MERGERS & ACQUISITIONS

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Roundtable:
Lower middle market keeps up busy pace, p.29

DJ DEB SNAGS DELL'S SOFTWARE GROUP AND EARNS ONE OF THE

10TH ANNUAL MID-MARKET AWARDS

Dipanjan "DJ" Deb
CEO, Francisco Partners
Private Equity Firm of the Year

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MERGERS & ACQUISITIONS

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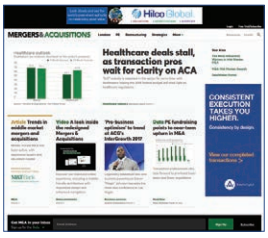
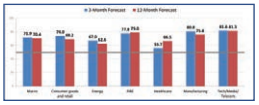
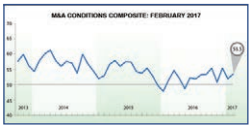
Cover Story

M&A Mid-Market Awards

DJ Deb snags Dell's software group and earns Private Equity Firm of the Year







Cover Photograph by GaryLaufman.com

Inside Word

Best in Class

Congratulations to the 2016 winners of Mergers & Acquisitions' 10th Annual M&A Mid-Market Awards!

Deal of the Year: ResMed Inc. (NYSE: RMD), for the $800 million purchase of Brightree, a developer of cloud-based software to improve clinical and business performance for post-acute-care (PAC) providers, in a deal that embodied many of the underlying trends in the healthcare sector.

Dealmaker of the Year: Gregory Sandfort, CEO of Tractor Supply Co. (Nasdaq: TSCO), for the $116 million acquisition of Petsense LLC, which allowed the largest operator of rural lifestyle stores in the U.S. to expand rapidly in the lucrative pet retail market.

Private Equity Firm of the Year: Francisco Partners, for a stellar 2016, including the complex $2.4 billion purchase of Dell Inc.'s software group and the subsequent carve-outs of Quest Software and SonicWall.

Investment Bank of the Year: Harris Wiliams & Co., for growth in all areas, including deal volume and value, combined with successful leadership transition in the bank's 25th year in business.

Seller of the Year: the Halifax Group, for three significant and profitable exits, including the $331.4 million sale of Envision Pharma Group to Ardian, HGO Capital and Envision management.

Strategic Buyer of the Year: Dover Corp. (NYSE: DOV), for spending $1.6 billion to acquire six companies, including the $780 million purchase of Wayne Fueling Systems Ltd., which leverages the upgrade to chip-reading payment systems at retailers, including gas stations, throughout the world.

Law Firm of the Year: Kirkland & Ellis, for advising on a high volume of completed mid-market transactions and working on many technology-focused private equity fund formations, including the $7.6 billion Thoma Bravo Fund XII, the $1.84 billion HGGC Fund III and ParkerGale's debut $240 million fund.

Lender: Golub Capital, for growth in all areas, including significant staff expansion, increasing buy and hold capacity, and closing the biggest deal in the firm's history, with a $605 million loan to support Roark Capital's purchase of Pet Valu and Pet Supermarket.

Mary Kathleen Flynn
Editor-in-Chief
Mergers & Acquisitions | TheMiddleMarket.com
Email me at marykathleen.flynn@sourcemedia.com
Follow me on Twitter @MKFlynn

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$4.5+ Billion
of committed capital

$2.3 Billion
of commitments issued to date

80
closed transactions

$61M
FLSA
Sole Lead Arranger & Administrative Agent Leveraged Buyout
BLUEPOINT Capital Partners
FEBRUARY 2017

$36M
SouthEast EyeSpecialists PLLC
Sole Lead Arranger & Administrative Agent Leveraged Buyout
FLEXPOINT FORD
FEBRUARY 2017

$40M
BioAgilytix
Sole Lead Arranger & Administrative Agent Leveraged Buyout
Riverside PARTNERS
JANUARY 2017

GLADSON
Sole Lead Arranger & Administrative Agent Leveraged Buyout
WICKS
JANUARY 2017

$115M
ALL ABOARD AMERICA! HOLDINGS
Sole Lead Arranger & Administrative Agent Leveraged Buyout
TENSILE CAPITAL MANAGEMENT
DECEMBER 2016

$62M
invo healthcare
Sole Lead Arranger & Administrative Agent Leveraged Buyout
WICKS
DECEMBER 2016

$375M
ELITE Comfort Solutions
Administrative Agent Recapitalization
ARSENAL CAPITAL PARTNERS
DECEMBER 2016

$97.5M
METROGISTICS
Sole Lead Arranger & Administrative Agent Add-On Acquisition
TAILWIND CAPITAL
DECEMBER 2016

Midwest Industrial Rubber, Inc.
Administrative Agent Leveraged Buyout
INCLINE EQUITY PARTNERS
DECEMBER 2016

$16M
PRIME®
Sole Lead Arranger & Administrative Agent Leveraged Buyout
DW HP
NOVEMBER 2016

VECTOR MEDIA
Sole Lead Arranger & Administrative Agent Recapitalization
SpireCapital
NOVEMBER 2016

FIVE STAR Food Service
Sole Lead Arranger & Administrative Agent Leveraged Buyout
PNC RIVERARCH CAPITAL
OCTOBER 2016

For a complete list of transactions, visit twincp.com.

Earvin "Magic" Johnson keynotes InterGrowth

The Association for Corporate Growth (ACG)'s InterGrowth 2017 conference at the Aria Resort & Casino in Las Vegas, April 24-26, offers a plethora of opportunities to connect with other middle-market dealmakers and a coveted chance to hear keynote speaker Earvin "Magic" Johnson.

Point guard for the Los Angeles Lakers for 13 seasons, Johnson currently serves as the team's president of basketball operations. He also serves as CEO of Magic Johnson Enterprises, an investment conglomerate valued at an estimated $1 billion. Since retiring from playing basketball professionally more than 20 years ago, Johnson has become a business powerhouse who says he has "dedicated his life to leaving a positive impact in underserved urban communities."

Bloomberg

Earvin "Magic" Johnson

InterGrowth is one of the year's largest gatherings of deal professionals. "Where else in the country, or in the world, can you put more than 2,000 dealmakers together?" says Carter Morse & Mathias managing partner Ramsey Goodrich, who chairs the 2017 conference.

"I think you're going to see more deals coming out of InterGrowth." Goodrich adds that buyers are behaving aggressively again, with the U.S. election in the rearview mirror. Consumer good and retail; healthcare; manufacturing; business services; and technology are among the sectors he anticipated will be more active. "There's a renewed sense of pro-business optimism."

In addition to sourcing new deal leads, attendees can network over a round of golf, play a game of tennis, take part in a 5K run or join a group doing yoga.

This article originally appeared in Mergers & Acquisitions.

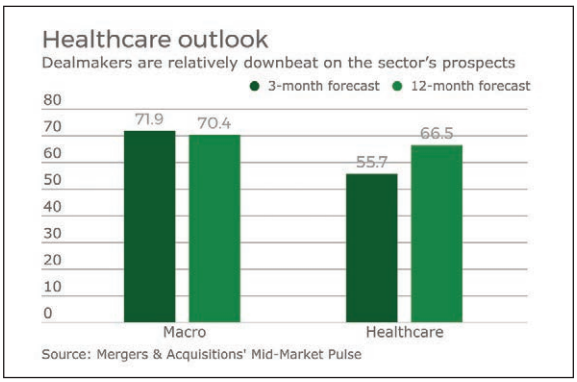
—By Demitri Diakantonis

Waiting for clarity on ACA

Dealmaking in the healthcare industry will continue to drag until there is more clarity about the move to repeal and replace the Affordable Care Act, said dealmakers in recent interviews.

"I think for a while you'll see less deals," said Robert Galvin, CEO of Equity Healthcare, a company created in 2008 by the Blackstone Group LP (NYSE: BX) to work with private equity firms and their portfolio companies to manage healthcare costs. Galvin said some questions will be resolved with the passage of the 2018 federal budget.

The healthcare industry is experiencing "soft deal activity right now," agreed Michael Gaffin, a political strategist at Marwood Group, a healthcare-focused advisory and consulting firm headquartered in New York. Mergers & Acquisitions spoke with Gaffin and Galvin at the recent 9th Annual Healthcare Conference, hosted by the New York chapter of the Association for Corporate Growth (ACG), held at the Metropolitan Club.



"One well-deserving sub-sector that would almost certainly benefit from full repeal, or replacement without Section 6001 of the ACA, is the physician-owned hospital industry," said Amber McGraw Walsh, healthcare department chair at law firm McGuireWoods LLP, in an interview. The provision is "intended to halt the development of physician-owned hospitals by severely limiting expansion of existing physician-owned hospitals and by stopping the development of new physician-owned hospitals that serve Medicare and Medicaid," explained Walsh, who is included in Mergers & Acquisitions' The Most Influential Women in Mid-Market M&A. "Section 6001 has, unfortunately, stymied growth of this important sub-sector in the past."

Despite the uncertainty, McGuireWoods has been active in the healthcare sector over the last year, representing: Bay Area Physicians Surgery Center in its sale to Hospital Corporation

NICK ADAMS
nadams@wilmingtontrust.com
302-636-6103

GREG HASTY
ghasty@wilmingtontrust.com
972-383-3153

STEPHEN MCPHERSON
smcpherson@wilmingtontrust.com
972-383-3161

ANDREW WASSING
awassing@wilmingtontrust.com
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of America; LLR Partners in the firm's $30 million investment in Schweiger Dermatology Group; American Capital Ltd. in its sale of portfolio company The Meadows to Alita Care LLC; Investors Management Corp. in the acquisition of in-home senior care service provider RiseMark Brands; and Nathan Adelson Hospice in the acquisition of Las Vegas Solari Hospice Care.

The ACA had a significant impact on M&A, as healthcare companies sought consolidation to improve efficiency and save costs. New regulations are likely to spawn another cycle of dealmaking. "There will be investment opportunities," said Galvin. "There is more than $3 trillion in the sector, and right now dealmakers are watching to find out what the direction is.""

—By Kamaron Leach

SK Capital expands food ingredients portfolio

SK Capital has acquired a majority stake in ingredients producer Niacet Corp. Financial terms were not disclosed. The target's CEO, Kelly Brannen, will keep a stake in the company.

Niacet, based in Niagara Falls, New York, produces ingredients, such as salts for the food, pharmaceutical and agricultural sectors. The company serves more than 300 customers across 57 countries.

"This investment exemplifies the power of our sector-focused strategy where significant commercial and cost synergies can be generated across portfolio companies," says SK Capital managing director Jack Norris.

New York-based SK Capital invests between $100 million and $200 million in businesses in the materials, chemicals and healthcare sectors. In 2015, the firm

Adobe Stock

invested in wine ingredients supplier AEB Group and pharmaceutical chemicals provider Halo Pharmaceutical.

Ingredient related deals have been picking up recently. McCormick & Co. (NYSE: MKC) bought flavors manufacturer Enrico Giotti S.p.A; Monster Beverage Corp. agreed to buy American Fruits & Flavors; and Vantage Specialty Chemicals Inc., backed by the Jordan Co., acquired oils maker Mallet and Co.

Latham & Watkins represented SK Capital. The Valence Group advised Niacet. KeyBanc Capital Markets (NYSE: KEY) provided financing.

—By Demitri Diakantonis

Buyer interest in chemicals picks up

CenterOak Partners LLC has made a majority investment in Aakash Chemicals and Dye-Stuffs Inc., a family-owned manufacturer of colorants and chemical pigments. CenterOak invested in Aakash Chemicals using the firm's first fund with nearly $420 million in capital, CenterOak Equity Fund I. Financial terms of the deal were not disclosed.

Aakash Chemicals was founded in 1978 to serve the North American chemical distribution sector. The target supplies liquid colorants, pigments, resins, additives, dyes and fine chemicals to a variety of industries including: plastics, coatings, agriculture, applications, textile and paper, inks and graphic arts markets. Aakash Shah will retain a significant equity interest in the company as part of the deal, and will also remain in his current role as CEO. Aakash Chemicals is based in Glendale, Illinois.

"CenterOak's investment facilitates an ownership transition for our family members and provides capital to expand operations and enter new markets," states Aakash Chemicals CEO Aakash Shah. "We are impressed by CenterOak's history in growing businesses -- both organically and through add-on acquisitions -- and look forward to leveraging CenterOak's expertise to expand our product offering and market coverage to better serve our customers."

