital gains, I don't think

> We are seeing three years' worth of deals coming to market this year ... All of that is happening in a time of strong investor demand and continued low interest rates. It's a very attractive time to be a seller.

Brent Kulman
Director of Business Development, Five Points Capital

there will be much of an impact to private equity," Levine says. If the carried interest loophole is eliminated, it "may morph the arrangements between the sponsors and their LPs in ways that change the structures, the form that carry takes and possibly the overall payments to private equity sponsors where investors get a significant return," Levine explains.

"The legislation may change the landscape, but I don't know if it significantly damages the industry, because private equity is an asset class that has strong business reasons for existing, including diversification of investment portfolios," Levine says. "A tax is important but it's not the sole defining feature."

UNPRECEDENTED DEAL FLOW

Defining feature or not, the market's response to the likelihood of a substantive tax change has pushed deal flow to unprecedented levels.

The pandemic's effect on commerce has also boosted activity to new heights. The "COVID bump," in which companies that provide services or make products that are specifically suited to life in lockdown, have come to market, adding to the volume of deals and challenging service providers.

"Deal flow peaked in June and July as those sellers are focused on getting their deals done before the end of the year, and deal flow is usually lower for August," Kulman says. "The bigger issue lies with all of the other parties involved in getting a deal closed. You need accountants to do Q of E (quality of earnings) work, law firms for documentation and advisors for a variety of other matters. We're seeing some clogging of the arteries with the service providers."

Law firm Paul Hastings, for example, is hiring "aggressively" at all levels, from partners to junior associates, according to Global Private Equity Chair Brian Richards. "People are selling whatever isn't nailed down; whatever has value that they think is mature enough," Richards says. "It's a great time to sell."

“

Sellers need to get deals closed as soon as possible in order to maximize the chance that their sales proceeds will be earned under a lower capital gains regime.

Eva Davis
Co-Chair of Private Equity, Winston & Strawn

STAYING THE COURSE

Lawyers and other service providers may be ramping up staff to deal with skyrocketing deal flow, but private equity firms are remaining steady in terms of adding staff.

Kulman says that his firm has added a few people over the last year and notes that, while the firm is fully staffed at the moment, it is looking to bring on additional resources in the next six months to expand the business development effort. Similarly, private investment firm VSS, having seen a 15% increase in the number of deals reviewed from 2019 to 2020—before the pandemic—has added a limited number of associates, according to Managing Partner Jeffrey Stevenson.

Some firms have maintained that low interest rates, coupled with an abundance of capital on the sidelines and a shift toward a remote economy, have created a situation where the increase in deal volume has been normalized to a degree.

“Before the pandemic, financial institutions had been expecting a market correction and investors were holding a lot of dry powder on the sidelines. Then, COVID hit and a number of opportunities emerged,” Randi Mason, the co-chair of Morrison Cohen’s corporate department, says. “First, there were companies that happened to be well positioned for the pandemic—offering virtual and remote products and services, such as Zoom and home fitness, personal health and PPE. Prior to COVID, there was a shift toward virtual and remote businesses anyway. These businesses were established and COVID only accelerated the shift that had already been happening. Investors have been rushing to take advantage of these opportunities.”

According to Mason, the availability of distressed assets owing to COVID has had an impact, too.

“At the same time, there were businesses, like retail and hospitality, which were hit hard and distressed investors rushed in,” she says. “It’s a perfect storm in which there is a lot of capital available, there is a positive market disruption and a distressed market happening at once.”

George Henry, managing director at private equity firm Lincolnshire Management, says that the number of deals his firm looks at has increased by 160% between 2018 and 2020, and limited the time available to review more complex opportunities.

“We’ve remained disciplined and have even had to be ruthless in some ways,” Henry says. “We may have had to pass on deals where we ultimately know it is not a fit for us. In a less busy environment, we might take a little more time on those kinds of deals. Now, those are pushed to the side quickly.”

Mason says that people are taking advantage of the “COVID bump” among businesses that have performed well because of the pandemic.

“I think that some companies, investors and funds are now trying to sell before the effects of the COVID bump wane. The challenge for investors is trying to normalize and understand how much of a bubble the COVID bump really is,” Mason explains.

She adds that there are also investors who are trying to find assets that are not overvalued because of COVID. “There’s so much competition for well-positioned businesses. People are looking for that gem that’s attractive, but not overvalued. In addition, lately we’re also seeing more and more capital taking advantage of distressed opportunities. It is becoming more clear who has weathered the storm and who has not. Sponsors and strategics are trying to pick up the ‘carcasses left on the side of the road.’”

Kulman says that buyout activity is strong at Five Points Capital, which focuses on B2B services businesses, and that his firm has issued a record number of outstanding indication of interest letters. The pandemic has prompted a greater degree of activity across the board and a casual observer wouldn't need to look any further than Amazon or Netflix to understand that there are a great number of businesses that have benefited from COVID. For private equity, the issue is determining whether businesses that have thrived during the pandemic can remain viable in a less volatile environment.

WHAT COMES NEXT

Congress hasn't devoted much time to revising the present tax regime, focusing instead on issues such as infrastructure and the vaccine rollout while buyouts and exits continue to pile into the market. With a fair degree of political will now pushing for changes to capital gains and carried interest, the issue for many is not whether the changes will happen, but their extent.

"The consensus appears to be that the tax rates will change, but that Biden has proposed a 43% capital gains rate to begin a negotiation," Richards says. "I think he'll get something around 28%-31%. A meaningful portion of deal flow today is driven by people who want to close their transactions before rates change so they do not have to pay as much to the government when new rates go into effect, which we expect to be on, or shortly after, January 1."

At the same time, others, including Winston & Strawn's Davis, think that carried interest benefits will be completely eliminated, or changed to such a degree that fund managers may not be able to access them.

"The changes will come through; carried interest benefits will almost certainly be gone, or if not completely gone, the hold period to enjoy those benefits will be longer than three years," Davis says.

There are other service providers, such as Levine, who are positing that an increase in the capital gains rate will serve as a compromise in Congress to keep the carried interest tax treatment in place. However, investors are more circumspect.

"Taxes will be what they will be," Kulman says. "If I was going to bet, I'd say that there will be a tax increase on capital gains, but that it will be a more moderate increase than has been proposed. People will learn to live with it. It won't change what we do, which is to raise funds, and invest where we see opportunities to grow businesses and realize capital gains."

