MERGERS & ACQUISITIONS

THEMIDDLEMARKET.COM

JANUARY 2019

'STEP FORWARD SPEAK UP AND LEAD'

The 2019 Most Influential Women in Mid-Market M&A

SourceMedia™

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Contents

January 2019 | VOL. 54 | NO. 1

'DON'T LET OTHERS DEFINE WHAT YOU CAN AND CAN'T DO.'

Mary Josephs

FOUNDER, CEO, VERIT ADVISORS

Most Influential Women

Meet 36 women who are outstanding dealmakers both inside and outside of their firms in the fourth installment of Mergers & Acquisitions' list.

Today, interest in women's issues is high, as is clear by the record number of women heading to the U.S. Congress. The momentum is fueled, at least in part, by the #MeToo movement against sexual harassment and sexual assault, although it is facing something of a backlash at the moment. Some men in the financial services sector are reacting by avoiding women, as Bloomberg News recently reported. But many women in the middle market are stepping up and recommitting to helping each other.

"We launched Exponent Women to reinforce the value of bringing together women in financial services. We exchange connections, information and ideas to help one another succeed," explains Michelle Van Hellemont, managing director of Accordion and a founding member of Exponent Women. At a recent event, 200 female dealmakers came together, with banker-turned-entrepreneur Sallie Krawcheck as the featured speaker.

DIANA FABRICANTE

Nanette Heide, Michelle Van Hellemont

Recruiting women has become more of a priority at private equity firms. Eighty-three percent of private equity managers based in North America, Asia and Europe say they have focused on increasing gender diversity in their front-office roles over the last decade, according to new research from EY.

Van Hellemont and Duane Morris' Nanette Heide are among 36 dealmakers highlighted in our special report. Advice for women? "Step forward, speak up and lead," says Goodwin's Anna Dodson, on our cover. **M&A**

– Mary Kathleen Flynn

MERGERS & ACQUISITIONS

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CAPITAL PARTNERS

92%
DEALS LEAD/CO-LEAD ARRANGER

$8.4B
COMMITMENTS ISSUED TO DATE

278
CLOSED TRANSACTIONS
since 4th quarter 2014 inception

$265,000,000
GLADSON
Administrative Agent
October 2018
THE JORDAN COMPANY

$63,000,000
COVERCRAFT SINCE 1965
Administrative Agent
October 2018
CENTURY PARK CAPITAL PARTNERS

Undisclosed
PTI P.T. INTERNATIONAL
Administrative Agent
October 2018
INCLINE EQUITY PARTNERS

$77,000,000
GUY & O'NEILL
Administrative Agent
October 2018
CENTREPARTNERS

$70,000,000
ai applied insight
Administrative Agent
October 2018
ACACIA

Undisclosed
GAYLORD CHEMICAL
Administrative Agent
October 2018
EAGLETREE CAPITAL

Undisclosed
BROWN MACHINE GROUP
Administrative Agent
October 2018
INDUSTRIAL GROWTH PARTNERS

$120,000,000
CADARETGRANT
Administrative Agent
October 2018
Supported by Lee Equity Partners, LLC
ATRIA Wealth Solutions

Undisclosed
medicus healthcare solutions
Co-Lead Arranger
October 2018
BEECKEN PETTY O'KEEFE & COMPANY

$56,000,000
Probo Medical
Administrative Agent
September 2018
VARSITY HEALTHCARE PARTNERS

$122,000,000
Rock
Administrative Agent
September 2018
VISTRIA

$35,000,000
IdealOption
Administrative Agent
September 2018
VARSITY HEALTHCARE PARTNERS

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What's going on @ TheMiddleMarket.com

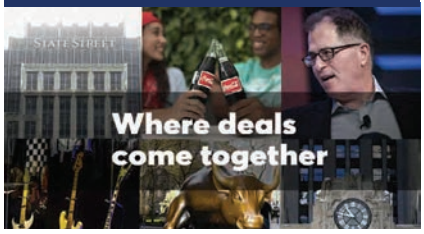
Video

BLOOMBERG NEWS

Mid-market firms give back

At many mid-market firms, volunteer work represents an opportunity to bring teams together. At Baker Tilly Capital, August 1st is Stewardship Day, says Judit Nagy-Eichelber of boutique investment bank, in a video interview shot at ACG Philadelphia's M&A East.

Listicle



BLOOMBERG NEWS

15 cities where M&A thrives

From Austin (where Michael Dell launched a PC business out of his dorm room back in the day and where thousands gather every year for SXSW) to St. Louis (home of private equity firm Thompson Street Capital Partners).

Video

BLOOMBERG NEWS

Conversation with Lorine Pendleton

"Companies that are inclusive and also diverse tend to outperform companies that aren't," says investor Lorine Pendleton of Pipeline Angels and Portfolia in a video interview shot at Exponent Exchange, a gathering of 200 female dealmakers.

CROSSPLANE CAPITAL

A good time to launch

A group led by former Prophet Equity MDs seeks to "build great businesses"

By Demitri Diakantonis and Mary Kathleen Flynn

A new Dallas private equity firm founded by former managing directors of Prophet Equity has launched. Crossplane Capital is making control investments in niche manufacturing, value-added distribution and industrial business services companies with up to $200 million of revenue. The firm was co-founded by partners Ben Eakes and Brian Hegi, both of whom served previously at Prophet. Rounding out the leadership team are managing director Mike Sullivan, who also hails from Prophet, and operating partner Ingrid West, who previously served as president of Acton Mobile, a modular office rental company backed by Prophet and sold to Williams Scotsman in 2017.

"With experience at top private equity and professional services firms, including Prophet Equity, AlixPartners, Bain & Company and Houlihan Lokey, and as executives within leading industrial businesses, including Danaher and Acton Mobile, our well-rounded team brings a proven value-creation playbook to family-owned businesses and companies involved in complex transactions," says Eakes. "Hand in hand with management, we will seek to build great businesses through prudent networking capital management, rigorous cost optimization and thoughtful revenue growth."

"We are excited to launch Crossplane with such an experienced, cohesive and complementary team that fosters a collaborative and empowering culture and places investors' best interests at the forefront of all decisions," adds Hegi. "This is the DNA of Crossplane Capital, and we look forward to collaborating with each of our future portfolio companies to help accelerate cash flow improvement and create lasting competitive advantages." The Crossplane team has been previously involved in more than 75 transactions.

BOJANGLES'

PE firms crave fast food

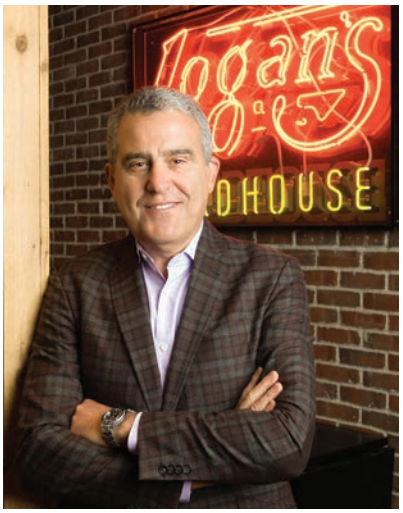
Bojangles' is known for biscuit breakfast sandwiches that are served all day

The Jordan Co. and Durational Capital Management are buying fast food restaurant chain Bojangles' Inc. (Nasdaq: BOJA) for about $593 million. Bojangles' is known for its Southern-style menu such as made-from-scratch biscuit breakfast sandwiches that are served all day and bone-in hand-breaded chicken. The company operates about 766 restaurants.

"We are excited to invest in a company with such great growth potential, and we believe that with our partners' support, Bojangles' will be well-positioned for long-term success," says Jordan Co. partner Ian Arons. The Jordan Co. is a middle-market private equity firm that focuses on the consumer, industrials, healthcare and logistics sectors.

Durational is a consumer-focused investment firm. Fast-food restaurants are attracting busy consumers and buyer attention. In 2018, Roark reached a deal to buy Sonic Corp. and in 2017, Oak Hill Capital Partners bought Checkers Drive-in Restaurants.

BofA Merrill Lynch, Houlihan Lokey Inc. (NYSE: HLI) and Shearman & Sterling LLP are advising Bojangles'. Citigroup Global Markets Inc.; Akin, Gump, Strauss & Feld LLP; Kirkland & Ellis LLP; and Seyfarth Shaw LLP are advising the buyers. KKR Capital Markets is providing financing.



LOGAN'S ROADHOUSE

PE firms dine out

Hazem Ouf says the deal will "drive excellence in service and quality within a scalable full-service dining platform"

Centerbridge Partners-backed CraftWorks Restaurants & Breweries has acquired steakhouse chain Logan's Roadhouse. The combined company is called CraftWorks Holdings and is being led by current Logan's CEO Hazem Ouf (pictured).

CraftWorks operates 189 breweries and craft-beer focused casual dining restaurants under the Old Chicago Pizza & Taproom, Rock Bottom Restaurants & Breweries, Gordon Biersch Brewery Restaurants, and Big River Grille & Brewing Works brands.

"We believe that our cumulative restaurant industry experience, the company's extensive infrastructure, and the financial strength of our investors will allow us to drive excellence in service and quality within a scalable full-service dining platform," Ouf says in a written statement. Logan's Roadhouse operates 204 restaurants. Centerbridge has experience in the restaurant sector. In 2018, one of the PE firm's portfolio companies, True Food Kitchen, received an investment from Oprah Winfrey.

ADOBE STOCK

Gaining data for strategic buyers

ResMed remains active in dealmaking in healthcare software

ResMed (NYSE: RMD) has paid $750 million to acquire privately held MatrixCare, a provider of U.S. long-term post-acute care software, serving more than 15,000 providers across skilled nursing, life plan communities, senior living and private duty. The care settings are complementary to ResMed's current software-as-a-service (SaaS) offerings in home medical equipment,

home health and hospice, delivered through Brightree and Healthcarefirst, according to ResMed.

"By establishing a technology footprint across these major care settings, ResMed will drive an integrated ecosystem of solutions, such as maintaining single-patient records across multiple care settings, generating analytics and insights that can be applied to individuals and whole populations, and streamlining processes for healthcare providers across the care continuum," said Raj Sodhi, ResMed SaaS president, in a statement. ResMed is funding the deal primarily with its credit facility. In calendar year 2018, MatrixCare pro-forma net revenue is estimated to be approximately $122 million, with a pro forma Ebitda of approximately $30 million. MatrixCare CEO John Damgaard is expected to continue in his current role, reporting to Sodhi.

ResMed is an active acquirer. The company agreed in May to buy Healthcarefirst, a provider of software and services for home health and hospice agencies. The MatrixCare deal comes on the heels of ResMed's recent first-quarter earnings announcement on Oct. 25, when the company reported revenue of $588.3 million and GAAP diluted earnings per share of $0.73, surpassing expectations.

Selling cookies

Kellogg puts Famous Amos on the block to concentrate on growing core brands

In an effort to better compete and focus on core brands, Kellogg Co. (NYSE: K) is selling the company's cookies and fruit snacks businesses, including the Keebler, Famous Amos, Mother's, Murray and Stretch Island brands. Kellogg is known for the Kellogg's, Corn Flakes, Frosted Flakes, Eggo, Mini-Wheats and Pop-Tarts brands.

BLOOMBERG NEWS

"Kellogg Company's deploy for growth strategy, announced earlier this year, calls for the company to sharpen our focus and align our resources around our biggest opportunities to grow our top line and return to long-term sustainable growth," says Kellogg CEO Steve Cahillane. "We need to make strategic choices about our business and these brands have had difficulty competing for resources and investments within our portfolio. Ultimately, we believe these changes will make Kellogg more agile and better focused on growing demand for our foods."

A number of consumer companies are divesting brands to focus on core businesses. Newell Brands Inc. (NYSE: NWL) recently reached deals to sell its Pure Fishing division and the Jostens brand. Campbell Soup Co. (NYSE: CPB) has hired Goldman Sachs (NYSE; GS) and Centerview Partners to divest its Campbell International and Campbell Fresh businesses, including the Arnott's, Bolthouse Farms and Garden Fresh Gourmet brands.

BRISTOW GROUP

Flying high with aerospace deals

Helicopter companies are consolidating to pursue long-term growth strategies

Aviation company Bristow Group Inc. (NYSE: BRS) is acquiring privately-held Columbia Helicopters Inc. for $560 million. The target operates a fleet of 21 helicopters that are used in rescue operations, charter and heavy-lift services by the construction, defense, infrastructure, firefighting, forestry and oil and gas industries.

"We share a long-standing, proven commitment to safety and Columbia's specialized heavy-lift capabilities are highly complementary to Bristow's offshore capabilities," says Bristow CEO Jonathan Baliff. The deal presents opportunities to leverage the combined company's fleet, maintenance, repair and overhaul capabilities, and certificates, to expand market opportunities

globally, adds Baliff.

The transportation sector, including helicopter companies, is seeing consolidation as companies seek partners to help them pursue long-term growth strategies. In 2018, Cortec Group acquired a stake in shuttle services company Groome Holdings and in 2017, American Securities paid $2.5 billion for medical transportation provider Air Methods Corp. Jefferies, Baker Botts and Wachtell, Lipton, Rosen & Katz are advising Bristow. Greenhill & Co. and Tonkon Torp LLP are advising Columbia. Jefferies is providing financing.

Driving M&A in auto parts

Car parts manufacturer Holley Performance has a portfolio of "powerful brands"

Sentinel Capital Partners has acquired auto parts maker Holley Performance Products from Lincolnshire Management and will combine the target with Driven Performance Brands. Sentinel formed the latter in 2015.

HOLLEY PERFORMANCE PRODUCTS

Holley manufactures fuel injection systems, engine tuning systems, carburetors and exhaust systems under the Holley, Sniper EFI, MSD, Accel, Diablosport, Superchips, Edge, and Hooker Blackheart brands. Driven produces

mufflers, exhaust kits, transmission kits and shifters under the Flowmaster, B&M, Hurst, APR, and Dinan brands.

"Holley is a strong, consumer-focused company with a portfolio of powerful brands and a meaningful edge in engineering and technology," says Sentinel partner Jim Coady. "Holley operates in the large, highly-fragmented, and steadily growing automotive enthusiast market."

Sentinel is a lower middle-market private equity firm that invests in businesses that have up to $65 million in Ebitda across the business services, consumer, industrials and restaurant sectors. Earlier in 2018, the firm raised about $2.5 billion across two funds. Lazard Middle Market, UBS Investment Bank and Kirkland & Ellis advised Holley.

Investing in the next generation of sports

Axiomatic, led by CEO Bruce Stein, seeks to capitalize on growth in e-sports

A group led by Michael Jordan and Carlyle Group LP (Nasdaq: CG) co-founder David Rubenstein have invested in e-sports and video game startup Axiomatic, which is led by CEO Bruce Stein (pictured). Rubenstein is investing through his family office Declaration Capital. Jordan, who owns the NBA's Charlotte Bobcats, won six championships playing for the Chicago Bulls in the 1990s.

Axiomatic was started in 2015 to

BLOOMBERG NEWS

capitalize on the e-sports industry, which features professional video-game players competing for prize money in front of large audiences. In 2016, Axiomatic acquired a controlling stake in Team Liquid, another e-sports company.

