SPRING 2022

MIDDLE MARKET DealMaker

DINNER & DRINKS

Opportunities in restaurants & distilleries

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

An Unplanned Consumer Bent

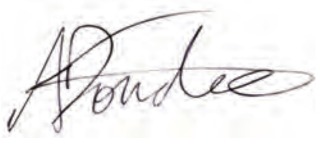
When we set out to split *Middle Market Growth* magazine into two editions—*DealMaker* and *Executive*—last year, we also did away with the schedule of sector-focused issues. But inevitably this magazine wound up having the feel of a consumer issue, with many of the articles featuring pockets of the sector.

Our cover story talks about a myriad of restaurant deals—and the high multiples some carried—which would seem surprising given the sector's challenges from the pandemic. But when you take a closer look, some investors tell a hopeful story about growth and success in take-out, delivery, ghost kitchens, technology upgrades and outdoor dining. A companion to the cover story also features emerging opportunities in breweries and distilleries. While many are small, family-owned businesses that take time to get up and running, and carry a host of regulatory challenges, the companies can be a good niche strategy for patient investors.

Our Next Target column, in partnership with company intelligence engine Grata, talks about increasing interest in the "health and wellness" category, which encompasses fitness apps, "better-for-you" food, outdoor activities, vitamins, supplements and other areas. Sector advisors see the interest as an ongoing trend, on the part of the modern consumer, who's more conscientious. Some of the pockets of the sector are also a way for strategic investors with struggling legacy brands to tap into newer, more hip labels.

Yet investing in the consumer sector comes with some challenges. The space is often seen as cyclical in nature. That sentiment can be even more pronounced during and after the pandemic—as some products fall in and out of favor among consumers. The starkest recent example is Peloton, which replaced its CEO, laid off thousands of workers, posted losses and continues to see declines in its stock price. Consumers might have flocked to in-home fitness equipment during COVID-related lockdowns but it's now questionable whether this product or others like it have staying power.

For those of you investing in or thinking about consumer, there is a lot of in-depth content to nibble on in this issue. And if that's not your cup of tea, there is still plenty of other ground to peruse on digital transformation, technology and services, novel approaches to M&A research and a variety of other topics. We hope you find the themes in this issue helpful to your day-to-day work. And we look forward to greeting you again in our upcoming special report on business development that will feature a list of "Business Development Professionals to Watch." //



DAVID GERSHMAN
Chairman, ACG Board of Directors, and Partner and General Counsel, Trivest Partners

A Spring Renewal

Full of hope as we enter this spring season, I am enthusiastic and optimistic as we live and work within our new normal. People are coming back to their offices, networking events are filling people's calendars and LPs are gearing up for annual GP meeting season—all in person!

While peaks and troughs in COVID cases had previously led to increased uncertainty, the latest wave—although significant—didn't derail dealmaking or cause widespread lockdowns like others had in the past. As the virus becomes endemic, most investors and mid-market executives have continued working.

The resiliency of the middle market as the growth engine of the North American economy continues to impress. Deal activity has not subsided in the first quarter of 2022. Rather, active corporate and financial buyers are finding creative ways to get it done in a seller's market. To keep up with opportunities, many mid-market private equity firms are out raising capital for new funds. Institutional limited partners are, for the most part, supportive of these efforts when it comes to high-quality mid-market firms.

Competition for resources among mid-market businesses continues to be robust, with demand outpacing supply. Innovative solutions to many current challenges, including raw materials, capacity on cargo ships and human capital, have resulted in growth despite all odds. This ability to pivot bodes well for continued growth for the rest of 2022.

With a multitude of factors competing for our attention, it is important for each of us to set some goals. We should all plant seeds as spring begins that will lead to a bountiful harvest by the end of the year. New opportunities abound and the team of professionals at the Association for Corporate Growth is busy creating many events across the country for networking and finding your next great deal.

The middle market's version of the Super Bowl is InterGrowth. I hope you will join us at the Aria in Las Vegas on April 25-27. We have already set attendance records and the event will surely sell out given pent-up demand for in-person industry get-togethers. I encourage you to get in the game! //

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MIDDLE MARKET Growth

PRESIDENT AND CEO
Thomas Bohn, CAE, MBA
tbohn@acg.org

CHIEF OPERATING OFFICER
Matthew Hickman, MBA
mhickman@acg.org

VICE PRESIDENT, ACG MEDIA
Jackie D'Antonio
jdantonio@acg.org

CONTENT DIRECTOR
Kathryn Mulligan
kmulligan@acg.org

SENIOR EDITOR
Anastasia Donde
adonde@acg.org

ART DIRECTOR, ACG MEDIA
Michelle McAvoy
mmcavoy@acg.org

SENIOR VICE PRESIDENT, SALES
Harry Nikpour
hnikpour@acg.org

SENIOR DIRECTOR, STRATEGIC DEVELOPMENT
Kaitlyn Gregorio
kgregorio@acg.org

ACG®

Association for Corporate Growth
membership@acg.org
www.acg.org

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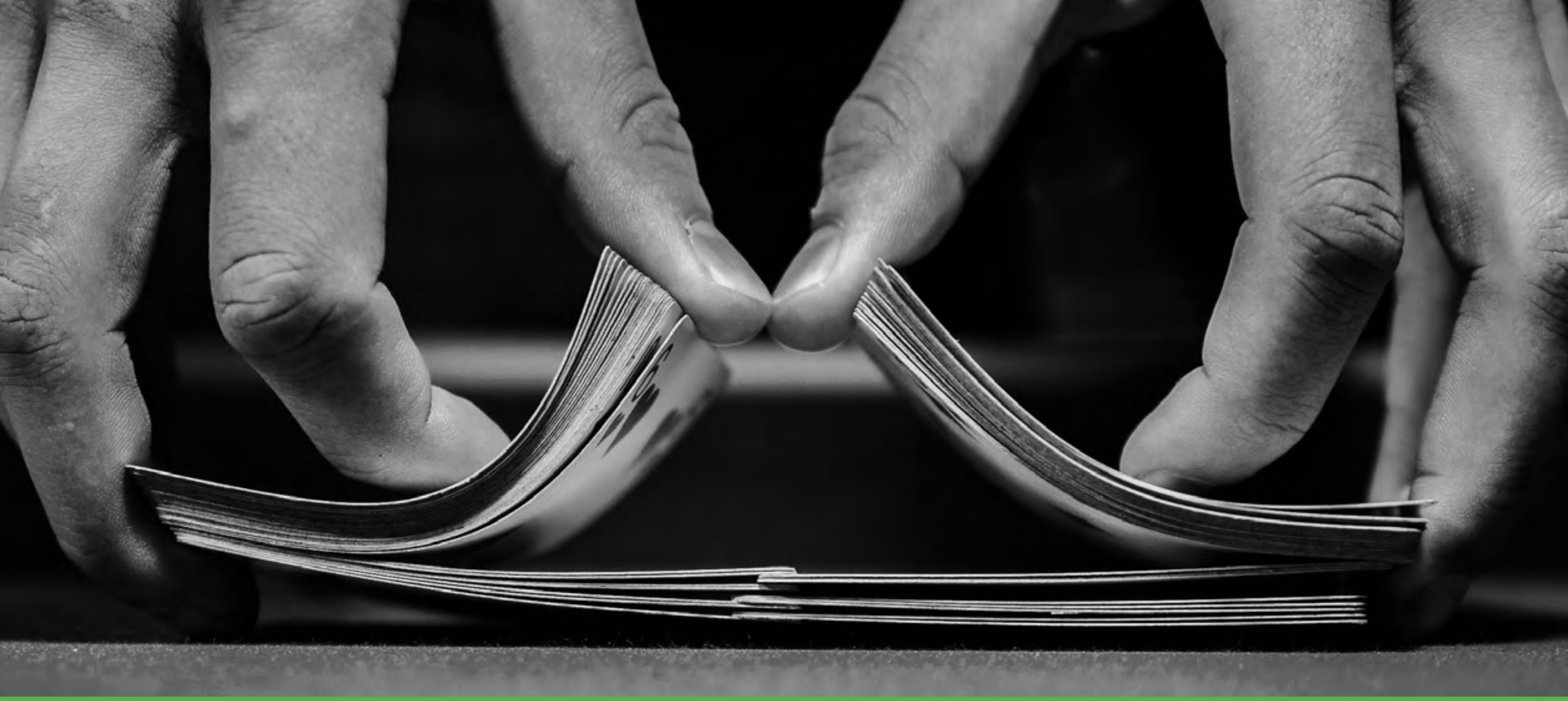

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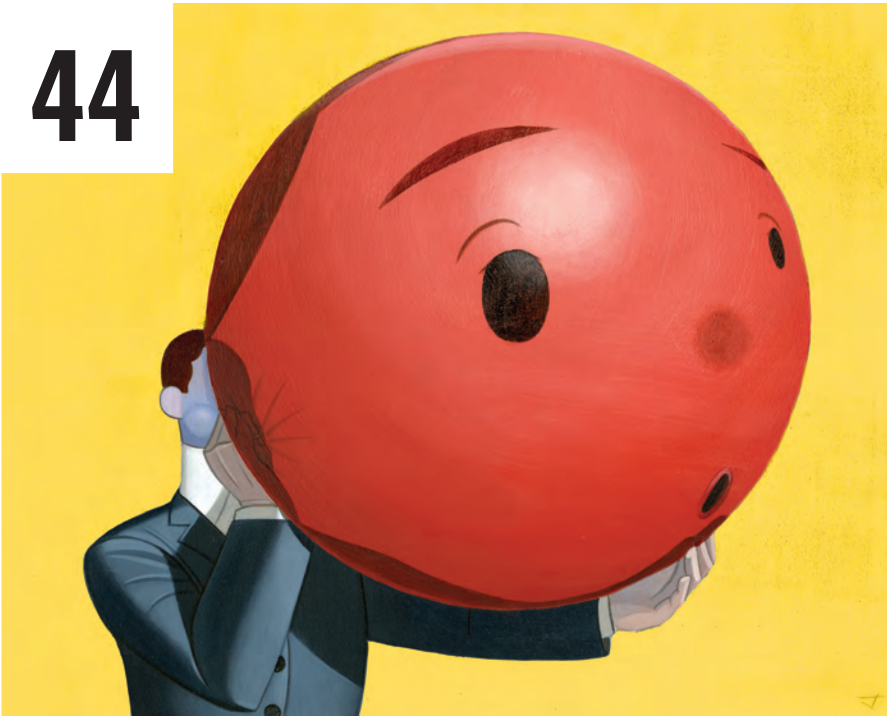

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THE WRAP-UP

Photo for In Focus by Adam Lerner

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ACG Members represent the most active and engaged professionals within the middle market.

They embody ACG's mission of driving middle-market growth by carrying out their own missions: to source and close deals, to grow their own organizations, to win business, and to continue developing their own careers.

And we help make it happen. When you join ACG as a member, you gain access to the exclusive network and benefit from the connections that ACG actively facilitates.

Does this sound like you? Are you among the middle-market's foremost, deal-making, business-growing, investment-finding, ladder-climbing, acquisition-targeting, talent-sourcing, hand-shaking (metaphorically speaking), professionals? Do you aspire to be?

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- **Invitations to Member-Only Events -** Collaborate with other ACG members and benefit from expert panels and industry insights. (Some events are just for fun.)
- **Member-Only Discounts** for just about all ACG-hosted events, including InterGrowth: the premier dealmaking conference in the middle market.
- **Access to – and a presence – within the ACG Member Directory:** Search for and connect with fellow ACG members with our exclusive directory of middle-market professionals.
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Trend Watch

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

Investment Bankers Tackle the Intersection of Technology and Services

Tech-enabled services yield heaps of new deals and opportunities in remote learning, legal e-discovery offerings, data, analytics and other areas.

BY ANASTASIA DONDE

During ACG's year-end surveys and the "2022 Guide to Dealmaking" published in January, sources and members predicted that technology and business services would continue to be attractive areas for investment this year. For some investors, the intersection of these two areas has led to a flood of activity, and experts in the field say the space is poised for continued growth.

When covering these areas, investment banks have to get creative about how they approach the sector (or sectors), considering the specialty usually encompasses several industry verticals.

At William Blair, the group that covers the space is called Tech-Enabled Services. It was renamed from Business Services at the end of 2020. The group follows human capital management, legal technology, education and training, insurance technology and business process outsourcing (BPO) companies. The TES group is primarily focused on services businesses that use technology as a competitive differentiator, according to Britt Trukenbrod, a managing director and the head of TES.

"Our pipeline is incredibly strong with private equity firms looking to deploy capital aggressively," says Trukenbrod, adding that in many cases hold times for these businesses are getting shorter and sale processes are moving along quicker than usual.

Remote Higher Education

In the education and training area, William Blair has overseen multiple deals in the workforce development and professional upscaling arena. "COVID and work-from-home culture led to an evolution in how content is delivered and consumed," Trukenbrod says. "COVID greatly accelerated digitization trends in the market," he adds. Many people are pursuing higher-education degrees from home, studying online to pursue a new career track, or beefing up their skills and certifications to advance within their current field. William Blair's work in upskilling included advising Carrus on its combination with Penn Foster under sponsor Revelstoke Capital Partners. Carrus delivers continuing education and certification services to the healthcare industry.

William Blair also advised Osmosis.org in its acquisition by Elsevier, and StraighterLine in its buyout by BV Investment Partners. Osmosis offers easy-to-use learning modules to clinicians and caregivers in the healthcare space. StaighterLine offers online courses that can be used toward credits and college degrees at specific universities.

Most of these programs are geared toward working adults who often have families, making it impractical for them to move in order to attend a traditional in-person college or university, Trukenbrod explains.

Legal Services

In the legal sector, the industry is becoming more professionalized as complexity is increasing, according to Trukenbrod. Companies and law firms are increasingly using outsourced legal services and technologies as a core part of their strategies. "It helps attorneys manage the mountains of documents that have resulted from our highly digital work environment," Trukenbrod says. As regulation, legislation and competition increase, it presents significant opportunities in the legal subsector, he adds.

William Blair's engagements in this space include Noble Law's sale to Alpine, Eagle Tree Capital's acquisition of Integreon, and Xact Data Discovery's sale to Acquiline Capital Partners.

