

MIDDLE MARKET DealMaker

What the
FUTURE HOLDS
for Energy
M&A

A pandemic, war and ESG have made an already volatile industry even more frenetic. Where does that leave energy M&A in the middle market?





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KATIE MULLIGAN
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Summer Living

Summer has finally arrived for those of us living in Chicago, after an extended spell of cold and rain. We're gearing up for outdoor dining, afternoons at Lake Michigan and weekend road trips—although the latter will cost a pretty penny this season, thanks to high gas prices.

Volatile energy costs aren't just affecting summer travelers, of course; they've also thrown a major curveball at dealmakers in the oil and gas sector. Our cover story in this edition examines the state of energy M&A, and how rising commodity prices are influencing decision-making.

The war in Ukraine and the aftershocks of the pandemic are largely to blame for the supply-and-demand imbalance in the oil and gas market, but our writer Hal Conick addresses another factor that's looming large: Environmental, social and governance concerns are playing a greater role in investment decisions, and the "E" in ESG, in particular, has led some players to step back from fossil fuel extraction. That exodus could create room for investors willing to stay in the space.

Environmental considerations have also affected the terms under which deals move forward, via requirements to reduce wastewater or gas leakage, for example. Even when the war ends and the pandemic's impacts recede from view, ESG will likely continue to play an outsize role in energy M&A.

Rising gas prices are part of the broader inflationary trend that's increasing the cost of living across the board. As always, that pain will be felt more acutely in parts of the country that were more expensive to begin with, and employers are looking for ways to address that reality. The desire to give employees a lower-cost alternative to New York and other northern cities has fueled financial firms' migration southward, as more and more open offices in Florida.

Leaders of those organizations cite an overall better standard of living for employees as one driver for the relocation. In this issue, we dig into what else is motivating the moves, and whether "Wall Street South" is a fad or a fundamental shift in the U.S. financial landscape.

The ongoing war for talent is part of the backdrop to these decisions, and firms are learning that a southern office can be an incentive for new hires. Compensation will always matter, but maybe the added benefit of winter sunshine will give employers an extra edge. //



THOMAS BOHN,
CAE, MBA
President and CEO, ACG

ACG Successes Bode Well for Middle-Market M&A

Optimism plus courage equals progress—that’s how I’ve always pushed forward. It’s what I’ve believed throughout my career, and it’s what I still believe now.

But at the start of 2022, to be perfectly honest, I wasn’t sure how the year would go.

I wanted to stay positive. However, we’d just come off nearly two years of a pandemic. Although it appeared we’d turned a corner, there was always the dark specter of another variant around the bend.

But for ACG, there was another potential pitfall—InterGrowth, ACG’s annual conference that had been canceled for two years due to COVID.

At the same time, we’d boldly forged ahead in March with our acquisition of GF Data, the leading provider of middle-market transaction multiples and other deal data.

But now I’m more confident than ever that 2022 will be stellar for the middle market. Although there are signs that a recession may be around the corner, the dealmaking engine is still firing on all cylinders based on signs at ACG.

For instance, despite challenges in the first quarter—including war in Ukraine, a commodities price surge, an interest rate hike and supply chain issues—GF Data’s Q1 report showed that valuations for private equity-backed mid-market transactions held steady at an average of 7.3x EBITDA, and 253 active private equity contributors reported on 56 transactions, which met standard parameters.

Meanwhile, InterGrowth surpassed all our expectations. A record number of people, almost 3,000 professionals, joined us at the ARIA Resort and Casino in Las Vegas in April. We not only matched our projections for the year, we surpassed them.

Also, the event experienced a 56% increase in private equity attendance and nearly doubled the number of participating investment bankers. It was the biggest InterGrowth to date, and in my opinion, the most successful InterGrowth conference that we’ve ever had.

All of this makes me believe that we are finally putting the pandemic in the rearview mirror, and this year is going to be a bright spot after two years of darkness.

While no one knows exactly what the future will bring, the first half of 2022 is trending well, and I’m confident the middle-market winds will continue to blow toward promising shores. //

A stylized, handwritten signature in black ink, appearing to be 'TB' followed by a flourish.



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More and more financial services firms are opening offices in Florida, a migration that started pre-pandemic but gained steam over the past few years. Warm weather and low taxes are among the drivers, even as the rapid influx of firms creates growing pains for this new financial hub.

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Finding Value in Healthcare

Value-based care and healthcare IT continued to draw investors in the first quarter of 2022, as companies and sponsors work to build bigger platforms

BY BAILEY MCCANN

After a record-breaking fourth quarter of 2021, many industry observers expected to see deal flow slow down going into 2022, but that hasn't happened in healthcare. Value-based care providers and healthcare IT companies are two categories capturing sponsor interest.

These two subsectors of healthcare have expanded during the pandemic as the need for healthcare services increased and, specifically, as demand for virtual care and telehealth spiked. Interest in these services is likely to remain elevated as aging populations in the U.S. turn to remote solutions for routine visits that don't necessarily require in-person consultations.

Additionally, large hospital systems

and provider groups continue to modernize operations. They're increasingly seeking technology solutions that can support not just electronic health records but more comprehensive administrative services, including practice management.

Value-based Care

The first quarter of 2022 saw a handful of deals in value-based care, a healthcare reimbursement model that pays based on patient outcomes instead of volume of claims. In February, New York-based Kinderhook Industries made a \$500 million investment in Physician Partners, a value-based primary care physician group and managed service organization headquartered in Florida. Physician Partners has a patient member network of 137,000 and a network of over 545 physicians throughout the state.

In March, three provider groups—Fresenius Health Partners, Cricket Health and InterWell Health—combined to form a new value-based care company focused on services for early-stage kidney disease. The new combined entity is valued at \$2.4 billion.

For Dustin Thompson, a director at Provident Healthcare Partners, an investment bank focused on healthcare, these deals reflect one of the bigger trends in value-based care right now: a focus on platform deals.

“Last year, we saw several large deals and companies going public. I don't think you're going to see that happen as much this year. It's harder to take companies public right now, and sponsors are focusing on growth, which favors platform deals,” he explains. “We currently have about 50 platforms in value-based care, and they all have plenty of cash to put to work. There are also a number of large independent groups that are looking to expand through acquisitions.”

Thompson notes that by creating platforms with networks of providers, value-based care companies can achieve the efficiencies necessary for their model to work. Just over a decade ago, Medicare Advantage Plans—the most common insurance option among older people—switched to a value-based care model to cut costs and improve patient outcomes. Medicare now requires providers to take on many of the costs of patient care as part of their operating expenses, a practice known as risk sharing. Medicare will only reimburse claims that lead to improvements in patient care.

Value-based care requires providers (and their private equity sponsors) to focus on efficiency and only order tests or procedures that are necessary. If Medicare thinks providers are submitting too many claims, it may decline to reimburse them. Within provider groups, that reality is driving consolidation as larger platforms seek to benefit from economies of scale. Larger platforms manage more patients, so they can take advantage of having a higher number of “necessary” claims. Platforms can also cut costs through technological improvements and by streamlining administrative work.

“Platforms are really valuable,” Thompson says. “There are some natural barriers to entry as well. If you're an investor looking to get into the space and you don't have a primary care platform, you can get priced out easily. There is a lot of competition for these companies.”

John McDonald, senior managing director at investment bank Hyde Park Capital, agrees. “We're working on a debt capital raise for a large primary care company in Florida to support them as they acquire other practices. The market is still very healthy for deals, especially if you have a quality company, and we expect that to continue as the push for consolidation grows.”

“If you're an investor looking to get into the space and you don't have a primary care platform, you can get priced out easily. There is a lot of competition for these companies.”

DUSTIN THOMPSON
Director, Provident Healthcare Partners

Healthcare IT

Healthcare information technology is another area where platforms are driving deal flow. In March, Morgan Stanley Capital Partners, the middle-market focused private equity team at Morgan Stanley Investment Management, acquired a controlling interest in SpendMend from Sheridan Capital Partners. Investment bank Harris Williams worked with Morgan Stanley Capital on the deal.

Based in Grand Rapids, Michigan, SpendMend provides technology solutions for cost cycle management in healthcare. The company serves more than a third of the top 100 health systems. Its technology identifies instances of payment errors and tracks payment compliance within hospitals' operating expenses. SpendMend has grown into one of

“ It can be tempting to think of healthcare IT as just the big incumbent electronic medical records providers or the telemedicine providers, but IT is a really diverse part of the healthcare market.

DAN LINSALATA
Managing Director, Harris
Williams Technology Group



the largest platforms in the industry through organic growth as well as strategic M&A, having completed four acquisitions since 2017.

Dan Linsalata, a managing director in the Harris Williams Technology Group who focuses on healthcare IT, says that he expects this kind of consolidation to continue. “It can be tempting to think of healthcare IT as just the big incumbent electronic medical records providers or the telemedicine providers, but IT is a really diverse part of the healthcare market. There are companies from the venture stage through the buyout stage that are in the market making acquisitions or getting new investments from sponsors,” he explains. “As providers continue to modernize, the need for technology solutions will continue to grow.”

Healthcare IT as a sector can include anything from companies like SpendMend to patient platforms

that support texting with doctors or even specialist care. Linsalata says many patients expect a tech-enabled experience, and that’s driving adoption of these solutions. “On one hand, providers need administrative systems that can support exponentially larger numbers of patients because we have an aging population,” Linsalata says. “On the other hand, there is a growing interest in specialized care, tech-enabled health services and care coordination, all of which require support. So there are organic growth opportunities and there are opportunities to put platforms together that can support that demand.”

Linsalata, Thompson and McDonald all say they expect elevated M&A activity in healthcare IT over the medium term. Private equity and venture funds, strategic buyers and other investors have unprecedented levels of cash that needs to be put to

work. That money, coupled with the push toward greater consolidation through platforms, is creating conditions for an M&A cycle that will likely last several years.

“I think you’re going to see activity at all levels, all types of deal sizes. What we’re hearing from market participants is that there is ongoing demand for quality companies, add-on opportunities, platform opportunities,” says Linsalata. “It’s important to remember that the majority of deals in healthcare are sponsor-to-sponsor or sponsor-to-strategic [sales]. As companies mature, you’ll see them move on to sponsors that can support them through the next phase of growth. There is a very robust ecosystem within healthcare.” //

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

The Co-Investment Landscape Review: Breaking Down Key Trends Shaping Co-investment Activity

As private equity (PE) dealmaking heated up in the past decade, limited partners (LPs) sought to gain even more exposure to the asset class. Simultaneously, general partners (GPs) at PE firms began to band together more than ever. Drawing on PitchBook datasets, Troutman Pepper explores these trends in depth in its latest report, reviewing the implications of these developments and how they intertwine.

Executive Summary

- Raising pools of capital for investing alongside GPs in private markets has rarely been more popular. Co-investment fund count reached a worldwide high in 2020 at 159 closed pools of capital, amassing \$15.5 billion in commitments. Although 2021 saw a downturn in volume, more than \$20 billion was committed to co-investment vehicles. Key drivers of this growth include LPs seeking higher returns in private markets, the growth in investable opportunities at the late stage of venture, and a broader base of active investment firms competing to retain or establish relationships with more LPs.
- Close to a decade ago, Pepper Hamilton (now Troutman Pepper) sponsored [a study](#) that foreshadowed much of this trend. It found significant demand by LPs for co-investment opportunities despite their complex fee structures and other hurdles. Now, that demand has crystallized into dedicated co-investment fundraising and subsequent activity.
- In terms of asset class focus for co-investment fundraising, venture capital (VC) funds predominated in volume, with well over 1,500 VC-focused vehicles closed in 2021.
- Co-investment funds focused on PE retained the plurality of capital committed, given their specific array of strategies and alignment with some of the larger LPs, amassing \$461.4 billion in 2021.
- As co-investment fundraising grew in popularity, so did club PE dealmaking, surging to a record

4,636 transactions completed in 2021 that totaled \$387.7 billion in deal value. LPs joined in at a record rate, participating in 245 transactions for more than \$45 billion in associated deal value.

