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OCTOBER 2017

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Private equity investors are heading to the lower middle market and the 350,000 companies that populate it

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Impact

When you consider that the U.S. is home to some 350,000 companies with annual revenue between \$5 million and \$100 million, it's no wonder that the lower middle market is bursting with activity. A new generation of seasoned M&A professionals is branching out from established firms to set up their own shops, and many are focusing on smaller deals. Watervale Equity Partners, founded by three former investors at Linsalata Capital Partners, serves as a good example. The Cleveland, Ohio-based firm is hitting the fundraising trail, looking to raise \$125 million to make control investments in companies with less than \$6 million of Ebitda. As we explore in this issue's cover story, the lower middle market is expected to continue as a source of deal flow in the future.

Coming up in the November/December issue of the magazine is a special report on consumer goods and retail, timed for the holiday season.

Looking ahead to 2018, we've opened up our call for nominations for The Most Influential Women in Mid-Market M&A, which identifies the best and the brightest female dealmakers, including: corporate dealmakers, private equity investors, investment bankers, lenders, attorneys and other advisers. The 2017 special report profiled 35 top female dealmakers, including: Jeri Harman, the founder of Avante Mezzanine Partners; Pam Hendrickson, the chief operating officer of The Riverside Co.; Hollie Moore Haynes, the founder of Luminare Capital Partners and a former partner at Silver Lake; and Emily Waldorf, vice president, corporate strategy, Campbell Soup Co. (NYSE: CPB). For the 2018 edition, we invite your input. Nominate candidates you'd like us to consider by sending email to: womeninmidmarket@sourcemedia.com. Nominations are due Oct. 15, 2017. When nominating a candidate, please explain why you think she wields influence within her company -- and also within the greater middle market.

Mary Kathleen Flynn

Editor-in-Chief

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Email me at marykathleen.flynn@sourcemedia.com

Follow me on Twitter @MKFlynn

Editor-in-Chief	Mary Kathleen Flynn marykathleen.flynn@sourcemedia.com
Assistant Managing Editor	Demitri Diakantonis demitri.diakantonis@sourcemedia.com
Reporter	Kameron Leach kameron.leach@sourcemedia.com
Contributing Editor	Danielle Fugazy dfugazy@fugazygroup.com
Group Editorial Director, Banking and Capital Markets	Richard Melville richard.melville@sourcemedia.com
VP, Capital Markets	Harry Nikpour harry.nikpour@sourcemedia.com
Senior Sales Manager	Richard Grant richard.grant@sourcemedia.com
VP, Research	Dana Jackson dana.jackson@sourcemedia.com
VP, Content Operations and Creative Services	Paul Vogel paul.vogel@sourcemedia.com
Director of Creative Operations	Michael Chu michael.chu@sourcemedia.com
Art Director	Nikhil Mali nikhil.mali@sourcemedia.com
Director of Content Operations	Theresa Hambel theresa.hambel@sourcemedia.com
Associate Marketing Manager	Leatha Jones leatha.jones@sourcemedia.com



CHIEF EXECUTIVE OFFICER	Douglas J. Manoni
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<p>\$24M</p>  <p>Sole Lead Arranger & Administrative Agent Recapitalization</p> <p>JZ PARTNERS</p> <p>MAY 2017</p>	<p>\$30M</p>  <p>Sole Lead Arranger & Administrative Agent Leveraged Buyout</p>  <p>MAY 2017</p>	<p>\$24M</p>  <p>Sole Lead Arranger & Administrative Agent Refinance & Add-On Acquisition</p>  <p>MAY 2017</p>	<p>\$80.5M</p>  <p>Sole Lead Arranger & Administrative Agent Growth Buyout</p>  <p>MAY 2017</p>

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What's going on @

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The home page offers quick access to the annual M&A Mid-Market Awards and The Most Influential Women in Mid-Market M&A.

The lead story showcases significant news and trends affecting the middle market.

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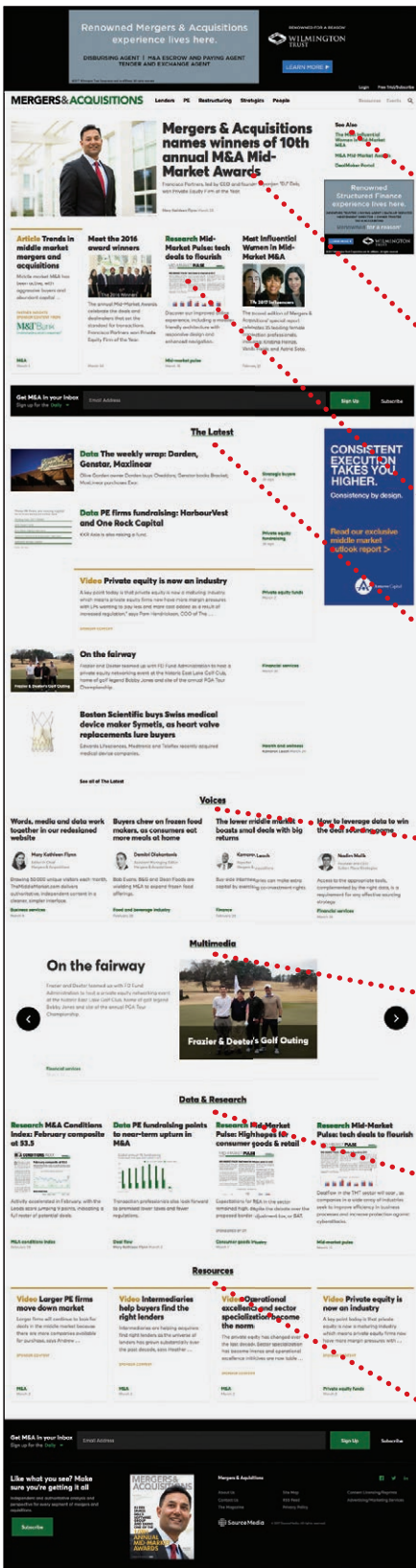
The Voices section highlights opinion pieces, including columns written by our M&A editorial team members and guest articles written by respected dealmakers.

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The Data & Research section focuses on reports, including the Mergers & Acquisitions Conditions Index (MACI) and the Mid-Market Pulse (MMP), both based on our proprietary monthly surveys of 250-plus M&A professionals.

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LARON GALEA
lgalea@wilmingtontrust.com
212-941-4427



STUART LANDUCCI
slanducci@wilmingtontrust.com
617-457-2040



NICK TALLY
ntally@wilmingtontrust.com
612-217-5633

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Tech trends prompt acquisitions for analytics

Entertainment research firm MarketCast, which is backed by Kohlberg & Co., has acquired analytics provider Fizziology. Kohlberg purchased Marketcast in 2016.

Fizziology, based in Indianapolis, uses software to convert social opinions into research data for motion picture studios, television networks and production companies. Some of the target's clients include: Sony Pictures, NBC, and Warner Bros. Pictures. Financial terms of the deal were not disclosed. JEGI and Ropes & Gray advised MarketCast.

Los Angeles-based MarketCast offers data insights and research advisory services to help optimize marketing strategies for content such as television spots, movie trailers, print advertisements and more. The target has clients in the entertainment industry consisting of Hollywood production studios, over-the-top programmers, and broadcast and cable networks. MarketCast got its start helping Hollywood marketers figure out how to turn movies like "The Silence of the Lambs" and "Dances with Wolves" into box office success stories, according to the company's website.

Headquartered in New York, Kohlberg is a middle-market private equity firm with more than \$5 billion in committed capital. Since its inception in 1987, the firm has completed 69 platform investments and more than 150 add-on acquisitions in companies across industries such as industrials, healthcare services, business and financial services, and consumer products.

Other deals involving data and analytics providers include: The Carlyle Group's (Nasdaq: CG) acquisition of consumer

data provider Claritas from Nielsen (NYSE: NLSN); HIG Capital's deal to buy NCI Inc., an IT and professional services company for the municipal sector; and Francisco Partners' eSolutions' purchase of healthcare data analytics firm RemitDATA Inc.

—Demitri Diakantonis

Shifting landscape in the media sector

Discovery Communications Inc.'s (Nasdaq: DISCA) agreement to buy Scripps Networks Interactive Inc. (Nasdaq: SNI) is a smoke signal for more M&A to occur throughout the media industry, especially as businesses seek direct-to-consumer capabilities through advanced technologies. Talks between Discovery and Scripps Networks has been in the works for several weeks, and now brings together two of the smaller cable network operators with upside potential in digital streaming technologies.

The television sector, from a business model perspective, has been in an uphill battle as the industry has been searching for ways to combat newer technologies as consumers crave to access their favorite TV shows from the palm of their hands. Due to cord-cutters ditching traditional television platforms and looking to watch shows anywhere at any time, media conglomerates have been forced to shift their attention and revenue dollars towards over-the-top (OTT) video resources. OTT technology allows users to access film,

television and other media content using the Internet, or mobile-carrier network, without having to subscribe to a traditional cable or pay-TV service.

"I think you're going to see additional consolidation and different corporate alignments," said Kevin Reilly, president of Turner-owned TNT and TBS cable networks, during the 2017 TCA Network Executive Q&A session hosted by Television Critics Association just days before the Discovery deal was announced. Reilly anticipates a contraction of the cable channel ecosystem, which has been due for reconstruction for some time now.

Viacom Inc. (Nasdaq: VIAB), a big media player who ended its talks to buy Scripps Networks nearly a week ahead of Discovery's purchase agreement, has also done some restructuring of its network portfolio. In February, the media conglomerate announced that its highest priorities and increased resource commitments will go to the company's six flagship brands: BET, Comedy

Central, MTV, Nickelodeon, Nick Jr., and Paramount.

"Viacom has already done their internal contraction, which was arguably overdue," Reilly said. "It's a good move, but that's not going to solve everything overnight. It's just

that the means by which what television is and the means by which we're delivering it is a transformation that will be picking up steam from here forward, and if you're overexposed on linear channels, and you haven't built an infrastructure and



connection with an audience, you'll find your entity under stress."

With the advancement of OTT technologies and a growing need to reach viewers in a direct manner, there have been several shutdowns of cable networks recently. Esquire, a network centered around programming for metrosexual men, and crime drama network Cloo are among the latest cable channels to be defunct as part of NBC Universal's strategy to streamline its cable portfolio. This may only be the beginning for what is to come for other cable network operators.

"Floating 15 networks will not be sustainable going forwards," Reilly said

during the executive Q&A session. "In general, fringe networks, the tucked-in on the jet stream of [a] rising tide, they're not going to sustain."

The Discovery and Scripps Networks deal brings together a portfolio of cable channels and television shows with uniquely dedicated fans. With the combination of the Food Network, HGTV, DIY and the Cooking Channel, the newly-combined company may finally be considered for some of the industry's newest OTT packages, such as YouTube TV and Sling. Despite television remaining a priority, Scripps and Discovery both have growing web video businesses which is likely to

beneficial as part of the merge.

—Kameron Leach

Driving logistics deals

TPG Capital has agreed to acquire logistics company Transplace from Greenbriar Equity Group. TPG is partnering with the target's management team on the deal.

Transplace, founded in 2000 and headquartered in Fisco, Texas, provides truck brokerage, technology and cross-border trade services for the manufacturing, retail and chemical sectors. The company

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“As customer expectations for fast and transparent service and delivery increase, the supply chain is quickly becoming more complex. As a result, many companies

Adobe Stock



have started to outsource freight spend in order to achieve better procurement at a lower operating cost,” says TPG Capital partner Jack Daly. Financial terms of the transaction were not disclosed.

TPG Capital, based in Fort Worth, Texas, is the private equity fund of alternative investment firm TPG, which has \$72 billion in assets under management. Earlier in 2017, TPG-backed Cirque du Soleil announced plans to buy the Blue Man Group.

As the e-commerce market continues to grow at a steady pace, logistics and manufacturing companies have grown into attractive targets. Recent deals in the transportation and logistics industry include: CI Capital’s acquisition of Simplified Logistics; Ridgmont Equity Partners’ purchase of Worldwide Express; and Kidd & Co.’s formation of Logistyx Technologies through the combination of three logistics software providers.

Morgan Stanley (NYSE: MS) and Hughes Hubbard & Reed LLP are

advising Transplace. Kirkland & Ellis LLP is representing TPG.

—Demitri Diakantonis

Shopping outdoors

Camping World Holdings Inc. (NYSE: CWH) has purchased TheHouse.com, an online retailer of bikes, snowboards and outdoor sporting gear. Financial terms of the deal were not disclosed.

TheHouse.com, based in St. Paul, Minnesota, is an e-commerce site that sells a variety of outdoor equipment and gear. The site features branded bikes, sailboards, skateboards, wakeboards, snowboards, footwear, sunglasses, bags and more. The deal allows Camping World to build on its recreational vehicle retail locations, e-commerce growth, and new product offerings.

Camping World, based in Bowling Green, Kentucky, is a manufacturer of RVs and associated parts. The buyer also services RVs from its network of retail locations. TheHouse.com deal comes on the heels of Camping World’s acquisition of Gander Mountain, an online retail store in the hunting and camping markets, and watersports equipment provider Overton’s. Camping World and TheHouse.com will remain two separate and distinct brands. The buyer will focus on the outdoor camping and RV industry, while TheHouse.com will focus on the active outdoor lifestyle.

Recent outdoors-related deals include: Kohlberg & Co.’s purchase of Newell Brands Inc.’s snowboard and winter sports unit; Malibu Boats Inc.’s buying of Cobalt Boats LLC; Falconhead Capital’s purchase of Kwik Tek Inc.; Monomoy Capital Partners’ acquisition of West Marine

Inc. for \$338 million; and Peak Rock Capital’s purchase of Do Outdoors Inc., the owner of fishing product —Kameron Leach

Food distributors produce healthy returns

Rotunda Capital Partners LLC has acquired IF&P Foods LLC, a distributor of produce and healthy foods across the Midwest, for an undisclosed amount. The deal comes at a time when consumers are more informed and are demanding fresher, healthier, and better-for-you food options. The trend is expanding the need for more produce, either through purchase at retail grocery stores or through meals bought at dine-in restaurants.



IF&P Foods

Formed in 1997, IF&P Foods came to fruition after the merging of two produce distribution businesses, Indianapolis Fruit and Piazza Produce. The target sells a variety of fresh and packaged produce, in addition to meal-

prepped components, to grocery stores, restaurants, schools, and food management companies. The Indianapolis, Indiana-based company has a fleet of more than 340 refrigerated trucks servicing at least 14 states across the Midwest. The target operates from five facilities and distributes its products under multiple brands, to include: Garden Cut, Circle City Produce and Papania Produce.

“We’ve been looking for a platform company in the produce distribution sector for quite some time, and IF&P is an exciting company with tremendous growth

prospects,” states Rotunda partner Dan Lipson. “Combined with our distribution expertise, there’s a great opportunity to expand IF&P’s reach and offerings and provide a new platform for growth.”

Based in Washington, D.C., Rotunda is a lower middle-market private equity firm that backs businesses with up to \$100 million in enterprise value. The PE firm has made deals in a variety of sectors, including: transportation, distribution, specialty finance, business services and logistics. The PE firms has previously backed ramp maker Heavy Duty Ramps LLC, and acquired a majority stake in fulfillment services company Amware Logistics Services.

Dealmakers have a healthy appetite for better-for-you food and beverage companies. Related deals include: Fresh&co’s acquiring a 35-acre farm to focus on local ingredients; Dr Pepper Snapple Group Inc.’s purchasing of antioxidant drink company Bai Brands LLC; and General Atlantic’s minority investment in Joe & the Juice, a chain of urban juice and coffee bars.

—Kameron Leach

Bottoms up for PE

Lower middle-market private equity firm Brynwood Partners has acquired beverage manufacturer Cold Spring Brewing Co. Inc. using funds from the firm’s seventh PE fund. Financial terms of the transaction were not disclosed.

Founded in 1874, Cold Spring is an independent beverage producer serving energy drinks, craft beers and carbonated flavored waters. The Cold Spring, Minnesota-based target primarily makes non-alcoholic and alcoholic beverages for branded products and private labels of other retailers. Cold Spring also brews beer under

its own branded product, called Third Street Brewhouse, sold locally in Minnesota and Wisconsin. Previously owned by

the Lenore family, the target reports \$60 million in net sales.

“The well-run facilities

Cold Spring Brewing



and exciting growth plans for the company represent a great investment opportunity for Brynwood Partners,” states Brynwood CEO Henk Hartong. “While Cold Spring will be operated as a standalone company, we believe it will benefit greatly from the scale and national distribution and manufacturing foot print of Brynwood Partners’ Harvest Hill Beverage Company investment.”