Kulman adds that changes in interest rates are ultimately more important than any change in capital gains.

"Interest rates will have a greater impact on valuations than capital gains rate increases. If capital gains were increased to the 35-40% levels we saw in the early 1970s it would be different, but I suspect we're not going to go through that."

> **It's a perfect storm in which there is a lot of capital available, there is a positive market disruption and a distressed market happening at once.**
>
> **Randi Mason**
> Co-Chair, Corporate Department, Morrison Cohen

Regardless of any changes that may be underway in Congress, it is unlikely that private equity's approach to dealmaking will shift dramatically, according to Jeff Magny, founder and managing partner at private equity firm Lincoln Road Global Management.

"Private equity firms will continue to do deals," he says. "We are going to control what we can control, focus on finding great businesses and generating strong returns for our investors." //

CARL WINFIELD is a New York-based writer covering finance and sustainability.

Big LITTLE DEALS

More GPs are exploring minority investing—but agreeing on terms is not easy, and founders have more options than ever before

WRITTEN BY BAILEY MCCANN

The new hot thing in private equity isn't a new type of company or an innovative technology—it's a shift in control. More sponsors are adding minority investments to their strategies as competition for deals continues to rise and founders exert more power in negotiations.

According to a recent *Mergermarket* survey, 98% of private equity respondents said that they had taken a non-controlling stake in a business. Of that group, 85% said that the level of minority transactions they were doing had remained consistent or increased over the past 12 to 24 months. In some cases, GPs are also opting to retain a minority investment upon exit of a company they already have in their portfolio.

These data track with what Nicolas Stone, managing director of Cyprium Investment Partners, is seeing in the market. Chicago-based Cyprium focuses specifically on minority investments. "We've seen a number of GPs extend their investment strategies to include minority investments as an alternative," he says. "I think some of it is a function of how much capital is in the market

“

All minority investments are not the same. For instance, sellers should not be confused that club deals are necessarily minority deals.

Paul Carbone
President and Managing Partner, Pritzker Private Capital

right now that needs to be put to work, and it can be a way for some sponsors to expand their funnel.”

David Magdol, President and CIO, Main Street Capital Corporation, agrees. He notes that not all of the activity is sponsor-driven; more founders are considering minority investments now before changes to the capital gains tax proposed by the Biden administration take effect. If passed, those tax increases could impact the economics of a minority investment if a founder stands to profit from the transaction.

“We’ve seen increases in M&A activity like this in the past,” says Magdol, whose firm focuses on the lower middle market and makes both control and non-control investments. “Business owners that have reinvested into the business time and again start looking at minority investments and other growth alternatives ahead of a tax change so that they can have a liquidity event now and benefit from the upside/growth in the business.”

With all this activity, it may be tempting to assume that this is the next phase in a maturing private equity market. Although that’s largely true, there are still some risks involved for both sponsors and founders.

ALWAYS READ THE FINE PRINT

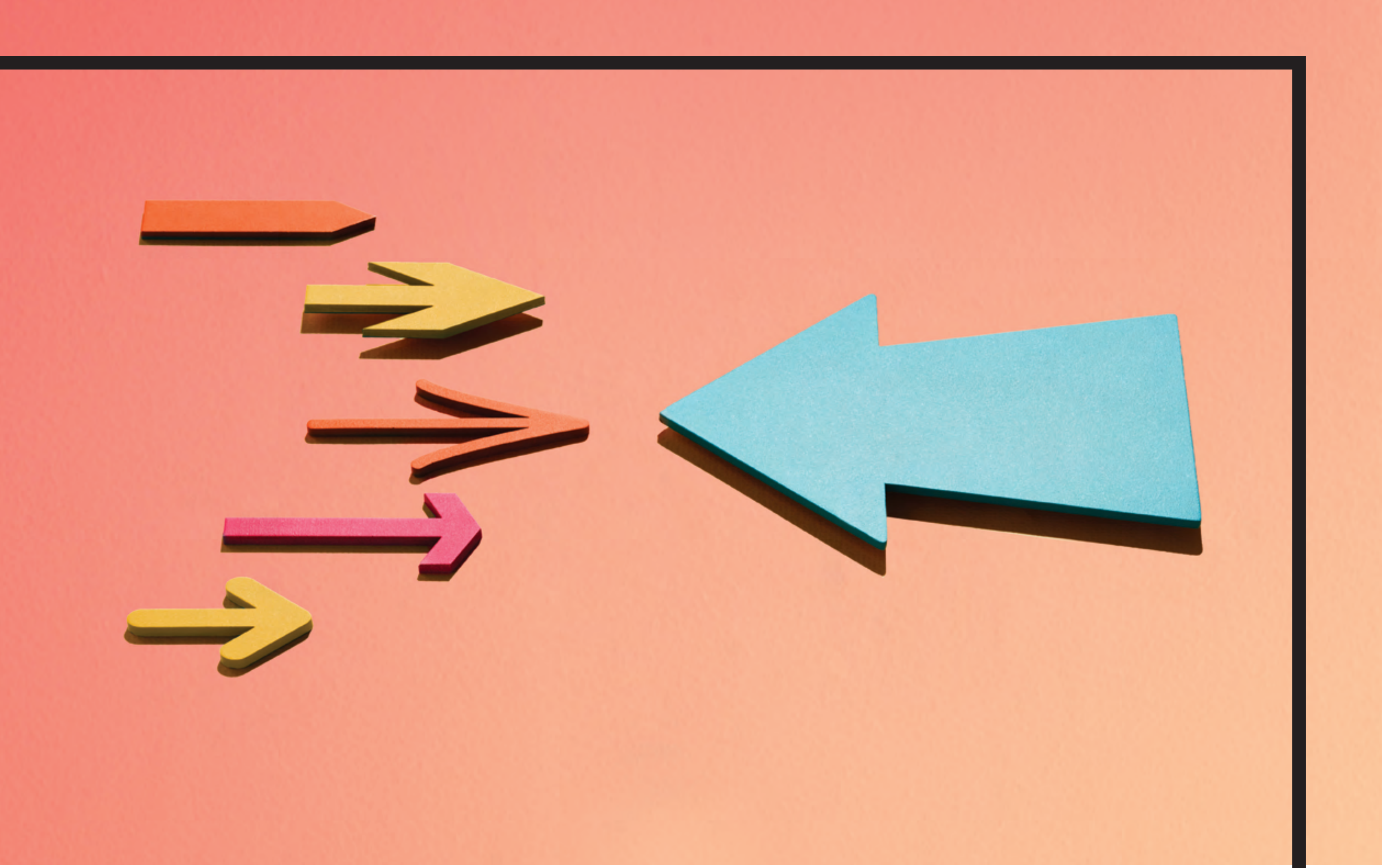
As middle-market firms already know, anytime new private equity sponsors show up to an established part of the market in an effort to extend their strategies, it can have a knock-on effect on deal flow and deal terms.