CenterOak, based in Dallas, makes control investments of up to $90 million

Aaakash

in equity to back middle-market businesses that specialize in industrial growth, consumer and business services sectors. The PE Firm backs U.S. companies that have between $50 million to $250 million

in enterprise value. The private equity firm launched in 2014 and acquired Cascade Windows Inc., maker of windows and doors for residential and commercial buildings, from Altamont Capital Partners in early 2016.

Chemical businesses have driven many middle-market acquisitions. Related deals include: Advent International is acquiring chemicals producer Viakem SA de CV; Bayer AG making an unsolicited bid for Monsanto Co. (NYSE: MON); Dow Chemical Co. and DuPont Co. merging to form a $130 billion chemical company; FMC Corp.'s (NYSE: FMC) completed purchase of Cheminova; Platform Specialty Productions Corp.'s (NYSE: PAH) purchase of Chemtura Corp.'s agrochemicals business; and Lariat Partners made an investment in crop protection company Willowood USA.

—By Kamaron Leach

Robust M&A activity in industrials sector

Esab Welding and Cutting has acquired Arc Machines Inc. (AMI), a maker of tungsten inert gas welding tools, from Marwit Capital. Financial terms of the deal were not disclosed.

AMI makes a variety of automated orbital welding equipment. The target's portfolio of power supplies are made for all types of welding, including: fusion welding, groove welding, pipe welding, diameter welding, tube-to-tubesheet welding and other integrated systems. AMI has more than 3,000 client relationships across the power generation, semiconductor, oil and gas, aerospace and defense, pharmaceutical, food and beverage, and industrial construction sectors.

Esab, a subsidiary company of Colfax

Arc Machines

(NYSE: CFX), is also a global distributor of welding equipment to more than 8,700 clients across four continents. The buyer, founded in 1904, also makes gas control materials, welding consumables, filler metals, cutting equipment and related software.

Founded in 1962, Marwit Capital is a lower middle-market private investment firm based in Newport Beach, California. The firm has approximately $200 million in equity capital under management. Marwit Capital is currently investing out of the firm's second institutional fund, MCP II.

Deals involving industrials and metal producers have been robust recently. Related deals include: Tech Air's, backed by CI Capital Partners, completed deal to buy two welding suppliers; Berkshire Hathaway Inc.'s purchase of Wilhelm Schulz GmbH; Graycliff Partners' backing sheet maker A-1 Machine Manufacturing Inc.; Liberty Hall Capital Partners' acquisition of aerospace parts supplier ZTM Inc.; and LFM Capital's investment in hydraulic clamps maker Vektek LLC.

Livingstone Partners served as

financial adviser to Marwit Capital. Ice Miller LLP acted as legal counsel to AMI, while CohReznick LLP and RSM provided diligence services. Tucker Ellis LLP served as legal counsel to Esab and Cohen & Co. provided diligence services.

—By Kamaron Leach

SaaS deals carry on

Adone Stock

Bregal Sagemount has made a majority investment in Single Digits Inc., a high speed Internet access management software provider. Single Digits' services allow public venues such as hotels, arenas, shopping malls and transportation hubs to provide secure, fast broadband access to everyday consumers. The capital will be used to pursue strategic acquisitions and organic growth initiatives, according to Single Digits CEO Robert Goldstein. In 2016, Bregal Sagemount acquired Discovery Data Inc. from software company Ipreo LLC and also backed logistics service provider Internet Truckstop Group. M&A involving technology, media and telecommunications are expected to soar throughout 2017, according to Mergers & Acquisitions' Mid-Market Pulse (MMP).

—By Kamaron Leach

Private Equity Perspective

Fresh Face

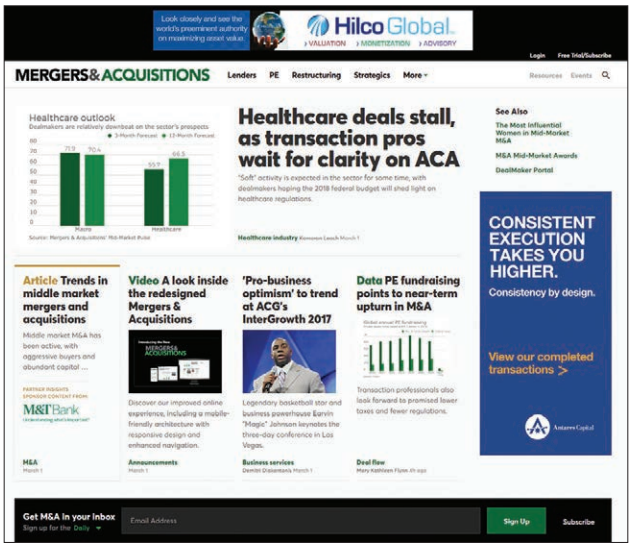
MARY KATHLEEN FLYNN

While Mergers & Acquisitions is well known for our monthly magazine, the popularity and utility of our website has also been growing over the years. TheMiddleMarket.com draws 50,000 unique visitors each month. We recently revamped the site, giving it a cleaner, simpler interface that delivers our authoritative, independent content in a new user experience built specifically to meet the needs of busy dealmakers.

> "We have reinvented our site to engage the entire community of middle-market dealmakers."

In the revamped website, words, media and data work together to provide: daily news about recent transactions; in-depth features that elucidate significant trends affecting the middle market; research reports, including the Mergers & Acquisitions Conditions Index (MACI) and the Mid-Market Pulse (MMP), both based on our proprietary monthly surveys of 250 M&A professionals; columns written by our M&A reporters; guest articles written by respected dealmakers; slideshows and videos, featuring prominent thought leaders; and special reports, including the M&A Mid-Market Awards and The Most Influential Women in Mid-Market M&A.

The site has been reinvented to engage the entire community of middle-market dealmakers. Stories scroll, instead of click, so there are no unwanted page breaks. Just one click in the newsletter lets you read the full report on-site in a continuous reading list. The site has been optimized on all devices for ease of use and intuitive navigation, wherever you are.



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$125,000,000
Senior Credit Facility
was provided to support the recapitalization of
Healthcare Services Company
and a minority investment by
Riverside
Agent

Undisclosed
Unitranche Credit Facility
was provided to support the acquisition of
MIDWEST WHOLESALE HARDWARE
by
highroad CAPITAL PARTNERS
Agent

Undisclosed
Senior Credit Facility
was provided to support the acquisition of
MADISON LOGIC
by
CLARION CAPITAL PARTNERS, LLC
Agent

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Alderfer LEIDY'S
ALL Holding Company, LLC
by
Renovo CAPITAL
Agent

Undisclosed
Senior Credit Facility
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CTSI ENGAGE. INSPIRE. DELIVER.
by
TOWER ARCH CAPITAL
Agent

$100,000,000
Senior Credit Facility
was provided to support the growth strategy of
LIFTFORWARD
Agent

Undisclosed
Senior Term Loan
was provided to support the continued growth of
hanna Andersson
Agent

Undisclosed
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was provided to support the recapitalization of
care plus Anesthesia Management
by
FULCRUM EQUITY PARTNERS
and
LEVEL CAPITAL PARTNERS
Agent

$32,500,000
Senior Credit Facility
was provided to support the equity investment in and acquisition of
FORMAN MILLS
by
GOODE PARTNERS
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THE M&A ATLAS AWARDS
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2015 SMALL BUSINESS INVESTMENT COMPANY of the YEAR

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The Buyside

Packaging Food Deals

DEMITRI DIAKANTONIS

Consumers are eating out less and cooking more at home. The trend is hurting restaurant sales while driving up interest in purveyors of frozen food. The MillerPulse restaurant index reported a 1.5 percent same-store sales decline in January 2016. Strategic buyers, including Bob Evans, B&G and Dean Foods, have been turning their attention to frozen food manufacturers.

> "Anything in the convenience area along the outer portion of the grocery stores, that's where we're seeing growth as an industry."

Bob Evans Farms Inc. (Nasdaq: BOBE) said in January that it will sell its 522 full-service restaurants to Golden Gate Capital for $565 million, plus debt. The move will allow Bob Evans to focus on its BEF Foods packaged foods business, which makes breakfast sausages and macaroni and cheese under the Bob Evans and Owens brands.

"Anything in the convenience area along the outer portion of the grocery stores, that's where we're seeing growth as an industry," Bob Evans Farms president Mike Townsley told analysts. "And so absolutely, as we evaluate options going forward, that'll be where our focus is."

Adobe Stock

To help ramp up BEF's growth, New Albany, Ohio-based Bob Evans said it will purchase Pineland Farms Potato Co. for up to $140 million. Pineland Farms, located in Mars Hill, Maine, produces packaged mashed potatoes, diced potatoes and various cheeses that are sold to restaurants and retailers. Pineland and Bob Evans have had a business relationship since 2002.

Other strategic buyers have made frozen food deals as well. In 2016, Dean Foods Co. (NYSE: DF) acquired Friendly's Ice Cream LLC's retail ice cream business for $155 million in cash. The sale did not include Friendly's restaurants, which are still backed by Sun Capital Partners Inc. The purchase boosted Dean's ice cream division that owns the Mayfield and Dean's Country Fresh brands.

In 2015, B&G Foods Inc. (NYSE: BGS) bought the Green Giant frozen and canned vegetables brand from General Mills Inc. (NYSE; GIS) for $765 million. In that same year, B&G acquired packaged pizza crust maker Mama Mary's for $50 million from Linsalata Capital Partners.

Consumers will always go grocery shopping, which will leave buyers hungry for packaged food producers. M&A

Broken Deal? Maybe Huron Capital's Flex Equity Can Help

Put it Back Together With Huron Capital's Minority Equity Option

You put the deal together and the LOI was signed. But, something happened and the buyer and seller couldn't get to a closing, and now you're left with the dreaded broken deal. What are your options?

Maybe it's time to think about a minority equity investment. With Huron Capital's dedicated Flex Equity group, your client can partner with an experienced, value-added equity investor, without giving up a controlling interest. Flex can provide attractive non-control solutions for owners seeking to diversify their estate, secure growth capital, shore up their balance sheets or repurchase inactive shareholder interests, while your client continues to run the business.

A minority equity investment might just be the solution to your broken deal woes.

Platform Criteria
Buy & Build Strategies
Revenues: Up to $200M
EBITDA: $5M or more
Equity Positions: 20%–100%

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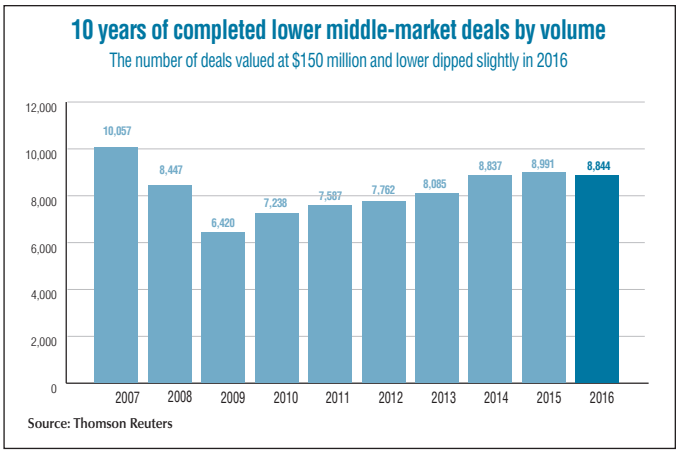
The lower middle market, an ecosystem of transactions valued up to $150 million, is an attractive landscape for deal opportunities. This unique space requires more catering to sellers to see deals through, but there are benefits. Intermediaries can utilize co-investment rights, and for buyers, debt financing is readily available. Yet, dealmakers agree that life on the lower end calls for thorough due diligence.

> "Due diligence can feel like a bottomless pit with deals in the lower middle market."

"It's a bottomless pit of due diligence that needs to get done, and really half the time you can't do enough," says Private Capital Research founder Graeme Frazier, who spoke in a deal structuring panel at the AM&AA 2017 Winter Conference. Frazier says usually "the seller is not trying to pull the wool over your eyes." Instead, business owners may simply not have the answers to due diligence queries posed by private equity sponsors, sometimes learning new things about their company. When scouting a company, dealmakers should conduct their own due diligence and quality of earnings analysis.

There's also great upside for dealmakers in the lower middle market. Buy-side intermediaries can make extra capital with co-investment rights, contractual rights allowing them to invest, side by side, with PE sponsors they've brought deals. Co-investing is low-cost capital for PE sponsors, and intermediaries may gain larger returns than opting for a finder's fee.