- Looking ahead, the array of challenges for PE dealmakers may prompt an overall slowdown, potentially even among club PE dealmaking. That said, investment fundraising will likely subside only slightly.



[Download a copy of "The Co-Investment Landscape Review: Breaking Down Key Trends Shaping Co-investment Activity" \(PDF\)](#)

Methodology

All of the data in this report represents closed funds and completed transactions. All PE deals data was defined using PitchBook's dedicated report methodology for private equity, which can be found [here](#) in the section for the U.S. PE Breakdown. For co-investment fundraising, the dedicated PitchBook fund type of co-investment was used. Co-investment fundraising was broken out by other PitchBook primary fund type classes. Co-investing or club activity includes buyouts and other investments that involved two or more general partners. All sample sizes that were non-normative—that is, the underlying population of data counts was under 30—are noted as such.

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Digitizing the Due Diligence Process in PE Will Lead to Value Creation Faster



BY BRAD HALLER (LEFT)
AND KEITH CAMPBELL,
SENIOR PARTNERS,
WEST MONROE

Modernization challenges every industry. Longstanding practices often linger for a reason, and their depth of use within any company can make them tough habits to break. This is especially true when the stakes are as high as they can be in the due diligence process in private equity.

But for PE firms to gain an edge in the market, their due diligence process needs a digital upgrade—and a shift from risk mitigation toward identification of value-creation opportunities.

Even though automating financial models is a relatively cost-effective and straightforward endeavor, many PE firms continue to use the Excel spreadsheets they've been using for the past 25 years to build deal models and analyze data. This limits the inputs and lens through which PE firms evaluate investments versus expanding their aperture to take in new data sources.

West Monroe recently conducted a survey of 100 private equity leaders (half on the deal side and half on the operating side) on the state of due diligence today, along with their expectations—and predictions—for the future.

Respondents gave insights into how they view the evolution of due diligence in private equity over the next three years:

- 70% said they'll use more data during the diligence process, and 68% said they'll use more tech and tools, versus people.
- 66% said they are more likely to buy targets in the future that have completed sell-side diligence.
- 27% said that “recommendations aligned to the investment thesis” is the most valued part of diligence today, but 40% said it will be the most valued part in the future.

There may be some resistance to shift away from years of practices that have served private equity firms well. But the digital mindset can be engaged immediately by companies at any stage, creating instant value that can set them up for years to come.

Improving the Diligence Process

We get it—it's easy to simply say a process needs to be modernized and more effective. But let's dig into some concrete steps that, if adopted, can help PE firms overcome the challenges they face:

1 : Use Technology and Data to Establish New Benchmarks

Employing data and technology can help funds skirt the disadvantages of completing diligence in tight timelines. It can also help teams catch red flags that are more difficult to see remotely, by facilitating a holistic view of a business's risks and opportunities. With that benefit in mind, funds should develop technology capabilities that allow them to quickly evaluate the types of targets they usually consider—and do it in a way that is repeatable from deal to deal, whether that means adopting (or creating) new software or leveraging a partner's tools and capabilities.

2 : Adopt New Skill Sets and Turn Diligence into Action

When deal teams are accustomed to looking at the same diligence variables for each target, they get in a groove and tend to run on autopilot. But in evolving from evaluating risk to uncovering opportunities, some deal teams may need to fine-tune their skill sets or acquire new ones. To help move the process along, deal teams might consider creating a risk-oriented diligence summary and an opportunity-focused diligence summary, and then seamlessly

transfer them to the operating teams when the deal is closed. We found this “transfer” happens less than half the time right now, representing a huge area of opportunity to realize more value from diligence.

3 : Reorient the Diligence Process Around Value Creation

Many deal professionals can expertly find investment themes and areas in which to invest. But after the deal closes, their firms often struggle to translate the value-creation opportunities found during diligence into action items. One way to address this challenge is to create new horizontal operations teams that specialize in applying technology and data to specific operational areas, such as revenue operations teams that work toward operational improvement in sales processes.

4 : Better Incorporate Sell-Side Diligence into Processes

For years, sell-side diligence has been the standard in Europe, but only in the past 12-18 months has it caught on in the U.S. Sell-side reports, when trusted and comprehensive, can benefit both a buyer and seller by accelerating the process and allowing deal teams to focus more on value hunting than fact finding. However, a sell-side report provides context for a broad set of prospective buyers rather than directly answering the questions of any single buyer with an objective. Rather than as a substitute for diligence, buyers may use sell-side reports to gain confidence in the target company's foundation and drive deeper-level diligence conversations on topics most relevant to their investment thesis and value-creation strategy.

5 : Take ESG from Compliance to Strategy

Environmental, social and governance

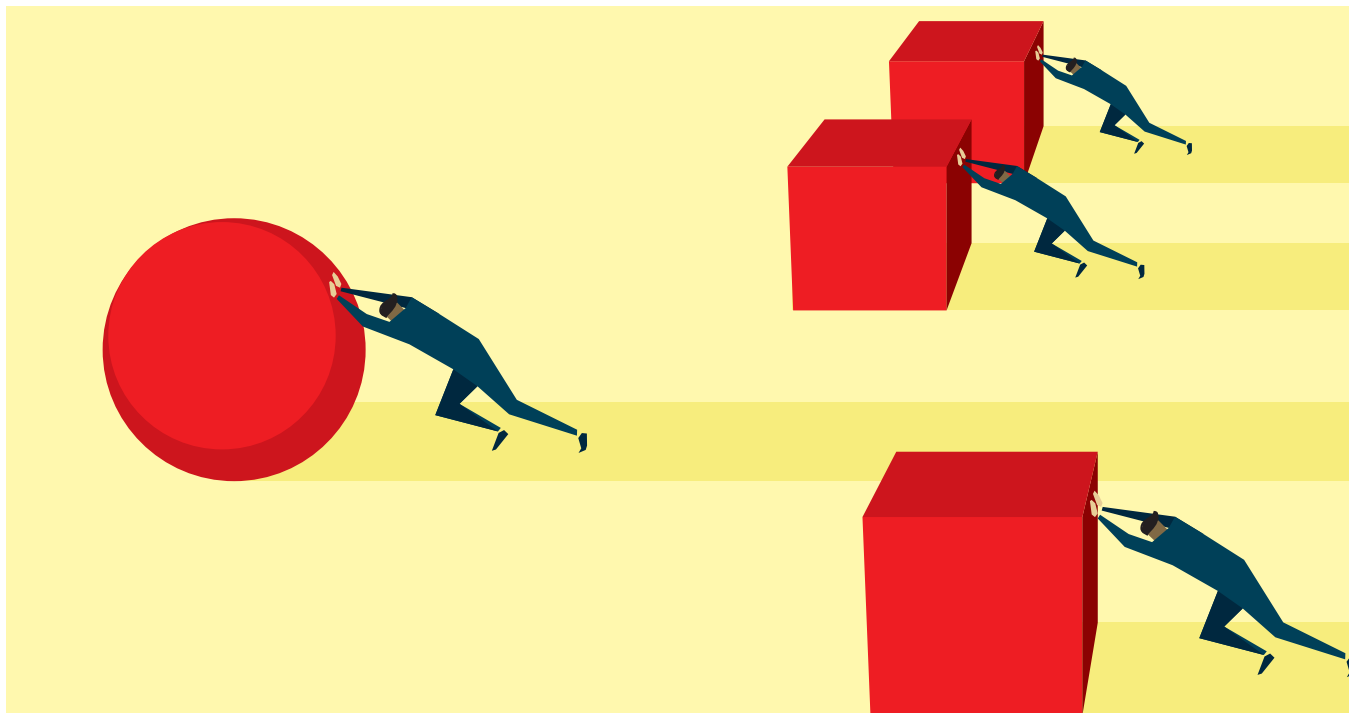
considerations may already be part of the PE playbook, with metrics increasingly measured and tracked for transparency and accountability. But ESG can go beyond a check-the-box exercise to something that drives value. Higher ESG scores often result in lower borrowing costs and discount rates for insurance as well as equipment repairs and warranties. An impressive ESG program can enhance a portfolio company's brand reputation, which can attract more customers, employees and potentially more investors.

It's challenging for a PE firm to spend time evolving its internal processes and investing in resources while the next deal is already upon them. But the ROI is real.

How to get there? Adopt a more digitized diligence process that focuses on analyzing data, not just gathering it, and leverages digital tools. This process isn't just to increase speed and efficiency but to use the deal team's time on more valuable work and jumpstart the new portfolio company's value-creation plan. //

BRAD HALLER is a senior partner in West Monroe's Mergers & Acquisitions practice, leading the firm's extensive capabilities in post-merger integration and value creation. A trusted advisor to many private equity firms and strategic buyers, he has led more than 500 M&A transactions in the last decade.

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The Modern-Day Sell-Side Process

Early engagement, accelerated timelines and significant up-front deal costs are table stakes for buyers in today's private equity-focused sell-side processes



BY TIM SHEA,
MANAGING DIRECTOR,
SOLOMON PARTNERS

In the world of sought-after companies, the days of the traditional sales process are over.

The old way of doing things looked something like this: Potential buyers would get a call from a banker outlining an attractive investment opportunity on a “no names” basis. Those buyers would review the teaser, sign a nondisclosure agreement and receive a confidential information memorandum (CIM) or confidential information presentation (CIP).

From there, potential buyers would submit an indication of interest largely based on reviewing the CIP and conversations with the banker. The banker would then select the 10 or so highest bidders to meet with the management team and learn more about the company.

After the management meeting, potential buyers would submit an updated bid, while the top few parties would continue to review the data room and conduct substantive due diligence. Potential buyers would eventually submit a final bid, where a party is selected to complete due diligence. In some cases, that party would be granted exclusivity for a couple of weeks.

The Present

In contrast, in today's market, where values are elevated and high-quality assets are in demand, processes are moving extremely quickly and buyers understand that "if you're not ahead, you're behind." To get ahead of processes and seek a competitive advantage, many private equity buyers are doing significant pre-process work on businesses they expect to come to market over the next 12-24 months.

Examples of that pre-work include conducting market diligence with third-party firms to assess the overall market opportunity and the competitive position of specific companies in those markets.

That pre-work might also include building a relationship with the current private equity owner and expressing interest in the business so the prospective buyer will be taken seriously (and hopefully prioritized) in the sell-side process. The buyer might meet with the CEO or management team, many times at a private company conference hosted by an investment bank that is aimed at showcasing companies coming to market soon. Finally, that advance work might include thinking about angles to further build a competitive edge, including potential executive additions, strategic combinations and revenue synergies that may exist from current investments.

When the time comes for the process to begin, these well-prepared buyers are ready to strike and move quickly. They have done the work in advance and built internal consensus around the opportunity with their investment committees. As a result, processes have become significantly compressed.

They have also become more competitive: We are seeing a significant amount of data shared prior to the indication of interest (IOI) submission, including market studies, quality of earnings (QofEs) analysis and



Many deals are now being signed up three to four weeks after data room access is provided.

data packs. This information allows for highly informed IOIs and a higher likelihood that IOIs will "stick."

We're also seeing many prospective buyers complete their own third-party work prior to the IOI submission, including market studies and their own buy-side QofE analysis. By doing as much work as possible, buyers are hoping to differentiate their bids not only in terms of value but in terms of providing a more accelerated timeline and a higher degree of certainty.

In many processes, select buyers will have the opportunity to meet management either prior to the process or during the initial stage of the process. And after the IOI submission, instead of going to traditional "dog and pony show" management presentations, buyers are moving immediately into substantive due diligence on all fronts (business, legal, market, etc.) while management meetings are focused on key diligence items and the go-forward strategic plan. Instead of eight weeks or more of meetings, diligence and multiple process rounds, many deals are now being signed up three to four weeks after data room access is provided.

Legal and Financing Changes

We are also seeing a drastic change on the legal and financing front causing an acceleration in processes. Historical bottlenecks

included arduous negotiation of representations and warranties and related indemnities, and the need to secure and negotiate financing commitments.