Valuation multiples for many of the transactions in tech-enabled services are in the mid- to high teens range, according to industry publications. "In 2021, we saw many tech-enabled services businesses trade at record multiples," Trukenbrod says.

Data and Analytics

At Raymond James, the focus of the Technology & Services Group includes financial technology, data and information services, marketing services and software applications, among other areas. "The data and information services sector has been one of the most active areas across our technology coverage universe," says Ian O'Neal, a managing director who focuses on the specialty within the Tech & Services team at Raymond James.

"The proliferation and availability of data across all domains and verticals has been incredible," O'Neal says. Moreover, companies are finding unique and sophisticated ways of harnessing data and information (e.g., through artificial intelligence or machine learning) to capture insights and intelligence, drive mission-critical function, and streamline daily workflows.

While many companies have become effective at capturing their own first-party data, the most interesting information services providers add intelligence and provide tools that integrate this intelligence into daily operations. "You need a provider who can capture data from disparate sources, harness and unlock intelligence, and provide context that drives decisions," O'Neal explains. "Data is great, but without intelligence or tools to put that data to work, it doesn't create much value."

Raymond James' work in data and analytics included the sale of Discovery Data to Institutional Shareholder Services, Francisco Partners' investment in SourceScrub, and Moody's acquisition of Cortera. Discovery Data offers data and analytics to registered investment advisors and broker dealers, while SourceScrub offers intelligence on private companies. Cortera offers credit data and analysis on more than 36 million companies.

It is not uncommon for businesses in the space to trade for double-digit revenue multiples and greater than 30x EBITDA, O'Neal says. Leaders in the sector often have high gross margins and can scale quickly.

For private equity firms, part of the draw is the ability to create platforms that generate stable, predictable cash flows and pursue add-on acquisitions. "A platform can acquire a 'tuck-in' acquisition that may be only a few million of revenue, but nearly all of that can drop to the bottom line given the operating leverage exhibited by strong data and information platforms," O'Neal says. In addition, financial buyers can afford to pay more for platform acquisitions, knowing that largemarket leaders are highly coveted and trade for high multiples in exits.

Part of the challenge when doing diligence on these businesses is explaining the depth of the competitive moats to investors. "It's not just accessing the data—which can often be publicly available—it's extracting intelligence and developing the tools and insights derived from these sources that industries rely on to function," O'Neal says.

"We'll continue to see robust activity in the space. There has been an explosion in the quantity of data available, and initiatives around artificial intelligence, machine learning and other transformative technologies that are rapidly impacting society are all underpinned by high-quality data and information," O'Neal says. "It all starts with raw data or a source of truth—that's what makes the future of this industry so exciting." //

Four Steps to Building a Better Board at Growing Lower Middle-Market Companies

The board of directors at lower middle-market businesses has the power to play a crucial role in driving a company's growth.

BY LEE GARBER, PARTNER, NEWSPRING HOLDINGS

Forming a board of directors can serve as a key differentiator that complements and elevates the leadership team's ability to operate and grow the business with a variety of perspectives that can include emerging market trends and customer insights. Board members are best leveraged for their market insights, vision, advice, leadership perspectives and industry connections. The right individuals can open doors, provide guidance based on their own business experience, offer a unique view on the competitive landscape and provide a diverse perspective on growth opportunities.

To unlock this potential value, CEOs and founders of middle-market businesses should think about key personnel and business gaps, and fill their boards with individuals who can enhance those specific areas. Instead of emulating boards at Fortune 500 companies, CEOs are better served putting in the time and effort required to identify key characteristics and match those to individuals to meet the unique needs of their business. At NewSpring, we serve on countless boards at growing middle-market companies. We've spent the last 20 years helping to build boards that leverage the eminence of our board members and differentiate each of our businesses to fuel growth.

CEOs seeking to create boards that will move the needle for their business should consider the following four steps when making selections:

1 Define what expertise you need on your board of directors

The first step in successfully building a board of directors is to analyze the strengths and weaknesses of the company. This introspective look should be designed to identify gaps in resources, connections, expertise and perspectives. Some companies may have deep domain product expertise but lack marketing and sales prowess. Others may have a terrific product or service but face blind spots in terms of what direction to take the business next. Use this information to define the role of your ideal board member. Setting a loose description of the individual you're after can help narrow down your search and lead to a more efficient recruitment and selection process.

2 Seek diversity and experience beyond the domain of your business

Identifying board members with deep domain experience is a great place to start, but CEOs should strive to have a well-rounded, diverse group with varying perspectives. This includes individuals with excellent leadership experience and the ability to speak freely in ways that push the CEO to grow and consider new ideas. Supplementing a team of subject matter experts with individuals who have extensive entrepreneurial experience can also serve as a winning formula for growing middle-market businesses. Lastly, not only should diversity of skillset and background be considered; it's important for CEOs to be deliberate about gender, racial and cultural representation to create a more balanced board. The national public exchanges are all adopting diversity standards to improve the variety of perspectives and enrich conversations, leading to better decision making.

3 Find individuals willing to be visibly present and engaged

Beyond domain expertise, entrepreneurial experience and leadership ability, CEOs and founders of middle-market companies should seek board members with a desire to serve as a visible, enthusiastic and hands-on member of the team. CEOs and founders must look for individuals with a willingness to attend company events, mingle with employees and immerse themselves in the company's culture. Doing so will help these board members truly understand the company's values and vision in ways that will allow them to serve as the best strategic advisor possible. Their presence at company events will invigorate employees and demonstrate their commitment to the company. Finding board members who are eager to speak up at meetings and engage with other company leaders is also critical, as these group discussions lead to greater creativity, collaboration and innovation than one-on-one conversations.

4 Reposition the board to help the company succeed through each stage of growth

Successful middle-market companies are constantly growing and evolving. As the company progresses, its needs also change and the board must be updated to reflect that. CEOs and business owners must position their board to grow with the company. A board member that helped the company reach its first 1,000 customers may not be the right individual to help scale the business to reach millions. Each growth phase requires a different set of skills and expertise. Optimizing the board with individuals best suited to meet the company's current growth stage will help the company reach its full potential.

Building a board from scratch can seem like a daunting task to CEOs and business owners who are busy running a growing company. At NewSpring, we've guided many management teams through the process of creating a seasoned board of advisors with a diverse set of expertise to strategically guide the management team and provide access to other resources. When done successfully, building a board of directors has the potential to serve as a powerful differentiator for middle-market companies looking to leap ahead of their competitors and reach new levels of growth. //

LEE GARBER is a partner of NewSpring dedicated to the firm's buyout strategy, NewSpring Holdings. The department brings a unique combination of operational expertise and financial acumen to help grow high-performance businesses in the lower middle market. Lee has over 15 years of operationally focused audit and principal investment experience managing and implementing value creation initiatives at an operational level.

Beyond Industry Expertise

The velocity of today's M&A market puts a premium on deep industry expertise and focused discipline. What will differentiate tomorrow's investors?

BY BOB BALTIMORE, MANAGING DIRECTOR AND CO-HEAD OF M&A, HARRIS WILLIAMS

Due to a convergence of forces—favorable interest rates, cash available for investment, robust corporate growth and financially healthy consumers, among others—2021 was a record-setting year for the volume and value of M&A transactions. And while 2022 is still young, early indicators are encouraging. The circumstances that made 2021 a historic year for M&A remain largely the same: There is still a surplus of capital to invest, lending is still going strong and companies continue to grow.

With competition for great companies being as strong as it is, the pace of the market has accelerated dramatically. Due to that acceleration, coupled with strong pricing for the best companies, investment theses based on deep industry expertise have never been more important. Prospective buyers simply don't have time to pursue transactions in which they don't already have a strong base of knowledge. They lack the time to deeply research unfamiliar subsectors or business models before deciding whether to get involved. And the risk of paying a premium and then failing to achieve the desired return keeps many investors from reaching too far beyond the bounds of their experience.

Is this the future of M&A? Have buyers made a permanent shift to familiar sectors and business models in which they can readily apply past experience? Yes and no.

Yes, industry expertise will always be an essential ingredient in successful value creation, and in any competitive, fast-paced market, it will dictate which buyers choose to engage in which transactions. However, as the M&A market returns to something resembling a more "normal" pace and volume, the most successful investors will also find white space within and between their industries of focus, identifying adjacencies and convergences in which they can apply their expertise to less familiar frontiers.

In fact, we're already seeing this strategy playing out across our firm. Here are a handful of examples:

1 Multisite healthcare

Consumer-oriented multisite healthcare is an emerging space that is attracting attention from forward-looking investors with experience in both retail and healthcare. Many areas of healthcare are changing, with providers becoming more customer-centric and consumer-inspired. Their goal is to capitalize on several trends related to how patients seek and access healthcare services, including growing demand for modern, seamless customer experiences across digital and physical channels. At the same time, healthcare businesses continue to provide essential services that resist the forces of disintermediation transforming much of the retail world. Investors bringing proven retail practices to the fragmented healthcare marketplace are creating the next generation of market-leading medical businesses while finding fertile new ground for their expertise.

2 Healthcare automation

Operating on tight margins and with lives at stake, healthcare providers are embracing automation to ensure process quality while optimizing efficiency. For example, pharmacy automation technology can improve patient education and medication adherence, create more efficient workflows that drive labor savings, reduce drug diversion and increase compliance. Pharmacy automation solutions can track medications in real time from end to end, ensuring full accountability throughout the chain of custody. And, by significantly reducing administrative tasks, automation tools also enable pharmacists to be more heavily integrated in clinical roles and counseling, further improving medication adherence and the patient experience.

3 The digitization of professional services

Software is already nearly ubiquitous, helping solve critical business challenges across countless vertical sectors. Now it's also making inroads into traditionally human-powered professional services.

Digitization continues to sweep across the legal sector, for instance, driven by ongoing pressure to reduce manual effort, increase efficiency and offer cutting-edge, differentiated services. The global talent shortage is pushing professional services companies to invest in technology to manage their labor forces more efficiently, monitor and measure employees, and prioritize what needs to be done and what doesn't.

And because the labor shortage is global, it's affecting low-cost countries that have supplied outsourcing for professional services for years. As a result, we're seeing investments in robotic process automation and artificial intelligence within more white-collar, back-office jobs, with the goal of using technology to supplement headcount. All of these trends are creating opportunities for investors who can identify spots in the professional services value chain where technology is changing the game.

4 E-commerce in home services

The application of e-commerce approaches to traditionally off-line businesses is becoming important. Just a few years ago, having work done on your home meant calling a local, independent operation, making an appointment and hoping for the best. Online retail has rapidly made that kind of customer experience seem firmly rooted in the past. Today's consumers want to see reviews, schedule service without talking to anyone and track the progress of their service from their phones. Leading home and property services companies are bringing this vision to life, combining proven digital strategies with expertise in service delivery, creating a growth opportunity for a diverse group of investors. Those with a background in home services see a chance to differentiate themselves, while retail investors see a sector protected from disintermediation.

5 Cold chain pharma packaging

Investors are drawn to the convergence of expertise in packaging, healthcare and logistics that underlies the pharmaceutical cold chain. Like the pharmaceuticals they protect, cold chain packaging's demand is strong and is projected to accelerate, buoyed by long-term pharmaceutical industry growth drivers. There are also opportunities along the cold chain for 3PLs that can help pharma companies ship and track life-saving yet delicate drugs, including vaccines. The abundance of ways to position a company in the pharmaceutical cold chain space is attracting interest from industrial, healthcare and service sector investors, as well as buyers of all sizes and global reach.

At Harris Williams, our business is moving in the same direction as these cross-disciplinary innovators. We're seeing the value of staffing deal teams from two or more industry groups, especially for engagements involving technology, business services, healthcare and industrial technology. While our individual bankers' industry focus and expertise are vital, our future differentiation will come from the synthesis of ideas, experiences and approaches from across industries and business models.

Collaborative, cross-industry knowledge sharing becomes even more powerful as the firm—and the M&A marketplace—continues to grow. If one of our teams has a challenge, it's nearly certain another team has addressed that challenge in the past. Likewise, as the private investment landscape sees more participation and cross-pollination from groups with diverse backgrounds and missions, our collective ability to create value increases exponentially. //

BOB BALTIMORE is a managing director and co-head of M&A at Harris Williams. In this role, he works across industry groups to advance the firm's strategic priorities and deepen client relationships. In addition, Baltimore co-heads the Business Services and Specialty Distribution Groups at Harris Williams. He has more than two decades of investment banking experience and has advised clients on a variety of merger and acquisition and strategic advisory assignments.

MID-MARKET FUNDRAISING BOOMS

California firms and several debut funds led the pack on middle-market fundraising in the second half of 2021.

BY BAILEY MCCANN

By all counts, 2021 was a solid year for middle-market private equity fundraising. According to data from Preqin, 64 funds were raised in the first half of the year, totaling $56.02 billion of assets. In the second half of 2021, 54 funds were raised, totaling $44.63 billion in institutional capital. Those numbers beat 2020's total of 115 funds, which raised $105.83 billion of assets.

Not only are more funds being raised, GPs are going back to investors sooner than ever before, according to analysis of the private equity market from PwC. Private equity managers are raising new funds as well as continuation funds, which allow them to remain invested in a single portfolio company or a small handful of companies that would otherwise be nearing the end of their holding periods. The popularity of these vehicles speaks to the crowded nature of the deal market as GPs look for ways to stick with high-growth portfolio companies longer.

For the funds highlighted in *Middle Market DealMaker*'s latest fundraising report, betting on growth is a big trend for the year.

A High Profile Debut

The second half of 2021 saw a small handful of maiden fund launches. Stamford, Connecticut-based Avesi Partners was one such firm. Avesi closed its debut fund with $875 million, beating its $650 million target.