Like the general market, the overarching access of debt is great for buyers in the lower end. For lenders, the debt market is "definitely competitive," says Jason Motz, a senior associate at NorthCreek Mezzanine. "PE firms, independent sponsors and mezzanine firms are realizing there's a lot of opportunity here, because valuations aren't as pumped up." M&A



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DJ DEB SNAGS DELL'S SOFTWARE GROUP AND EARNS ONE OF THE 10TH ANNUAL MID-MARKET AWARDS

By Mary Kathleen Flynn, Demitri Diakantonis, Danielle Fugazy, Kamaron Leach and Keith Button

The companies and individuals honored by Mergers & Acquisitions' 10th Annual M&A Mid-Market Awards met the challenges of 2016 with aplomb, outpacing the competition and expanding their businesses, despite a lull in overall activity that occurred during the uncertainty of an election year. The winners also embody the themes that are continuing to drive deals in 2017, such as the role technology plays in making companies more efficient and more secure.

Photograph by GaryLaufman.com

Dipanjan "DJ" Deb
CEO, Francisco Partners
Private Equity Firm of the Year

DEAL OF THE YEAR

ResMed

In a transaction that embodied many underlying trends in the healthcare sector, ResMed Inc. (NYSE: RMD), a provider of medical devices that treat patients with sleep disorders, bought Brightree, a developer of cloud-based software to improve clinical and business performance for post-acute-care (PAC) providers, for $800 million. The purchase underscores the ongoing shift in the U.S. healthcare system from a fee-for-service model to a fee-for-value model and the need for players across the healthcare continuum to use informatics and data analytics as tools to share information and deliver care more efficiently.

"Brightree was an important and immediately accretive strategic acquisition for ResMed. It exemplified a double-down on our ongoing investments to leverage connected care and digital health, and to change the basis of competition in our industry," ResMed CEO Mick Farrell told Mergers & Acquisitions in a March 2017 interview. "One year from announcing the acquisition, we can reaffirm our goals going in: Brightree represents a big step forward for ResMed, fulfilling our role as the world's leading tech-driven medical device company, liberating data and unlocking incredible value for our customers."

ResMed began growing in healthcare data when the company bought Jaysec and CareTouch in 2015. Jaysec uses interactive voice, text and email to direct patients to a self-serve portal for authorization of home medical equipment resupplies. CareTouch provides call-center contacts for patients to assist them with orders, payments and other customized reports.

Atlanta-based Brightree distributes cloud-based software that assists healthcare professionals with billing management and uses data to help them improve business operations. ResMed, headquartered in San Diego, makes medical devices that treat patients with sleep apnea and other sleep-rated breathing problems. ResMed was a customer of Brightree's data before the transaction was announced.


Bloomberg News

The Brightree purchase expands ResMed's presence in healthcare data and information, and it is part of the company's ongoing growth strategy of helping customers improve patient quality of life, slow the progression of chronic disease, and lower overall healthcare system costs. "Brightree's Software-as-a-Service (SaaS) solutions provide a vast array of operational efficiencies and improvement of our customers' cash-flow while helping them deliver best-in-class patient care," Farrell said in the interview.

As the U.S. healthcare system looks to control costs by shifting the provision of more care out of hospitals and into lower-cost PAC settings, improved communication, coordination, and information-sharing among healthcare providers at all levels will be essential, said Karl Palasz, managing director, William Blair & Co., which advised Brightree on the transaction. "Software such as Brightree's will play a central role in the coordination of care and monitoring of patient outcomes. Relative to hospitals and physician clinics, the post-acute care segment has underinvested in technology solutions, creating an enormous need for system-wide improvements. Although Brightree ultimately was sold to a strategic buyer, the highly competitive sale process generated intense interest from technology-focused financial sponsors. The process shined a spotlight on the PAC market's need for further technology investment and eventual consolidation." Increased activity from private equity firms is expected.

DEALMAKER OF THE YEAR

Gregory Sandfort

Led by chief executive officer Gregory Sandfort since 2013, Tractor Supply Co. (Nasdaq: TSCO) currently owns 1,600 stores, making it the largest operator of rural lifestyle stores in the U.S. In 2016, the specialty retailer bought Petsense LLC, allowing it to expand rapidly in the lucrative pet retail market.

"We are excited about the addition of Petsense to the Tractor Supply family, as we develop our pet specialty retail business," said Sandfort when the deal was announced in September. "The pet industry represents a $60 billion market driven by favorable pet ownership trends and the continued humanization of pets by their owners."

Petsense's proven unit model, strong store-level performance, compelling financial momentum, and track record of door-count growth made it a particularly compelling asset within specialty retail, according to William Blair & Co., which advised Petsense.

Prior to the $116 million purchase of Petsense, Tractor Supply had just two HomeTown Pet stores, which have since been converted to Petsense stores. At the end of the fourth quarter, there were 143 Petsense stores, which included eight store openings and one store closure during the quarter, according to Tractor Supply's fiscal 2016 results, released Feb. 1. Tractor Supply is operating Petsense as a subsidiary, with plans to expand the store base by 15 percent to 20 percent annually.

A heavyweight in the retail world, Sandfort delivered a keynote speech at a February conference hosted by the Retail Industry Leaders Association. He spoke about the importance of creating a supply chain that is responsive and reliable. "Servant leadership is easy to talk to, difficult to execute," he said, according to the American Journal of Transportation, which covered the event. To be a good servant leader, it is vital to embody 10 characteristics: Listening, empathy, healing, self-awareness, persuasion, conceptualization, foresight, stewardship, growth of people and building community. In an era of emerging digital commerce, Sandfort urged logistics executives to continuously improve their supply chain by being relentlessly dissatisfied. "If I can't get the product to the customer at any time and any place, I've failed."

Jason Myers/The Forbes Collection/Getty Images

Also in February, Sandfort and other retail executives met with President Donald Trump to lobby against the border adjustment tax (BAT) proposed by Republican leadership in the U.S. House of Representatives. Included in the meeting were leaders of retail giants, including Best Buy Co. Inc. (NYSE: BBY), Gap Inc. (NYSE: GPS), J.C. Penney Co. Inc. (NYSE: JCP), Target Corp. (NYSE: TGT) and Walgreens (Nasdaq: WBA).

Since the meeting, the National Retail Federation launched a satirical advertising campaign against the BAT, with television commercials airing during NBC's Saturday Night Live and other shows.

Sandfort joined Tractor Supply as chief merchandising officer in 2007 and held several executive positions before ascending to the CEO spot in 2013. Previously, he held leadership positions at Michaels Companies Inc. (Nasdaq: MIK), Kleinert's Inc. along with Sears, Roebuck & Co. (Nasdaq: SHLD).

PRIVATE EQUITY FIRM OF THE YEAR

Francisco Partners

Technology specialist Francisco Partners enjoyed a stellar 2016, with many highlights, including: the purchase of Sintec Media, which makes broadcast management software; the sale of Aesynt, which develops medication management software, to Omnicell Inc. (NASDAQ: OMCL) for $275 million; and the initial public offering of Ichor Holdings Ltd. (Nasdaq: ICHR). But the most compelling deal that the San Francisco firm closed in 2016 was the $2.4 billion purchase of Dell Inc.'s software group and the subsequent carve-outs of Quest Software and SonicWall.

From 2010 to 2015, Dell had spent about $4.2 billion to beef up its software group with network security and identity management products through acquisitions, including buying SonicWall in 2010 and Quest in 2012. But in 2016, the top priority for the company owned by founder Michael Dell and private equity firm Silver Lake Partners was to buy EMC Corp. The deal for EMC closed in September with a purchase price of $67 billion, making it the largest technology deal in history. To seal the deal, Dell had to raise funds, and selling its software business was part of the strategy.

For Francisco Partners, news of the sale was welcome. The firm had tried to buy both SonicWall and Quest in the past, only to lose out to higher bidders. Knowledge of the assets was a significant advantage for the PE firm.

"We could move quickly, because we had known these assets," said Dipanjan "DJ" Deb, founding partner and CEO of Francisco Partners, in an interview. Deb, who knows the Silver Lake partners well and has met Michael Dell, led the negotiations on the deal, making the case for his firm: "We may not be the high bidder, but we'll provide speed and certainty to close, because we know both sectors and both businesses well."

GaryLaufman.com

Clockwise from top left: Jason Xiahou, Evan Daar, Brian Decker, Amitoj Singh, Dipanjan "DJ" Deb

Since buying Dell's software group in partnership with Elliott Management Corp., Francisco Partners has done a "massive reorientation," explained Deb. "In every business, there are underperforming parts. Division carve-outs is 35 to 40 percent of what we do."

Dell's software group included six software businesses: Windows management, information management, identity management (the crown jewel, according to Deb), data protection, endpoint management along with performance monitoring.

The first step was to divide the software group into two companies, based in part along distribution lines. The new SonicWall sells products through distributors; and the new Quest Software sells to customers directly. Francisco Partners hired new CEOs for both companies.

Reorganization was involved. For example, the $200 million identity management business was part of the original SonicWall, but, since the identity management products are sold directly to customers, the business has been moved to Quest. The fast-growing business may one day be carved out into its own company, according to Deb.

The pace of dealmaking activity has continued into 2017 for Francisco Partners. Among other deals, the firm recently sold portfolio company CoverMyMeds LLC, which aims to accelerate the approval process for medical prescriptions, to McKesson Corp. (NYSE:MCK) for up to $1.4 billion.

INVESTMENT BANK OF THE YEAR

Harris Williams

Growth permeated every aspect of Harris Williams & Co.'s dealmaking activity throughout 2016, which marked the investment bank's 25th year in business. The investment bank advised on 13 percent more transactions than the previous year. Aggregate transaction value was the highest in the firm's history, up 15 percent from the previous year. The firm's headcount also grew, as did its geographical footprint, with the opening of its Washington, D.C., office.

"2016 was a milestone year," said co-founder and managing director Hiter Harris in an interview. "We have seen other banks come and go, making it 25 years is a big deal. We have been leading the market for a long time now. You can see by the stability of our firm and the depth of people we have built something different. We are very proud of it."

All of this came during a year when Christopher Williams, the firm's other eponymous co-founder, departed and joined BDT Capital Partners. Williams' move was expected. For many years, a focus of the investment bank has been developing the next generation of leaders to position it for continued growth and seamless transitions.

In 2016, the Richmond, Virginia-based firm saw activity in just about every industry in many different locations. The technology and industrials industries were very active. Harris Williams sold Workplace Systems to Insight Capital Partners; Leisure Pass Group to Exponent Private Equity; and Exocad GmbH to the Carlyle Group LP (NASDAQ: CG) in September.

Harris Williams & Co.

Hiter Harris

The Exocad deal was complicated as it spanned across three countries and garnered extreme interest from buyers. "The sale of Exocad to the Carlyle Group was a terrific example of the firm's unique approach, because we had teams in London, Frankfurt and Boston working together to create a tremendous outcome for everyone involved," said Ned Valentine, executive managing director. "It's our culture to work together, to know what's good for the client and what's good for the firm is good for the individuals. Our people get this."

Harris Williams & Co. closed transactions across its 10 dedicated industry groups with brand name client companies. The firm sold West Star Aviation Inc. to Norwest Equity Partners; Boxley Materials Co. to Summit Materials (NYSE:SUM); and Hanna Andersson Holding Corp. to L Catterton, among others.

Strategic acquirers were active in 2016, and Harris Williams & Co. worked closely with them as well, closing a number of transactions with large corporations including Schuler AG (BAYB: SCUN), Charles River Laboratories (NYSE: CRL and Rabalais Constructors LLC, among others.

"We still have a lot to accomplish. We are as scrappy and resourceful today as we have ever been. But our talent has gotten better and stronger over the years, and we look forward to being around another 25 years and beyond," said Harris.

SELLER OF THE YEAR

The Halifax Group

The Halifax Group had three strong exits in 2016, including its sale of Envision Pharma Group, which was a grand slam success. The firm purchased the company for $81.8 million in 2013 and sold it in 2016 for $331.4 million. At the time of Halifax's investment, Envision's service lines had an estimated addressable market size of around $1 billion. Driven by the demand for evidence-based marketing information, Envision began to expand its services and software capabilities. Envision's addressable market in 2015 became more than $20 billion.

The purchase came about when Halifax, along with management, completed a carve-out of Envision from Express Scripts Holding Co. (NASDAQ: ESRX). Envision was being sold as a "scientific publications planning" company with little value being assessed to its integrated software capabilities or the fact that it possessed clinical trials data that could be used to position new drugs in an evolving evidence-based marketing environment.

"Drug companies were no longer able to promote drugs without scientific evidence of their capabilities. Envision's capabilities included collecting and reporting clinical trials data coupled with a software platform to store, deliver and analyze that data. That put it in a prime service provider position as evidence-based marketing became crucial to selling drugs," said David Dupree, founder and managing partner of Halifax.