Brynwood, based in Greenwich, Connecticut, has purchased Cold Spring from its \$420 million fund, Brynwood Partners VII L.P., which was raised in 2013. PE-backed Harvest Hill is a beverage manufacturer that was formed in June 2014. Since inception, Harvest Hill has grown its portfolio of brands, including: Juicy Juice, Nutrament, Little Hug Fruit Barrels, Big Hug Fruit Barrels, Guzzler, Big Burst, and Daily’s Cocktails. In November 2016, Harvest Hill acquired Faribault Foods Inc. to grow its pouch manufacturing services.

PE firms and strategic buyers have shown a growing interest in beverage companies. Other beverage-related deals include: Mason Wells’ acquisition of King Juice Company Inc.; Cott Corp.’s (NYSE: COT) agreement to purchase coffee seller S&D Coffee Inc. and and coffee machine provider Eden Springs; Monster Beverage Corp.’s acquisition of American Fruits &

Flavors for nearly \$690 million; Dr Pepper Snapple Group Inc.’s (NYSE: DPS) buying all of Bai Brands LLC; General Atlantic’s minority investment in Joe & the Juice, a chain of urban juice and coffee bars; and Falconhead Capital LLC’s purchase of soda maker Multi-Flow Industries LLC.

Holland & Knight LLP served as legal counsel to Brynwood. Cascadia Capital LLC acted as financial adviser to Cold Spring, while Stinson Leonard Street LLP advised on legal matters for the company.

—Kameron Leach

Digital marketers become attractive targets

Advantage Solutions acquired digital retail marketing agency Brand Connections from Veronis Suhler Stevenson. Marketing and advertising agencies that have developed technology to leverage the new ways of shopping are in high demand.

Brand connections, based in New York, helps consumer companies increase brand awareness across digital media. The company has previously worked with Juicy Juice and VO5 hair care products. VSS invested in the target in 2008. Petsky Prunier advised Brand Connections on the sale to Advantage.

Advantage, located in Irvine California, is a sales and marketing firm. The company assists retailers with sales data, inventory and space management, as well as digital marketing.

As consumers continue to buy more online, marketing firms that have the resources to appeal to shoppers on the web have become attractive targets. In 2017, Bain Capital Private Equity acquired a

majority stake in firm Daymon Worldwide; In 2016, Trans World Entertainment Corp. (Nasdaq: TWMC) bought Etailz; and Xaxis, the operating company of communications and digital marketing firm WPP plc, bought Triad Retail Media.

—Demitri Diakantonis

Why manufacturing is ripe for M&A

Private equity firm The Watermill Group has acquired a majority stake in Cooper & Turner, a U.K.-based manufacturer of industrial fastener systems. The investment will allow the target to pursue new products, services and market opportunities.

Cooper & Turner was founded in the 1800s as a gun barrel maker. Today, the Sheffield, England-based target manufactures large bolts, studs, anchors, nuts and washers for the wind, railway, tunneling, oil and gas, and structural bolting industries. The target has manufacturing and distribution operations across the U.S., European Union, and China. Watermill sees an opportunity to build Cooper & Turner, particularly in wind energy which is expected to grow by five percent annually through 2020, according to the buyer. Cooper & Turner's senior management, which includes CEO Tony Brown and head of group production David Brown, will retain a stake in the business. Financial terms of the deal were not disclosed.

Watermill Group, based in Lexington, Massachusetts, targets companies with annual revenues of \$50 million to \$500

million in the areas of manufacturing, value-added distribution and business services. The PE firm has previously acquired Experi-Metal Inc., a provider of metal-formed parts and assemblies for automakers, and sold portfolio company Global Tubes.

As the manufacturing industry has involved in respect to its related processes, strategic buyers and private equity firms have found the sector to be ripe for middle-market deals. Recent manufacturing deals include: Audax Private Equity's purchase of Fastener Distribution Holdings; Snow Phipps' acquisition of Ideal Tridon Holdings; and AE Industrial-backed Kellstrom Aerospace's buying Vortex Aviation Inc.



Cooper & Turner

Mid Cap Financial Services LLC provided debt to Watermill for the transaction, and Grant Thornton UK LLP provided corporate finance, debt advisory, tax and financial due diligence advice. K&L Gates LLP provided Legal Counsel to Watermill. Mazars LLP served as financial adviser to Cooper & Turner, while Mincoffs Solicitors served as legal counsel.

—Kameron Leach

Auto part makers spark investor interest

Adient plc (NYSE: ADNT) is acquiring Futuris Global Holdings LLC, a manufacturer of automotive seats, for \$360 million from lower middle-

market private equity firm Clearlake Capital Group.

Futuris designs and distributes a range of seating and interior materials for the transportation industry. The Oak Park, Michigan-based target supplies the auto manufacturing sector with seating systems, seat hardware, carpet systems, steering assemblies, pedal box modules, window regulators, and other automotive mechanisms. Futuris, under Clearlake's ownership, completed the acquisitions of CNI Enterprises and the U.S. headrest and armrest business of Kongsberg Automotive. Tesla Inc. (Nasdaq: TSLA), Fiat Chrysler Automobiles (NYSE: FCAU), Ford Motor Co. (NYSE: F) and General Motors (NYSE: GM) are among the targets list of customers.

"Futuris has a rapidly growing book of business that strengthens our position with West Coast customers, improves our utilization rates in North America and expands our business in Southeast Asia," states Adient CEO Bruce McDonald. "In China, Futuris' concentration on local brands is complementary to our existing business."

Based in Plymouth, Michigan, Adient also supplies seating materials for various vehicles and original equipment manufacturers. The Plymouth, Michigan-based buyer has approximately 230 manufacturing plants across 33 countries. Adient intends to benefit from "substantial synergies through vertical integration, purchasing and logistics improvements."

Headquartered in Santa Monica, California, Clearlake is a PE firm with more than \$4 billion in assets under management. The firm was founded in 2006 and targets the industrials and energy, communications, software, consumer and technology-enabled services sectors.

Clearlake has remained active in the middle market. The PE firm has previously bought legal software provider NetDocuments, and purchased network

security provider Landesk. In 2016, the PE firm purchased data protection software provider Vision Solutions Inc. from Thoma Bravo LLC; backed Syncsort, a data integration software developer; and acquired a stake in snacks company That's How We Roll LLC. Clearlake sold Syncsort and Vision Solutions to Centerbridge Partners for \$1.26 billion in July 2017. Deutsche Bank Securities (NYSE: DB) and Lincoln International LLC is serving as financial advisers to Futuris. Kirkland & Ellis LLP is acting as legal adviser to both Futuris and Clearlake.

—Kameron Leach

Centerbridge seeks eye care providers

Private equity firm Centerbridge Partners LP and health insurance giant Highmark Inc. are acquiring stakes in each others' vision care businesses.

Centerbridge is purchasing the Davis Vision Inc. insurance business and a minority stake in Visionworks, an optical retail business, from HVHC Inc., a subsidiary of Highmark. Davis Vision will be combined with Centerbridge's Superior Vision managed vision care portfolio

company, and Highmark will acquire a minority stake in that combined company.

Terms of the deals were not disclosed. They are expected to close on the fourth quarter, if regulators approve. Dan Osnoss, managing director of Centerbridge, says he will work with Highmark in the coming months on the next phase of growth for the combined Davis Vision-Superior Vision company.

Centerbridge, a private investment management firm based in New York and London, manages \$29 billion. Highmark Inc. operates health insurance plans covering more than 5 million members,

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Adobe Stock

HVHC, based in San Antonio, was advised on the deal by Skadden Arps law.

In other vision related deals, Johnson & Johnson's (NYSE: JNJ) bought Abbott Laboratories' (NYSE: ABT) eye-surgery equipment unit and Novartis International AG (NYSE: AG) agreed to buy Encore Vision Inc.

—Keith Button

Clorox reshapes portfolio

The Clorox Co. (NYSE: CLX) has sold the swabstick Aplicare brand to Medline Industries. Clorox and other consumer companies have been actively reshaping their portfolios through M&A to focus on core business lines.

Aplicare produces skin infection prevention products, iodine bottles and disinfectant towels. Medline, located in Northfield, Illinois, makes medical supplies ranging from bandages to wheelchairs.

"Selling Aplicare, which was part of our professional products business, was the result of our periodic strategic assessment of our global portfolio," says Clorox CEO Benno Dorer. He added that the sale doesn't change Clorox's "strategic focus" on the company's professional products division. Financial terms of the Aplicare sale were

not disclosed. Aplicare generated about \$46 million in sales through June 30. Clorox purchased Aplicare in 2012.

Clorox began divesting assets in 2010, when it sold its auto care business, which owns the Armor All brand, to Avista Capital for \$780 million. Lately, the Oakland, California-based company has been focusing on growing its health and wellness business through acquisitions. In 2016, Clorox purchased probiotics maker Renew Life Holdings Corp. from Swander Pace Capital for about \$290 million.

Strategic buyers in the consumer sector have been divesting assets in an effort to boost profitability. Conagara Brands Inc. (CAG) agreed to sell the Wesson oil brand to J.M. Smucker Co. (NYSE: SJM) for \$285 million; Church & Dwight Co. (NYSE: CHD) sold the Cameo copper and brass cleaner, Snobol toilet bowl cleaner and the Parsons' ammonia brands to Brillo owner Armaly Brands; and Newell Brands Inc. (NYSE: NWL) sold its winter sports unit to Kohlberg & Co.

—Demitri Diakantonis

Cisco continues deal spree in software

Cisco Systems Inc. (Nasdaq: CSCO) is buying hyperconvergence software developer Springpath Inc. for \$230 million in cash. Hyperconverged technology combines storage and networks into a pre-configured system that is managed by "user-friendly" software and usually doesn't require a lot of IT support.

Springpath, based in Sunnyvale, California, provides storage and management software for enterprise companies. The target offers storage

services and software that runs on a variety of standard servers. Springpath Inc. was formerly known as Storvisor Inc., and changed its name to Springpath Inc. February 2015.

"This acquisition is a meaningful addition to our data center portfolio and aligns with our overall transition to providing more software-centric solutions," states Rob Salvagno, Cisco's vice president of corporate business development. "Springpath's file system technology was built specifically for hyperconvergence, which we believe will



Bloomberg News

deliver sustainable differentiation in this fast-growing segment."

The deal for Springpath comes after the two companies have built a strategic business partnership since 2016. Cisco led the target's \$34 million series C funding round in 2015 and even worked to coproduce Cisco's HyperFlex system. Cisco, headquartered in San Jose, California, is one the world's biggest manufacturers of networking technology. The transaction is expected to close in the first quarter of fiscal year 2018.

Other recent Cisco acquisitions include: Viptela Inc., a software-defined wide area network company; the purchase of AppDynamics, a technology provider for fine-tuning business systems; and the acquisition of data ContainerX, a developer of data management technology.

—Kameron Leach



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The Buyside



Securing The Web

DEMITRI DIAKANTONIS

The rise in data breaches and ransomware attacks is making businesses and government agencies reassess their cybersecurity efforts and creating attractive deal opportunities in the sector. A number of strategic buyers including Honeywell, Open Text and Symantec are looking for acquisitions in the data security space to protect everything from mobile devices to e-mails.



We continue to pursue new technology acquisitions to accelerate our cyber defense offerings.



Symantec Corp. (Nasdaq: SYMC) recognizes that making Norton antiviruses is longer enough web security. In 2017, the Mountain View, California-based company announced plans to buy Fireglass for undisclosed terms.

Fireglass provides organizations with Internet browser isolation technology that removes the threat of phishing, ransomware, and malware in real-time. The Tel Aviv-based target's product can be integrated with a security operations team's existing security tools in order to protect email, messaging and web browsing endpoints.

Symantec CEO Gregory Clark said the addition of Fireglass allows the company "to isolate potentially risky stuff that's coming from e-mail consumption and also coming from consumption of the web."

The Fireglass deal came around the same time Symantec purchased Skycure. The target, which has locations in Palo Alto, California, and Tel Aviv, provides predictive mobile threat defense services across Android, Windows and iOS

devices. Clark is not ruling out Symantec making additional cybersecurity deals. "We continue to invest significantly in our organic development capabilities, as well as pursuing new technology acquisitions, where prudent, to accelerate our cyber defense offerings," he told investors.

Other strategic buyers are also looking for deals. For example, Open Text Corp. (Nasdaq: OTEX) agreed to buy Guidance Software Inc. (Nasdaq: GUID) for \$240 million in 2017. Pasadena, California-based Guidance offers investigation tools for cybersecurity, security incident response and data privacy. Also in 2017, Honeywell

International Inc. (NYSE: HON) purchased Nextnine for an undisclosed amount. New York-based Nextnine is known for protecting companies from cyberattacks, and remotely allows customers to monitor their systems. As companies continuously look to beef up their web security systems, cybersecurity services will remain in demand. **M&A**



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Demand for Debt Capital

KAMARON LEACH

In today's robust fundraising climate, middle-market financing is readily available. In 2016, mezzanine funds ruled as a premiere lending source, while general interest in debt capital grew abundantly in 2017. Private equity firm Gryphon Investors reaffirmed investors' interest in debt capital by raising \$100 million for its first mezzanine fund, Gryphon Mezzanine Partners LP.

“
This fund is designed to satisfy investor demand for debt opportunities.
”

“Over the past few years, a number of our limited partners seeking current-yielding investments have asked us about opportunities to participate in the debt financings of Gryphon's portfolio companies,” states Gryphon founder David Andrews. “This fund is designed primarily to satisfy that LP demand. We are pleased to have run an efficient ‘one and done’ fundraise that reached its cap after only a few months of focus, and we greatly appreciate the enthusiastic and timely support we received from our investors.”

Gryphon Mezzanine Partners LP represents a new investment strategy for the private equity firm, which has raised four control private equity funds in the past. The firm's latest private equity fund, Gryphon Partners IV, received \$1.1 billion in capital commitments. The firm's new fund will invest on a “minority basis in the mezzanine securities of recent and prospective financings of Gryphon 3.5 and Gryphon IV.” Gryphon Mezzanine Partners has already committed some financing to three of the firm's portfolio companies, including: Wind River Environmental, Orchid Underwriters, and Ob Hospitalist Group.

Gryphon is a middle-market private equity

firm with approximately \$2.6 billion in equity commitments. The firm, based in San Francisco, generally invests between \$35 million to \$150 million in portfolio companies with approximately \$50 million to \$500 million in sales. Gryphon targets four core sectors: business services, industrial services, consumer goods and healthcare. The firm has previously invested in laundry chemical provider Washing Systems LLC and frozen cake maker Original Cakerie.

With the help of CLO and mezzanine financings, the middle market has seen the resurgence of debt funds since 2012. Multiple lenders, and private equity firms with a dedicated lending division, have also raised debt capital. Antares Capital closed the firm's first CLO fund in May with nearly \$2.1 billion in backing; GoldPoint Partners LLC raised a fourth mezzanine fund with \$1.3 billion in capital; Littlejohn's lending firm Wellfleet closed a \$406 million fund; the Carlyle Group (Nasdaq: CG) raised \$1.2 billion in capital across two CLO funds in 2017; Madison Capital closed its sixth CLO fund in July with \$325 million; and Prudential Capital raised \$1.8 billion for a fifth mezzanine fund. **M&A**



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**Private equity
investors are
heading to the
lower middle
market and the
350,000 companies
that populate it**

By Danielle Fugazy

Cover Story

“
The lower middle market is very relationship-based, which we like.
”

Back when the largest private equity firms started to rule the waves, many PE firms moved downstream to the middle market in hopes of finding relief from the high valuations, and the middle market became the darling of the PE industry. And why not? The middle market, where deal value tops out at \$1 billion, provides one of the best ecosystems for PE investors to create returns. The middle market offers more companies to invest in, greater opportunities to change companies, and lower valuations and barriers to entry. These favorable attributes have made middle-market companies the most sought-after assets, which, over time, has made it difficult for PE firms to generate high returns for their investors. So, as a new generation of seasoned private equity professionals begins to branch out, they're opening up shops in the lower middle market, where deals are valued at between \$10 billion and \$250 million. These new firms are thinking small to grow big.

“The competitive nature of even the lower middle market is intense,” says Eric Bacon, a managing director and co-founder Watervale Equity Partners, a lower middle-market PE firm launched in August. “The sell processes are compressed, offering limited exposure to the seller and management, and multiple teams spend big bucks to distinguish themselves in a race to a quick close. We are trying to escape some of that by moving down lower.”

Bacon launched Watervale with Mike Faremouth and Jim Guddy. Unlike Linsalata Capital Partners—a PE firm focused solidly on the middle market, from which the three founders hailed—Watervale is focused on the very lower middle market. The Cleveland, Ohio-based firm is hitting the fundraising trail, looking to raise \$125 million to make control investments in companies with less than \$6 million of Ebitda.