"The next generation of sports fans are e-sports fans," says Axiomatic co-chairperson Ted Leonsis, who also owns the NBA's Washington Wizards and the NHL's Washington Capitals. "E-sports is the fastest-growing sector in sports and entertainment, and Axiomatic is at the forefront of that growth."

The e-sports industry is expected to generate about $906 million in revenue in 2018, according to research firm Newzoo. Also joining Jordan and Rubenstein on the investment are: Peter Guber, part-owner of the Golden State Warriors and Los Angeles Dodgers; Jeff Vanik, owner of the NHL's Tampa Bay Lightning; and Bruce Karsh, co-founder of Oaktree Capital. Jordan is also an investor in hiring startup Gigster, headphone maker Muzik and sports data firm Sportradar.

Why investors like government software

LLR has been busy since it raised $1.2 billion fund

LLR Partners has made a growth capital investment in government software company Edmunds & Assoc. Edmunds, founded in 1972, offers software services to local governments that it claims are easy to use. The company works with more than 850 government agencies across 13 states.

Investing across the board

PE firm LLR Partners, which raised its fifth fund in 2018, backs companies in a variety of industries

- Raises $1.2 billion fund
- Invests in Edmunds & Associates
- Backs Edlio
- Acquires stake in Montgomery & Riddle Eyecare
- Funds merger of Phishlabs and BrandProtect

Source: Mergers & Acquisitions

"With LLR as our partner, we now have access to value-added resources that will help us continue to innovate our software, scale service and support, and seek out other like-minded, customer-centric businesses to partner with as we grow," says Edmunds CEO Bob Edmunds. The government software space is attractive to investors because government agencies typically hold on to old software systems longer than most companies and are slower to replace them.

LLR has recently made investments in businesses across other sectors such as: Edlio, a community engagement services provider for K-12 public, private

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Wednesday, January 16, 2019

5:30 PM – 8:00 PM

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Dealmakers Marketplace – Main Event
5:30 PM – 8:00 PM

Early Bird (ends 11/30) - Members $195/ Non-Members $325
Regular (after 11/30) - Members $275/ Non-Members $395
(PRICING INCLUDES MAIN EVENT ONLY)

Pre-Reception & Main Event
(LIMITED TICKETS AVAILABLE - SIGN UP TODAY!)
4:30 PM – 8:00 PM

Early Bird (ends 11/30) - Members $250/ Non-Members $350
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CENTURY PARK CAPITAL PARTNERS
CHARTWELL
CLEAR LIGHT PARTNERS
CONVERGENT CAPITAL
GEN CAP AMERICA
L SQUARED CAPITAL PARTNERS
MB BUSINESS CAPITAL
NORTHERN TRUST
OFS CAPITAL
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and charter schools; Montgomery & Riddle Eyecare and the Surgery & Laser Center at Professional Park. LLR also led round of growth capital funding in the merger of cybersecurity firms PhishLabs and BrandProtect. In 2018, LLR raised $1.2 billion for its fifth fund.

LITTLE FREDDIE

Keeping up with consumer demands

Hillhouse and VMG form partnership to co-invest in consumer brands such as Little Freddie

VMG Partners and Hillhouse Capital have invested in European organic baby food maker Little Freddie. The target makes cereals, pouches and snacks and states that its "mission is to make it easier for parents to access organic and nutritious baby food options for their children."

Little Freddie was founded in 2014 by husband and wife team Piers Buck and Taslim Ho. According to the company, Piers personally visits farms to check on the ingredients that go into Little Freddie products. "Little Freddie is a high-quality, trusted brand, that has tremendous potential in Asia and other parts of the world as parents have become increasingly savvy about what they feed their children," says Cao Wei, Hillhouse Capital partner. "We strongly believe that brands able to identify and meet unique and unmet consumer needs will excel in the new and rapidly changing retail landscape."

The deal is part of a strategic partnership between Hillhouse and VMG where they will co-invest in consumer brands. The two firms have allocated up to $100 million toward investments in the sector. Consumers are opting for healthier food products and that is driving M&A activity. The Hershey Co. (NYSE: HSY) bought Pirate Brands for $420 million and ThinkThin snack maker Glanbia plc is buying the iconic SlimFast meal-replacement brand from Kainos Capital for $350 million.

BLOOMBERG NEWS

Betting on growth in Detroit

Dan Gilbert's Jack Entertainment owns a number of casino properties under the Jack Brand

Casino operator Penn National Gaming Inc. (Nasdaq: Penn) is buying the operating assets of Greektown Casino-Hotel in Detroit from Dan Gilbert's Jack Entertainment for $300 million. Separately, VICI Properties is acquiring the land and real estate assets of Greektown for about $700 million. Gilbert is the founder of lending and financial services company Quicken Loans Inc. He is also the majority owner of the NBA's Cleveland Cavaliers. Jack Entertainment is a gaming and hospitality company that owns properties in Cincinnati, Cleveland and Detroit under the Jack brand, along with the Horseshoe Baltimore and Kentucky Turfway Park.

"Our purchase of Greektown Casino-Hotel five and a half years ago, soon after its bankruptcy, allowed us to work with the great team at the property to create a winning culture and a vibrant business," says Gilbert. "The sale to Penn National and VICI Properties will allow that strong trajectory to continue and provide additional capital to continue our strategic investments in our Detroit real estate and business initiatives." Penn National owns 40 casinos under the Ameristar, Boomtown Casino and Hollywood Casino brands. Paul, Weiss, Rifkind, Wharton & Harrison LLP is representing Jack Entertainment.

In another gaming deal, industry veterans Ron Winchell and Marc Falcone are buying horse racing and betting track Kentucky Downs. Falcone is the former chief financial officer of Red Rock Resorts, and he previously focused on the gaming and hospitality sectors at Goldman Sachs & Co. (NYSE: GS) and Deutsche Bank Securities. Winchell oversees his family's horse racing and breeding operations in Kentucky.

FLEET COMPLETE

OTPP joins Madison Dearborn to back auto tech maker

Fleet Complete works with car makers, such as General Motors and Toyota, to embed the company's technology in vehicles

Ontario Teachers' Pension Plan is acquiring a stake in vehicle technology provider Fleet Complete from Madison Dearborn Partners, which retains a stake. The target offers vehicle tracking, video and audio recording, along with driver management software. Fleet Complete has 500,000 customers and serves 30,000 businesses across the globe. The company installs software directly on vehicles, and also works with car makers, such as General Motors Co. (NYSE: GM) and Toyota, to embed the company's technology in vehicles.

"Fleet Complete has a proven track record of robust growth, underpinned by its successful global expansion strategy and product innovation," says Jane Rowe, senior managing director at the pension.

Auto technology makers are receiving buyer interest. For instance, in 2017, Ingersoll-Rand plc (NYSE; IR) reached a deal to acquire GPSi Holdings LLC from Falconhead Capital. GPSi makes GPS

devices and real-time engine diagnostic systems. Lazard, Barclays, Kirkland & Ellis and Dentons Canada are advising Fleet Complete and MDP. Torys LLP is representing OTPP.

BLOOMBERG NEWS

Diversifying business lines

Energizer is buying the Nu Finish Car Polish and Nu Finish Scratch Doctor brands along with STP

Battery maker Energizer Holdings Inc. (NYSE: ENR) is buying Spectrum Brands' global auto care business, including the A/C Pro, Armor All, and STP brands, for $1.25 billion. Spectrum CEO David Maura says the targets are a "terrific complement to Energizer's existing auto care business, and they have the resources and capabilities to increase investment to further grow the business."

Spectrum Brands is a diversified consumer products company that sells batteries, residential hardware and pet supplies. In addition to Energizer batteries, Energizer has an auto care division that consists of car fresheners and polishes, including Refresh Your Car!, California Scents, Driven, Bahama & Co., Lexol and Eagle One brands.

In 2018, Energizer reached a deal to buy the Nu Finish Car Polish and Nu Finish Scratch Doctor auto care products from consumer company Reed-Union. RBC Capital Markets, Credit Suisse, and Paul, Weiss, Rifkind, Wharton & Garrison LLP are advising Spectrum. Evercore Inc. (NYSE: EVR) and Bryan Cave Leighton Paisner LLP are advising Energizer. Barclays, Citi and JPMorgan (NYSE: JPM) are providing financing.

Cybersecurity is important to buyers

BlackBerry is diversifying to focus on tech and software

BlackBerry Ltd. (NYSE: BB) is buying cybersecurity company Cylance for $1.4 billion. Cylance's software is designed to protect mobile and connected devices from cyber attacks. More than 3,500 businesses use Cylance's technology, including one fifth of the Fortune 500 companies. The deal will expand BlackBerry's software services while growing Cylance's global presence.

"We are eager to leverage BlackBerry's mobility and security strengths to adapt our advanced AI technology to deliver a single platform," says Stuart McClure, Cylance co-founder. Cylance is backed by Kholsa Ventures, Insight Venture Partners and Blackstone Tactical Opportunities Fund.

In recent years, BlackBerry has been diversifying to focus on more technology and software, including cybersecurity, and less on mobile devices. In 2016, the company bought cybersecurity firm Encription. Demand for new and improved cybersecurity offerings, in some cases spurred by well-publicized data breaches and ransomware attacks, has created a healthy appetite for M&A with cybersecurity-related companies. LLR Partners invested in PhishLabs and Thoma Bravo-backed Centrify. Perella Weinberg Partners and Morrison Foerster are advising BlackBerry. Morgan Stanley and Jones Day are advising Cylance.

Private credit attracts investors

The returns appeal in a low-yield environment

Monroe Capital has raised $1.3 billion for its third private credit fund. The fund, which received commitments from 50 new institutional investors, is Monroe's 17th investment vehicle since the firm was founded in 2004. The fund will invest in private credit transactions originated and underwritten by Monroe, and will have more than $2.5 billion of buying power or capital available for investment.

"Private credit is an appealing area for institutional investors due to the ability to generate consistent absolute returns in a low yield environment," says Monroe CEO Ted Koenig. "Investors have many choices in this space, many of which are recently created firms." The fund will target mainly private equity sponsored and non-sponsored private credit transactions with companies that have up to $35 million in Ebitda. Monroe recently raised $476 million for its seventh CLO fund. Fundraising activity is robust. Audax Group recently raised $3.5 billion and Center Rock Capital raised $580 million. **M&A**

ADOBE STOCK

Staying close to home

Geopolitical uncertainty and rising protectionism in some key markets may increase domestic deals, while cross-border M&A may decline in 2019.

By Mary Kathleen Flynn

Domestic dealmaking may rise in 2019, as companies and investors look closer to home for M&A opportunities because of geopolitical uncertainty and rising protectionism in some key markets, finds "Present Perfect, Future Tense: Exploring M&A," a report by Squire Patton Boggs in association with Mergermarket.

"The M&A trends identified in the report look set to continue broadly through 2019: liquidity in the system remains high, with strong availability of debt from banks, bond markets and private debt funds," says a summary of the findings. "However, deal values and volumes could be more affected by the protectionism and shifting policies, which are already having an impact on Chinese and U.S. outbound M&A. Also, the continued uncertainty around Brexit may dampen some appetites for U.K. assets, as the March 2019 deadline approaches. On the other hand, continental Europe may well attract more investor attention, and high growth in India, and economic and corporate governance reforms in Japan suggest these markets could account for an increasing share of global M&A."

Based on the report's data through the end of the third quarter, there were 13,820 deals announced worth $2.8 trillion, making for a potentially record-breaking year for deal value. "Current high liquidity, low interest rates, technological transformation, rising corporate profitability and strong private equity fundraising have contributed to almost perfect conditions for dealmaking activity globally so far in 2018," Squire Patton Boggs corporate partner Tony Reed says.

In terms of regional activity, inbound and outbound M&A values for North America through September saw declines of 24 percent to $163.7 billion and 5 percent to $276.9 billion respectively, compared with the same period the previous year, although domestic deals saw an increase of 44 percent. Asia Pacific outbound activity increased by 124 percent to $245.5 billion. European inbound investment saw a sharp rise, up 38 percent to $383.3 billion.

Looking at industries, tech was hot in 2018, thanks to the global development of disruptive technologies. Technology, media and telecommunication (TMT) was one of the most active sectors for transactions, accounting for 19 percent of the value of M&A deals globally in the first three quarters of 2018, coming in behind energy, mining and utilities (where transactions tend to be much larger in size), finds the report. **M&A**

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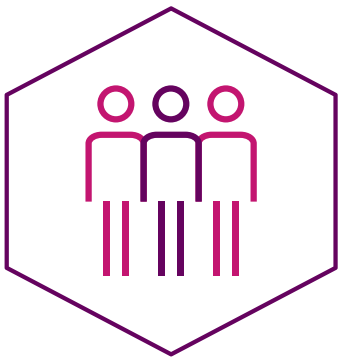

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Traffic congestion

Consumers want to get to their destinations faster, driving companies like Ford to invest in scooter-sharing startups.

By Demitri Diakantonis

Ford Motor Co. (NYSE: F) has acquired scooter-sharing company Spin. The deal comes as more commuters use alternative transportation options to get to work and other places more quickly and less expensively. Scooters help "reduce urban traffic congestion, parking limitations and pollution," according to Ford. "The fast-paced, often experimental mobility sector requires businesses to keep up with agile and adaptable customers," Ford adds in a release. "Spin is working hand-in-hand with cities and universities to implement micro-mobility solutions responsibly, safely and sustainably as they expand their operations."

The number of mobility options available to people has risen dramatically in recent years. In some situations, people use multiple forms of transportation during a single trip. The fast-paced, often experimental mobility sector requires businesses to keep up with agile and adaptable customers, says Ford. In 2018, Ford created Ford X, a division within Ford Smart Mobility, LLC that aims to quickly build, acquire and pilot new transportation products and services.

In other related deals, Grin, the Mexico City-based electric scooter company backed by Y Combinator, is merging with São Paulo-based Ride to further the company's expansion across Latin America. Lyft has acquired Motivate, the bike-sharing company that operates Citi Bike in New York City, Ford's GoBike program in San Francisco, Divvy in Chicago, Blue Bikes in Boston and Capital Bikeshare in Washington, D.C.

"Lyft and Motivate have both been committed for years to the same goal of reducing the need for personal car ownership by providing reliable and affordable ways to move around our cities," says Lyft co-founder John Zimmer. In 2017, 80 percent of the bike share trips in the U.S. were on Motivate-operated systems, according to Lyft.

Lyft and GreatCall

In 2018, Lyft announced a partnership with GreatCall, a provider of emergency response services for seniors, to roll out GreatCall Rides. Under the Jitterbug and Lively Label brands, GreatCall makes wearable devices that connect to services with trained agents who answer questions, dispatch emergency personnel and reach family caregivers.

GreatCall Rides offers an easy-to-use and affordable option, helping older adults get around. Customers just have press "0" on their Jitterbug phones and tell GreatCall's personal operator service where they want to go.