Halifax was able to purchase Envision for less than 6x trailing Ebitda. During Halifax's ownership, the company completed two acquisitions, added four locations, and developed four new product offerings on a new software platform. As a result, Envision grew from approximately $51 million in revenue and $14 million of Ebitda to more than $90 million of revenue and $29 million of Ebitda. In July 2016, Halifax exited the business in a sale to management, Ardian and GHO Capital.


The Halifax Group

David Dupree

"The company was capital starved inside of Express Scripts, and they needed to invest money for growth. We recognized that and made the investments needed," said Dupree. "We were able to complete two acquisitions, build a new software platform and thereby grow the company substantially."

From the beginning of the deal, management insisted on having substantial employee ownership in the company, and Halifax agreed. "Management invested and also rolled a substantial portion of their ownership. Upon the sale, many employees who were just making normal salaries became millionaires. It was a special moment for management," said Dupree.

In addition to the Envision deal, Halifax sold Nutrition Physiology Corp. (NPC) to The Chr. Hansen Group, a global bioscience company. NCP is a developer and marketer of probiotic drugs for livestock. Halifax made 3.5 times its money on the sale. The firm also sold Golden State Overnight, (GSO), a regional provider of overnight delivery services in California, Nevada, Arizona and New Mexico to General Logistics Systems, a European parcel services business owned by Royal Mail plc. The firm made 2.6 times its money back on the sale.

Said Deupree, "Selling is never easy. Both management and sponsor have to be committed, and there is a right time. You know it when you see it. We never push for a sale. It happens when the time is right."

STRATEGIC BUYER OF THE YEAR

Dover

Maker of fuel pumps and food equipment, Dover Corp. (NYSE: DOV) was prolific in M&A throughout 2016, spending $1.6 billion to acquire six companies. Dover also made two divestitures and negotiated a third, which closed in early 2017, to allow the company to focus on fast-growing core business units.

The most interesting deal Dover made was the $780 million purchase of Wayne Fueling Systems Ltd., which closed in December. The transaction leverages the upgrade to chip-reading payment systems at retailers, including gas stations, throughout the world. Under the Helix, Ovation and Vista brands, Wayne sells equipment for dispensing fuel and making payments at retail and commercial fuel stations. Wayne's payment systems are expected to help Dover capitalize on the conversion of gas stations to EMV, the chip card technology developed by Europay, MasterCard Inc. (NYSE: MA) and Visa Inc. (NYSE: V). Wayne, headquartered in Austin, Texas, is already contributing to Dover's revenue growth. The company said the purchase helped Dover's fluid division grow revenue by 36 percent to $483 million.

"Dover seeks to acquire businesses that are not only great on their own, but can also help advance our business units' strategies when they are integrated within Dover," said David Martin, vice president of corporate development, in an interview. "These acquisitions are typically leaders in attractive markets with strong financial performance and management teams."

Dover, based in Downers Grove, Illinois, looks for add-on deals that will grow its existing businesses globally, or standalone businesses that will add new technology in Dover's growth areas. Core businesses include: printing and identification, refrigeration and food equipment, pumps and fluid transfer and some energy markets.

Dover

In addition to Wayne, Dover bought five companies in 2016: Alliance Wireless Technologies Inc.; Fairbanks Enviromental Ltd.; ProGauge; Ravaglioli SpA; and Tokheim Group SAS. Dover expects purchases to add about 10 percent growth to 2017 revenue.

Dover paid $274 million for Ravaglioli, located in Bologna, Italy. Ravaglioli manufactures automotive lifts and diagnostic equipment, complementing Dover's vehicle service group, which owns several auto repair brands, including: Blitz; Chief; Direct-Lift; Elektron; Forward; Hanmecson; Nogra; Revolution; and Rotary Lift.

The acquisition of Tokheim's dispenser and system businesses was for an undisclosed amount. The target manufactures fuel dispensers, retail automation systems and payment technology, and has a strong presence in Europe, Africa, South America and Asia.

To help focus on fast-growing business lines, Dover has been divesting slower-growing assets. In 2016, Dover sold Tipper Tie, a supplier of processing and clip packaging machines to JBT Corp. (NYSE: JBT) for $160 million. Also in 2016, the company sold hydraulic cylinders maker Texas Hydraulics to Wynnchurch Capital, for undisclosed terms.

In 2017, the company completed the sale of a majority stake in Performance Motorsports International, which produces automotive parts for the motor and power sports sector, to Kinderhook Industries-backed Race Winning Brands for $150 million. According to Martin, Dover is not currently looking to divest more businesses, but the company is "still actively looking for acquisitions across many of our growth markets."

LAW FIRM OF THE YEAR

Kirkland & Ellis

Kirkland & Ellis distinguished itself among many sterling law firms in the middle market in 2016, not only in the volume of deals it advised on, but through its work in technology M&A transactions and tech fund formation.

Technology is projected to be one of the hottest sectors for middle-market M&A, and Kirkland & Ellis foreshadowed that trend by advising on several significant middle-market tech M&A funds that closed to investors in 2016. Those funds included HGGC Fund III, which the Palo Alto, California-based HGGC raised in less than 100 days and closed at $1.84 billion. HGGC is investing in companies updating technology in businesses like grocery stores and insurance providers.

Kirkland also advised on Thoma Bravo Fund XII, which closed in September at $7.6 billion. The Thoma Bravo firm, based in Chicago and San Francisco, is pursuing software and technology opportunities with the new fund, as the software industry grows to serve all areas of the economy.

In the lower-middle market, Kirkland & Ellis advised Chicago-based ParkerGale Capital LP on its $240 million debut debt buyout fund, which makes majority investments in founder-owner tech companies with Ebitda of $2 million to $10 million.

With its fund formation business, Kirkland & Ellis made a push for new clients in 2016 that signed more than 100 PE sponsors as clients, including about 25 middle-market M&A firms, said John O'Neil, a corporate partner at the firm and head of its investment funds group.

Kirkland & Ellis LLP

John O'Neil

Tech funds, along with the tech M&A deals driving the formation of those funds, were among strongest areas of growth for Kirkland & Ellis in 2016, O'Neil said. For limited partners, "a lot of times the technology is used across so many different industries that actually an investment into tech brings a level of diversification to the portfolio that you otherwise might not expect," O'Neil said.

Kirkland & Ellis advised on 275 completed mid-market transactions worth $21.6 billion in 2016, according to data from Thomson Reuters on transactions worth $1 billion or less, including those with undisclosed terms.

Among the firm's notable M&A practice hires in 2016 was Jonathan Davis, who joined as a partner from Cravath, Swaine & Moore in December. Kirkland has more than 700 attorneys globally in its corporate practice, which advises on middle-market M&A transactions as well as a wide range of types of corporate transactions.

Kirkland's notable deals in 2016 included advising Accenture Plc (NYSE: CAN), the global professional services provider, on its agreement to purchase DayNine, a cloud-based human resources consulting and deployment services provider. The law firm also advised telecom network provider Inteliquent Inc. (Nasdaq: IQNT) on its sale to GTCR LLC for nearly $800 million.

For Kirkland & Ellis, the sizable volume of middle-market deals it advised on and the fund formation business growth are tied together, as more PE firms aim to consolidate their law services business with law firms, O'Neil said.

LENDER OF THE YEAR

Golub Capital

Golub Capital has been growing by leaps and bounds for years, and 2016 marked an exceptional year for the lender, which was founded in 1994. In 2016, Golub Capital closed 147 deals, hired 87 new employees and expanded its product offering to include buy and hold capacity of over $400 million. Additionally in 2016, the New York-based firm closed its biggest deal in history with a $605 million loan to support Roark Capital's purchase of Pet Valu and Pet Supermarket.

Golub Capital, as administrative agent, sole bookrunner and joint lead arranger, provided a $605 million GOLD financing to support the merger of Pet Valu and Pet Supermarket. GOLD financings are Golub Capital One-Loan Debt facilities. The financing supported the combination of two current Roark Capital Group portfolio companies and created one of largest pet supply retailers in North America, with over 930 stores throughout the United States and Canada.

"In many ways 2016, crystalized the platform we have built over the years and highlights our ability to do deals across the spectrum. We are very proud of what we have accomplished. We now have a proven track record for executing large deal syndications," said managing director Andrew Steuerman. "Roark is a repeat client, and many of our clients are repeat clients because our business model resonates with private equity financing requirements."

Sixty-two private equity sponsors did repeat business with Golub Capital in 2016. Golub Capital also opened nine new sponsor relationships in 2016, including Kohlberg Kravis Roberts & Co. (NYSE: KKR), GI Partners and HgCapital. Two of these nine sponsors became repeat clients.

Golub Capital

Andrew Steuerman

In addition to the Roark Capital deal, Golub lent on Thomas H. Lee Partners' acquisition of Professional Physical Therapy, CenterOak Partners' acquisition of Wetzel's Pretzels and Berkshire Partners' acquisition of Parts Town, among other deals.

"Prior to T.H. Lee's acquisition, we grew with Professional Physical Therapy. Besides our incumbency, we offered industry expertise and speed of execution. We were able to move to a new owner and continue to support the company's future growth," said Steuerman.

"In the case of Wetzel's, we have in-depth knowledge of the specialty retail and food sectors. CenterOak really wanted a partner that understood retail businesses with multiple locations and they found that with us."

The firm syndicated $1.4 billion of loans in 2016 and was ranked No. 1 for senior secured loans of up to $100 million for leveraged buyouts, and No. 1 for senior secured loans of up to $500 million for leveraged buyouts, according to Thomson Reuters and internal Golub data.

With over $20 billion of capital under management, Golub Capital set new performance and client records in 2016. During the year, Golub Capital closed 147 loans with an aggregate value of over $8.8 billion, compared to $8.4 billion across 120 transactions in 2015. "We are constantly making investments at our firm to serve our clients and meet their needs," said Steuerman. "That's always something we will do."

FIVE YEARS OF WINNERS

THE M&A MID-MARKET AWARDS HONOR THE LEADING DEALS AND DEALMAKERS

	Deal	Dealmaker	Private Equity Firm	Seller	Strategic Buyer	Investment Bank	Lender	Law Firm
2016	ResMed (Brightree)	Gregory Sandfort, Tractor Supply	Francisco Partners	The Halifax Group	Dover	Harris Williams	Golub Capital	Kirkland & Ellis
2015	Amazon (Elemental Technologies)	David Brackett, John Martin, Anatares Capital	Audax	The Riverside Co.	Newell Rubbermaid	KeyBanc	NewStar	Milbank
2014	Thoma Bravo (TravelClick)	Gretchen Perkins, Huron Capital	HGGC	The Riverside Co.	PPG Industries	Piper Jaffray	GE Capital	Jones Day
2013	Hormel (Skippy)	Stewart Kohl, Bela Szigethy, The Riverside Co.	GTCR	Vector Capital	Yahoo	Lincoln International	Fifth Street	K&L Gates
2012	Starbucks (Teavana)	Mark Brady, William Blair	The Riverside Co.	Blue Sage	Coviden	Harris Williams	Madison Capital	Latham & Watkins

Source: Mergers & Acquisitions

What Makes a Winner?

The M&A Mid-Market Awards honor leading dealmakers and deals that set the standard for transactions in the middle market. To determine the winners, Mergers & Acquisitions considers a variety of factors. We look for companies and individuals who overcame the challenges the year brought, embodied the trends of the period and took their businesses to the next level. Market leadership and performance are important, but league tables aren't everything. Growth counts for a lot, especially when the rate of growth outpaces peers and the overall industry. Innovation also counts. We value companies that changed the M&A landscape, expanded into new territories and transformed their businesses. Thought leadership in the industry is also relevant. Looking at past winners provides a good guide to what we're seeking (see chart).

We bestow M&A Mid-Market Awards in the following eight categories:

Deal recognizes a transformative transaction that made a significant impact on the buyer's strategy or sector or overall M&A. The award goes to the buyer. Corporations and private equity firms are eligible.

Dealmaker honors an individual who made a significant impact on M&A, or who led a transformative transaction. The award goes to the person who led the deal. All dealmakers are eligible.

Private Equity Firm recognizes a PE firm that stood out in a competitive landscape. We take into account the acquisitions, exits, fundraising and other activities made by the firm throughout the year, including growth. Thought leadership also plays a role. The award goes to the firm, and only PE firms are eligible.

Investment Bank honors a bank that outshone the competition. We take into account the volume of deals advised on, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the bank. Full-service investment banks are eligible.