“We see that there is an inflection point

somewhere in the \$6 million to \$7 million Ebitda range,” says Bacon. “Below that the economics simply don't work for the investment banks to run a full auction process and there is less support



Mike Faremouth

Watervale Equity Partners

from the lending community. Yes, the risks are higher with less infrastructure and management depth. But, we've worked there and enjoy rolling up our sleeves.”

The typical transaction value for Watervale will likely be less than \$50 million. Limited partners are expected to be a typical mix of pension funds, endowments and family offices.

“We were seeing deal flow at this lower level that didn't fit LinCap's criteria,” says Faremouth, who serves as the firm's president. “We started to realize that the lower middle market is where we belong. We are attracted to these companies and there is a much larger population of companies.

We believe it's also very relationship-based at this level, which we like and can thrive with."

Like Watervale, most firms entering the lower middle market are attracting by the increased number of opportunities provided by the lower end of the market. The numbers are compelling. There are about 350,000 companies with annual revenues between \$5 million and \$100 million, compared with 25,000 companies with revenue between \$100 million and \$500 million and only a few thousand companies with revenue above \$500 million, according to Forbes.

The competition in the lower middle market has been intensifying over the last several years. The 10-year average purchase price multiple for leveraged buyouts of businesses with enterprise values below \$250 million is currently 7.3 times Ebitda, the highest it's ever been, according to Preqin.

The Riverside Co. has been investing in the lower end of the middle market for almost 30 years. Stewart Kohl, co-CEO of the firm, says the market keeps expanding. "Private equity keeps expanding its borders—industries, size, flavor, geography—but it keeps finding ways to make money," he says. "Doing smaller deals is hard and expensive for the general partner, but we've built the scale and experience to be able to do it consistently well for our limited partners relative to boutiques, spinoffs or bigger firms going down market."

Recognizing that the lower end of the middle market will still be competitive, most firms are investing in niche sectors where they have expertise. That makes sense, because all lower middle-market players say being operators is key.

The Riverside Co.



Béla Szigethy, Stewart Kohl

consumer space. "We will typically be interested in manufacturers of engineered products with good branding or a strong reputation that have opportunities for growth. A growth path is very important," says Guddy, who serves as a managing director.

WM Partners, a Fort Lauderdale, Florida-based PE firm focused on the lower middle market, is targeting companies in the health and wellness sector. In June, the firm closed its first fund, HPH Specialized Fund 1, at \$307 million, exceeding its \$300 million fundraising target.

The fund is focused on acquiring lower-middle market companies with leading brands in the vitamins, minerals and supplements sector,

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Private equity keeps expanding its borders, but it keeps finding ways to make money.

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Sector Specialization

For example, in addition to focusing on lower middle-market deals, Watervale will invest in manufacturing companies in the industrials and

or VMS, and natural personal care sector, and integrating them into the Wellnext consolidated platform. The fund seeks to make equity

Cover Story

“
We want
to create
value through
operations.
”

investments of between \$15 million and \$75 million.

“The lower middle market is the sweet spot for our investments, and the vitamins, minerals and



Ernesto Carrizosa

supplements and natural personal care sectors in the U.S. is a large market,” says Ernesto Carrizosa, executive managing director of WM Partners. “Altogether it’s a \$56 billion industry. VMS is about \$39 billion. It’s highly fragmented in the lower end of the market and there are too many brands, which creates an attractive opportunity for consolidation and value creation.”

According to WM Partners, there are less than 10 VMS companies with more than \$1 billion in revenues. However, there are more than 75 VMS companies with \$100 million to \$1 billion in revenues. And below \$100 million, there are more than 900 companies that have been in business

for more than three years.

“We want to create value through operations,” says Carrizosa. “If you buy larger companies that is harder to do. All the companies we have bought thus far have been for single digit multiples. The VMS and natural personal care sectors will continue to grow. Two out of three consumers take a supplement or vitamin. With the millennials and baby boomers becoming more health conscious, there are strong demographic trends for these types of businesses.

To date, VM has closed on three acquisitions, which have been integrated into the Wellnext platform.

“Investment professionals are constantly seeking out niches and areas to achieve excess returns,” says Giles Tucker, a managing director Harris Williams & Co. “It’s widely known in the deal market that there is a finite group of target companies, so those folks that have broken away from more established firms are trying to set up shop in what they perceive as a less efficient market.

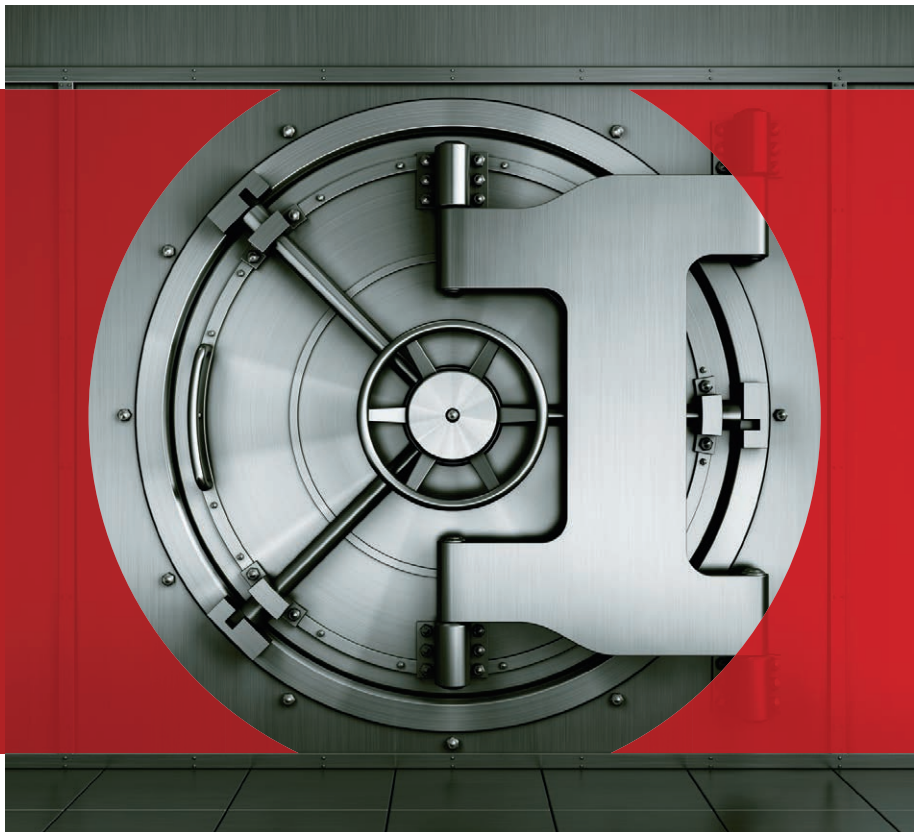
They hope to buy attractive assets for lower purchase price multiples, but the lower middle market is getting crowded pretty quickly. There’s no question that you are seeing more banks represent \$3 million to \$8 million Ebitda companies and running more competitive processes than ever before.”

Favorable Returns

Interest in the lower middle market has grown substantially, according to Probitas Partners’ Private Equity Institutional Investors Trends for 2017 Survey. In 2017, 63 percent of institutional investors said they are focusing on the U.S. small market buyout sector defined as funds with less than \$500 million. That’s compared with 81 percent focusing on middle market buyouts and just 33 percent focused on large buyouts. (Respondents were allowed to choose more than one investment strategy).

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Investors are clamoring to get into these niche funds because the returns seem to be there. AUA Private Equity Partners LLC was founded in 2012 by Andy Unanue and focuses on companies that benefit from the growth of the Hispanic population in the U.S. In 2015, AUA bought Raymonds Food Group LLC, a maker of Hispanic branded snack and dessert foods. AUA was able to acquire the family owned company for a significant discount to comparable businesses.

Immediately after closing, AUA went to work, making operational changes and adding

doubled revenues, grown Ebitda by more than 40 percent and returned more than 50 percent of invested capital. “We were able to buy the company below market value, increase Ebitda and return capital to our investors in 18 months’ time,” says Unanue. “We are getting inbound calls to sell this company daily.”

AUA closed its first fund in 2014 and is 80 percent invested. The firm is preparing to raise its second fund. Unanue likes the lower end of the market because it gives his firm a chance to make operational changes, which is what his and

many other lower middle-market firms believe they are best at. Unanue served previously as chief operating officer of Goya Foods Inc., the largest, Hispanic-owned food company in the U.S. Goya was founded in 1936 by Unanue’s grandparents, who were Spanish immigrants.

“I am an operator. AUA has strong focus and we can make a real impact on companies and grow them, creating strong alpha for our companies, investors and ourselves,” says Unanue. “There are not

many people looking at deals the sizes we look at and in the

Hispanic market. You have to have the experience and background to run these companies. Not many people have that.”

Operational Expertise

Watervale’s Guddy agrees operating experience is necessary to have success in the lower end of the market. “You have to build relationships and recognize it’s not just a financial transaction. It’s a partnership. It’s about growing a great business and helping ease the pressure of cycles on these businesses. It’s being ready to step in as the CFO or CEO. It’s being willing to get your hands dirty,” says Guddy.

“There are not many people looking at deals the sizes we look at and in the Hispanic market.”



Andy Unanue

Matt Greenslade / photo-nyc.com

”

new leadership, including CEO Ricardo Alvarez, who previously held chief executive positions at Overhill Farms, Spartan Foods, Busch’s Fresh Food Market and Ruiz Foods; and Jim Taylor, who served previously as chief financial officer of Rupari Food Services Inc. Under AUA’s ownership, Raymundos made an add-on acquisition in Noga Dairies Inc., a maker of drinkable yogurts and ethnic dairy products, expanding Raymundos’ better-for-you offerings. AUA has also improved worker safety, boosting Raymundos’ food safety and quality ratings.

In nearly two years since closing the Noga Dairies deal, the company has approximately

That doesn't mean there aren't challenges. General partners normally are providing an array of services to help companies find success. That is harder to do with smaller funds. Riverside has done it by scaling up companies and using that to its advantage. Not every firm can or wants to grow up to be a Riverside.

The good news for other potential lower-middle market entrants, says Béla Szigethy, Riverside's co-CEO, is that there's room for more. "While there is additional capital coming into this end of the market and it always feels competitive as a buyer, there are always new companies being born and growing up and ready for investment. The world continues to generate new companies all the time and there's room for the best of these new players," says Szigethy.

Out on Their Own

The move down market and to new sectors is all part of a larger trend within private equity. The industry is going through structural changes. The first-generation private equity firms have grown up and their founders are of retirement age. It's put many partners at an inflection point. Some general partners have decided to stay with the firms they grew up at; others have decided to try something new. "Every day we are seeing very talented private equity professionals leave the name-brand shops and start their own first-time funds," says Tucker. "They have track records and success and it's usually within a niche so they are really focusing on what they focused on at a larger shop. Smaller shops are popping up all the time now."

The birth of Watervale came out of the natural progression of Linsalata Capital's succession planning. With the founder of Linsalata near retirement age, some of the partners decided

to stay on at Linsalata while others founded Watervale. "The team at Linsalata gave their full support to the team that wanted to do something different," says Bacon, who expects to attract some of LinCap's existing investors, noting that



Harris Williams & Co.

Giles Tucker

Watervale will be too small for many of them.

The spinoff from LinCap was very coordinated and thorough to ensure a smooth transition. "This is a very amicable process and I'm excited for the Watervale team as they move forward," said Frank Linsalata, founder and chairman of LinCap.

According to Tucker, the trend of many new firms launching as first generation firms wind down or change hands is just beginning. "Many firms are working through succession planning right now. Private equity is a young industry, and the first generation of founders is at retirement age. There will be a lot of change," says Tucker.

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Many firms are working through succession planning.

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MODERATOR

Danielle Fugazy
Contributing Editor,
M&A

With an aging baby boomer population, millennials spending more on health and wellness, and fragmentation due to the local nature of healthcare, the healthcare industry is ripe for investment. However, as a result of all the tailwinds, the healthcare industry has become an extremely competitive place to invest. As an increasing number of private equity firms and strategic acquirers battle to win deals in the sector purchase price multiples have soared, leading some private equity firms to consider unique deal terms. Mergers & Acquisitions hosted a roundtable to explore the current issues around investing in healthcare companies. The event was sponsored by Twin Brook Capital Partners. During the discussion roundtable participants discussed which types of deals are garnering the most attention, how regulatory changes are impacting deal making and what to expect from the industry going forward. What follows is an excerpted version of the conversation.

PARTICIPANTS:

Danielle Fugazy, Contributing Editor, *Mergers & Acquisitions*

J.R. Davis, Managing Partner, Blue Sea Capital

Faraaz Kamran, Partner, Twin Brook Capital Partners

Jonathan Lewis, Managing Partner, Sheridan Capital Partners

Brian Miller, Managing Partner, Linden Capital Partners

Ken O'Keefe, CEO, Beecken Petty O'Keefe & Company



Danielle Fugazy (moderator):
How would you characterize the healthcare industry today?

Ken O’Keefe, Beecken Petty O’Keefe & Co.:

The healthcare industry is a \$3.3 trillion industry and anticipated to go to \$5.5 trillion over a 10-year period from 2015 to 2025. That is a lot of growth, and the growth is coming from volume—strong volume from demographics and more insured. And unit pricing pressure from payers is requiring companies and providers to get more efficient. This is all against the backdrop of an industry that’s still very, very fragmented. The total investable public market cap of the industry, excluding pharma and the big insurers, is \$800 billion.

Brian Miller, Linden Capital

Partners: The forward growth rate for healthcare is 5.8 percent, according to CMS’s latest update. If that were a top-line revenue growth rate for a buyout, you can turn 6 percent revenue growth into 8 or 9 percent EBITDA growth. And if you have 50 percent market debt leverage, you can produce a mid-teens equity return right there. While that is a good IRR for the larger LBO players, as you get down to the middle market, we’re going to have to be pickier to find the outperformers within healthcare. That said, it is overall a great time to be in healthcare.

Jonathan Lewis, Sheridan Capital Partners:

I would also add there’s lot of opportunity for cost reduction and efficiency improvement to enhance bottom-line growth— there’s more cost to be taken out of the system. Healthcare is notoriously inefficient and lags behind a lot of other industry sectors.

Faraaz Kamran, Twin Brook Capital Partners:

For lenders, our return is really getting our money back. It’s a little bit different than a private equity firm. Given our extensive experience in the sector, we feel comfortable with our appetite for taking on risk. Now we’re not going to do anything that’s 100 percent Medicare in one state, in one subsector. Those



“The assets that capitalize on all the positive secular and healthcare system trends without reimbursement and/or regulatory headwinds tend to be the most popular.”

J.R. Davis, Managing Partner,
 Blue Sea Capital

are places where you have stroke of the pen risk. But whenever you have expertise in healthcare, whether you’re a private equity firm or a lender, you can work through the noise that’s currently out there and back the right companies.

Fugazy: What subsectors within healthcare are garnering interest right now?

Lewis: I think all of us in this group have participated in practice management rollups to some degree. It’s real company building, not just buying assets. It requires building infrastructure, technology and working on process improvement.

Miller: Two of our funds in the room own dental service organizations, and the sector remains active. In addition, dermatology is also very hot right now. Sixteen out of the 60 deals reported last quarter were in the dermatology space, according to HCPEA.

Kamran: Optical deals are also very hot now. I think orthopedic and women’s health are the next two that are coming down the path from a practice management perspective. Radiology is newer. Right now, there are very few deals out there that we’ve seen in the sector. I think we will see more radiology deals at the end of this year, beginning of next year.

Miller: While the consolidation of specialists remains hot, there are tradeoffs. The key conversations aren’t easy because they are often centered on people’s current versus future compensation. But the growth plan is typically about putting additional doctors together, becoming more patient/customer-centric, improving payor relations, and putting in staff that truly cares about customer service and are compensated on that. And then you start to add scale and grow the business organically and through M&A.

O’Keefe: You can also add physician extenders that allow practices to see more patients.

Lewis: The practice management roll ups make

it possible to create a structure that keeps physicians happy and productive and actually takes the workload off the providers. Quality of life for doctors has become more important than ever. Pay is important, but so is quality of life these days.

J.R. Davis, Blue Sea Capital:

Practice management subsectors where scale translates into a better value proposition for patients and providers versus simply aggregating mass is of interest. The subsectors and operators with a sustainable consolidation strategy typically enable doctors to make more money, offices to be more efficient for patients, and employees to have better lifestyles. We see it in dental, eye care and dermatology.

