MIDDLE MARKET Growth

// MARCH 2014

THE VIBRANT OILFIELD SERVICES INDUSTRY

A QUALIFIED OPINION: JOHN G. MARTIN, PRESIDENT & CEO OF GE ANTARES CAPITAL

Energized

The Promise of Investing in American Energy

A publication of ACG

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PAM HENDRICKSON // ACG Global Board Chairman and COO, The Riverside Company

Energize Your Deal Flow

Finding great deals with strong growth potential seems to be growing more difficult. Often it can help to focus on sectors undergoing significant change. The energy industry is one such area, and you'll find what you need to know about it in this issue.

You will learn how firms around the world are helping propel the thriving energy sector, and how technology is making a lot of this growth possible, opening new avenues to both revenue and job creation. There also finally is a sea change in Washington with policymakers from both sides of the aisle understanding that new innovations in the energy sector not only drive growth but provide the United States with much-needed economic security.

This issue specifically takes a look at three recent energy-related transactions by Bridge Industries, an acquirer of manufacturing companies that has tapped the potential in the energy boom.

You'll also hear from Crutchfield Capital Principal, J.B. Dollison about investment opportunities in the energy sector based on these new technologies. J.B. is extremely insightful, and we're excited to have him as a speaker at InterGrowth® next month in Las Vegas. We also have an article from Ernst & Young on its recent study citing the opportunities for the private equity industry specific to oil and gas plays.

Energy and environmental, social and corporate governance (ESG) issues have long been top of mind at my firm, The Riverside Company. We've enjoyed some of our biggest successes with portfolio companies that serve the energy sector, and we continue to invest in the space. We've also seen the benefit of ESG reporting, as we've implemented it across our portfolio and hear increasingly from LPs that it's a priority. Firms that take ESG seriously will meet new LP demands, but also benefit from using resources more wisely, driving improved financial results.

Of course, the quest for deals and profitability extends well beyond the energy industry. That's why this issue offers two fascinating Q&As with financial industry executives. RGL Forensics CEO, Angie MacPhee explains the value of independent and objective financial investigations, and GE Antares Capital President and CEO John G. Martin shares his views on M&A lending.

Lastly, we enter spring and hopefully welcome some warmer weather. It also means InterGrowth is right around the corner. Held April 28-30 at the ARIA in Las Vegas, ACG is gathering great speakers including star NFL quarterback Peyton Manning to join top dealmakers from around the country. It is going to be an incredible event with the leaders of the middle-market community all in one place. I hope you can make it! //

Sincerely,
Pam Hendrickson

Duane Morris®

WEDNESDAY, 26 MARCH 2014

TRANS-ATLANTIC SIMULCAST: LONDON–NEW YORK

INSIDE THE MIND *of the* LIMITED PARTNER II

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Program: 12:00 p.m. to 1:45 p.m.
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810 Seventh Avenue
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LONDON

Registration: 4:30 p.m.
Program: 5:00 p.m. to 6:45 p.m.
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ETC Venues
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ANGIE MacPHEE // Chief Executive Officer, RGL Forensics

BIO //

ANGIE MACPHEE is chief executive officer of RGL Forensics. She has held a number of executive, accounting, finance and operations roles. Prior to joining RGL, MacPhee was vice president of the Timberline Region for O'Neal Steel.

Q WHAT IS RGL FORENSICS?

AM: We describe ourselves as a forensic accounting and corporate finance consulting firm, a global firm of professionals looking to make a difference for clients. We work with corporations, insurance companies, attorneys, private equity and corporate executives to provide financial analyses, so better business decisions can be made. Our services focus on providing three things: financial forensics; the quantification of economic damages; and the valuation of assets and securities in complex corporate transactions, legal matters and insurance claims. Through our broker-dealer unit, RGL Advisors, we also provide a wide spectrum of complementary transaction advisory services as well.

Q WHAT ROLE DOES RGL PLAY IN THE COURSE OF A DEAL?

AM: RGL often plays a different role in the course of a deal depending on the party with whom we work. When we work with the buy-side, we most often are assessing the value and stability of an acquisition target. Through our transaction advisory services, we also look at strategic alignment between the companies to increase the potential for deal success. We may even evaluate a target well before the letter of intent is signed. Similarly on the sell-side, we are valuing company assets, both tangible and intangible, to gauge deal relevance and fit. Outside of M&A transactions, we provide financial opinions and perform due diligence, applying different analytical measures to quantify opportunities and risks.

Q CAN YOU GIVE US EXAMPLES OF HOW RGL HAS UNCOVERED FINANCIAL EVIDENCE AND THE IMPACT IT HAS MADE ON A CLIENT?

AM: One of my favorite examples from the buy-side is when we used predictive customer analytics (PCA) to save a client a lot of money. In this case, our analysis revealed negative customer trends and unsustainable business practices that were not revealed in the financial reports or traditional due diligence that resulted in a $30 million reduction in the acquisition price for our client.

Continued on next page

ANGIE MacPHEE // Chief Executive Officer, RGL Forensics

Q WHAT TYPES OF BUSINESSES AND ORGANIZATIONS DOES RGL TYPICALLY WORK WITH? WHO NEEDS YOUR HELP?

AM: RGL represents companies of all shapes and sizes in nearly every industry segment. We work with corporate executives, lawyers and insurance companies to provide financial analysis in complex situations. Our sweet spot in the corporate realm is typically the middle market where we can provide due diligence, valuation, transaction advisory services and fraud investigations. Our involvement with a company often centers on a pending or potential event: a corporate merger or acquisition, a significant management or ownership change, financial or tax reporting needs, commercial litigation, strategic planning for growth or sale, or a suspicion of wrongdoing.

Q HOW DOES RGL HELP A CLIENT IN A CRISIS? DO YOU HAVE ANY EXAMPLES?

AM: When you say “company in crisis,” the first thing that comes to mind is fraud or suspicion of wrongdoing. The United States has seen a marked increase in the occurrence of fraud in the last decade. At RGL, many of our professionals are certified fraud examiners who have extensive experience investigating employee theft and embezzlement, insurance fraud, complex Ponzi and money laundering schemes, and many other forms of fraud. We work with clients to investigate if fraud has occurred, quantify the loss and determine how much is recoverable, and document the loss and fraud for law enforcement or legal proceedings. We also work with clients to evaluate procedures and policies to help prevent instances of fraud. We’ve performed a fraud investigation for a “Dateline NBC” special on lottery winners, have uncovered fraud within private companies and government entities, and have served as expert witnesses in criminal fraud proceedings. //

MIDDLE MARKET Growth // MARCH 2014

GROWTH STORY

Bridge Work

Bridge Industries is a classic middle market private equity investor. Rather than focus on maximizing profits via an exit strategy, it stays true to its respectful approach to the companies it acquires. While generating profit and growth are central to the company's business model, those goals are achieved in a measured way that preserves the entrepreneurial spirit and corporate cultures of its acquisitions. Read more.

"THE COMPANIES THAT WE ACQUIRE MUST HAVE GOOD CULTURES AND MANAGEMENT TEAMS IN PLACE. WE DON'T CHANGE EITHER OF THOSE; WE PROVIDE SUPPORT." // JOEL FALCK, CFO OF BRIDGE INDUSTRIES

ON THE COVER // The promise of investing in American energy.

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Energy Opportunities Abound

The oilfield services industry represents one of the most vibrant M&A markets within the energy sector. All indications point to continued activity, but the real question is: How long will the party last? The answer lies in the fundamentals of the industries served by OFS companies. Read more.

IN EVERY ISSUE

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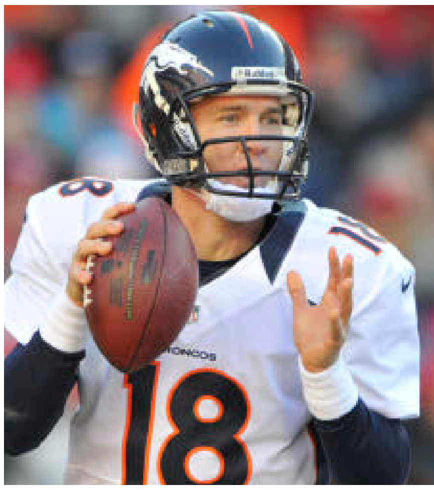
ACG's mission of Driving Middle-Market Growth® is at the heart of InterGrowth® 2014. With more than 2,000 attendees, InterGrowth leverages the power of the ACG global middle-market network.

Join the InterGrowth community in Las Vegas on April 28-30 for the most productive three days you will spend in 2014—connecting you with the people you need to generate dealmaking opportunities for you and your firm.

"AS A REGULAR INTERGROWTH ATTENDEE, THE EXPERIENCE CONTINUES TO GET MORE VALUABLE EACH TIME. IN ADDITION TO THE ENTERTAINING SPEAKERS AND VALUABLE CONTENT, THE PRIMARY BENEFIT FOR MY INVESTMENT BANKING BUSINESS IS THE NUMBER OF QUALITY CONTACTS I MAKE WITH THE PRIVATE EQUITY COMMUNITY." // BRAUN JONES, PARTNER, OUTCOME CAPITAL GROUP



Biz Stone, Peyton Manning to Speak at InterGrowth

Biz Stone, co-founder of Twitter, will give one of three keynote presentations for InterGrowth 2014, joining five-time NFL MVP Peyton Manning and a CEO panel of top middle-market executives.

INTERGROWTH // WHAT'S NEW IN 2014?

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DealEXPO is a new marketplace, giving investment banks an open forum to network with the full InterGrowth community—expanding the audience from a few hundred to nearly 2,000 people. Exhibitors are looking to buy or sell companies and also are eager to discuss transaction opportunities with business owners, capital providers and other M&A professionals.

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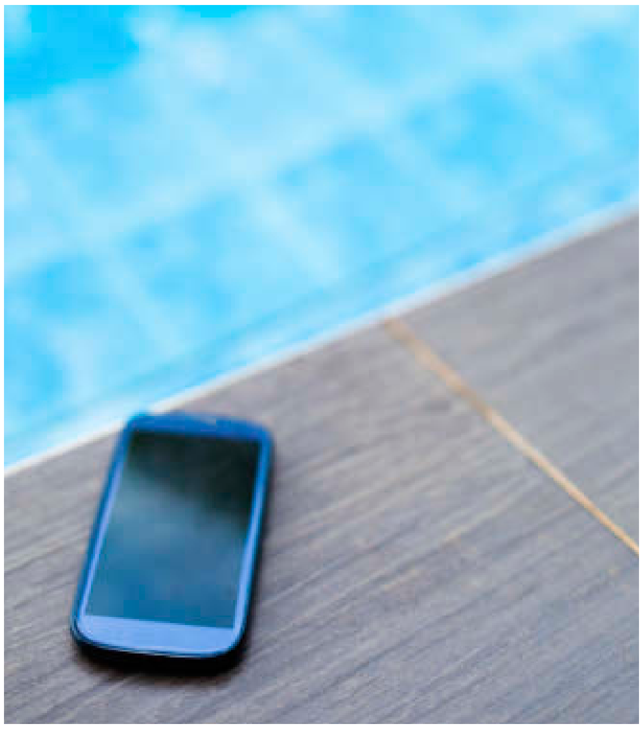

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FACE-TO-FACE

CONNECT TO YOUR NEXT DEAL

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MARCH 4, 2014
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MARCH 5, 2014
ACG ORLANDO MARCH NEW MEMBER BREAKFAST
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MARCH 6, 2014
ACG DETROIT 30TH ANNIVERSARY RECEPTION
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MARCH 6, 2014
ACG MINNESOTA NEW MEMBER LUNCHEON
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MARCH 7, 2014
ACG CONNECTICUT BREAKFAST MEETING
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MARCH 10, 2014
ACG BARCELONA PREMIO ACG A LA MEJOR OPERACIÓN
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MARCH 10, 2014
ACG DENVER CEO DINNER
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MARCH 10, 2014
ACG NATIONAL CAPITAL EGBR: NEW STAFFING STRATEGIES FOR TODAY'S COMPETITIVE MARKET
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Visit www.acg.org for an up-to-date list of events in your area.

To have your chapter's upcoming events featured in *Middle Market Growth*, please send the details to Editor-In-Chief Kristin Gomez. Be sure to include the name of the event, time, date, location, cost and information or link as to where to register for the event.