Seller recognizes a firm that produced stellar exits throughout the year. The award goes to the firm.

Strategic Buyer honors a corporation that wielded M&A to transform or significantly expand its business, or sector or overall M&A. Acquisitions and divestitures emblematic of the company's M&A strategy are considered. The award goes to the company. Corporations are eligible.

Law Firm of the Year recognizes a law firm that excelled. We take into account the volume of deals advised on, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the firm, and law firms are eligible.

Lender of the Year honors a lender that ran ahead of the pack. We take into account the volume of loans made, as well as their significance. We also consider the firm's growth, thought leadership and influence on the M&A industry. The award goes to the lender, and lenders are eligible.

To be eligible for our awards, deals must meet the following criteria: be valued at or below $1 billion; involve at least one U.S.-based company as buyer or seller; and have been completed by Dec. 31 of the award year. M&A

MID-MARKET PULSE: High hopes for consumer goods & retail

Expectations for M&A in the consumer goods and retail sector remained high in February, despite the debate over the proposed border adjustment tax, or BAT, according to *Mergers & Acquisitions*' Mid-Market Pulse (MMP).

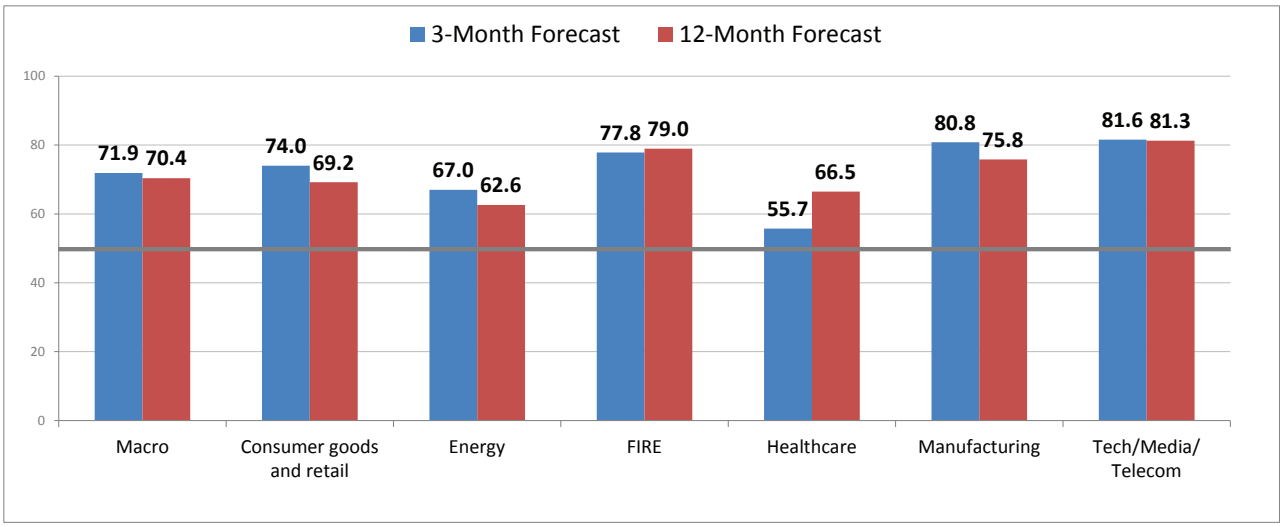
Survey participants gave the sector a score of 74.0 for the three-month outlook and 69.2 for the 12-month outlook, about the same results gathered before the holiday shopping season. The industry's scores were near those received for overall M&A, with the three-month outlook about 2 points higher, and the 12-month outlook about 1 point lower.

One area of uncertainty in the consumer goods and retail sector surrounds the BAT proposed by the Republican leadership of the U.S. House of Representatives. A BAT would provide tax breaks to American companies that ship products to other countries, while removing tax breaks from American companies that import goods from other countries. The strategy is intended to increase demand for goods manufactured in the U.S.

Retailers, however, argue that a BAT would drive up prices for everyday necessities, including food, gas, clothing and prescription medicines. The National Retail Federation has launched an ad campaign against the tax. "American consumers are being asked to foot the bill for a new $1 trillion tax giveaway for multinational companies, and this campaign will make sure those paying for it know it," says David French, the trade group's senior vice president for government relations.

Some dealmakers sounded a note of caution. A "trade war" would "affect overall dealflow negatively," as one survey participant put it. On balance, though, most respondents predicted that Republican-led policies will have a positive impact on M&A in many industries, including consumer goods and retail.

The MMP is a forward-looking sentiment indicator, published in partnership with CT, a provider of business compliance and deal support services. ■



ABOUT THE *MERGERS AND ACQUISITONS* MID-MARKET PULSE (MMP)
The MMP is a monthly barometer for the outlook of M&A activity and conditions from the collective viewpoint of approximately 250 business executives in private equity firms, investment banks, lenders and advisor firms, such as accounting, law, and consulting firms, involved in M&A activity. Various sub-indicators that make up the overall MMP composite include projected deal volumes and pricing, staffing and resource utilization levels, and the expected impacts of economic conditions, taxes, and regulatory policy on respondents' future M&A activity.

MMP results are presented as rolling aggregate indicators for both three- and 12-month outlook periods for macro M&A issues as well as for individual industry sector issues in healthcare, consumer/retail, manufacturing, energy, and technology/media/telecommunications on a monthly rolling basis. A diffusion index is produced by calculating the sum of percentages of those indicating on survey responses that describe a change in sentiment for three and 12 months (e.g., increase/positive, decrease/negative, or no change/neutral) to arrive at three-month and 12-month aggregate index values that are then averaged to create a total composite for the month. A reading of over 50 indicates an expansion relative to the prior month, and a reading below 50 indicates a contraction.

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MERGERS & ACQUISITIONS | Roundtable

Lower **middle market** keeps up busy pace

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MODERATOR

Danielle Fugazy
Contributing Editor, *M&A*

As the M&A industry continues to experience very competitive market conditions private equity firms transacting in the lower middle market are looking for ways to win deals without over paying. And of course they are then looking to add value to these companies and sell them as stronger, more profitable companies. But with highly competitive market conditions is this possible? What lies ahead for professionals transacting in the lower middle market and how can they create success? Mergers & Acquisitions hosted a roundtable to explore what's going on in the lower middle market of the private equity industry, how these firms are creating value and what's in store going foward. The event was sponsored by Abacus Finance. What follows is an excerpted version of the conversation.

PARTICIPANTS:

Danielle Fugazy, Contributing Editor, *M&A* Magazine

Peter Calamari, Managing Director at Platte River Equity

Andy Levison, Managing Partner at Southfield Capital

Sean McKeever, Managing Director and COO, Abacus Finance

Sean Roberts, Principal at Huron Capital Partners

Mark Sullivan, Partner at Lineage Capital

Danielle Fugazy (moderator): How would you characterize market conditions today?

Sean McKeever (Abacus Finance): There has been a lot of capital raised by private equity firms which has increased demand for assets and put pressure on purchase prices. However, the same could be said for the private debt market, which has resulted in an accommodative financing environment for private equity back issuers.

Andy Levison (Southfield Capital): We're seeing higher valuations, particularly in the bigger companies. It's a more competitive market and it is more important than ever before to have an edge going into the process of acquiring a company; you need to bring something to the table to differentiate yourself and that management appreciates.

Sean Roberts (Huron Capital): You always have to have some degree of an edge; not only to differentiate yourselves to win, but if are you willing to be the highest bidder, you have to bring some value to the table to justify the price that you just paid.

Fugazy: Do you anticipate the market remaining competitive throughout 2017? How do you differeniate yourselves?

Peter Calamari (Platte River Equity): Moving quickly through diligence and having committed financing is almost the ante to even play now. If you are going to pay a higher price, you have to be able to grow the business and demonstrate that you are able to do that to the management team.

Levison: There are a few ways of differentiating yourself. No. 1 is to avoid a process. If you're able to source deals through non-traditional methods and negotiate directly with the owners, that's a significant edge. No. 2, industry expertise. We focus on entrepreneur management owners. We've got a long history of success of doing that. We've got a lot of great management teams, prior management teams that speak highly of us, and that helps a lot in our discussions with the new teams we're focusing on.

"A lot of our private equity clients are doing add-on acquisitions at lower entry multiples than the initial platform purchase which averages down the entry multiple."

Sean McKeever, Managing Director and COO, Abacus Finance

Roberts: Every firm is capable of writing a big check. So you've got to bring something to the table beyond just capital. For us, the focus is on situations where we've got an operator who can come in and add value to that business, or a Huron operating partner to sit on a board to provide strategic insight and do things the owner wouldn't be able to do on their own like find that add-on acquisition. Doing those sorts of things is what helps to distinguish us with business owners.

McKeever: A lot of our private equity clients are doing add-on acquisitions at lower entry multiples than the initial platform purchase which averages down the entry multiple. In 2016, 60% percent of all private equity M&A transactions were add-ons.

Levison: There are a number of factors you have no control over—the economy, interest rates, excetra—so whatever you can do to make accretive acquisitions to lower your entry price is critical.

Calamari: We focus on add-ons as well, but we found there is not always certainty around getting them completed. As a result, we spend most of our time figuring out how to drive revenue growth organically. How do we find new products to launch or new services or geographies to get into? How do we add capital to the business to expand the capacity?

Mark Sullivan (Lineage Capital): We are very focused on trying to discern the specific needs of the seller because we are only working with owner-managed businesses. We are trying to sell a transition that's different than a control transaction so we are very focused on understanding what's driving the seller's motivation now and then going forward.

Fugazy: Do your firms have institutionalized value creation plans they are using with each company or is it different for each company?

Mark Sullivan (Lineage Capital): We have a process, but it may result in a different plan. For example, some businesses might be well suited to do acquisitions, for others we may be looking at geographic expansion. We have a process that we take the company through before we invest, and execute on after we invest.

Levison: However you go about creating value, if you don't have management on board to do it, it's not going to work. You have to make sure that there is complete alignment and agreement prior to closing the deal. This should happen during the LOI stage. If there isn't a formal process you can get 90 to 120 days from when you sign the LOI to when you close, so you can not only complete your due diligence, but you can work on a business plan collaboratively with management.

"However you go about it, if you don't have management on board to do it, it's not going to work. You have to make sure that there is complete alignment and agreement prior to closing the deal."

Andy Levison, Managing Partner at Southfield Capital

We like to have line of sight for significant organic growth as well as add-on acquisitions. We are looking to triple the EBITDA of our companies. Sometimes we'll buy companies and EBITDA will drop in year one as we invest in the business for future growth. That's fine because we create value through growth and because we're in it long-term.

Calamari: Our main focus initially is on getting the right people in the right seats, and making sure they have the right incentives. Then we spend time putting in place the right measurement tools and reporting. Only after we have the foundation in place, do we turn our attention to the growth plan and execution.

Roberts: Developing a plan to create value has always been a part of our process for each transaction, and we put a lot of rigor into the numbers. We really try to say: here is the opportunity, here is our probability of success, here is the scope of it, and try to make that a key part of our underwriting so we can take a bullet point list of ideas about how to create value and put some numbers on it to hold ourselves accountable to achieve the growth that we're underwriting at the onset. Growth through acquisition is a key part of the plan to create value in almost every deal we do. The average business owner isn't going to pursue a large acquisition because they don't typically have the skillset and capital to do it, so we know there is opportunity for us to create incremental value through acquisitions. It is obviously really difficult to quantify the impact of unknown future acquisitions, but we do a lot of work upfront to identify the universe of potential targets so we have confidence going in that there is going to be opportunity to expand geographies or add product lines through acquisition.

Fugazy: Will you pass on a deal if you don't see an opportunitiy for an add-on acquisition?

Roberts: I don't think I can say unequivocally no, but almost every instance that I can think of we go into it with the expectation that there will be add-on acquisitions.

Levison: If we are going into a new deak there are no add-on acquisitions out there, we better be really sure about the organic growth avenues. And in the lower middle market purely organic growth in a relatively short time can be rough so it's important we have identified all avenues of growth.

McKeever: Having financed numerous transactions of various sizes over the last 10 plus years, it is generally easier for private equity firms to add value in the lower middle market than it is in the upper middle market or larger corporate space. It is an advantage the folks sitting around this table have compared to the larger funds at a time when the ability to add value to an asset is likely to be the key contributor to investor returns.

Levison: The other thing is we don't like to over-leverage our companies at the acquisition. The maximum we do at closing is approximately three times debt to EBITDA. For most of our companies we are almost always their first institutional investor. They've never borrowed money, other than working capital, so we don't like to over lever.