Most deals in today's market resemble the traditional "public company" deal, whereby the seller has no or limited indemnity obligations post-closing. In many cases, buyers are securing reps and warranties insurance as a recourse mechanism against a potential breach. However, that process can sometimes create a bottleneck, and many buyers are now further streamlining the process by either securing reps and warranties insurance between signing and closing, or self-insuring.

On the financing front, in the face of highly accommodative credit markets, lenders are moving quickly to provide debt commitments and buyers are increasingly willing to sign an agreement without a financing contingency. That is, if the lenders do not deliver on their commitments, the buyer is still on the hook to close or pay a predetermined break-up fee. This dynamic of providing an "equity backstop" was historically reserved for larger deals and larger funds. Like the evolution in other aspects of the M&A process, willingness to provide an equity backstop has also spread to middle-market firms. //

TIM SHEA is a managing director and serves as group head of business services for Solomon Partners. He has over 15 years of experience advising clients on M&A transactions, specializing in the facility and residential services sectors. Prior to joining Solomon Partners, Shea was a managing director and head of facility services for Truist Securities and Piper Sandler. His past experience also includes executive roles at two leading facility services companies and as an M&A attorney at a national law firm.

PE FUNDRAISING DIPS FROM RECENT HIGHS, **FUNDS LEAN ON FAMILIAR LPS**

Repeat investors bolstered fundraising in what remains an active market, despite a slight decline in capital raised compared with the past two years

BY KAREN
SCHWARTZ

Middle-market private equity fundraising was down slightly in the first quarter this year relative to 2021, with \$26.39 billion in aggregate capital raised compared with \$29.07 billion in Q1 2021, according to Preqin data. It's also down some 33% from Q1 2020's \$39.48 aggregate capital raised. The number of funds closed, however, was only down by one for Q1 this year at 33, from 34 in Q1 2021. That's 11 funds fewer than the 44 closed in Q1 2020.

That said, Q1 this year was active for many funds, some of which leaned on familiar investors at a time when meetings were still held virtually because of COVID-19. Some inaugural funds pressed on and navigated the pandemic challenges, even closing above target.

GTCR announced the close of its

first strategic growth fund in January. Set at a \$1.5 billion target, it closed at \$2 billion. Fundraising started in August 2021, with GTCR simultaneously building its pipeline. The fund was sourced over Zoom with existing limited partners from its flagship fund, GTCR Fund XIII. Investors include a mix of public pension funds, university endowments and corporate benefit plans. "We had sufficient demand from our existing LPs to reach the fund's \$2 billion hard cap, and that made it easier, because you're not needing to build any new relationships," explains John Kos, a managing director.

The strategic growth fund will target smaller opportunities than those that fit GTCR Fund XIII, which closed in 2020 with \$7.5 billion, he says. The new fund is aimed at deals seeking



The Highlights: Funds closed in Q1 2022

Fund Manager	Fund	Final Close Size (USD mn)	Final Close Date	Vintage	Strategy	Core Sector	Headquarters
FTV Capital	FTV VII	2300.00	3/23/2022	2022	Growth	Financial and technology services	New York, NY
GTCR	Strategic Growth Fund I	2000.00	1/26/2022	2022	Growth	Diversified	Chicago, IL
Recognize Partners	Recognize Partners I	1300.00	1/13/2022	2022	Buyout	Technology services	New York, NY
Serent Capital	Serent Capital Fund V	1100.00	3/17/2022	2022	Buyout	Services and technology	San Francisco, CA
OceanSound Partners	OceanSound Partners Fund	780.00	2/8/2022	2022	Buyout	Technology services	New York, NY
Yellow Wood Partners	Yellow Wood Capital Partners III	750.00	3/29/2022	2022	Buyout	Consumer and services	Boston, MA
Knox Lane	KLC Fund I	610.00	3/24/2022	2022	Buyout	Consumer and services	San Francisco, CA
Frontenac	Frontenac XII	520.00	3/17/2022	2022	Buyout	Diversified	Chicago, IL
GHK Capital Partners	GHK Fund I	410.00	3/24/2022	2022	Buyout	Industrials	Greenwich, CT
InTandem Capital Partners	InTandem Capital Opportunities Fund	225.00	2/1/2022	2022	Buyout	Healthcare services	New York, NY

Sources: Preqin Pro, press releases

\$50 million to \$200 million of equity. It is currently between 10% and 20% committed.

GTCR was among the investors that formed Clearwave Fiber, a joint venture with broadband communications provider Cable One that was announced in January. In April, GTCR announced an investment in advertising software company SQAD through its portfolio company Dreamscape.

GTCR will additionally invest from the fund in Avryo Healthcare, which will build a company in the multisite healthcare provider services industry.

GTCR has been increasing its focus on multisite healthcare services and looking at vertical software-as-a-service companies, ad tech, marketing tech and payments businesses. In business services, it's exploring residential services, including lawn

care, HVAC, fire prevention and safety, according to Kos. The firm also employs its Leaders Strategy to place executives it's connected with in leadership positions at portfolio companies.

First-Time Funds

The fundraising marketplace has been crowded with funds coming to market in 2020 and 2021, with re-ups

and existing funds taking much of the capital, says Gil Klemann, managing partner at GHK Capital Partners. Even so, in March GHK announced the close of its first fund, GHK Fund I, at \$410 million, above its \$350 million target and hard cap of \$400 million. Investors include insurance companies, financial institutions, funds of funds, public and corporate pension plans and high net worth families.

Close to \$800 million of capital will be deployed for Fund I, with limited partners co-investing alongside the firm, explains Klemann. Co-investing has become increasingly attractive to LPs as a way to gain direct exposure to deals with reduced fees.

The fund's investments so far include water treatment products company Hasa, third-party logistics company ITS Logistics and, most recently, Auveco, an industrial fastener master distributor serving the automotive aftermarket. With the close of Auveco in early May, the fund is about 40% invested, with two more deals expected, says Klemann. GHK plans to put \$100 million-\$250 million of equity to work in each deal.

The firm signed Hasa in March 2020, amid increasing COVID headlines, and closed the deal in July of that year without ever having met some of the investors in person. From Hasa through the firm's fundraising timeline, investors were sorting out the new environment. "We were the first for many to receive a commitment when they hadn't met us in person, and that was an adjustment for all these large LPs to get used to. But they obviously did, and had to," Klemann says.

GHK is targeting elements of the industrial sector with an eye toward packaging, environmental services and automotive aftermarket businesses, along with other recurring,

stable, low-cost, high-cost-of-failure products.

"As we look at businesses today, we are with greater certainty calculating or expecting a slowing economy over the next 12 months," says Klemann. "All of our deals contemplate a recessionary underwriting case, and we tend to use a bit less leverage than a lot of the market, and so that also protects us in an environment like what we may enter here, just to be a little less levered."

OceanSound Partners, which in February announced the close of its \$780 million inaugural fund, began its fundraising process in the second half of 2019. The fund closed above its \$550 million target with LPs that include pension plans, endowments, foundations, family offices, institutional consultants, asset management firms and insurance companies.

The fund invests \$75 million to \$300 million in companies, says Joe Benavides, managing partner at OceanSound, who notes that COVID reinforced the firm's investment strategy. "We invest in resilient businesses that are strongly linked to defensive-growth government end markets," he says. "During COVID, government spending rose, and everyone began investing more heavily in their technology infrastructure to properly enable remote work." OceanSound's target markets are large and fragmented; about 35%-40% of U.S. GDP is tied directly to government spending, according to Benavides.

He highlights diversity as a growing trend in middle-market private equity, noting that OceanSound raised the largest Latino-led first-time private equity fund to date. Less than 5% of all private equity capital is managed by firms led by individuals from diverse backgrounds, Benavides notes, although pension funds and

other institutional investors are trying to change that. "There are more dollars being allocated to meet these goals, and the dollar amounts are increasing rapidly—albeit, increasing rapidly from a very low base of dollars," he says.

Looking ahead, Benavides expects an active second half of 2022, despite the high prices in today's market.

“ We were the first for many to receive a commitment when they hadn't met us in person, and that was an adjustment for all these large LPs to get used to. ”

GIL KLEMANN
Managing Partner,
GHK Capital Partners

"For a nice clean business that doesn't require a lot of operational intensity to manage, we're seeing private equity firms invest at valuations that are just as high as they were at the peak of last year," he says. "For these companies, firms are paying value for forward cash flow expectations." //

KAREN SCHWARTZ is a business reporter who has covered M&A, loans and trends in the U.S. and Latin American markets.

On the MOVE

KATHRYN TOWNS



Washington, D.C.-based HCI Equity Partners, a lower middle-market private equity firm, announced that Kathryn Towns has joined HCI Equity Partners' Executive Partner Group, where she will advise on marketing, branding and communication strategies. She comes to HCI Equity Partners from one of its former portfolio companies, Georgia-based Delaney Hardware, where she led a successful rebrand and transformation and established the e-commerce channel strategy and partnerships. Previously, she worked for about a decade at a Robert Bosch subsidiary, Freud America, where she spearheaded marketing efforts and developed the in-house marketing team.

LAUREN DILLARD

Austin-based global investment firm Vista Equity Partners appointed Lauren Dillard as chief financial officer and senior managing director. Dillard most recently served as the executive vice president of investment intelligence for Nasdaq, where she was responsible for leading the strategic direction of the division. Prior to joining Nasdaq, Dillard spent 17 years at Washington, D.C.-based The Carlyle Group, where she was most recently a partner and head of the investment solutions unit, overseeing more than \$40 billion in assets and 200 professionals across offices in six countries. She also served as a member of Carlyle's Management Committee and played significant roles on other leadership committees during her tenure. Before joining Carlyle, Dillard worked in the tax practice of Arthur Andersen.



TOM WOELFEL

San Diego-based private equity firm HCAP Partners hired Tom Woelfel as the senior director of impact. He will lead HCAP Partners' "Gainful Jobs Approach" and overall impact management efforts, partnering with HCAP portfolio companies and collaborating with industry thought leaders to improve job quality and generate positive impact in low-to-moderate income communities. Prior to joining HCAP Partners, Woelfel served for over a decade as director of Pacific Community Ventures' research and consulting practice, where he focused on supporting the growth and efficacy of impact investing.

ROB DREIER

Miami-based private equity firm H.I.G. Capital recently hired Rob Dreier as the head of business development for H.I.G. Growth Partners, where he is primarily focused on sourcing new opportunities for H.I.G.'s Growth Fund. Before joining H.I.G. Growth Partners, Dreier spent 12 years at Boston-based Bunker Hill Capital as a partner, where he was responsible for the firm's business development and sourcing efforts. Dreier previously served as co-head of the Financial Sponsors Coverage Group at Richmond, Virginia-based BB&T Capital Markets and worked in the M&A group at Toronto-based RBC Capital Markets. Dreier will be based in H.I.G.'s Boston office.

MIKE SULLIVAN

Dallas-based private equity firm Crossplane Capital recently promoted Mike Sullivan to partner. Sullivan was Crossplane's first hire in 2018 when he joined as managing director. Over the past four years, he has led the closing of two platform investments and has played a role in almost every transaction that Crossplane has closed to date. Prior to joining Crossplane, Sullivan was a managing director with private equity firm Prophet Equity. He began his career in investment banking at Los Angeles-based Houlihan Lokey.

LAMAR HORNE

New York-based private equity firm Palladium Equity Partners hired Lamar Horne as a managing director. Horne is focusing on deal execution and ongoing portfolio monitoring. He most recently served as a managing director at Pittsburgh-based PNC Mezzanine Capital, where he focused on lower middle-market mezzanine and equity principal investments for about 13 years. He was also an analyst in the Leveraged Capital Group with St. Louis-based Wachovia Securities, where he specialized in financial sponsor transactions. He has served on several boards, including C-P Flexible Packaging, Excel Orthopedic Physical Therapy, Hope City Concrete, Industrial Valve Services, Thaler Machine and Pet Partners.





PAUL I. DOYLE

Grand Rapids, Michigan-based private equity firm Blackford Capital recently appointed Paul I. Doyle to managing partner. Doyle began at Blackford in 2014 as an operating partner. Before joining Blackford, Doyle spent 15 years as CEO of Grand Haven, Michigan-based GHSP, a global supplier of mechanical and electromechanical systems. He also worked at Holland, Michigan-based Donnelly Corp. as global director of organizational development. He's the founder of LeaderWork, a management development consultancy, which has trained hundreds of managers and executives on leadership.