Avesi's team includes Chris Laitala, who was previously at H.I.G. Capital; Chris Williams, co-founder of

The Highlights: Middle-market funds raised in 2H 2021

Fund	Fund Manager	Final close size (USD mn)	Final close date	Vintage	Strategy	Core sector	Headquarters
Leeds Equity Partners VII	Leeds Equity Partners	1,400	10/18/21	2021	Buyout	Consumer Discretionary	New York, NY
LLCP Lower Middle Market Fund III	Levine Leichtman Capital Partners	1,377.60	9/20/21	2021	Buyout	Diversified	Beverly Hills, CA
Kohlberg Investors VII CV	Kohlberg & Company	1,100	7/20/21	2021	Co-Investment	Diversified	Mount Kisco, NY
Seminal Educational Investments SPV I	Seminal Capital Partners	954.7	10/18/21	2021	Buyout	Consumer Discretionary	Wayne, PA
Avesi Partners Fund I	Avesi Partners	875	7/15/21	2021	Growth	Business Services, Healthcare	Stamford, CT
Excellere Partners IV	Excellere Partners	875	9/30/21	2021	Buyout	Diversified	Denver, CO
Vance Street Capital III	Vance Street Capital	400	12/1/21	2021	Buyout	Healthcare/ Industrial	Los Angeles, CA
Bertram Growth Capital IV	Bertram Capital	940	6/16/21	2021	Growth	Business Services, Consumer and Industrial	San Francisco, CA
Shamrock Capital Debt Opportunities Fund I	Shamrock Capital	196	7/7/21	2021	Debt	Entertainment	Los Angeles, CA

Sources: Preqin Pro, Press Releases

investment bank Harris Williams; and Peter Erickson, who was previously with healthcare-focused investment bank Triple Tree. Avesi will build on the expertise of its three founders as it specializes in healthcare and business services companies. “Investors have been extremely receptive to our approach,” Erickson says of the fundraise.

Avesi has already made its first investment in Danforth Advisors, a financial and operational advisor to life sciences companies.

California Kings

The second half of 2021 fundraising was dominated by California-based firms. Los Angeles-based Levine Leichtman Capital Partners closed its third lower middle-market fund on $1.38 billion in September. The fund beat its hard cap and was one of the largest funds raised targeting the lower middle market all year. The fund is more than double the size of its predecessor fund, which closed in 2016 with total capital commitments of $615 million.

Vance Street Capital, a private equity manager in Los Angeles, closed its fourth fund with $400 million, beating its $375 million target, according to a report from *Private Equity International*. Vance Street invests in engineered solutions companies in the medical and industrial markets.

Foster City, California-based Bertram Capital closed its fourth growth fund with $940 million, significantly above its initial hard cap of $800 million. Bertram Growth

Capital IV is the firm's largest fund to date. One-third of the fund is already invested across five platform deals.

Bertram, which was launched in 2006, invests in companies with a minimum of $20 million of revenue and $5 million of EBITDA across the business services, consumer and industrial sectors. Bertram runs a buy-and-build strategy with a focus on operational improvements. The firm also has an in-house technology group—Bertram Labs—which focuses on digital marketing, e-commerce, big data and analytics, and application development for its portfolio companies.

David Hellier, a partner at Bertram and head of the origination and capital markets team, says 2021 was a frenetic year for fundraising and deal flow and 2022 is likely to be more of the same. "Last year was a great year to be an investment banker because of the pace of activity. While that might slow down slightly, we think it's still going to be a very active year," he tells *Middle Market DealMaker*.

According to Hellier, there is still significant interest in middle-market companies across all the sectors Bertram pursues. "Last year there was a lot of focus on the potential impact from COVID, but companies have done generally well," he explains. "This year, we're looking more at catch-up issues, including the supply chain backlog, but that's unlikely to have a long-term impact."

Even with headwinds like the supply chain crunch, big deals are still getting done. Bertram exited its stake in Paula's Choice, a digitally native skincare brand, in the second half of last year. Unilever bought the business in a $2 billion deal, one of the largest acquisitions ever for a skin care brand.

Another California firm, Los Angeles-based Shamrock Capital, followed its $1 billion fundraise for its fifth fund in June with a successful close of its first debt fund. Shamrock Capital Debt Opportunities Fund I is a $196 million financing fund for owners of entertainment intellectual property rights.

Shamrock focuses on investments in media, entertainment and communications companies. The firm targets investments of $25 million - $200 million in both control and non-control transactions.

Andy Howard, a partner at Shamrock, says that the headline for 2022 is a focus on business performance. With a crowded deal market and a lot of money to put to work, sponsors will have to make sure they're being disciplined about valuations and avoid the temptation to do deals out of fear of missing out.

"There are a lot of strong factors going into 2022 as the debt markets remain robust and there continues to be an abundance of capital in search for investment," Howard says. "It wouldn't surprise me if the activity is a little more spaced out this year as a lot of people are catching up, a lot of people are exhausted. That said, 2022 will be another strong M&A year as the past year's disruption has created unique opportunities."

Within media, entertainment and communications, there is a renewed focus on finding successful ways to deliver content and grow audiences. The advent of ever-expanding streaming and digital platforms has made it harder to stand out. Consolidation plays are also contributing to a robust exit environment for mid-market entertainment and media companies.

"Strategics are back in a big way," Howard says. "They have confidence in their long-range plans, more cash on their balance sheets than they have had in years, and they are looking to put that capital to work efficiently and methodically."

"2022 will be another strong M&A year as the past year's disruption has created unique opportunities.

Andy Howard
Partner, Shamrock Capital

Mid-market Stalwarts Clean Up

The second half of 2021,wasn't only about California firms and emerging funds. Long-time East Coast investors raised big funds as well.

Kohlberg & Company closed its first middle-market continuation fund with $1.1 billion. The firm partnered with BlackRock, Singapore sovereign wealth fund GIC and Lexington Partners for the vehicle, which will hold four companies from Kohlberg Investors VII, a 2012 fund.

Leeds Equity Partners, a firm that has been investing in middle-market knowledge companies since 1993, closed its seventh mid-market fund with $1.4 billion in November. The fund beat its $1 billion target and is already 25% invested in four education and knowledge companies: OptionMetrics, engage2learn, Archive360 and Genius SIS.

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

On the MOVE

JAIME FORSYTH

Monomoy Capital Partners appointed Jaime Forsyth as partner, head of the investment team. For more than a decade, Forsyth has led many successful Monomoy equity and debt transactions. In 2008, Forsyth became an analyst on the investment team at Monomoy. She has also served on the boards of several Monomoy portfolio companies.

In 2020, Forsyth formed the firm's diversity and inclusion committee that created a summer internship program for underrepresented students at colleges and universities.

LINDSEY M. WENDLER

Lindsey M. Wendler has joined middle-market investment bank Dresner Partners as a managing director. She's tasked with leading the firm into the Dallas market. She brings a wealth of experience in leading transactions across many industries and sell-side M&A advisory, buy-side M&A projects, restructuring advisory, refinancing, valuation and capital raising.

Before joining Dresner, Wendler founded a luxury goods business in Geneva, Switzerland. She was able to raise growth capital and expand the company's international distribution. Through selling her business through an M&A process, she learned about forming international business entities, capital raising, hiring and team building. She is president of the Alliance of Merger & Acquisition Advisors DFW Chapter and Chair of the AM&AA National Chapter Leadership Committee.

GEOFF WILSON

Investment bank Houlihan Lokey hired Geoff Wilson to be its new managing director in the Power and Utilities Group. Based in New York, Wilson will focus on the renewable power sector. Prior to his new position with Houlihan Lokey, Wilson was the managing director at Whitehall & Company. There he helped create the company's renewable investment banking practice. Before that, he worked at McManus & Miles as managing director where he advised on sell-side M&A transactions and tax equity capital raises. He also has experience working in Merrill Lynch's Global Energy Power Group and Bank of America's Specialized Finance Group.

JIM CONNIFF

William Blair hired Jim Conniff as a managing director in the investment banking group. Based in Chicago, Conniff joins the industrial growth products team. He has more than 25 years of experience with large industrials businesses. He also has experience working with both founder-owned and private equity-backed companies. Conniff has worked at Goldman Sachs and Baird. Most recently, he was co-head of the industrials group at Lazard Middle Market.

DEREK ZACARIAS

Boutique investment bank The DAK Group hired Derek Zacarias as director, where he will work with business owners and stakeholders. Zacarias has more than a decade of investment banking experience across many industries. Before joining The DAK Group, he was director on the global industrials team at Perella Weinberg Partners, where he was a founding member of the Chicago office. Previous to that position, Zacarias was part of the media and telecom team at Perella.

ANDREW JOHNSON

Private equity firm GTCR has named Andrew Johnson as principal and chief of marketing and communications. In this role, Johnson will lead the strategic development and execution of all marketing and communications activities for the firm. He will also collaborate with other executives at GTCR and at portfolio companies on broader initiatives, including ESG-DEI, community engagement, digital/social media and recruiting.

Johnson joined the firm from Finsbury Glover Hering, a strategic communications advisory firm, where he served as a managing director and advised private equity and financial services clients. Prior to Finsbury, he was a director of public relations for Kirkland & Ellis and began his career at Abernathy MacGregor, a strategic communications firm.

JEFFREY A. FICKES

Jeff Fickes has joined Ballard Spahr as a partner and co-leader of Ballard Spahr's Private Equity Group. For several decades, Fickes has advised company owners, board directors and senior executives and has been a lead counsel on domestic and international mergers, acquisitions, dispositions, joint ventures and strategic transactions.

KAYLE GREEN AND BRANDON KELLEY

Investment bank Stifel Financial has added Kayle Green and Brandon Kelley to its Sponsor Finance Group. The duo joined as managing directors. They will report to Juli Van Hook, head of sponsor finance, and work closely with the Chicago-based team led by Jackie Hopkins.

Previously, they were co-founders and senior managers of BBVA's sponsor coverage division, a multibillion-dollar direct lending platform focused on senior debt financings for leveraged buyouts. Since 2010, they helped deploy more than $4 billion of senior debt across a variety of industries. Prior to BBVA, Green and Kelley co-founded the leveraged finance division of ORIX, a private credit lending and asset management firm.

HOWARD EISEN

Howard Eisen has joined as principal on the investor relations team at Sun Capital Partners. For more than 20 years, Eisen has worked in investor relations at investment funds. Before joining Sun Capital, he worked at TMF Group as head of business development, where he developed asset services to fund managers globally. He has also been head of investor engagement at DMS Governance/DMS Capital Solutions and held business growth and fund management roles at Moelis, Conifer Financial Services, UBS and Goldman Sachs.

JENNIFER WILDROUDT

Jennifer Wildroudt has joined Sun Capital as vice president of Environmental, Social and Governance investing, bringing more than a decade of ESG experience. Before joining Sun Capital, she helped create the ESG consulting practice at Alvarez & Marsal. Her work included implementation of ESG strategies and programs, identifying material topics, and setting goals and targets. She has also served as senior manager of Climate Change and Sustainability Services at Ernst & Young. She led sustainability strategy engagements there for Fortune 500 companies across industries.

NICK CIABATTONE

Corporate Advisory Solutions promoted Nick Ciabattone to director where he will provide administrative and transaction support to CAS principals. Joining CAS in 2015, Ciabattone led deal support on M&A transactions and has closed many sell-side and buy-side transactions. He also completed portfolio company valuation, strategic advisory, consulting and compliance assignments. He first joined CAS as an intern in 2015. He has previously worked at Turner Investments and DuPont Capital Management.

MONICA KELSEY AND BENJAMIN CONCESSI

Private credit manager Antares Capital has added Monica Kelsey and Benjamin Concessi to its team. Kelsey joins as chief financial officer, while Concessi is the head of strategy and corporate development, a new role.

Kelsey is based in Chicago and hails from private debt firm Madison Capital Funding, where she served as chief financial officer since 2004. Prior to Madison Capital, Kelsey was with UBS Global Asset Management as executive director of global finance.

Concessi is based in Toronto. He most recently served as a partner at McKinsey, where he worked since 2011. Previously, Concessi was at Deloitte, where he worked with clients on a range of accounting issues.

STEVE REYNOLDS

Trivest Partners, a Miami-based private equity firm, has recently promoted Steve Reynolds to partner. Reynolds originally joined Trivest in 2011 as an associate and has worked with many of the firm's mid-market investments since. He serves on the board of several current portfolio companies, including PeopleShare, PCRK Group, Envirowaste and Thermal Concepts. Before Trivest, Reynolds worked in investment banking with Baird and Houlihan Lokey. His elevation was one of 11 recent promotions at the firm.

What's Next

EMERGING IDEAS IN HEALTH & WELLNESS, AND DIGITAL TRANSFORMATION

> **"People that are preoccupied with living a healthy lifestyle are assessing what they can do while working from home.**
>
> **Kenneth Wasik**
> Head of Consumer and Retail, Capstone Partners

Investing in Well-Being

Sector advisors see ongoing M&A potential in a variety of health and wellness segments.

BY ANASTASIA DONDE

The COVID-19 pandemic wreaked havoc on the world for over two years and disrupted many people's daily lives, although it also had some silver linings. One is that people began focusing on their health more and tapping into a variety of methods to boost their immune system and manage their weight. COVID has been particularly harsh to people with comorbidities, like diabetes, heart disease and obesity, so consumers began looking for ways to stave off these conditions in their daily lives. For office workers, many of whom wound up working from home for extended periods, the lockdowns created more time to focus on their well-being.

"People that are preoccupied with living a healthy lifestyle are assessing what they can do while working from home," says Kenneth Wasik, managing director and head of the consumer and retail practice at investment bank Capstone Partners.

As a result, there has been a flurry of M&A activity in areas like healthy food, vitamins and supplements, fitness apps and outdoor activities. Sector advisors say the trend is expected to continue. In addition to consumer demand, there are a confluence of factors driving buyers and sellers toward one another. Some of the sellers are small and find it difficult to grow on their own. Many are also experiencing supply chain and inflation challenges that could be better addressed under a private equity sponsor or a bigger company. On the buy-side, some large food companies with struggling legacy brands are striving to stay relevant by acquiring modern labels.

"We see a lot of interest in the area. It's trendy but it's also a fundamental change in lifestyle," says Juli Van Hook, head of sponsor finance at Stifel. She adds that people have been focusing on things like healthy eating habits, beauty brands, exercise apps and other health and wellness products. "The shift is becoming more of a lifestyle than a fad," she says. Investors like this sector because it's recession resistant, she adds.