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CAPITAL ALTERNATIVES FOR GROWTH OR LIQUIDITY
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ACG COLUMBUS
WORTHINGTON INDUSTRIES: BECOMING A GROWTH COMPANY AGAIN
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BUSINESS GROWTH SERIES
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ACG KANSAS CITY
MARCH 2014 BREAKFAST MEETING
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BREAKFAST MEETING
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CHAPTER EVENTS

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& RECEPTION**
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MARCH 19, 2014
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CHARGERS! THE SPANOS
FAMILY BUSINESS**
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MARCH 19, 2014
**ACG CENTRAL TEXAS
HOT INDUSTRY PANEL
MODERATED BY HEATHER LADAGE
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**ACG EDMONTON NETWORK
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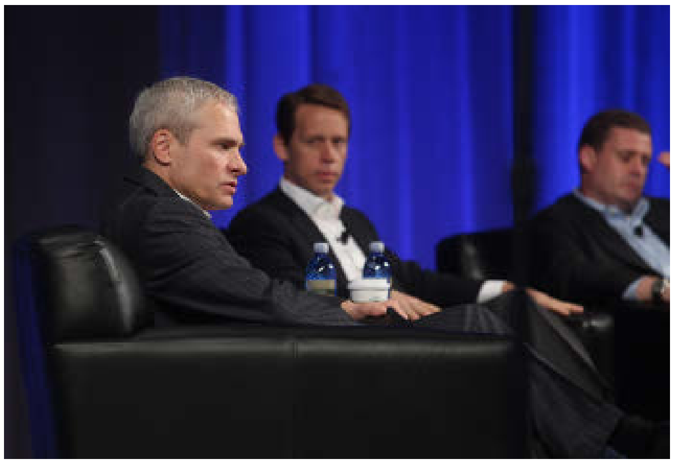

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**ACG PHILADELPHIA
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MARCH 20, 2014
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2014 M&A CONFERENCE AND
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MARCH 21, 2014
**ACG NATIONAL CAPITAL
T. “SCOTT” CASE, CEO OF
STARTUP AMERICA AND
FOUNDING CTO OF PRICELINE**
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MARCH 25, 2014

ACG COLUMBUS
"ANATOMY OF A WELL
RUN MEETING"

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MARCH 25, 2014

ACG CENTRAL TEXAS
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SURVEY

PE Interest in Financing the Future Energy Landscape

The oil and gas industry is in a period of significant change, where growing demand for energy must contend with increasing economic uncertainty and continued geopolitical instability. It also is a capital-intensive industry, adaptive to varying risk profiles—attracting a growing number of private equity firms that can leverage their sector expertise and financial discipline to influence outcomes.

What PE Brings to the Pipeline

The oil and gas industry is experiencing an influx of major capital investment, with $700 billion forecasted for projects currently under development. Three-quarters of these projects have an estimated cost of $1 billion or more, reflecting the fact that projects are larger and more complex and technically challenging than ever. Despite its voracious appetite for capital, the industry remains relatively conservative when it comes to financial structuring. With this backdrop, it stands to reason that a majority of respondents to a recent survey (55 percent) cite capital requirements as the foremost driver to oil and gas PE involvement.

Continued on next page

The survey of 100 global PE executives was conducted by Mergermarket on behalf of Ernst & Young LLP to better understand the relationship between PE and the oil and gas industry. It found availability of financing is a significant factor driving PE interest in the oil and gas industry, with 41 percent of respondents rating it as a prime driver. The provision of growth capital is the primary way a PE firm can add value to an oil and gas company, according to 63 percent of respondents. Contributing to and managing the deployment of growth capital is a way to help oil and gas firms restructure and grow. Companies in the industry have large capital requirements to expand their operations and start new projects. Fifty-three percent of respondents expect growth capital investment to be the main PE deal type in the Asia-Pacific region in the next couple of years. Respondents also expect this deal type to be most common in North America (51 percent) and Latin America (34 percent).

More generally, an important element of many PE firms' investment strategy focuses on existing portfolio company growth through organic investment. Forty-one percent of respondents chose making these organic investments the most important priority in their funds in the next two years. However, almost an equal proportion of respondents believe making new platform acquisitions will be one of their top two priorities in the next two years. Ultimately, strategies that help improve the operational performance of the firms' current portfolio are necessary to enhance the bottom line and also to get a higher valuation at the point of sale. Thirty-five percent of respondents indicate this is a priority.

Where and What PEs Want

PE firms currently are most active in North America, Europe and the Middle East. In North America, respondents cite their continued faith in its economic recovery, rising equity markets and stronger debt markets as the main attractions for PE investors. PE firms have been particularly active in the unconventional oil and gas growth story in North America. Shale gas and oil also are identified as significant game changers over the next five years.

While the weight of PE involvement in the sector is heavily focused on North America, Latin America and Asia-Pacific are expected to garner the highest increase in attention from PE firms (82 percent and 79 percent, respectively) during the next two years.

PE has been making investments across the entire spectrum of the oil and gas industry, but the survey shows different drivers for the activity. Across midstream, downstream and oilfield services, "consistent and predictable returns" is the primary driver ("significant capital requirements" scored equally for downstream). A large supply of targets and considerable capital requirements rated more highly as drivers of activity for the upstream subsector.

Eighty-six percent of the survey respondents also indicated they are pursuing other energy options. Of these alternatives, renewable energy was the top choice, followed closely by power and utilities.

Continued on next page

The Risk Is Worth the Reward

Regulators are broadening the scope of their focus on the oil and gas industry. Uncertainty exists as the industry moves into new geographies and operating environments, such as shale gas development and Arctic exploration. And ethical regulation is becoming more of a focus for regulators as well. According to the results of EY's Business Pulse: Oil and Gas Report Survey, the top issues facing the industry are the risk of a health, safety and environment incident and regulatory compliance. This reflects a climate of zero tolerance for accidents both within the industry and within the stakeholder community. PE executives agreed with this view, and also listed political and fiscal/tax risks to be top concerns, depending on geography.

However, respondents seemed confident that although these risk factors are creating challenges in valuing their investments and in understanding the complexity of transactions, conducting proper due diligence is the key to overcoming these difficulties.

Whether it is access to resources or capital, technology or related costs, there are significant challenges in meeting the world's future energy needs. "Game changers" over the next five years included the growth of unconventional oil and gas, technological innovation and the increasing internationalization of the state-owned/controlled oil and gas companies (i.e., Network Operations Centers). There already is great opportunity for PE in oil and gas; these game changers will further broaden the scope of future investment prospects available to PE oil and gas investors. //

—**Jon McCarter** is Americas oil and gas transactions leader for Ernst & Young LLP.
The views expressed herein are those of the author and do not necessarily reflect the views of Ernst & Young LLP.

INSIDER VIEW

Natural Gas: A Big Opportunity for America

Now is an exciting time for America's energy sector. Natural gas supply continues to increase exponentially over the past several years, giving our nation an incredible opportunity to create jobs, grow the economy, reduce emissions and rely less on foreign fuel. This opportunity was created by technology advancements in natural gas production and new innovative applications for the direct use of natural gas. Natural gas suppliers, such as local utilities, are innovating ways to utilize the direct use of natural gas in their communities, resulting in efficient energy, reduced greenhouse gas emissions and low energy prices.

Today, natural gas supplies more than half the energy consumed by residential and commercial customers, and about 41 percent of the energy used by U.S. industry. It is one of the cleanest, safest and most useful of all energy sources. Almost 99 percent of the natural gas used in the United States comes from North America, with 88 percent produced in the United States. Because natural gas is the cleanest-burning fossil fuel, it plays an increasing role in helping to attain national goals of a cleaner environment, energy security and a more competitive economy. As a result, the opportunities for the middle market are endless.

Homes and businesses in all areas of the country rely on natural gas for their energy needs. And because of the recent developments in shale extraction, innovations in ways to utilize natural gas continue to expand. Natural gas for transportation is one major area of expansion and growth. Natural gas vehicles (NGVs) are now being used for major trucking and transportation companies such as Waste Management and FedEx, as well as smaller entities like plumbing companies and nonprofit gas distribution companies. NGVs provide significant cost-savings of $1/gallon or more compared to gasoline and provide the benefits of domestic job creation, enhanced energy security and emissions reductions. These benefits make NGVs the logical choice for purchasing fleets and for replacing older transportation fleets.

In short, natural gas has the very real ability to be a game changer for America's energy and economy. By contributing to many aspects of Americans' everyday lives—transportation, cooking, heating and more—natural gas is an important resource that our country must continue to develop and adopt for future success. //

—**Bert Kalisch,** CAE, is CEO and president of the American Public Gas Association (APGA), a trade organization that represents America's nonprofit, community and publicly owned natural gas local distribution companies (LDCs).

ENVIRONMENTAL RISKS

Pitfalls and Knowledge that Could Make or Break a Deal

What is environmental liability?

Environmental liability is the sum total of past, present and future costs of environmental damages associated with a property or business and is almost always an issue in manufacturing, chemical, energy and mining company transactions. In an M&A, the buyer is primarily concerned with exposures and costs post transaction. These become deal breakers when there is inadequate information or too much risk associated with the liabilities.

Can you give us a real-life example of where a company was made more profitable because of the work to assess the environmental liability?

One valuation that we led involved the Aleut Corporation and U.S. Navy at Adak Island, an important port and fueling station in Northern Alaska. The original clean up estimate of $1.5 billion was prohibitive: truly a deal breaker but not at first glance unreasonable, as the remediation involved 65 Superfund sites, 39 landfills, seven sediment cleanup sites, more than 450 other petroleum and hazardous waste sites, and 500 UXO sites. Our team of experts was able to consolidate and quantify the risks in a very granular valuation process. Our estimate came in at $200 million. This number was deemed reasonable and covered the costs and risks, making it possible for the deal to close at a fraction of the original estimate.

How can the findings of an environmental valuation hurt or help your brand?

Environmental liability itself is NEVER good for brand. Just think of any major oil spill and you know it costs millions, if not billions, of dollars in lost opportunity along with a PR and confidence crisis across stakeholders and shareholders. An environmental valuation will bring to light issues and data associated with short and longer term brand impacts. The valuation might reveal conditional NFAs (no further action) or closures that allow for only certain types of property usage that could be incompatible with acquirers brand. Alternatively, a company might use the valuation as a tool from which to negotiate a liability buyout or other way of cleansing the balance sheet thereby mitigating any risk of brand damage from environmental liability associated with the acquisition. The valuation could also be used in a positive way to preempt negative press by providing transparency and responsible accountability for risks associated with the liability. How a company handles its environmental liabilities is an important piece of a corporation's sustainability or environmental social and governance (ESG) platform, thereby having more impact on brand.

Continued on next page

How important is sustainability/greening to the health and profitability of businesses in the middle market?

The mid-market, with the exception of renewables and green energy companies, has been slower to adopt sustainability platforms and procedures than the large cap and global companies. Family office PEs might be the exception, as a number of them have embraced sustainable and green energy initiatives to reduce costs and increase profitability, especially those connected with logistics. Even so, there is increasing evidence that ESG issues are financially material and can significantly affect a corporate bottom line. With the advent of pension fund investment through private equity firms, where requirements for ESG investment by pensioners have trickled down, capital with ESG credentialing is often easier to obtain. In addition, acquisitions that have sustainability platforms can often expand their market share where B2B customers value knowing that suppliers have completed product life-cycle analyses and published under Global Reporting Initiative. Private equity firms such as KKR, Carlyle and TPG are integrating ESG risk and opportunity valuation into their assessments of the firms. We think this is a growing trend. Regulation and push/pull up and down the supply chain will be the catalysts and barometers for increased focus on sustainability.

What verticals use environmental liability to build a strategy around valuation? Is this crucial for every deal during the due diligence process?

It is not so much the “dirty industry verticals” as the companies or M&A teams with good environmental management and top-notch environmental advisers that glean strategic advantage in the due diligence and negotiation process. This is because the environmental liability on the balance sheets and reported in SEC filings represents a loose estimate by the seller and could be biased or not inclusive of significant issues or risks. From this perspective, including an accurate third-party valuation of environmental liability is indeed crucial in the due diligence process. //

—**Jeff Andrilenas** is environmental lead and **Frances Schlosstein** is president, both of the TBLS Group.

GOING PUBLIC

Launching a Successful IPO

Managing an initial public offering (IPO) requires considerable time and energy from executive management. While investment bankers provide an understanding of the listing process and will handle valuing the business, a company executive will need to address several key assets along the way.

Preparing SEC Strength Accounts

Auditors look to the expected audience of the accounts to determine risk and to appropriate the presentation of financial information, thus the accounts of a closely held private company will most likely not pass SEC scrutiny. First, look to see how comparable publicly traded companies report their performance in terms of financial accounts, operational data and the management discussion and analysis.

The SEC reviews will require you to help in their understanding of key presentation areas, so be prepared to answer questions on how you handled segment accounting and provide clear representations on the recording of all historical equity transactions. In addition, ensure that your analysis of key drivers is used to explain the changes in the gross or operating margin. Critical accounting decisions should be supported by white papers explaining the basis of the company's positions. It also is likely that your historical presentation of cash flows and equity statements will have to be strengthened.

Continued on next page

Often, footnotes to financial statements need to be enhanced to provide further insight that potential public shareholders will require. Private companies in particular do not always account for all of the latest Financial Accounting Standards Board requirements.

Presenting Historical Financial and Operational Performance

An in-depth analysis of both the company and the market segment will reveal several key factors to present to potential shareholders that illustrate current and anticipated future performance. Examples include:

- Percentage of revenues from products created by R&D in the past five years
- Ways in which growth has been fueled by acquisitions or capital expenditures
- The impact of geographic expansion or the cost improvements derived from company actions

Steps should be taken early to identify these data points and to ensure their integrity and availability for at least five years of historic performance and the last eight quarters. In the case of carve-outs or recent acquisitions, you must confirm that this data can be obtained from the preceding entity. Such information should form the basis of company dashboards, executive review meetings and board meetings. Establishing a dependable and stable system to generate this data will avoid manual error and save time in the preparation process.