"While ride sharing services for this age group are often seen as a way to get to medical appointments, our customers use it for much more – staying connected with friends and family and participating in the activities they love," said David Inns, CEO of GreatCall. Tech retailer Best Buy Co. (NYSE: BBY) bought GreatCall from GTCR for $800 million in 2018. **M&A**

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'STEP FORWARD SPEAK UP AND LEAD'

The 2019 Most Influential Women in Mid-Market M&A

Gender equality in the middle market is still a work in progress. But firms have ramped up recruiting efforts, and the results are starting to show in the senior ranks. Here are 36 women who are leading that charge.

By Mary Kathleen Flynn

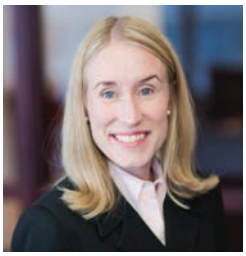
Marilyn Adler

Senior managing director,
Medley Capital

What is your current role? I have been running SBIC funds for over 22 years. I founded Medley SBIC six years ago. Every week, I seek interesting deals for my fund. I analyze the company's financials and try to understand most of all what the downside risk will be to a debt investor in the deal. I conduct meetings with industry experts and with my network of relationships that I have built up over 30 years.

Describe a challenge you overcame. When I started a family I wanted to work a more flexible schedule. The large firm I was working with was not able to accommodate me. I left to work at a two-person startup venture fund that would not have been able to afford someone with by background on a full-time basis. It worked for them, and it worked for me.

How do you support women? I am a founding member of Exponent Women, a networking group for women in finance to help each other. I am on the Board of SBIA and active in UJA's Women of Wall Street and Private Equity Women's Investor Network and ACG.



Laura Albrecht

Managing director,
Maranon Capital

Describe a recent deal. In 2018, I led Maranon's senior credit facility to support the recapitalization of Culinarte' Marketing Group LLC (dba "Bonewerks") by Kainos Capital. Maranon invested in a market leader with a clear value proposition to discerning chefs. We were also excited that the premium product exhibited the prevailing trend of clean label that consumers continue to demand in the marketplace.

How do you support women? I lead our deal team staffing function, diversity recruiting efforts and staff development and training function. I play a key role in fostering Maranon's culture and talent development and have been a champion for increasing gender and racial diversity. Today the Maranon team includes ten women and minorities in key positions in investment management, fundraising, financial reporting and administration.

What is your advice for women? To be your authentic self – live true to your individual yearnings, values and personality to break through group pressures or gender perceptions. It could mean pursuing a less traditional path or being the voice of dissension – all while wearing those sassy heels.

Susan Beth

Chief operating officer,
NRD Capital

Describe a challenge you overcame. I spent the first 37 ½ years of my life in a family business, and 14 years of my professional career. The decision to take a risk and leave the family business to help my colleague start NRD Capital was quite the challenge. At the end of the day, I knew I was being called to do more, so I took the leap knowing I might fail, but being more afraid of not trying at all.

How has a mentor helped your career? Years ago, Fred DeLuca, the Founder of Subway, asked me what I loved to do and I said, "I love that moment when I'm on stage, look out and see that something I said made a difference to someone." He said, "Then why don't you go do that?" Ultimately, he challenged me to start my own professional speaking business and mentored me through the whole startup process. My first official professional speaking gig was at the Subway worldwide convention.

What is your advice for women? Envision what Utopia would look like for you, and then work backwards from there.

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Sarah Bradley

Co-founder, partner,
Kainos Capital

How has a mentor helped your career? Hal Ritch, former Head of M&A at DLJ and Citigroup, and Tony James, former Head of Investment Banking of DLJ and former CEO of Blackstone, made a huge difference in my career. They were huge supporters of developing talent in the industry and were truly gender-blind.

What is your advice for women?
1. Actively lobby and ask from day one to work on deals, so you can gain dealmaking experience early in your career. Too often, women are steered into functions like marketing, business development, and investor relations – the "softer side" where it is easier to place a female. The excuse often used is that the females don't have the deal experience of their male counterparts. That is why you must be an advocate for yourself and work on deals from the very beginning.
2. Take risks. It is okay to make a mistake or even fail. It will not ruin your career.
3. If you have a seat at the table, talk, give your opinions and speak up. If you don't, there is no reason to be in the room.

Holly Buckley

Partner,
McGuireWoods

How did you get into dealmaking? I started my legal career as a healthcare regulatory attorney. At an early point, I assisted with a merger of two healthcare facilities, and it became clear to me that the pace and complexity of healthcare transactions was exciting and a space where I wanted to spend my professional life.

What is your current role? I spend most of my time providing regulatory support to private equity sponsors acquiring healthcare businesses. I am the co-leader of the Healthcare & Life Sciences Industry Team and a co-chair of our annual Healthcare and Life Sciences Private Equity and Finance Conference.

How do you support women? I am actively involved in hiring for my department and the broader private equity group within the firm. I have hired and mentored many women in this field. I am part of the McGuireWoods Women in Private Equity and Finance Initiative, which promotes the advancement of women in private equity and lending through a series of industry-focused events that provide substantive educational and networking opportunities.

What is your advice for women? Be direct and persistent when asking for what you want.

Claudine Cohen

Principal,
CohnReznick

Describe a challenge you overcame. After a successful career in South Africa, I relocated to America. My first position here set my career back 10 years. That was a bitter pill to swallow, and my confidence took a hit. I had to prove myself again, so I put my head down and focused on my work and those things within my control. I listened, learned and found a mentor to provide guidance and advice--all of which helped fast-track my career.

What is your current role? I lead the firm's Transactional Advisory Services practice in the Northeast and co-lead our national Financial Sponsors industry practice. I am particularly proud of working with another partner to form the Partner Advisory Council, a forum to communicate ideas and suggestions to firm leadership.

Describe your influence on the middle market. I made a concerted effort to build relationships within the independent sponsor community, an underserved yet growing asset class. I enjoy introducing my independent sponsor clients to my family office and private equity clients. As Chair for ACG New York's Women of Leadership, I work with an outstanding group of people.

Jennifer Cotton

Managing director,
chief underwriting officer,
Madison Capital Funding

What is your current role? I am responsible for all aspects of Madison's underwriting process, including diligence, structuring and documentation, all of which is handled by a very experienced group of 7 team leaders and 38 underwriters. I am also a member of our Investment Committee and our Senior Leadership Team.

How has a mentor helped your career? My earliest mentor was Martha Every, with whom I worked at the University of Rochester (my alma mater). She was impressive and held a high-ranking position. She had a real "presence," and I could tell early on that the expectations she set drove high-quality results. And if she was ever bothered by being one of a small number of women in the room, she didn't appear to acknowledge it. She was a working mother with two young children – and though she had her MBA, she was working on her EdD. I didn't realize it at the time, but what resonated most with me was her drive to succeed, her quest to continue learning and her ability to balance a successful career with a busy family life.

Nishita Cummings

Partner,
Kayne Anderson Capital Advisors

Describe a challenge you overcame. Starting a private equity fund is very hard to do. Having been part of the growth equity strategy here since its inception in 2010, I've lived through all of the struggles: fundraising for a new vintage, the high-wire act of investing in your first companies, which need to succeed, and attracting talent to a startup. We overcame all of these by defining a clear strategy and had the right team in place to execute.

Describe a recent deal. I led our investment in Circle Cardiovascular Imaging. Circle's software enables doctors to review and analyze cardiac imaging more effectively and efficiently so that physicians can spend more time providing value-based care, a current revolutionary theme in the healthcare market. This company embodies the continued trend of technology augmenting healthcare by solving complicated problems. It's also a model investment: demonstrable ROI to the end user, proven management team, and a highly scalable business model.

How do you support women? In an industry where less than 20 percent are women, we are at 50 percent female professionals.

Karen Davies

Managing director, Huntington Bank

Describe a recent deal. I led my team in working with Gridiron Capital for its initial leveraged buyout of Leaf Filter, a large middle-market firm. I helped lead and advise Gridiron with a $375 million dividend re-cap finance transaction, taking them from a six-member bank group to a twelve-member bank group with Huntington Sponsor Finance Group as the agent. This marked a new watermark to highlight our capabilities, and we did it in a 60-day window, which exceeds the industry average for debt placement of this size.

Describe a challenge you overcame. I was just about to have my first child, while working as a senior manager overseeing two bank operations sites. With this meaningful, new life transition, I struggled evaluating my options. Should I take a step back? Should I leave the workforce for a period of time? Eventually, with great input and support from my managers, I found a way to continue growing my career and still take care of my family. I am a real-life example of having a successful career and family fulfillment.

Eva Davis

Partner, co-chair, private equity, Winston & Strawn

Describe a recent deal. I am leading two transactions impacted by the new CFIUS regulations.

How has a mentor helped your career? Kara Cissell-Roell, managing director of VMG Partners, has mentored me for almost 15 years. Kara has distinguished herself as a person who wants to see other women succeed. She has introduced me to companies and investors in the consumer products space that need private equity M&A legal expertise. Kara has provided unprecedented insights into the issues they might be facing and how to best partner with them to help them succeed.

How do you support women? For more than 25 years, I've worked to develop and support the women in my network by providing early leads on M&A and financing deal opportunities, sharing market trends (learned from our private company deals that are not publicly available), providing early leads on individuals who may be interested in moving to a portfolio company, and serving as a "reference" when women want to switch firms – in sum, serving as a "connector" to my "Old Girls' Network."

Anna Dodson

Partner, Goodwin

How did you get into dealmaking? I had this wonderful professor, Professor Arpad von Lazar, from the Fletcher School of Law and Diplomacy who helped me get an internship in Budapest in the early 1990s. That internship included sitting in on negotiations among an American company, a private Hungarian company and several Hungarian government owned companies to negotiate a joint venture to build a private telecommunications ring in Budapest. I simply loved the deal-making in dealmaking, and I was hooked.

Describe a challenge you overcame. Public speaking was a tremendous challenge and real obstacle to becoming the dealmaker that I wanted to be. To practice, I did two things. The first was volunteering as often as I could to present neighborhood workshops on business law topics as part of Goodwin's Neighborhood Business Initiative. The second path was to just do it – sign up to speak publicly.

What is your advice for women? Lead. If you want to be a leader, at every opportunity, you should step forward, speak up and lead.

Venita Fields

Partner, Pelham S2K Managers

What is your current role? I manage Pelham S2K Managers' presence in the Midwest market and evaluate and fund potential investments. I am one of four partners on the Investment Committee responsible for deal selection and approval. This is my fourth Limited Partnership, and in the prior three, I helped lead, manage and direct debt and equity investments in 38 portfolio companies.

Describe your influence on the middle market. For the last 7 years, I have served on the board of ACG Chicago, with the last 6 as a member of the Executive Committee. For the last 2 years, I have served as Board President. During my time on the board, I have worked with other women board leaders to successfully engage and increase female membership, especially women of color through the Chapter's Women's Network. The board has promoted diversity in its programming, making sure our panelists include women and persons of color. Lastly, as President, I led the board's successful hire of the Chapter's first female CEO, Kimberly Hammond, who assumed that role on November 1.

Shannon Fritz

Senior managing director,
Antares Capital

Describe your influence on the middle market. As a deal professional at Antares Capital for nearly 15 years, I have had the opportunity to lead the evaluation and closing of a significant number of transactions for the Antares Capital team, the middle market leader in cash flow lending. Antares Capital sees nearly every transaction opportunity in the market and closed over 150 transactions in 2017.

How do you support women? I have been a key contributor in starting up the Antares Women's Network, which launched in 2018, assisting in establishing the network's goals and objectives, governing board structure, initial and ongoing events, firm-wide engagement and currently serve on the AWE governing board. AWE is an Employee Resource Group formed to support key initiatives at Antares Capital around diversity, inclusion, retention and awareness. AWE's goals and objectives are to promote these initiatives through a focus on education and networking. In 2018, AWE hosted 2 keynote speakers who engaged the entire firm on these important topics, facilitated numerous networking opportunities across the firm through coffee meetings and discussion sessions, and planned several activities, including a firm-wide volunteer day.

Jeri Harman

Founder, CEO,
Avante Mezzanine Partners

Describe your influence on the middle market. I have a long history of leadership roles. This includes Co-Chair of the ACG Los Angeles Business Conference for the last 20 years, steering committee member of Private Equity Women's Investor Alliance (PEWIN), Past Chair (2018) of the Small Business Investor Alliance (SBIA) and former member of the ACG Global Board of Directors. In 2018, my firm was named Women Owned Firm of the Year by PEWIN and the SBIC of the Year by the SBA.

Describe a challenge you overcame. The biggest challenge of my career was founding and launching my own fund in 2009. Starting a new fund is always a daunting and risky endeavor, but never more so than in the Great Recession. Convincing my colleagues to take the risk with me, convincing investors to commit at a time when they were pulling in, having the patience to endure a two-plus-year fundraising process, and holding the team together as we went through ups and downs were all quite challenging. We ultimately prevailed and went on to raise our second fund in 2015 (in less than six months and oversubscribed).

Hollie Moore Haynes

Founder, managing partner, Luminate Capital Partners

How did you get into dealmaking? I got a job as an analyst at Hellman & Friedman in 1995. That was the beginning of the era of PE firms hiring young people and staffing out "pre-MBA" teams.

How has a mentor helped your career? In the summer of 1998, I worked for Meridee Moore at Farallon Capital. I was an MBA intern. She loved to invest money and also had 3 kids. Changed my life. Today, she is an informal advisor and also an investor in my funds.

What is your current role? I am the founder and managing partner of my firm. I run the firm. I would like to spend all of my time working on deals and talking with our investors and management teams, but that's not life as a firm leader. I also spend a lot of time on firm issues - financials, tax, IT. We are investors but, Luminate itself is a company. It can be difficult to balance the two.

What is your advice for women? Make people money. Then make them more. Keep doing that.

Nanette Heide

Partner, Duane Morris

What is your current role? I represent private equity and venture capital investors, multinational and domestic corporations (public and private), in a wide spectrum of corporate finance transactions, including mergers and acquisitions, private equity and venture capital investments, institutional private placements, cross-border transactions, debt and equity structuring transactions, reverse mergers, joint ventures and strategic alliances. I have also formed and structured private equity and hedge funds. I am also a member of our Partners' Board, which is responsible for all major policy decisions for the firm. In addition, I serve as the Chair, Duane Morris Fashion, Retail & Consumer Products industry sector group and am a member of the Steering Committee for our Women's Impact Network for Success. Starting in January, I will be the co-leader of our Private Equity Group.

How do you support women? I am a founding member of Exponent Women, which we created to provide a new platform where women in the finance ecosystem could come together to exchange ideas, information and introductions. In July 2018, we hosted our inaugural Exponent Exchange, which brought together more than 200 women for a day of networking and content-rich presenations.

Kristina Heinze

Co-founder, partner, ParkerGale

Describe your current role. I am responsible for sourcing and monitoring our investments, helping lead fundraising efforts and heading up our professional development program.

Describe a recent deal. I led our acquisition of Rippe & Kingston, a leading financial and practice management software provider into law firms. Rippe was very similar to our other deals, in that we were able to find a high-growth, profitable software business still owned and being run by the founder who had never taken on outside capital. This trend in our microcosm of the technology private equity market is one we see quite often – the founder has built and grown a really nice business with a terrific product-market fit, but hasn't invested in a sales and marketing, team or R&D and doesn't necessarily have a succession plan in place. We love these opportunities, where we can show the founder why we can help provide liquidity for him/her while also providing a platform for growth for their team and employees who are like family to them. We've already hired a CEO, CFO, Director of Marketing, and three software engineers and consultants in the six months since closing at Rippe, and hope to have another handful of new hires in sales and client services by year end.