Strategics Get Competitive

Many of the smaller "better-for-you" food companies have recently seen interest from large, strategic buyers. Hershel Gerson, a managing director and co-head of consumer investment banking at Roth Capital Partners, says strategics are increasingly coming down market to smaller companies: "It's cheaper to get in early and they're disrupting the private equity community." In the past, a business needed at least $200 million in revenue before a large strategic investor would look at the company, Gerson explains. Now, many of the large strategics are active in auctions for businesses with $100 million or less in revenue.

Corporate acquirers want to get in early and participate in some of the growth that these businesses are destined for, according to Gerson. Still, there are drawbacks when it comes to selling to a strategic versus a private equity sponsor. One is that the brand and management team tend to get subsumed by the buyer and don't maintain as much autonomy. "It does lose some of that authenticity associated with the brand under strategic ownership," Gerson notes.

BETTER-FOR-YOU FOODS

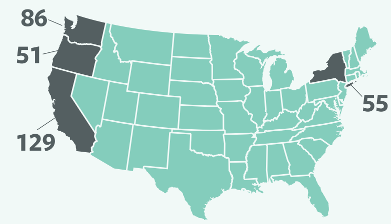
Companies based in the U.S. and Canada that manufacture, produce and distribute foods and ingredients marketed as better for the consumer.

COMPANY SIZE

1-50 employees	388
51-250 employees	131
251-5,000 employees	36
5K or more employees	2

GEOGRAPHY

High concentration of companies on the West coast



OWNERSHIP

Independently owned	88%
Public	3%
Private subsidiary	3%
Public subsidiary	4%
PE platform	1.3%

M&A ACTIVITY

2021 saw **16 DEALS**, the highest recorded since 2007

81% received no funding

Strategics are trying to address those concerns by keeping key executives around longer. "They don't want these guys going away anymore, so they offer long employment contracts or consulting contracts," Gerson says.

Primal Kitchen, which was acquired by Kraft-Heinz in 2019, continued to operate under its own name, headquarters and management team in California, for example. The company offers keto, whole30 and paleo salad dressings, marinades and other products. The acquisition by Kraft-Heinz was made as part of the food giant's Springboard platform, which was launched in 2018 and is "dedicated to nurturing, scaling and accelerating growth of disruptive U.S. brands within the food and beverage space," according to an announcement at the time.

Other large food companies have their own incubation platforms or venture capital funds to invest in up-and-coming brands. General Mills has a platform called 301 Inc., which seeks out "emerging food brands with a compelling product," according to its website.

Strategic acquirers are also often willing to pay more than financial buyers for these companies, Gerson explains. "Private equity usually doesn't like to go beyond 3x revenue, whereas strategics top out at 6x," he says.

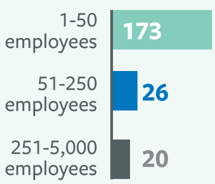
Recent deals in the category include Mondelez International buying Hu Master Holdings, and KIND's investment in Nature's Bakery. Hu is a New York-based maker of vegan chocolate and snacks. Nature's Bakery makes a

Data provided by Grata

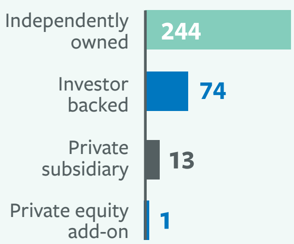
VITAMINS & SUPPLEMENTS

U.S.- and Canada-based nutrition-focused businesses in the health and wellness category, with vitamins or supplements as keywords.

COMPANY SIZE

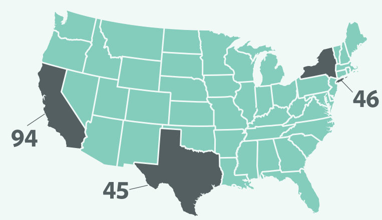


OWNERSHIP



GEOGRAPHY

Most companies based in California, New York and Texas



M&A TRENDS

8 M&A EVENTS
in 2021 (highest recorded since 2007)

> **Some of the larger companies have brands that aren't growing well and need to supplement the legacy brands with up-and-coming brands.**
>
> **Hershel Gerson**
> Co-Head of Consumer Investment Banking, Roth Capital Partners

variety of vegan, nut-free and non-GMO snack bars.

"Some of the larger companies have brands that aren't growing well and need to supplement the legacy brands with up-and-coming brands," Gerson says. When it comes to large public companies, they often also get rewarded with a pop in their stock price for acquiring some of these labels. "They can get immediate synergies to ramp up distribution," Gerson adds.

Capstone's Wasik agrees: "Strategics are very active and aggressive right now." When it comes to public companies, "their stocks are being rewarded for making smart acquisitions," he says.

In many cases, smaller companies that are struggling with supply chain issues and rising costs can benefit from being acquired by a large strategic. "Shipping costs can be cut by half in some cases. It helps to be with a larger company that can minimize disruptions and increase your product's reach in the market," says Wasik.

According to company intelligence engine Grata, there are 747 healthy food companies across the U.S. and Canada, 88% of which are independently owned. The companies usually describe themselves as "better-for-you," organic or non-GMO. Last year, there were 16 deals in the healthy food space, according to Grata, the highest recorded since 2007.

Supplements and Fitness

There has also been a flurry of activity in supplements, vitamins and fitness apps, with many of the supplement brands selling to large international strategics. Some of the recent deals included Bayer buying Care/of; Nestle and KKR investing in The Bountiful Company; and Unilever buying Onnit.

As many people continue to work remotely, they are focusing on their health and fitness needs. They've also begun to think more about weight management and supplements, sector advisors say. "There is a lot of action in supplements. People had more time at home and rethought their supplement needs," Wasik says. Some are geared toward general nutrition, others toward dieting and weight loss. Medical professionals have also pointed to zinc and Vitamin D as helpful supplements to battle COVID-19 infections.

Grata research shows 332 companies in the vitamins and supplements category located in the U.S. and Canada, 244 of which are independently owned. About 52% of them are small businesses with under 50 employees. These kinds of companies saw eight M&A events last year, the highest recorded by Grata since 2007.

Fitness apps and at-home workout

Data provided by Grata

equipment are both attractive M&A categories, while retail is still challenged as clients haven't fully returned to gyms. Wasik notes that Peloton's recent woes cast a cloud over the home fitness center, but he doesn't think it's justified. The company recently suffered thousands of layoffs, replaced its CEO and has seen continuing declines in performance and stock price, although some Peloton investors point to safety issues with equipment and mismanagement as sources of the company's challenges.

Fitness apps have seen investments from a variety of players, including large strategics, private equity, venture capital and early-stage investors. In October, Meta (formerly Facebook) bought Within, which makes a VR fitness app called Supernatural. The application connects with Apple Watches to track heart rate and uses video avatars of instructors performing workout routines. California private equity firm Francisco Partners also bought MyFitnessPal, an app that allows users to track their calorie intake and other nutrition and fitness metrics. Earlier this year, FitLab and FitOn both raised funding rounds from several VC, early-stage and growth investors.

OUTDOOR SPORTS

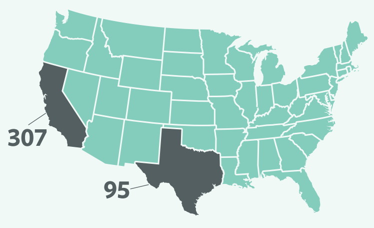
Health and wellness businesses based in the U.S. or Canada with outdoor sports, camping, hiking, biking, fishing, or boating as keywords.

OWNERSHIP

604 companies, **548** independently owned (not investor backed)

GEOGRAPHY

Most based in California and Texas



The Great Outdoors

Fitness apps and equipment aren't the only way people are getting in shape. Wasik says his firm is seeing a lot of M&A momentum in the outdoor activity arena. Capstone currently has six mandates in the outdoor activities space, including two in hunting, three in high-end biking and one in auto aftermarket.

"Private equity is all over it," Wasik says. Some businesses are struggling to scale, so a financial partner can be a big help. "What we're seeing is a lot of companies who are tired of supply chain challenges and labor headwinds," he says. Most of the businesses Capstone works with on a sell-side basis are independent and founder- or management-owned.

Companies in the outdoor space include those focused on hunting, fishing, camping, biking or boating equipment, accessories and apparel. Many people began devoting more time to these pursuits while working remotely, says Wasik. Grata data shows 604 companies in the outdoor sports space in North America that feature some of these keywords in their business descriptions. The majority of these businesses (548) are independently owned without any investor backing yet.

A recent deal in outdoor activities involved Inflexion, a London-based private equity firm, buying Enviolo in February. The company has offices in the Netherlands and in Austin, Texas, and manufactures components for e-bikes. Last March, Sycamore Partners-backed Pure Fishing bought Plano Synergy Holdings, a family of brands in the fishing tackle and storage products arena. A month later, Gridiron Capital-backed GSM Outdoor purchased a piece of that business that included hunting accessories and archery brands.

One of the challenges when investing in outdoor sports and other consumer businesses, however, is accounting for the "COVID bump," Wasik notes. His firm often needs to assess whether the high performance driven by pandemic disruption, working from home and lockdowns is here to stay.

Goli Nutrition is one example. The maker of apple cider vinegar gummies was in a sale process last year but struggled in the fall due to skepticism over its blockbuster growth, according to a *peHub* report in September. The company put itself up for sale only a year after its founding and posted $300 million in revenue in 2020, according to the same report.

Wasik says his firm has two ways to analyze a company's stellar performance during the pandemic. One is to determine whether the bump increased the company's overall market share and whether that's sustainable. The other is to look at the company's historic performance pre-pandemic and compare it to how the company has emerged in a more normal environment. "You can't extrapolate COVID, but you can determine if a company has gained market share that will put it in a better position, such as significant gains in direct-to-consumer, digital and alternative channels," says Wasik, "so we can't just sell off 2021 numbers."

Still, he and other bankers think pockets of the health and wellness sector have staying power. "The companies, the consumer and the environment are all firing on eight cylinders. It's a good time to make an acquisition," Wasik says. //

How Middle-Market Digital Transformation Creates New Investment Opportunities for Private Equity

NEVIN RAJ
Co-Founder & COO,
Grata

Digital transformation isn't just changing how large enterprises do business, it's also bringing disruption to the middle market.

Fueled by market forces, changing consumer behavior and a pandemic that has shifted buying patterns, more companies are going online. In 2016, fewer than 50% of private companies had a website, but today more than 75% do, according to data from Top Design Firms. There's now over $200 billion in market cap dedicated to helping businesses go online, with companies like Shopify, Squarespace, GoDaddy and Wix serving as key enablers of digital transformation.

This trend will only continue and potentially drive more visibility into the middle market, greater economic growth in this market segment, and more investment opportunities for private equity firms looking for the best deals.

Digital Trends in the Middle Market

Middle-market companies are embracing digital innovation in many aspects of their operations.

A recent Capital One and Morning Consult study found that middle-market companies are prioritizing investments in areas such as data analytics (28% of companies), e-commerce (26%), artificial intelligence (24%), cloud migration and customer experience (24% each, respectively). Thirty percent of middle-market companies are also focused on delivering a better employee experience, which signals more businesses are likely to invest in tools that drive back-end and workforce automation to support emerging needs for greater agility and meet employee demands for remote and hybrid work.

These figures also suggest middle-market companies are more aware that to drive growth, they must build their digital capabilities. Investing in digital is one way to accomplish this. Digital investments can encompass initiatives such as developing a mobile app, launching a new website or upgrading an existing one, adding digital wallets, and using third-party payment solutions like Venmo. Social media integrations can also accelerate the customer path to product purchasing via features like "Shop Now" buttons, one-click ordering or shareable product pages.

Investing in technologies like AI, the cloud and data analytics can optimize sales and marketing channels, drive customer personalization and more relevant messaging, and support strategic approaches like account-based marketing that aim to attract high-value customers and increase market penetration for businesses.

And these potential benefits aren't just based on theory. Research from the National Center for the Middle Market indicates that companies with a clear and comprehensive digital vision grow 75% faster than their peers. The center's research also found middle-market companies that were more advanced or strategic in their approach to digital innovation experienced an average of just under 10% revenue growth over a 12-month period, compared with 6.5% revenue growth over the same period for companies that hadn't yet made digital a core part of their business.

> **"It's clear that midsize businesses that want to build or maintain their competitive advantage and transform into high-growth companies need to become more digitally enabled.**

It's clear that midsize businesses that want to build or maintain their competitive advantage and transform into high-growth companies need to become more digitally enabled. In the process, they might also make themselves more attractive acquisition targets in the future.

The Market Opportunity for Private Equity

The increased focus on digital transformation (DX) initiatives within the middle market isn't just good for these businesses; it is also expanding the investable universe for PE firms.

Greater investment in automation, marketing tools, customer-facing technologies and communications are making this historically untapped market segment less opaque. Currently, it isn't easy for dealmakers to gather accurate information about middle-market companies as they try to decide whether these businesses fit their investment criteria or have high enough growth potential to deliver at least a 4x return. DX investments increase the visibility of these companies, so potential investors can effectively search for them and better assess whether they are actually investable.

DX investments will make certain mid-market companies more valuable, especially if these investments lead to improvements that reduce operational and financial risks, drive greater market share or help companies build a nearly impenetrable moat around their business—whether from a brand, price or customer experience perspective. In recent years, digitally enabled companies have sold at higher multiples, giving PE firms a way to get higher multiples that may rival those of software companies.

While some PE firms' bread and butter is bringing operational expertise to their portfolio companies, a middle-market company that already has advanced digital capabilities may also have more mature operations that accelerate its path to an IPO or acquisition. It just may need additional capital to get there—making the lift less heavy for a potential investor.