Cyprium’s Stone notes that many of the larger funds that have added minority investing to their menu of options often use the idea of a non-controlling stake to try and convince founders to sell outright or accept a control-in-effect deal—an arrangement that essentially gives a sponsor control by other means, like adding additional board seats, funding acquisitions through debt, or pushing to sell the company when the investment period ends. In some cases, the sponsor will decide to pass on the transaction at the last minute. Taken together, these moves can have a cumulative effect of making founders more skeptical of working with private equity overall—even firms that specialize in minority deals.

“The issue for a lot of these sponsors is that if you’re a control investor, it is going to be very difficult to relinquish that control,” Stone says. “So they include terms that give them control of the board even if they only have a 45% stake, or they have other terms that put the company on the path toward a sale according to their timeline—which may not be what a founder ultimately wants to do. In true minority investing, you’re not exerting that level of pressure. You’re working with the founder on growing their business, not setting it up to be sold.”

Paul Carbone, president and managing partner, Pritzker Private Capital, a family office that makes minority investments through its own investment vehicles, adds that sellers should also consider the rise of the so-called “club deal.”

“All minority investments are not the same. For instance, sellers should not be confused that club deals are necessarily minority deals,” he says. “If you have three firms each owning a ‘minority’ share but they share common approaches and goals, then you could have a club structure which collectively owns a majority of a business—and that’s ultimately a control



investment. Sellers need to be aware of how the economics break out, the interests and motivations of their partners, and what is actually being negotiated."

ALIGNING INTERESTS

On the surface, a minority investment may not seem as complex or all-encompassing as a buyout, but that doesn't necessarily make it easy. Depending on how a deal is structured, the ultimate endgame for a minority investment can be more open-ended than a control deal. That's a shift in perspective that may be difficult for GPs that are used to hard limits on holding periods and a finite set of exit strategies.

"Minority investors have a lot of options available to them in terms of what they want to do in a partnership," Magdol explains. "We have worked with companies in the past where we made an initial minority investment and over time became majority investors. If you are working closely with the management team of a company and you have become a partner to them, that relationship can evolve."

Family office investors like Pritzker Private Capital that are willing to take a minority position have a similar set of options for choosing to continue investing in a company if it makes sense. "Our investments aren't structured in the same way as a private equity firm," Carbone says. "We also have a different time horizon than traditional private equity," he adds. "We can afford to be patient and continue to work with businesses that we feel are on a strong growth path. Traditional private equity is bound by a shorter-term business model which often results in a very different approach and mindset and often requires a short-term exit in something like three to five years."

All the other factors that go into making any investment a success still apply with minority stakes. And in some cases, they have a greater impact. Since minority investors are going to be working closely with management on growing the company, personalities and motives must be aligned as well. Anthony Maniscalco, managing

> There is a lot of attention being focused on minority equity deals right now because of proposed federal tax changes and the economic recovery.
>
> **David Magdol**
> President and CIO, Main Street Capital Corporation

partner and head of Investcorp's Strategic Capital Group, says that these factors often make or break a deal.

"If we are looking at two deals that are very similar, chemistry can often be the deciding factor," he explains. "We also want to understand why someone is doing a deal. If you have a young founder that is wanting to take money off the table right now because of tax changes, for example, that could be a red flag for us. If it's an older founder wanting to do something like that, it could make more sense if they're nearer to retirement, for example."

AN INVESTOR'S MARKET

Even if the era of easy money and low capital gains tax were to end, it seems unlikely that minority investing will slow down.

The amount of capital that investors are putting into private equity has expanded the market significantly and for the long term. Plus, comments from LPs suggest that they are open to working with sponsors that focus on minority investments—provided the rates of return meet or beat expectations. From the LP side, working with a firm like Cyprium or others that focus on minority positions is just another type of private equity.

The sponsors doing these types of deals say they anticipate a bigger opportunity set over the long term. "There is a lot of attention being focused on minority equity deals right now because of proposed federal tax changes and the economic recovery, but those aren't the only factors business owners consider when they decide they want to explore an investment," Magdol says. "At the end of the day, the tax rules have a much lower impact on the ultimate value they can receive than if their company can grow faster with the right partner. That's really what they should look at when they decide to pursue a minority investment."

Cyprium's Stone adds that minority investing is primarily a type of growth capital and that minority investments can work with almost any type of company. Because it is so wide open, non-control investors don't often run into the barriers that control investors do when trying to identify targets.

"We're ultimately working with companies toward a specific objective," he says. "Maybe that's helping them with an acquisition, helping them reach a growth goal, whatever it is. And our goal is to help them complete the objective without having to sell the company or lose control."

Whether control funds keep minority stakes on the menu is an open question. Using a minority transaction as an enticement into a bigger deal or as a business development strategy is a tricky gambit for control funds, because it raises issues of transparency and trust. If a founder gets to the table with a sponsor only to discover that they are being pushed toward control-in-effect or a buyout, it can sour the relationship. This is especially true in a market where there is capital readily available for true minority transactions that don't include control-style terms.

But when it comes to investors that are genuinely working with founders to achieve their goals, the non-control approach will likely have staying power. "That's a scenario that founders appreciate and it's a tool that is available throughout the cycle," Stone says. "So from our perspective, we think this is a long-term investment strategy." //

BAILEY MCCANN is a business writer and author based in New York.

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▲ From left, Twin Brook's Pete Notter, Betsy Booth and Chris Martin

Photos by Matthew Gilson

The Value of an All-Weather Partner

Through challenging times and beyond, lenders with experience and a long-term view prove key

When the COVID-19 pandemic erupted in the U.S. in March 2020, private equity firms and their portfolio companies were forced to swiftly pivot their attention to making sure they were on solid ground to ride out a storm of indeterminable length. Some companies were better positioned than others for what transpired over the next 18-plus months, though their experiences and levels of success during this unprecedented time were largely dependent on what sector they operated in. For example, businesses tied to in-person events and restaurants faced more prolonged challenges, while companies focused on do-it-yourself home improvement products or essentials for remote work were generally quick to return to a focus on growth.