Pam Hendrickson

Chief operating officer, The Riverside Co.

Describe your influence on the middle market. I spend a lot of time trying to deemphasize the private in private equity. We have wonderful stories that need to be shared, whether I'm speaking to leaders in Washington, D.C., or talking to business owners in Washington state. Through my work on the board of the American Investment Council, as past Chairman of the Board of the Association for Corporate Growth, or as part of my work with Riverside, I have watched how private equity helps businesses, workers and communities, and I am passionate about telling that story.

How has a mentor helped your career? I was incredibly lucky to have James Bainbridge Lee III (Jimmy Lee) as my mentor at JPMorgan Chase. Not only did he put my name forward for a big promotion, he was also a great coach. He was direct when you did a bad job, but also supportive.

How do you support women? It sounds simple, but being there means a lot. Not just by showing that women can – and should – hold the types of positions I've held. But also through just being available.

Meghan Jodz

M&A tax services partner,
Grant Thornton

Describe a recent deal. In January 2018, I served as tax advisor to the Rodale family in the $200 million sale of its health-and-wellness-focused publishing company. I helped the family transition a business that began in the post-WWII era by J.I. Rodale, the grandfather of organic farming. The deal was not only significant from the family's perspective but it also highlighted a transformative time in publishing when companies needed to modernize in order to compete.

Describe a challenge you overcame. When my children were young, I was faced with the decision to continue advancing my career, remain in my existing role or pause my career. I talked to colleagues and clients and realized I could have both an incredible family and satisfying career. I also recently became a breast cancer survivor. Through the love and devotion of my family and Grant Thornton's support, I overcame one of the scariest things I have ever faced.

What is your advice for women? Be bold. Don't doubt yourself – the men certainly don't doubt you, nor themselves. And always speak up and offer ideas.

Kristin Johnson

Managing director,
Altamont Capital

How did you get into dealmaking? I began my career in management consulting. While I learned from the variety of the assignments in strategy and operations, I found myself more interested in the quantitative elements of business – how our assignments would drive revenue growth and cash flow, and how they would impact value for shareholders. After business school, I joined Morgan Stanley to build those advisory skill sets. I primarily worked with PE firms on financing and monetizing portfolio companies and presenting new investment ideas. I joined TPG's fundraising team in 2007 after 10 years in banking. It was certainly an interesting seat during the tumultous global financial crisis, as both GPs and LPs faced dramatic portfolio challenges, as well as investment opportunities. I have led sourcing and capital markets for Altamont Capital since the firm was founded.

How has a mentor helped your career? I was fortunate early in my career at Morgan Stanley to work with Ruth Porat, currently the chief financial officer at Alphabet. I was inspired by her drive to provide the most thoughtful advice for clients, her tireless work ethic and her no-nonsense approach to difficult situations.

Mary Josephs

Founder, CEO, Verit Advisors

Describe your influence on the middle market. Over the last 30 years, I have become nationally recognized as a leader in middle-market corporate finance, raising capital, governance, M&A and restructuring. Verit Advisors specializes in this sector, and I have advised, structured and closed over 300 ownership transition transactions for these companies, in addition to having given hundreds of presentations at conferences and written scores of articles and white papers.

Describe a recent deal. One current trend is professional service companies that are abandoning legacy partnership structures in favor of an employee ownership model. We view this migration, both mathematically and qualitatively, as a win-win for both the transitioning and new partners, as well as the company's growth and culture. We believe more fast-growing, high-quality companies, such as Aarete and MorganFranklin Consulting, both transactions we led, will embrace this model.

What is your advice for women? Many people didn't think I could succeed as both the mother of five and the CEO of a fast-growing investment bank. My advice: Don't let others define what you can and can't do. Your professional and personal passions are not mutually exclusive, unless you make them so.

Julia Karol

President, chief operating officer, Watermill Group

Describe your current role. I'm responsible for overall firm vision, operations, investor relations and marketing, as well as development and implementation of strategy for our portfolio companies. I'm a member of the investment committee and a liaison for the Boards of Advisors and executive management teams. I sit on three company boards and am currently responsible for our U.K. investment, Cooper & Turner.

How has a mentor helped your career? As a member of one of the few family-owned private equity firms, I'm fortunate to call my father, Steven Karol, a mentor along with the entire Watermill senior partnership team. Steven taught me the basics of getting a deal done and the nuances of building a new strategy with a management team.

How do you support women? We take pride in the diversity of our team; one third of Watermill's team at the director level or above is female. As a firm we sponsor a number of ACG events geared toward supporting and increasing the number of women in the industry, and we also support a private dealmakers network for women.

Kathleen King

Vice president, corporate development, Day & Zimmermann

Describe your current role. Along with the entire Corporate Development team, we help guide the company in achieving our strategy, and specifically our growth goals. We do a lot of deal sourcing, looking for targets that align with our profile.

How do you support women? The best advice I have heard on how women can help other women, and advice I've benefitted from as well, was pretty simple: Advocate for other women in your environment. That is it. Support each other. If we all do that, we can make an impact. And a lot of small impacts add up to big impact. One thing I heard in all the MeToo press also resonated with me: Choose your one thing and do it. Some people march, some advocate, some are loud and others are quiet. Find your one thing.

What is your advice for women? Apply for the job. Even if you think you are not fully qualified. Try it. You'll more than likely find that you can not only do it, you can do it well.

Karin Kovacic

Managing director, Monroe Capital

How did you get into dealmaking? My career in dealmaking started in 2005 at Fifth Street Capital. I was extremely fortunate to join as the fifth employee and help build the company since its early stages. The experience and team helped build my network and define my career.

How has a mentor helped your career? I met Ramsey Goodrich of Carter, Morse and Goodrich, at my ACG Conneticut meeting in 2005, and he has been an incredible mentor and friend ever since. Ramsey gives constructive feedback and empowers me to utilize my strengths, improve my weaknesses and broaden my skill set.

Describe your influence on the middle market. I served on the ACG Conneticut board from 2006-2015 in almost every position they have, ranging from Program chair, Sponsorship chair, Private Equity chair, to President and Chairman. I served on the Alliance of M&A Advisors board from 2012-2016. Additionally, I served on the ACG Global Board and Executive Committee from 2015-2018. Currently, I am a member of the Public Policy, Intergrowth and Strategic Planning committees for ACG Global.

Patricia Luscombe

Managing director,
Lincoln International

Describe your current role. Co-head the firm's valuations and opinions group, which provides quarterly valuation services to a majority of the public and private BDCs, global multi-strategy asset managers, private equity and credit funds reflecting approximately $50 billion in middle market debt and equity investments. Responsible for working with clients and their boards of directors, in addition to marketing to new clients. Actively engage with Managing Director colleagues to maximize opportunities to introduce valuation services into client relationships and/or identify opportunities to add value to the firm's client roster. Member of the U.S. Management Committee. Also, focused on recruiting, training and mentoring a diverse team, including many women.

How do you support women? I focus on leading by example and fostering an environment for junior women to gain confidence in their own abilities to work in a historically male dominated field.

What is your advice for women? To realize that you can have it all, a successful career and rewarding home life. That balance starts with dedication and commitment to both career and home life.

Justine Mannering

Managing director, Stifel

Describe a recent deal. We are increasingly seeing consumer brands growing quickly and in particular internationalizing at an accelerating rate with the advance of technology and social media. Deals reflective of this include: the sale of Erno Lazslo (US) to CITIC Capital (China), the sale of Harrys of London (UK) to Charles Cohen (US), the sale of Happy Socks (Sweden) to Palamon (UK) and the sale of Graphic Controls (US) to Nisshua (Japan).

How has a mentor helped your career? I was particularly lucky to work with Euan Rellie, who co-founded BDA Partners, where I was from 2011 – 2017. Euan not only encouraged me to take leadership and senior roles earlier than I might naturally looked for them, but also supported me fully in these roles and on championing internal initiaitives.

How do you support women? I am a strong believer that women bring a real value to the finance sector and that there has been significant change to enable more women to stay in and succeed in finance. Women need to support and empower each other to achieve this. I am a founding member of Exponent Women.

Judy Mencher

Founder, CEO, Race Point Investors

Summarize your career. I started as a bankruptcy and corporate financing attorney. I realized that I could do the deal negotiating better than most of my clients, so I left the law firm to join Fidelity Investments, which was starting a distressed investing platform. At Fidelity, I developed a method for mutual funds to acquire bank debt, and we began a control distressed investing program, meaning we would acquire the debt and usually convert to equity in a restructured company. The restructured company's securities would trade at a higher value, since the excess leverage overhang was removed. I was involved in almost all the major restructurings of the early 90's including, R.H. Macy and Company, Trump Plaza, Drexel Burnham Lambert, Eastern Airlines, etc. I personally negotiated the sale of R.H. Macy to Federated Department Stores, as Fidelity funds had become the second largest creditor through acquisition of distressed debt. I had a successful career at DDJ Capital Management LLC, a firm I co-founded with Dan Harmetz and David Breazzano. After I sold my equity in DDJ, I tried several careers before I settled on doing my own thing at Race Point.

Beatrice Mitchell

Co-founder, managing director, Sperry, Mitchell

How did you get into dealmaking? I got into the business totally by accident. After business school, I was working at an ad agency. Fortunately, I met the president of a boutique investment bank at a party and convinced him to hire me. I was very lucky, as I had nothing to recommend me for a position at an investment bank.

How has a mentor helped your career? My father, David Mitchell, also a banker, was a significant mentor. I am the oldest of four daughters. My father brought us up to be confident and independent, and to pursue whatever careers we wanted. So despite the banking industry being very male-oriented, he encouraged and supported me throughout my career. He also thought that starting my own firm was a great idea.

Describe your influence on the middle market. When I co-founded my firm, I was one of a very few women in the deal business. In the early 1980s, the M&A and private equity markets were still small and in their infancy. Everyone knew each other. We sold Calumet Coach to Bain Capital, its first leveraged buyout, in 1986.

Hazel Moore

Co-founder, chairman, FirstCapital

How did you get into dealmaking? I had an unconventional start in dealmaking. I have a degree in Natural Sciences from Cambridge University and had a brief flirtation with a technical career before moving to Hong Kong and starting to work in financial services. I was inspired by the entrepreneurial activity and rapid growth occurring in China, so after returning to the U.K., I co-founded FirstCapital to provide investment banking advice for high-growth technology businesses.

Describe your influence on the middle market. I was awarded an OBE by HM the Queen in 2017 for services to entrepreneurship and innovation, recognizing not just my work at FirstCapital, but also my role as a non-executive director of Innovate UK, the U.K.'s innovation agency. I am an adviser to the Future Fifty, the U.K.'s fastest growing tech companies.

How do you support women? I actively insist on and seek out female candidates when recruiting, with the result that FirstCapital is one of the very few tech investment banks led by women (not only myself – our U.S. office is led by Sheana O'Sullivan), but also with a 40 percent female workforce.

Raquel Palmer

Co-managing partner, KPS Capital Partners

Describe your influence on the middle market. KPS Capital Partners' reputation and ability to see value where others do not provides a critical and unique strategy to the middle market. We have acquired many companies and transformed them through operational improvements, strategic acquisitions, market repositioning, management improvement and investment in manufacturing footprint. We have created significant value for our investors through this strategy, which is evident in the four exits KPS announced in 2018, three of which I led: Electrical Components International to Cerberus Capital Management LP, Expera Specialty Solutions to Ahlstrom-Munksjö Oyj and International Equipment Solutions LLC's attachment business to Stanley Black & Decker Inc.

How do you support women? An important focus of our recruitment efforts is to try to bring more women into the firm. I personally meet with every woman who makes it through our initial interviewing process and highlight what makes our firm unique. It absolutely helps that I am a Managing Partner of KPS Capital Partners and have balanced this career with also having three children. We are very proud that we have several other women in senior positions at our firm.

Gretchen Perkins

Partner, Huron Capital

Describe your influence on the middle market. I am Co-Chair of the Association for Corporate Growth's Public Policy. Our mission is to educate legislators and regulators on the importance of the middle market private equity/private capital community and advocate for policies that maintain the free flow of capital to the middle market. The mid-term elections have ushered in a whole new crop of legislators that need outreach from the ACG Public Policy Committee. We must continually make legislators and regulators aware of the important role that the middle market plays in our nation's economy and the significant number of jobs created by our ecosystem.

How do you support women? I mentor with an organization called Women of Tomorrow, which is a mentorship program for inner city high school girls that are deemed "at risk" by their schools. They may be deemed such for a variety of reasons: extreme poverty, drug use in the home, abuse, etc. Our mission is to show these young women a pathway from poverty by exposing them to various careers.

Trisha Renner

Managing director, Baird

Describe your current role. I advise global clients primarily in the industrial sector regarding M&A, capital raising, strategic alternatives and general business advisory. Within Baird, I participate in our global leadership committee focused on growing our practice and developing our teams.

How do you support women? Early in my career, after a long day of travel, our CEO and I decided it was time to put some real dollars and time behind encouraging more women to enter the financial services and banking, in particular. That original effort turned into fellowships with some of the leading business schools and a diversity committee, which has morphed into a very popular Women's Associate Resource Group. This is a tough career, but I am proud of the effort both Baird and I put into recruiting more women into the field.

What other career path might you have chosen? If I could start over, I would pursue an engineering degree and a career starting with engineering. Technology is such an important part of our future. My advice to all young women considering a career path in finance is to focus on the technical side first.

Sheryl Schwartz

Managing director, Caspian Private Equity

Describe a recent deal. A recent investment that I led includes a first time healthcare fund, focused on the lower middle market, where the team members spun out of a larger firm. Throughout my career, I have invested in "emerging managers," and at Caspian, we have an expertise in investing in emerging managers. While this underwriting requires significant time and analysis, given the risks of a new team and limited track record information, it can lead to significant outperformance. Emerging managers are hungry and usually have stronger alignment of interest. Since this deal was focused on the healthcare sector, it has significant tailwinds from demographics, the need to reduce costs, consolidation and the outsourcing trend. The tailwinds, combined with a team that has sector knowledge, experience and relationships, can generate significant alpha.

How do you support women? In addition to my role on the board of WAVE, which is an organization designed to help mentor women in private equity, I speak at many university private equity and finance conferences and recently, I taught classes on private equity at four different universities as a guest lecturer.

Heather Smith Thorne

Managing director,
Swander Pace Capital

Describe a recent deal. In December 2017, we acquired JR Watkins, a brand/division of Watkins representing about half of its parent company's sales. The unorthodox idea involved a complicated carve-out of the IP and "book of business," establishing a new corporate entity, and hiring a new management team. The deal's unusual structure and executional nature created immediate value for investors, and it represents the kind of creative, angle-driven deal that is key to getting transactions done in today's competitive market.