Calamari: We would agree. When you're putting so much emphasis on growing the business and the investments that you need to make, and the people you need to hire, and the equipment you need to purchase to generate that growth, that strategy, by definition, means you have to be more conservative on leverage.

Fugazy: Lower middle market firms tend to be more conservative when it comes to leverage, would you agree and do you expect that to be the norm?

McKeever: That's right and it's smart, because a lot of times this is the first institutional money that many of these companies have taken and often times there needs to be investments in that business. It could be additions to the C-Suite, investments in technology, a build-out of infrastructure or adding to the sales force. Having the appropriate capital structure that allows you to make these investments is critical to the value creation process. This is how much lower middle market firms operate and it should continue.

Levison: If you are at a low level of leverage at inception and then you implement changes, you can come back for more leverage once you've built a sustainable business. And that business is a different credit than it was on day one.

Fugazy: Are there any particular types of deals getting done in the lower middle market today?

Sullivan: We invest across sectors and it's very competitive everywhere you look.

"In some ways, the competitive market has made us focus more carefully on what we do and how we can do it better."

Peter Calamari, Managing Director at Platte River Equity

Roberts: One thing we've done is look at the smaller end of our scale spectrum to get involved with businesses. Rather than compete for the $20 million EBITDA business with 100 other firms, let's find that slightly smaller business that's a proprietary opportunity. We have had success with what we call our ExecFactor Program, which is the name we have given to the strategy of finding an industry we really like and then finding an executive who we think we can sponsor to employ capital in the market. We will then go find deals together. When you have that executive with you it goes a long way in conveying to that business owner that we can be a really good partner for them.

Calamari: For us it's really focusing on where we have the most industry knowledge. It's where we have the highest conviction that we can drive value in the business, grow revenue and find add-on acquisitions. If we go to a management meeting and we need to go through the industry overview section, that's probably not the company for us.

Fugazy: The industry is moving toward industry expertise. How important is industry expertise in the lower middle market today?

Levison: The LPs aren't very interested in generalist firms nowadays.

Sullivan: We have a very focused approach; although, the industries that we look at are diverse. As you look at the industries, sometimes sellers don't want someone telling them what to do or feel like there's going to be someone that is second-guessing them or telling them what to do. And then in some cases we have lost out on an opportunity because we weren't perceived to have enough industry expertise, even though they liked our approach. In general, industry expertise has become more important than it was five years ago.

Levison: I agree. And I think it specifically relates

to the sourcing side because the people you are sourcing deals from are business brokers and if they think you'll look at anything you won't see much.

Fugazy: As a lender, do you find you have to become expert in certain fields?

McKeever: We have found that our best advertising are the deals that we've done. When we advertise the deals that we've done, there is a description on the industry, and we receive calls from folks that are interested in that industry. It is a key contributor of deal flow.

Calamari: Industry knowledge is definitely an advantage on the sourcing side. It helps in diligence. It helps with finding managers once you've acquired the company and with building a value creation plan.

Fugazy: It seems to reason that deregulation is underway. How do you think that impacts private equity transactions in the lower middle market?

Roberts: Politics aside, less regulation is usually a positive for business. So you'd think it would create a good environment for M&A activity and the economy in general. But everybody's waiting for what these changes are going to be and nobody knows what will transpire. While we think less regulation will be positive in the long run, we're in a period of uncertainty right now and uncertainty may create some headwinds for deal activity in the short run.

McKeever: It will be really interesting to see how the year plays out. You have some of the positives of deregulation, a more pro-business tone being taken by the White House and potentially some infrastructure stimulus. On the other side, there is uncertainty surrounding the new administration—specifically relating to taxes. The potential for lower personal or corporate taxes and a lower capital gains tax may cause some sellers to delay going to market this year. This is going to be an interesting story to watch.

"We have a process, but it may result in a different plan. For example, some businesses might be well suited to do acquisitions, for others we may be looking at geographic expansion. We have a process that we take the company through before we invest, and execute on after we invest."

Mark Sullivan, Partner at Lineage Capital

Levison: People are more optimistic than they have been in a long time. I see it at portfolio companies, with management teams and in general. You don't know how it will turn out, but a lot of the current administration's possible policies don't really affect what we do.

Calamari: I would say in general, the lower middle market is relatively better positioned. We'll see what that translates into over time, but there is definitely a sense of optimism at our firm.

Fugazy: What about on the debt side with all these US tax laws changing?

McKeever: One tax that's directly tied to debt is the potential for interest to no longer be deductible for tax purposes. This change by itself would have a negative impact on our borrowers. However, the question is what will the other changes to the tax code be as many of those proposed in the plan the White House is supporting (A Better Plan Forward) would benefit our borrowers including a lower corporate tax rate and the ability to expense CAPEX in the year the expenditure is made. Based on the relatively low leverage displayed in our portfolio and across the lower middle market, the proposed plan would likely be a net benefit. Now, I don't think that's true if you start getting above five times total leverage, but luckily that is not typical of our transactions.

Sullivan: Some of the businesses we look at are potentially impacted by the import tariffs that may be coming. That's now part of the discussion at our table when we are looking at businesses that import a lot from around the world. The dynamic is different than

it was six months ago, that's for sure.

Roberts: We have a number of consumer product companies that import from Asia and there is no domestic supplier for those types of products. It's not as if the import tariff will suddenly make us procure those products domestically. It will be an added tax.

Fugazy: Other than being on your radar, are these potential changes having any other impact?

Sullivan: We are doing business as usual. We are talking about some of these things but we are not hesitant to make an investment because of what might happen.

"Politics aside, less regulation is usually a positive for business."

Sean Roberts, Principal at Huron Capital Partners

Fugazy: Are you seeing more firms change their mandates to be more flexible?

Roberts: We actually just added the capability to do non-control deals, and we've hired a team of people who have spent their entire careers in that space to help us do that. In some cases the seller may be taking chips off the table in a non-control deal, and in other cases they may be looking for capital for growth or acquisitions. There are lots of different scenarios that you can envision. But we think there is a great opportunity to serve the needs of business owners who aren't ready to give up control and we can be flexible to get deals closed.

McKeever: From where we sit, we get to meet and talk to a lot of private equity firms and hear what they're doing and hear how their strategy is changing. People are more open today to altering their strategy, given how competitive the market is.

Sullivan: On average we partner with people who own 40 percent of the business. They want some liquidity, and they believe in the business and they like the idea of a very large second bite of the apple. For the owners it isn't about taking some chips off the table and diversifing their net worth and then getting the big bite. Others are doing this more. This is all a result of the influx in capital in the market. Family offices are investing directly as well. This is the most competitive environment that we've been involved with in my 20 plus years in the industry.

Calamari: In some ways, the competitive market has made us focus more carefully on what we do and how we can do it better. So how do we get better and faster at diligence, and how do we get more institutionalized around value creation, and how do we get smarter on our industries or deal sourcing to find more opportunities. So on the one hand it is a lot more competitive. But on the other hand, I think all of us continue to get better at execution so that we can still generate attractive returns for our investors.

Roberts: People are getting more creative and allocating more resources to finding deals that are not heavily shopped and being shown to the larger firms. For example, we have focused on developing a network of non-traditional deal sources through accountants, attorneys, and financial advisors. We've also spent a lot of time on ExecFactor deals. We will pursue smaller investments in an ExecFactor situation because we know that we're going to find the next add-on acquisition to quickly get the business up to a scale that makes sense for us.

Fugazy: Would you still characterize today as a seller's market?

Sullivan: It's definitely a seller's market.

Levison: When you exit, ideally you'd like a hot market and the company perfectly positioned to sell. That rarely happens. So in a hot market, would you sell something maybe earlier than you would have because there is that opportunity to do it, yes, definitely. I think selling and exiting is much harder than buying, that's the value add. There's an art to it. Anyone with a checkbook can buy a company, but selling it, creating something that buyers want that might be strategic if you get lucky, that's the value, big value.

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THE FINANCIAL SERVICES SECTOR READIES FOR ERA OF DEREGULATION

Deregulation in the financial services sector is a priority for the newly minted Republican-controlled government. Many of the rules and regulations enacted after the 2008 financial crisis are expected to be rolled back as President Trump and many Republicans contend that the regulations are hampering companies from growing. Specifically, opponents of The Dodd-Frank Wall Street Reform and Consumer Protection Act argue that the regulation makes it difficult for businesses in every sector to get the loans they need to grow and that, in turn, these regulations stifle the financial services sector in general.

"The administration claims to be focused on enhancing U.S. competitiveness, and some of the regulations and reporting requirements that exist arguably put certain U.S. industries at a relative disadvantage to their foreign competitors and in general," says Ian Bone, senior manager of strategy & innovation at CT, a provider of business compliance and deal support services. "Given that we cannot change foreign policies, if U.S. financial regulations were pulled back to the European standard, it could allow banks to be more competitive in certain areas that have languished in recent years."

"If U.S. financial regulations were pulled back to the European standard, it could allow banks to be more competitive in certain areas that have languished in recent years."

– Ian Bone, CT

While it's early in the new presidential term, it's almost certain that actions taken by the government will soften regulations on banks and all major financial institutions. And changes have already begun. In February, the President signed an executive order giving the Treasury secretary authority to restructure major provisions in Dodd-Frank and to make sure existing laws align with the new administration's goals. The changes are expected to make it easier for banks to lend more and for businesses and consumers to transact. As a result of the expected changes, many experts believe the sector will see more M&A activity as strategic acquirers look for growth and private equity firms look to buy quality assets.

"A reduction in regulatory burdens is good for all financial services companies and you can see that there is a positive feeling. Financials on the stock market are performing very well in general," says Nick Krenteras, a managing director on the Financial Services team with PineBrook Partners. "There is potential for a lot of activity."

The positive sentiment Krenteras describes actually started right after President Trump was elected. At the end of 2016, respondents to *Mergers & Acquisitions'* Mid-Market Pulse (MMP), felt deal making in the financial services sector would accelerate significantly over the next 12 months as a result of deregulation of the financial services industry under a Republican president and Congress. The MMP is a forward-looking sentiment indicator, published in partnership with CT. It is based on a monthly survey of approximately 250 middle-market M&A professionals.

The financial indices since the election also show a feeling of optimism. Broad indices are up 17 percent while regional bank performance is up 25 percent, according to the S&P Regional Bank Index. All financial subsectors have had positive performances on the indices since the election through mid February 2017.

MORTGAGE LENDERS WILL BE OF INTEREST

Mortgage origination is one sub sector where growth is expected. In the wake of the financial crisis, mortgage business lines at banks were either decimated, sold or simply closed. Non-bank mortgage companies emerged in their place. In fact, non-bank lenders such as Freedom Mortgage, Quicken Loans Inc. and Loan Depot, accounted for more than 46 percent of mortgages originated in 2015, compared to just 13 percent in 2011, according to *Inside Mortgage Finance*.

Despite the growth of the non-bank lender market, the financials have been challenging for these companies. As a result of compliance requirements it has been very hard for these companies to become profitable. However, they have been able to remain in the market due to the refinancing boom across America. With interest rates rising, the refinancing boom has come to an end, leaving many non-bank lenders in trouble. What's more, there are just too many in the market. There are approximately 6,000 mortgage lenders today. In fact the largest mortgage lender, Wells Fargo, has just 12 percent of the market. There's no doubt that these dynamics will drive M&A activity.

"Once the banks are unshackled they will look to acquire some companies that have been in private equity firms' portfolios, if the capital requirements are a good fit."

– Nick Krenteras, PineBrook Partners

"There is increased interest in the [REIT] space and I believe they will do fine in a rising rate environment."

– J.P. Young, William Blair & Co.

"There will be consolidation in the space," says J.P. Young, a managing director with William Blair & Co. "You will see growth and there will be a high degree of acquisitions in the space."

These specialty lending companies will be of interest to private equity firms and to strategic acquirers including banks, which by and large got out of the mortgage business after the financial crisis. "Once the banks are unshackled they will look to acquire some companies that have been in private equity firms' portfolios, if the capital requirements are a good fit. Banks also want to maintain alignment of interests with stakeholders to avoid adverse long-term consequences," says Krenteras.

Bone agrees that banks will likely emerge as buyers of mortgage loan companies. "You will see banks getting into markets they got out of like mortgage origination. It's feasible to believe we will see banks acquiring lines of business they avoided or divested to get away from the regulatory costs and oversight," says Bone.