PAT VANCE



RSM US, which provides audit, tax and consulting services for the middle market, announced that Pat Vance has been named as its consulting leader and newest member of its leadership team. In this new role, Vance will drive strategy and operations for RSM's consulting business. For the last year, Vance has served as chief operating officer for consulting with responsibility for overseeing all consulting operations and executing on the consulting strategy. Also, Vance had served as national technology and management consulting leader from 2017-2021. He joined RSM in 1986 as a technology infrastructure consultant and has held a number of leadership roles prior to his most recent positions. Before joining RSM, Vance spent six years as a programmer and analyst at Interstate Power Co. in Dubuque, Iowa.



CORNELIA CHENG

Cornelia Cheng recently joined New York-based private investment firm MGG Investment Group as managing director, western region. Based in Los Angeles, Cheng oversees MGG's West Coast activity and is responsible for originating, underwriting and managing investments across the firm's \$4 billion platform. She is also a member of the MGG ESG committee. In addition to her role at MGG, Cheng currently serves as the ESG committee board chair with publicly traded LTC Properties. Prior to MGG, Cheng was managing director, western region, at Brightwood Capital Advisors. She was the former head of the greater Los Angeles investment team at Prudential Private Capital and previously held positions with CIBC World Markets and First Interstate Bank.



BEN ROMEISER

Professional services firm DHG, now called FORVIS, named Ben Romeiser as its newest partner. Romeiser is joining FORVIS as its tax specialty partner as the firm expands its private equity tax services. He will work closely with the firm's Private Equity and Transaction Advisory Services groups to advise private equity firms and their portfolio companies on transaction tax-related matters. Based in Raleigh, North Carolina, Romeiser will serve clients across FORVIS' footprint and work closely with teams across the firm to grow private equity tax service offerings, including private equity deal flow, tax integration planning, tax due diligence advising, tax purchase price allocation, net operating losses, annuity tax compliance and voluntary disclosure agreements for state taxes. Previously, Romeiser was a principal at accounting firm Elliott Davis and senior manager at accounting firm KPMG.

JEFF BISTRONG

New York-based Guggenheim Securities, the investment banking and capital markets division of Guggenheim Partners, recently announced that Jeff Bistrong was hired as senior managing director in the technology investment banking practice in Boston, where he's focusing on advising software and software-related technology companies. Most recently, Bistrong served as a partner at Indianapolis-based private equity firm HKW, where he was responsible for the firm's technology investments. He has also worked as a managing director and head of the TMT practice that he founded at Richmond, Virginia-based Harris Williams, and as an M&A banker at BancBoston, Robertson Stephens and Tucker Anthony.

THE BEST RUN



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We enable you

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THE BEST RUN



What's Next

EMERGING INDUSTRIES AND TRENDS IN DEAL SOURCING



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NEXT TARGET

Investors are increasingly flocking to agriculture technology, where companies like Vestaron are laying the groundwork for innovative growing practices.

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BEHIND THE DATA

Grata's Nevin Raj argues that corporate development teams need to up their technology game or risk falling behind.

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ON THE HORIZON

PwC explains how mid-cap PE funds and their portfolio companies can achieve ESG goals.

“ Six receptors in an insect control more than 80% of the global \$18 billion insecticidal chemical market, which means these are all multibillion-dollar drug targets. Nobody thinks about it that way, but we do.

ANNA RATH
CEO, Vestaron

AGTECH PRESENTS AN OPPORTUNITY FOR PATIENT INVESTORS THAT EMBRACE THE NICHE

For agriculture technology company Vestaron, peptide-based crop protection holds promise for growers and investors alike

BY CAROLYN VALLEJO

Agriculture, a market not traditionally viewed as tech-forward, has embraced the digital revolution, and investors are taking notice.

Agriculture technology, or agtech, is a particularly active space with investors today thanks to its versatility and variety, according to Tricia Salinero, managing director and head of technology within investment banking at Stout.

“Typically, and historically, it was a very thin-margin business,” she said in an interview with ACG’s GrowthTV. “What we’ve found over the last three to five years is that the digital transformation around adding sensors to fields, into the distribution and supply chain, and running analytics on top





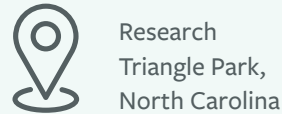
KEY FACTS AND FIGURES: VESTARON

Vestaron's peptide-based crop protection products are gaining traction and drawing investor interest.

COMPANY SIZE



HEADQUARTERS



EXPECTED GROWTH RATE



TOTAL FUNDING TO DATE



of these different processes has really given the opportunity for margin expansion within these businesses. And that's made them more of a target for private equity."

Through 2021, agtech investments saw impressive growth, nearly doubling between Q3 and Q4 to nearly \$4 billion. Separate analysis from PrecisionAg, an agriculture news website, found a combined \$12.23 billion in agtech investing last year across 632 companies, with a 179% year-over-year increase in exits.

What's important to note about the agriculture technology sector, says Salinero, is its segmentation across a variety of specialties. A search within Grata, a private company intelligence engine and ACG partner, revealed 835 agtech companies in operation. Of those, 786 are privately held and each targets a specific area of the market—from robotic and autonomous in-field machinery to financial software developed for farms.

Crop protection technology is another agtech specialty, and the space in which Vestaron operates.

Founded in 2005, North Carolina-based Vestaron develops peptide-based crop protection products that overcome some of the largest hurdles in the traditional chemical pesticide space.

It's a business with a clear value proposition for growers, says CEO Anna Rath, but unique challenges come with a niche, technology-driven business model in the agriculture industry. For Vestaron, that means it's important to weed out potential investors that are marginally interested in agtech from those with a deep understanding of biotech crop protection.

Crop Protection at the Molecular Level

The chemistry behind peptide-based crop protection is complex, but Rath breaks it down like this: Traditional,

chemical-based pesticides rely on small molecules that easily bind and interact with other molecules, leading to negative side effects and health consequences, while also allowing for insect resistance to develop.

Compared to those small molecules, peptides are larger with more complex binding sites, meaning less unintended binding activity and fewer side effects. What's more, the degradation of these proteins proves innocuous to surrounding creatures, whether they're honeybees or humans.

Only a limited number of chemical modes of action—or ways that active ingredients work together to target and eliminate a pest—have proven their efficacy in the field, and there are just six specific receptors of an insect that are most important to target, according to Rath.

"Six receptors in an insect control more than 80% of the global \$18 billion insecticidal chemical market, which means these are all multibillion-dollar drug targets," she says. "Nobody thinks about it that way, but we do."

Vestaron is "re-drugging" each of those proven insecticidal receptors with environmentally friendly and safe peptides, against which insects are unable to develop resistance.

Rath says Vestaron does not have a direct competitor in the market; rather, its most prominent challengers are those operating in the traditional chemical pesticide space. As such, Vestaron offers a clear value proposition to growers compared to its competitors.

While traditional pesticides require growers to wait as long as 10 days after spraying to re-enter the field to harvest, the safety of peptide-based crop protection means harvesters can return to the field on the same day, and the product can be sprayed even with pollinators present.

The product also negates the need for growers to measure pesticide residue in order to remain compliant with consumer health regulations.

“From a grower perspective, we price at parity with the leading synthetic chemical pesticides,” Rath says of Vestaron’s competitive edge. “Growers have these real-world labor savings and operational benefits. They have reduced risk of loss due to resistance. And then they get to enable their customers to make all the health and safety and sustainability claims that they want to because of using such safe and environmentally friendly products.”

Growth Through Collaboration

Vestaron, whose team currently consists of about 60 people, released its flagship product, SPEAR, in 2019 to target high-value fruit and nut crops, and has already established a footprint in the market.

“If you have eaten a California-grown pistachio in the last year, there’s a 1 in 20 chance that it was sprayed with SPEAR,” says Rath. “We have just over 5% market share in pistachios in our second year in the market, and we have now gotten to a point in our manufacturing, coming down our cost-of-goods curve, that will allow us to get into broadacre row crops starting this year.”

New products are coming down the pipeline with the addition of BASIN and DICTATE in the coming years, following Environmental Protection Agency approval.

Also key to the company’s growth plans is industry collaboration. Vestaron recently announced a partnership with digital cell biology company Berkeley Lights, which Rath says will help the business increase its bandwidth to accelerate product development and manufacturing.



We have just over 5% market share in pistachios in our second year in the market.

ANNA RATH
CEO, Vestaron

Partnerships with outsourced manufacturers are essential, as are those with distributors that can bring Vestaron’s product to growers. Collaborations with universities and regulators are another critical component to the company’s growth trajectory to streamline product testing, research and regulatory study. Rath expects the company to grow about 50% year over year for the next several years as operations expand outside the U.S. and Mexico into Canada and beyond.

Still, Vestaron’s novel approach to product creation leads to its own challenges. Each peptide requires a different manufacturing process, for instance.

But perhaps its largest hurdle is simply convincing growers to try the product.

Historically, biologicals have not worked as well as traditional chemical pesticides. “As a result,” says Rath, “growers and that distribution channel have a level of skepticism about the idea that biologicals can really work as well as your traditional chemistry.”

Data has proven essential to convincing growers and distributors to support these products, she adds—and to convincing investors of the product’s abilities.

An Understanding Investor

The effort appears to be working. While Vestaron’s early investors were not able to support the company due to the length of product development outlasting the length of their funds, today the company has a diverse set of investors that understand the nuances of biotech in agriculture. Since 2018, that investor base has come to include Novo Holdings and Northpond Ventures. (Vestaron was the first agtech investment for each of these firms, according to Rath.)

Other backers include a slew of venture capital investors like Syngenta Ventures, Continental Grain Company, Anterra Capital, Cultivian Sandbox Ventures and Pangaea Ventures, as well as private equity firm Open Prairie and, increasingly, family offices.

As Vestaron pursues FDA approval for its latest round of products, an SEC filing earlier this year revealed the company is also seeking to raise more than \$100 million. Equity investors have so far committed more than \$61 million of that fundraising goal.

Understanding a company’s business model, product and mission are vital to making the right investor match. For Vestaron, that means investors must have patience and the resources necessary to support growth.

“Most of them have pretty significant resources, both financial and in terms of the kinds of strategic partnerships that they can help us with, whether that’s introductions to potential grower customers, or introductions to potential manufacturers,” Rath says. “And, most importantly, they are folks who are committed to this notion that it’s time for the agricultural industry to be disrupted, to be safer and more environmentally friendly—and that ours is the kind of technology that can do that.” //



NEVIN RAJ
Co-Founder & COO,
Grata

When It Comes to Tech, Corporate Development Teams Are Playing Catch Up

*Competing against private equity buyers for deals will
require smarter technology*

Armed with record amounts of dry powder, private equity firms are actively competing for deals and going head-to-head with corporate strategic acquirers, who may find that their traditional means of sourcing and tracking opportunities has put them at a distinct disadvantage in today's market.

These corporate dealmakers will need to strengthen their technology capabilities if they're going to find high-quality companies, build relationships with founders and ultimately win out over private equity firms that have steadily increased their technology spending.

For now, corporate dealmakers' tech stack does not stack up.

Targeted Search

One advantage for private capital investors generally is their ability to change their thesis as needed. Through its private equity investment arms, a hedge fund like Two Sigma can (and does) just as easily invest in healthcare in Texas as cybersecurity in New York.

Corporate acquirers, on the other hand, have a narrower investment mandate because they can only buy companies that complement their existing business. But there is an upside to this focused approach.

Targeted acquisition briefs allow corporate development teams to become experts in their industry and to know their space inside and out. They are laser-focused on finding companies that fit their business model, have complementary products or services, and sell to the same or adjacent customers. Yet even with very targeted search criteria, these teams face a technological limitation: Databases cannot produce results when it comes to this kind of targeted search.