Describe an obstacle you overcame. One of my first private equity deals experienced difficult headwinds after acquisition, drawing increased scrutiny from lenders. For months, my focus was on covenants, principal and interest payments, building and rebuilding cash flow statements, retaining managers, and worrying about future deals. The situation proved to be an invaluable learning experience – preparing me for dealing with downturns, improving business performances and free cash flow profiles, and negotiating with lenders – while demonstrating my fortitude and resilience.

How do you support women? The most impactful, practical thing I do is hire women at our firm and portfolio companies.

Michelle Van Hellemont

Managing director, Accordion

Describe a recent deal. In October 2018, Accordion announced a significant minority growth equity investment from FFL Partners. Accordion's rapid growth and adoption in the private equity industry combined with the promising runway were significant factors in elevating the firm's attractiveness to institutional investors. As head of the firm's business development efforts, I was responsible for much of the go-to-market strategy content and communication throughout the management presentations that brought this exciting partnership to a close. This deal is a great illustration of client turned investor, as a testament to recognizing the larger brand opportunity Accordion has built through its trusted position in the private equity marketplace. The BD-driven reputation and thought leadership position now allows Accordion to capitalize on the trend toward elevating the importance of value creation within operating companies.

How do you support women? As founding members, we launched Exponent Women to reinforce the value of bringing together women in financial services — and creating experiences that are actionable. We exchange connections, information and ideas to help one another succeed.

Amy Weisman

Director, business development, Sterling Investment Partners

Describe your influence on the middle market. Twenty years ago, I was one of the early architects of the business development role for middle market PE firms. Through the years, I have continued to bring innovation to deal sourcing by providing guidance to colleagues regarding branding and using social media to build deal flow. Last year I spearheaded, with a few colleagues, the first ever PE-PE deal sourcing event.

How do you support women? Besides one-on-one mentoring of many women, I have worked with universities to increase the "pipeline" of young women entering finance. Once these women enter finance, a next step is to develop a community of support. That is why I became a founding member of a focused women's dealmaking group, Exponent Women.

What is your advice for women? Network like a woman. In today's hyper-networked, social media-inundated, and fast-past world, you need to stand out with new people. I encourage women to use their natural set of communicative, people skills to their positive advantage.

Demitri Diakantonis and Danielle Fugazy contributed to this report.

ADOBE STOCK

Working with the new members of Congress

The Riverside Co.'s Pam Hendrickson explains how private equity contributes to the overall economy.

By Mary Kathleen Flynn

Mergers & Acquisitions asked Pam Hendrickson, the chief operating officer and vice chairman, strategic initiatives, of middle-market private equity firm the Riverside Co., to share her thoughts on the election results. Hendrickson is currently a member of the board of the American Investment Council and a member of the advisory board of the Kenan Institute for Ethics at Duke University. In the past, she has testified before Congress on behalf of the private equity industry.

How will Democrats' winning control of the U.S. House of Representatives affect the financial services industry in general and private equity and M&A in particular?

As an industry, we will work to educate the nearly 100 new members of Congress about private equity's positive impact in their communities and their constituents' lives. We will be talking with them about jobs, investment, and retirement security. We need to make the personal case to each of the new members as well as top leadership in both the House and the Senate. As an example, the incoming Chair of the Ways and Means committee Richie Neal is from the State of Massachusetts which had a 15.4 percent annualized return from its PE portfolio over 10 years. Michael Trotsky, CIO of Massachusetts, is quoted as saying "Private equity is an important asset class. It provides diversification and has been a leading contributor to our high returns since the mid '80's."

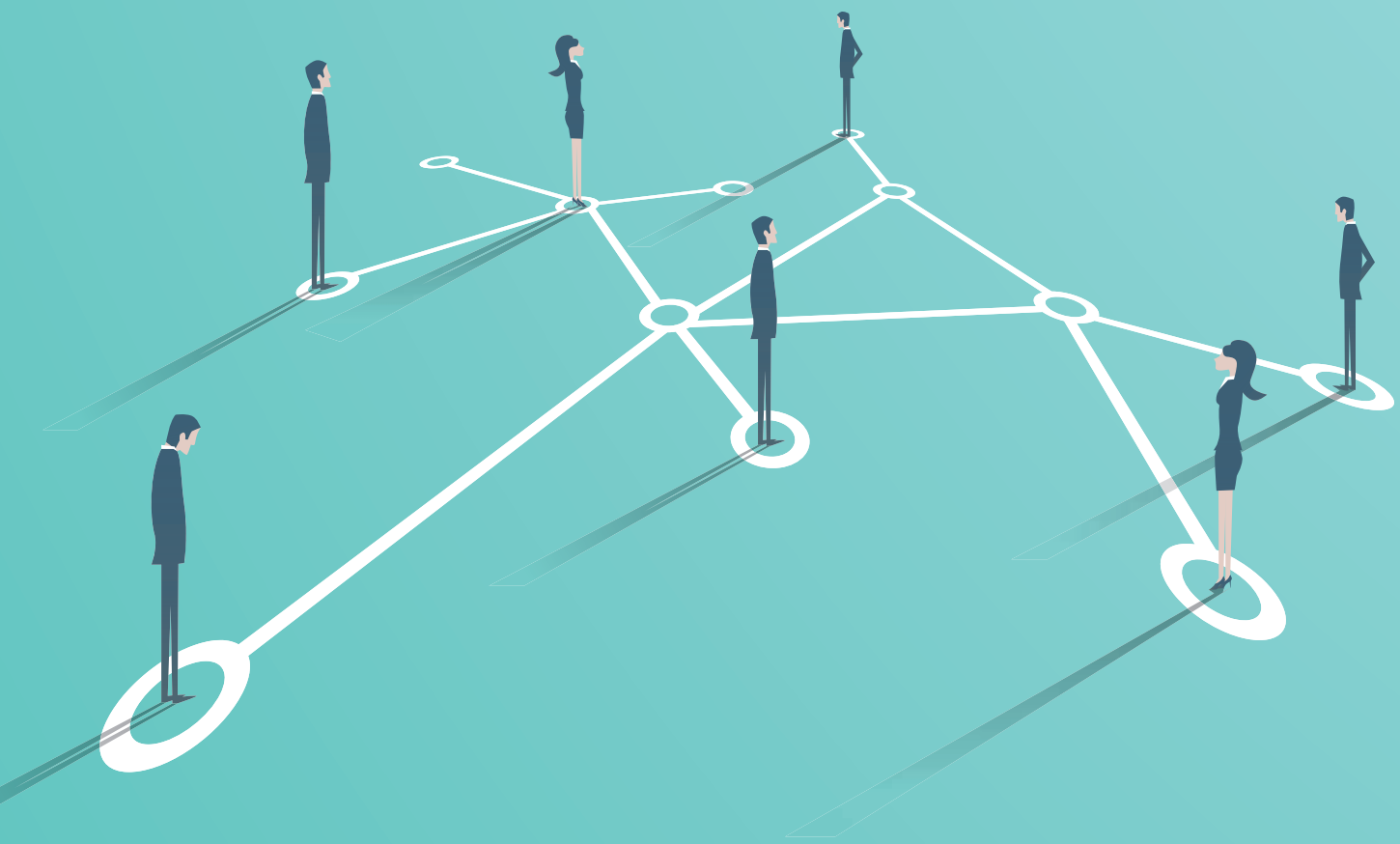
As a dealmaker, which regulatory issues are you paying the most attention to, and how are they likely to be affected by Democrats' controlling the House?

We will continue to keep an eye on tax reform regulations. Most importantly, the industry needs certainty which hopefully means that expected regulatory relief continues to move forward.

Now that the mid-term elections are over, has your sentiment about dealflow changed? Has it improved, declined, or stayed the same? Why?

Dealflow is mostly a function of economic conditions and so likely not that much will change on the deal flow front as a result of politics. It is worth noting that there were 36 gubernatorial races where Democrats secured a handful of new Governorships. These State elections will be important because after the 2020 census is complete, the victors will have considerable say in the delineation of new congressional districts. **M&A**

The Advisor's Supplement



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ADVISORS WEIGH IN ON M&A IN 2019

As the M&A industry gets to work on the 2019 pipeline, it's a good time to reflect on 2018, which was a busy year for the industry. The M&A industry in Europe and North America saw more than 15,000 transactions worth a combined $2.4 trillion get completed through the first nine months of 2018, according to Pitchbook. North America accounted for 64.4 percent of deal value and 60.6 percent of deal count in the two regions in the first nine months of 2018. Both figures are well above the averages of the preceding decade, in which North American M&A accounted for 60.3 percent and 53.5 percent of deal value and count, respectively.

The private equity industry remains busy as well. The first three quarters of 2018 saw 3,501 deals completed worth $508.8 billion—a 3.4 percent year over year increase, according to Pitchbook. Additionally, in the first three quarters of 2018, private equity firms raised $121.4 billion across 143 funds. If these numbers do not seem striking enough, consider this, as of 2017 there were almost 4,000 active private equity investors, which is a 51 percent increase since 2007.

With more private equity investors, record amounts of dry powder in private equity's coffers and strategic acquirers with plenty of cash to participate in M&A transactions, valuations are at an all-time high and competition for quality deal flow is fierce. This has made for a strong exit environment. After a busy first half of the year, exit activity in the third quarter of 2018 continued its pace. The first three quarters of 2018 saw a total of 752 exits, valued at $280.2 billion.

With these industry dynamics at play, M&A Magazine decided it was a good time to talk with some industry experts about what trends are prevalent and what they expect to see in 2019 as deal making gets underway. Many believe the same dynamics at play today will remain in place for 2019. Some of the trends that experts believe will become more pronounced include private equity firms launching credit funds, the use of technology to run fund activities and institutional limited partners being even more discerning about how they evaluate private equity firms. How private equity firms are positioned to handle their operations is also becoming more important to LPs, according to one expert. One of the other biggest trends that is expected to continue is the increased speed of the transaction process. The deal process has been condensed and pushed to conclude in record time, says another expert.

What follows are a series of Q&A's with various advisors to the industry. While deal makers see lots of deals, advisors see an exponential number of deals—giving them a bird's eye view into what is expected going forward. The good news is many advisors have a positive outlook for 2019.

Tech Adds Value to Deal Process

West Monroe assists private equity and strategic buyers throughout the M&A lifecycle, starting with technology and operations diligence to identify risks and value creation opportunities all the way through portfolio value capture. For more information, please visit www.wmp.com.

Matthew Sondag, Managing Director, West Monroe Partners
Michael Amiot, Senior Director, West Monroe Partners

How would you characterize the deal making environment today?

SONDAG: The U.S. market is certainly frothy from a valuation perspective, one contributing factor being dry powder is at an all-time high. Depending on what source you look at, private equity firms have approximately $700 billion in dry powder, while strategic acquirers have about $1.7 billion earmarked for M&A. A second factor is the U.S. market remains very attractive for M&A compared to other markets. Finally, we're seeing an increase in the number of buyers – from both new U.S. private equity funds and existing Middle Eastern and Asian sovereign wealth funds coming into the U.S. marketplace.

AMIOT: Valuations are the highest in history, with multiples surpassing 20 times revenue in some cases. We predict this trend will continue since M&A has become a vehicle for growth in the current economy. Although there may be a correction down slightly, high multiples are the new norm. The second trend we see continuing is accelerated deal processes with buyers using speed-to-close as a differentiator.

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

SONDAG: There is more focus on value creation within the portfolio during the last 18 months. Long gone are the days of buy, plus financial engineering. Our private equity clients are set on driving value for their portfolio companies and, quite frankly, need to find operational value based on the premium they paid to win the deal. To do that, they are hiring more operating partners and getting more operationally involved. We are also seeing more divestitures, as many clients are seeing this as a favorable strategy in a competitive market. Several private equity firms that normally wouldn't touch divestitures in the past (due to high risk and high capex outlay) are now willing to execute a carve-out.

Finally, we're seeing larger funds come down market in this competitive market, especially when it comes to software deals. They are willing to do smaller deals, knowing they'll need to ramp up the number of add-ons.

AMIOT: From an acquisition strategy perspective, we continue to see an increase in add-ons to bolster solution capabilities or expand geographically. Customer acquisition is also an important part of the equation. Owners are trying to make one-plus-one equal four through aggregation and creation of disruption solutions.

What technology trends are affecting diligence in mid-market private equity?

AMIOT: Increased development of next-generation solutions to be competitive in the market. Understanding these transformational challenges are vital to deals: Where are organizations in the process? Will new solutions really differentiate the target/solutions? Do they have the right leadership to achieve their goals and deadlines?

The second big trend is in cybersecurity. We are seeing an increased focus on applying best practices across portfolio companies and measuring against industry standards and benchmarks.

SONDAG: Given the advancement in technology and the focus on digital, the amount of time and investment spent on technology diligence has gone up significantly during the last two years, especially with complex deals. It's critical because technology is having a larger impact on business strategy and operations. Also, when it comes to mergers or divestitures, technology is typically the long pole in the tent, coupled with the highest risk.

How can private equity firms use tech to drive value (not cost) over the hold period?

SONDAG: First and foremost, investing in the technology platform to ensure scalability. This is important to ensure both organic and acquisitive growth are fully enabled. The second would be ensuring a data platform to drive decision-making, analytics and business insights. Finally, using technology to make the customer experience frictionless, simple, and omni-channel for those applicable businesses. And, yes, all of those are much easier said than done.

What are some common challenges private equity firms face today and how can you help them overcome these challenges?

AMIOT: The biggest challenge we see is compiling data and leveraging insights to help portfolio companies drive decisions, especially regarding people and teams. You can learn about the competency of the team and make faster decisions with the use of data, which is important, because when a hold period is four years you don't want to spend a year to make an executive decision. Additionally, a lot of companies don't understand what digital can mean to them and where to start. It's important for private equity firms to have a conversation around what digital is and how portfolio companies can take those first steps.

As deal timelines speed up, where can private equity firms save time, and where can they never skimp?

AMIOT: From our experience, they should never skimp on evaluating the leadership and their vision. You need to have the right leadership in place to be successful. Even if you get a great asset, it can fall flat without the right leadership. For technology-based firms, you can't cut corners on understanding how scalable and extensible the technology solution is to meet growth expectations.

SONDAG: Most can save time on back-office operations and technology, but not on the front-office technology or products. It is hard to skimp on cybersecuity, data management, leadership and platform scalability. That said, every deal and investment thesis is a little different and might put emphasis on certain topics, especially if it's a platform deal vs. a tuck-in.

What value add does West Monroe bring to the private equity industry?

SONDAG: We bring a mix of business operations and technology skills to the table, which we like to call our "uncommon blend." We are also practitioners – we don't just advise, we do implementation work as well. We can help private equity and strategic buyers achieve their investment thesis, especially in a complex divesture or a merger. We like to use data and analytics to drive business insights, which are driving value for several of our clients. For example, we recently helped a client reclassify and recapture field services revenue from one-time services to recurring maintenance, which will have a direct impact on their future EBIDTA multiple.

What changes do you expect in the private equity industry over the next year?

AMIOT: Buyers have become more sophisticated, doing more analysis and deeper critical thinking; therefore, sellers will have to be prepared to explain in more detail how they differentiate their solutions, what investments they need to make to do so, and what options exist to accelerate achieving their goals.