Strengthening the Closing Cycle

Most companies are not prepared for the faster closing cycle required as an SEC registrant. Review personnel skill sets to determine if there is sufficient detail in the chart of accounts, and increase the integration of the sub-systems to the consolidation. Define ways to automate the more difficult reports, such as cash flow statements and equity sections, and spend the time necessary to devise the insightful management analyses to support the MD&A. Assess the complexities caused by the legal entities' structures and improve the processes for reconciling intercompany accounts. This may require a significant investment in people, training or new systems; the key is to determine this early in the IPO process and make it a priority.

Running the Company; Changing the Company

Avoid lowered performance during the IPO filing by dividing your executive team in two: one to manage running the company and one tasked with completing the IPO. It is critical to ensure you have the bandwidth, skill sets and plan necessary to handle the pressure of undertaking this process.

Addressing the issues discussed here at an early stage will help you successfully navigate the process of becoming a public company. //

—**Linton Moulding** is a partner at Tatum, a Randstad company.

Risk Management in Energy Investing

Investing in energy projects around the world comes with risks, but as three senior executives from Kerogen Capital explain, these risks can be understood and managed by the right professionals and in partnership with the right local talent.

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WEBINARS

Best Practices for Distressed Investing

March 6, 2014
2:00-3:00 p.m. EST

Register here.

Changes in GAAP Accounting and the Impact on Mid-Market Businesses

March 19, 2014
2:00-3:00 p.m. EST

Register here.

ACG JobSource®

ACG JobSource® is an online job board geared toward helping middle-market private capital professionals identify and apply for open M&A jobs. In addition, employers and recruiters seeking to fill middle-market jobs can access qualified candidates through online job postings, with ACG members receiving a discount. ACG JobSource job posts range from entry-level positions and internships to C-suite executives. Find out more information.

MARCH 26, 2014 // New York and London

Mark Your Calendars: "What Are LPs Thinking About the Evolving LP/GP Relationship?"

In the second annual trans-Atlantic simulcast of the ***Duane Morris LP Institute***, originating from both New York and London, you will hear from leading authorities drawn from the entire investment decision chain—LPs, GPs, asset managers, placement agents, gatekeepers and advisers.

Inside the Mind of the Limited Partner II is designed as a fast-paced exchange of ideas for CIOs from all corners of the LP universe—public pension funds, corporates, insurance, endowments, sovereigns, family offices and more. With market-defining perspectives from both sides of the pond, ***Inside the Mind II*** will deliver interactive, state-of-the-industry thinking on the global competitive landscape, emerging trends and key influencing concepts for investors and the private equity asset class.

NEW YORK

Convene
810 7th Avenue
(between 52nd and 53rd Streets)

Registration
11:30 a.m.

Program
12:00 p.m. to 1:45 p.m.
Light luncheon will be served.

LONDON

ETC Venues
200 Aldersgate
(near St. Paul's)

Registration
4:30 p.m.

Program
5:00 p.m. to 6:45 p.m.
Networking cocktail reception to follow.

THE ROUND

NEWS THAT MATTERS

VERTICAL VIEW // THE ENERGY SECTOR

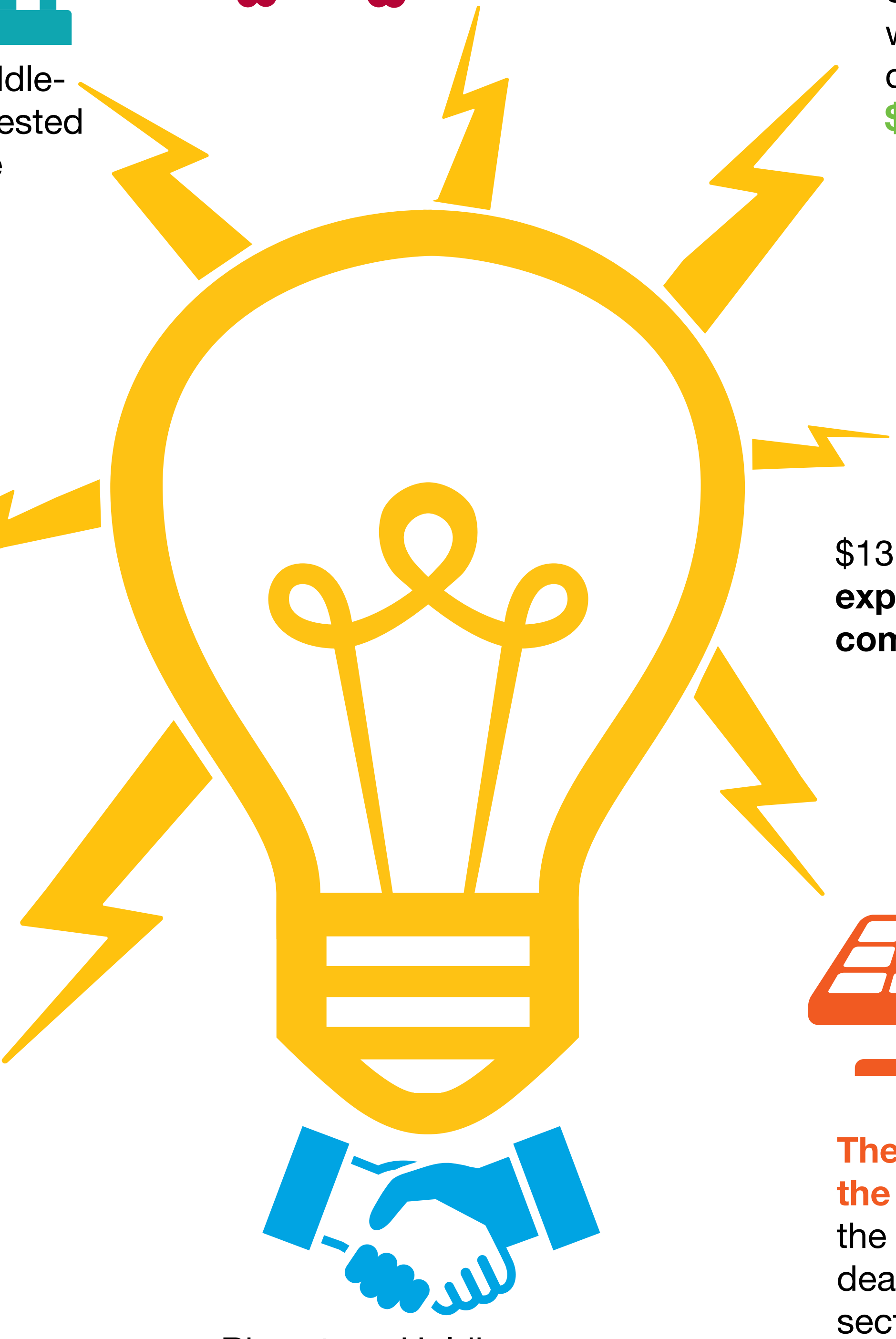
12%

12 percent of middle-market capital invested in 2013 was in the energy sector.

10%

10 percent of all deals in 2013 were in the energy sector.

In 2013, $33.39 billion of middle-market capital was invested in energy deals, **down from $47.56 billion in 2011**.



$14.34 billion was invested in the energy services sector in 2013, up from $9.23 billion in 2012.

$13.89 billion was invested in **exploration and production companies** in 2013.

18 percent of energy deals in 2013 were **in the Mountain region** of the United States.

Riverstone Holdings was the **top investor in energy deals from 2011-2013** with 33 deals during that time.

The Southern part of the United States saw the most amount of deal flow in the energy sector, with 55 percent of the deals happening in this region in 2013.

All statistics are from PitchBook for the middle market (deal values from $25 million to $1 billion).

ACG Global

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Riverside

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Salus Capital Partners

STNL Advisors

TriVista

For information on becoming an ACG Partner, download the **ACG Global Partnership Program Prospectus** or contact Meredith Rollins, **mrollins@acg.org**/312-957-4260.

Bridge Industries takes a measured approach to growth in the energy sector

Bridge Work

BY JERRY SOVERINSKY

Jeff Berlin, founder of Bridge Industries.

Photos by Billy Delfs

Bridge Industries is a classic middle-market PE investor. Rather than focus on maximizing profits via an exit strategy— stripping pensions, exporting jobs, slashing salaries and trimming the workforce in an effort to make a quick profit — the Chagrin Falls, Ohio, holding company stays true to its respectful approach to the companies it acquires. While generating profit and growth are central to the company's business model, those goals are achieved in a measured way that preserves the entrepreneurial spirit and corporate cultures of the companies it acquires.

"Entrepreneurial family businesses have a tremendous value linked to their owner-operator history," says Jeff Berlin, who founded Bridge Industries in 2003 and is a member of ACG Cleveland. He says one of his company's core beliefs is that it bears a responsibility not just to its internal stakeholders, but to the businesses it pursues.

With that philosophy in place, Berlin has carved out an impressive track record of success over the past decade in the energy sector, no small feat considering the industry's inherent volatility and a sustained recession that hit oil and gas companies especially hard.

HANDS ON // Jeff Berlin, founder of Bridge Industries (center), with Joel Falck, Bridge CFO (left), and Kevin Brady, president of Multi Products.

Berlin founded his company after overseeing 11 major acquisitions in his 12 years at Cleveland-based Hawk Corp., a manufacturer of friction products and precision components used in industrial and aerospace industries. He was president and COO for four years—growing the company from $20 million in revenue and just more than 100 employees to $220 million and 1,600 employees in 16 plants around the world. During that span, Hawk purchased its direct competitors as well as those that offered complementary manufacturing services, all in an effort to expand market coverage and diversify its revenue base while driving growth.

Berlin also successfully guided the company through a very turbulent post-9/11 period, when aerospace and industrial companies struggled heavily. Implementing tight cost-cutting measures and working capital controls while investing in long-term strategic programs that included expanding to China and Mexico, the company recovered in 2002 and posted record sales. Shortly thereafter, the then-40-year-old left to launch Bridge.

"Bridge was an opportunity for me to step back from Hawk and really do it on my own," Berlin told *Smart Business* shortly after creating Bridge. He also conceded that despite a track record of success, he was essentially starting over.

"THE COMPANIES THAT WE ACQUIRE MUST HAVE GOOD CULTURES AND MANAGEMENT TEAMS IN PLACE. WE DON'T CHANGE EITHER OF THOSE; WE PROVIDE SUPPORT."

Joel Falck
CFO of Bridge Industries

"The deals don't just come to you, you have to really go out and search for them," he said. "I felt the first thing was to establish a business model similar to Hawk, but different. It's different in that I started with nothing. If you don't have a patent or something to start with, you have to go buy something."

DEAL NO. 1: MULTI PRODUCTS

It didn't take Berlin long to make his first purchase. In 2004, less than a year after Bridge's founding, he acquired Multi Products Co. of Millersburg, Ohio, a manufacturer of oil and gas equipment primarily used to increase well efficiency.

Multi's proprietary products, capable management team and global sales opportunities were alluring to Berlin, who also was impressed by the company's technology. But with Multi representing his first major exposure to the oil and gas industry, Berlin says he "understood the engineering component, but I was unfamiliar with the customer base."

Bridge purchased Multi from its owner/president with an equity investment, seller note and bank financing, before implementing a growth program that placed a dual focus on operations and efficiency. A deeper management team was recruited and the company's manufacturing capabilities and product line were enhanced, all of which helped grow sales among its existing customer base.

At the same time, it expanded distribution for Multi, adding service centers in the Western United States and forming strategic partnerships with distributors in other key territories. Finally, it forged relationships with the pioneers of U.S. shale exploration, developing a new product line for horizontal well designs and plunger lift products that optimize oil and gas production.

Since the acquisition, Multi has grown dramatically, realizing 25 percent annual growth while adding distribution points throughout North America and initiating export relationships in South America, Mexico, Canada, India and China.

"We helped grow the business, taking wells and making them more efficient," Berlin says. "And we like that side of the industry." It's a hands-on approach that calls back to Berlin's operations experience. "I've always been biased toward the operations side of things—getting involved with a business," he continues. "Not to see how many transactions or how much money I can raise, but to focus on each opportunity and try to grow the business and do the right thing."

DEAL NO. 2: CIMARRON GAS PROCESSING

The next year, building on its experience with Multi, Bridge developed a relationship with Cimarron Gas Processing, a designer and marketer of separation and dehydration equipment for the oil and gas industry.

"When Jeff showed me (what he did with Multi), we hit a chord in the beginning," recalls John Moore, former CEO of Cimarron.

Cimarron had worked for many years with Central Tank of Oklahoma Inc., a manufacturer of separation and dehydration equipment, and reached out to Bridge for assistance in buying it. "When the opportunity arose to acquire Central, I reached out to Jeff for his help," Moore says. "I had the operational experience, but he had the financial experience."

"I'VE ALWAYS BEEN BIASED TOWARD THE OPERATIONS SIDE OF THINGS—GETTING INVOLVED WITH A BUSINESS. NOT TO SEE HOW MANY TRANSACTIONS OR HOW MUCH MONEY I CAN RAISE, BUT TO FOCUS ON EACH OPPORTUNITY AND TRY TO GROW THE BUSINESS AND DO THE RIGHT THING."