Despite the clear need for robust search technology, corporate M&A teams haven't invested in the



When it comes to company research or target communication, strategic acquirers are losing ground and will start losing more deals without a single source of truth.

capabilities that would enable them to identify the most relevant acquisition targets.

Relationship Nurturing

In the midst of the pandemic, PE firms doubled down on technology spending, and tech budgets are expected to keep rising each year, according to Private Equity Wire. But data suggests their corporate counterparts haven't followed suit.

A survey of corporate development teams by private equity firm Lion Equity Partners revealed that almost 60% of respondents are still using Excel to track their deal sourcing pipelines, and an additional 12% are not formally tracking those opportunities at all.

When it comes to company research or target communication, strategic acquirers are losing ground and will start losing more deals without a single source of truth. Corporate M&A teams need to start investing in technology to ensure communication is clear between employees (connecting boots on the ground—a company's sales and customer service teams—with the corporate dealmakers) and to ensure that the pipeline is strong by nurturing relationships.

Attending to founder and CEO

relationships at any stage of the deal life cycle requires highly personalized, high-touch interactions that technology can't replace. But corporate development teams can use tools to support the efforts of courting a company before it's ready to seek investors. Many turn to email marketing software such as Mailchimp to assist in the segmentation and personalization of their outreach.

Automated signals can help teams determine when and how to best contact CEOs. A platform with automated B2B search capabilities can help improve this process by sending alerts based on certain triggers, such as a funding round or the addition of a marquee name to the company's board or leadership team.

By having all this information consolidated in one place and taking advantage of real-time notifications, corporate dealmakers won't go several months without engaging targets. They can make prospect nurturing a routine part of their workflow.

Onward and Upward

Technology-driven data and research are critical to optimizing the deal life cycle. Corporate development teams need these capabilities, along with companion integration and services, to drive successful inorganic growth. At Grata, we've created a private company intelligence engine with all these capabilities to help firms discover comprehensive company data and unlock the middle market.

By leveraging the right technology and services, corporate M&A teams can achieve market-wide visibility, automate prospect identification, perform comprehensive due diligence and nurture relationships, closing the right deals even faster. //

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



MARK WATERMASYSK
Private Equity
Trust Solutions
Leader, PwC US

How Mid-Cap PE Funds and Their Portfolio Companies Can Achieve ESG Goals

Private equity firms often struggle to balance two seemingly conflicting goals: generating a return for investors and meeting the environmental, social and governance (ESG) goals of their stakeholders. PwC's recent Global PE Responsible Investment Survey found that 37% of respondents have turned down an investment opportunity because of ESG concerns. These range from portfolio companies pushing unrealistic net-zero requirements down their supply chains, to competing with firms with more mature ESG capabilities. By setting the right priorities and with adequate planning, however, PE firms need not miss these opportunities.

Start by gathering good data and conducting a diagnostic on your entire portfolio. Getting consistent data may be challenging, so look for creative solutions. For example, one fund relies on its payroll processing company to provide data that informs diversity and inclusion goals for all its portfolio companies. Others are turning to their cloud service providers to help them gather and analyze ESG data. Once you have the data, create an ESG diagnostic to assess how each of your companies is managing its ESG risks.

Begin setting your priorities by examining the portfolio companies that are closest to exit. Next, address companies in industries with hot-button ESG concerns. Then, look at the other industries that may have less visible E, S and G impacts lurking beneath the surface. Finally, look at newly acquired companies. With the longest timeline to exit, these portfolio companies can shine relative to peers with the right focus and investment.

Here's an ESG planning framework that you can adapt from company to company:

1. Assess where you are now. Look for areas

where your ESG investments are linked to revenue growth, such as eco-friendly production processes that win over consumers. Be just as vigilant in finding areas where performance is lagging.

2. Define your goals based on what ESG success looks like for your stakeholders. To form this view, understand what your industry's investors care most about. Define your level of ambition so you can align your organization around your goals.
3. Identify options to deliver your ESG strategy. Use data to track and analyze performance and get the most from your ESG investment.
4. Build a business case for ESG investment. Demonstrating knowledge of the market's perspective on ESG will go a long way toward winning executive buy-in on ESG goals. It's critical to align the operating models of the portfolio companies and get their CEOs on the same page as your fund.
5. Tell your story. Report ESG performance through investor-grade standards. As you develop your reporting, remember to take credit for what you're doing well, and make it clear what you're still working on.

Don't wait. Any portfolio company that can provide investors and other stakeholders the assurance that it's meeting market-established ESG expectations can create tremendous value for a PE firm. //

MARK WATERMASYSK leads a PwC team focused on increasing the trust and collaboration between PE funds of all sizes and their portfolio companies through coordinated compliance and consulting solutions.



Mike James
Co-Founder & CEO

Chelsea Mandel
Co-Founder &
Managing Director

Meet Ascension

Ascension was formed to *accelerate* the pace of progress and achieve a *higher standard* of sale leaseback and corporate real estate advisory. Our purpose is to *elevate* corporate real estate *efficiency, strategy, access* and *insight* for private equity firms and financial sponsors, *globally*.

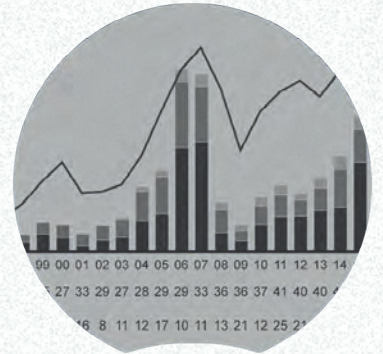
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Association for Corporate Growth



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75% of ACG Members do deals with other members



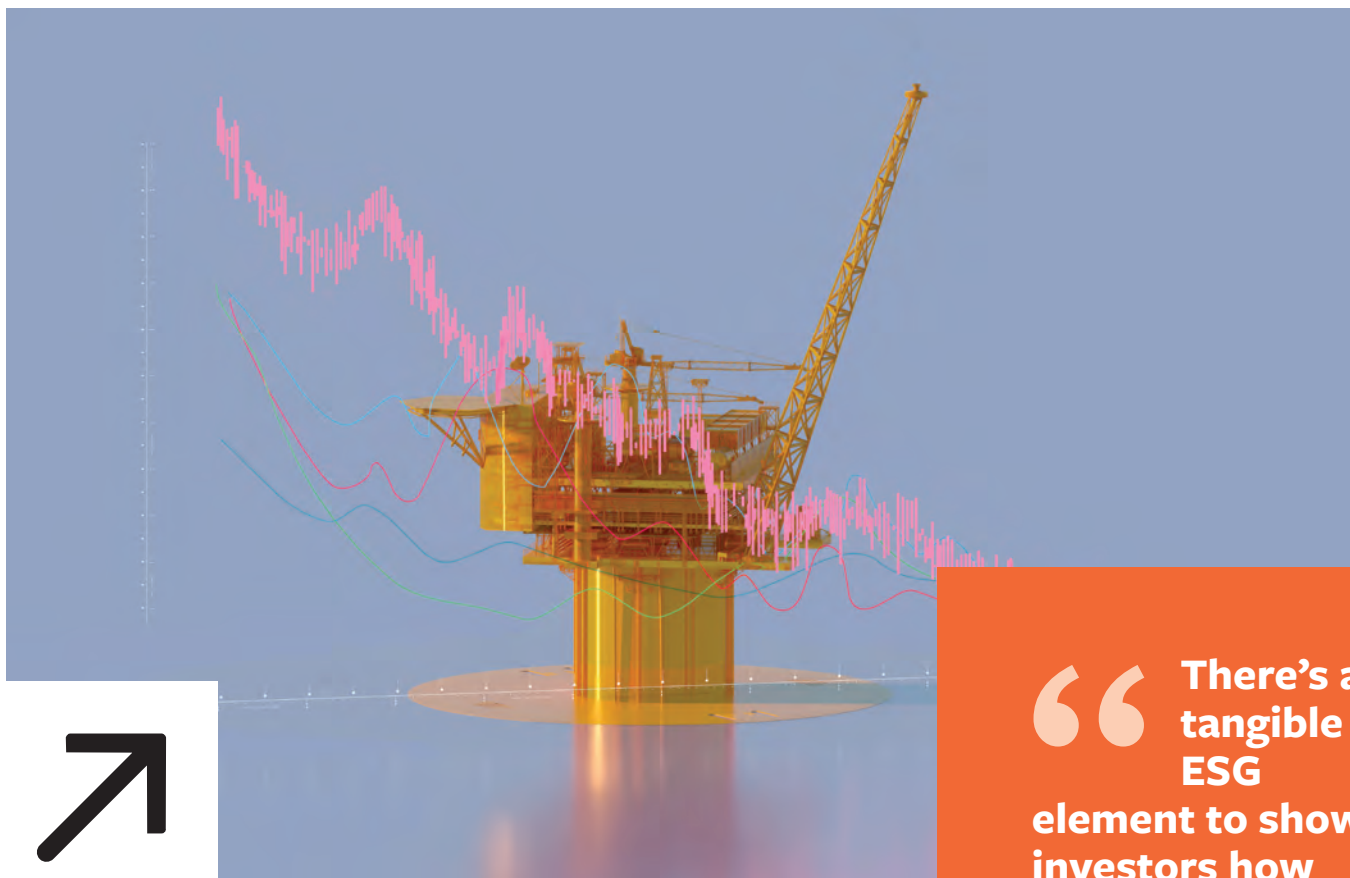
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“ There’s a tangible ESG element to show investors how they’re being good stewards for the industry. It’s not lip service—there’s a sincerity to it that some folks tend not to appreciate.

Austin Elam

Partner and Co-chair, Haynes and Boone’s Oil and Gas Practice Group

Cover
STORY

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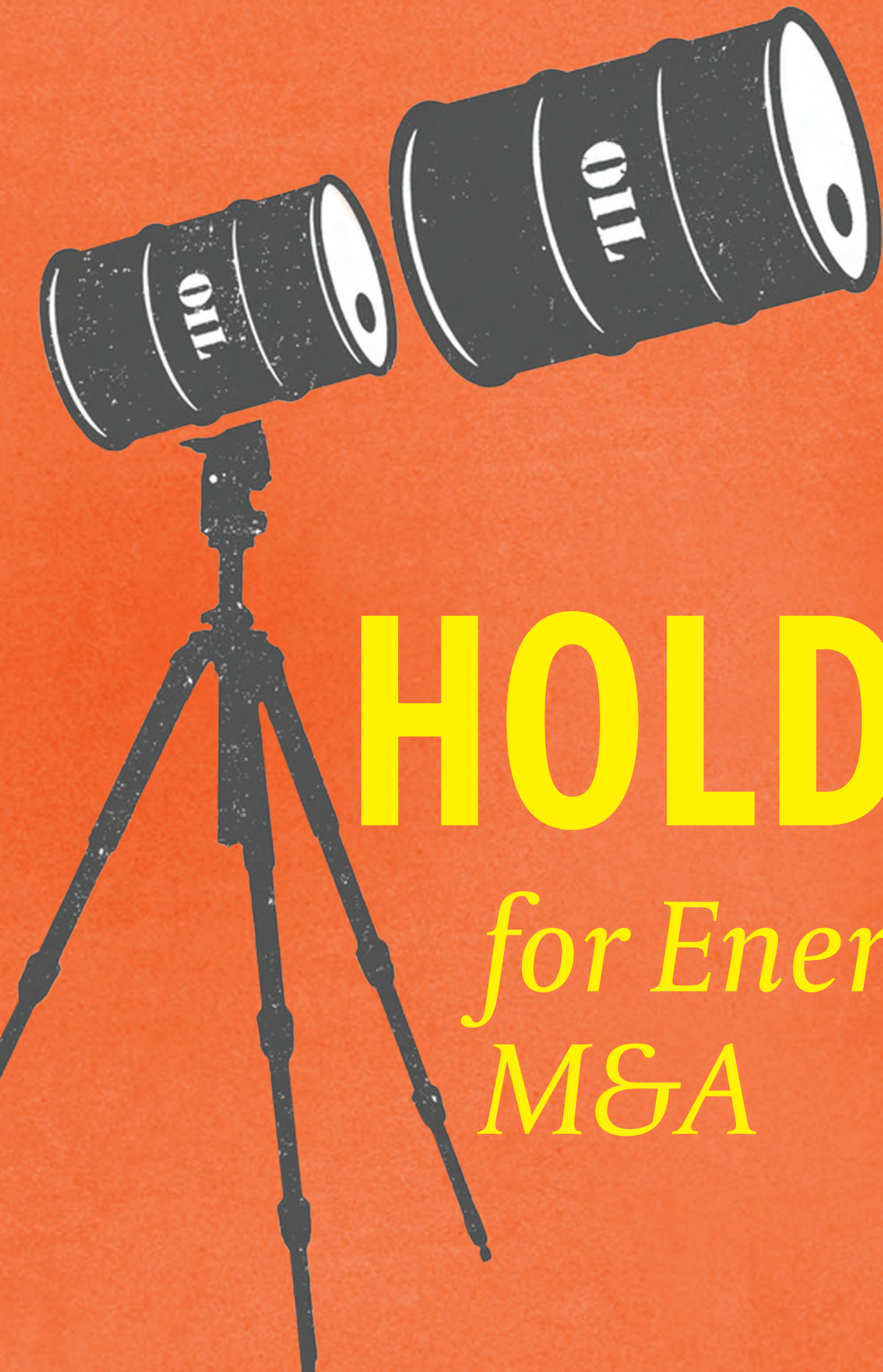
What the



FUTURE

A pandemic, war and ESG have made an already volatile industry even more frenetic. Where does that leave energy M&A in the middle market?