Lewis: And young doctors are graduating with higher amounts of debt than ever before so the idea of buying into a practice in a traditional way is just not on the table. And the doctors generally do not want to manage an office anyway. They would rather clock in and clock out today and see patients.

Fugazy: What types of companies are garnering the highest valuations?

Lewis: There is certainly a flight to quality and diversification. Quality companies get a premium.

Davis: The assets that capitalize on all the positive secular and healthcare system trends without reimbursement and/or regulatory headwinds tend to be the most popular.

O'Keefe: Companies with \$15 million to \$30 million of EBITDA seem to be the best performers and private equity firms are willing to pay for them. My theory is that these companies really have better systems, better management, better revenue diversification, better growth opportunities than smaller companies, and a net balance of opportunity versus risk compared to larger ones.



“In more and more processes now, sellers and their advisors only invite healthcare heavy firms to participate.”

Brian Miller, Managing Partner,
Linden Capital Partners

Kamran: The other thing is that middle market companies like these are just better capitalized. In the middle market, you are actually trying to build something, to add value. Firms in the middle market that have done well for decades have viewed their job as a true building exercise, not just a financial engineering exercise.

Fugazy: How is the uncertainty around ACA influencing deal making?

Lewis: There continues to be uncertainty with respect to certain sectors until we know what's going to shake out. We are spending time looking at investing in areas that will not likely be impacted by ACA.

O'Keefe: Our firm has lived through two acts of Congress that dramatically changed the industry, the Balanced Budget Act of 1997, which took tens of billions out of healthcare government spending, and the ACA in 2009. And they both created winners and losers and I think it is the same here; it's just a matter of how it all plays out.

Davis: In the lower middle market, the key factor is Medicaid, and it is a state-by-state analysis. We are trading carefully and being thoughtful around businesses that are dependent on Medicaid and have benefited from the ACA's Medicaid expansion, given any potential future dislocation of the ACA.

Kamran: Regardless of changes that may be made, the impact would be three years down the line. But maybe the valuations will come down on some assets if they are directly in the cross hairs of ACA and Medicaid. Even so, it will take years to implement something, or years to unwind it. You are talking about 2020 at the earliest by the time things start happening. That's a lifetime in our business.

To be successful you have to invest where you have core competency and where there is cost containment. Investing in businesses that take patients out of the hospital to outpatient facilities or similar types of deals, are going to remain popular regardless of the

legislation. You just have to make sure that you can figure out the dynamics and what will be covered in-network versus out-of-network. Our clients aren't necessarily staying away from anything; they are just being a little bit more prudent on some of those directly impacted areas.

Fugazy: How do middle market healthcare-specific private equity firms stack up against generalist firms?

Miller: Speed and certainty have become more important than ever before in auction processes. The sector-specific funds are really able to deliver that because they can prove they've completed deals in the sector before, or that they have a board member, an operating executive, or a relationship with the owners. Sector specific funds are able to show an internal conviction that the entire firm is already on board with. I have heard it's very tough for a generalist firm to try to explain why regulatory or reimbursement reform isn't going to affect your deal. In fact, in more and more processes now, sellers and their advisors only invite healthcare heavy firms to participate.

Sector-focused funds are also demonstrating that they have higher returns than generalist funds. Post-closing, the value creation process becomes the key differentiator. A Cambridge Associates study called "Declaring a Major" completed a few years ago showed that sector-specific funds have better returns than generalist funds.

O'Keefe: There are some generalist funds that have done extremely well because they siloed their healthcare group. It's sort of an embedded healthcare fund; it is not one guy doing both healthcare and business services. Funds with siloed groups are also very formidable competitors.

Davis: Exactly, our firm maintains a dedicated healthcare vertical, among a couple of industry verticals. Within healthcare, we don't try to boil the ocean, but really employ a thematic and targeted



“Companies with \$15 million to \$30 million of EBITDA seem to be the best performers and private equity firms are willing to pay for them.”

Ken O'Keefe, CEO, Beecken Petty O'Keefe

approach. Regardless of what kind of firm you have in today's market, you must be able to distinguish relative asset quality in a high-priced environment to ensure you are getting the value equation right, and we've found that requires not only being smart in healthcare but being deep and thematic within specific subsectors.

Separately, we all see many generalist funds moving into healthcare because I believe they see healthcare with better general growth rates, less relative risk of cyclical, and more fragmentation due to the local nature of healthcare. Relative to most other industries which compete more nationally or globally, even in the lower middle market, there are generally more opportunities in healthcare to invest in regional leaders and then grow through acquisitions or organically to develop larger businesses.

Fugazy: How active are strategic acquirers in healthcare today?

O'Keefe: More than half of our exits have been to strategic acquirers, and that wasn't true 10 years ago.

Miller: With the market's lower cost of capital, private equity has been able to compete with conservative strategics. We hear public healthcare companies complain about this often.

When we research sectors, we spend time talking with strategics about trends and competitors. There have been situations when a strategic has explained an acquisition isn't right for them right now, and they don't want to own the whole business, or that they are busy with other things and this business needs some touching up, but they could have interest at a later date. Some strategics are then willing to partner and say, if you did X, Y and Z over the next three years we'll be there upon exit. I predict strategics and private equity firms will work more together in the future.

Lewis: Strategic acquirers are frequently looking at

the private equity channel as a “farm” system for assets they eventually want to acquire. Private equity has become a place to create businesses, build them up, scale them, and then sell them to strategics. It is a much more efficient way for strategics to grow their companies versus hiring and trying to build themselves.

O’Keefe: A little off topic, but we have done something a little different recently. We have had two exits in the very recent past where a financial sponsor was the most competitive value, and asked us to rollover with some of our capital and we did. It is something we never really would have thought about, or we would have dismissed a while ago. But now if you really like the platform and you’re aware the business is not just calling money from investors but returning it, it’s actually an interesting thing that we’ve now done twice in the last six months.

Kamran: We are actually seeing that more and it gives lenders confidence. It’s always positive to see an owner willing to rollover with their capital.

Lewis: Limited partners are also more open to this than they ever have been. There is less siloing of fund to fund, and more flexibility, especially when you have a winner to continue backing. It is a great situation.

Fugazy: What are the challenges for the industry and investors?

Davis: The headwind is the amount of capital chasing opportunities within healthcare, and more generally, which manifests itself in higher prices. That said, we continue to believe that the key success factors are typically asset selection coupled with post-closing company-building and growth initiatives.

Lewis: For us, the headwinds are more around the pricing pressures. The question is, how do you deal with it? There are very, very few sectors that are experiencing pricing tailwinds. We try to focus on assets where that pricing pressure isn’t as great, or that there are other dynamics in terms of patient experience that create a



“It’s always positive to see an owner willing to rollover with their capital.”

Faraaz Kamran, Partner,
Twin Brook Capital Partners

willingness to pay out-of-pocket.

O’Keefe: The biggest headwind is availability of capital and competition for deals. I have been in private equity 21 years and if you look at our four funds – fund one we were buying at seven, exiting at eight or nine; fund two we were buying at eight, exiting at nine or 10; fund three we were buying at nine – the point is it has just crept up. Now, we are exiting the markets at 12 to 15, and the historical market was seven to 10.

Another concern is the shortage of professionals we will likely face. Being a fragmented industry, we don’t have the same management talent, and depth that other industries like IT or manufacturing have. There aren’t as many big

companies churning out executives that go on to do a bunch of great things in smaller companies. Accessing talent, particularly in the field to staff your operations but also in the executive offices, is something we are focused on.

Fugazy: What are the tailwinds for investors and the healthcare industry?

Lewis: The demographic tailwinds are fairly obvious, but another tailwind is technology opportunities within the sector. The patient experience is probably at the highest premium it has ever been, because you can go on the Internet and Google your providers and read reviews on what the experience has been through consumer advocacy groups and other reports. There is technology tapping this, creating more communication and more frequent communication between patients and their providers. All of this creates opportunity and is a very nice tailwind.

Davis: With more consumer-driven healthcare in general, innovation at the smaller end of the market, and historically inefficient incumbents, we have a greater opportunity to invest in disruptive businesses that can take share from legacy operators with less patient friendly delivery models. Nice secular organic growth rates and fragmentation that facilitates “buy-

and-builds' combine to create great opportunity in the lower middle market.

O'Keefe: You have tremendous opportunity to invest in companies that could transform an entire industry. And what you're modeling is a three times return, which could be significantly greater if they're able to demonstrate this value proposition to the people that are paying. That's a great tailwind. It's also the growth. You might not think six percent growth is great, but unlike financial services, oil and gas, consumer retail, it doesn't have that dip risk—recession risk isn't nearly as profound as it is in other industries.

Davis: The bottom line is there are 10,000 people turning 65 every day, no matter what happens.

Kamran: And you cannot offshore what they need.

Fugazy: What are you expecting from the healthcare industry going forward?

Miller: My sense is things will keep rolling as is. Valuations will remain high as investors on a broad level are not finding a lot of great areas to invest in right now. Private equity remains an attractive asset class, and healthcare especially so. At some point, if lending pulls back, private equity will pull back, and if it is like 2009 again, a great buying opportunity will arise.

Davis: Even more capital is being allocated to healthcare so I don't see any end in the near-term to the high prices being paid. As a result, we are really thoughtful about the subsectors that we work in. Next, we try to invest in category leaders that have a lot of different ways to win despite market cycles.

Kamran: I am 100 percent reactive to what my clients do. I would say my clients chase proverbial proprietary opportunities. These guys will tell you they spent years talking to executives at different companies and at some point, they all decide to sell or do something. Part of it is there has to be a deal to be made for there to be a deal



“The practice management roll ups make it possible to create a structure that keeps physicians happy and productive and actually takes the workload off the providers.”

Jonathan Lewis, Managing Partner,
Sheridan Capital Partners

to get it done. People who have done well previously have gone through multiple economic cycles, and multiple legislative cycles. The idea is that if you've done it long enough you know that if there is a business that takes cost out of the system, it's a good business regardless of what is going on in Washington DC. Strong investors know that.

O'Keefe: I think about two things. One is draconian action in Washington, whether it is through ACA or some effort to reduce spending like BBA 1997. The other risk which will take longer to play out is that multiples compress from 12 or 15 to something significantly less, which would require interest rates to go up a whole lot. We're not going to be at 12 or 15 times forever. That's impossible. The question is when it does move how quickly will it happen? The good news is that low multiples create great buying opportunities.

Kamran: We are halfway through the year. At the end of the day, there is two different types of lenders who are chasing deals. You have lenders who are just jumping into healthcare because their client is jumping into healthcare. So, they don't fundamentally understand the revenue model of the companies they are actually lending to, but they jump in because they see the opportunity. But not all companies are created equal. We are the other type of lender. For us, we are making deal-by-deal decisions. We look at each deal individually and ask, is this a good credit to back? It doesn't matter if we've done 10 deals in the same sector we decide every time if this is a good credit to back. We are not trying to back every single private equity firm out there, but instead back groups that we think are good, and credits that are worthy. We are looking at opportunities on a deal-by-deal basis.

That said, it is a busy time and there is nothing on the horizon that makes us think things are changing. Leverage might be a half-a-term higher, or a half-a-term lower, but the black swan risks are unknown. Anything could happen tomorrow, which changes things, but we do not see anything for now.

**MERGERS &
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Roundtable



The High Cost of Poor Labor Practices



The retail and hospitality sectors, which employ a high number of hourly workers, pose the biggest threats for pay violations.

By Robert Winner and Noah Finkel

Conducting due diligence in connection with an acquisition involves, among other things, the identification of material risks. Historically, acquirers have not focused too heavily on employment practices as these risks have more often than not been considered either too individualized, esoteric and anecdotal, of too low value, or too remote. Times have changed. The rise of wage-hour collective and class action claims in the last dozen or so years has elevated risks posed by the methods companies use to pay their workers to a level where a serious review of a target’s labor and employment practices, including pay practices, has become a requirement to avoid unknown risks. But in order to understand how to avoid these risks, the acquirer needs to know where to look first, and then protect itself in the definitive documentation.

To be sure, the risks associated with wage hour claims can be difficult to spot. Some industries have a greater propensity for violations, sometimes it is the pay practices of the target that causes the greatest concern, and sometimes it is just the nature of the workforce that lends itself to issues. For example, the retail and hospitality industries in particular have been hit hard, with areas of concern often focusing on whether salaried managers must be paid overtime, whether hourly-paid employees worked off the clock, and, in the hospitality industry specifically, whether

and to what extent the byzantine tip credit and tip pooling rules have been satisfied for servers, bartenders, and hosts. Companies that employ a large number of technology workers -- which is virtually every sophisticated company now -- often face claims that IT employees or service technicians should be paid hourly wages with overtime rather than salaries. Also, healthcare companies have been flagged for issues, from automatic deduction claims to recently enacted overtime requirements.

These risks are by no means limited to companies with high numbers of employees. Those who provide services as contractors -- a growing phenomenon in the new gig economy -- are increasingly viewed as employees entitled to wage-hour protections even though many of them are “1099 employees” aka independent contractors. Companies that do not employ workers themselves, but rather work with agencies or other companies which in turn employ workers, are increasingly alleged to be -- and are being held liable as -- “joint employers” with those employing entities. This phenomenon can even extend liability for wage-hour practices to parents for the acts of their subsidiaries, to franchisors for the acts of their franchisees, or even to owners for the acts of their companies. So what does an acquirer do?



Robert Winner

Seyfarth Shaw

“
The most effective method to minimize wage hour risks is to expand due diligence.
”

Expand Due Diligence

The most effective method to minimize wage-hour risks when acquiring a company is to expand the historical due diligence process to include:

1. Reviewing employee classifications, including exemptions, incentive compensation structures and large groups of independent contractors on the company's premises and/or doing work in the name of the target company.
2. Analyzing how a target company tracks and records time for employees within employee classifications that pose high risk to liability.
3. Reviewing target company records for information regarding affiliates and outsourcing companies that are frequent targets for wage-hour issues (e.g. call centers).
4. Reviewing state specific laws that are target rich environments (e.g. California) and consulting local counsel where employee concentrations are.

A telltale sign that potential issues exist or target is contending with is copies of budgets and spends for outside labor and employment counsel, and copies of audit letters to determine reserves on balance sheets for potential claims.

However, while identifying the risk is important, the next step is quantifying the risk and structuring the transaction and negotiating appropriate protections specific to these unique matters.

Structuring the Deal and Terms

It is a common misconception that structuring a transaction as an asset purchase rather than an equity or stock purchase will have the effect of completely eliminating exposure and liability related to labor and employment risks. Just like some successor liability claims stand when meeting certain circumstances in other fields like tax or Erisa, so may a court impose liability upon the acquirer for past wage and

hour violations of the target, even if all labor and employment liabilities are explicitly excluded within the asset purchase agreement.

Standard work arounds include, like other potential claims, cash escrow set asides or seller note financing deductions to cover potential, actual or settled claims through the statute of limitations period, or adjusting the purchase price for the target company based on the assessment of risk / reward. Another option would be to include an indemnification provision within the purchase or merger agreement to require the target company to bear or share the burden of potential wage claims in the future, which could take the form of equity give ups or other valuable deductions, including cooperation from former management.

But other more nuanced work arounds include retain strong audit and termination rights, and defining “losses” to include fines for noncompliance levied by enforcement bodies and the costs to bring a target into compliance,

and/or excepting these claims and costs from the baskets and caps normally inserted into acquisitions. There may also be some pre-closing steps the target can take to further wall off liabilities post-closing, which may include separating assets and the business from employees and service providers entirely through a drop-down or restructuring. While each situation is unique, in today's environment, such risks should not be underestimated and it is incumbent upon acquirers, large and small, to pay close attention.



Noah Finkel

Robert Winner is a corporate partner in the Chicago office of Seyfarth Shaw LLP, and is a member of the firm's mergers & acquisitions practice group. Noah Finkel is a labor & employment partner in the Chicago office of Seyfarth Shaw LLP, and is a co-chair of the firm's Wage & Hour Litigation practice group.