Even if the banks don't acquire these assets, there will be an appetite for these assets from other non-bank lenders. Larger non-bank lenders such as Quicken Loans Inc. or Freedom Mortgage are in a good position to grow their market share, while smaller originators will likely be takeover targets. Some non-bank lenders like Freedom are already aggressively buying up smaller shops. The company, which originated $36.8 billion in mortgages in 2015, has made five acquisitions in the past two years, including Continental Home Loans, Aurora Financial Group and JPMorgan Chase and Co.'s rural-housing business. At the beginning of 2017, HomeBridge Financial Services Inc. agreed to purchase Prospect Mortgage LLC while Home Point Financial Corp. agreed to buy Stonegate Mortgage Corp. for $211 million.

What's more, although the refinancing boom may be over, the future looks bright for mortgage loan companies. As Republican leadership look to strengthen the economy, Americans everywhere may see income growth and look to borrow to buy homes or take equity out of an existing home. "The general outlook for the economy is strong and there is a pervading sense of optimism in the market," says Bob Belke, a partner with Lovell Minnick, a private equity firm that specializes in financial services investments. "This could lead to increasing home sales, and greater origination of new mortgages."

REITS ON THE RADAR

Real estate investment trusts may also see more M&A activity going forward. Having a President who made his living as a real estate developer will likely be an advantage for this area. President Trump needs to be savvy about what rules and regulations are hampering growth as he looks to loosen regulation. Additionally, an overall healthy economy will push the need for more real estate and encourage M&A activity in the sector.

In 2016, M&A activity in the REIT sector lagged. As of November, there were $9.2 billion worth of REIT mergers in the U.S. and Canada, according to SNL Real Estate, making it one of the lowest volume years since 2012. Malls, apartments and office REITs have had a particularly difficult time. However, if the administration's general economic stimulus works there could be an uptick in demand for property, thus making REITs more sought after.

"There is increased interest in the space and I believe they will do fine in a rising rate environment," says Young.

Additionally, with government policies that favor domestic oil, gas and coal production energy REITs may be of interest.

"Deregulation has big implications for the energy industry, and real estate is a key piece to the pro-energy stance of the new government. Energy companies will want access to new land and the ability to expand their exploration, as well as means to transmit their newfound capacity," says Bone.

FINTECH READIES FOR CONSOLIDATION

FinTech, broadly defined as technology used to support or enable banking and financial services, has faced headwinds because of increased regulation, which hampered growth, according to critics. Regulations today are widely considered out of date and overbearing. As regulations become more friendly, more financial services companies are expected to adopt FinTech that can be helpful to consumers and to financial services companies' bottom line. "The adoption of technology has been slowed because capital has been diverted to compliance with regulatory requirements. But there are technologies that can be really beneficial," says Krenteras. "In the insurance sector technology has become very valuable. For example, a connected home monitoring system could alert the authorities immediately if a fire alarm goes off preventing damage, which saves the consumer money and heartache, and it saves the insurance company money as well. It's these types of technologies that need to be more widely adopted."

While consolidation is expected in the industry, FinTech isn't an easy sector to invest in. In February, Lovell Minnick made a growth capital investment in Currency Capital, an online equipment financing exchange that powers the buy now button seen on sites such as eBay, Big Tex Trailers and IronPlanet. Belke says these investments take an extra level of expertise. "To invest in FinTech you have to be a specialist because of the complexity around the sector. Understanding the technologies and the regulations is not easy. However, if the economy grows growth in this sector will only accelerate," says Belke.

The financial services industry as a whole should experience growth during the next four years and dealmakers should be able to take advantage of it. The advantage to less regulation is that it gives all financial services companies the ability to be more innovative and competitive, which can lead to positive results. "The financial services environment will become more competitive and that will ultimately benefit the consumer. The other thing you will see is more innovative products, which will also be beneficial to the consumer," says Krenteras.

Going forward, there's no question there will be regulatory change. Removing harmful regulation will be beneficial, but it's still crucial to work with your compliance providers to maximize your impact on the business while minimizing costs. "Across the board, Financial Institutions and Funds I work with are not looking at gutting the smart compliance practices that they have undertaken, but are looking forward to clearer, simpler regulations driven more by common sense which require less unnecessary overh ead," says Bone. These changes will free up opportunities for deals and the financial services sector is ripe to take advantage of this new paradigm.

"The general outlook for the economy is strong and there is a pervading sense of optimism in the market, which could lead to greater origination of new mortgages."

– Bob Belke,
Lovell Minnick

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2017 a Good Year for Buying Companies

For investors considering options and opportunities, now might very well be the time to act

By Paul Aversano, Alvarez & Marsal

With the U.S. election results behind us, private equity players are already looking ahead at how the merger and acquisition (M&A) landscape will shape up over the next four years and where to find the next big opportunity under President-elect Donald Trump.

Currently, corporates are flush with cash, while the private equity market is still seeking to deploy a record amount of capital overhang. In particular, there is significant activity in the healthcare industry, likely driven by Trump's proposal to "repeal and replace" Obamacare, as well as general industry regulation and the aging American population. The technology industry is also active as it continues to permeate and disrupt more and more traditional businesses.

In the energy sector, while deal flow had slowed recently, oil prices may have hit bottom given the rebound we are beginning to see since the election. Many players in this sector have available cash and are waiting for the right moment to jump in. We will likely see a significant uptick in M&A activity in 2017.

I expect these fundamental dynamics, combined with a positive reaction to election results from the equity markets, will continue to drive M&A as CEOs and transaction leaders find renewed confidence for dealmaking.

As corporate America anticipates what the future M&A market will look like, my read for 2017 is to buy growth now, based on four key reasons detailed below.

"As corporate America anticipates what the future M&A market will look like, my read for 2017 is to buy growth now."

1. Trump's Plan to Double GDP Growth

Nothing rattles the market like uncertainty, which Trump's election created plenty of. This environment would typically suppress deal activity, but I believe it will be offset by the incoming administration's plans to focus on job creation and to hire and buy American. After lackluster or even anemic growth over the past eight years, Trump hopes to jumpstart the economy with the goal of doubling gross domestic product (GDP) growth from 2 to 4 percent.

If these results materialize, corporate America will start to experience real organic growth again, where historically it has been buying growth through M&A. Stock prices and management confidence will rise. Corporates that are still flush with cash will continue to transact, especially in a continued low interest rate environment where leverage is inexpensive. When comparing the interest cost to borrow to the cost to do a deal (or the opportunity cost of using cash on hand to transact) to what the economic benefits are of buying a business, it doesn't take much to make a deal work.

Looking internationally, the dollar has been stronger relative to almost every other global currency since the election. This trend will cause our goods to become more expensive as goods from other countries become less expensive for the U.S. Similarly, in an M&A environment, currency fluctuations can drive the direction of activity as deals outside of the U.S. look more

attractive to U.S. firms and vice versa. In Brazil, for example, the value of the Real has dropped significantly over the last year, while heightened cross-border deal interest has appeared from all over the world as valuations of businesses have dropped.

2. Record-Low Interest Rates Poised to Rise

Interest rates on debt to fund deal activity are still at record lows and will continue to be for some time, so I do not expect the M&A market to be immediately impacted. Further, rates will rise eventually but very gradually and over an extended period of time as the Federal Reserve tries to avoid shocking the system. It will take several years of small to moderate interest rate hikes to start materially impacting borrowing costs and deal activity. Additionally, the mega deals of past years are long gone, so most deal activity is taking place in the upper middle market and less leverage is being utilized in general.

Regardless, when interest rates do get to a point where they start to impact M&A activity, asset valuations will come down and the market will adapt to what will ultimately be the new normal as it has in the past. There is too much capital to deploy, both on corporate balance sheets and in private equity, to slow down deal activity as long as leverage is available, regardless of the price. Dealmakers are keeping this potential increase in mind and may execute deals in the short term while debt is still inexpensive.

3. Anticipated Tax Law Changes

The market is also bracing for tax law changes, particularly related to carried interest and personal income tax rates, causing many dealmakers to act now. Trump has signaled that he expects to enact a significant overhaul to the tax laws, and I predict that he will do so. If he hints at an increase in the tax rate on carried interest or the elimination of it altogether, there will be a flurry of M&A activity in order to get ahead of it. We saw this situation in the fourth quarter of 2012 under President Obama, although no changes were actually made.

Alvarez & Marsal

Paul Aversano

Conversely, if there is a signal that Trump will lower the personal income tax rate for individuals, investors will wait to see if they can benefit from these changes by deferring M&A activity into the future.

I expect investors will now begin incorporating into purchase and sale agreements some type of provision for future refunds / payments based on any benefit or detriment arising from tax law changes related to the treatment of carried interest.

4. Loosening of the Regulatory Environment

I believe Trump's stated intentions to relax the regulatory environment will not only drive M&A but also spur significantly more initial public offering (IPO) activity, which may become a more attractive option under less regulation. In particular, specialty pharmaceutical, biotech and device companies will benefit from this environment and as a result will see improved valuations and related activity.

However, don't lose sight of the fact that Trump has also indicated that he would block certain deals that he deems detrimental to competition and the consumer.

In addition to these four key reasons, other economic factors, such as cheap oil and currency exchange rates, will certainly impact the breadth and depth of deal activity in 2017. Although these are still somewhat volatile, signs are pointing to favorable deal activity. This volatility will spur hedge fund trading activity and greater risk-taking in the financial markets as firms look to drive alpha.

President-elect Trump is by nature a dealmaker. Ultimately, I expect that the actions of his administration and a Republican-controlled government will favor M&A deal-making in the near future and over the next four years. For companies considering options and opportunities, now might very well be the time to act.

Paul Aversano is a managing director in Alvarez & Marsal's private equity services practice, which provides PE firms and their portfolio companies with integrated financial accounting, tax, operational, industry and functional expertise across the investment lifecycle. Aversano is the global practice leader of the firm's transaction advisory group.

MID-MARKET

M&A CONDITIONS INDEX

APRIL 2017

MERGERS & ACQUISITIONS

Dealmaking picked up in February, according to *Mergers & Acquisitions*' M&A Conditions Index (MACI). The MACI composite score rose to 53.5, up from 51.9 the previous month. Most of the index components were up in February.

The biggest gain was in the Leads score, which jumped 9 points to 64.4, up from 55.4 the previous month. The high Leads score stands in stark contrast with the component's score around the same time last year, when it plummeted to 38.2 in January 2016. The Leads component represents the earliest stage of dealmaking activity measured by the MACI, and it offers a preview of what's to come for the other components. A high Leads score bodes well for the coming months.

The score for Signed Letters, which measures the second stage of activity, also rose significantly, suggesting that dealmakers are taking seriously the transactions they're being shown.

There were some signs of weakness worth noting. The score for Completed Deals dropped nearly 3 points, and the score for Divestitures fell nearly 6 points. Corporate spin-offs played a big role in generating dealflow in 2016 but may be less of a factor in 2017. ■

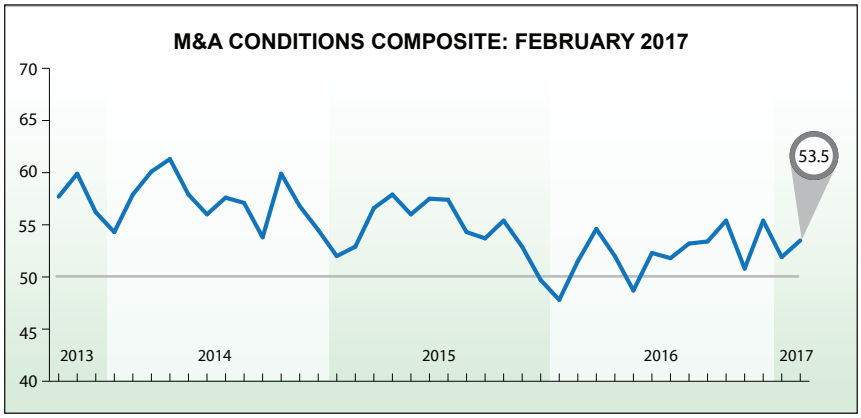
ABOUT THE MID-MARKET MERGERS AND ACQUISITIONS CONDITIONS INDEX (MACI)

The MACI is a composite index of mergers and acquisitions activity and conditions in the U.S. It is the result of the Mergers & Acquisitions' survey of executives in private equity firms, investment banks, lenders and advisor firms to track activity such as deals announced and deals completed, as well as acquisitions and divestitures.