SONDAG: If you believe what most economists are saying, we won't see much of a slowdown in the next 12 months. Valuations will stay in the general vicinity and we will see private equity firms continue to focus on their portfolio. On the positive side, I think most feel, when the slowdown happens, it won't be as wide or deep as 2009. That said, you may see some private equity firms look to exit investments in 2019, earlier than originally planned if they think the economy will slow in 2020.

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westMONROE

What's Ahead for PE: The Value-Add of Valuation

VRC is an independent, global valuation & advisory services firm. We focus on delivering the right value for your organization that withstands scrutiny from auditors and other external parties. VRC provides transparent, reliable, fair value reporting in an increasingly complex universe of investment and growth opportunities. Since 1975, we've delivered supportable conclusions of value to domestic and international clients of all sizes, types, and across all industries.

Jeff Miller, Managing Director

How would you characterize the dealmaking environment today?

At the moment, private equity firms have a great deal of dry powder and are aggressively trying to put capital to work. Firms that are focusing on specific niches or sectors (restaurant chains, specialty manufacturing, fintech) seem to be getting the most deals over the finish line.

In the middle-market, there has been a material increase in the number of add-on acquisitions at the portfolio company level. Additionally, we are also noticing a trend towards larger sponsors coming down market and competing with middle-market, and even lower middle-market firms for deals.

Why are larger firms coming down market?

Lower prices, lower multiples and, hopefully, less competition. Multiples on the upper end of the market have been high, and the larger firms are trying to find ways to deploy the capital they have in a less competitive environment. It is the same reason we see more tuck-in acquisitions in the middle-market. There are privately-owned companies, that are too small to be a stand-alone platform company, with good fundamentals flying under the radar that can be acquired and tucked in to existing platforms. This is occurring most often in the automotive aftermarket space, in dental practice management, physical therapy, and other related industries. The technology and distribution industries are very active as well.

What are the most significant trends you are seeing in private equity today?

Many of our private equity clients are launching credit funds; it seems to be a popular strategy in the middle-market as of late. Although larger sponsors have been running PE funds in parallel with credit funds for years, lately there has been an increase in the number of private equity firms expanding their product offering to include credit.

More private equity firms have also gotten involved in Special Purpose Acquisition Companies (or SPACs) over the past couple of years. A SPAC is a company that raises money in an IPO, then uses the cash to purchase businesses. SPACs have benefits that have led private equity sponsors to use them to raise capital. They provide a potential permanent capital solution for sponsors through access to public markets, which allows for more open-ended private equity investments. In this competitive market, fund sponsors are trying to find creative ways to differentiate their investment strategy.

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

With so much fresh capital to put to work and the resources needed to analyze deals, firms are turning to third parties like VRC to assist with their internal valuation requirements for financial reporting purposes. A valuation firm can provide an independent analysis of the portfolio investments using proprietary data to arrive at an accurate and supportable value that will withstand scrutiny. Also, outsourcing this function helps take work off the desk of the deal teams so they can focus on deploying capital and managing the portfolio.

Private equity firms often 'mark' their investments internally. However, more and more firms are reaching out to us for valuations of their portfolio company investments on a quarterly or bi-annual basis. VRC can provide a range of services to PE firms including full valuations of their portfolio positions or review and provide assurance

services related to a client's internal portfolio valuations. Both LPs and auditors seem to be driving this trend.

What value add do you bring to the private equity industry?

Dependability, reliability, and proprietary data. Our PE clients turn to us as a trusted advisor. Whether we are assisting with financial or tax reporting, fairness opinions, solvency opinions, or valuation of equity or debt positions, clients know that we deliver efficient, quality and significant expertise.

PE firms choose VRC because we have worked in the middle-market PE valuation space for decades. In 2018, we worked on nearly 600 deals, and valued over 5,000 investments with 3,000 companies. VRC's professionals bring the experience and internal data needed to provide best-in-class, audit-defendable valuations.

VRC provides a full range of valuation services that can be useful to PE firms and their portfolio companies in connection with their tax and financial reporting needs as well as solvency and fairness opinions in support of a variety of transactions.

What changes do you expect in the private equity industry over the next year?

Concerning deal flow, we expect trends similar to the past 12 months. We believe PE firms will also continue to look for creative ways to differentiate.

We also may see more emphasis on carve-outs from large corporations that are streamlining operations and focusing on core products and services.

Finally, we are anticipating a greater emphasis on cross-border transactions. PE firms have been steadily turning their attention to Europe and Asia for both deal flow and capital raises. In situations like these, clients benefit from the expertise of our global affiliate network, Valuation Research Group (VRG). VRG's 12 affiliates and more than 1,300 professionals across the globe work with many of the world's leading multinational firms, have local market knowledge and in-country tax expertise. Driven by one local point-of-contact with 'boots on the ground,' our global team also excels in delivering valuations for real estate and M&E.

With so much fresh capital to put to work and the resources needed to analyze deals, firms are turning to third parties like VRC to assist with their internal valuation requirements for financial reporting purposes.

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VRC

Ballard Spahr Gears Up for a Busy 2019

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Ballard Spahr LLP, an Am Law 100 law firm with more than 650 lawyers in 15 offices in the United States, provides a range of services in litigation, business and finance, real estate, intellectual property, and public finance. Our clients include Fortune 500 companies, financial institutions, life sciences and technology companies, health systems, investors and developers, government agencies, media clients, educational institutions, and nonprofit organizations. The firm combines a national scope of practice with strong regional market knowledge. For more information, please visit: www.ballardspahr.com.

Barbara Lano Rummel focuses her practice on M&A and private equity transactions with a sector specialty in life sciences. Mary Mullany concentrates her practice in the areas of securities offerings, M&A, corporate finance, and more. What follows is an excerpt of a conversation with both women about the industry today and what is expected going forward.

How would you characterize the dealmaking environment today?

RUMMEL: This is a great time to be a seller. Buyers have cash, access to debt, and an appetite for growth through acquisition. There is high demand for quality deals, and our buy-side clients are facing intense competition for those deals.

MULLANY: In my practice, I am seeing more alternatives available to both privately held and publicly traded companies to engage in strategic business combinations. With the maturation of the SEC's rulemaking regarding the use of a "test the waters" confidential marketing process, the steady interest of cross-over funds in investing through a private-to-public transition, and (in some industries) the use of reverse mergers to combine two companies more successfully than in the past, there are alternatives present, particularly when the IPO window closes. My practice focuses on healthcare and biotech companies, and frequently the public markets are not available to them; so these alternatives are useful in advancing the development of new technologies.

What are the biggest trends you are seeing in M&A today?

MULLANY: I am seeing more private equity investors participating in cross-over funds or staying invested in companies through the conversion to publicly traded companies. I see the conversations happening earlier in the process than in the past—to see a potential transition to a publicly traded company as not necessarily the exit strategy by the investors, but as a way to continue to deploy capital alongside other public investors. In the past I felt that IPO or M&A were mutually exclusive exit strategies; today I am seeing more melding of these alternatives.

The SEC recently revised the definition of "smaller reporting company" to allow many more companies to take advantage of the more streamlined disclosure obligations. With the addition of the SEC disclosure simplification rules, the status of a public reporting company may be an interesting choice to more businesses, particularly in the biotech and healthcare industries, where capital financing transactions or M&A are needed for a longer period due to development and regulatory clearance hurdles.

RUMMEL: The biggest trends we have seen in M&A are increased speed of transaction process, nonexclusive negotiation with multiple buyers, and seller-friendly indemnification structures supported by representation and warranty insurance. These trends are being driven by the seller's leverage in the marketplace. The deal process has been condensed and pushed to conclude in record time. Sellers are demanding the quick process so that if one buyer drops out, they can move on to the next potential buyer without delay or interruption. Exclusivity is rarely granted and—when it is—the period is often limited to 30 days. This puts pressure on buyers to conduct their due diligence quickly. The dominance of representation and warranty insurance, in both private equity and increasingly in strategic deals, has become a weapon for sellers to demand no post-closing indemnification and is accelerating the pace of negotiating transaction

agreements. Buyers who are not prepared to work on a non-exclusive basis within this condensed timing and indemnification structure are often excluded from the process and are losing deals.

What are some of the common challenges private equity firms face today, and how can you help them overcome these challenges?

RUMMEL: Due to increased competition among buyers, each indication of interest needs to be thorough and reflect a buyer deal team that is prepared to close the transaction quickly. Because Ballard Spahr's M&A team has so much experience and depth in middle market deals, we are well-positioned to help clients critically evaluate opportunities and position the bid for success. We help clients anticipate and prepare for the deal process. Buyers need to devote substantial resources to due diligence on the front end in order to deliver an indication of interest that shows they value the deal and can proceed quickly to closing the transaction. We also guide our clients through the representation and warranty procedures early in the transaction process to avoid later delays or surprises.

MULLANY: Most of my practice involves representation of issuers, rather than private equity investors. I find that it is helpful for issuers to engage in conversations with private equity investors early on to assess the anticipated term of the investment and any investor-side obligations that the issuer needs to consider. I also spend time counseling investors as to the impact on them of public company investments, particularly for smaller reporting companies.

What value add do you bring to the private equity industry?

RUMMEL: Our focus on middle market private equity and the industries in which our strategic M&A clients participate positions Ballard Spahr to anticipate issues and address them head on early in the process. Because we have worked with private equity clients for many years and through a number of cycles, we understand the issues that are most important to these clients and can help them assess risk efficiently. With more than 650 lawyers in 15 offices, we can tap into our internal experience with issues such as tax, data privacy/GDPR, antitrust, healthcare regulation, environmental and intellectual property. Rep & warranty insurance deals can be alarming to strategic buyers who are not accustomed to this indemnity structure. Bidders will be eliminated from a deal process if they cannot quickly adapt. We help manage client expectations and guide them through the process.

MULLANY: With the 2018 addition of Lindquist & Vennum, we have the ability to help our clients test the financeable alternative market through M&A or significant investments by private equity companies. We really run the gamut now and have the ability to work with clients through their life cycles. That is the practical value we bring to customers.

What changes do you expect in the private equity/M&A industry over the next year?

MULLANY: I continue to see that private equity investors are looking to hone their investment decisions by teaming up with other investors in M&A transactions, deploying capital as efficiently as possible, and focusing more on industry specialization. Because our attorneys understand our clients' businesses and industries, we can also assist strategically—helping to connect clients with financing sources and other needed resources and identifying potential deals that align with their goals.

RUMMEL: Although dealmakers are always watching for tax law changes and the effect of increasing interest rates on access to debt, we expect that deals will be more influenced by technology and other market challenges in certain industries, such as the effect of tariffs on manufacturing and the disruption occurring in the retail sector. Successful buyers will look for value opportunities arising out of those changes. We strive to partner with our clients to seek and capitalize on those innovative opportunities.

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Ballard Spahr LLP

A Peak Under the Hood: Operational Challenges Facing Today's Private Equity Firms

Frazier & Deeter is one of the nation's largest and fastest growing CPA and advisory firms. With offices across the U.S. and clients around the globe, Frazier & Deeter assists private equity firms and operating companies with a full range of services, including audit, tax, transaction support, outsourced fund administration, and other advisory services.

Bob Woosley, National Practice Leader, Private Equity, Frazier & Deeter

Bob, as a leading private equity fund administration provider, what are you hearing about their challenges?

In general PE Firms are navigating greater operational demands that are driven by two factors; regulatory and institutional investor requirements. On the regulatory front we are seeing greater demands in two primary areas; cybersecurity and data privacy. As it relates to institutional investors, we are seeing much greater demands on reporting as well as greater investor diligence on the operations of a PE firm.

Let's dive into some of these areas a bit. What do you see as the changing dynamics with LPs?

Institutional LPs are becoming much more discerning in the ways they evaluate a private equity firm. Evaluating how a PE firm is positioned to handle its operations is becoming much more prevalent in the way LPs diligence a PE firm. For example, we are seeing LPs drill into how a GPs team is structured, including areas of responsibility and coverage. LPs want to know how a GP will handle the evolution and turnover of key personnel.

So what are the implications for a GP?

Essentially today firms face pressure to be "world-class" in almost every area of their operations. From data privacy to partnership tax rules to revenue recognition and cyber security – the list never ends, especially if you invest in industries like Real Estate or Healthcare. These requirements put greater pressure on the quality of a GP's internal technology platforms….which can often be very expensive.

A growing number of LPs are requiring GPs to use a third-party fund administrator. This is usually a great decision for a GP because no matter how great an internal team may be, it is a daunting task to stay on top of so many rapidly evolving topics. Things that used to be an after thought have blossomed into significant risk. This has spurred the conversation about what is better handled externally in order to maximize expertise, minimize risk and shift cost from the PE firm to the fund.

You mentioned data security and compliance as issues. What are the big concerns?

Data security and privacy are huge issues. Protecting the company from hackers and ransomware is critical. On the privacy side, California has passed a law similar to the EU's General Data Protection Regulation, giving substantial rights to an individual whose data a company holds. This could be the tip of the iceberg, requiring extensive work in data management.

Changing topics a bit, can you tell me about the Private Equity 360 podcast?

Absolutely! Frazier & Deeter launched the podcast to explore diverse topics relevant to the private equity community. As I travel the country talking to private equity firms I notice trends in the ideas people are exploring and the problems they are grappling with. There are an enormous number of ideas percolating in the private equity world and these become topics for our Private Equity 360 podcast.

Are there any closing thoughts for our readers?

In light of investor and regulatory demands, there has never been a better time for GPs to re-think their operational model.

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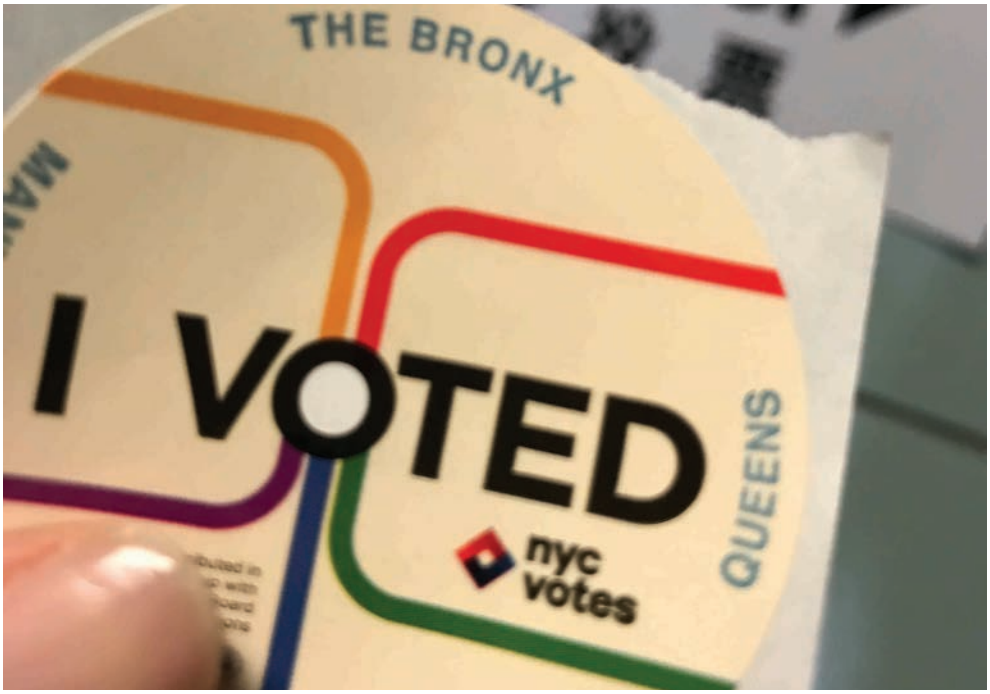

MARY KATHLEEN FLYNN

Will M&A momentum continue post election?