With businesses experiencing varying degrees of hardship and paces of recovery, lenders were tasked with figuring out the best way to support each of their borrowers and sponsor clients. Twin Brook Capital Partners, a direct lender focused on providing cash-flow based financing solutions for the middle market private equity community, leveraged its strong relationships, deep credit expertise and wealth of experience in the mid-market to help companies and their PE sponsors through the initial disruption and beyond. Twin Brook's strategy has proved to be an effective one, as demonstrated by the firm's ability to simultaneously maintain stability across its existing portfolio and continue supporting borrowers and private equity partners looking to execute on new opportunities.

Relationships & Experience Matter

At the core of the Chicago-based lender's strategy is a commitment to working with sponsor-backed companies in the lower middle market, which they define as businesses with between \$3 million and \$50 million of EBITDA, with an emphasis on those with \$25 million of EBITDA and below. "The operational expertise and capital support sponsors bring to bear is extremely valuable—and I think this was really highlighted in the early months of the pandemic—but our reasons for exclusively working with private equity-backed businesses go beyond that. We've built longstanding relationships with many sponsors, partnering with them across a variety of portfolio companies and transactions over the years. Those regular and repeated interactions allow us to establish open lines of communication, mutual trust and clarity in expectations when it comes to working together; whether it's a challenging situation or opportunity for growth, they've seen how we operate and know we'll be there to work hand-in-hand with them," says Betsy Booth, a director at Twin Brook.

Relationships are not the only thing that run deep at Twin Brook. Many members of the team have been focused on the lower middle market for decades, so the same can be said of their experience lending in the segment—both across industries and through cycles. Since inception in late 2014, the firm has closed more than 676 transactions with over 263 companies and 97 different sponsors. Reflective of the firm's generalist approach, these deals span a broad range of industries, including but not limited to aerospace and defense, business services, distribution, education, financial services, general industrial/manufacturing, healthcare, insurance, and software and tech-enabled services. "Our collective experience through past cycles has certainly informed Twin Brook's approach as a firm, which I think positioned us well for this most recent contraction and certainly guided how we reacted," says Chris Martin, a partner at Twin Brook. "For those businesses facing challenges, we were there early on, proactively working with their management teams and »

> Whether it's a challenging situation or opportunity for growth, they've seen how we operate and know we'll be there to work hand-in-hand with them.

Betsy Booth
Director, Twin Brook Capital Partners

sponsors to come up with solutions that provided them with the time and liquidity needed. For companies seeing opportunities for growth—even in the early months of the pandemic, when many lenders were still internally-focused—we were there to help them execute on them."

The Value of a Long-Term View

There are some sponsors that take a commoditized approach to selecting lenders, but there are others—particularly in the lower middle market and following the experiences of the last 18 months—that appreciate the value of deeper partnerships and a long-term view.

Bertram Capital—a private equity firm whose strategy for driving the growth and expansion of its portfolio companies is focused on reinvestment and technology enablement—is one of these sponsors. "We had a portfolio company that was challenged early by the shutdown of in-person locations at the height of the pandemic last year," said Tom Beerle, a partner at Bertram. "Despite uncertainty about how long those shutdowns and their impacts on the business's financial performance would last, Twin Brook was quick to jump into action, working with us to manage liquidity and providing the flexibility needed during that period." As lockdowns eased, the company's performance quickly bounced back.

"Our relationship with the Twin Brook team goes back many years, and they are the lead lender on a number of our current portfolio companies," continued Beerle. "We appreciate that they are always there and thinking about ways to support us, whether that entails proactively working through issues that may arise or helping us as we seek to execute on our value creation strategies for our portfolio companies. Because of our strong relationship, acting as a thoughtful and reliable partner, we frequently reach out proactively to Twin Brook for new opportunities in our pipeline."

While the cost of capital is of course a factor, Beerle notes that choosing a lender based on that alone is a

mistake. "The lowest cost lender has minimal overall impact on returns. It's much more important that we partner with someone who thinks long-term like we do, has the dry powder to scale and support add-on acquisitions, and can be creative in problem solving."

Jeffrey Goodrich, co-founder of High Road Capital Partners—a private equity firm focused on buying and building niche-leading companies in the lower mid-market—shares a similar perspective on lender selection and working with Twin Brook. "We had a company that was looking to do an add-on acquisition in the early days of the pandemic, which you may recall was a time when many lenders were skittish about deploying capital for new deals. Our portfolio company, General Tools & Instruments, wanted to buy Garden Weasel, a provider of specialized lawn and garden tools. Despite the significant level of disruption and uncertainty in the broader market at the time, we remained focused on the data and saw that the company was experiencing unprecedented and increasing customer demand for products, as people were spending on home projects, including gardens. Twin Brook understood why this acquisition was a good opportunity and the rationale behind it, and was there to provide the support we needed to close the deal in April 2020. We pride ourselves on being supportive of our portfolio companies—making sure they have the resources and tools they need to succeed—and we look for the same qualities in our financing partners, which is why we work with Twin Brook," said Goodrich.

High Road sold GTI Holding Company—the parent company of General Tools and Instruments—for $115 million in January 2021, after the company's revenue nearly doubled and EBITDA nearly tripled under High Road's ownership.

> **Our commitment to playing the long-game and our patient capital—which supports our ability to do that—will continue to be key differentiators.**
>
> **Pete Notter**
> Partner, Twin Brook Capital Partners

Looking Forward

Although the pandemic persists, there are already some takeaways that lenders and sponsors alike have alluded to. "I think one of the upsides of this past year and a half has been that we've seen growing recognition of the value of relationships and experience. Through this period, our strategy has remained unchanged, and I think our PE partners—many of whom are sophisticated investors that have similarly navigated multiple cycles—appreciate that consistency of approach and the level of reliability we bring to bear," says Pete Notter, a partner at Twin Brook. "In today's market and going forward, our commitment to playing the long-game and our patient capital—which supports our ability to do that—will continue to be key differentiators." //

CHOOSING AN INSURANCE BROKER OR CONSULTANT **FOR YOUR BUSINESS**

In the middle market, agents serve the client and the carrier best by superseding the broker and consultant models

Will Glass
Senior Vice President, McGriff

WHEN SELECTING AN insurance professional for your employee benefits, employers are often presented with the challenge of choosing a broker or a consultant? First and foremost, what is the difference? Currently, the differences are somewhat over generalized but come into play when examining the right choice for middle-market accounts (150-2,000 Employees).