HOLDS

*for Energy
M&A*

The price of oil swings freely, as if by nature. But there's never been anything quite like the fluctuations of the past few years.

"The closest to it would be the global financial crisis in 2008," says Sanjiv Shah, global co-head of energy and power investment banking at Piper Sandler. "These swings are the biggest I've ever seen in my career."

The pandemic and geopolitical conflict have rocked the supply and demand balance that bolsters stable commodity prices, while growing environmental concerns have further complicated the outlook for mergers and acquisitions in the energy sector.

The COVID-19 pandemic tipped the first domino in the cascade of recent situation. In April 2020, the price of West Texas crude oil briefly dipped below zero dollars per barrel. Demand for oil tanked, and energy M&A deal volume fell across the world, according to PwC's Global M&A Trends in Energy, Utilities and Resources: 2022 Outlook. Deals made during this period typically came from bankruptcies or forced sales, Shah says.

In early 2021, as lockdowns waned and demand for travel returned, signs of life emerged. The pent-up demand for oil coincided with increases in commodity prices and M&A. Law firm White & Case LLP reported in January 2022 that deal values rose by 24% to \$102.7 billion from 2020 to 2021, and the number of deals increased by 16%. The firm wrote that it expected prices to be more stable in 2022, "absent a major shock."

A month later, Russia invaded Ukraine.

The ongoing conflict has added to an already out-of-whack supply and demand situation. It's almost the opposite of early 2020, when OPEC and Russia increased supply in March of that year as the pandemic destroyed demand. "You ended up with overflowing storage, with nowhere to put the oil," Shah says. "You literally had to pay people to take it away. Now, we've got growing demand at the same time as supply is shrinking and prices are rising."

The dynamic price environment has made it difficult to value companies and slowed M&A activity—even for the shrinking number of financial firms willing to fund fossil fuels.

“

The volatility in the commodity markets—both oil and natural gas—has made it difficult for buyers and sellers of oil and gas assets to agree on a purchase price. That doesn't mean deals are not getting done, but there's a much lower volume of transactions.

KEITH BUCHANAN

Managing Director,
KeyBanc Capital Markets

THE IMPACT OF THE WAR

Energy M&A—at least in the upstream oil and gas market—was running hot early in 2022, according to Keith Buchanan, managing director and head of oil and gas investment banking at KeyBanc Capital Markets. But in March and April, he watched as deals halted.

A U.S. executive order in March banned the import of crude oil and certain energy products, a year after America imported approximately 700,000 barrels from Russia. Prices skyrocketed, with the price of crude oil rising to nearly \$120 per barrel. The U.S. Bureau of Labor Statistics reported that gas prices were up nearly \$1.60 from the previous year. In May, the European Union was preparing



sanctions against Russian oil—another potential blow to prices, as the EU receives 26% of its oil from Russia.

“The Russia invasion of Ukraine brought the overall capital markets to a really slow pace with so much volatility,” Buchanan says. “But even more so, the volatility in the commodity markets—both oil and natural gas—has made it difficult for buyers and sellers of oil and gas assets to agree on a purchase price. That doesn’t mean deals are not getting done, but there’s a much lower volume of transactions.”

Supply pressures look unlikely to recede any time soon. The war has extended multiyear underinvestment in conventional energy across

the world, according to Shah, which means lower production will continue.

“Oil and gas as a business model is a hamster wheel,” he says. “If you stop investing, the wheel stops spinning and declines naturally. You have to invest to hold flat production—if you have multi-year declining investment, you will have multiyear declining production.”

While none of this creates a friendly environment for M&A, Shah says that deals haven’t stopped entirely. Private equity firms still hold and want to buy middle-market conventional energy businesses, he says, especially in the oil field services arena. Shah has seen even more M&A transactions involving companies that

provide energy services in 2022, a trend he expects to continue.

“There’s a very conducive macro environment for these companies to generate good cash flow, and therefore a good conducive macro environment for M&A activity,” Shah says. “It’ll all come down to whether the companies make money or not. If the companies can show that they generate earnings consistently, then people will want to buy them, particularly as other parts of the economy have maybe gotten more expensive.”

Austin Elam, partner and co-chair of Haynes and Boone’s Oil and Gas Practice Group, says that U.S. companies in particular have been looking for ways to become energy-independent and diversify energy sources even before the war, especially sources that can be exported to those in allied countries.

Oil and gas markets will always be riddled with volatility, prompting companies and investors to think long term. Will a deal make sense in one to three years, even if the war continues? The answer likely comes down to the internal math of each company or investor—a buyer may have its own calculations on price per barrel, now and into the future, that make a deal valuable in its eyes.

“It’s incredibly difficult to value a company when prices are dynamic,” Elam says. “If you factor in commodity hedges, and you’re looking long term, you can probably find some meaningful ways to invest. But you’re certainly never going to bet on the near term, because that’s always going to be dynamic.”

ENVIRONMENTAL IMPACT

Against the backdrop of the war in Ukraine and COVID-19 aftershocks, a seismic shift is underway in the form of attention to environmental, social and governance issues by investors and companies, which is transforming how the financial world views the energy industry.

Buchanan has seen banks exit oil and gas entirely, especially certain U.S., Canadian and European lenders. “We don’t expect to see them coming back,” he says.

Analysts are watching this trend closely. PwC predicted in its energy report that fewer M&A deals will take place in 2022 as a result of ESG concerns, particularly as public companies cater to environmentally conscious shareholders. Yet private investors could keep deals flowing in businesses involved in drilling and extraction.

“M&A activity in pure-play upstream oil and gas assets will most likely come from private sector players that are less beholden to these shareholder concerns, as they continue to expand their asset portfolios and focus on their core competencies,” the PwC report reads.

Even ESG-related investments have been influenced by the war. Reuters reported in March that oil and gas investments rose while demand for sustainable investments dipped—a phenomenon that’s likely due to increasing demand for oil and gas in concert with the sanctions against Russian energy suppliers. And there’s still pressure for large lenders and investors to put money into oil and gas.

Tron Allen, chief commercial officer at independent asset-based lender Eclipse Business Capital, says that his firm is less influenced by larger investment trends than big banks. Eclipse is willing to lend to oil and gas companies, so long as they have a chance to grow. Many other institutional investors seem to operate with a similar philosophy. BlackRock, the largest money manager in the world, holds a sizeable stake in oil and gas. It has a goal of zero emissions, even as it continues investing in fossil fuels.

While ESG makes it harder for bigger lenders and investors to transact in nonrenewable energy, Shah says that the debt market is more open this year than it was before the pandemic. Non-bank lenders—direct lenders and hedge funds, for example—are still very interested in investing in oil and gas.

DOING DEALS TODAY

Over the last six months, increasing oil prices have prompted companies to make greater capital expenditures, Shah says, leading to more energy service-related M&A transactions in the middle market. But M&A activity is still far from where it was before the pandemic.

For now, says Allen, many companies are working on their balance sheets by refinancing their debt and searching for alternative capital. “We worked with a couple of groups that acquired distressed assets from companies that had to unwind their asset position,” he says. “But nothing from an M&A perspective.”

Creative touches will be needed for the M&A deals that do occur, notes KeyBanc’s Buchanan. Buyers likely won’t want to buy an asset if its price

will quickly fall, and sellers won't want to sell if prices could rise.

That creativity could come by way of an oil field owner selling oil into the futures market, Shah says. Or it could come in the form of hedging. Elam has even seen companies that own royalty interests hedge their positions to protect against risks at the expense of future upside.

Environmental considerations will also play a role in transactions, including those that don't involve an explicitly "green" business, Elam says. He recently closed a deal with an oil company where one of the last-minute changes to the transaction was adding systems to monitor the volume of fresh-water used in drilling operations and the amount of gas being flared, seeking to reduce both over time.

"There's a tangible ESG element to show investors how they're being good stewards for the

us all," he says. "We see more upside potential in investing and lending to energy companies today than we did a couple of years ago."

Elam feels optimistic that large and small M&A transactions alike will take place over the next six months to a year, especially if oil prices become less volatile. M&A deals will pick up greatly if the war in Ukraine ends peacefully, he adds.

Shah believes that oil and gas is bound to perform better than it has in years. Buyers likely won't assume oil will be more than \$100 per barrel forever, he notes, but could it make sense to underwrite an investment based on \$75 or \$80 per barrel? Either way, oil and gas assets could be great investments for willing participants, especially since some have left the sector due to ESG concerns.

"If you're willing to invest indiscriminately, it's a

“ We see more upside potential in investing and lending to energy companies today than we did a couple of years ago. ”

TRON ALLEN

Chief Commercial Officer, Eclipse Business Capital

industry," Elam says. "It's not lip service—there's a sincerity to it that some folks tend not to appreciate. Most every company we deal with has a lot of these initiatives ... all the way down to the smallest operator. In part, it's because investors and capital providers want it. They recognize the collective benefit to a changing industry."

WHAT'S AHEAD

In an industry rife with volatility, forecasting the future is challenging. But each expert interviewed believes that the health of the energy sector and M&A will improve in the second half of 2022.

Allen, for example, believes that rig counts and production will return to pre-pandemic levels. "Hopefully, it will result in cheaper gas prices for

good place to invest because you'll get more bang for your buck," Shah says.

Buchanan doesn't think the next six months can possibly be as volatile as March and April. He believes that price swings will settle, and transactions will follow. Companies in the oil and gas space, specifically upstream, are doing well at the current commodity prices, so they can make money while owning and acquiring more assets. They can also sustain a higher cost of capital and generate good return for investors.

Buchanan believes that the number of M&A deals will pick up as the market settles. "It just takes one buyer and one seller to agree," he says, when asked when stability might return. "That's all it takes." //

HAL CONICK is a writer based in Chicago.



IS WALL STREET
SOUTH
HERE TO STAY?



Feature STORY

Although COVID-19 hastened the migration of financial services firms to Florida, the movement predates the pandemic—and may outlast it

WRITTEN BY
Meghan Daniels

When it comes to financial services, Florida's moment in the sun has arrived.

In recent years, there has been breathless coverage of firms like Blackstone, Apollo Global Management, Silicon Valley Bank and many others snapping up prime office real estate in the South Florida area. While COVID has played a large role in this migration, the roots of the “Wall Street South” movement can be traced back further.

In the 2010s, the Business Development Board of Palm Beach County and the Miami Downtown Development Authority made a concerted effort to recruit private equity firms, hedge funds and wealth management offices to the area, according to coverage in the *South Florida Business Journal*. In 2017, following the signing of the federal Tax Cuts and Jobs Act, which capped state and local tax deductions at \$10,000, this trend gained further steam as

businesses flocked to Florida to take advantage of the state's low corporate income tax rate and nonexistent personal income tax. More than 70 financial services companies relocated to Palm Beach County from 2016-2019, according to the *Journal*.