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 <p>Sale of this leading regional furniture retailer to private equity fund for</p> 	<p>\$300 MILLION</p> <p>Sale to Madison Dearborn Partners for Toronto-based enterprise domain name system solutions technology leader</p> 	<p>\$1 BILLION</p> <p>Sale of fiber optic licensing operations to Crown Castle International Corp. for integrated power/energy/resource leader</p> 	<p>\$233 MILLION</p> <p>Sale to diversified aerospace technology firm Curtiss-Wright for leading supplier of data acquisition and instrumentation equipment</p> 	 <p>Sale of majority interest to PE leader Apax for Canada-based weight loss/wellness solutions innovator</p> 
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<p>\$100 MILLION</p> <p>Syndicated secured financing to premier provider of post-acute care for</p>  <p>Acted as administrative agent</p>	<p>\$155 MILLION</p> <p>Syndicated, secured financing for NASDAQ-listed consumer electronics specialist</p> 	<p>\$250 MILLION</p> <p>Syndicated, secured international credit facility for generic pharmaceutical leader</p> 	<p>\$175 MILLION</p> <p>Revolver, term loan and letter of credit subfacilities, with accordion feature, for PE-owned specialty chemicals company</p> 	<p>\$61.5 MILLION</p> <p>Syndicated secured acquisition debt facility to marketing and communications solutions leader for</p>  <p>Acted as administrative agent</p>
<p>\$54 MILLION</p> <p>Secured ABL credit facility to national specialty meat products company for</p> 	 <p>Syndicated senior credit facility in support of Invus' acquisition of this plus-size fashion leader for</p>  <p>Acted as administrative agent</p>	<p>\$23.5 MILLION</p> <p>Senior credit facility from White Oak Global Advisors, as agent, for military medical countermeasures leader</p> 	<p>\$15 MILLION</p> <p>Senior loan growth capital to national education and tutoring provider for</p> 	<p>For more information on how seriously we take our deals, get in touch with BRIAN KERWIN, chair of our global Corporate Practice, at 312.499.6737 or bpkerwin@duanemorris.com.</p> 



Duane Morris, an AmLaw 100 Firm with more than 750 lawyers working across every discipline in offices throughout the U.S. and internationally, is asked by a broad array of clients to provide innovative, high-value solutions to the most complex legal and business challenges. Founded in 1904, the firm provides the highest standards of client service, delivered through our uniquely collaborative culture.

Brian Kerwin | Chair, Global Corporate Practice Group

How would you characterize the deal-making environment today?

We have more than 170 lawyers in our corporate group working across the U.S. and in strategic international cities, so we have a good sense of deal activity in the middle market. While the first part of the year was moderately paced, we are now seeing robust activity levels. For example, in the past two months we closed two, billion-dollar plus M&A transactions, and about a dozen other PE sponsored sale/purchase deals in the \$50 – 350 million range, on top of a dozen acquisition financings. Tech and healthcare remain hot sectors. Last year set a record for PE fund capital raising, increasing the pressure to put the money to work. While targets continue to command meaty multiples, many deals are being consummated. Activity should only continue to pick up if tax reductions are implemented at the federal level.

What role do lawyers play in the transaction process?

Lawyers can either be obstructionists or deal doers. We always strive to be the latter. Instead of finding ways to kill a transaction or running up legal fees negotiating issues that would make a client roll their eyes, we focus on the material items. At the outset, we ask, "What issues in this deal would keep our client up at night?" Effective deal lawyers understand the balance of legal risk and business opportunity for a client. Lawyers need to keep a transaction moving, as time can be the enemy. We maintain command of all the moving parts in a sophisticated deal and keep everyone focused on their respective tasks. Strong transactional lawyers are deal facilitators; they get deals closed.

What value add do good lawyers bring to the table?

Many hungry corporate lawyers will claim they will source deals for a prospective client. It sounds great, but the truth is that the vast majority of those lawyers just do not see the early opportunities accessed by others, including trusted accountants. The best value add from a good corporate lawyer is delivering high quality work product, responsively and efficiently, time and time again. A truly special deal attorney knows how to properly manage a client's expectations, especially a seller of a business, and manage disparate personalities on all sides of the negotiating table. You need to be able to issue-spot and bring to bear a variety of substantive specialties to get the best value for your client. It doesn't hurt if you have street smarts, a personality, and can share some laughs with your client to break the stress of fast-paced and multi-faceted transactions.

How do lawyers help dealmakers in an M&A transaction?

Very good transactional lawyers know how to keep a deal moving and how to get deals closed, while protecting client interests (and making your business contact look good to their boss!). They should create strong lines of candid, open communication with opposing counsel and their client, keeping everyone laser-focused on consummating the transaction within the time frame set by the business professionals. Having strong and varied legal verticals and sector specializations can only help an investment banker navigate nuanced issues. Sometimes you need to be a psychologist. I could write a book with actual stories of last minute seller remorse; sellers trying to reduce the fees of their investment banker at closing; human resource departments of a buyer sending welcoming e-mails to a seller's employees before the deal closes, and more. There's never a dull moment.

CONTACT:

BRIAN KERWIN

Chair, Global Corporate Practice Group
O: (312) 499-6737 M: (847) 729-9680 | bpkkerwin@duanemorris.com

Duane Morris®



GREG NELSON
gnelson@wilmingtontrust.com
612-217-5634



AARON SOPER
asoper@wilmingtontrust.com
612-217-5639



NICK TALLY
ntally@wilmingtontrust.com
612-217-5633

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Ice Miller LLP is a full service law firm dedicated to helping our clients stay ahead of a changing world. With over 340 legal professionals in eight offices, we advise clients on all aspects of complex business issues across more than 20 practice areas. Our clients include private equity funds, family offices, emerging growth companies, FORTUNE 500 corporations, municipal entities and nonprofits.

Tom Kesoglou | New York Office Managing Partner

How would you characterize the deal-making environment today?

The competition for assets is fierce. We are experiencing a busy year. Transaction multiples are as high as they've ever been and interest rates, while not at their lowest continue to be low. The stock market is strong and reaching historically high levels along with periods of volatility.

How has the private equity industry changed in the last five years?

In the last few years the private equity industry has experienced many notable changes. Overall the industry has seen an increase in the amount of capital flowing into the private equity market as well as, many new players entering the private equity space. The industry has become very competitive. In addition, the U.S. government has implemented more regulation and oversight over all financial institutions. These types of regulations spill over in the private equity industry and cause increased government involvement and restriction over private equity transactions. Private equity funds have adjusted easily to the increased governmental oversight and continue to grow and thrive, despite increased governmental oversight.

Fundless sponsors have been on the rise in the past few years, as an alternative to other traditional types of private equity funds. Family office investors and smaller funds are increasing their market share over the traditional dedicated funds that once ruled the market. Since the market has begun to recover, fundless sponsors have easily been able to raise capital and execute on transactions.

President Trump vowed to lower corporate taxes from 35% to 15%. This decrease will allow companies to have more cash to pursue potential add-on acquisitions and focus on additional internal and external growth efforts. Further, the new administration has expressed the

desire to eliminate private equity's carried interest tax deduction. With these changes and several others, that will favor the corporate sector, which we expect to see during Trump's presidency, private equity will continue to grow and become an increasingly attractive alternative to traditional deposit investment accounts to many individuals in the years to come.

What role do lawyers play in the transaction process?

Rather than focusing on just legal theory, an attorney needs to focus on the business aspects and practical implications of a transaction, relying on extensive deal execution experience and business judgment. Clients believe that good legal work is an entitlement. What they value are service, relationships and deep business experience (particularly in their industry).

What are some of the common challenges private equity firms face today and how do lawyers help them overcome these challenges?

Our Private Equity clients face challenges in the regulatory landscape, including governmental filing and approval requirements, as well as employee benefits, environmental, import/export, tax, and product liability issues. They also face challenges in the structuring of the deal to meet their long-term goals and objectives, which frequently include a contemplated sale of the portfolio company, as well as aligning the interests of the management team. Many PE funds are under significant pressure to bid on and win deals. They have relatively short investment periods and at the same time they want to deploy their capital wisely. One temptation is to pass on any deal that presents problems or issues. Another is to ignore problems and issues and simply hope they can work through them. Our attorneys can quickly and efficiently dive into the details of the transaction and help find creative solutions to problems and issues that arise. We can quickly capture the moving pieces and align them to meet the client's goals.

CONTACT:

TOM KESOGLOU

New York Office Managing Partner
212-824-4940 | www.icemiller.com

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ATTORNEYS: Trusted Advisors to Middle Market PE Firms

At the close of every M&A transaction at the celebratory dinner there is usually a team of lawyers who have fought tooth and nail to make sure the deal was a good one for their clients. In many ways, lawyers are the unsung heroes of the deal-making business because closing the deal is just one aspect of the job for M&A attorneys.

The good attorneys are more than dealmakers who close the deal. They are often key advisors to business owners and private equity professionals in the industry. Here's a look at four ways attorneys contribute to the M&A process regularly outside of closing transactions.

1. Advisors to business owners and their lawyers

It's not uncommon for a private equity firm to find great business to buy only to have the deal not get to the finish line because the business owner doesn't understand the M&A process. And why should they? Most business owners spent their time building a business and this is often the first time they are selling business. The story goes like this: A private equity firm finds a gem and expresses interest in buying the company. That company turns to its trusted, long-term attorney, for advice. However, that attorney is not a transactional attorney. When the private equity firm reaches out and asks for basic information that is required to get the deal done, the sellers retreat. The company owner and lawyers feel the private equity firm is asking for too much because they do not understand the process.

"Much to our contrary advice, in the many of the businesses we invest—lower-middle market, family-owned companies—the sellers engage local counsel who may not be fluent in private equity deal terms that are standard in most transactions," says Dan Lipson, a partner with Rotunda Capital. "It becomes imperative that our counsel do more than just negotiate, but help the sellers and their counsel understand the genesis of these terms



and conditions and why they have to exist in any agreed upon document."

2. A source of proprietary deal flow

Deal flow is harder to find than ever before. According to a survey of private equity managers completed in late 2016 by Preqin, 36 percent of respondents said it was harder to attract deal flow than it was just a year earlier. This begs the question: Is there such a thing as proprietary deal flow anymore? While it's rare to come by, proprietary deals do still happen and attorneys are often the reason why. In August, Huron Capital found StayOnline and was able to make a non-control investment in to the company with the help of an attorney.

Founded in 1987 by Jim and Bellinda Higgins, Creedmoor, North Carolina-based StayOnline manufactures and distributes specialized power cords and cables for the data center, power infrastructure, and industrial markets. The company has one of the largest in-stock inventories of its kind in the world, and exports to more than 100 countries annually.



Bass, Berry & Sims' private equity attorneys have extensive experience in structuring complex acquisitions and financings and are especially active in the middle-market. In the last two years, we have served as counsel in more than 100 transactions across a variety of industries. As the sixth largest healthcare law firm in the U.S., our experience in healthcare PE transactions is particularly robust. For more information, visit www.bassberry.com.

David Cox, Member | Bass, Berry & Sims

What role do lawyers play in the transaction process?

The Basics: Transaction structuring, drafting and negotiating, and aiding in due diligence.

The Game Changers: Beyond the basics, the most effective M&A lawyers are advisors and counselors; they bring together two sides with competing objectives to the mutually desired goal of completing a transaction. They understand their client's objectives and, as importantly, the objectives of the other party to the transaction. They have a deep understanding of the broad field on which the parties are operating—what is customary, what is possible, what is advisable in transactions—in order to nimbly problem solve and guide clients toward their objectives while moving the transaction toward a successful conclusion.

What are the biggest trends you are seeing in private equity today?

#1 Reps and Warranties Insurance

The Background: The rapid emergence and proliferation of representations and warranties insurance (RWI) is the trend most fundamentally affecting private equity M&A, including M&A transactions that were once thought less suited for RWI, such as smaller deals, transactions in regulated industries and acquisitions by strategic buyers. Recent heavy interest and investment from insurance carriers has created a favorable market for premiums, as well as underwriting teams that can move at the speed of today's transactions. This trend is likely to continue over the next several years, although until more claims history becomes available, it remains to be seen at what level RWI premium pricing will ultimately stabilize.

The Impact: For private equity sellers, RWI leads to smaller escrows, allowing for a quicker return of investor capital and enhancement of actual IRR. For private equity buyers, RWI offers a tool to make a bid more attractive to a seller. Perhaps more importantly,

it reduces the potential for indemnification disputes with rollover stakeholders, who are often members of management of the acquired business and therefore crucial to the long-term performance of the acquisition.

#2 Post-Transaction Litigation

The Background: We also are seeing anecdotal evidence of an uptick in post-transaction litigation in which buyers allege fraud by sellers. Traditionally, acquisition agreements contain a fraud carve-out that acts as an override on any indemnity limitations negotiated between the parties, giving the buyer a path to a greater potential recovery for a longer period of time when alleging fraud. It has been suggested that current market pressures, including the significant amount of un-deployed capital and the proliferation of private equity buyers (including scout funds, family funds, international funds and other nontraditional funds), have combined to create "rich" valuations that, in turn, pressure buyers to seek recovery through allegations of fraud when an acquisition fails to fulfill the buyers' expectations following closing.

The Impact: If fraud claims are a trend, the increased risk to sellers necessarily will lead to higher transactional costs in both time and money as sellers seek to negotiate contractual terms to reduce their risk. Such claims can also present reputational costs to the parties, both for sellers accused of fraud and buyers accused of making bad faith fraud claims.

About the Author

David Cox is a Private Equity and M&A Member at Bass, Berry & Sims who advises owners, executives and boards in key corporate events, such as capital formation, private equity transactions, acquisitions and change in control transactions. David has advised on more than 400 transactions for companies and private equity firms throughout the United States.

CONTACT:

DAVID COX

Member | Bass, Berry & Sims
615-742-6299 | dcox@bassberry.com

**BASS
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"We know that business owners rely on trusted advisors, and particularly lawyers, to help them make decisions — often beyond the scope of traditional legal issues."

(Continued from page A6)

Huron found this deal with the help of George Brady, a business lawyer from Parker Poe. Doug Sutton, partner and head of Huron Flex Equity, Huron's non-control equity group, was doing routine calling on lawyers because they are often trusted advisors to family business owners. He called Brady at Parker Poe. "The business owners, a husband and wife team, were looking for a partial liquidity event, but also partners with an operational approach to help them grow their business larger more quickly than they could accomplish on their own," says Gretchen Perkins, a partner with Huron Capital. "We saw multiple ways we could help improve operations to accelerate on the solid growth the business owners had already accomplished. There was no sell-side process whatsoever, due to the attorney introduction."

Huron and other private equity specifically targets attorneys for deal flow with the knowledge that many private business owners will turn to attorneys when contemplating next steps for their businesses.

"We know that business owners rely on trusted advisors, and particularly lawyers, to help them make decisions — often beyond the scope of traditional legal issues," says Sutton.

3. Eyes and ears everywhere

For the three platform acquisitions a typical private equity firm makes in a year, lawyers see an exponential number of opportunities. For this reason, attorneys usually have more knowledge of deal pitfalls and tailwinds than the average private equity

dealmakers. Good attorneys are also up to date on current trends as a result of the sheer volume of deals that cross their desks. Good attorneys are also aware of complex situations that can arise as well as market trends that dealmakers may not be aware of.

"A well-seasoned counsel has seen a lot more completed transactions than us and can really help us think about issue. On any given issue, they might have a sense of where the market is, have actually seen it litigated or can give us a sense of how enforceable it really is. We might be thinking in broad terms while they have more specific ideas because they have already seen these issues play out," says Lipson.

4. Great introductions

Attorneys are known as connectors. Attorneys introduce clients to lending sources, consulting firms, accountants and services providers critical to getting the deal completed. With more and more deal support these days it can be hard for private equity firms to determine which companies they should be doing business with. Attorneys can help private equity firms cut through all the noise to identify the right support teams.

"Good attorneys will often opine on a lending source or a junior capital provider based on previous experiences that have had with a team. They are doing deals all the time, that's all they do and they have a great knowledge base of the folks that work in the industry," says Perkins. "This knowledge is hugely helpful when you are trying to get to the finish line with an investment."



Koley Jessen is a strategically growing law firm serving the needs of middle market clients around the country. For business owners, strategic acquirers and private equity firms, we are active partners who provide multi-discipline counsel and get deals done. We provide national clients with Wall Street level service and leverage our Midwestern sensibility to excel in the middle market.

Michael Hupp | President and Chair of M&A

How would you characterize the deal-making environment today?

Today's deal making in the middle and lower middle market is characterized by high multiples and lots of private equity sponsor (and family office) interest in providing first-time institutional capital to closely-held businesses. This is coupled with not enough quality assets on the market, which feeds into the cycle of ever-growing multiples and a "seller's market". The "seller's market" over the last seven years has resulted in an acceleration of the timetable of some owners causing there to be fewer sellers than normal now. At the same time, PE sponsors have had success raising capital and are sitting on piles of cash with shrinking investment horizons. I wish I had a business to sell.

What are the biggest trends you are seeing in private equity today?

One of the biggest changes in the industry has been the spread of representations and warranties insurance (RWI) as a common tool in many private equity sponsor-backed transactions. Fueled in part by the continuing "seller's market", the usage of RWI (and decline of escrows and seller guarantees) has placed a higher premium on effective and efficient legal, tax and financial due diligence.