Brokers are often considered more transactional, they are tasked with going to market with the clients' information, trying to match or better their program and finding a better "price point." Brokers are most commonly paid commissions by the carriers as a percentage of the overall premium.

Consultants, on the other hand, are utilized to do more of an analysis of the plans, claims and administration of the employee benefits package at the client level. They are also typically paid "fee for service" that is a la carte or in aggregate for a negotiated scope of services. We mentioned the middle-market size previously because the larger the group the more likely they are to need consultative services versus brokerage services.

Categorizing the level of service or the consultative approach based on size is a huge disservice to a largely underserved market. At McGriff we feel "agents" represent the client and the carrier thereby superseding a broker or a consultant. Agents must first serve the client and make sure that they broker the best possible long-term solution. In doing so, they need to be consultative in their approach with both the client and the carrier.

We are representing the interest of the client and securing long-term solutions with a particular carrier. By bringing this high-level approach (usually relegated to the employers with the largest employee base), we are creating unique cost-effective solutions for middle-market clients.

Compensation paid to the agents can be fee for service, commissions or a combination of both. Regardless, the key to a successful partnership is transparency around compensation and measurable performance guarantees. Do not get caught up in the name, focus on demanding this high-level approach *from your agent.* //


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The Wrap-up

A RECAP OF RECENT VIRTUAL AND LIVE ACG EVENTS

> **"If you're too small and are moved into a strategic player, you can get swallowed up and the strategic [acquirer] never gets the benefit of the acquisition.**
>
> **Michael Raymer**
> CEO, Pro-ficiency

ENVISIONING THE FUTURE OF HEALTHCARE

A recent ACG event explored new care models and M&A opportunities in pharma and life sciences

BY ANNEMARIE MANNION

Healthcare and investment industry leaders delved into emerging opportunities in pharma and life sciences during two recent virtual sessions held in partnership with the Association for Corporate Growth.

One session, "The Future of Healthcare: Technology Bolsters the Pharma Industry; Creates M&A Opportunities," was sponsored by CIL Management Consultants. The other, "The Next Generation of Virtual Care," was sponsored by United Healthcare. Answerthink provided support as the event's third sponsor.

Next Generation of Virtual Care

In the "Next Generation of Virtual Care" panel, Patrick Keran, vice president of product at United Health Group, credited the COVID-19 pandemic with bringing virtual healthcare and its benefits to the forefront.

"It's not a secret any longer," he

> “It’s not a secret any longer. With COVID and everything else that’s been going on, it has heightened awareness and use over the past year and a half.
>
> **Patrick Keran**
> Vice President, United Health Group

said. “With COVID and everything else that’s been going on, it has heightened awareness and use over the past year and a half.”

Use of telehealth increased 2,500% between 2019 and 2020, Keran noted.

“Basically, that means that a lot of people leveraged it and a lot of people enjoyed the experience,” he said.

Keran defined virtual healthcare as any kind of care that is provided in a virtual forum, including primary medical care, specialty care, behavioral or mental healthcare or therapies, such as physical therapy or speech therapy.

Keran outlined the company’s four-part transformative approach to providing virtual care, which he said is intended to drive simplicity, engagement, convenience, accessibility and affordability.

One area the company is focusing on is called Local Care, which enables a patient who has an established relationship with a primary doctor to see that doctor virtually or in person.

“We don’t want to break that relationship,” he said. “Rather, we want to enhance that relationship, and virtual care is a way to do that.”

He said 22 states have reimbursement policies that allow a physician to bill a virtual visit at the same rate as an in-person visit. In the other 28 states, physicians are reimbursed at about 15% less on average for a telehealth visit compared to an in-person visit.

Another area where the company offers virtual care is in urgent care. United Healthcare’s Virtual Urgent Care is geared to people who need to get to a doctor quickly, at off hours, or when they have a condition such as a rash or back pain. It also caters to those who don’t already have a primary care physician.

“It’s a low-cost solution for people who can’t get to their primary care doctors quickly when they need to,” said Keran, adding that his company currently works with three providers across the nation.

Another area of focus for United Healthcare is Virtual Primary Care, which enables members to access care virtually if they don’t currently have a primary care physician. It also can help them establish an ongoing relationship with a primary doctor.

The program, which is being piloted in 11 markets, provides both medical and behavioral care. The emphasis is on convenience and allows users to take advantage of many benefits, such as scheduling appointments in advance, receiving ongoing care for chronic conditions, and filling and refilling medications.

Keran estimated the cost would be 20% lower than in-person rates for reimbursement, and would allow for care in a wide range of areas, including wellness.

He expects the service to be available in all 50 states later this year.

Finally, the company is also developing a Virtual First program that would, as its name indicates, offer virtual care first for medical, wellness and behavioral health, and in-person care as needed.

The care would be provided by a yet-to-be-selected national provider that would assemble a multidisciplinary care team of providers, including a primary care physician, registered nurse, nutritionist, social worker, care manager, and health and wellness coach.

“Think of it as a high-touch, concierge, integrated system that our members can utilize to their advantage,” Keran said.

The Virtual First program would allow for individuals to be referred

> **The companies that get traction in the clinical trial space are companies that are delivering efficiency, taking cost out, and reducing cycle time. Those are the kinds of investments that should be focused on for any investor interested in this space.**
>
> **Michael Raymer**
> CEO, Pro-ficiency

to medical specialists when needed. The primary care physician would continue to consult with the specialist and follow up on a patient's care.

Keran concluded the session by saying he is interested in hearing from attendees and others about what they'd think of adopting the Virtual First program.

Future of Healthcare

In the "Future of Healthcare" panel, three investment professionals discussed the changing landscape of technology in life sciences and pharma, and how it is fostering M&A opportunities.

The panelists were Michael Raymer, CEO of Pro-ficiency, which provides clinical trial simulation-based training; Rick Riegel, CEO of Phlexglobal, a technology and services organization that addresses clinical and regulatory matters; and Rebecca Pigula, principal at CIL Management Consultants, which offers commercial due diligence and strategy advice for private equity firms, banks and other corporate clients.