And then COVID appeared, upending work habits and leading to an even more dramatic migration to the South Florida region. "The pandemic was a big accelerator of firms moving to the area," says David Gershman, partner and general counsel at Trivest, a private equity firm based in Coral Gables, Florida. Financial executives decamped to existing homes in South Florida or found themselves grabbing whatever (preferably oceanfront) real estate they could find.

"COVID changed everything," agrees Elie Azar, founder and CEO of Miami-based private equity firm White Wolf Capital. "Virtual and remote work meant you could be anywhere and not tied down to a certain location, so people took the chance to make major lifestyle changes."

According to March 2022 data from the U.S. Bureau of Labor Statistics, the Miami, Fort Lauderdale and West Palm Beach areas added 23,000 new jobs in the professional and business services sector and 8,900 new jobs in the financial activities sector from 2021-2022. This is significant growth on its own, but even more so considering many believe that Miami is still in the early stages of its transformation into a financial center.

Today, many employees in northern cities find themselves increasingly disillusioned with soaring crime rates, high taxes, cold weather and a lackluster work-life balance. "My wife and I moved to Miami 20 years ago and all the things that were true about the city then are true now," says Gershman, who also serves as ACG's board chairman. "It's just that more people are seeing it. There was always good weather, always low taxes, always proximity to the East Coast and Latin America. The recent infusion of transplants has been very validating of our decision."

BACK TO THE OFFICE— BUT MAKE IT FLEXIBLE

For a lot of firms, the decision to move to the South Florida area was initiated by their leadership

ranks retreating to homes in the region. Now junior employees are following, as firms look to build out a bigger presence.

As the pandemic entered a new phase and return-to-work plans coalesced, many professionals yearned to maintain work-life flexibility, while also accessing the in-person collaboration that had been sorely missed during the past few years.

For middle-market credit platform PennantPark Investment Advisers, moving its headquarters to Miami was in part a way to capture this middle ground between home and the office. "We wanted to have a flexible culture but also wanted the benefits of being in the office together, while attracting excellent people," says Art Penn, founder and managing partner of the firm, which also has offices in New York, Chicago, Los Angeles and Houston. "We thought establishing our headquarters in Miami would be helpful in this regard."

PennantPark currently has eight full-time employees in Miami and hopes to increase its headcount to 20 or 25 over the next few years. "We've found that when recruiting, there are many people very attracted to the location," Penn says. "Additionally, we're happy to offer our employees flexibility in working from different offices at different parts of the year as they so choose." New York employees can spend part of the winter in Miami, for example, while Florida employees can work from the New York office for a period if they'd like.

Firms that relocate to Miami can also benefit from a growing pool of local, entry-level talent, thanks to the improved quality of nearby universities.

"Historically, it hasn't been that easy to find or attract top-tier talent to Miami," says Wirth Munroe, executive vice president at professional services firm Aon and a fourth-generation Miamian whose great-grandfather Ralph Munroe was one of the early pioneers of the city. "We've experienced this at Aon. But more recently we are finding nearly all our new hires are from the Miami market. There continues to be improvement in the caliber of local colleges and universities in the city, led by the University of Miami."

These schools are training and graduating candidates who are well-suited to take advantage of the new jobs and opportunities nearby.



“

COVID changed everything. Virtual and remote work meant you could be anywhere and not tied down to a certain location, so people took the chance to make major life-style changes.

ELIE AZAR
Founder and CEO,
White Wolf Capital

PRESERVING LOCAL CHARACTER

Locals say part of Miami’s appeal is that it still feels like a small town. But change is inevitable with any shift in population, and an influx of new professionals threatens to alter the qualities that made Florida and its cities attractive to financial firms.

One concern among Floridians is whether transplants will begin to erode the state’s business-friendly policies and tax incentives by voting for politicians who favor more stringent rules. It was Florida’s pro-business attributes that drove Azar

to move White Wolf Capital from New York City to Miami in 2014. Being based in Florida provided huge tailwinds for his firm thanks to the lack of income tax and less bureaucracy and regulatory red tape, he says.

Now, Azar hopes others will help maintain the state’s favorable business environment. “I think it’s incumbent for anyone who has taken advantage of what the area has to offer and moved their firm here to stay engaged in the local community and support the business-friendly policies—and the elected local and state officials who back

them—that attracted us in the first place,” he says.

Another challenge for firms, especially in South Florida, is rising housing costs. “Many locals have been priced out of the downtown area and have had to move out to the suburbs,” says Azar.

Real estate challenges, and South Florida’s considerable cost of living in general, have led some mid-market investment firms to look beyond Miami and Palm Beach for offices. For example, private investment firm Star Mountain Capital knew it was interested in opening a Florida office even before COVID hit, but ultimately decided that South Florida wasn’t the best fit for its team. Instead, it established its new office further north, in Tampa.

“Miami and South Florida in general are very

NOT A PASSING TREND

At least for now, Florida’s business-friendly policies remain intact, and South Florida’s high prices haven’t stemmed the flow of transplants.

The good weather and low taxes that attracted finance professionals in recent years will likely keep them in the area for the foreseeable future, according to Aon’s Munroe, and he expects his hometown to look different as a result. “This is a reset of what Miami is going to be moving forward,” he says. “It’s always been a financial center for Latin America and Central America, and now it’s becoming a broader emerging financial center, like Austin and New York.”

Many predict that lawyers, accountants and other service providers will be the next groups

“ This is a reset of what Miami is going to be moving forward. It’s always been a financial center for Latin America and Central America, and now it’s becoming a broader emerging financial center, like Austin and New York.

WIRTH MUNROE

Executive Vice President, Aon

expensive. It may make sense for a senior partner who personally wants to be there, but we’re focused on our 20-year business plan and what creates the best environment for our younger team in particular,” says Brett Hickey, Star Mountain’s founder and CEO. His firm used a data-driven approach to narrow down its options, considering factors like commute times; the attainability of a high-quality, cost-effective lifestyle for team members at all levels; and the number of universities and young people graduating in the area.

Ultimately, Tampa was the best fit for Star Mountain’s priorities. “We’ve found that both junior and senior employees who’ve moved there have been very happy with the city. It’s also a quick flight to New York and an easy day trip,” says Hickey.

to relocate, following the investment firms.

“Right now, Miami is benefiting from a virtuous cycle, where new players with new ideas and capabilities engage and feed off each other to create even more possibilities,” says White Wolf Capital’s Azar.

That virtuous cycle and enduring drivers behind the movement suggest the Wall Street South phenomenon is more than just a fad.

“I don’t see it as a bubble,” Munroe says. “The last big boom we had was before the real estate crisis in 2008, and that was fueled by speculation. This is different.” //

MEGHAN DANIELS is a freelance writer and editor based in Brooklyn.

The Wrap-Up

A RECAP OF RECENT ACG EVENTS



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ACG EVENTS

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KEY TAKEAWAYS

Highlights from some of the biggest stories in this issue.

“ If you’re looking for a new network, new connections and to achieve new levels of success, ACG Minnesota is the place to do that.

Andrew Hed
Business Development Manager, Hed Cycling Products, 2018 “BOLDest of the BOLD” Award Winner

ACG Events

WRAP-UP



ACG ORANGE COUNTY

ACG Orange County's 19th Annual Private Equity Deal Flow & Wine Tasting drew 623 registrants for the event, held March 17 at the Ritz-Carlton in Dana Point, California. Attendees sampled superlative wines, networked with 40 table sponsors, and enjoyed the company of their colleagues in the ACG Orange County community. Private equity firms from Illinois, Tennessee, Minnesota, Nebraska, New York, Washington and Texas joined local California firms in pouring wine and discussing deals with lenders, corporate executives and an

array of professional service providers. Investment banks and private equity firms participated in an ACG DealSource program prior to the evening's activities.

The favorite wine of the night, based on attendees' votes, was poured by Hardesty, a provider of executive talent solutions. The firm served 2004 and 2007 Chateau Montelena Estate Cabernet Sauvignons from Magnum bottles. ACG Orange County's 20th annual tasting event will be held on Jan. 12, 2023, again at the Ritz-Carlton.

ACG ATLANTA



ACG Atlanta hosted its annual M&A South Conference on Feb. 7-9 at the Hotel Avalon & Conference Center. The event presents the opportunity for top private equity and mezzanine capital providers to meet with intermediaries, corporate development officers, accountants, lawyers, senior lenders and other dealmakers. This year's program included an opening keynote conversation with Marc Gorlin, founder and CEO of Roadie, and Brian Dykes, senior vice president of Global Capital Markets at UPS. The two spoke about UPS's acquisition of Roadie and offered insight into the future of logistics.



ACG NEW YORK

In late March, ACG New York hosted its annual Women of Leadership Summit at the plush Second NYC event space in midtown Manhattan. Now in its ninth year, the event drew almost 200 international female leaders from multiter fund managers, institutional LPs, investment banks, single family offices and strategic acquirers. They gathered for pre-scheduled one-on-one meetings, discussions around varied topics, and the customary wine (and tequila) tasting. Even bonafide royalty was present: Tessy Antony de Nassau, the former princess of Luxembourg and a social entrepreneur, was among the event's speakers.

This year's theme was "what got us here won't get us there." The summit focused on how to lead through change and think creatively to drive value. Speakers from Apollo, Barclays, Nuveen, Goldman Sachs and other firms reflected the senior-level audience.





Photos by Patrick Kleinberg

Photos by Jensen Sutta Photography

TEXAS ACG CAPITAL CONNECTION

ACG's Texas chapters welcomed over 1,100 attendees to the 18th Annual Texas ACG Capital Connection on March 23-24 at the Hyatt Regency Hotel Dallas. More than 100 private equity firms and over 40 investment banks attended, setting records for the event. This year was the first to sell out of event sponsorships.

Conference-goers scheduled more than 2,200 meetings and heard from industry experts during the event's program. The sold-out kickoff luncheon featured a panel titled "Succeeding in the Deal World," which included speakers Gretchen Seay of ClearSight Advisors; Michelle Eidson of Crest Rock Partners; Catherine Monson of Propelled Brands; Inobat Karras of Interlock Partners; and Tiffany Hagge, formerly of BDT Partners. Two content tracks rounded out the program: "A Peek Behind the Curtain—The Deal that Brought the PGA of America to Texas" and "Getting Inside the Mind of Your Client Without Losing Yours."

ACG DENVER

Attendees were thrilled to return to the ACG Denver Rocky Mountain Corporate Growth Conference in the Mile High City on March 28-29. The event quickly sold out with more than 500 participants and a record number of capital providers.

In addition to meeting at the event's ACG DealSource and in the Conversation Lounge, conference participants heard from Dietrich Partners about the 2022 Rocky Mountain corporate outlook. Plus, Ballard Spahr led a fascinating discussion on ESG, and BDO examined the power of the employee. Plante Moran hosted the conference's dynamic keynote luncheon speaker, Duncan Wardle, the former head of innovation and creativity at Disney, who led a fun, interactive session.

Many conference-goers met each other the Sunday prior to the conference for a Ski POD (Professionals Opening Doors) networking event at the Keystone Ski Resort.



ACG MINNESOTA

ACG Minnesota hosted its 10th annual BOLD Awards Gala on Feb. 22 at the new Fillmore/Live Nation venue in Minneapolis to recognize standout businesses in the state, based on nominations from the ACG community. This year's winners included Be the Match, Clearfield, Cytotheryx, Free Bikes 4 Kidz, Telo and Tierra Encantada.

The BOLD Awards recognize innovation, inspirational moves, bold visions and leaders who have made courageous moves to grow, restructure or enhance their companies. The chapter received more than 120 nominations, from which a panel of judges identified 18 finalists. Category winners were announced at the gala, and the BOLDest of the BOLD is selected by live audience vote at the event. This year's gala drew record registration and turnout, despite a blizzard. Nominations for the 2023 BOLD Awards will open in the fall.