Manatt, Phelps & Phillips' Matthew O'Loughlin explains why a split Congress will make any major regulatory changes difficult.

By Mary Kathleen Flynn

U.S. middle-market dealmaking in the first three quarters of 2018 surpassed the same period in 2017, according to PitchBook. If the pace continues in the fourth quarter, middle-market deal value may surpass $400 billion for the first time ever. One important question: Will the momentum continue now that the power has shifted in Congress? Mergers & Acquisitions asked Matthew O'Loughlin, partner and co-chair of the mergers and acquisitions practice with Manatt, Phelps & Phillips LLP, to share his thoughts on how the mid-term elections will affect M&A.

How will Democrats' winning control of the U.S. House of Representatives affect the financial services industry in general and private equity and M&A in particular?

The split Congress will make any dramatic regulatory changes from the legislature difficult – whether implementing new regulations or undoing some of the changes over the past two years. The executive will likely continue to implement and police regulatory matters consistent with the past two years. Generally people are comfortable and familiar with divided government.

Now that the mid-term elections are over, has your sentiment about dealflow changed? Has it improved, declined, or stayed the same?

The election result in of itself should not have any material impact on deal flow in the short to medium term with the result consistent with general expectations. The bigger influences will continue to be whether the economy remains positive through 2019 and any substantial increases in the cost of capital if interest rates rise. The likelihood of a second round of tax cuts has become unlikely and pressure for tax increases will grow. That may cement decisions of some to proceed with a transaction in the nearer term or at least prior to the 2020 election if they see a risk of tax increases thereafter.

Do you think dealmaking in 2019 will be higher, lower, or the same as 2018?

Absent any major economic or financial markets disruptions, 2019 will likely be consistent with 2018 with a solid economy, strong appetite for deals and a reasonable cost of capital driving the activity. **M&A**

ADOBE STOCK

Managing crossroads

Eighty percent of situations are relatively uncomplicated, but 20 percent are too complex for the investment banking model.

By Frank Williamson

Across the spectrum of middle-market mergers and acquisitions, there's a great big middle ground that specialist investment banking firms handle very well.

The investment banking business model works when the market itself is working. In this context, a working market means that there are multiple sellers of relatively similar "goods" — professionally run middle-market companies with continuing management teams being traded by professional investors — as well as multiple viable buyers interested in competing with each other to complete a deal.

In these cases, there's a clear timeline for when shareholders want to generate cash returns, a professional board that identifies the best route, and a clear measurement of success, which is almost always that the seller completes a transaction at the highest available price.

There's a very accomplished service industry of investment bankers, lawyers and accountants that identifies potential buyers, manages transaction risks and completes the deals efficiently. From the seller's perspective, the traditional private company sale process — a limited auction — identifies several acquirer options, creates competition among them and closes a transaction on the best available market terms.

But not every situation is like this. In my experience, the 80/20 rule apples. Eighty percent of situations are relatively uncomplicated and well served by the process outlined above. However, 20 percent are not clean enough for the model to work. I call them "crossroads" deals.

I use that term because the board members or investors find themselves at, truly, a crossroads. The path forward isn't so clear, sometimes time is of the essence, and the situation could ultimately play out in a variety of ways that complicate the normal sale processes for private companies.

In this spectrum of deals, "crossroads" situations are often at one extreme or the other. Sometimes the seller has too few options or, alternatively, has too many. In both places, from the perspective of advisors who work on the basis of success fees to efficiently complete transactions, they're stuck.

"Crossroads" situations turn potentially good companies into bad investment banking clients.

In these situations, it can become necessary for investment bankers to function less as executors of a transaction, and instead to help weigh the pros and cons of hard decisions in a counselor-like role. Here are some examples:

1. Too many options

We see "too many options" arise most often with middle-market companies that are neither succeeding or failing, whose investors are venture capital and growth equity funds holding minority positions.

As time creates urgency for cash returns, the board needs to do something. But what? Everything is on the table. Options might include a large revenue-based deal with a strategic customer, a new tranche of minority investment, a stock deal with another relatively small and cash-poor company, a sale of strategic assets or, ideally, a sale of the entire company for an amount of cash that generates acceptable returns.

If you can do anything with a business, how do you assess and weigh the full range of options? The story we hear from venture capital and growth equity investors is "I thought an investment banker might help with one or two of these options, but I don't know where to get help assessing all of them."

Assessing these potential opportunities is what investment bankers do. However, in some of these cases, you're asking investment bankers to weigh in with their expertise when it's possible that their business model — in which they receive a commission from closing a deal — isn't the best option. So, your service provider is put in the position of having to recommend something that's against his own economic interests. The relationship is inherently fraught.

2. Too few options, or chasing down one opportunity

The other end of the spectrum is when a board has a really limited set of options — sometimes fortuitously, sometimes not.

Take a situation where a small company loses a major client. My firm recently worked with a business that made the majority of its income from a single big-box client. Using this name recognition, they were able to bring in other, smaller customers.

If that company were to lose its major client, the steep loss in income would force it to dramatically reshape itself, if it was able to survive at all. For a board of directors, that would leave a limited set of options, ranging from cutting costs to liquidating assets.

In other cases, management and the board feel that they have a good sense of where a business belongs in the market, and just want to pursue a single opportunity as thoroughly as possible. For example, a client of ours recently linked up with a industry counterpart, building on a long history of working together to create a joint venture that could execute on aggressive expansion plans. The terms of the deal reflected what both companies believe about the future — not the last 12 months' earnings, as is typical. This transaction was completed without any serious consideration of seeking competing offers.

For many investment bankers, these "do it or don't do it" situations — where a deal may happen but is in no way a certainty — also challenges the business model. If you're going to do the work to negotiate a transaction, success-fee engagements almost demand seeking multiple offers, which increases the possibility that a deal gets done.

Oaklyn Consulting

Frank Williamson

The middle-market investment banking industry has many people who are incredibly efficient at executing transactions. But for some situations, the industry also needs people who are incredibly flexible, and whose own success doesn't depend on whether a deal ultimately takes place.

If you serve on the executive management team or board of directors of a middle-market company, it's important to identify among your investment banking relationships which are best suited to efficient execution and which are better suited to strategy consulting with a financial bias. You need to build relationships with both, so that you have them when you need them.

There's no better time than the present to begin the conversation about how you'll handle these "crossroads" issues if they arise. Doing so will at least give you a solid starting point. **M&A**

Frank Williamson is the founder of Oaklyn Consulting.

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Danielle Fugazy,
Contributing Editor,
M&A

The M&A market is busier than ever. As dealmakers compete to close deals that will be profitable down the road, many are looking more carefully at their financing options. To explore this notion, M&A put together a roundtable, which focused on what financing options private equity firms are using, what role sale-leasebacks and other financing tools are playing in today's market, and how private equity firms are taking advantage of their different options to win deals and create value. Sponsored by W. P. Carey, what follows is an excerpted version of our conversation.

Fugazy: How do you characterize the private equity industry today?

Bryan Cummings: Capital superabundance. There's $1 trillion to $1.8 trillion out there looking for a home, depending on the source you look at. As a result, we are seeing tremendous competition in the market for quality assets. There is a lot of creativity being deployed to give investors the opportunity to win these businesses. Capital is not the constraint. We see a lot of processes where you have one outlier bid at the top, who may or may not get there, and then two to five folks within a relatively narrow five to 10 percent band. Sure, you'd like to be that guy at the top, but if you aren't you've got to have an approach that distinguishes you from the competition.

PARTICIPANTS:

Danielle Fugazy, Contributing Editor, M&A

Bryan Cummings, Managing Director, D.A. Davidson & Co.

Eric Korsten, Managing Director, Branford Castle Partners, LP

Joseph Marger, Partner, Reed Smith

Gino Sabatini, Managing Director, Head of Investments, W. P. Carey Inc.

Joseph Marger: Historically, in the real estate business, if you were representing a developer or someone who's vying for the space, there was a smaller universe of people willing to invest in that risk. But now, because of the abundance of capital, there are either family offices who never used to dabble in the space coming in, or hedge funds and high-net-worth individuals who don't know what else to do with their money to get yield. They are now willing to throw crazy prices at real estate today.

Gino Sabatini: If you're a private equity firm that owns the portfolio company that has real estate on its books that you know will be important to the company long-term and for the next owner, taking advantage of that multiple arbitrage makes a ton of sense. It makes sense to do a sale-leaseback transaction ahead of the sale of the company so you can take the dividend yourself, and then put the lease in place long-term. If it's a critical asset, a buyer will not see it as a problem.

Fugazy: What are some key components of the capital stack for the initial buyout and for add-on acquisitions?

Eric Korsten: Building the ideal capital structure is an art and it's unique to the buyer and the underlying company. Anyone who's been around a long time has a deep appreciation for getting it right and not having to renegotiate with lenders in a down market. Today you can almost always refinance; likely not a problem. However, the music can stop quickly and you can be the last in the line. As a result, you need to make sure that what you're doing today likely works for at least the duration of your expected hold period.

Fugazy: How do you think about finding the right partners who will work well with you in a downturn?

Korsten: Ideally, you have good past experiences with them, although that's not always going to be the case. There's a certain amount of gut instinct involved. Properly structuring your credit agreements and all of the ancillary agreements that go along with it is essential. If the covenants, and other restrictive terms, feel really aggressive today, they probably will be even worse when things aren't going right.

Our sellers are becoming more sophisticated.They hear things from their friends and they say, I've seen a sale leaseback and they want to know their options.

Bryan Cummings,
Managing Director,
D.A. Davidson & Co.

Marger: As a lawyer, I would want to counsel someone by noting that even if you don't have prior experience with that company yourself, you can look at the track record and make some inferences. A company with 40 years of long-term investment history and many years of working with their tenants to see them grow is quite different than a Johnny-come-lately that's just looking for instant yield because they can't find it anywhere else. Who knows how they're going to react in the next down cycle.

Korsten: A 40-year history, like you just mentioned, is definitely an important lender selection consideration. Somebody who started lending recently can potentially buy our deal if their terms are materially better than everyone else; but they likely only get one chance to do right by us.

Fugazy: How do the capital stacks for deals differ depending on the asset?

Korsten: I looked at information provided by GF Data. Going back to 2016, specifically for lower middle-market deals, there's no clear, conclusive trend that leverage has really gone up or down much during that time. There's always been about three to four turns of leverage available. Sometimes it's slightly more and sometimes it's slightly less. It doesn't necessarily follow the bigger market trend, which is that available leverage has gone up a lot. Our smaller-end of the market hasn't changed much, which means there is likely only a reasonable amount of available debt. As a result, we have to make our returns not just from financial engineering but by really growing the business and taking them to the next level. If you're just counting on higher leverage to generate returns, that's just not going to consistently do it in the lower middle-market.

Cummings: How are debt providers competing for that business? Leverage really isn't that different between groups, and most folks are in that three and a half, four times range. Rates are what they are and you don't

necessarily want to choose the cheapest guy out there. How do they think about convincing you to work with them?

Korsten: We're often getting one percent per year amortization on debt deals. That makes you say, 'okay, this company can just basically choose to pay interest only.' They can always voluntarily choose to pay down debt but today it's their choice.' Having that high degree of flexibility makes us feel more comfortable. We'll often pay a bit more for that flexibility because we want the company to be able to grow and not feel like they have their hands tied generating liquidity and meeting covenants.

Sabatini: The stability of the cash flow has a lot to do with the capital stack and what the market will allow you to put together in terms of the capital structure. If you have a very long history of very steady cash flows, both on the leverage side and certainly on the sale-leaseback side, that will allow you to lever up a bit more. With regard to a sale-leaseback, we often look at rent coverage, and the longer the history we have, the better. Even a very levered company, for example, a building products supplier, if they've shown the ability to go through a cycle in the last 10 years and maintain their cash-flow generation, that gets us more comfortable that they can handle it, and we're willing to take a bit more of a risk on the credit side.

Korsten: Lender diligence doesn't seem to be getting too much lighter. Even though the market is a bit frothy, lenders are still trying to take their time on diligence because they know things can be cyclical. Especially if their terms are great, they're going to make sure they dot their "i"s and cross all of their "t"s. It's not uncommon in private equity to provide the lender a quality of earnings report in conjunction with an acquisition or refinancing. Often lenders will do their own homework on the quality of earnings report. They don't just take the report as-is, put it in a folder and move on. They ask real, hard questions. Questions that tell me that they're really thinking about the "what-if" scenarios.

The extra cash that a sale leaseback provides to the capital stack that a mortgage wouldn't could be the difference between the success or the failure of the company going forward.

Joseph Marger, Partner, Reed Smith

Fugazy: What is the ideal capital stack?

Sabatini: I would say the ideal capital stack has changed over time. W. P. Carey was part of one of the first sale-leaseback financed LBOs in 1982 when William Simon bought Gibson Greetings. The sponsors — there were three of them — each put $330,000 into the deal and within two years they each pulled out an estimated $70 million, making it one of the highest return deals of all time. We provided approximately $34 million of capital proceeds to Simon and his partners through a sale-leaseback of Gibson's corporate real estate totaling three million square feet. By arranging a pre-closing sale of the assets, the investment group was able to secure the balance of the financing required to complete the LBO. That was at a time when private equity shops could do that and generate enormous returns on equity, which has changed. Clearly, it's a much more competitive business today, but for the last 45 years W. P. Carey has been a cost-efficient part of that initial capital stack in deals where there's real estate involved. It always makes sense to do a sale-leaseback at essentially a 13 or 14 times multiple if you're paying six, seven, eight times for the company. That hasn't changed.

Korsten: I'd agree with you, the multiple arbitrage is potentially compelling; unless you're paying 13 or 14 times for a business. Absent that, you have to look and say 'okay, we have added considerable rent expense to the business. We are now effectively more levered. The business now really has to perform.' One bad investment can take a lot of your time and energy so you have to be very thoughtful.

Marger: The extra cash that a sale-leaseback provides to the capital stack that a mortgage wouldn't could be the difference between the success or the failure of the company going forward. And so you say, I've got the rent obligation, but now I have the cash to grow the company beyond the rent obligation.

Sabatini: That's the idea. Furthermore, rent payments are fully tax-deductible, so the multiple arbitrage,

coupled with the value of the full deductibility of rent payments may in many cases be a critical factor in structuring a successful bid for a new investment or in refinancing an existing portfolio company. The capital can then be put to higher and better use than staying trapped in your real estate and generating eight percent or nine percent.

Fugazy: Does it matter whether that sale-leaseback happens before or after a sponsor buys the business?