The panelists agreed that the pharma and life sciences sectors have traditionally been slow to adopt new technologies.

"They tend to be laggards compared to more forward-looking industries," Riegel said. "They often will wait for technologies to be tried out in other industries and then adopt them. Then, there is a lot of fast following once a couple key industries do that."

Riegel said COVID-19 has prompted companies to be more open to adopting new technologies and ways of doing business, which he expects to continue in the post-pandemic era.

"COVID has been an accelerant to the industry overall," agreed Raymer who, along with Riegel and Pigula, said these spaces are ripe for investment.

"As everyone knows, there is an unprecedented amount of investment capital available in the market now, globally," Riegel said. "The investors, whether they are venture capital or later stage private equity, are looking for the right harbors to put that money—the right investments."

While embracing novel solutions, Raymer cautioned against investing in a new technology in the clinical trial space and other areas merely for the sake of technology.

"For too long, we've chased technology for the sake of technology," he said. "The companies that get traction in the clinical trial space are companies that are delivering efficiency, taking cost out, and reducing cycle time. Those are the kinds of investments that should be focused on for any investor interested in this space."

Riegel noted that virtual or decentralized clinical trials are attracting a lot of interest, and companies in this area are experiencing unprecedented valuations.

The drive for a COVID-19 vaccine brought attention to the pharma and life sciences spaces, and Pigula said other forces also are creating interest in these arenas.

These forces include demand for new treatments for other diseases or health conditions besides COVID-19, companies that offer different payment models for healthcare, and technologies that drive efficiency in drug delivery.

"There are tremendous opportunities for businesses to help improve efficiency, improve adoption of drugs, and maximize revenue opportunities for pharma companies," Pigula said. "It really is a broad market with a huge range of opportunities for investors."

The players in this space include both private equity investors and strategic acquirers that are private equity-owned.

"There are a lot of smaller businesses doing smart and interesting things that are now being rolled up by PE-backed companies, acquired as platforms, or that are being rolled into the big players in the space," Pigula added. "The [contract research organizations] and others have been very acquisitive here."

Raymer noted that consolidation is an ongoing trend.

"We've seen consolidation on both the pharma and CRO sides, as scale matters in both instances," he said. "To be able to provide a portfolio of services as a CRO to a broad base of therapeutic ranges and types [is key], and having that scale is important to them."

Private equity plays an important role in taking companies to the next level, but timing is crucial.

"If you're too small and are moved into a strategic player, you can get swallowed up and the strategic [acquirer] never gets the benefit of the acquisition," he said.

Areas where the panelists see great potential for innovation are in big data, AI and in digital imaging.

"We're just beginning to tap that," Riegel said. "It's not related just to digital data, but to digital images and the power that imaging will play as we go forward, both as a bio marker and as evidence of disease."

Pigula recommends that companies and investors alike seek not just to solve a particular problem, but also to search for adjacent areas where they might bring a solution.

"It can be difficult for companies to find the next opportunity once they've driven adoption for one function," Pigula said. "Where do they go next? What's adjacent? Where else can they innovate or disrupt?"

Riegel said that investors that consider the broader picture of a particular investment and find ways to leverage the strengths of both the investing business and the one that is being acquired are better situated to find success.

"Companies get rewarded for making the types of acquisitions where they are adding [not just] capability but complementary clients bases that the two businesses can then cross-sell," he said. "They are rewarded over a company that just buys out a competitor and gets greater market share within the niche or vertical."

He added that successful PE firms do as much due diligence and up-front work as they can. Pigula agreed and said her company is asked frequently by clients to help them do their homework and take advantage of complementary opportunities that a particular investment may provide.

"We get asked a lot [by clients] who say, 'Can you educate us on how this market fits together?'" she said. "'What do these businesses actually do and what is the combination logic of putting these different businesses together? If we acquire this particular target, what are the different things we could bolt on to that and what are the values, whether revenue synergies or operational synergies, that it would provide?'"

While investing in the pharma and life sciences spaces comes with obstacles, the panelists agreed this arena also offers many opportunities.

Not even the industry's traditional cautious approach to adopting new technologies is necessarily an obstacle.

"Inertia can be a barrier, but it can be overcome and it has been overcome," Pigula said. **//**

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

ACG LOS ANGELES

ACG Los Angeles hosted a webinar examining how private equity investors and executives can access entertainment and media. The group discussed why the area is attractive to private equity, how media companies view PE investment, the role of authenticity and a loyal following, and more. Panelists included Steve Cousineau, Exploding Kittens; Lauren Goldberg, The Chernin Group; Paul Neinstein, Project X Entertainment; Mark Wan, Causeway Media Partners; and Andrew Apfelberg, Greenberg Glusker.

ACG DETROIT

Members of Detroit's M&A community gathered virtually to celebrate the winners of the 6th Annual M&A All Star Awards on June 15. Deal awards went to Alta Equipment Group and Peninsula Fund VI, while Dykema and Howard & Howard executives picked up advisor awards. Alex Conti of UHY Corporate Finance won the Investment Banker of the Year award, while the Rising Star prize went to Matthew Feldman of Cascade Partners. O2 Investment Partners snagged the All Star Dealmaker of the Year award. The Lifetime Achievement honor was given to Justin Klimko of Butzel Long.

2021 MID-SOUTH ACG CAPITAL CONNECTION

ACG Kentucky and ACG Tennessee hosted the 12th Annual ACG Mid-South Capital Connection virtually on June 17-18, bringing together private equity investors, mezzanine lenders, investment bankers, service providers and corporate executives from across the Mid-South region. This year's topics focused on industries driving growth in Louisville, including healthcare, manufacturing and—of course—bourbon. Pictured from left is President and CEO of the Louisville Healthcare CEO Council Tammy York-Day, and Neeli Bendapudi, president of the University of Louisville during an opening fireside chat with Mid-South ACG Capital Connection Chair Brad Smith.

2021 UPPER MIDWEST ACG CAPITAL CONNECTION

ACG Minnesota's Annual Upper Midwest ACG Capital Connection made a comeback this year, returning to offer in-person outdoor activities and networking to the region's M&A community. Attendees gathered at the Minneapolis Golf Club on June 14 for a round on the green, as well as lawn bowling. The event closed with a poolside reception in the evening for informal networking.