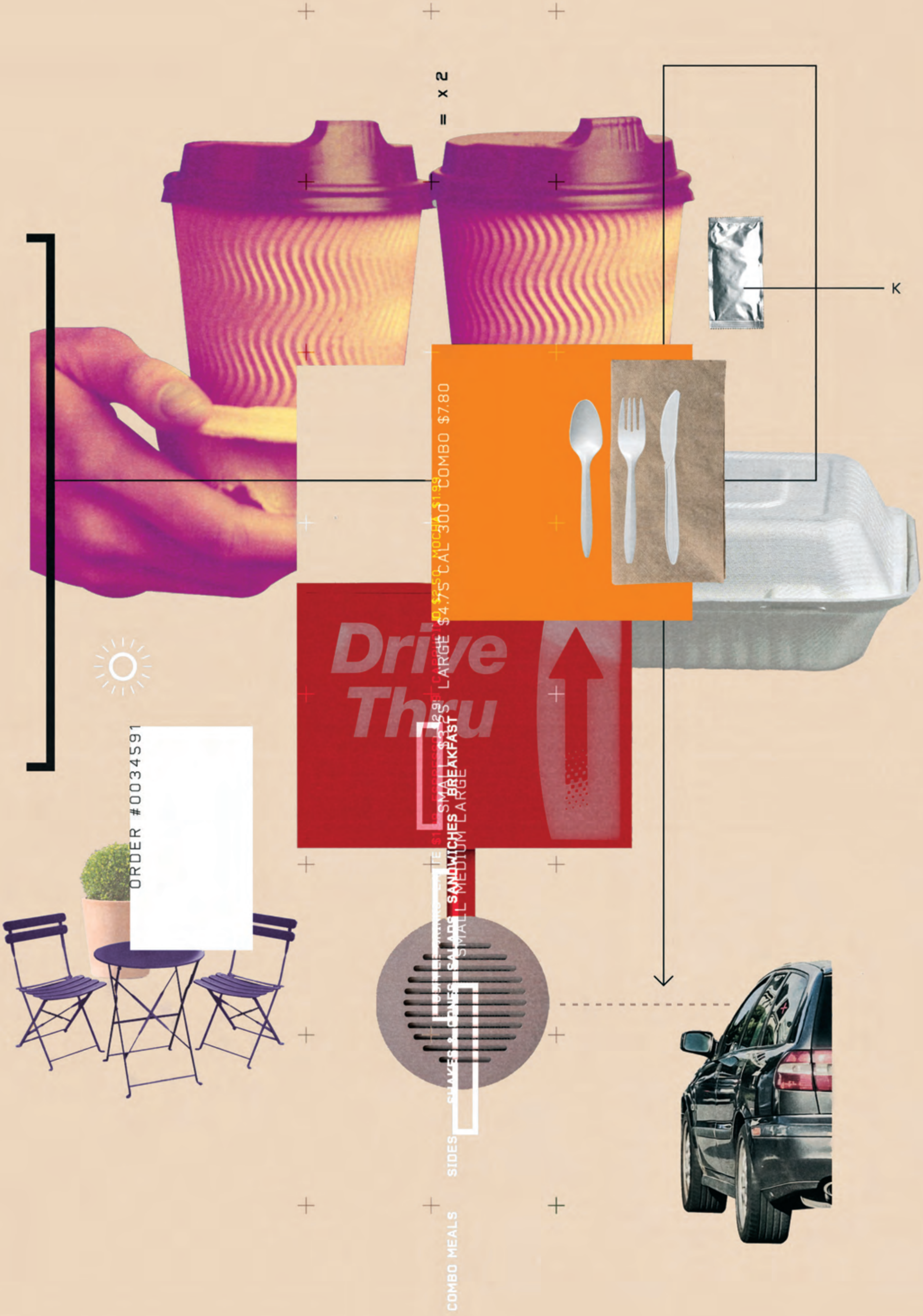
Midsize companies have so much value just waiting to be unlocked, but private equity firms traditionally have had limited visibility into this market. However, rapid digital transformation could change this. With more digital capabilities, companies can boost customer engagement, deliver a better customer experience, and optimize their operations to grow their margins and build a durable competitive advantage. All of that will make them prime targets for innovative dealmakers who want to help them realize their full potential. //

NEVIN RAJ is the chief operating officer and co-founder of Grata, a private company intelligence engine for middle-market dealmakers.

Features

THE LATEST ON INVESTMENT OPPORTUNITIES AND RISKS

Above photo courtesy of Pomp & Whimsy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SIDES
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WRITTEN BY
Marine Cole

ILLUSTRATIONS BY
Stuart Bradford

INVESTORS *Gobble up* RESTAURANTS DESPITE COVID *Challenges*

Fast-casual concepts, a renewed focus on delivery and technology, and expansion into outdoor spaces have led to industry growth and capital injection in the restaurant sector

There's no denying that the restaurant industry has suffered heavily since the beginning of the pandemic, but it outperformed the worst predictions and fast-food restaurant concepts even found a silver lining amid lockdowns and reduced foot traffic.

More than 10% of U.S. restaurants closed permanently in the first year of COVID, according to Datassential, and indoor dining has yet to fully recover. As of December, 51% of consumers said they weren't using restaurants for on-premises dining as often as they would like, according to data from the National Restaurant Association. Although this is down from 83% in April 2020, it's slightly up from 45% in January 2020, a few months before the pandemic began.

"Full-service restaurants got hit the hardest and there is still some hesitation to dine indoors," says Jason Abt, managing director in Houlihan Lokey's consumer, food and retail group. "2020 was messy. 2021 was a real improvement. We've seen tremendous resilience. We expected massive shutdowns. Some predicted 20% to 30% closures, but it wasn't that bad."

Not only did the industry dodge a big bullet, but some quick-service and fast-casual restaurants came out as winners. They had the lowest percentage of closures and some managed to thrive by relying on technology, takeout and delivery, trends that were already underway before 2020 and that gained steam in the last 24 months. Private equity investors have taken advantage of the growth in that segment.

EATING OUT, AT HOME

The number of restaurant M&A transactions was cut by about half since the beginning of the pandemic, according to Abt, who also notes that about a third of them are distressed. Still, there have been notable private equity deals involving successful restaurants with plans to further boost growth. Orangewood Partners acquired Pacific Bells, a large owner of Taco Bell franchises; Leonard Green & Partners purchased Velvet Taco from L Catterton; and Meritage Group bought Chicago-style pizza chain Lou Malnati's.

"Even prior to COVID, we were big believers that the winners would be those that were investing in technology, delivery and drive-through efficiencies," says Alan Goldfarb, founder and managing partner at Orangewood Partners. "That fundamental shift that we were investing behind has accelerated during COVID."

Orangewood announced in November that it acquired Pacific Bells from Partners Group. The private equity firm had been an investor in the Taco Bell system for several years and its partnership with the brand helped Orangewood stand out in the negotiations to purchase Pacific Bells. Taco Bell franchisees like Pacific Bells are also attractive to private equity buyers because they have been able to take advantage of Taco Bell's in-house technology advancement that the chain used to adapt to lockdowns and grow during COVID. Goldfarb believes the focus on technology will persist and it remains a constant of Orangewood's investment strategy.

"People don't necessarily need to go into restaurants. It's more about food service sophistication, convenience and efficiency," Goldfarb says. "From our standpoint, we're less focused on restaurants that require in-room dining."

While diners' interest in eating restaurant food has nearly returned to pre-pandemic levels as of December, ordering to-go or delivery is more popular with consumers than prior to the pandemic.

As of December, the percentage of consumers who said they weren't using restaurants for takeout or delivery as often as they would like fell to 35% from 52% in April 2020 and 44% in January 2020, according to data from the National Restaurant Association. The NRA noted that this illustrates the extent to which the added off-premises options have been integrated into consumers' daily lives during the pandemic.

GROWTH, DESPITE THE ODDS

Thanks in part to the growth in delivery and takeout, coupled with the popularity of certain restaurant brands, Atlanta-based 10 Point Capital was able to rapidly grow some of its portfolio companies, even in the depths of COVID.

Walk-On's Sports Bistreaux, a full-service sit-down restaurant franchise, grew its locations to 60 from 45 in 2021 after 10 Point invested in the company in October 2020. The average Walk-On's restaurant now generates about $5 million in revenue. Another success story is an investment made in July 2019, when 10 Point Capital acquired a minority stake in Slim Chickens, a fast-casual chicken franchise. The brand, which started in Arkansas and has been expanding globally, had 85 locations at the time of the investment. It ended 2021 with 150 and plans to add 50 more in 2022.

"Our typical investment is a high-growth franchisor, typically founder-led, that has the franchise infrastructure and space in place," says Tom Wells, managing partner and co-founder of 10 Point Capital.

What also helped Walk-On's thrive during the pandemic was its ability to quickly adapt to the new environment and to the demand for more delivery and drive-throughs. "Prior to COVID, we were about 7% takeout," Wells says of the percentage of customers ordering food to go instead of eating on premises. "That's been about 15% for the last year. And I don't expect that to really change going forward."

Damon Chandik, co-head and managing director of consumer investment banking at Piper Sandler, says that for restaurants that have taken advantage of the shift, margins have improved since the beginning of the pandemic. That's due in part to increased technology adoption but also to expanded seating areas with outdoor dining.

Restaurants that have survived the pandemic have also been able to benefit from diminished competition thanks to restaurants shutting down. "I think COVID actually made parts of the industry healthier in the long run by clearing out some of the lower performing units that were taking some traffic away from other restaurants," explains Chandik.

SPONSORS AND STRATEGICS DUKE IT OUT

Certain transactions saw soaring valuations in 2021, fueled by the sheer amount of capital flowing into private equity—there is nearly $2.3 trillion of dry powder in private equity—and driven by strategic acquisition activity in the space. For example, Restaurant Brands International, the owner of Burger King, bought Firehouse Subs in a $1 billion all-cash transaction that produced a roughly 20x valuation.

Public companies aren't the only ones writing large checks. On the private M&A side, valuations have gone up across the board along with the rest of the market, according to Kevin Burke, a managing director at Trinity Capital, a division of Citizens Capital Markets. He adds that franchises are typically valued between 5x and 10x EBITDA, while casual dining establishments garner between 4.5x and 7x. Quick-service restaurants' valuations are in the mid-teens.

> **Delivery certainly showed its strength and its utility to a lot of consumers but I wouldn't count out sit-down.**
>
> **Kevin Burke**
> Managing Director, Trinity Capital

Generally speaking, strategic acquirers have the ability to bid more aggressively in auctions because they have the advantage of already running restaurants and having an inside track on costs and P&L management. They also don't have to worry as much about retaining or hiring new management teams. That last point can also turn into an advantage for private equity firms competing with strategics. GPs can have the upper hand in certain situations where the target company requires that the existing management team remain in place. A PE firm can compete by offering better compensation for the management team compared to a strategic.

But the competition isn't stopping some firms from entering or expanding in the space. NewSpring Capital, a lower mid-market multistrategy investor, created a new initiative in 2019 on the eve of the pandemic to focus on multi-unit consumer service businesses, including restaurants. In May, it acquired Duck Donuts, a made-to-order donut concept with about 110 locations. It is also undergoing due diligence with several restaurant investment opportunities.

"We've been very excited about investing in the restaurant sector, especially in those concepts that have demonstrated an ability to succeed, despite what has been a horrific and challenging environment," says Satya Ponnuru, a general partner at NewSpring Capital, who was hired to launch the new strategy at the firm.

"Those concepts that have been able to prove and maintain their customer value proposition, that have been able to shift to increase off-premises business and been able to maintain a level of success despite some of the challenges are the types of operators that we want to support as we go forward in accelerating growth," he says.

Ponnuru noted that franchises in particular are attractive due to their capital efficiency and ability to scale but that NewSpring is also considering corporate-owned chains as acquisition targets. One of the deals in diligence is a fast-casual concept that is company-owned with strong unit economics and a loyal customer following. The plan for this acquisition would be to transition to a franchise strategy to accelerate growth, says Ponnuru.

Other firms have stayed away from the space in the last few years either while they focused on existing portfolio companies that needed support, or because they have stopped investing in restaurants altogether. For example, after a string of failed deals culminating with the bankruptcy of Friendly's at the end of 2020, Sun Capital Partners began selling off most of its restaurant stakes, according to *The Wall Street Journal*. The firm wasn't available for comment.

ONGOING CHALLENGES

Some transactions have simply struggled because of uncertainty regarding continued challenges, which can impact negotiations and result in wide bid/ask spreads.

The obvious uncertainty, particularly for casual sit-down dining, is around foot traffic and its return to pre-COVID levels. Burke, for one, believes it will depend on the trajectory of the pandemic.

"Delivery certainly showed its strength and its utility to a lot of consumers but I wouldn't count out sit-down," he says. "People do want to get out, have dinner and not be rushed and not have to clean up. I think once we get through this, hopefully last, phase of COVID, we will start to establish permanent traffic patterns in the sit-down concepts."

The other challenge that is impacting the industry is the labor shortage. U.S. restaurant employees have left the industry en masse, often because they are finding better jobs with higher salaries. Facing the Omicron variant in later 2021 and in the early months of 2022, many workers have also been forced to call in sick.

The average quit rate in the accommodation and food services industry was nearly 6% in 2021 and peaked in November at 6.9%, according to data from the U.S. Bureau of Labor Statistics. Staffing is an issue and can make it hard to sell a business.

"The big challenge is the labor shortage," says Abt. "In the short term, it translates into employees out sick. There's not enough staff to keep all sections open during peak hours. The industry is still questioning the long-term effect and especially whether some workers are going to permanently switch industries. If there's a smaller labor pool, it creates cost pressure."

Private equity firms have addressed this problem by relying more heavily on technology and offering higher pay. Some firms like Orangewood have also focused on creating a more attractive work environment to lure quality employees.

"As a strategic partner to our management teams and the companies in which we invest, Orangewood is focused on helping to develop creative ways to continue to recruit, retain and motivate great talent," Goldfarb says.

When asked about ways to mitigate the labor shortage and high costs needed to attract employees, he mentioned that it's essential to care about the people, and to make everyone feel that they're part of a team and a fun culture.

"It's very important to us that we create a team environment with meaningful and fun activities," Goldfarb says. "We're also spending a lot of time focused on helping the local communities, and employees feel good about that. We're very involved in local, regional and national charities. We're not just supporting the communities with capital, but we're also providing warm meals to areas that are hard hit by COVID."