Also, with increased competition for transactions, we have seen private equity investors continue to expand their reach into the lower middle market, through roll-up strategies or simply funds with an investment focus on smaller companies. Businesses with less than \$5MM of TTM EBITDA are now squarely on the radar of many funds. Investing in these companies often presents a unique set of challenges for sponsors and their advisors.

While holding periods have shrunk in recent years, we expect pressure for them to increase. More and more founders are expressing concern for the impact of the sale process on their employees and sometimes go out of their way to avoid selling to a buyer that is likely to exit the business in three years or less even if they have to sacrifice

some on purchase price. Family offices are touting their long holding period as a big advantage to doing a deal with them and it seems to be resonating with sellers.

Deal sourcing has become harder than ever. How can lawyers help dealmakers find the right deal flow?

Private equity sponsors, family offices and intermediaries are seeking introductions to middle and lower middle market companies and business owners, while business owners look to us to provide meaningful introductions to the "right" potential liquidity provider or advisor. From our experience, clients truly appreciate a business lawyer that has a current and practical understanding of the market, including the many succession and liquidity options available, along with the ability and relationships to connect them with potential dealmakers to help them achieve their goals. Collaborating with our colleagues in complimentary estate and business succession practices focused on high net worth individuals, executives and business owners allows us to make meaningful connections.

What role do lawyers play in the transaction process?

Attorneys should be able to add value on the economics, negotiations and client understanding of the deal. On economics, a lawyer can add real value in structuring and the tax components of the deal. Additionally, an attorney should understand the working capital nuances of the company and how to capture value to the client's advantage within the transaction documents. On negotiations, the current market has forced attorneys to go straight to the market terms so that a buyer can be competitive with its bid. The clarity and transparency of market terms result in efficiencies for clients and allow us to clearly articulate to clients what is market. Finally, RWI has greatly changed the landscape in middle and lower middle market transactions. An attorney experienced with RWI can navigate a client through the interplay between the purchase agreement and the policy and negotiating the policy with the underwriter.

CONTACT:

MIKE HUPP

mike.hupp@koleyjessen.com

O: 402-343-3713 | www.koleyjessen.com

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Netflix Feeds Its Content Needs

Netflix is focusing on producing original titles, rather than acquiring streaming rights.

By Kamaron Leach

Netflix Inc.'s (Nasdaq:NFLX) first company acquisition may have a lasting effect on the media landscape for years to come. The digital streaming network's purchase of Millarworld brings Mark and Lucy Millar into the fold with their comic book publishing company. Since the deal was announced, Disney decided to pull its films from the streaming network, and Netflix responded by poaching one of ABC's premiere content producers.



Bloomberg News

Shonda Rhimes, Kerry Washington

Millarworld brings a portfolio of character franchises to Netflix that could be developed into film format, a television series, and even kid-friendly content. The introduction of new character franchises could have a huge impact on the audiences that the DC and Marvel universes draw. Financial terms of the Millarworld deal were not disclosed.

In fact, one day after the Millarworld deal was announced, Disney (NYSE: DIS) CEO Bob Iger stated that the company will pull all of its movies from Netflix, with plans of launching its own streaming service provider in 2019. The move was announced



Ted Sarandos

during Disney's third quarter 2017 earnings call, and would include the removal of Marvel, Pixar and Disney film titles. Despite the vague details surrounding plans for the new streaming service provider, Iger stated that the company will also launch its ESPN streaming service in early 2018. To power the ESPN-branded network, Disney is paying \$1.58 billion for a majority stake in BAMTech. Disney previously owned a 33 percent stake in BAMTech, which was spun off from digital media company MLB Advanced Media in August 2016.

Losing content from Disney, one of the largest suppliers of entertainment content, may have been anticipated by Netflix executives. Over recent years, Netflix has shifted its business strategy from acquiring streaming rights to buying original content and building its own portfolio of self-produced titles. The foresight by the streaming service provider reduces the impact of Disney's plan to remove its content.

"We look forward to creating new Netflix Originals from several existing franchises as well as new super-hero, anti-hero, fantasy, sci-fi and horror stories. Mark and his team will continue to create and publish," states Netflix chief content officer Ted Sarandos about the Millarworld deal.

Mark Millar is a graphic novelist who worked at Marvel for approximately eight years, helping to develop the comic books and story arcs behind the first Avengers movie, Captain America Civil War, and Logan, which collectively grossed more than \$3 billion in box office revenue worldwide. Millarworld has given birth to eighteen published character worlds, which include Wanted, Kick-Ass, and Kingsman. Those three films have grossed nearly \$1 billion in the global box office alone. As part of the agreement, Millarworld will also continue to concept new stories and character franchises under the Netflix label.

Almost a week after Iger forewarned that the conglomerate plans to remove its content, Netflix delivered a huge counterpunch to Disney and ABC. Television producer Shonda Rhimes, the creator behind ABC hit shows Scandal and Grey's Anatomy, signed an exclusive multi-year production deal with the streaming service provider. Rhimes' move from ABC to Netflix represents a huge shift in the television paradigm, as digital offers show creators more flexibility around production and show formats. All of the current and in-the-pipeline ABC series produced by Rhimes, including the Kerry Washington-led Scandal show entering its final season, will remain at the broadcast network.

Using a smart TV, game console or mobile device, Netflix has given users online access to some of their favorite movies and television shows since 1997. The company recently introduced offline capabilities, in which a user can download favorite shows to access later when not connected to the Internet.

The future of how television and film is told, and what medium these assets will coexist, is constantly changing. However, what we do know is that users want access to premium content when they want it, for a low cost. Which tech companies and media conglomerates will adapt in time to fulfill this demanding quest? The question has yet to be answered.

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We look forward to creating new Netflix Originals from several existing franchises as well as new super-hero, anti-hero, fantasy, sci-fi and horror stories.

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Guest Article



Traditional Ad Firms Need to Go Digital

Digital ad agencies are attracting robust interest from PE firms such as Baird Capital and BV Investment Partners.

By Kevin Jolley

Spending on digital advertising continues to explode, mainly because Americans love their screens. We spend nearly 11 hours a day—more than two-thirds of our time awake—staring into a phone, computer, tablet, wearable device or other screen-based product. Given this attraction (addiction?) digital marketing has become the largest part of many advertisers' budgets.

According to eMarketer, digital ad expenditures surpassed spending on TV ads for the first time in 2016, and strong growth in digital ad spending is expected to continue for the foreseeable future. eMarketer projects that digital spending in the U.S. will continue to experience double-digit growth rates, expanding from an estimated \$83 billion in 2017 to more than \$129 billion in 2021.

The robust growth in digital advertising has supported strong merger and acquisition activity for digital ad agencies, which

help clients spend their digital marketing dollars more efficiently.

Interest in acquiring digital agencies is widespread, with global consultancies and private equity firms joining traditional advertising agencies in the hunt for companies that will benefit from the sector's rapid growth.

Traditional agencies, such as WPP and Dentsu, are actively building up their digital capabilities and relationships to garner a larger piece of the ever-expanding digital pie. Already, the biggest advertising agencies have 30 to 40 percent of their revenue coming from digital. That percentage should grow, as traditional media continues to be pushed aside by the digital bully.

MHT Partners



Kevin Jolley

Global consultancies such as IBM, Deloitte, PwC, and Accenture, are pushing further into the sector and continue to buy up digital marketing firms. In one recent deal, PwC's digital services division acquired the brand strategy, innovation and digital services business of Stockholm-based consultancy Pond. PwC's acquisition of Pond reflects the trend of consultancies buying marketing firms to add chief marketing officers to their potential client base.

The buying spree makes sense. According to Gartner, marketing budgets continue to rise and the chief marketing officer (CMO) is responsible for an ever-increasing amount of technology spend. In fact, Gartner predicts that "CMO marketing technology spend is on track to exceed overall CIO (chief information officer) technology spend in 2017." With CMOs becoming more prominent, it is logical for large consultancies to broaden their service offerings to capture a portion of expanding marketing budgets.

Private equity is also attracted to the burgeoning digital marketing sector, not only

for its rapid growth, but also for its size and fragmentation. According to IBISWorld, the U.S. Digital Advertising Agencies industry generated revenue of approximately \$13.7 billion in 2016 and over 7,200 business participated in the industry. IBISWorld predicts the industry will grow at an average annual rate in excess of 11% through 2021.

As a general rule, private equity firms love to find opportunities to invest in large, fast-growing industry segments that are highly fragmented, which gives them ample opportunity to build a large business quickly through rapid organic growth and by combining several companies together. Private equity firms such as Baird Capital, BV Investment Partners, Mountaingate Capital, Stagwell Group and Svoboda Capital Partners have invested in digital

agencies and others continue to look for their chance to enter this growing, attractive industry segment.

The robust appetite for acquisitions of digital marketing agencies has led to attractive valuations for business owners that sell their companies. Currently, according to various industry analysts and MHT Partners' research, digital agencies tend to garner valuations of 7 to 8 times trailing Ebitda or more. Healthy valuations are expected to continue as strong buyer demand for digital agencies is anticipated to continue in the near term.

Bottom line: Hungry, aggressive acquirers will continue to seek differentiated, high-growth digital agencies as marketing budgets continue to shift towards delivery of personalized advertising to increasingly mobile Americans.

Kevin Jolley is a managing director in the Boston office of MHT Partners, a middle market investment bank.

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Acquirers will continue to seek digital agencies as marketing budgets shift towards personalized advertising.

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People



Kfir Abutbul



Patrick Gilligan



Cesar Gueikian

New Hires and Promotions By Kamaron Leach

Kfir Abutbul has joined **Willkie Farr & Gallagher LLP** as a partner in Houston. Previously a partner at Kirkland & Ellis, Abutbul advises private equity sponsors on M&A, divestitures and joint ventures.

Ruulke Bagijn was hired as a managing director by **The Carlyle Group's** (Nasdaq: CG) Amsterdam-based **AlInvest Partners**. Bagijn previously led AXA Investment Manager's real assets private equity division where she managed structured credit.

David Berman has joined **Latham & Watkins LLP** as a partner in London. Joining from Quinn Emanuel, Berman represents financial institutions on regulatory, compliance and governance-related matters.

Filippo Bruno was hired by **Houlihan Lokey** (NYSE: HLI) as a managing director based in Milan, Italy. Bruno joins from investment bank Banca IMI as a senior M&A banker with a focus on telecommunications, media and technology.

John Boelter has rejoined **Mayer Brown LLP** in New York as a corporate and securities partner. Previously a partner at Greenberg Traurig LLP, Boelter's experience includes handling cross-border M&A matters.

Shaun Buckley was hired by Boston-based **Gen II Fund Services LLC** as managing director. Buckley joins Gen II from State Street Corp. (NYSE: STT), with experience handling private equity fund administration and reporting.

Roberto Chute has joined asset management firm **The Rohatyn Group** as a partner based in Buenos Aires, Argentina. Chute most recently work at Banc of America Equity Partners Latin America and now leads TRG's private equity investments.

Valerie Demont was hired by New York-based **Sheppard Mullin Richter & Hampton LLP** as a partner in the firm's corporate practice. Demont joins from Pepper Hamilton LLP, and focuses on cross-border M&A and capital markets.

John DiRocco has joined New York-based private debt manager **CIFC LLC** as chief operating officer working to expand the firm's investment products. DiRocco previously served as COO of credit investment firm Reef Road Capital.

Jim Fisher has joined **PineBridge Investments** as a New York-based managing director leading the firm's private credit strategies. Fisher previously served as senior vice president at J.P. Morgan Chase (NYSE: JPM) working on the bank's middle-market leveraged finance business.

Casey Fleck was hired by **Milbank Tweed Hadley & McCloy** as a corporate and capital markets attorney in Los Angeles. Previously a partner at Latham & Watkins, Fleck's experience includes advising restructurings and M&A transactions.

Patrick Gilligan was hired by Santa Monica, California-based **Clearlake Capital Group L.P.** as a managing director. Prior to joining Clearlake in 2016, Gilligan served as managing director at Park Hill Group. Gilligan focuses on investor relations and marketing initiatives in his current role.

Cesar Gueikian has joined Chicago-based **Monroe Capital** as a managing director to help lead a new special situations credit strategy. Prior to joining the middle-market lending firm, Gueikian served as managing partner at Melody Capital Partners.

Beidi Gu was hired by New York-based asset management firm **The Rohatyn Group** as portfolio manager. Prior to her new role, Gu served as the global portfolio manager for The Caravel Flagship Fund.

Xavier Gutierrez has also joined **Clearlake Capital Group L.P.** as a managing director in Santa Monica, California. Gutierrez previously served as chief investment officer of Meruelo Group, and now focuses on operations and client services.

Brian Haklisch has joined alternative investment firm **Angelo Gordon & Co.** as managing director in New York. Haklisch joins the firm's investor relations group from a similar role at Structured Portfolio Management.

Amy Hauke was hired by Chicago-based **Meketa Investment Group** as an executive vice president. Hauke joins from Aon Hewitt as a senior consultant in the company's private equity group.

Macie House has joined **Baird** as a managing director leading the firm's equity origination efforts. Based in Portland, Oregon, House joins from Pacific Crest Securities as a director.

Salvador LaVina has joined Los Angeles-based **Barnes & Thornburg LLP** as a partner advising private clients on real estate M&A and joint ventures. LaVina is the former chair of Enenstein Ribakoff LaViña & Pham APC's real estate and corporate departments.

Jeff Leonard has joined St. Augustine, Florida-based **Brown Jordan International Inc.**, a furniture manufacturer backed by Littlejohn & Co., as chief financial officer. Leonard previously served as CFO at The Hillman Group.

Brian Little was hired by **Duff & Phelps** as a managing director based in Los Angeles. Little

previously served as managing director at Imperial Capital, bringing M&A experience in the consumer, retail and food sectors.

Bill Lovett, former managing partner of Collora, has been named managing partner of the new Boston office of global law firm **Hogan Lovells**. Effective Sept. 1, Hogan Lovells has merged with Collora, a Boston-based litigation/investigations firm with a strong focus in life sciences and healthcare, as well as financial services and technology. All partners, lawyers, and business services members of Collora joined Hogan Lovells. The Boston office is focused on litigation and investigations with a particular emphasis on the life sciences and healthcare sectors;



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People



Anne-Marie Peterson



Craig Rogowski



Kandace Watson

over time, Hogan Lovells expects to add regulatory, corporate transactions, and IP capabilities.

Kevin Masuda has joined **Gibson Dunn & Crutcher LLP** as a Los Angeles-based partner. A former partner at Munger Tolles & Olson, Masuda focuses on M&A transactions in the entertainment and technology sector.

Jim McGrath has joined Richmond, Virginia-based **Keiter Transaction Advisory Services** as a managing director. Previously an adviser at KPMG Corp. Finance, McGrath joins with more than 17 years of middle-market M&A and private equity experience.

Ann Miller was hired by **Cowen Inc.'s** (Nasdaq: COWN) special situations team as a New York-based director. Miller is a former Houlihan Lokey director, and joins Cowen with experience advising clients on M&A transactions, equity exchanges, divestitures.

Anne-Marie Peterson has joined New York-based **Baird** as a managing director on the firm's global debt advisory team. Joining most recently from KeyBanc Capital Markets as managing director, Peterson now advises clients on M&A, refinancings and recapitalizations.

Ricardo Martinez was hired by **Hogan Lovell's** New York office as a partner. Previously with Haynes and Boone, Martinez represents lenders and borrowers in M&A and working capital facilities.

Attila Oldag has joined **Kirkland & Ellis LLP** as a partner in Munich, Germany. Previously a partner at boutique law firm Gütt Oik Feldhaus, Oldag advises clients on reorganizations and capital market transactions.

Jerry Rhodes has joined Sarasota, Florida-based **DCA Investment Holding LLC**, a dental support group backed by Harvest Partners, as CEO. Rhodes most recently served as CEO of CRC Health Group.

Craig Rogowski was hired by **Baird** as a director

on the Silicon Valley-based global technology and services team. Previously at Pacific Crest Securities, Rogowski brings more than 17 years of investment banking and corporate development experience.

Timothy Schifer has joined **Twin Brook Capital Partners** as a managing director in Chicago. Schifer has more than 25 years of lending experience and previously served as director of portfolio management at Madison Capital Funding.

Richard Sherlund was hired by **Perella Weinberg Partners** as a partner in San Francisco. Sherlund previously led Goldman Sachs' technology research group for 25 years. In his current role, Sherlund focuses on driving the firm's coverage of software clients.

Matthew Tehan has joined **Houlihan Lokey** as a managing director in Sydney, Australia. Tehan joins the capital markets group from Credit Suisse, where he co-led the debt and derivatives division.