Each sub-indicator is based on survey responses that describe a change from the previous month (e.g., increase, decrease, or no change). Respondents are also asked to elaborate on any of the changes and provide their opinions about other internal or external conditions that affect their firm's operations or business outlook. A diffusion index is produced for each sub-indicator by calculating the sum of percentages of those indicating "higher" (for positive sub-indicators) and "lower" (for negative sub-indicators) and half of those indicating the "same." A reading of over 50 indicates an expansion relative to the prior month, and a reading below 50 indicates a contraction.

February composite at 53.5

Middle-market M&A accelerated in February, with most MACI components increasing. The Leads score jumped 9 points, indicating a full pipeline of proposed deals. Corporate spin-offs fell, however.



Month to Month Trends

Index	February Index	January Index	% Point Change	Direction	Rate of Change	Trend (months)
Composite	53.5	51.9	1.7	Expansion	Faster	9
Leads	64.4	55.4	8.9	Expansion	Faster	13
Signed Letters	58.6	50.0	8.6	Expansion	From Even	1
Completed Deals	50.0	52.7	-2.7	Even	From Expansion	1
Divestitures	45.8	51.5	-5.7	Contraction	From Expansion	1
Financing Availability	55.9	50.5	5.4	Expansion	Faster	3
M&A Business Activity	52.6	56.5	-3.9	Expansion	Slower	9
M&A Business Staffing	51.3	49.2	2.1	Expansion	From Contraction	1
Bidders	43.4	45.1	-1.7	Contraction	Faster	13

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PRIVATE EQUITY SHOWCASE & WINE TASTING

MONDAY APRIL 17, 2017 / 6:00 – 8:00 PM / LOMAS SANTA FE COUNTRY CLUB

(Golf & Private Company Forum Event precedes the event)

Our PE Showcase & Wine event was our biggest event of 2016 with approximately 200 attendees, including 12 Private Equity Firms and over 45 business owners/C-level decision makers. This year we are expecting 20-25 or more Private Equity Firms and Investment Bankers from Southern California and across the country. Come and learn how deals are being done over fine wine.

Business owners and C-levels are invited to come early to attend an exclusive Private Company Forum (PCF) pre-event from 5pm for private discussions with the PE firms. Contact acgsandiego@acg.org to obtain a discount code for special $35 event rate.

For more information on April 17 Golf with the PE firms, please visit acg.org/sandiego

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

Date	Acquirer	Target	Target Industry	Value ($mil)
02/17/17	Columbia Pipeline Group Inc	Columbia Pipeline Partners LP	Electric, Gas, and Water Distribution	915.3
02/06/17	ICU Medical Inc	Hospira Inc-Hospira Infusion	Wholesale Trade-Nondurable Goods	903.1
02/01/17	Vista Equity Partners LLC	SunGard Data Sys Inc-Public	Prepackaged Software	850.0
02/01/17	HollyFrontier Corp	Petro-Canada Lubricants Inc	Oil and Gas; Petroleum Refining	839.0
02/01/17	Ecolab Inc	Laboratoires Anios SA	Drugs	809.8
02/10/17	Onvoy Inc	Inteliquent Inc	Telecommunications	791.7
02/27/17	Hennessy Capital Acquisition	Daseke Inc	Transportation and Shipping (except air)	774.1
02/22/17	dorma+kaba Holding AG	Stanley Black & Decker-Mec Lck	Wholesale Trade-Durable Goods	725.0
02/01/17	TPG Capital LP	Grande Commun Networks LLC	Telecommunications	650.0
02/17/17	Hewlett Packard Enterprise Co	SimpliVity Corp	Business Services	650.0
02/08/17	AEA Investors LP	Visual Comfort & Co	Retail Trade-Home Furnishings	630.0
02/27/17	Windstream Holdings Inc	EarthLink Holdings Corp	Business Services	624.8
02/10/17	Lennar Corp	WCI Communities Inc	Construction Firms	619.0
02/01/17	Coty Inc	Younique LLC	Soaps, Cosmetics, and Personal-Care Products	600.0
02/28/17	Performance Sports Grp Ltd SPV	Performance Sports Group Ltd	Miscellaneous Manufacturing	575.0
02/01/17	Nielsen NV	Gracenote Inc	Business Services	560.0
02/17/17	Blue Nile Inc SPV	Blue Nile Inc	Business Services	478.9
02/15/17	Covey Park Energy LLC	CEC-Haynesville,LA	Oil and Gas; Petroleum Refining	465.0
02/03/17	Atlassian Corp PLC	Trello Inc	Prepackaged Software	425.0
02/10/17	Eagle Materials Inc	CEMEX-Cement Plant,Fairborn,OH	Stone, Clay, Glass, and Concrete Products	400.0
02/28/17	Xura Inc	Mitel Mobility Inc	Telecommunications	385.0
02/07/17	AMETEK Inc	Rauland-Borg Corp	Prepackaged Software	370.0
02/28/17	HIG Capital LLC	Lionbridge Technologies Inc	Business Services	353.6
02/14/17	Hill-Rom Holdings Inc	Mortara Instrument Inc	Health Services	330.0
02/01/17	Take-Two Interactive Software	Social Point SL	Prepackaged Software	280.3
02/07/17	Alignvest Acquisition Corp	Trilogy International Partners	Telecommunications	269.0
02/14/17	Daiwa House USA Inc	Stanley Martin Communities LLC	Construction Firms	251.0
02/10/17	Blackstone Group LP	TEP V-French Logistics	Real Estate; Mortgage Bankers and Brokers	248.3
02/01/17	WEC Energy Group Inc	Plains All Amer Pipeline-Bluew	Transportation and Shipping (except air)	230.0
02/24/17	Meridian Group LLC	Beacon Capital Partners LLC-	Investment & Commodity Firms,Dealers, Exchanges	227.0
02/02/17	Farmland Partners Inc	American Farmland Co	Investment & Commodity Firms, Dealers,Exchanges	224.1
02/01/17	Z Capital Partners LLC	Affinity Gaming LLC	Hotels and Casinos	209.0
02/01/17	The Madison Square Garden Co	Tao Group Ltd	Retail Trade-Eating and Drinking Places	206.5
02/13/17	Investor Group	Hubspot Inc-The Davenport	Real Estate; Mortgage Bankers and Brokers	202.5
02/01/17	John Menzies PLC	Aircraft Service Intl Group	Air Transportation and Shipping	202.0
02/24/17	Integra LifeSciences Hldg Corp	Derma Sciences Inc	Measuring, Medical, Photo Equipment; Clocks	198.4
02/28/17	Barnes & Noble Education Inc	MBS Textbook Exchange Inc	Wholesale Trade-Nondurable Goods	174.2
02/15/17	Cytori Therapeutics Inc	Azaya Therapeutics Inc-Cert	Drugs	170.0

Date	Acquirer	Target	Target Industry	Value ($mil)
02/02/17	InvenTrust Properties Corp	Paraiso Parc	Retail Trade-General Merchandise and Apparel	163.0
02/06/17	Carroll Organization	Starwood Capital Grp-Apt Comp	Real Estate; Mortgage Bankers and Brokers	153.5
02/28/17	Green Dot Corp	UniRush LLC	Credit Institutions	151.0
02/14/17	Race Winning Brands	Performance Motorsports Intl	Machinery	150.0
02/16/17	UNIZO Holdings Co Ltd	Clark Entrps Inc-Capitol View	Real Estate; Mortgage Bankers and Brokers	148.0
02/10/17	Magellan Petroleum Corp	Tellurian Investments Inc	Investment & Commodity Firms, Dealers,Exchanges	146.8
02/02/17	Deka Immobilien GmbH	Credit Suisse-	Real Estate; Mortgage Bankers and Brokers	146.4
02/06/17	Investor Group	Radius	Real Estate; Mortgage Bankers and Brokers	141.0
02/03/17	Community Bank System Inc	NE Retirement Svcs Inc	Investment & Commodity Firms, Dealers,Exchanges	140.0
02/21/17	Investor Group	Calamos Asset Management Inc	Investment & Commodity Firms, Dealers,Exchanges	138.2

Deal Flow

Date	Acquirer	Target	Target Industry	Value ($mil)
02/10/17	Enterprise Finl Svcs Corp	Jefferson County Bancshares	Commercial Banks, Bank Holding Companies	130.9
02/07/17	Land & Houses PCL	Yard Apartment Tower	Real Estate; Mortgage Bankers and Brokers	126.7
02/17/17	Ramco-Gershenson Ppty Tr	Providence MarketPlace	Retail Trade-General Merchandise and Apparel	114.7
02/21/17	FHF I Oaks at Lakeway LLC	Oaks at Lakeway,Lakeway,Texas	Real Estate; Mortgage Bankers and Brokers	114.0
02/28/17	Palo Alto Networks Inc	Light Cyber Ltd	Business Services	105.0
02/21/17	LSI Industries Inc	Atlas Lighting Products Inc	Electronic and Electrical Equipment	97.5
02/28/17	DiamondRock Hospitality Co	Resorts,Sedona,Arizona(2)	Hotels and Casinos	97.0
02/15/17	The William L Bonnell Co Inc	Futura Industries Corp	Metal and Metal Products	92.0
02/22/17	TransDigm Group Inc	Takata Protection Systems Inc	Aerospace and Aircraft	90.0
02/28/17	BGC Partners Inc	Besso Holdings Ltd	Insurance	86.3
02/17/17	RWS Holdings PLC	LUZ Inc	Business Services	82.5
02/22/17	Hersha Hospitality Trust	Pan Pac Hotels-Pan Pac Hotel S	Hotels and Casinos	79.0
02/24/17	Home BancShares Inc	Giant Holdings Inc	Commercial Banks, Bank Holding Companies	75.7
02/21/17	Matan Cos	First Potomac Rlty Tr-Plaza	Real Estate; Mortgage Bankers and Brokers	75.0
02/08/17	Gildan Activewear Inc	American Apparel LLC	Textile and Apparel Products	66.0
02/09/17	1490 North 123rd LLC	Watermarke at Bicayne	Real Estate; Mortgage Bankers and Brokers	61.8
02/13/17	BMC Investments LLC	Landon Park Apartments	Real Estate; Mortgage Bankers and Brokers	58.0
02/27/17	John Bean Technologies Corp	Avure Technologies Inc	Machinery	57.0
02/16/17	Catalent Inc	Accucaps Industries Ltd	Drugs	55.5
02/01/17	AJ Capital Partners	Best Western University Tower	Hotels and Casinos	55.0
02/23/17	InvenTrust Properties Corp	Shops at Town Center	Real Estate; Mortgage Bankers and Brokers	53.6
02/13/17	Wal-Mart Stores Inc	New Moosejaw LLC	Wholesale Trade-Durable Goods	51.0
02/01/17	Wecast Network Inc	Sun Video Group Hong Kong Ltd	Business Services	50.8
02/28/17	Takara Bio USA Holdings Inc	WaferGen Bio-systems Inc	Measuring, Medical, Photo Equipment; Clocks	50.0
02/07/17	Steel Partners Holdings LP	Steel Excel Inc	Oil and Gas; Petroleum Refining	46.8
02/10/17	New Enterprise Stone & Lime Co	Berks Products Corp-Assets	Construction Firms	46.3
02/10/17	Bridge Invest Grp Partners LLC	New Boston Fund Inc-WMark	Real Estate; Mortgage Bankers and Brokers	45.0
02/02/17	Urban Edge Properties	Hudson Mall	Real Estate; Mortgage Bankers and Brokers	43.7
02/06/17	Great Wolf Resorts Inc	Water Park of America	Amusement and Recreation Services	39.1
02/09/17	Nuance Communications Inc	mCarbon Tech Innovations Pvt	Prepackaged Software	36.0
02/07/17	Elco Landmark Residential	Landmark at Maple Glen	Real Estate; Mortgage Bankers and Brokers	35.5
02/14/17	Security Properties Inc	Beaumont Grand Apartment Homes	Real Estate; Mortgage Bankers and Brokers	32.5
02/01/17	Phillips Edison & Co	Palmer Town Center, Easton, PA	Real Estate; Mortgage Bankers and Brokers	32.3
02/10/17	Investor Group	Truesdell Corp	Construction Firms	32.0

Source: Thomson Reuters

Editor's Note:

To measure activity in the middle market, Mergers & Acquisitions looks at transactions that fulfill several requirements: Deals must have a value of roughly $1 billion or less, or an undisclosed value; they must be completed (not just announced) within the timeframe designated; and they must include at least one U.S. company in the role of buyer and/or seller. Excluded from our charts are: recapitalizations; self-tenders; exchange offers; repurchases; stake purchases; and transactions with undisclosed buyers or sellers. Except where noted, our data provider is Thomson Reuters, which updates its databases continuously. We use the data available at press time. For this article, data was collected on March 2, 2017.