> **2020 was messy. 2021 was a real improvement. We've seen tremendous resilience.**
>
> **Jason Abt**
> Managing Director, Houlihan Lokey

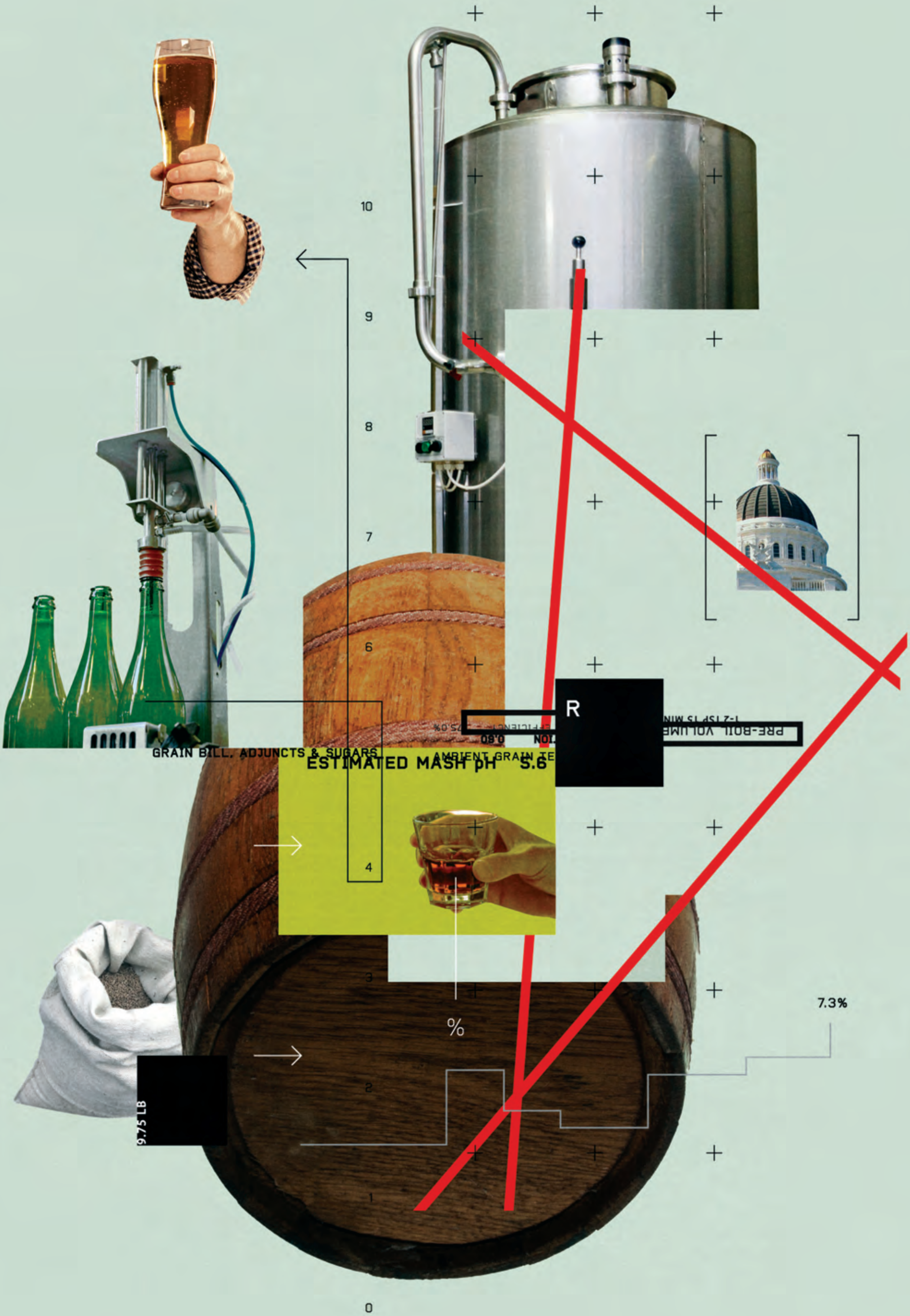
Inflation in general is also contributing to higher costs for restaurants, but experts believe that consumers will adapt to rising prices when dining at their favorite spots. That, in turn, could contribute to further growth and a return to a buoyant M&A market this year.

Additionally, the Department of Labor found that the cost of groceries rose faster in the last 12 months than the cost of eating away from home, which would again benefit restaurants.

Even in an inflationary environment, private equity firms are confident restaurants remain an attractive sector to put dollars to work.

"You know you're going to grow sales and hopefully grow profit," says Wells of 10 Point Capital. "It's a pretty compelling space, so I would expect to see a bigger year of restaurant M&A activity in 2022." //

MARINE COLE is a financial writer and editor based in the San Francisco Bay Area.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WRITTEN BY
Joanne Cleaver

ILLUSTRATIONS BY
Stuart Bradford

FOR PATIENT INVESTORS, BREWERIES AND DISTILLERIES OFFER A *Shot at Growth* AND A *Smooth Exit*

The beer and spirits industries are infused with production and regulatory complications, but also offer a shot at growth for determined investors

Past tiny farms clinging to the hills outside Winston-Salem, North Carolina, down a narrow road through a small wood, lies a mountain meadow set for a party. Within view of pecking chickens, a gentle slope is outfitted with swept-clean wooden decks, picnic tables and serving bars. Inside a long, narrow building of silver-weathered wood is the rapidly growing operation of the Old Nick Williams Co. Farm & Distillery.

In 2014, the Williams family resurrected the whiskey distillery thrown off course when North Carolina led the nation in 1908 to enact Prohibition. Now, the business is expanding its operation that converts North Carolina-grown corn, wheat and barley into bourbon, produced under its own name and on behalf of other brands.

It took more than a century to get back on track, but the family's patience paid off. In North Carolina and across the country, the craft distilling and brewing industries have shifted into high gear, driven by easing regulations and a more diversified infrastructure that promotes innovation.

For investors, this growth means opportunity—though patience remains the key to success for them, too.

The breweries and distilleries that dot the Winston-Salem landscape illustrate the typical pattern of expansion: one neighborhood and one city at a time.

PLAYING THE LONG GAME

Daniel Spivey is brand manager for Broad Branch Distillery, which showcases huge casks in picture windows and serves guests tasting flights of bourbon, rye and whiskey at an adjacent wooden bar. Two families founded the distillery and have paced its growth with the aging process of the spirits—a factor often invisible to eager outside investors.

"This is a very front-loaded business," explains Spivey, adding that at Broad Branch, any barrels produced today won't turn into bottled whiskey for at least four years. "We have to plan in five-year increments. And for starting, to go from producing 5,000 gallons a year—which is an immense amount for starting—that's not enough to take even a corner of a state. To lock down your local market, you'd have to produce about 20,000 bottles of spirit a year."

It can be daunting and time-consuming to get investors up to speed on the lengthy engineering of brewing and distilling, but some spirits producers use this to their advantage, wielding the educational curve to winnow the merely enthusiastic from the determined.

Broad Branch entertains occasional conversations with potential investors who love the product and want a sip of the action. Typically, potential investors assume that marketing is the most challenging launch factor. But finding a suitable bottle and designing an eye-catching logo are the least of a distillery or brewery's concerns, says Spivey. The most pressing operational challenges exist out of sight of most consumers and casual investors.

REGULATION CHALLENGES

Complications begin with state-level regulations. For instance, North Carolina and 16 other states require hard liquor to be sold only through state-operated stores, a system that streamlines tax revenues but can narrow opportunities to bring product to market.

Navigating this regulatory landscape can quickly quash enthusiasm from investors initially drawn to the allure of the brewery and distillery lifestyle.

"You don't usually get to consume and hang out with your investment. It has a veneer of excitement for an investor," says Nicola Nice, the Westchester, New York-based founder of Pomp and Whimsy, a gin brand formulated for women. "But it's also an incredibly challenging industry in the U.S. because it's so highly regulated. You have to really understand consumer products, but especially this highly regulated world that really sells like a B2B business, not a B2C business. It takes a unique investor."

For those unique investors willing to ride that education curve, opportunities are flourishing, especially as some regulations ease.

The Brewers Association reports that, despite pandemic-induced bumps, the industry grew consistently in the past two years. In July 2021, the country counted 8,848 breweries, an all-time high, according to the Association, with two-thirds of Americans living within 10 miles of a brewery.

Meanwhile, the volume of production through craft distilleries is growing at a 7.3% annual rate, according to the American Craft Spirits Association. There were 2,290 craft distilleries operating across the country in 2021, and their owners invested $759 million into their businesses—an increase of $61 million from 2019, according to the association.

POCKETS OF OPPORTUNITY

Investors seeking a foothold in the industry might start by looking at where small liquor and beer operations are opening up, especially if they open in clusters, says Jason Thiel, president of the Downtown Winston-Salem Partnership, which helps foster economic development in the city and surrounding areas. Distilleries with tasting bars, craft breweries and adjacent restaurants often form small entertainment districts that draw more people than any one facility could on its own, he says.

Industry events present networking opportunities for investors to mingle with key players in the sector. According to Thiel, brewmasters and master distillers are the songwriters and lead musicians of the industry, often developing avid followings among restaurant managers, tasting clubs and others who wield wide influence—and who drive brand placement and purchasing.

Investors will also be keen to seek out brewers and distillers that have carved out their own niche.

For Nice, who conceived of Pomp and Whimsy in 2015 with a formulation and branding to evoke the elegance of the Great Gatsby era, that niche existed with women who like to entertain at home with unique drinks.

"As a female drinker, I felt I wasn't being taken seriously, and as a female entrepreneur, I realized this was a missed opportunity," she says. A paucity of women in the supply and distribution chain partially explained the tone-deaf product formulations and marketing, she believes.

"If we're going to do this well and not make it just 'skinny this' and 'sexy that,' then we need more women creating elevated, aspirational brand experiences that are not exclusive to women," she says.

Including founder funding, Nice has raised nearly $4 million to launch the brand, including a $2.65 million seed round.

THE PATH FOR EARLY INVESTORS

Contract distilling is the secret to launching a new brand, says Nice. The long lead time for aging a new formulation creates a parallel revenue stream for distilleries while relieving startup brands from the burden of building their own operation.

That same lead time is what nearly guarantees an exit path for early investors, explains Nice. Major brands don't want to tie up cash in the elongated startup cycle, so they are eager to help new brands get established, with the expectation of buying them once the new brands are ready to enter mainstream distribution.

"I saw firsthand how the large suppliers are doing less innovation and using the entrepreneurial model of investing in or buying a startup when it needs to scale," says Nice. "In our industry, the path to exit is extremely well established. That is very attractive to investors, to know that if we grow this business to a certain size, that one of our major targets will buy us. And the valuations are usually 5-10x gross revenue."

Back in Winston-Salem, Broad Branch is on the brink of welcoming external investors for the first time. Spivey says the time will be right when Broad Branch founders have aligned capacity and demand for a contract distilling operation. He estimates that the $1 million that Broad Branch might pursue from outsiders would be channeled into a still, ingredient handling, and the expertise to manage contracts and relationships with new brands that tap Broad Branch's capabilities.

But Spivey is willing to wait for the right capital from the right people. That means investors who aren't just passionate about spirits, but who also understand the logistics-heavy nature of the market, its regulatory challenges, and the patience required to produce quality product.

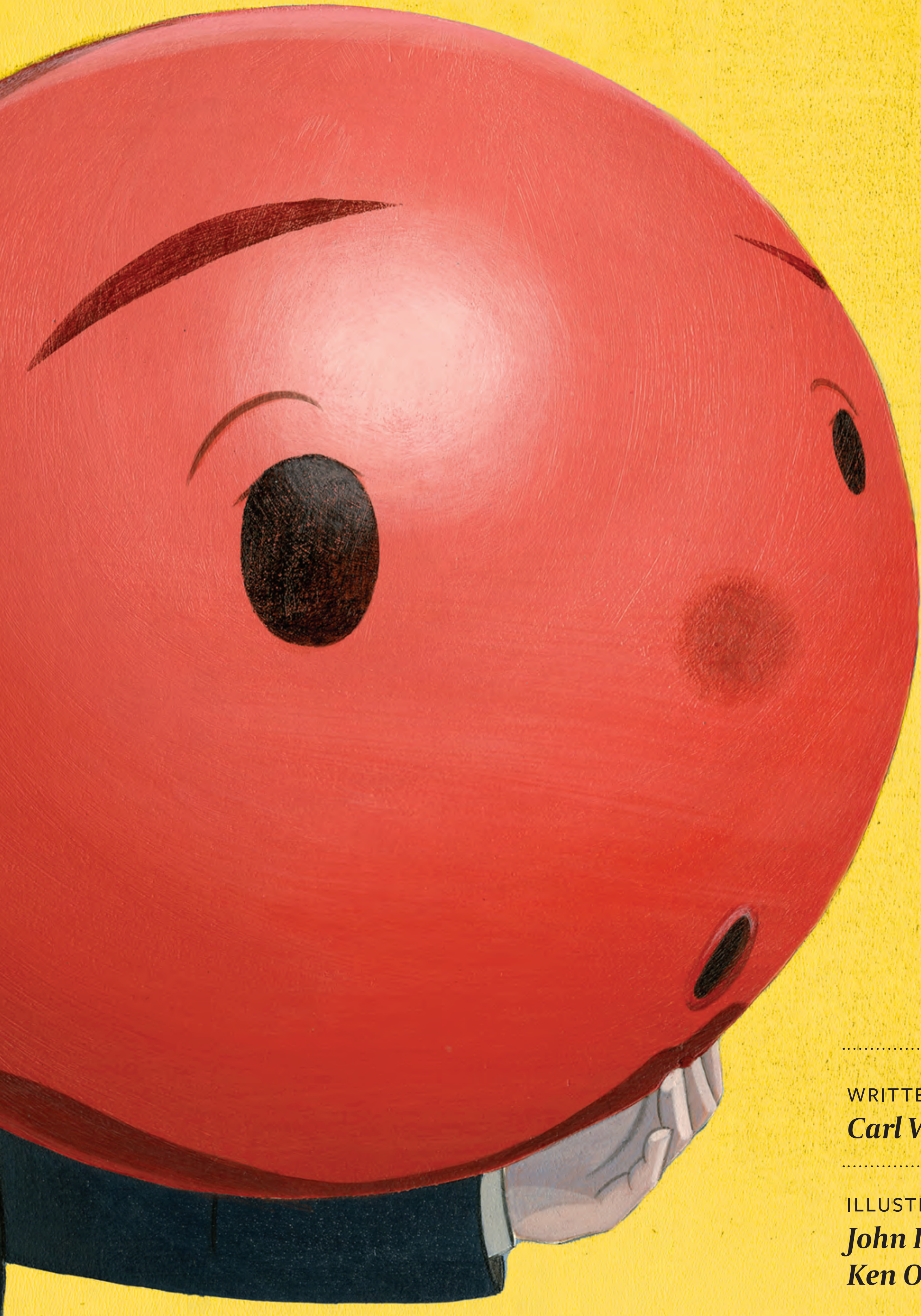
"Our motto is that 53 gallons of patience go into every bottle," he says. //

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

Above photo courtesy of Pomp & Whimsy

INFLATION
LEADS PRIVATE EQUITY EXECS, LENDERS TO *Confront* A NEW REALITY

The knock-on effects of the coronavirus pandemic are creating an inflationary environment not seen in decades. Here's how middle-market investors are approaching it.