Jeff Berlin
founder of Bridge Industries

Berlin assessed the deal and the opportunities appeared strong. Moore "felt that if we could buy (Central), it would allow Cimarron more control of capacity in a growing market," Berlin says.

After acquiring an equity interest in Cimarron, the company quickly acquired and integrated Central into Cimarron. The timing was perfect. At a time when aggressive oil and gas development in the Rockies sent customer demand surging, Cimarron's capacity was up to the challenge.

"We went from about $35 million in sales to $135 million," Moore says, "diversifying from a regional player into a national player. We probably increased our customer base 10 times, in fact."

With an eye toward future growth, Cimarron and Bridge brought on an outside equity partner, Lynx Partners, which purchased control of Cimarron in 2007 (Bridge retained a minority stake in the company).

"Cimarron had a very technical product that had a critical importance to major E and P (exploration and production) companies," says Peter Hicks, managing director of Lynx Partners. "Bridge had served a strategic role in regards to merging two companies…and when we got involved in August 2007, a clear institutional game plan

SHOP FLOOR // Bridge Industries Founder Jeff Berlin talks with an employee at Multi Products.

> “WITH BRIDGE’S INVOLVEMENT AND UNDER LYNX, WE EFFECTIVELY TRANSFORMED THE COMPANY FROM A REGIONAL COLORADO BASIN-ORIENTED ENERGY PRODUCTS COMPANY INTO A NATIONAL COMPANY.”
>
> **Peter Hicks**
> managing director of Lynx Partners

was put into place…what I would call the institutionalization of the family company.”

Those initiatives included implementing lean manufacturing into the company’s Norman. Okla., facility and increasing its sales and marketing efforts. “Those complemented what Bridge had done,” Hicks says.

After enduring the rough downturn in 2008-2009 (“We lost two-thirds of our business as energy prices dropped,” Berlin says), Cimarron expanded into the major new shale developments, becoming a major player in the Bakken, Eagle Ford and Permian Basins while attaining a leading market position in the Marcellus and Utica Shale Plays in Ohio.

“With Bridge’s involvement and under Lynx, we effectively transformed the company from a regional Colorado Basin-oriented energy products company into a national company,” Hicks says. Its staff grew from about 75 employees in 2004 to nearly 500 in 2012.

“Jeff recognizes his strengths and how he can complement a company. He doesn’t try to dictate and change a corporate culture, he tries to add to it,” Moore says. “That’s very important, to try to maintain the corporate culture and not try to remake it just because you become financially involved.”

In 2012, Curtis Wright purchased Cimarron for $135 million. Bridge Industries’ initial investment: $10 million.

DEAL NO. 3: TRANSTECH ENERGY

In October 2013, Bridge acquired a controlling interest in Rocky Mount, N.C.,-based TransTech Energy, which designs, builds, installs and services specialized storage systems for liquefied petroleum gas (LPG) and natural gas liquids (NGL).

With the continuing development of shale gas and oil wells, TransTech’s ability to liquefy and store NGLs presented sizable growth opportunities. Bridge’s investment is supporting TransTech’s next phase of growth, a planned expansion in North America, Central America and South America.

As part of the acquisition, TransTech’s management team remained intact, with the owner retaining a minority stake in the business and the management team becoming equity owners. As with Bridge’s prior two energy deals, this was the preferred arrangement.

LATEST TOOLS // A Multi Products employee shows off a new piece of equipment.

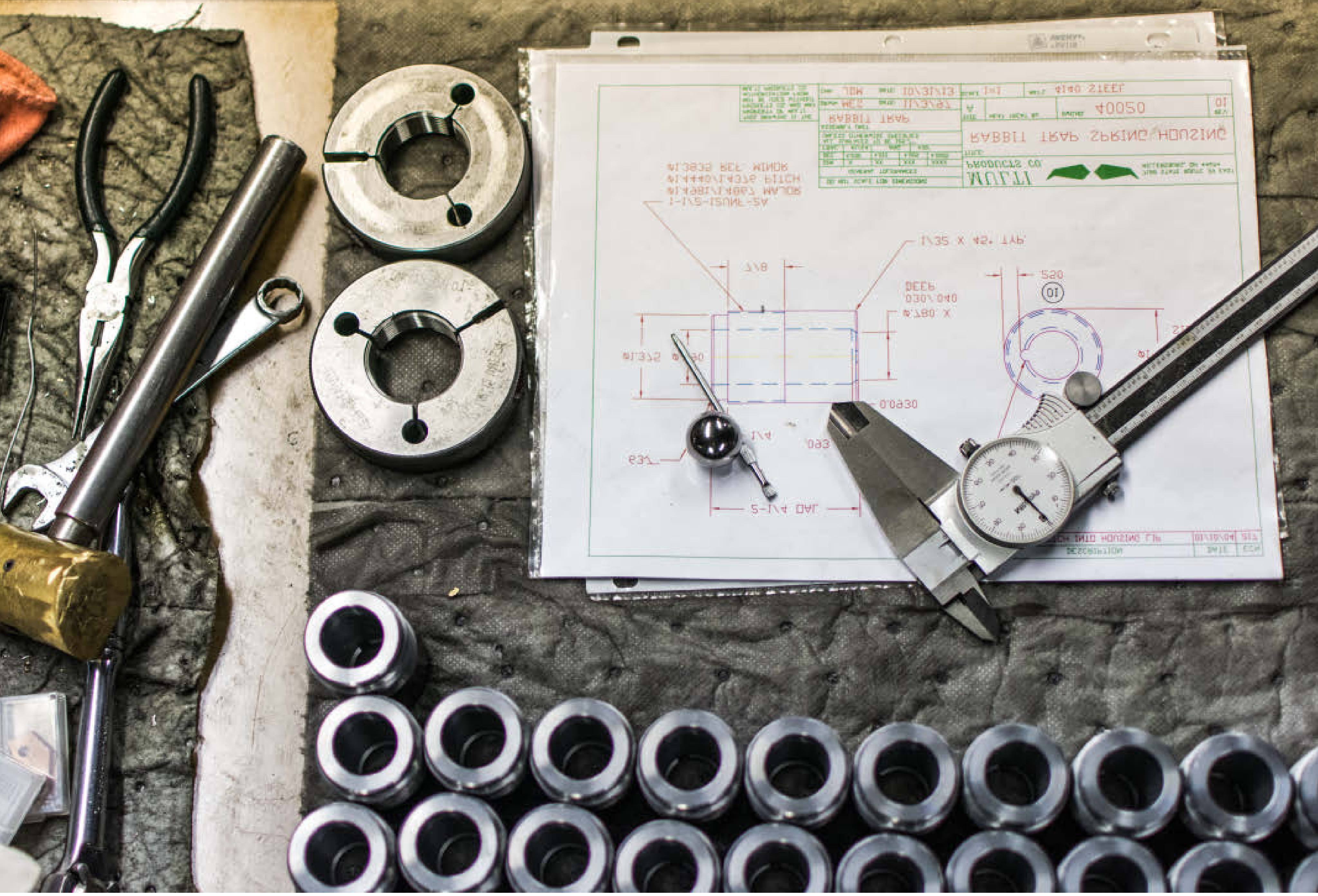
"The companies we acquire must have good cultures and management teams in place," says Bridge CFO Joel Falck. "We don't change those; we provide support."

Berlin agreed, calling out the strong foundation that TransTech team had already built as a critical selling point for Bridge's involvement. "The team at TransTech has done an amazing job building their business in the last couple of years, positioning the company for another growth phase that we intend to support."

ENERGY OUTLOOK

While Bridge is not limiting itself to energy deals, it recognizes the sector's vast opportunities and continues to look for growth opportunities within. "The two areas that we like the most are storage and infrastructure," Berlin says. "There's so much going on as far as new pipelines, new processing facilities and changing pipelines to deal with new energy flow."

"The second is the ability to make existing wells more efficient. It costs a lot of money to drill wells, and they deplete rapidly," he continues. "So we think that, eventually, people will come back to their existing wells and work to make them more efficient. And we continue to look for products and acquisitions that can help us in that area."



It’s not for the faint of heart, Falck says, knowing the challenges that Bridge and other energy sector firms face. “The real difference between energy and other industries that I’ve been involved with is the volatility… Things are not always predictable, and you have to be very responsive and entrepreneurial in your thought process, willing to work with the management team in any environment.”

Despite those uncertainties, the prospects for Bridge continue to look bright, and Berlin remains bullish on America’s role in energy exploration. “We’re big believers that the energy trends in North America are long term and there’s a need to continue building the infrastructure to support getting more oil and gas in North America,” he says.

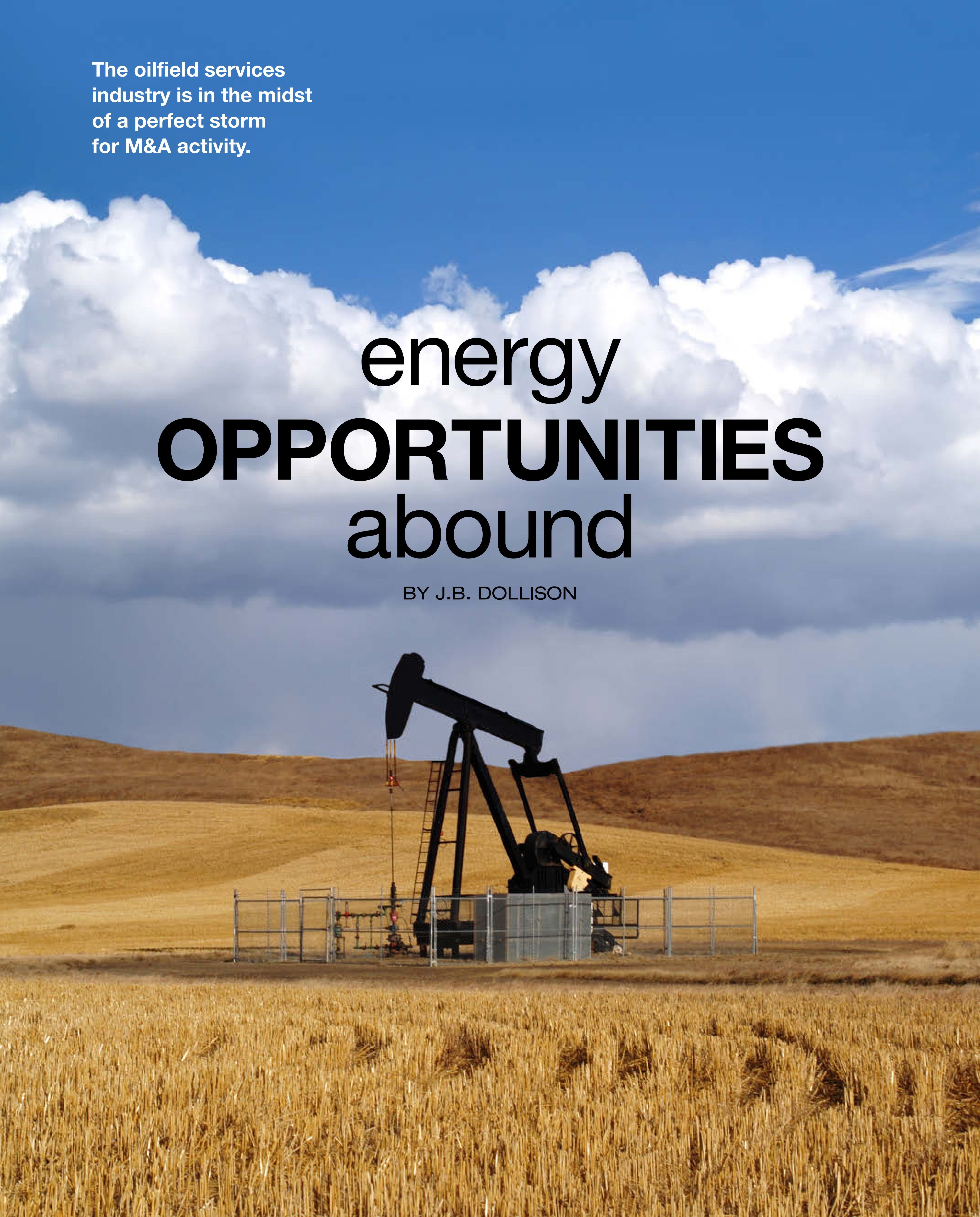
“We think that through export of natural gas and its usage in vehicles along with its continued use in power generation that the demand will continue to increase enough to support the industry’s future growth.” //

Jerry Soverinsky is a freelance writer and contributor to Middle Market Growth.

The oilfield services industry is in the midst of a perfect storm for M&A activity.

energy OPPORTUNITIES abound

BY J.B. DOLLISON



The oilfield services (OFS) industry represents one of the most vibrant M&A markets within the energy sector. All indications point to continued activity, but the real question is: How long will the party last? The answer lies in the fundamentals of the industries served by OFS companies.