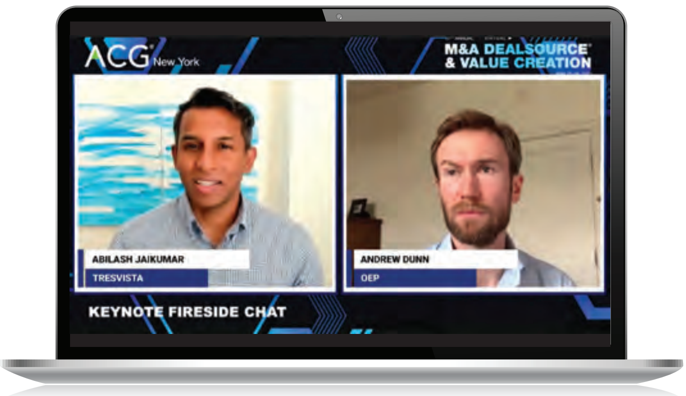
ACG TORONTO

ACG Toronto hosted its 3rd Annual DealSource North Conference, drawing private equity firms, investment banks and M&A advisors from across North America for Canada's largest program for middle-market dealmakers, which was held virtually on July 26-27. Topics discussed during the event included a return to dealmaking for Canadian private equity firms and investing in a tech-enabled economy. The event also featured virtual one-on-one meetings for capital providers and advisors.

> **[Entrepreneurs in the lower and middle market] are starting to shift to diversification and bringing on an investor... At the same time, you've got cheap debt available and you've got all this money in all these businesses, and that's going to drive activity over the next six to 12 months and high valuations as well.**
>
> **Shannon Martin**
> A principal at Fulcrum Capital Partners on the activity seen in North American M&A over the last year.

ACG NEW YORK

ACG New York once again held its annual summer networking event for middle-market dealmaking professionals at one of Long Island's premiere leisure destinations. Around 50 ACG members gathered in-person at Gurney's Star Island Resort & Marina in Montauk, New York, for intimate and unique meeting opportunities on July 28-29. Activities included a welcome reception with clambake, a private charter on the famous Catamaran Mon Tiki and an evening beach bonfire.



ACG NEW YORK

More than 300 M&A professionals gathered for ACG New York's 17th Annual M&A DealSource and Value Creation Summit, where discussions explored how digital transformation is driving value creation for portfolio companies and where the best opportunities are in today's market. The event, held May 25-26, included a keynote fireside chat with Andrew Dunn, managing director of One Equity Partners.

ACG LOS ANGELES AND ACG SILICON VALLEY

Two ACG chapters partnered to host a panel to discuss the implications of the race for space-based internet. On June 16, ACG Los Angeles and ACG Silicon Valley presented the panel "Space? The Next Internet," which brought together experts to examine how private companies are leading the development of low-Earth orbit. Panelists included Victor Caruso, Duff & Phelps; former Assistant U.S. Treasury Secretary Thomas Feddo, Capstone; Charles Miller, Lynk; Brian O'Toole at BlackSky; and Clinical Professor of Space Leadership, Policy and Business at Thunderbird School of Global Management at Arizona State University, Greg Autry.

Upcoming ACG Events

- **SEPT. 29-30** — ACG Maryland Deal Forum 2021 — ACG Maryland
- **OCT. 6-7** — Virginia Capital Conference 2021 — ACG Richmond
- **OCT. 14** — Northwest Middle Market Growth Conference 2021 — ACG Seattle
- **OCT. 19** — 12th Annual Healthcare Conference — ACG Chicago
- **OCT. 19-20** — 2021 Midwest Capital Connection — ACG Chicago
- **OCT. 25-27** — M&A East — ACG Philadelphia
- **NOV. 2-3** — ACG LA Business Conference 2021 — ACG Los Angeles
- **NOV. 3-4** — 8th Annual Deal Crawl Conference — ACG Charlotte

- **NOV. 9** — LP/GP & Family Office Summit 2021 — ACG New York
- **NOV. 16-17** — Capital Connection 2021 — ACG Toronto
- **NOV. 16-18** — 2021 Florida ACG Capital Connection
- **DEC. 16** — Annual Technology M&A Conference — ACG New York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Key
TAKEAWAYS

CATCH UP QUICK: From a data-driven case for in-person meetings, to an update on middle-market fundraising, here are a few of the highlights from this edition of *DealMaker*.

1 THE DEAL RUSH

The prospect of increased capital gains tax rates has accelerated M&A activity in 2021, and with high investor demand, it's been a seller's market. But industry-watchers predict that the balance could tip back toward buyers soon, increasing the pressure on sellers to close deals as soon as possible. ***"The Great Compression," p. 48.***

2 END OF THE ZOOM BOOM?

Although videoconferencing kept M&A alive during the lockdowns, data from Monomoy Capital Partners reveals the value of face-to-face interaction. The private equity firm's analysis found that a deal sourced during an in-office meeting on the road is nearly 5x more likely to result in a management presentation than a deal sourced over the phone or Zoom. ***"In-Person Is the Essential Currency of Business Development," p. 12.***

3 WINDY CITY WINDFALL

Private equity fundraising remains strong in the U.S., where 42 mid-market private equity funds were raised in 2021 through mid-July, according to Preqin. Of the largest middle-market funds raised, three are household names in Chicago—thought by many to be the heartland of middle-market investing. ***"Chicago's Middle-Market Veterans Haul in Billions in Banner Year for PE Fundraising," p. 20.***