Kandace Watson has joined **Sheppard Mullin Richter & Hampton LLP** as a partner in San Diego. Joining with corporate and intellectual property licensing experience, Watson previously led the mergers, acquisitions, securities and corporate team at Kilpatrick Townsend.

James Wolf was also hired by **Houlihan Lokey** as a New York-based managing director. Previously a managing partner at EY, Wolf's experience includes advising executives and board members on M&A transactions, reorganizations and purchase price allocations.

Raymond Wong was hired **Seyfarth Shaw's** Hong Kong office as a partner. Previously with King & Wood Mallesons, Wong focuses on M&A, IPOs and corporate strategies across the real estate and energy sectors.

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Strategies to Consider for Add-on Acquisitions

Create a centralized Integration Management Office (IMO), and hiring a seasoned CFO are key in M&A.

By Bolaji Lawal

One plus one equals three. No, it's not new wave 'common core' math. It's actually an old school M&A strategy that's found new favor in the private equity environment, particularly as company valuations reach all-time highs and organic growth has been stifled by a low-growth economic environment.

Private equity firms are spending increasing percentages of their \$842 billion in dry powder on add-on acquisitions, hoping that the sum of the existing portfolio company plus its complementary investment will be greater than its individual parts. Of course that's the hope - that buying companies in like industries will lead to synergies that lower costs, increase returns and create more profitable businesses with better dividend recap opportunities and exit options.

But then there's that tricky math that's rife with non-numeric, difficult to account for, pitfalls of the human talent variety. Without diligent pre-and post-close planning, acquisition talent integration can be the variable that throws off what appears to

be a simple equation. The consequences of miscalculating the talent challenges that accompany the process of integration can be the difference between a successful add-on, and one that simply doesn't add up. And while it's true that the best laid plans of mice and men often go awry, scenario planning is particularly critical in an add-on integration where people will be critical to success, but assumptions about their behavior will be inexact, at best. In order to more effectively do the talent math correctly, add on buyers must:

1. Consolidate the equation

Decentralization is at the root of all integration failure. This often manifests itself in the simplest, yet most overlooked, of ways: hiring freezes wherein certain groups within the organization continue to hire or bring in outside consultants, reducing cost savings. Step 1 of any human capital plan must be the creation of a centralized Integration Management Office (IMO). And, step 2 must be empowering that office, by finding someone

within the combined organization who is senior, well respected, and has the necessary bandwidth (and credibility) to spearhead merger integration efforts.

2. Calculate the people problem

The IMO will then be responsible for doing the right people math. Retaining key employees (throughout and following the merger process) is an exercise in and of itself, particularly in the case of employees within the corporate cost-center functions: finance, corporate development, HR, and IT. Because their jobs are typically most at risk during a merger, they may quickly seek outside opportunities. It is therefore incumbent on the IMO (working in conjunction with relevant departments) to do the talent identification, categorization and engagement heavy lifting - identifying flight risks and categorizing talent based on a tiered integration timeline: people key to long-term success, those who are needed in the medium-term for knowledge transfer, and those who are non-crucial contributors. Creating individualized plans to engage with talent based on that tiered matrix will help buyers retain valuable people while recognizing cost savings from real redundancies.



Accordion

Bolaji Lawal

3. Follow the formula

The IMO must further develop a mechanism to track synergies that will help them stay accountable and support timely and comprehensive reporting. When it comes to labor synergies, the tracking mechanism should get granular on capital management and reduction plans across the organization: include costs per department, milestones by integration stage, payouts and severance packages, and labor arbitrage by relocation of jobs to cost efficient locations. And, critically, in order to maintain

the necessary discipline on headcount to realize expected synergies, the tracker should name names. Of course, the formula can't be a fixed one. The company will need the flexibility to recalculate on the fly – against initial savings goals - based on the unexpected human capital challenges that always arise (the critical manager requesting a more significant retention bonus, the unexpected departure who is considered a valuable asset and must be replaced or enticed to stay with a better compensatory deal).

4. Multiply the softer stats

There is no greater human capital variable to the success of an add-on integration than the choice of CFO. While it may seem obvious (if formulaic) to select the CFO of the acquirer, there are social metrics that should be calculated to arrive at the right candidate: fluency in the sector, particularly for more specialized industries, experience working in a private-equity backed environment, track record navigating a successful exit, etc. PE-backed CFOs tend to come and go much quicker than other employees. Leveraging a strategy that accounts for softer variables can help elongate their stay with the company, and can contribute to the success of both the integration and the long-term growth of the newly formed company.

Add-ons are an important, and growing, part of the private equity playbook. Well-managed integrations can lead to growth, expansion and higher valuations. But poorly managed integrations, wherein the talent variable is not properly accounted for, monitored, and navigated won't in fact, add on, they'll just subtract from.

Bolaji Lawal is a vice president with Accordion, a private equity consulting firm, focused exclusively within the office of the CFO.

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Well managed integrations can lead to growth, expansion and higher valuations.

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Deal Flow

Key Middle-Market M&A Deals Completed in July 2017

Date	Acquirer	Target	Target Industry	Value (\$mil)
07/31/17	Hawk Holding Co LLC	Intrawest Resorts Holdings Inc	Amusement and Recreation Services	944.7
07/07/17	Conyers Park Acquisition Corp	Atkins Nutritionals Inc	Food and Kindred Products	730.1
07/03/17	Uniti Group Inc	Southern Light LLC	Telecommunications	699.1
07/27/17	Baxter International Inc	Claris Injectables Ltd	Drugs	625.0
07/03/17	Amazon.com Inc	Souq.com	Miscellaneous Retail Trade	580.0
07/24/17	The Priceline Group Inc	Momondo Group Ltd	Transportation and Shipping (except air)	550.0
07/31/17	Vista Equity Partners LLC	Xactly Corp	Prepackaged Software	542.6
07/11/17	LS Power Equity Advisors LLC	Dynegy Inc-Power Generation	Electric, Gas, and Water Distribution	480.0
07/31/17	Clayton Dubilier & Rice LLC	Capital Markets Co NV	Business Services	469.0
07/05/17	Apartment Invest & Mgmt Co	Palazzo Joint Venture	Real Estate; Mortgage Bankers and Brokers	451.5
07/21/17	Quanta Services Inc	Stronghold Ltd	Oil and Gas; Petroleum Refining	448.4
07/17/17	Teladoc Inc	Best Doctors Inc	Insurance	440.0
07/04/17	Spirax-Sarco Engineering PLC	Chromalox Inc	Metal and Metal Products	415.0
07/06/17	KTB Asset Management Co Ltd	Piedmont Office Rlty Tr-Two	Real Estate; Mortgage Bankers and Brokers	360.0
07/25/17	Synaptics Inc	Conexant Systems Inc	Electronic and Electrical Equipment	343.4
07/13/17	Investor Group	NASA Headquarters, Washington	Real Estate; Mortgage Bankers and Brokers	341.6
07/14/17	Cathay Gen Bancorp, LA, CA	SinoPac Bancorp	Commercial Banks, Bank Holding Companies	340.0
07/12/17	Cardiac Monitoring Hldg Co LLC	LifeWatch AG	Measuring, Medical, Photo Equipment; Clocks	276.5
07/31/17	CareerBuilder LLC SPV	CareerBuilder LLC	Business Services	250.0
07/17/17	First Merchants Corp	Independent Alliance Banks Inc	Commercial Banks, Bank Holding Companies	247.8
07/17/17	Kohlberg & Co LLC	Newell Brands Inc-Winter	Wholesale Trade-Durable Goods	240.0
07/03/17	Keane Group Inc	RockPile Energy Services LLC	Chemicals and Allied Products	238.3
07/28/17	Windstream Holdings Inc	Broadview Networks Holdngs Inc	Telecommunications	227.5
07/18/17	Paypal Holdings Inc	TIO Networks Corp	Prepackaged Software	223.2
07/06/17	Columbia Pty Tr Inc-Ppty	Allianz RE of America-114	Real Estate; Mortgage Bankers and Brokers	220.0
07/31/17	MSA Safety Inc	Globe Holding Co LLC	Textile and Apparel Products	215.0
07/03/17	First Busey Corp, Urbana, IL	First Community Finl Partners	Commercial Banks, Bank Holding Companies	212.1
07/18/17	Inland RE Acquisitions Inc	CVS Health Corp-Properties(49)	Miscellaneous Retail Trade	211.0
07/19/17	Rexford Industrial Realty Inc	Rancho Paca Industrial Pk	Real Estate; Mortgage Bankers and Brokers	210.5
07/10/17	Heartland Financial USA Inc	Citywide Banks of Colorado Inc	Commercial Banks, Bank Holding Companies	203.0
07/24/17	Colony NorthStar Inc	Industrial Portfolio	Real Estate; Mortgage Bankers and Brokers	201.0
07/01/17	Vanguard Energy Corp	Solar Quartz Technologies Ltd	Electronic and Electrical Equipment	194.2
07/01/17	Renasant Corp	Metropolitan Bancgroup Inc	Commercial Banks, Bank Holding Companies	190.2
07/03/17	Afton Chemical Corp	Aditivos Mexicanos SA de CV	Chemicals and Allied Products	182.1
07/18/17	Willsun Fertility US Delaware	Lifovum Fertility Mgmt LLC	Business Services	178.0
07/26/17	Sunstone Hotel Investors Inc	Oceans Edge Hotel &	Hotels and Casinos	175.0
07/11/17	Core-Mark Holding Co Inc	Farner-Bocken Co	Wholesale Trade-Nondurable Goods	174.0
07/05/17	Kadant Inc	NII FPG Co-Forest Prod Bus	Machinery	173.0
07/05/17	Crius Energy Trust	US Gas & Electric Inc	Electric, Gas, and Water Distribution	172.6
07/24/17	Sonoco Products Co	Clear Lam Packaging Inc	Paper and Allied Products	170.0
07/20/17	Marubeni Corp	Creekstone Farms Premium Beef	Food and Kindred Products	170.0
07/03/17	Commun Sales & Leasing Inc	Hunt Telecommunications LLC	Telecommunications	170.0

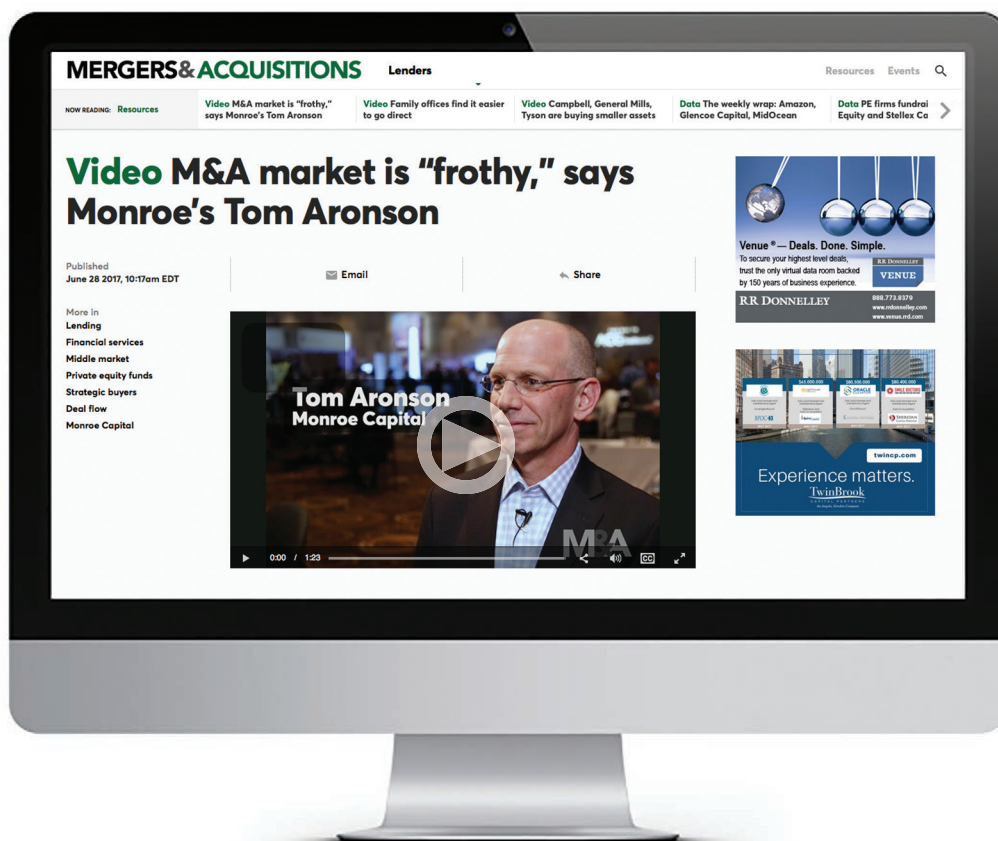
Deal Flow

Date	Acquirer	Target	Target Industry	Value (\$mil)
07/03/17	Investor Group	900 16th Street,Northwest,WA	Real Estate; Mortgage Bankers and Brokers	150.0
07/20/17	Hersha Hospitality Trust	Westin Philadelphia Hotel	Hotels and Casinos	135.0
07/10/17	Kimco Realty Corp	Jantzen Beach,Portland,Oregon	Real Estate; Mortgage Bankers and Brokers	131.8
07/06/17	Malibu Boats Inc	Cobalt Boats LLC	Transportation Equipment	130.0
07/03/17	2U Inc	Get Educated (Pty) Ltd	Social Services	123.0
07/06/17	Heartland Express Inc	Interstate Distributors Inc	Transportation and Shipping (except air)	121.0
07/20/17	Manulife US REIT	500 Plaza Drive	Real Estate; Mortgage Bankers and Brokers	115.0
07/19/17	Arsenal Capital Partners LP	PolyOne Corp-Designed	Wholesale Trade-Nondurable Goods	115.0
07/14/17	Cotiviti Holdings Inc	Rowdmap Inc	Prepackaged Software	109.6
07/05/17	Gelt Inc	Ascend at Red	Real Estate; Mortgage Bankers and Brokers	107.0
07/21/17	OpenText Corp	Covisint Corp	Prepackaged Software	100.1
07/17/17	Extreme Networks Inc	Avaya Inc-Networking Bus Unit	Telecommunications	100.0
07/01/17	Cross Country Healthcare Inc	Advantage RN LLC	Business Services	88.0
07/31/17	Madison Industries Inc	ALS Ltd-Oil & Gas Business	Oil and Gas; Petroleum Refining	85.3
07/31/17	Zoetis Bidco	Nexvet Biopharma PLC	Drugs	80.0
07/10/17	HIG Capital LLC	BIC Graphic USA	Miscellaneous Manufacturing	80.0
07/03/17	Movado Group Inc	JLB Brands Ltd	Wholesale Trade-Durable Goods	78.1
07/03/17	Pacific Ethanol Inc	Illinois Corn Processing LLC	Food and Kindred Products	76.7
07/10/17	OSI Systems Inc	Smiths Grp PLC-Explosive	Measuring, Medical, Photo Equipment; Clocks	75.5
07/17/17	Gramercy Property Trust Inc	Beacon Partners Inc-Industrial	Real Estate; Mortgage Bankers and Brokers	72.5
07/13/17	Investor Group	Holborn LC-Conrad Miami	Hotels and Casinos	72.5
07/26/17	Tallgrass Terminals LLC	Deeprook Development LLC	Wholesale Trade-Nondurable Goods	70.0
07/31/17	United Community Banks Inc	HCSB Financial Corp	Commercial Banks, Bank Holding Companies	66.2
07/01/17	Spark Energy Inc	Verde Energy USA Holdings LLC	Electric, Gas, and Water Distribution	65.0
07/14/17	Emefcy Group Ltd	RWL Water LLC	Sanitary Services	63.3
07/12/17	Spectrum Equity Investors LP	Bitly Inc	Business Services	63.0
07/03/17	Severn Trent PLC-N Amer Bus	Severn Trent PLC-N Amer Bus Op	Sanitary Services	62.0
07/19/17	High Real Estate Group LLC	Apartment	Real Estate; Mortgage Bankers and Brokers	60.0
07/06/17	Itinera USA Corp	Halmar International LLC	Construction Firms	60.0
07/13/17	GGP Inc	Seritage Growth Ppty-Asts(5)	Real Estate; Mortgage Bankers and Brokers	57.5
07/13/17	Mastech Digital Inc	InfoTrellis Inc-Svcs Div	Business Services	55.0
07/24/17	Modern Times Group MTG AB	Kongregate Inc	Business Services	55.0
07/13/17	Rivendell Global RE Inc	The Connor Grp-Cary Greens	Real Estate; Mortgage Bankers and Brokers	52.5
07/10/17	Hartz Mountain Industries Inc	Beacon Partners Inc-Industrial	Real Estate; Mortgage Bankers and Brokers	52.2
07/07/17	Agilent Technologies Inc	Cobalt Light Systems Ltd	Measuring, Medical, Photo Equipment; Clocks	51.9
07/27/17	Ichor Holdings LLC	Cal-Weld Inc	Electronic and Electrical Equipment	50.0
07/05/17	TruAmerica Multifamily LLC	Ashley Lake Pk Apartments LLC	Real Estate; Mortgage Bankers and Brokers	49.0
07/11/17	Pure Multi-Family REIT LP	La Villita,Irving,Texas	Real Estate; Mortgage Bankers and Brokers	48.8
07/28/17	Fernaau LeBlanc Invest	Corporate Office Tr-White	Real Estate; Mortgage Bankers and Brokers	47.5
07/07/17	Emma Capital Investments Inc	Adelaide Apartments	Real Estate; Mortgage Bankers and Brokers	47.0
07/25/17	Buccini/Pollin Group Inc	Sheraton DFW Airport	Hotels and Casinos	46.0
07/01/17	Investar Holding Corp	Citizens Bancshares Inc	Commercial Banks, Bank Holding Companies	45.8
07/18/17	Zeta Interactive Corp	Boomtrain Inc	Business Services	45.0
07/10/17	Golden Leaf Holdings Inc	Chalice LLC	Wholesale Trade-Nondurable Goods	42.2