As background, OFS businesses, broadly defined, provide support for the extraction, production, transportation and processing of oil and gas. In North America, it is a $110 billion industry. It has many attributes for an active M&A environment: It is highly fragmented with more than 11,000 businesses; it lacks concentration among competitors; many companies are publicly traded; and both strategic and financial buyers are flush with either cash or appreciating stock shares to be used as consideration in changes of control.

The industry is growing rapidly due to new extraction technologies associated with horizontal drilling and fracturing techniques. These methods are facilitating the exploration and production of hydrocarbons in tight horizontal rock formations known as shale plays. In fact, so much oil and gas is being discovered and produced that the Energy Information Agency believes the United States could meet 100 percent of its liquid fuel needs from North American sources by 2024.

This is great news for the OFS industry and it has created the perfect storm for M&A activity. Not surprisingly, valuations are attractive and transactions plentiful in the industry, as illustrated by charts 1 and 2 in the accompanying chart gallery.

Revenues in the OFS industry, however, have historically followed the price of crude oil, a commodity notorious for its cyclicality (see chart 3 in gallery). As a result, investors naturally question the outlook for acquired companies, an obviously important variable in determining valuation metrics (or whether or not to buy an asset). Surprisingly, the answer varies if one examines businesses associated with natural gas vs. crude oil.

First, let's examine the natural gas segment of the energy industry. Prior to the fracking boom in shale plays, natural gas supply in the United States was rapidly dwindling, with prices vacillating depending on seasonal demands. At the time, various plans were formulated to import natural gas to the United States in liquid form (LNG) and build new, large facilities to accommodate its storage.

Tap to view chart gallery

Fast forwarding to the present, massive quantities of natural gas have been discovered and are being extracted from shale plays in Texas, North Dakota and Pennsylvania. So much natural gas is available that current estimates are that domestic reserves could last another 100 years at current usage levels.

With rapidly growing supply and historically limited demand, gas prices have predictably declined relative to alternatives like coal, crude oil and renewables. Reduced prices naturally provide less economic incentive for continued exploration and production (and associated OFS services) that increase supply. A good illustration of this economic reality is the decline in active rigs drilling for gas (see chart 4 in gallery) that resulted from the reduction of natural gas prices in 2011.

If ample supply is available, how can demand increase for natural gas? Aside from converting retail heating customers from other energy sources, one obvious answer is to supplant the use of coal in generating power, with the added benefit of reducing carbon emissions. Other options include using natural gas instead of crude oil derivatives to manufacture certain chemicals and to power vehicles. And, finally, we have the option to export these molecules as LNG to other countries—a controversial, but currently legal, alternative.

To take advantage of this plentiful commodity and its price advantage, gas conversion efforts are in full swing domestically. Pipelines are being engineered, fitted, laid and inspected from ground sources to plants. Manufacturing facilities are being configured to accommodate new fuels and feed stocks. Facilities that dispense natural gas as a fuel source for vehicles are being constructed, and sophisticated LNG facilities for export are being permitted, designed and built.

Given this activity, it is easy to see a virtuous cycle for OFS businesses in the gas segment as low prices and plentiful supply lead to conversion efforts. As demand increases due to these investments, it is conceivable that prices for the commodity will increase, leading to further exploration and production. Accordingly, OFS businesses in the gas sector arguably could be in for a long run bull market that would portend well for M&A activity.

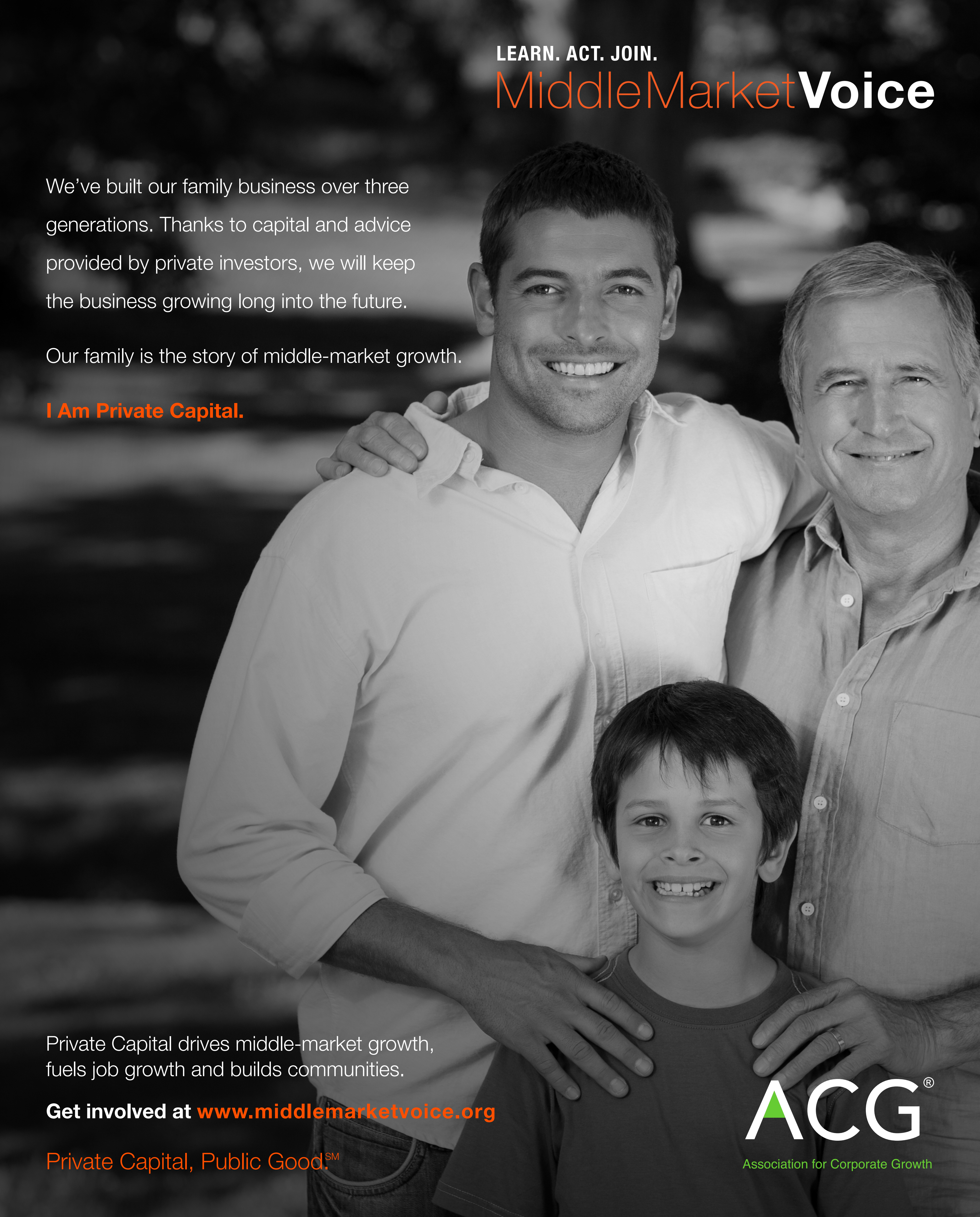
Now let's turn our attention to OFS businesses focused on crude oil. From the supply perspective, like natural gas, U.S. production of crude oil has increased dramatically. The United States is now extracting as much oil as it did in the 1970s, surpassing the production of Norway and possibly of Russia. However, two major factors affect the dynamics of the U.S. market that are different from natural gas: a legal ban in exporting crude oil and light sweet crude refining capacity.

First, the background. As supplies declined in the 1970s, the United States established prohibitions on exporting its own production while simultaneously importing more crude oil. Thus began five decades of optimizing U.S. refining capacity to accommodate imported oil that was generally more viscous than the light crude produced domestically. This effort was particularly pronounced in the Gulf Coast, where the United States maintains more than half of its refining capacity and imports heavy crudes from South America.

As shale plays began producing more oil, the domestic price of light crude (reflected as West Texas Intermediate, or WTI) naturally declined relative to its world equivalent (known as "Brent") — a phenomenon that would normally lead to increased exports. However, with legal restrictions for exporting U.S. crude, domestic production can only be refined as finished products such as gasoline for export. Consequently, domestic supplies have been rapidly absorbing U.S. light crude refining capacity. In fact, so little excess refining capacity is currently available for domestic crude supplies that both the International Energy Agency and Goldman Sachs have published reports warning of constraints for U.S. oil output growth. Without international outlets for domestic crude or an increase in domestic refining capacity for light sweet crude (both of which would require major legislative changes), it is conceivable that prices for domestic crude could decline precipitously assuming continued increases in production.

This is potentially troubling news for OFS companies in the oil sector, especially since most businesses are associated with the extraction, transportation or storage of crude (i.e., increasing the supply, not the demand, for the product). Obviously, businesses that assist in alleviating refining bottlenecks for light crude could benefit, but drilling operations and other important growth segments might see decreased demand for services. Therefore, even though overall M&A activity is strong, we believe that potential storm clouds are brewing for OFS businesses in the oil sector. **//**

J.B. Dollison is the founder and managing director of Crutchfield Capital Corp., an investment banking firm active in oilfield services mergers and acquisitions. He is a member of the ACG Global Board of Directors and the ACG Public Policy Committee.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A QUALIFIED OPINION

JOHN G. MARTIN // President and Chief Executive Officer, GE Antares Capital


Photo by Matthew Gilson

John G. Martin is the president and chief executive officer for GE Antares, a unit of GE Capital that provides acquisition financing to the private equity sponsor community. Among other responsibilities, this role entails oversight of a $10 billion portfolio of acquisition loans and investments. In addition, Martin serves as a local site leader for GE's primary location in Chicago and is involved in helping grow the company's presence in the city.

In 1996, Martin was a co-founder of Antares Capital Corp., a Chicago-based provider of acquisition financing. He became chief operating officer of Antares in 2000. Prior to forming Antares, Martin was a senior executive with Heller Financial, a Chicago-based commercial finance company. He began his career with Continental Illinois National Bank.

1 2 3 4 5

SELECT ABOVE TO SEE Q&A

Q YOU CO-FOUNDED ANTARES CAPITAL CORP. CAN YOU EXPLAIN WHY YOU STARTED THE FIRM AND WHAT NEED YOU FILLED IN THE MARKETPLACE AT THAT TIME?

At the time when my partners and I started Antares in 1996, a big part of the thesis was that there was an opportunity to create an institution that was solely focused on the financing needs of private equity sponsors. At that time, banks and a small handful of commercial finance organizations were the primary providers of acquisition financing. Through a number of economic cycles, banks in particular were known to enter and exit the market regularly. Our view was that a consistent, reliable source of debt capital supporting this growing area of the economy was needed in the market.

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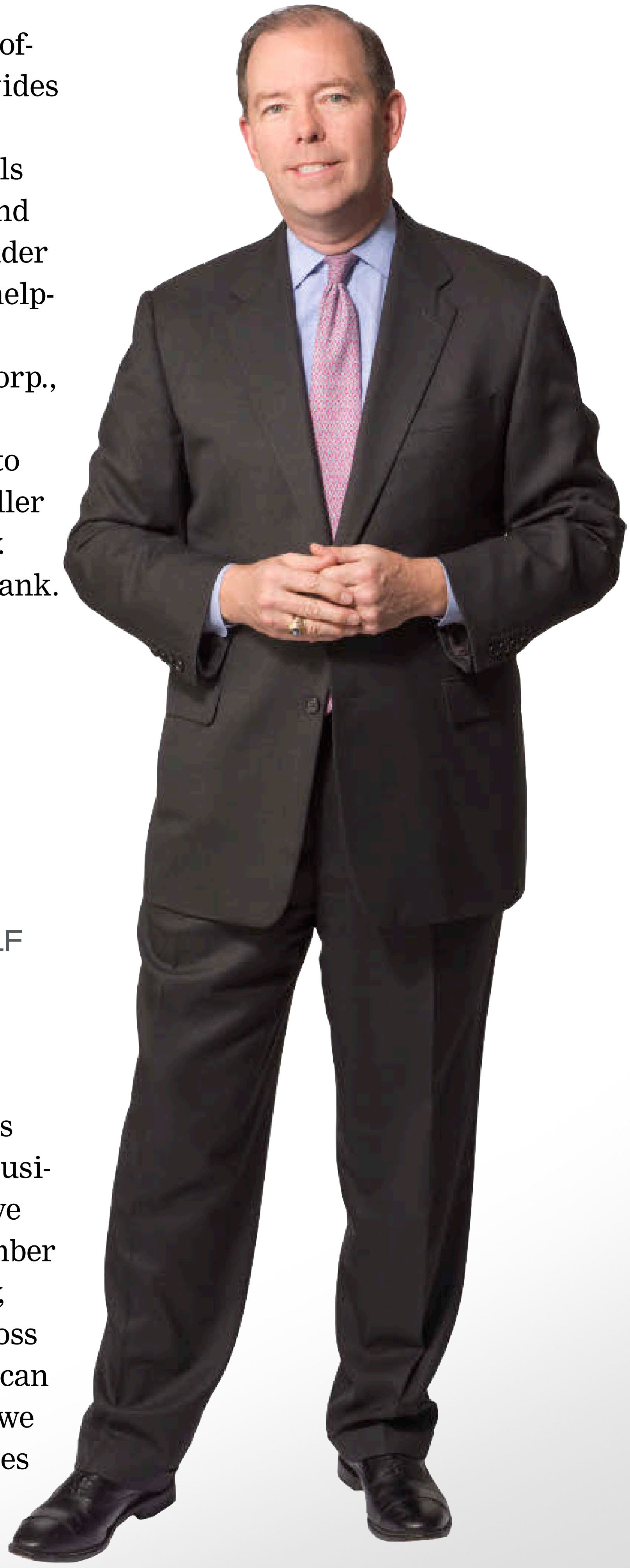
1 2 3 4 5

SELECT ABOVE TO SEE Q&A

Q HOW DOES GE ANTARES CAPITAL SET ITSELF APART FROM OTHER LENDERS?