WRITTEN BY
Carl Winfield

ILLUSTRATIONS BY
John Krause &
Ken Orvidas

Inflation is defining the market for the first time in more than 30 years. The consumer price index increased by roughly 7% in 2021, the largest jump since 1982. Even the costs of consumer staples such as chicken, for example, had risen by 15% as of November 2021. Gas prices saw the largest hike, at about a 50% rise, while hotel stays and cars have become costlier as well. The recent conflict in Ukraine and resulting sanctions on Russia are likely to keep gas prices climbing.

Faced with higher input costs, middle-market businesses and their private equity sponsors are having to adjust their expectations for growth and profitability, and in some cases, rethink their approach to M&A.

"Businesses are experiencing rising costs from several different angles in their operations," says James Fellows, CIO at First Eagle Alternative Credit, a direct lending and tradable credit firm. "It's a combination of the supply chain, and higher energy and labor costs."

Although it's tempting to attribute the current inflationary environment to the pandemic, much of it stems from trade hostilities between the U.S. and China. To be sure, Moody's Investors Service had reported that, as of May 2021, U.S. importers had absorbed more than 90% of additional costs resulting from the 20% U.S. tariff on Chinese goods put in place during former President Donald Trump's administration. But the tariffs had only made inflation more acute.

The consumer price index, a measure of the change in prices for consumer goods and services, had risen by 1.9% from December 2017 to December 2018, according to the Bureau of Labor Statistics, and consumer prices rose 2.1% in both 2017 and 2016. COVID-19 hasn't helped. Its knock-on effects caused the global supply chain to seize up, while stimulus measures around the world increased people's purchasing power without increasing production. At the same time, companies that are transporting parts, components and other products from a backlog of container ships are now having to pay hefty overtime rates to do so.

In response to these rising costs, companies are looking for ways to close the gaps in their balance sheets.

Meahgan O'Grady, director of business development at Palladium Equity Partners, a private equity firm focused on middle-market companies, says that many attempted to pass through only partial price increases to the end consumer in early 2020. However, prolonged supply chain issues are now compounded by labor shortages, inflation and impending interest rate hikes. That's prompted some businesses to increase prices multiple times in a relatively short period. Palladium's portfolio includes several food brands such as Wise Foods, Teasdale Foods and Second Nature Brands.

"Some [attempts] work better than others," O'Grady says. "But in general, customers understand the pressures and have been accepting."

Joseph Lazewski, senior credit officer at NXT Capital, a middle-market direct lender, says that customers have generally accepted 5-7% price increases on branded food products made by NXT's portfolio companies.

However, Michael Ewald, managing director and global head of private credit at Bain Capital Credit, says that costs aren't always being passed on in the current environment. Specifically, he notes that manufacturing businesses are seeing prices rise for components and labor inputs, largely because of a shortage of labor. But, he adds, manufacturing companies are often expected to decrease their prices over time as they move down the experience curve and can lower their own costs.

Ewald adds that middle-market companies often produce parts for original equipment manufacturers (OEMs). Being relatively far down the chain can inhibit small and midsize businesses' ability to raise prices along the production chain. Some manufacturers are accepting lower profitability in the interim or cutting expenses where they can.

Inflation's impact isn't felt equally across industries. Fellows says that the technology sector is unlikely to experience as much pricing pressure as manufacturing. In healthcare, he adds, the effect varies by subsector. Some of the larger hospitals and nursing homes, for example, are seeing cost increases while BLS data shows prescription drug prices didn't change much from December 2020 to December 2021. Restaurants, meanwhile, are in a particularly difficult position due to labor costs.

"If you're a private equity firm and your specialty is investing in restaurants, it's a bit trickier if you think of the labor side of the equation, and what kinds of assumptions you're going to make on labor," Fellows says.

He adds that while the restaurant sector may become less attractive for M&A because of the uncertainty around labor costs, it's possible that valuations will come down enough to compensate for higher risk.

ADAPTING TO THE NEW REALITY

With inflationary pressures in just about every sector, many companies are now tamping down their growth forecasts and focusing on profitability. At the same time, expectations around deal pricing are beginning to change.

"Private equity sponsors specialize in niche industries, so they may have two to three different deal archetypes, and they're looking for those companies," Ewald says. "What's different now, in terms of those deal archetypes, is what private equity firms are willing to pay for companies given the headwinds of extended inflation. Their focus hasn't changed, but their price expectations have."

The most sought-after businesses today aren't necessarily the same ones that investors flocked to over the past two years. "Smarter" private equity firms are now searching for companies that have pricing power rather than those whose performance was boosted by the pandemic as investors look toward a post-COVID reality, says Max Wolff, managing partner at venture lender Leste Clearway Capital.

> **What's different now ... is what private equity firms are willing to pay for companies given the headwinds of extended inflation.**
>
> **Michael Ewald**
> Head of Private Credit, Bain Capital Credit

One concern for his firm when evaluating prospective borrowers is whether they're planning to raise prices for customers. Another factor is the nature of a company's debt. Wolff suggests investors will make a point of acquiring companies without short-term debt, as shorter maturities will reset interest rates sooner.

As for whether pricing pressures will push independent businesses into the arms of investors, NXT Capital's Lazewski is doubtful.

"I don't think we'll see inflation leading to private companies looking for help," he says. "I believe exits will be more driven by the robust M&A market, and attractiveness to buyers will have more to do with market position than size."

For private equity firms, exits might take longer than usual. Ewald notes that investors could potentially increase their hold periods. He notes that sponsors might have certain price expectations for their exits, which could take longer to realize in an inflationary environment.

In general, lenders are treading carefully as they account for the impact of rising prices throughout the economy. At NXT Capital, diligence efforts for new deals are focusing on immediate margins and understanding pricing trends over 30-, 60-, and 90-day periods, according to Lazewski.

> **A rise in interest rates will take time to trickle down to the root causes of the inflation.**
>
> **Meahgan O'Grady**
> Director of Business Development,
> Palladium Equity Partners

Lenders also have started to change the way that they quantify inflation risk and manage the potential for downside and losses. Ewald says that Bain Capital has become more cautious about companies' performance as it makes lending decisions for private equity-backed deals.

"If you temper expectations from a multiple based on the sponsor paying 14x for a company, you may base your loan quantum off of 12x to make sure you're comfortable," he says.

Lazewski says that considering labor costs is important for all deals now. However, if you're underwriting and financing businesses with strong margins that are also in good positions, it is manageable. NXT is also underwriting its exposure to commodity prices such as fuel and factoring in volatility in other commodities, he says.

WHAT'S AHEAD

A number of economists have predicted that growth in the consumer price index should moderate to around 3% over the course of 2022. Yet that number will ultimately hinge on a return to normalcy for supply chains and energy prices. It's also possible that the Federal Reserve's much-anticipated interest rate hike could temper inflation, according to Palladium's O'Grady. However, she cautions that the effects may not be apparent immediately.

"A rise in interest rates will take time to trickle down to the root causes of the inflation. Furthermore, the rates will likely rise slowly to allow for the economy to digest them," she says. "I'd say we'll have a good idea of how much or how little the rise in rates is helping with inflation by the end of the summer."

Fellows says that the current inflationary scenario could persist for at least a couple of years. Ewald says that portfolio companies are expecting freight issues to last until the end of this year or sometime in 2023 based on forward contracts. Still, the effectiveness of a rate hike, or even a series of them, isn't guaranteed.

"If you go back to the mid-2000s before the financial crisis, the Fed increased rates between 2004 and 2006 from near 0% to 5% and inflation didn't change much," Ewald says. "The Fed is doing what it can do to tame inflation, but it remains to be seen whether it'll work because the supply chain post-COVID is not going to be the same as in the past." Meanwhile, Russia's recent invasion of Ukraine casts further uncertainty on the market and rising costs.

Despite the specter of continuing inflation, many agree that private equity sponsors are in a strong position to help their portfolio companies achieve some level of profitability, even in a challenging market. Investors can also apply lessons from across the portfolio, using the knowledge gleaned from a host of companies to create solutions for others, Lazewski notes.

If history is any guide, middle-market companies could be in for a difficult period, and they'll need all the help they can get.

"When you look at the great inflation of the 1970s along with what was needed to stop it and what occurred when the Fed tried to stop it, it's evident that was a sober time for the markets in general," Fellows says. "Hopefully the Fed doesn't lose control, and we find ourselves in a similar scenario, because there's a lot more leverage in the system today."

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

▶ From left, Cyndx's Sebastian Okser, Chief Technology Officer, and James McVeigh, founder and CEO

THE FUTURE OF *AI-DRIVEN* DEAL ORIGINATION

How Cyndx's global data is re-shaping the future of deal sourcing

PHOTOGRAPHY BY ADAM LERNER

Private company data has traditionally been unstructured, opaque and hard to access. The past few decades have seen the emergence of market intelligence platforms which promised to change this paradigm, but unfortunately M&A professionals can still spend weeks—if not months—wrangling with unstructured data and weeding out false leads.

Cyndx, an AI-enabled search and discovery platform, offers a new approach that fundamentally transforms how investors, advisors and companies identify new business opportunities. It not only offers unprecedented access to data on over 16.5 million global companies and investors, but also offers a suite of proprietary AI-enabled tools for efficiently searching and analyzing the most relevant investment opportunities, including those which would otherwise have gone undetected.

>>

A New Way to Search

A typical market intelligence platform uses keywords or standard industry classifications to categorize companies. When a user performs a search, the platform matches their input to its list of static categories, then spits out results accordingly. For example, if you search for "artificial intelligence" and "finance," companies must be explicitly tagged "artificial intelligence" and/or "finance" to show up in results. Because this methodology relies on a finite number of keywords to define a company or category, it does not provide a realistic or precise view of the business opportunities, particularly in emerging sectors. Because they rely on predetermined labels or keywords, these traditional platforms are limited in their abilities to dynamically identify changes in a business as a result of new product launches, acquisitions, etc.

Cyndx is different. The platform uses AI generated concepts for a company search, which doesn't necessitate a one-to-one keyword match with the exact word or phrase entered in the search bar. Instead, Cyndx uses its proprietary AI to go beyond standard classifications and understand what a company does. Then, through dynamic mapping, it retrieves companies which do the same thing, or something closely related—even if the user doesn't use the exact search term explicitly in their name or official categorization.

Cyndx maps sectors based on what companies are doing right now, not historical categorizations. This freedom from finite keywords means more comprehensive and accurate market landscapes, even for niche sectors. Furthermore, it can accommodate and accurately map companies that are active in multiple areas.

And while a typical database might boast covering 2 million or 4 million companies, Cyndx covers more than five times that—with 16.5 million (and counting) companies and investors represented worldwide.

"Cyndx is not a database—it's a search and discovery platform," says James McVeigh, Cyndx CEO and founder. "We don't just provide data; we offer actionable insights supported by a massive amount of data. It's a very different proposition." Not only will the platform provide you with hundreds of relevant targets, it can also identify the closest public comparables for valuation, flag companies that may soon need funding, locate investors that would be a good fit for the company and provide contact information for key personnel.

The combination of a vastly larger database, dynamic company mapping and an extensive set of filters—all powered by proprietary AI—means that your search is much more likely to yield something relevant. "Cyndx is where you find the most relevant, hard to find companies that might not show up anywhere else," says McVeigh. Finding those great opportunities you had no idea you were missing is exactly what every investment professional is looking for.

Predicting the Future

In today's competitive dealmaking environment, if you're not getting ahead, you're falling behind. Enter Cyndx's Projected to Raise (P2R) feature, which uses data science and predictive analytics to identify which companies are likely to need additional capital in the next six months.

Its projections are remarkably accurate—in studies, 79% of the companies Cyndx predicted would need to raise capital did so within the designated time period. For companies within the United States, that number rises to over 86%. The tool is crucial for any investor looking for relevant deal opportunities regardless of whether they are looking for new platforms or add-on acquisitions.

Another way Cyndx helps market participants stay ahead is with its extensive language translation capabilities—enabling the platform to translate private company information to English from seven different languages including French, German, Italian, Japanese, Portuguese, Russian and Spanish. This means that information that once was siloed on native-language only websites can now become part of the Cyndx platform, expanding the range of business opportunities to every corner of the globe and making them available to its users. "If you're using other sources that track 2 million to 4 million companies, then how do you know that you're seeing the most relevant companies with respect to your target markets? You don't" says McVeigh. "Our goal is to not only help our clients identify new opportunities but also help them see the entire competitive landscape and avoid doing a bad deal." He went on to add that "Cyndx is expected to be tracking over 20 million companies by the end of 2022."

A Seamless End-to-End Solution

Advisory firms, investors, entrepreneurs and corporates use Cyndx in equal measure. The platform has three products: Finder, which focuses primarily on finding acquisition targets; Raiser, which is for raising private growth capital; and Owner, which optimizes cap table management.

While each product has a core use case, there are many additional ways each can add value to a corporate or M&A process, depending on the user's goals at any given point in time. For example, a CEO might start using Cyndx's Owner product to manage his or her cap table. When the company is ready to raise capital, it begins using Raiser to identify potential investors. The company then grows to the point

> **Cyndx is where you find the most relevant, hard to find companies that might not show up anywhere else.**
>
> **James McVeigh**
> CEO and Founder

that it's interested in making acquisitions and uses Finder to identify targets. Once the investor has acquired a company, the firm can use Finder's people search to look for potential hires for the new business.