4 PAY ON DELAY

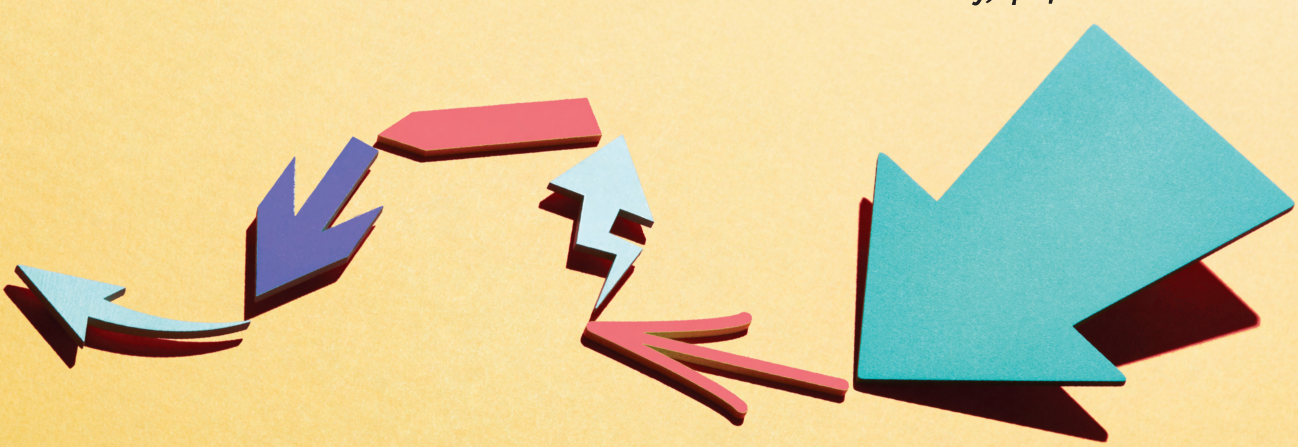
"Buy now, pay later" providers—whose services let shoppers pay for big-ticket items in interest-free installments—may not yet be primed for private equity investment, but they're proving their worth to businesses. A Florida-based dental group credits a buy now, pay later solution with more than $1 million in new revenue from patients who otherwise would not have been able to finance their care. ***"Payment Innovations Drive Investor Interest in Fintech," p. 36.***

5 LESS IS MORE

More sponsors are adding minority investments to their strategies as competition for deals continues to rise and founders exert more power in negotiations. Yet seasoned investors caution against using a minority position as a gateway to control and stress that aligning personalities and motives is as important as ever. ***"Big Little Deals," p. 54.***

6 NATURAL PROGRESSION

Grata, a B2B search engine for discovering small and midsize businesses, has noted a rise in search queries related to environmental, social and governance (ESG) factors. Meanwhile, inbound support requests to Grata have substantially increased in the past year, suggesting that investors are pursuing ESG-friendly targets, despite a lack of empirical evidence about these strategies. ***"Why ESG Is Here to Stay," p. 40.***



PENINSULA CAPITAL PARTNERS L.L.C.

STRATEGY OVERVIEW

PENINSULA CAPITAL PARTNERS IS A ONE-STOP PROVIDER OF JUNIOR CAPITAL WITH THE CAPABILITY, FLEXIBILITY AND COMPETENCE TO ADDRESS ANY TRANSACTIONAL FINANCING NEED VIA SUBORDINATED DEBT, PREFERRED EQUITY AND/OR COMMON EQUITY. WE SPECIALIZE IN NON-SPONSORED, CO-SPONSORED AND COMPANY-DIRECTED INVESTMENT SITUATIONS REQUIRING TAILORED JUNIOR CAPITAL SOLUTIONS, EITHER AS A NON-CONTROLLING OR CONTROLLING INVESTOR. WE SEEK TO CREATE A CUSTOMIZED AND UNIQUE CAPITAL SOLUTION FOR EACH COMPANY INTO WHICH WE INVEST IN ORDER TO MAXIMIZE THE OPPORTUNITY FOR SHARED SUCCESS.

INVESTMENT CRITERIA

INVESTMENT STATISTICS

- $3M+ EBITDA
- $6M+ Investment Size
- $10M+ Revenue

TRANSACTION TYPES

- Leveraged Buyouts
- Recapitalizations
- Management Buyouts
- Leveraged Dividends
- Strategic Acquisitions

CHARACTERISTICS

- Strong Management
- Sustainable Competitive Advantage
- Positive Earnings (3 Years)
- US or Canada – based HQ

SECTORS

PREFERRED:

- Manufacturing
- Industrial Services
- Distribution
- Business Services

AVOIDED:

- Real Estate and New Construction
- Natural Resources
- Lending/Finance

PENINSULA CAPITAL BY THE NUMBERS

25	7	1.9	135+	70+
YEARS IN BUSINESS	INVESTMENT FUNDS RAISED	BILLION OF COMMITTED CAPITAL	PLATFORM INVESTMENTS	INDEPENDENT SPONSOR PLATFORMS

Visit our website at **www.peninsulafunds.com** for additional information on our investment approach, our team and our current and prior portfolio investments. New investment opportunities can be submitted to **marketing@peninsulafunds.com**.

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PENINSULA CAPITAL PARTNERS L.L.C.

REPRESENTATIVE TRANSACTIONS

ArcLight Dynamics

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INDEPENDENT SPONSOR BUYOUT

Edge One

SUBORDINATED DEBT AND COMMON EQUITY
INDEPENDENT SPONSOR
MAJORITY RECAPITALIZATION

SEEKING ADD-ON ACQUISITIONS

Escapology – The live escape game

SUBORDINATED DEBT AND COMMON EQUITY
MAJORITY RECAPITALIZATION

SEEKING ADD-ON ACQUISITIONS

CIDS – Demolition, Roll-Offs, Environmental – Destruction with Care

SUBORDINATED DEBT AND COMMON EQUITY
INDEPENDENT SPONSOR
MAJORITY RECAPITALIZATION

Helix Diagnostics

SUBORDINATED DEBT
RECAPITALIZATION

MMGY Global

SUBORDINATED DEBT, PREFERRED
AND COMMON EQUITY
INDEPENDENT SPONSOR BUYOUT

SEEKING ADD-ON ACQUISITIONS

PowerVac – Comprehensive Jet-Vac Cleaning Services

SUBORDINATED DEBT AND COMMON EQUITY
INDEPENDENT SPONSOR RECAPITALIZATION

SEEKING ADD-ON ACQUISITIONS

Centaris

SUBORDINATED DEBT AND COMMON EQUITY
MAJORITY RECAPITALIZATION

Burlington Medical

SUBORDINATED DEBT
STRATEGIC ACQUISITION

Dart Casting – Aluminum Die Casting

SUBORDINATED DEBT AND COMMON EQUITY
INDEPENDENT SPONSOR BUYOUT

American Alloy

SUBORDINATED DEBT AND PREFERRED EQUITY
INDEPENDENT SPONSOR BUYOUT

SEEKING ADD-ON ACQUISITIONS

ESI – Elite Surface Infrastructure

SUBORDINATED DEBT AND COMMON EQUITY
INDEPENDENT SPONSOR BUYOUT

Visit our website at **www.peninsulafunds.com** for additional information on our investment approach, our team and our current and prior portfolio investments. New investment opportunities can be submitted to **marketing@peninsulafunds.com**.

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