There are a number of ways we differentiate ourselves from our competitors. As one of the first dedicated businesses focused on serving the private equity space, we have long-lasting and deep relationships with a significant number of the most active firms in the United States. Additionally, we have the ability to bring the breadth of knowledge across the industrial businesses within GE to customers so they can grow their businesses. Through our Access GE program, we have dedicated professionals from numerous GE businesses who visit our portfolio companies and sponsor customers to share best practices learned from many years of experience in running and operating businesses.



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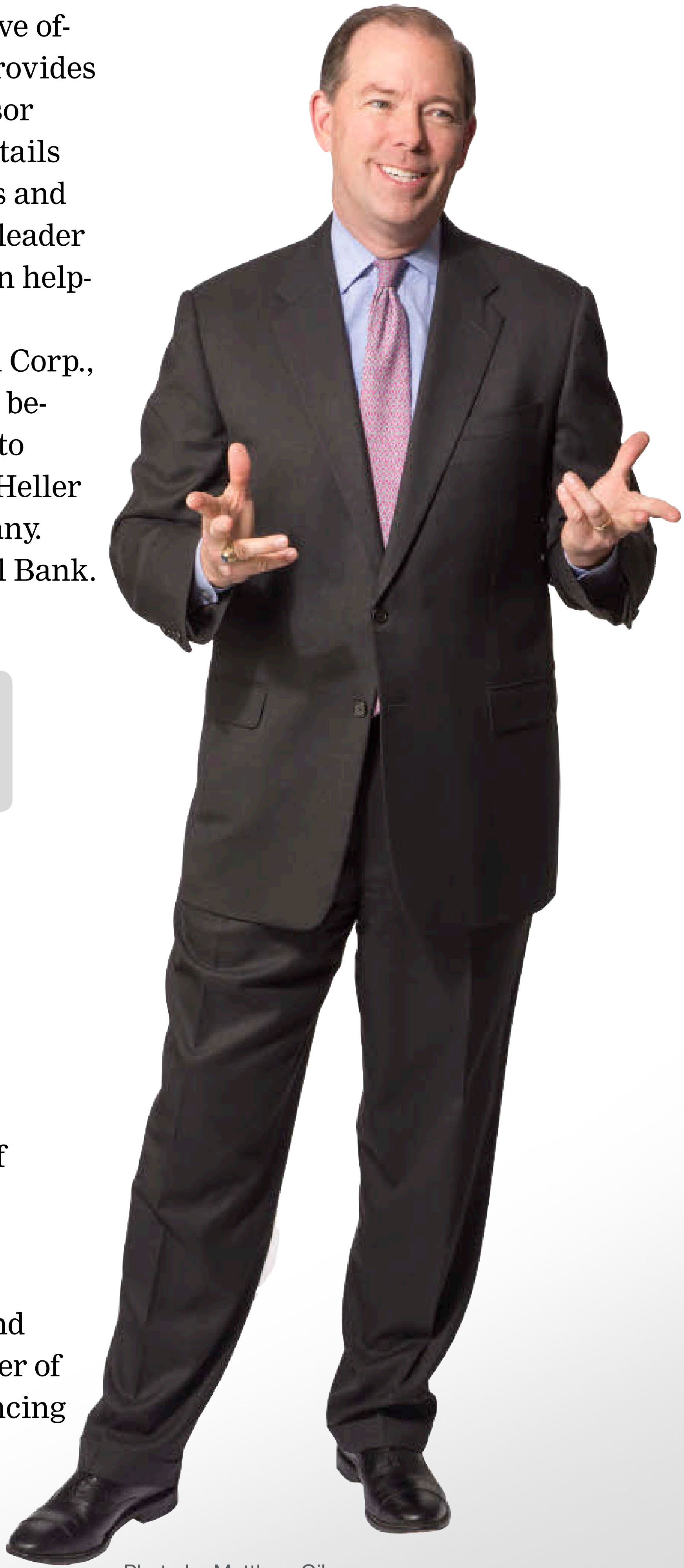

Photo by Matthew Gilson

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SELECT ABOVE TO SEE Q&A

Q WHAT TYPES OF DEALS IS GE ANTARES CAPITAL TYPICALLY INVOLVED IN?

GE Antares is first and foremost a senior secured lender serving the acquisition financing needs of private equity sponsors. We originate, underwrite and syndicate both first lien and second lien financings for the sponsors' acquisitions. Our primary transactions involve platform acquisitions, refinancings and dividend recapitalizations. We have domain expertise in a number of industries, which allows us to address specialized financing needs in areas such as health care finance, franchise finance and media-related properties.

A QUALIFIED OPINION

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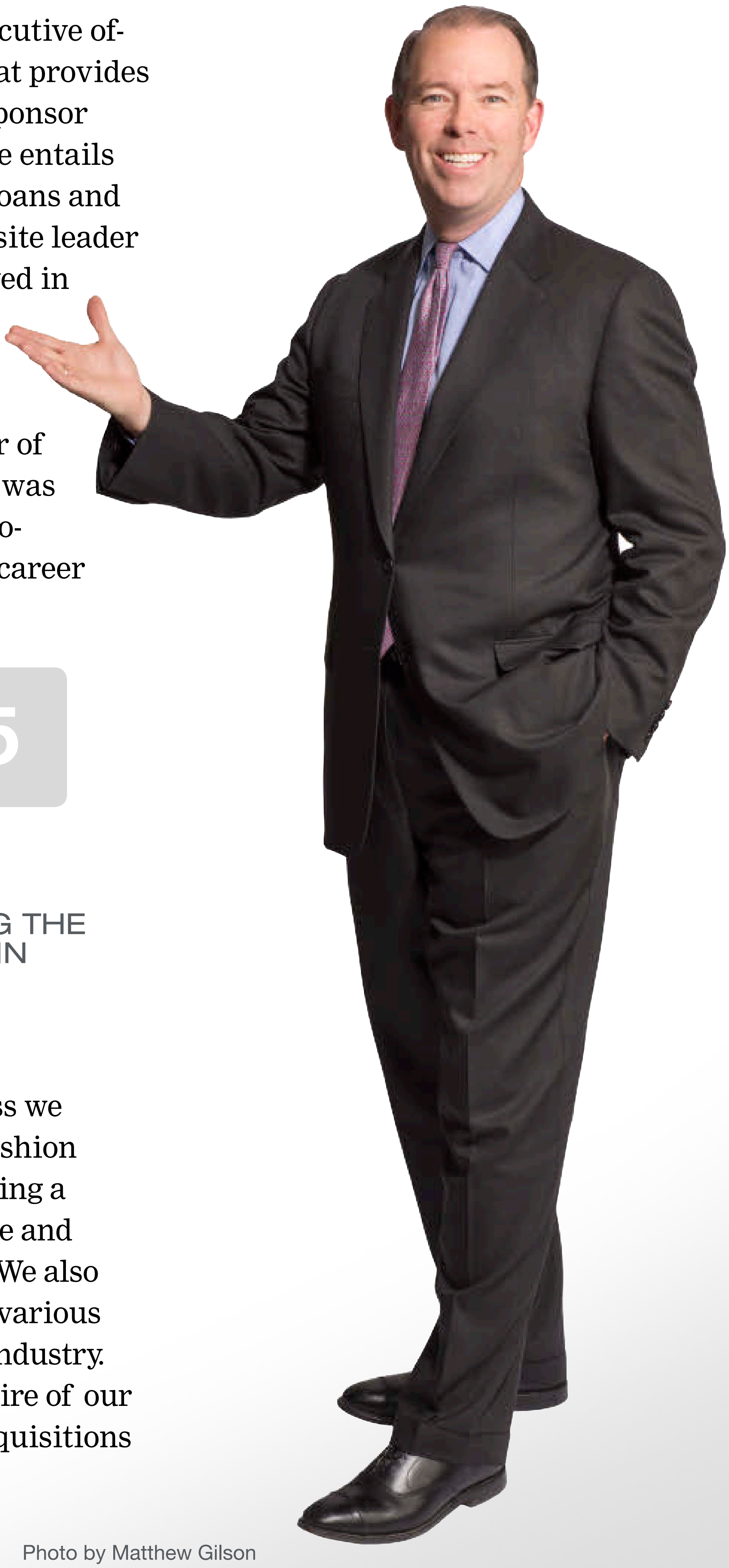

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SELECT ABOVE TO SEE Q&A

Q IN WHAT INDUSTRIES ARE YOU SEEING THE MOST GROWTH? ARE ANY OF THESE IN EMERGING MARKETS?

Over the course of many years in this business we have seen industries come into and out of fashion from a financing perspective. Right now, we are seeing a considerable amount of activity in the energy space and in businesses tangentially related to that industry. We also are seeing greater activity in businesses related to various construction industries as well as the automotive industry. The other item of note that we are seeing is the desire of our sponsors and their portfolio companies to make acquisitions overseas, whether that is in Europe or Asia.

Photo by Matthew Gilson

A QUALIFIED OPINION

JOHN G. MARTIN // President and Chief Executive Officer, GE Antares Capital

John G. Martin is the president and chief executive officer for GE Antares, a unit of GE Capital that provides acquisition financing to the private equity sponsor community. Among other responsibilities, this role entails oversight of a $10 billion portfolio of acquisition loans and investments. In addition, Martin serves as a local site leader for GE's primary location in Chicago and is involved in helping grow the company's presence in the city.

In 1996, Martin was a co-founder of Antares Capital Corp., a Chicago-based provider of acquisition financing. He became chief operating officer of Antares in 2000. Prior to forming Antares, Martin was a senior executive with Heller Financial, a Chicago-based commercial finance company. He began his career with Continental Illinois National Bank.

Photo by Matthew Gilson

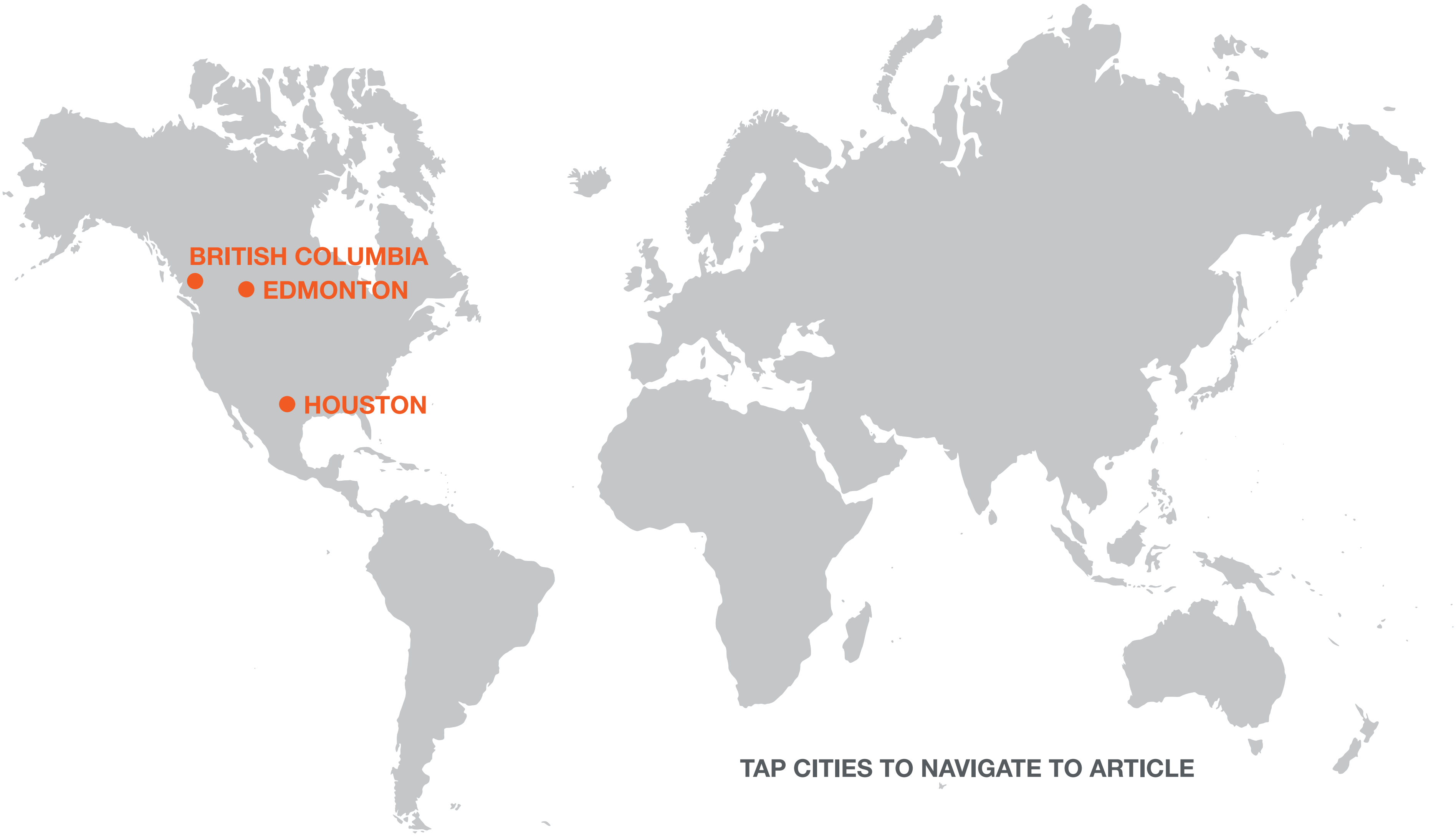
1 2 3 4 5

SELECT ABOVE TO SEE Q&A

Q WHAT ROLE DO YOU BELIEVE THE MIDDLE MARKET PLAYS IN THE GLOBAL ECONOMY?