The broadness of Cyndx's applicability is one of its greatest value-adds. "I had one private equity firm tell me that they use the platform all the time to find target customers for their portfolio companies. They target the search around the company's best existing customer and the Finder results identify for them a list of 500 target customers with their contact information," says McVeigh.

McVeigh's original vision for Cyndx was to help lower middle-market companies identify the right counterparties. As an investment banker himself, McVeigh knew that these smaller companies often didn't have the funds to hire a banker, and that bankers were rarely interested in working on these smaller deals. But today, the platform is just as useful for the world's largest banks and corporations as it is for a one-person startup. "It's a lot like Google, in that everyone uses the same platform. The interface is the same and the data that powers the algorithms is the same," says McVeigh. Users can also integrate their own data into the results. For example, an investment bank can integrate past calling efforts into company search results so that searches become proprietary to the bank and fit seamlessly into its processes.

"I built the product I would have wanted when I was an investment banker," adds McVeigh. "We have two independent divisions within the Cyndx family of businesses: an investment bank and a technology business. We leverage the knowledge of our investment bankers when we're designing our product. Our priority is to make it very easy and intuitive for our users. Whether you've been doing deals for decades or are right out of school, you can pick it up in minutes." //


GrowthTV

The Wrap-up

A RECAP OF RECENT ACG EVENTS

> **"ACG St. Louis DealSource 2022 exceeded all expectations, bringing together attendees from across the region involved in the M&A market.**
>
> **Amy Ruebsam**
> Executive Director,
> ACG St. Louis

ACG NEW YORK

After a one-year hiatus, ACG New York held Middle Market Week from November 8-12. Historically popular among all ACG chapter members, Middle Market Week is a series of bespoke and custom-curated gatherings that focus on middle-market fundraising and deal-sourcing.

The week kicked off with a Deutsche Bank-sponsored opening night reception at the famous Butter restaurant in Manhattan. It was followed by a senior LP, GP and Family Office Summit, which welcomed more than 150 institutional LPs and single-family offices to take part in one-on-one fundraising, co-investing and direct deal investing meetings with multiple managers.

The event's highlight was a wine tasting at the New York landmark Tavern on the Green. About 200 senior investment banking and private equity members gathered for pre-scheduled deal meetings and sommelier-led wine tasting. Middle Market Week ended with an invite-only operating partner set of workshops followed by a special value creation luncheon.

ACG RICHMOND

ACG Richmond gathered dealmakers across Virginia to attend The Path to Growth: Solving the Human Capital Conundrum on December 9 at Dominion Payroll in Richmond. Middle-market experts discussed how employees are vital to the industry and how to manage talent most effectively. They also talked about recruitment and retention.

Speakers included Dr. Richard Coughlan, director of executive education at the University of Richmond; Richard Crawford, CEO of Integrated Global Services; Lynn White, chief of staff at Genworth; and Brian Vanderheyden, CEO of Richmond Alarm Company. The event was moderated by Kelley Powell, CEO of MacLaurin Group, and sponsored by SS&C IntraLinks.

“Regardless of industry or size, the human capital conundrum facing CEOs is the same. Combining flexibility with accountability requires agile leaders capable of communicating in new and increasingly relevant ways. While these demands on leaders may be a challenge for some, it has provided an opportunity for emerging leaders to shine.

Kelley Powell
CEO, MacLaurin Group

ACG LA

On Thursday, December 2, ACG Los Angeles hosted the 11th Annual Private Equity Roundtable PE/IB Golf Invitational at Pelican Hill Golf Resort in Newport Coast. Over the last decade, ACG Los Angeles has created one of the highest-value golf invitationals for private equity and investment banking professionals on the West Coast. With participants from Los Angeles, San Francisco, San Diego, Denver, Salt Lake City and Phoenix, this has become a “who’s who” event.

This invitation-only golf tournament featured 50 senior professionals from West Coast-based private equity firms, investment banks and select sponsors. It also offered an afternoon reception with food and drinks and an awards ceremony. The event sponsors included Alliant, Lockton, Barnes and Thornburg and RSM.

ACG SAN DIEGO

About 45 people attended ACG San Diego's PE-Backed Buy and Build Success Story: Professional Services Infrastructure Company on January 18 at the Lomas Santa Fe Country Club in Solana Beach.

The panel talked about the completed sale of Anser Advisory, a capital program and project advisory company. They discussed how Anser was developed as a private equity-backed platform through organic growth and acquisitions.

Speakers included Bryan Carruthers, CEO at Anser Advisory; Scott Kolbrenner, managing director at Houlihan Lokey; and Sharon Humphreys, director of engineering and construction at the San Diego Association of Governments. The event was moderated by Anthony Arnold, partner at Barnes and Thornburg.

ACG TENNESSEE

ACG Tennessee hosted Soup to Nuts: How Does a Deal Come Together on December 9 in Nashville.

The panel talked to 35 attendees about how deals come together and the right timing for transactions. The event was one of ACG Tennessee's Young Professional quarterly meetings that strive to educate professionals new to M&A and offer insights from experienced leaders.

The speakers broke down the M&A process for attendees and walked through a deal from start to finish, answering questions such as what needs to happen before a buyer signs on the dotted line.

Moderated by Jessica Ginsberg of LFM Capital, the event featured speakers including Patrick Landry of RSM US, Jack Eakin of LCG Advisors, Pat O'Brien of Synovus and Tyson Bickley of Waller Law.

ACG BOSTON

About 40 people attended ACG Boston's 8th Annual Connect the Next Generation to M&A on January 7 in a virtual meeting. This members-only event allowed attendees to bring their college-aged children or other students in their networks to meet ACG members in a welcoming environment.

Panelists talked about how they entered the M&A industry. After the discussion, attendees entered virtual breakout rooms to meet others. The panelists came from different sectors of the deal community including private equity, investment banking and law firms. They talked about how their career paths led them to their current roles, and the traits and skills that are valuable in their roles and the M&A industry.

They also discussed how each of their roles, while very different, all work together to get deals done, stressing the importance of relationships and building a strong network. Over the last eight years, the event has grown and many students have landed internships and jobs by participating.

Speakers included Christina Pai, partner at Fort Point Capital; Rudy Scarito, founder and president of RS Finance and Consulting; and Louis Spelios, partner at Bryan Cave Leighton Paisner.

ACG ST. LOUIS

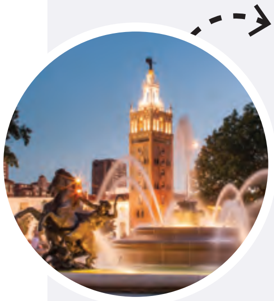
ACG St. Louis kicked off 2022 with its annual ACG DealSource networking event on January 27 at the Ritz-Carlton in St. Louis.

Now in its fourth year, the event began with top senior leaders, mezzanine capital providers, private equity groups, investment bankers and business owners stopping by for one-on-one meetings.

The meetings were followed by craft beer and spirits tasting while networking with other middle-market professionals. The next day many returned for the Private Equity Perspectives Breakfast that included a panel presentation of leading St. Louis firms addressing trends in private equity.

Upcoming ACG Events

- **APRIL 5-6** – 2022 Raleigh Durham Capital Conference and DealSource – ACG Raleigh Durham
- **APRIL 5** – VIP Corporate Development Officer Roundtable Series – ACG New York
- **APRIL 12** – NextGen: Financing the Deal – ACG Wisconsin
- **APRIL 14** – Breaking Barriers to Capital Access: Private Equity – Minority- and Women-Owned Businesses – ACG Los Angeles
- **APRIL 25-27** – ACG Intergrowth in Las Vegas
- **MAY 5** – 2022 Corporate Growth Conference and Awards – ACG New Jersey
- **MAY 5** – Women in Leadership Power Lunch – ACG Orange County



- **MAY 9** – 2022 Edward Stacy Crumm Memorial Golf Tournament - ACG Kansas City
- **JUNE 2** – Consumer Trends in the Middle Market – ACG Los Angeles
- **JUNE 9** – Second Annual Technology M&A Conference – ACG New York
- **JUNE 9** – 2022 Private Equity Roundtable DealSource – ACG Los Angeles

Key
TAKEAWAYS

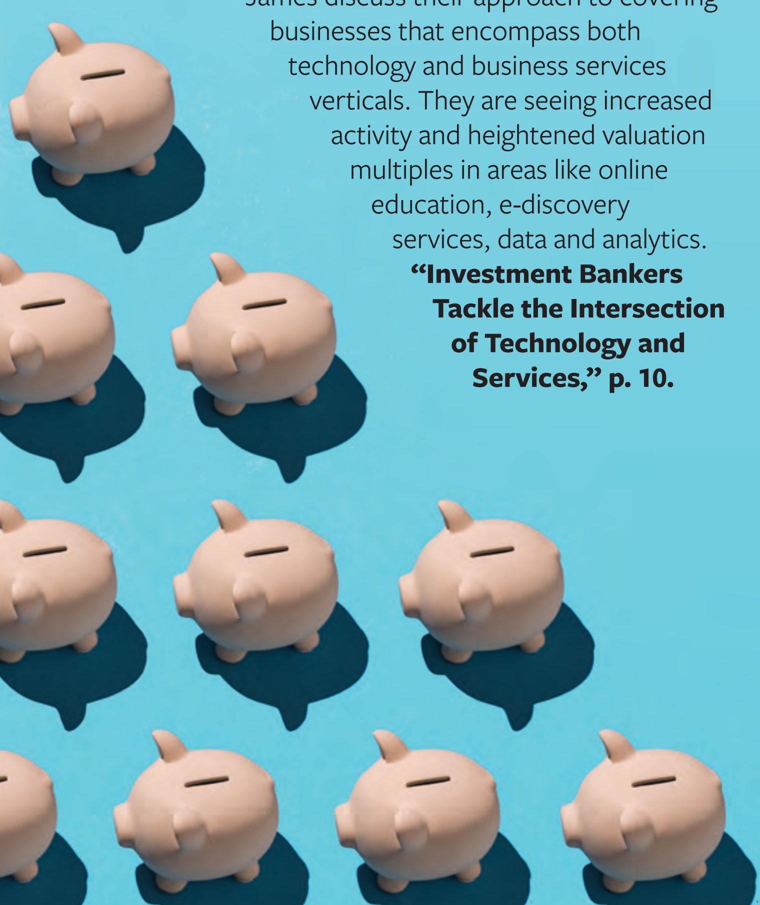
CATCH UP QUICK: From novel approaches to sector coverage at investment banks to rising concerns about inflation risk, here are some of the highlights from this edition of *DealMaker*.

1 INVESTMENT OPPORTUNITIES IN RESTAURANTS AND BREWERIES

Private equity firms have been investing in a considerable amount of restaurant chains despite ongoing challenges brought on by the pandemic. Some of the new deals included businesses that have been successful with delivery, take-out and outdoor dining. While restaurants are usually seeing activity in mature businesses, breweries and distilleries offer investors a chance to tap into a niche, often involving small craft beer purveyors, family businesses and startups. **"Investors Gobble Up Restaurants Despite COVID Challenges," p. 34. "For Patient Investors, Breweries and Distilleries Offer a Shot at Growth and a Smooth Exit," p. 40.**

2 THE INTERMINGLING OF TECHNOLOGY AND SERVICES

Bankers from William Blair and Raymond James discuss their approach to covering businesses that encompass both technology and business services verticals. They are seeing increased activity and heightened valuation multiples in areas like online education, e-discovery services, data and analytics. **"Investment Bankers Tackle the Intersection of Technology and Services," p. 10.**



3 CALIFORNIA DREAMING

Several of the biggest middle-market fundraisers in the second half of 2021 were California-based firms, including Levine Leichtman Capital Partners, Vance Street Capital, Bertram Capital and Shamrock Capital. Some of the funds were raised by new firms or were first-time vehicles for established alternative investors. **"Mid-Market Fundraising Booms in 2021," p. 16.**

4 A SILVER LINING

The COVID-19 pandemic and related lockdowns led to a renewed focus on health and wellness. Now the interest in at-home fitness, healthy food, vitamins and outdoor sports is creating ongoing M&A opportunities. **"Investing in Well-Being," p. 26**

5 INFLATION PRESSURE

As prices rise on gas, food staples, hotel stays, used cars and a variety of other items, investors are weighing the risks to their portfolio companies. Many are considering the pricing power of these businesses to pass through costs to their end buyers. **"Private Equity Execs and Lenders Confront Inflation Risk," p. 44.**

6 INDUSTRY COVERAGE IN A FAST-PACED WORLD

The unprecedented speed and volume of deal-making in 2021 led many investors to narrow their funnels and focus on a handful of sectors that they already know well. Harris Williams questions whether that will continue to be their approach this year. The bankers also share how private equity firms can tap into quality industry expertise by identifying common themes between sectors and applying knowledge from one industry to yet-unchartered territories. **"Beyond Industry Expertise," p. 14.**

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

26	7	1.9	140+	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**.

PENINSULA CAPITAL PARTNERS — ONE DETROIT CENTER, 500 WOODWARD AVE., SUITE 2800, DETROIT, MI 48226 // PHONE: 313.237.5100

Peninsula Capital Partners L.L.C.

PENINSULA **BUILDS** BUSINESSES

American Alloy

ACQUIRES

Badger Sheet Metal Works

CLOSED: JANUARY 2022

SaveOn

ACQUIRES

Metro Super Saver

CLOSED: JANUARY 2022

Centaris

ACQUIRES

VisiCom Services, Inc. CompleteNetworkCare

CLOSED: DECEMBER 2021

PowerVac Comprehensive Jet-Vac Cleaning Services

ACQUIRES

Strain Electric

CLOSED: DECEMBER 2021

SaveOn

ACQUIRES

HomePros Guide

CLOSED: JULY 2021

SaveOn

ACQUIRES

Trader Magazine

CLOSED: APRIL 2021

PowerVac Comprehensive Jet-Vac Cleaning Services

ACQUIRES

Pipeline Management Co.

CLOSED: DECEMBER 2020

PowerVac Comprehensive Jet-Vac Cleaning Services

ACQUIRES

B & B Grease Trap & Drain Cleaners

CLOSED: OCTOBER 2020

PowerVac Comprehensive Jet-Vac Cleaning Services

ACQUIRES

Fire & Ice Mechanical, Inc.

CLOSED: JULY 2020