ACG HEADQUARTERS

ACG hosted its inaugural dealmaker invitational in late February at the Streamsong Resort in Central Florida. Nearly 100 senior-level private equity and investment banking professionals participated in this intimate golf event, which also included a putting contest, dinner reception on the Black Course, bourbon tasting and plenty of networking. During the event, ACG awarded the association's Lifetime Achievement Award to David Hellier, a partner at Bertram Capital.



Upcoming ACG Events

- **JULY 13:** Annual Women in Corporate Growth Luncheon—ACG 101
- **JULY 14:** Northwest Middle Market Growth Conference 2022—ACG Seattle
- **JULY 19:** Golf Tournament—ACG Denver
- **JULY 26-28:** Summer Dealmaking Conference—ACG New York
- **JULY 28:** 11th Annual Wine Tasting—ACG Tampa Bay
- **AUG. 3-5:** ACCELERATOR 2022—ACG Boston



- **SEPT. 7-8:** Great Lakes Capital Connection—ACG Pittsburgh
- **SEPT. 8:** Wine Tasting 2022—ACG Orange County
- **SEPT. 15:** ACG Capital Connection: Wine and Craft Beer Tasting—ACG Kansas City

- **SEPT. 15:** Golf Tournament—ACG Utah
- **SEPT. 19:** 18th Annual Golf Outing—ACG Cleveland

- **SEPT. 27-28:** Midwest ACG Capital Connection—ACG Chicago

- **SEPT. 28-29:** Virginia Capital Conference—ACG Richmond



INTERGROWTH SHATTERS ATTENDANCE RECORDS

ACG's annual conference returned in full force in April, with industry-focused content and more networking opportunities than ever



KATIE MULLIGAN

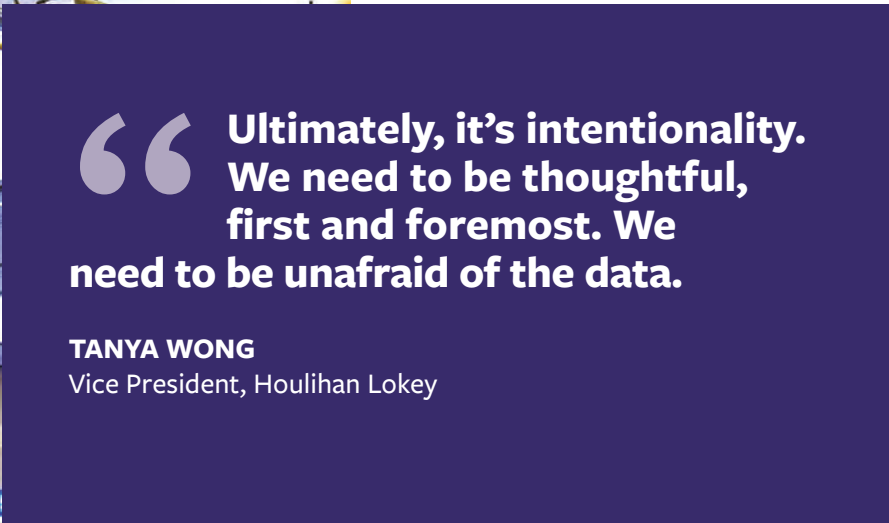
ACG InterGrowth attracted a record 2,800 registrants to the annual dealmaking event, hosted this year at the ARIA Resort & Casino in Las Vegas on April 25-27.

Attendees used the ACG Access scheduling software to set up appointments with each other during the event, and they likely found that meeting space was easy to locate. The expanded floor plan this year included additional tables, making it possible to pull up a chair for an impromptu or prescheduled meeting.

Nearly 180 investment banks were represented at the conference, and many claimed a dedicated space in the InterGrowth Lounge to use throughout the three-day event.

Networking extended beyond just the lounge. A golf tournament, daily jogging meetup and evening receptions were among the other venues where attendees could meet each other or reconnect.

The conference also included plenty of programmed content. Pamela Meyer, the bestselling author



“ Ultimately, it’s intentionality. We need to be thoughtful, first and foremost. We need to be unafraid of the data. ”

TANYA WONG

Vice President, Houlihan Lokey



of “Liespotting: Proven Techniques to Detect Deception” who released a popular TED Talk on the topic, gave a keynote address about strategies for uncovering deception and improving negotiating skills. Brian Krolicki, chairman of the board at Faraday Future Intelligent Electric and former lieutenant governor and state treasurer of Nevada, also gave a keynote talk.

Throughout InterGrowth, attendees heard from experts during a series of featured sessions, which

covered topics ranging from the evolution of business development to the impact of diversity, equity and inclusion on middle-market investments. New this year were industry-focused pavilions in the lounge, where speakers addressed trends in manufacturing, healthcare, business services, consumer goods and technology.

Below are highlights from two of the many sessions.

The Business Case for DE&I

Speaking on the panel “DE&I’s Impact on the Middle Market: What’s Working and How,” experts presented the business case for investing in diversity, equity and inclusion efforts. Alex Drost, founder and CEO of Connection Builders, moderated the discussion.

Panelist David Baboolall, associate partner at McKinsey & Co., pointed to a May 2020 McKinsey & Co. report whose findings revealed that even companies that invest in hiring at least one woman or person of color display performance improvements. But success is dramatically

improved among companies with the most diverse boards.

What’s more, companies that fail to make meaningful investments and progress in DE&I were found to underperform significantly. Indeed, McKinsey’s research found that the least diverse organizations underperformed against their peers by 19%, up from 15% in 2017.

Baboolall, who uses the pronoun they, pointed to how diversity can yield improvements in a company’s product and service offerings, marketing and other efforts, and thus create opportunity for revenue growth.

“If you have a room full of very qualified straight, white, cis men, they will likely appeal to straight, white, cis men,” they said. “But if you decide, ‘Hey, we’re going to have a Black woman, we’re going to have queers, a biracial person, we’re going to have Asian, Latinx [staff],’ the number of people that you’re going to be able to serve with the proper product-market fit increases by so much.”

In order to develop and execute on a DE&I strategy, setting the right goals is vital, panelists agreed. “Ultimately, it’s intentionality,” said Tanya Wong, vice president at Houlihan Lokey. “We need to be thoughtful, first and foremost. We need to be unafraid of the data.”

Having leadership buy-in is equally critical to the success of DE&I initiatives. “With us, it starts from the top,” said panelist Tanisha Wicker, senior vice president of human resources at Smile Brands. “Our CEO is committed. He and I work alongside one another to make sure our executive leadership team is equally committed.

“You have to have a commitment, and you have to have the right team around you,” she continued, “and you have to develop a strategy that works for your organization.”





“ In the middle market, it becomes very specialized. You have to understand the specific revenue cycle process within each healthcare subindustry.

JAY STINE
Partner, FORVIS

Macro Trends Shaping Healthcare M&A

Changes to where patients receive care and how those services are paid for are among the themes shaping M&A opportunities in healthcare, according to experts from FORVIS (formerly DHG) and Marwood Group who spoke during the “Healthcare M&A Trends” session, sponsored by FORVIS, at the Healthcare Pavilion.

During the session, Jay Stine, partner at professional services

firm FORVIS, and Jennifer Meyers, managing director at Marwood, a healthcare-focused consulting firm, outlined six macro trends shaping healthcare deals today.

Those trends include growing demand for home healthcare services; a shift toward value-based care; a move away from acute-care settings; adoption of Medicare Advantage Plans; an increase in telehealth services; and continued outsourcing of revenue cycle management, staffing and other services.

On the topic of home healthcare, the speakers noted that this subsector comes with both pros and cons for investors. It often involves government payers and, in turn, regulation. At the same time, Medicare tends to provide the fastest reimbursement. “Healthcare in the home is usually highly regulated but with a payer who’s pretty quick,” Stine said.

Investors looking to capitalize on this trend aren’t limited to acquiring healthcare providers. Tech-enabled solutions, for example, are an alternate means to get in on the home healthcare boom.

Another area of interest for

investors is in facilities where procedures like infusions and imaging are performed outside of an acute-care setting. “Commercial payers are pushing the lower-cost setting particularly for imaging,” said Meyers.

From an M&A perspective, buyers are willing to pay more for a physician practice that also owns an ambulatory surgery center (ASC), which provides same-day procedures without requiring an overnight stay. “Expect to pay more if it’s a physician practice and an ASC,” Stine said.

Stine and Meyers pointed to outsourcing as another trend and noted that buyers should expect to pay top dollar for highly tailored solutions—revenue cycle management software for ambulances, for example—that are selling for a premium due to their appeal.

“In the middle market, it becomes very specialized. You have to understand the specific revenue cycle process within each healthcare subindustry,” Stine said.

Meyers added that benefits management is another outsourced service where she expects to see continued growth. //

Key TAKEAWAYS



CATCH UP QUICK: From hiring trends in the Sunshine State to private equity fundraising trends, here are some of the highlights from this edition of *DealMaker*.

1 EMERGING FIELDS
The agriculture technology revolution offers the potential for safer, more efficient farming solutions, including alternatives to traditional pesticides like those from Vestaron. The North Carolina company's peptide-based product eliminates the health risks posed by pesticides that keep harvesters off the fields for up to 10 days after spraying. It's one of the many solutions that are drawing investor dollars into agriculture technology. **"Agtech Presents an Opportunity for Patient Investors That Embrace the Niche," p. 30.**

2 DIPLOMA CITY
Whereas filling entry-level finance positions was once a challenge in South Florida, local schools like the University of Miami are training and graduating students qualified for the growing number of finance jobs in the region. According to March data from the U.S. Bureau of Labor Statistics, the Miami, Fort Lauderdale and West Palm Beach areas added 8,900 new jobs in the financial activities sector from 2021-2022. **"Is Wall Street South Here to Stay?" p. 46.**

3 PROCESS OF ACCELERATION
Middle-market deal timelines are getting shorter, due in part to legal changes. Often, buyers are securing representations and warranties insurance as a recourse mechanism against a potential breach, and many are further streamlining the process by either securing reps and warranties insurance between signing and closing, or self-insuring. **"The Modern-Day Sell-Side Process," p. 16.**

4 LOST IN TRANSLATION
Private equity firms often struggle to translate the value-creation opportunities found during diligence into action items after the deal closes. One solution posed by West Monroe is to create new horizontal operations teams that specialize in applying technology and data to specific operational areas, like revenue operations teams that work toward operational improvement in sales processes. **"Digitizing the Due Diligence Process in PE Will Lead to Value Creation Faster," p. 14.**

5 OUT OF GAS
Shareholder activism and ESG concerns have prompted some public players to steer clear of fossil fuel drilling and extraction, so M&A activity involving upstream energy assets will likely involve private investors, according to a PwC report. So long as prices are volatile, it will be difficult to value these assets, but with fewer entities in the market, industry-watchers say oil and gas businesses could be lucrative investments. **"What the Future Holds for Energy M&A," p. 40.**

6 KNOWN QUANTITY
Private equity firms that closed funds in Q1 2022 say that existing LP relationships proved especially valuable during the days of remote meetings last year. Rather than having to build trust virtually with all-new investors during the pandemic, GPs appealed to LPs they'd partnered with on past funds. Those relationships helped some private equity firms exceed their fundraising targets, even as the total capital raised dipped below that of the same period in 2020 and 2021. **"PE Fundraising Dips from Recent Highs, Funds Lean on Familiar LPs," p. 18.**





The Private Equity Operators Council

The Private Equity Operators Council, proudly supported by SAP, brings together key professionals and operators who want to explore solutions to value creation challenges in a convenient and candid setting.

The Council is designed for **operators and professionals** who are responsible for accelerating growth across the investment cycle.

The Council meets **virtually the first Thursday of each month at 2pm ET** to explore solutions to the most pressing strategic, functional and industry challenges value creation teams are facing today.

If you are interested in becoming a member, please scan the QR code below and complete the brief questionnaire.

Be sure to check out our events page to register for the latest council meeting!



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We transform.

When we clean up sites, we transform economies. Take Philly, where we're creating 19,000 jobs and appealing to world-class tenants. Find out what we can do in your city. hilcoredev.com