As is evidenced by GE's partnership with the Fisher Business School at The Ohio State University, we believe the middle market is a tremendous driver of the global economy. Middle-market companies in the United States drive employment growth and are key cogs in the supply chain for virtually every industry operating in this country. Many middle-market companies are run by insightful thought leaders who have a vision to make their businesses truly competitive on the world stage and who have the ability to be much closer to their customer base than their counterparts at Fortune 1000 companies.

CHAPTER NEWS FROM AROUND THE GLOBE



ACG GLOBAL

ACG Achieves Policy Milestones as 'Voice of the Middle Market'

Over the past two years, members of Congress and officials at the Securities and Exchange Commission (SEC) have increasingly reached out to ACG on issues impacting middle-market investment and growth. ACG's growing stature on policy matters was accelerated by the launch of GrowthEconomy.org and the publication of *Driving Growth*, which revealed ground-breaking research on the positive impact of private capital on the growth of middle-market company revenue and employment.

ACG encourages the growth and development of middle-market companies by supporting policies that foster and incentivize private capital investment. Members of the ACG Public Policy Committee have met with more than 70 congressional offices, briefing policymakers on a range of issues. In addition, the SEC has invited ACG members to five meetings to discuss the impact of regulatory matters. ACG recently held the third ACG

Continued on next page

Read ACG's Public Policy Agenda.

LEADERSHIP // Sen. Orrin Hatch, R-Utah and ranking financial services committee member, speaks to ACG's Middle Market Policy Summit in Washington, D.C.

Photo: Chuck Fazio

Middle Market Public Policy Summit on Feb. 5. The event attracted bipartisan congressional participation as well as officials from the Treasury Department and the SEC. Over the past year, eight ACG chapters have hosted members of Congress for presentations and tours of company facilities and plants. Hundreds of ACG members, from every category of membership, have been directly involved in these efforts.

"Policymakers are very interested in the views of the middle market," says ACG Public Policy Committee Co-Chairman Gretchen Perkins of Huron Capital Partners, "and ACG members have been both engaged and encouraged in taking those views to Washington. But it is clear that we have a long way to go to fully educate Congress, the SEC and the executive branch. It is important that ACG have a seat at the policymaking table."

To ensure ACG continues to effectively and transparently serve as the "Voice of the Middle Market," ACG Global registered in January with the U.S. House of Representatives and the U.S. Senate under the Lobbying Disclosure Act. This administrative procedure ensures ACG members and staff operate within the rules of the legislative branch. ACG now joins more than 11,000 other organizations engaged in lobbying activities.

ACG's advocacy efforts have resulted in several notable policy achievements:

Continued on next page

ACG@WORK

CHAPTER NEWS FROM AROUND THE GLOBE

Deductibility of Interest. Several key members of Congress began to coalesce around a proposal to eliminate or significantly reduce the ability of companies of any size to deduct interest on debt of any kind as a normal cost of doing business. ACG, together with a large coalition of organizations, opposed this policy as it would increase the cost of capital. The efforts seem to have had an impact and the momentum in support of this initiative has faded.

Custody Ruling & Form PF. The SEC had issued a regulation that required many ACG members to engage third-party custodians to hold certificates of ownership and other non-negotiable instruments. Following significant input from ACG members, the SEC reversed its position. It is estimated this change will save firms $100,000 to $200,000 per year. In 2012, ACG also worked with the SEC to streamline the reporting requirements on Form PF, significantly reducing the cost of compliance.

Passage of H.R. 2274. The Small Business Capital Access and Jobs Preservation Act was approved by the House in a 442-0 vote. This strong bipartisan consensus acknowledged the reality that a one-size-fits-all approach to broker-dealer registration is unworkable in today's complex environment. This Act, if passed by the Senate and signed by the president, will clarify and simplify who has to register under the Security and Exchange Act of 1940. ACG joined the SEC's Advisory Committee on Small Business, the American Bar Association, Alliance of Merger & Acquisition Advisors and dozens of other organizations in support.

Passage of H.R. 1105. ACG played a key role in gaining the bipartisan passage of HR 1105. The bill, if passed by the Senate and signed by the president, would treat private equity funds in the same way venture capital is treated under Dodd-Frank. This would save PE firms with more than $150 million in assets under management upwards of $50,000 per year. More than 200 ACG members responded to ACG's call and communicated with members of Congress engaged on this issue.

At the end of February, ACG convened a group of compliance officers to meet with the SEC Divisions of Investment Management and Corporate Finance, at their request. Topics included the Solicitation Rule, potential changes to the definition of "accredited investor" and broker-dealer examination issues.

ACG has held several webinars on policy topics such as the impact of the Volcker Rule on PE, 100 percent exclusion on capital gains and other regulatory issues. Past webinars are archived on the ACG website. In addition, more than a dozen chapters have hosted policy briefings by ACG President & CEO Gary LaBranche or Board Chairman Pam Hendrickson, COO of The Riverside Company. ACG will continue to voice the views of the middle market in Washington and communicate developments to members. Learn more at middlemarketvoice.org. //

—**Gary A. LaBranche**, FASAE, CAE, ACG Global President & CEO.

ENERGIZED // From left: J.B. Dollison, Crutchfield Capital Corp.; ACG Global liaison Amy Woolf, RR Donnelley; ACG Houston President-Elect Cassandra Mott, Thompson & Knight LLP; ACG Houston President Art Travis, Industrial III, Inc.

ACG HOUSTON

ACG Houston Hosts 'Energy Uncorked'

On Jan. 14, the ACG Houston Chapter and its sponsors welcomed almost 500 guests to an energy private equity marketplace and wine tasting. "Energy Uncorked" provided direct exposure to professionals across the energy finance sector who are involved in M&A, fundraising, corporate growth and strategic development.

"This exceptional networking event is exclusively focused on the energy sector, including private equity, investment banking and corporate executives representing the industry, from upstream to midstream and beyond," says Cassandra Mott, partner, Thompson & Knight LLP and ACG Houston president.

U.S. premier energy private equity groups, including Angelo, Gordon & Co.; ArcLight Capital Partners; Audax Group; Cadent Energy Partners; Encap Investments; Energy Spectrum; Energy Ventures; Guggenheim Partners; Kayne Anderson Capital Advisors; ProStar Capital; Prudential Capital Group; Quantum Energy Partners; and Stellus Capital Management hosted tables of premium wines for tasting at the beautiful Hotel ZaZa.

New to the event this year was a Wine Cellar drawing benefitting The Broach Foundation. The Broach Foundation was founded by James Broach of Kayne Anderson along with his wife Jamie to promote funding for brain cancer research and education. //

UPCOMING // Next up for ACG Houston will be the 11th Annual Texas ACG Capital Connection® on March 5. For information, go to acgtexas.org.

HONORS // From Left: Tyler Smyrski, ACG BC president, Dealmaker Award Winner Robert Miller, his adviser Andrew Kemper.

ACG BRITISH COLUMBIA

ACG British Columbia Awards Mid-Market Leaders

The Annual ACG British Columbia Dealmakers of the Year Awards and Gala Dinner was held Dec. 4, 2013, at the Vancouver Club where, in addition to the Dealmakers Awards, the first Lifetime Achievement Award was presented.

Renowned Canadian television journalist Ian Hanomansing from the CBC emceed the evening with 2013 Dealmaker Awards presented to John Anderson, president and CEO of The Oppenheimer Group, and Robert Miller, president and CEO of Victoria-based PRT Growing Services Ltd. Congratulations also went to John Anderson's advisers, Stephen Dewis and Elise Rees of Ernst and Young, and Mark Schmidt from Davis LLP, as well as Robert Miller's supporting adviser Andrew Kemper and his team from Capital West Partners. The Lifetime Achievement Award was given to Roderick Senft, founder and managing director of Tricor Pacific Capital Inc.

Thank you to the dedicated Dealmakers Event Planning Committee and the support of the 2013 sponsors for making the event a success and to Scotiabank, Lawson Lundell LLP and Ernst & Young for their continued support of the ACG British Columbia chapter. //

ACG EDMONTON

Downtown Edmonton's Bright Future

While the Arena District is the new home of the beloved Edmonton Oilers, the area promises to be so much more than "just a rink." It is going to transform downtown Edmonton and bring vitality back to the city. To discuss this transformation, ACG Edmonton Network hosted a lunch this winter with three speakers to discuss the progress and sponsored by MNP and Bond Capital as a contributing sponsor.

D'Arcy Vane, a director with Edmonton Economic Development Corporation, led the panel. Vane spoke of how the new Arena will bring innovation, enhanced cultural experiences and new enterprise to Edmonton and the Capital Region as a whole. Cory Wosnack, a principle with Avison Young, spoke about how the new arena will help add increased value to the downtown core in general. The new skyscraper tower to be built next to Rogers Place will be the first of its kind in Edmonton.

The last speaker of the day was Patrick LaForge, president and COO of the Rexall Sports Corp. He is an integral part of the Katz Group and is managing the Arena project. LaForge spoke to the need of a new arena for the Oilers, but also about entertainment, real estate and the fantastic benefits that Edmontonians will enjoy.

Ground breaking is slated for this spring and the project is on track to be finished in 2016. With a price tag of $480 million for the arena and more than $600 million for the entire project, this is a project that will be watched closely by all Edmonton residents. //

Tell Us Your Growth Stories

Middle Market Growth is currently accepting ideas for cover stories. If you are part of a company or know of a company that was positively affected by private-backed capital, added jobs to the community and contributed to the economic growth of the economy, please share your story with our editor for consideration. ACG wants to show the many ways the middle market across the globe drives growth and adds value to our global economy. Please share your story ideas in 250 words or less with Editor-in-Chief Kristin Gomez.

Share Recent Chapter News

Middle Market Growth wants to highlight ACG chapter events, dealmaking and other news coming from the local chapter level. Please share your news in 250 words or less along with a color photo (300 dpi or above) if available to Editor-in-Chief Kristin Gomez.

THE PORTFOLIO

INSIGHT FROM THE EXPERTS

SOUND DECISIONS | BY THE NUMBERS | MID-MARKET TRENDS

TAP BUTTONS TO NAVIGATE COLUMNS

IN THIS ISSUE

SOUND DECISIONS

There may be no better way to discover where the next big deal will come from than by examining where activist investors are allocating their capital.

BY THE NUMBERS

Despite the potential for significant returns, energy efficiency financing is mostly untouched by large lenders and investors. It's an opportune strategy for middle-market professionals.

MID-MARKET TRENDS

A number of factors have been drawing private equity into the oil and gas industry over the last decade. Among the top reasons: These investment opportunities fall along the entire risk continuum and cater to practically all profiles, strategies and appetites.

COMING SOON

Check out the Portfolio section of the April issue for more on the latest middle-market trends, written exclusively by our team of expert ACG Partners. To learn more about contributing to this section, please contact Meredith Rollins, (312) 957-4260.

These articles are brought to you by ACG's Global Partners.

SOUND DECISIONS // Richard J. Peterson, Director, and Robert A. Keiser, Vice President, Global Markets Intelligence, S&P Capital IQ

Finding the Next Big Deal

Pay attention to where activist investors allocate their capital.

Companies with significant activist investor ownership stakes have the potential to make the next big deal. There might be no better way to discover where the next big deal will come from than by examining where activist investors are allocating their capital. A wide array of hedge funds and other investors seek to compel companies to unlock shareholder value through a variety of financial techniques. Taking this into consideration, the Global Markets Intelligence research group examined the top 10 holdings with regard to percentage stakes among U.S. companies with at least $10 billion market valuation. Examining the findings in the table, we uncovered some noteworthy observations.