Sabatini: Sale-leasebacks can happen at any point in time with a company. We're happy to participate on the front-end like we did with Gibson Greetings and in many other LBOs. We can also participate after the fact, which is often easier for the private equity shop because they have time to figure out what the critical assets are going forward and what they want to commit to in a long-term lease. If it's a very real estate-intensive company, a sale-leaseback is often the best source of financing and consequently, it's typically done in conjunction with the initial acquisition. In fact, some PE firms may be able to get their lenders to carve the value of the sale-leaseback out of their credit agreement and have it preapproved so we're ready to go.

Some PE firms may be able to get their lenders to carve the value of the sale-leaseback out of their credit agreement and have it preapproved so we're ready to go.

Gino Sabatini, Managing Director, Head of Investments, W. P. Carey Inc.

Korsten: I read an interesting bid letter recently. It was for a consumer services company and they owned all the buildings. Included with the bid letter it said "in your bid please consider that a potential sale-leaseback we expect would produce X millions of dollars in net proceeds". It was a car wash company.

Cummings: Half our deals are with family-owned businesses. We're finding in certain cases that there's a benefit to being able to come to them with a conversation around how they can spark a competitive auction by allowing the PE firm to get a little more benefit from a sale-leaseback. Or, we can have a conversation about whether it make sense to do a sale-leaseback on their terms, even if you then sell for a different price point because now you've got a rent expense lowering your EBITDA.

Sabatini: A sale-leaseback makes the most sense in situations where the asset is critical to the company or the life of the company. A car wash is a perfect example.

Korsten: It's not going anywhere. You can't operate a car wash business without the car wash building.

Sabatini: Manufacturing companies are another good example. If the private equity firm is purchasing a company that has a critical manufacturing facility with unique characteristics, a long-term lease makes sense. Same with companies that have a distribution network that they don't foresee changing in the near future.

Marger: Let's just hope so. With the pace of disrupters your diligence efforts are even more difficult for the long-term. There was a time when we thought that CDs were going to save the world, and now they barely exist. Uber is another example. We don't know what it's going to be in next five years, the world can be dramatically different.

Fugazy: How does the pace of change affect you when you're looking at deals?

Sabatini: As part of our underwriting, we evaluate each company's ability to pay us rent over the long term because we're entering typically into a 15 or 20-year arrangement. To the extent that we don't have real estate that's very fungible and that can be repurposed into a different use, the company's future business opportunities are extremely important to us.

Fugazy: Some private equity firms are holding onto investments longer. How is that impacting the initial financing structure?

Cummings: I'd argue there's something of a bifurcation in the market. You're certainly seeing both funds exit earlier than they used to, as well as later. Given the strong market you're seeing folks exit after three to four years or two to three years, simply because the market's strong. The business has perhaps executed on

seven of its 10 strategic goals, and they think waiting two more years to complete the rest of that performance plan is not worth the market risk. In those cases, how do you avoid prepayment penalties and how do you think about building that option into the structure? There are other companies that people are buying and saying 'I'm going to be able to invest in a slightly lower entry multiple, because I know this will take longer, and the market does too.' We're seeing both sides impact structure.

Building the ideal capital structure is an art and it's unique to the buyer and the underlying company.

Eric Korsten, Managing Director, Branford Castle Partners, LP

Korsten: There's an unfortunate tendency with some in the private equity investment world to sometimes sell your good companies too soon and hold on to your bad ones. Managers want to feel like they can get themselves paid and by selling a bit early they can do that but that doesn't mean that it's the right decision. Funds do have an artificial life span. When somebody makes a commitment to us, eventually they want their money back; that's natural. For us, if we achieve something really big, we'll let the next buyer do the next big thing. However, there isn't always something big to do, in which case you may hold it for longer. But if we buy a company and we are then able to buy our biggest competitor a year or two later, we have created something with more scale and substance. What's next? We'll often let somebody else figure that out.

Fugazy: How does the sale-leaseback differ from other capital structures including ABL financing?

Sabatini: The biggest difference is it's very long-term. A sale-leaseback is a 15 or 20-year obligation. We don't have a refinancing risk in a few years. The second biggest difference—and the most important difference—is the amount of proceeds a seller can garner. An ABL deal will give you 50 to 55 percent loan-to-value. With a sale-leaseback the seller gets 100 percent of the fair market value of the asset. The hope is that the money is put to a higher and better use. Private equity investors are looking for 15 to 20 percent annual returns, which real estate by its very nature doesn't generate. So what makes the most sense is if there's real estate on the books, pull that money out and redeploy it into what your company does best.

Korsten: ABL availability also varies over time. With the sale-leaseback, we have a single transaction and we know the price; it's done. With ABL, our collateral is constantly moving and so availability is constantly moving. One has a higher degree of certainty, the other can change significantly as the business's performance changes. ABL is a riskier form of financing in that regard.

Fugazy: Does having a 15-year lease impair the seller's ability to sell?

Korsten: We often consider, would a strategic buyer be less interested in the business because there's a very long-term lease attached to it? For example, perhaps they wouldn't be able to combine that facility with their existing facility. It may ultimately reduce our exit options. So, we really have to think, what's the likely universe of buyers, before we enter into a long-term agreement.

Sabatini: If you have a mission-critical property then it's always going to be an important asset to the company and is unlikely to impair the seller's ability to sell. For example, we did a deal with a pharmaceutical packaging company that had a license from the FDA to package one product. It took them three years of testing and approvals to get this singular drug approved for packaging in this one plant, and the license was plant-specific. It would be very difficult for them to ever package the same type of product in a different plant because they would need FDA approval. They're not going to go through another three-year FDA approval process to move that license to a different facility. So I would say it's company-specific, but if it's a critical facility then it's not going to hold you back.

Fugazy: How is the sale-leaseback generally structured?

Sabatini: Typically we create a new lease when the sale-leaseback is initiated. The company gets the full fair market value of the asset at that time, and they sign a lease committing to the payment of rent for the 15 or 20-year period. As we just mentioned, in particular

situations there may be certain things which are important to the company which then get negotiated into the lease. The lease is then put on a shelf and the tenant maintains full operational control of the facilities, while gaining a long-term financial partner and landlord with the capital and expertise to support any future growth needs.

Korsten: How often do you see any restrictions on the rest of the capital structure or who you can sell the business to?

Sabatini: Some of our best deals are those in which the tenant is sold to a larger entity. As a long-term partner to our tenants, we try our best not to restrict them in this regard. Ultimately, as long as the new tenant can assure us that they'll continue to pay rent for the duration of the lease, we're happy to accommodate their changing needs.

Marger: It also depends on how far up the chain of the corporate structure that the transfers are taking place. If you've done your underwriting under the entire company, and that entire company is being bought by somebody even bigger that could be a positive, not a negative. You'd be very happy to take a look at that. If someone just wants to chop out your company and move to someone with questionable management skills, you're not going to be as inclined to go along.

Korsten: There are a lot of oil and gas companies that have been hitting the market recently. Some of these companies had some pretty rough times, such as in 2016, when their EBITDA may have gone to zero. How would you look at a company like that who owns their real estate if we want to do a long-term sale-leaseback?

Sabatini: With a situation like that we would really look more at the asset and try to understand what our alternative would be in a downside scenario. Is it a nice industrial building in Houston that we can repurpose if necessary, or is it an oil service field out in Midland that will have no alternative use?

Fugazy: It's been such a busy time in the market. Are you seeing an uptick in sale-leasebacks today?

Cummings: We're seeing more opportunities to think about, and work with private owners, on things like sale-leasebacks. It's a more common part of the market today. It's evolved in its maturity even in the past four or five years, and frankly, our sellers are becoming more sophisticated. They hear things from their friends at the country club and they say, I've heard about this sale-leaseback - and they want to know their options.

Sabatini: We often get calls from private equity shops that want to buy the former owner out. Likewise, many sellers think they are the only ones who can run the portfolio company, and they don't want to take a risk that their rent won't get paid going forward, so they want out. From both sides sometimes having a third-party real estate owner makes sense.

Marger: There may be more deals happening, but they're more diversified across more bidders. The higher you go, obviously you're going to get less bidders at certain price points. But in the lower-end market I think we're seeing a lot of activity from family offices who have these long-term triple net portfolios.

Fugazy: When you're acquiring a company and you're assessing the quality of the business, the company's longevity, and the purchase price—all the ways you can add value—how important is the capital structure?

Cummings: It makes a big difference because ultimately there are a lot of sales to the private equity community and they look very hard at what kind of leverage makes sense. There is no one-size-fits-all in the middle market. As such, finding the right partner, or partners, who can put the pieces together is really important to us.

Korsten: We once won an auction for a company that had somewhat lower growth prospects but we saw two great things. One, they owned their own plants and those plants definitely had value in a sale-leaseback. So even though the business was not going to grow really quickly, we could hopefully help achieve our equity returns through a sale-leaseback transaction.

Sabatini: Financing is obviously a critical piece of any deal, both at acquisition and almost more importantly going forward. It's imperative that the owners set up a capital structure which makes sense for that company so it can handle the inevitable ups and downs.

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New hires and promotions

By Demitri Diakantonis

Steve Allan has been named global M&A leader at due diligence firm **Willis Towers Watson.** He is working in the company's global human capital and benefits business. Allan previously served as M&A leader in the firm's U.K. and Western Europe groups.

Brian Ashin was hired by **King & Spalding** as a partner. Previously with Manatt, Phelps & Phillips, Ashin represents private equity firms and private companies on financing.

Marc Baliotti was hired by aerospace-focused private equity firm **AE Industrial Partners** as a senior managing director. Baliotti focuses on structured credit. Before joining AEI, he was with GSO Capital, a subsidiary of Blackstone Group LP (NYSE: BX).

John Barrymore has joined **Raymond James** as a managing director where he is concentrating on the consumer health, food and nutrition sectors. He was previously with Duff & Phelps.

Patrick Belville has joined **Jones Day** as an M&A partner. Belville was most recently a vice president and associate general counsel of M&A at Cardinal Health Inc. (NYSE: CAH).

Shannon Bolton was hired by **StepStone Group** as a managing director where she is leading the firm's Lime, Peru, office. She was most recently with Capital Strategies Partners. StepStone offers customized investment, advisory and portfolio monitoring services to institutional investors.

Julia Boyd has joined **Reed Smith** as a partner. Previously with Goodwin Procter, Boyd represents private equity firms and their portfolio companies on M&A.-

Jérôme Brassart was hired by **Perella Weinberg Partners** as a managing director where he is focusing on the utilities and infrastructure sector. Brassart was most recently with Credit Suisse.

Russell Bryan has joined healthcare-focused investment bank **Bailey Southwell & Co.** as a managing director. Bryan was previously with Brookwood Associates, and he began his career with Bank of America Securities.

Gregg Byers was hired by investment bank **Baird** as a managing director. Baird was most recently with PricewaterhouseCoopers and focuses on oil M&A.


Rebecca Brophy

Rebecca Brophy has joined law firm **McGuireWoods** as a partner. She was previously with Smith Anderson and focuses on private equity and M&A.

Brian Demos has been hired as CEO at **Brynwood Partners**-backed **Carolina Beverage Group.** Demos previously held executive positions at TreeHouse Foods (NYSE: THS).

David Fergusson has joined advisory firm **Generational Group** as senior managing director and group leader, M&A. Fergusson will open and lead an M&A office in Manhattan, leading the firm's expansion across the Northeast region and Canada, and establishing a cross-border international practice. Fergusson was previously co-CEO and president of The M&A Advisor.

Katherine Forrest has joined law firm **Cravath Swaine & Moore LLP** as a partner. Forrest served formerly as deputy assistant attorney general in the antitrust division of the U. S. Department of Justice and as a U.S. District Judge for the Southern District of New York.

David Grimes has joined **McDemott Will & Emery** as a partner. He was previously with Reed Smith and focuses on cross-border M&A.

Kara Helander was hired by the **Carlyle Group LP (Nasdaq: CG)** as chief diversity officer, where she is helping the firm increase board diversity across portfolio

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companies. Helander was previously global head of diversity and inclusion at BlackRock.

JT Herman was hired by **BTIG LLC** as head of M&A in the firm's investment banking division. Herman was previously a managing director and head of industrials and industrial technology at GCA Savvian.


Hiren Mankodi

Mark Hootnick was hired by **PJ Solomon** as a managing director in the firm's debt advisory and restructuring practice. Hootnick was most recently with Millstein & Co.


Ada Pannke

Kumber Husain was hired by **DWS Group** as head of private equity, Americas, where he is focusing on the execution of direct co-investment and secondary private equity transactions. Husain was most recently with Morgan Stanley Alternative Investment Partners.

Lucy Jenkins has joined law firm **Vinson & Elkins** as a partner. Previously with Simpson Thacher & Bartlett, Jenkins focuses on leveraged finance related to M&A.

Todd Kaplan has joined **Centerview Partners** as a partner. Kaplan was most recently the executive vice chairman of global banking at BofA Merill Lynch.

Matthew Kretzman was hired by **H.I.G. Capital** as a managing director where he is responsible for capital markets and execution across the North American private equity portfolio. Kretzman was most recently with KKR & Co. (NYSE: KKR).

Scott Kirk has been hired by **Yellow Wood Partners** as an operating partner, focusing on the consumer sector. Kirk was previously the chief financial officer and chief operating officer at High Ridge Brands, a personal care products company.

Hiren Mankodi was hired by private equity firm **Charlesbank Capital Partners,** where he is leading technology investments. Before joining Charlesbank, Mankodi was with Audax.

David Mastrangelo was hired by **KeyBanc Capital Markets Inc.** as a managing director in the firm's technology group. Mastangelo was most recently with Jefferies.

Tom Monteleone was hired by **Clearlake Capital**-backed software company Provation as chief financial officer. He was most recently the CFO of software-as-a-service provider Ancile.

Ada Pannke has been named head of M&A at glass and ceramic materials materials manufacturer **Schott AG.** Before joining Schott, Pannke was with Lincoln International's Frankfurt office, where she was head of healthcare for the firm's DACH (German, Austria, Switzerland) region.

Veronica Rodriguez has joined **AUA Private Equity Partners** as vice president of investor relations. Rodriguez was most recently the head of U.S. investor relations at Markets Group.

Hilton Romanski was hired by **Siris Capital** as a partner and senior managing director where he will focus on the technology, media and telecom sectors. Romanski was previously a senior vice president and chief strategy officer at Cisco Systems Inc. (Nasdaq: CSCO).

Frederic Segal has joined **Cowen Inc. (Nasdaq: COWN)** as a managing director and vice chairman of investment banking. Segal was most recently with PJ Solomon.

Lisa Suennen was hired by **Manatt, Phelps & Phillips** where she is leading the firm's digital and technology business group and the firm's venture capital fund. Suennen was previously with Venture Valkyrie and GE Venture's healthcare venture fund.

Jennifer Zhao has joined private equity firm **Genstar Capital** as vice president, investor relations. She was previously with TPG's fundraising group.


Jennifer Zhao

Julia Zhu-Morelli was hired by law firm **Reed Smith** as a partner where she is advising U.S. and Chinese-based companies on corporate and transnational matters. She was most recently with Squire Patton Boggs.

Ethan Zweig has joined investment bank **Qatalyst Group** as a partner. He was previously co-head of technology M&A at J.P. Morgan (NYSE: JPM), and before that, he was the head of tech M&A at Citigroup. **M&A**