Deal Flow

Date	Acquirer	Target	Target Industry	Value (\$mil)
07/06/17	American Assets Trust Inc	Gateway Marketplace,Chula	Real Estate; Mortgage Bankers and Brokers	42.0
07/11/17	IPG Photonics Corp	Innovative Laser	Electronic and Electrical Equipment	40.0
07/28/17	HCBF Holding Co Inc	Jefferson Bankshares Inc	Commercial Banks, Bank Holding Companies	40.0
07/07/17	Fleta Issuer Hldg Designated	Ibercaja Banco SA-Fleta Loans	Credit Institutions	39.1
07/12/17	Morgan Properties Trust	Madison	Real Estate; Mortgage Bankers and Brokers	38.5
07/05/17	Lalezarian Properties LLC	Fifteen Grp Capital LLC-	Real Estate; Mortgage Bankers and Brokers	37.3
07/05/17	Brooks Automation Inc	Pac Bio-Material Mgmt Inc	Transportation and Shipping (except air)	33.0
07/12/17	UDG Healthcare PLC	Vynamic LLC	Health Services	32.0
07/13/17	Rexford Industrial Realty Inc	Industrial Bldg,Norwalk,CA(2)	Real Estate; Mortgage Bankers and Brokers	30.7
07/05/17	Newport Capital Partners Fund	Lincoln Village Shopping	Real Estate; Mortgage Bankers and Brokers	30.5
07/07/17	Union Bank	Union Bank & Trust Co,Oxford	Commercial Banks, Bank Holding Companies	30.2
07/28/17	Ta Chen International Inc	Primus Pipe & Tube Hldg Inc	Investment & Commodity Firms,Dealers,Exchanges	29.0
07/19/17	AMPLEXOR International SA	Sajan Inc	Business Services	28.0
07/13/17	Rexford Industrial Realty Inc	3595 Inland Empire	Real Estate; Mortgage Bankers and Brokers	26.9
07/03/17	Hanover Ins Grp Inc	SLE Holdings Pty Ltd	Insurance	25.0
07/13/17	Upland Software Inc	Waterfall International Inc	Prepackaged Software	24.4
07/31/17	RigNet Inc	Energy Satellite Services	Telecommunications	22.2
07/17/17	Procaccianti Group	Staybridge Suites,St	Hotels and Casinos	20.5
07/20/17	Iconix Brand Group Inc	Iconix Canada LP	Investment & Commodity Firms,Dealers,Exchanges	19.0
07/14/17	Rosewood Private Investments	Healthy Natural Inc	Food and Kindred Products	18.3
07/12/17	Anchor Health Properties LLC	Med Office Buildings(3),Denver	Real Estate; Mortgage Bankers and Brokers	18.0
07/05/17	Advanced Energy Industries	Excelsys Technologies Ltd	Electronic and Electrical Equipment	17.6
07/18/17	US Bank,Minneapolis,Minnesota	7459 S Lima St & 79 Inverness	Real Estate; Mortgage Bankers and Brokers	17.0
07/03/17	Lippert Components Inc	Metallarte Srl	Transportation Equipment	16.8
07/13/17	Solitario Expl & Royalty Corp	Zazu Metals Corp	Mining	16.2
07/03/17	Benderson Development Co Inc	McKinley Plaza,Buffalo,New	Real Estate; Mortgage Bankers and Brokers	15.8
07/17/17	Clean Harbors Inc	Lonestar West Inc	Business Services	15.5
07/25/17	Carv Properties LLC	Avanti	Real Estate; Mortgage Bankers and Brokers	15.0
07/14/17	Northwest Bancorp Inc	Centerpointe Community Bank	Savings and Loans, Mutual Savings Banks	14.6
07/31/17	Rexford Industrial Realty Inc	4832 Azusa Canyon Road,Los	Real Estate; Mortgage Bankers and Brokers	14.6
07/20/17	Global Commun Semiconductors	D-Tech Optoelectronics Inc	Electronic and Electrical Equipment	13.0
07/05/17	MAT Holdings Inc	Vicente Canales SA	Construction Firms	12.5
07/05/17	Riverchase Holdings LP	River Chase Apartments,TN	Real Estate; Mortgage Bankers and Brokers	11.2
07/31/17	The AMES Cos	La Hacienda Ltd	Machinery	11.0
07/19/17	Algomizer Ltd	Linkury Ltd	Business Services	11.0
07/17/17	Patrick Industries Inc	Wire Design-Certain Assets	Electronic and Electrical Equipment	10.9
07/08/17	Amazon.com Inc	Game Sparks Technologies Ltd	Prepackaged Software	10.0
07/25/17	Sientra Inc	Miramar Labs Inc	Measuring, Medical, Photo Equipment; Clocks	9.5
07/03/17	Penumbra Inc	Crossmed SpA	Wholesale Trade-Durable Goods	9.4
07/05/17	Newport Capital Partners Fund	Kedzie Plaza, Chicago	Real Estate; Mortgage Bankers and Brokers	8.7
07/03/17	Privilege Apartments LLC	Fast Boots LLC-Apartment	Real Estate; Mortgage Bankers and Brokers	7.6
07/21/17	SG Property Services LLC	Med Ctr Pty(2),Georgia	Health Services	7.5
07/07/17	Shanghai Safbon Water Service	Doosan Hydro Technology LLC	Sanitary Services	7.4
07/07/17	Cesca Therapeutics Inc	SynGen Inc	Wholesale Trade-Durable Goods	7.3

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Deal Flow

Date	Acquirer	Target	Target Industry	Value (\$mil)
07/07/17	O'Reilly Development Co LLC	Cedar Trails Senior Living	Social Services	7.0
07/17/17	Rugby Acquisition LLC	Downes & Reader Hardwood Co	Wholesale Trade-Durable Goods	6.0
07/17/17	Exponent Energy LLC	Sanchez Midstream Partners-Pro	Oil and Gas; Petroleum Refining	5.5
07/06/17	Applegreen PLC	Brandi Cos-Svc Stn(42)	Retail Trade-Food Stores	5.4
07/07/17	1A Smart Start LLC	Dignita Systems AB	Measuring, Medical, Photo Equipment; Clocks	4.6
07/26/17	Four Corners Ppty Tr Inc	Taco Bell Rest(2),Indiana	Retail Trade-Eating and Drinking Places	3.4
07/11/17	Downtown Properties Inc	Varsity Theater	Amusement and Recreation Services	2.5
07/11/17	Alan Werner	Metro Appl & More-Cordova Ret	Real Estate; Mortgage Bankers and Brokers	2.3
07/06/17	Evolving Systems Inc	Business Logic Systems Ltd	Telecommunications	1.7
07/25/17	Autologic Diagnostics Holdings	MVDS LLC	Prepackaged Software	1.2
07/19/17	Q Laboratories Inc	Reller Family Ppty-Bldg(2)	Real Estate; Mortgage Bankers and Brokers	1.1
07/11/17	Xeros Technology Group Plc	MarKen PPE Restoration	Wholesale Trade-Durable Goods	1.0
07/14/17	Illinois American Water Co	Forest Homes Maple Pk Public	Electric, Gas, and Water Distribution	0.9
07/06/17	Novagen Ingenium Inc	Syndicated Transport &	Transportation and Shipping (except air)	0.8
07/17/17	SeaLife Corp	SanaLife Marketing Inc	Advertising Services	0.0
07/11/17	10up LLC	Lift UX	Telecommunications	undisclosed
07/07/17	Aaron Beatty	Valpak of Tri County PA	Advertising Services	undisclosed
07/05/17	Abbey Residential Services Inc	Mill Creek Res Tr LLC-Modera	Real Estate; Mortgage Bankers and Brokers	undisclosed
07/18/17	ABILITY Network Inc	Secure Bill Pay	Prepackaged Software	undisclosed
07/26/17	Abrann & Sharon Harris	Valpak Direct Mktg Sys Inc-	Business Services	undisclosed
07/13/17	AcademixDirect Inc	Pathsource Inc	Educational Services	undisclosed
07/12/17	Accenture PLC	Clearhead Group LLC	Business Services	undisclosed
07/20/17	Accenture PLC	LabAnswer Government LLC	Business Services	undisclosed
07/26/17	Accord Healthcare Ltd	Essential Pharmaceuticals LLC	Business Services	undisclosed
07/18/17	ACI Last Mile Network	California Independent Postal	Business Services	undisclosed
07/31/17	Acorn Growth Cos	TeleCommun Support Svcs Inc	Business Services	undisclosed
07/25/17	AdCare Educ Inst Inc	New England Inst of Addiction	Educational Services	undisclosed
07/31/17	Adtegrity Inc	Media Place Partners	Advertising Services	undisclosed
07/06/17	Advanced Disposal Services Inc	Precision Waste Services Inc	Sanitary Services	undisclosed
07/27/17	Advent International Corp	Dixcy Textiles Private Ltd	Textile and Apparel Products	undisclosed
07/25/17	Aetna Inc	Bupa Health Ins (Thailand) PCL	Insurance	undisclosed
07/03/17	AGRO Merchants Group LLC	PSTL Sp zoo	Transportation and Shipping (except air)	undisclosed
07/24/17	AHF Pharmacy	City View Pharmacy	Miscellaneous Retail Trade	undisclosed
07/25/17	AJ Capital Partners	RockBridge Capital LLC- Iowa	Hotels and Casinos	undisclosed
07/26/17	Alchemy Systems LP	Bigart Ecosystems LLC	Prepackaged Software	undisclosed
07/01/17	Alera Group	Group Benefits LLC	Business Services	undisclosed
07/12/17	Alliant Insurance Services Inc	Boynton & Boynton	Insurance	undisclosed
07/12/17	Alpenglow Group LLC	Vidal Street Industrial Inc	Transportation and Shipping (except air)	undisclosed
07/13/17	Alpina Partners Ltd	ASI DataMyte Inc-QDA Software	Prepackaged Software	undisclosed
07/06/17	American Fast Freight Inc	Grand Worldwide Logistics Corp	Transportation and Shipping (except air)	undisclosed
07/31/17	Anju Software Inc	DZS-assets of ClinPlus	Drugs	undisclosed
07/11/17	ANSYS Inc	Computational Engineering	Prepackaged Software	undisclosed
07/05/17	Anticimex AB	Viking Pest Control	Business Services	undisclosed
07/24/17	Aptos Inc	TXT e-solutions SpA	Prepackaged Software	undisclosed

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Deal Flow

Date	Acquirer	Target	Target Industry	Value (\$mil)
07/27/17	Arcadis NV	E2 Managetech Inc	Business Services	undisclosed
07/03/17	Archer Daniels Midland Co	Chamtor SA	Food and Kindred Products	undisclosed
07/25/17	Arcos Inc	MacroSoft Inc-Utility Svcs Div	Prepackaged Software	undisclosed
07/11/17	Arcserve (USA) LLC	Zetta Inc	Business Services	undisclosed
07/05/17	Argand Partners LP	Brintons Carpets Ltd	Textile and Apparel Products	undisclosed
07/26/17	Ascensus Inc	Benefits of Missouri Inc	Insurance	undisclosed
07/06/17	Ashkenazy Acquisition Corp	Grosvenor House Hotel	Hotels and Casinos	undisclosed
07/25/17	AssuredPartners Inc	Front Range Ins Grp LLC	Insurance	undisclosed
07/25/17	AssuredPartners Inc	VolkBell Ppty & Casualty-Div	Insurance	undisclosed
07/11/17	AT&T Inc	Brocade Commun Inc-Vyatta	Prepackaged Software	undisclosed
07/25/17	Aterian Inv Partners LLC	Advanced Energy Technologies	Electronic and Electrical Equipment	undisclosed
07/12/17	Atheer Inc	SpaceView Inc	Business Services	undisclosed
07/05/17	Atlanta Property Group LLC	Office Property Portfolio	Real Estate; Mortgage Bankers and Brokers	undisclosed
07/06/17	Atlas Real Estate Group LLC	ESR Management LLC	Real Estate; Mortgage Bankers and Brokers	undisclosed
07/10/17	Audax Group LP	EnviroVac Industrial Cleaning	Business Services	undisclosed
07/11/17	AudienceView Ticketing Corp	TheaterMania.com Inc	Business Services	undisclosed
07/25/17	Avalign Technologies Inc	Thortex Inc	Measuring, Medical, Photo Equipment; Clocks	undisclosed
07/10/17	Axum Capital Partners	Back Yard Burgers Inc	Retail Trade-Eating and Drinking Places	undisclosed
07/26/17	Basemakers LLC	Essen LLC	Business Services	undisclosed
07/20/17	Battery Ventures LP	Aed-Sicad AG	Prepackaged Software	undisclosed
07/18/17	Bay Alarm Co	Bonds Alarm Co Inc	Business Services	undisclosed
07/06/17	BDS Marketing Inc	WOW!BRANDS LLC	Advertising Services	undisclosed
07/12/17	Beaver-Visitec International	Vitreq BV	Measuring, Medical, Photo Equipment; Clocks	undisclosed
07/01/17	Berdon LLP	Koch Group & Co LLP	Business Services	undisclosed
07/19/17	Black Bay Energy Capital LLC	ADS Services LLC	Measuring, Medical, Photo Equipment; Clocks	undisclosed
07/25/17	Black Beret Life Sciences LLC	Okyanos Operating Co Ltd	Health Services	undisclosed
07/24/17	Blackstone Group LP	Clarion Events Ltd	Amusement and Recreation Services	undisclosed
07/06/17	Blend a Catering Co	Great Thyme Catering	Retail Trade-Eating and Drinking Places	undisclosed
07/10/17	Blue Rose Capital Advisors	Cityview Capital Solutions LLC	Investment & Commodity Firms,Dealers,Exchanges	undisclosed
07/18/17	BlueLine Rentals LLC	Capital Rentals Inc	Business Services	undisclosed
07/18/17	Boston Consulting Group	MAYA Design Inc	Business Services	undisclosed
07/19/17	Boyne Capital Partners LLC	AmeriBest Home Care Inc	Health Services	undisclosed
07/05/17	Bradford Health Services LLC	Red Oak Recovery LLC	Health Services	undisclosed
07/10/17	Bridgestone HosePower LLC	Fittings Inc	Metal and Metal Products	undisclosed
07/13/17	Briggs Equipment LLC	MacKinnon Equip & Svcs Inc	Wholesale Trade-Durable Goods	undisclosed
07/05/17	Brightree LLC	AllCall Connect LLC	Prepackaged Software	undisclosed
07/11/17	Brightworth LLC	McGill Advisors Inc	Investment & Commodity Firms,Dealers,Exchanges	undisclosed
07/27/17	Brite Media Group LLC	Clean Zone Marketing Inc	Advertising Services	undisclosed

Source : Thomson Reuters

Editor's Note:

To measure activity in the middle market, Mergers & Acquisitions looks at transactions that fulfill several requirements: Deals must have a value of roughly \$1 billion or less, or an undisclosed value; they must be completed (not just announced) within the timeframe designated; and they must include at least one U.S. company in the role of buyer and/or seller. Excluded from

our charts are: recapitalizations; self-tenders; exchange offers; repurchases; stake purchases; and transactions with undisclosed buyers or sellers. Our data provider is Thomson Reuters, which updates its databases continuously. We use the data available at press time. Data for this chart was collected on Aug. 2, 2017.

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