Leading Activist Investor Ownership Stakes Among U.S. Companies With $10 Billion Or Less Market Value

Company Name	Market capitalization (mil. $)	Activist investors ownership stakes (%)
Icahn Enterprises L.P.	13,556.80	87.9
Chesapeake Energy Corp.	16,664.70	24.3
Best Buy Co. Inc.	13,082.60	18.2
Beam Inc.*	10920.70*	16.8
Motorola Solutions Inc.	17,113.90	13.2
Hess Corp.	27,394.70	13.1
Forest Laboratories Inc.	18,589.20	12.7
Rockwell Collins Inc.	10,271.60	11.1
Air Products & Chemicals Inc.	23,162.10	10.8
Micron Technology Inc.	25,153.50	10.4

*Prior to bid by Suntory Holdings. Data as of 1/10/14. Source: S&P Capital IQ.

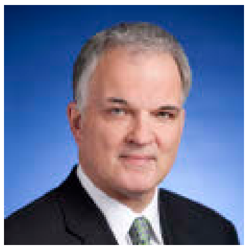
Our most significant observation is the fact that Beam Inc. was included in the rankings of leading activist investor ownership. Japanese beverage company Suntory Holdings Limited recently entered into an agreement to acquire Beam Inc. in a transaction valued at $15.9 billion on Jan. 12, 2014. Also, semiconductor firm Micron Technology Inc. recently reported normalized earnings on Jan. 7, 2014, for results for the first quarter ended Nov. 28, 2013, that exceeded consensus estimates. In the aftermath of the report Micron shares rallied. Additionally, hedge fund Pershing Square

THE PORTFOLIO

SOUND DECISIONS // Richard J. Peterson, Director, and Robert A. Keiser, Vice President, Global Markets Intelligence, S&P Capital IQ

SOUND DECISIONS | **BY THE NUMBERS** | **MID-MARKET TRENDS**

TAP BUTTONS TO NAVIGATE COLUMNS



Richard J. Peterson

Robert A. Keiser

Capital Management LP began an activist campaign last year against industrial firm Air Products & Chemicals Inc. by announcing that it intends to engage in discussions with the company management and others regarding the future of the company.

Lastly, drug maker Forest Laboratories, which ranks among large-cap drug companies as having the highest activist ownership stakes, entered into a definitive agreement to acquire pharmaceutical firm Aptalis Holdings Inc. from a group of shareholders for $2.9 billion in cash on Jan. 7, 2014.

In sum, the list provided includes both companies that are on the prowl to acquire and companies that are potential targets. In this regard, we'll continue to keep an eye on ongoing developments. //

Richard J. Peterson is Director and **Robert A. Keiser** is Vice President, both with Global Markets Intelligence for S&P Capital IQ.

BY THE NUMBERS // Billy Fink, Marketing Analyst, Axial

SOUND DECISIONS | BY THE NUMBERS | MID-MARKET TRENDS

TAP BUTTONS TO NAVIGATE COLUMNS

Energy Efficiency Financing: When Being Green Improves Earnings

Despite the potential for significant returns, the space is mostly untouched by large lenders and investors.

Over the past several years, energy efficiency financing has become an area of interest for many lenders. Eric Starr, partner at CapX Partners and member of Axial, says it is "the strategy of providing capital to commercial properties to upgrade their energy efficiency. Once the retrofit has occurred, the lender will take a percentage of the saved capital until the investment has been returned. After the lender has collected its money back, the building owner gets all of the savings."

The numbers behind energy efficiency financing should appeal to any investor. "The vast majority of commercial buildings that have not gone through an energy audit or upgrade are becoming increasingly inefficient every day," Starr says. In a report published in 2009, McKinsey learned that more than 100 million buildings in the United States are eligible for such retrofits and "if executed at scale, a holistic approach would yield gross energy savings worth more than $1.2 trillion."

Despite the potential for significant returns, the space is mostly untouched by large lenders and investors. According to a *Guardian* article, many investors are wary of the small size of an individual project relative to the time it takes: "Banks untroubled by investing billions in mortgage-backed securities were wary of investing millions in energy retrofits. After all, each deal requires bankers' time, so—from that perspective—smaller deals come with diminishing returns. And the energy efficiency industry wasn't prepared to supply enough projects to be bundled into a bigger, bankable deal."

As a result, the strategy is opportune for middle-market professionals—evidenced by the dozens of energy efficiency-focused investment opportunities shared on Axial in the last couple months. However, even for interested parties, energy efficiency investments can be complicated. Starr explains that the process involves several parties and stages of analysis. The process starts with "engineering firms that can determine how much energy conservation measures can save a building," he says.

With the potential upfront cost and long-term savings estimated, the project is evaluated through two separate lenses. "The first is the actual engineering of the project, which is reviewed by engineering

Billy Fink

partners to help see the project through insurance underwriting for performance guarantees," Starr says. "The second perspective is in determining the cost of the project. We look at the guaranteed savings of the project to determine how much capital we can provide to finance the project."

To further mitigate risk, the use of external insurance firms can help guarantee the savings. Starr says working with an insurance company "will insure a certain amount of savings, which takes significant risk off the table." With the insurance in place, the "primary concern is whether or not the customer will be inhabiting the building for the entire term of the loan," Starr says. "There are no savings if nobody is in the building. As such, we do some pretty standard underwriting of the owner to make certain he won't go bankrupt over the term of the loan."

In addition to the financial opportunities presented by the energy efficiency model—like reduced costs and higher EBITDA—there are added benefits from an environmental perspective. "Not only is this a large and underserved market, but by providing capital to allow these properties to become more energy efficient, we would reduce the draw on the energy grid, reduce the amount of carbon emission, and reduce need for foreign oil," Starr says. The double bottom line of environmentalism and profit could strike the right chord for many middle-market lenders. //

Billy Fink is a Marketing Analyst at Axial, the largest online network for deal professionals.

MID-MARKET TRENDS // Doug Meier, U.S. Energy Sector Deals Leader, and Rob McCeney, Energy & Infrastructure Deals Partner, PricewaterhouseCoopers LLP

SOUND DECISIONS | BY THE NUMBERS | MID-MARKET TRENDS

TAP BUTTONS TO NAVIGATE COLUMNS

The U.S. Energy Revolution: The Role of Private Equity in Oil and Gas

Oil and gas investment opportunities fall along the entire risk continuum and cater to practically all profiles, strategies and appetites.

During the last decade, the upward trajectory of private equity investment in the oil and gas industry has been unprecedented. From 2002 to 2012, the annual number of private equity investments has more than doubled. Although activity dropped during the financial crisis in 2008, the number and value of deals has been rising dramatically, driven by the recovery in credit availability, a divergence in the ratio of crude oil to natural gas prices, and a renaissance in shale resource plays that has produced the highest U.S. oil production in 20 years.

LOWER RISK → HIGHER RISK

MIDSTREAM	OILFIELD SERVICES	DOWNSTREAM	UPSTREAM

The current trends stand in stark contrast to the earlier part of the decade when activity was driven primarily by rising oil and natural gas commodity prices and a leverage bubble that burst in 2008.

A number of other factors have been drawing private equity into the oil and gas industry over the last decade. The industry requires a tremendous amount of capital, and this need only continues to grow. The shale revolution is projected to require more than $5 trillion in investment over the next 20 years in the United States alone—largely directed to the upstream and midstream sectors. Private equity has been moving in to capitalize on this demand for capital.

However, perhaps most importantly, oil and gas investment opportunities fall along the entire risk continuum and cater to practically all profiles, strategies and appetites—everything from low-risk interstate transportation deals with fully contracted profiles to high-risk high-reward commodity price plays.

The risk continuum (see above) ranks the four major sectors of the industry from lower to higher risk. While not exact within each sector, we have attempted to provide a broad outline of the general level of risk within each sector.

MID-MARKET TRENDS //

Doug Meier, U.S. Energy Sector Deals Leader, and Rob McCeney, Energy & Infrastructure Deals Partner, PricewaterhouseCoopers LLP

SOUND DECISIONS | BY THE NUMBERS | MID-MARKET TRENDS

TAP BUTTONS TO NAVIGATE COLUMNS

Doug Meier

Rob McCeney

Learn more about oil and gas opportunities in this report from PwC.

The resulting capital requirements offer investment opportunities for every risk appetite within the energy sector: from start-ups and companies needing growth capital to mature asset ownership; from direct exposure to commodity prices to exposure at the macro levels only; from fully contracted assets to short-term deals with significant price volatility. Moreover, the industry's lengthy supply chain offers an expansive range of businesses for potential investment with an equally robust range of risk profiles to suit just about any investment mandate.

The broad array of investment opportunities is matched by a full complement of exit strategies. Initial public offerings (IPO) via a master limited partnership (MLP) structure, which are largely limited to the energy industry, have seen a resurgence during the last five years. Upstream MLP IPOs have surged—historically there have been few in this sector. Recently, the market has begun accepting downstream MLPs. In all sectors, "drop-down" strategies have proven to be a very successful mechanism as MLPs seek to bolster distributable cash flow with a stable source of deals for the publicly traded MLP.

Technology innovations also are driving private equity activity in the energy sector. Innovation continues to spur growth and opportunities within oilfield services, where entrepreneurs and investors are leveraging the industry's low barriers to entry, as well as the follow on effect for exploration and production companies that have enjoyed a reduction in risk due to major improvements in technology, largely tied to the hydraulic fracking process.

During the next three to five years, we expect private activity to continue to increase. We expect ongoing major presence in the midstream and upstream sectors as they look to expand their footprint in the U.S. shale resource landscape. Energy targeted funds have experienced record inflows recently, and this capital will be deployed to various opportunities across the risk continuum. //

Doug Meier is a U.S. Energy Sector Deals Leader and **Rob McCeney** is an Energy & Infrastructure Deals Partner, both of PricewaterhouseCoopers LLP.

THE LADDER

ACG MEMBERS ON THE MOVE

Pedro Gonzalez

Pedro Gonzalez, CPA, of ACG Dallas/Fort Worth was appointed audit partner in the Dallas office of Hein & Associates LLP.

ACG Denver gave Bonanza Creek the 2014 Corporate Growth Award, an award recognizing innovative companies and leaders in the middle-market business community.

ACG Denver gave the 2014 Emerging Company Award to the Eating Recovery Center. The award is given to companies with less than $100 million in revenue with consistent growth for the past three years.

The McLean Group announced it acted as a mergers and acquisitions adviser to Development Alternatives, Inc., in its acquisition of HTSPE Ltd., an international development consultancy based outside of London.

Harris Williams & Co., a middle-market investment bank, announced the sale of a majority interest of Towne Park, a premier provider of valet parking, parking management and hospitality services, to TA Associates. Harris Williams & Co. acted as the exclusive adviser to Towne Park, a portfolio company of Camden Partners and HarbourVest Partners, LLC. Towne Park previously was featured in *Middle Market Growth*.

Claudine Cohen

Claudine Cohen of ACG Connecticut was appointed principal at CohnReznick, the 11th-largest accounting, tax and advisory firm in the United States in its growing Transactional Advisory Practice.

Kristin Gomez

Kristin Gomez of ACG Global was promoted from editor-in-chief to vice president of communications and marketing.

To submit your promotions, job changes and other accomplishments, please send information and a color photo (hi-res 300 dpi or above) to Editor-in-Chief Kristin Gomez.

IT'S THE SMALL THINGS

ALTERNATIVE FUEL VEHICLES // Clean Commuting

1 PLUGGED IN //

Electric vehicle sales have experienced strong growth in the last six years. In 2007, sales were $352,274 and represented a market share of 2.99 percent, whereas 2013 saw sales of $592,192—a 3.81 percent market share.

2 FILL 'ER UP! //

Drivers can fill up at only 605 public compressed natural gas (CNG) stations in the United States, compared with more than 120,000 gasoline stations, driving an emerging market of affordable home refueling units.

3 RUNNING ON FUMES //

Natural gas powers about 112,000 vehicles in the United States and roughly 14.8 million vehicles worldwide.

4 TAPPING INTO THE UNITED STATES //

Boston Consulting Group estimates that international companies will invest at least $50 billion through the end of the decade on projects that take advantage of low-price natural gas in the United States.

5 MAKING THE SWITCH TO CNG //

Early adapter Culver City, Calif., converted its entire transit fleet and 80 percent of its refuse fleet by 2004, saving $1.4 million annually and garnering $2.2 million from federal grants.

6 HONDA LEADS THE PACK //

Honda remains the only major manufacturer with a natural gas sedan for consumers. Ford is planning to introduce a CNG option of its F-150 in 2014.

7 MIDDLE EAST LEADS THE PACK //

The Middle East has a commanding lead in the number of natural gas vehicles, with Iran and Pakistan coming in at 2.8 million each as of 2011. In contrast, the United States reported just 123,000.

THE LEADERSHIP

ACG DIRECTORS

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Joel Rosenthal
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ACG Pittsburgh
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Kilpatrick Townsend & Stockton LLP
ACG Atlanta
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Mike Ehlert
Capital One Leverage Finance Corp.
ACG Houston
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Brian Gilbreath
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Angie MacPhee
RGL Forensics
ACG Denver
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Huron Capital Partners
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Robert G. Coffey
Alan B. Gelband

*denotes member of Executive Committee

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ACG New Jersey
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ACG New York
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