

## Inside this Issue

Welcome to the Spring 2014 issue of the Private Company Group DealReader, a newsletter focused on merger-and-acquisition trends, transactions and events of interest to owners of private companies and their advisors.

In this issue, we pose five questions to Tom Liebermann of Advanced Systems International. Tom discusses those characteristics exhibited by middle market companies that achieved successful liquidity events, as well as the importance of a well-structured Board of Directors.

Other topics covered in this issue include:

- The Lincoln 500 Index and a discussion of our unique perspective on the middle market
- Key M&A market statistics
- Profiles of selected recent Lincoln International transactions, including the sales of three private companies (Entegra Roof Tile, Primesport and JMJ Associates)

We hope you find this newsletter a useful tool and we welcome your comments or questions.

Lincoln International

## Five Questions For: Tom Liebermann, Advanced Systems International



Tom Liebermann, Chairman and CEO, Advanced Systems International, Inc.

*Shortly before the release of this publication, Tom Liebermann passed away after a heroic battle with pancreatic cancer. We are honored to share Tom's insights below; they are indicative of his keen intellect and the thoughtful advice he shared with so many during his distinguished career. He will be sorely missed.*

*Mr. Liebermann was Chairman and CEO of Advanced Systems International, Inc. ("ASI"), which was actively involved in building industrial technology companies and their teams, including evaluation, acquisition and establishment of investment activities. ASI typically partnered with private equity investors, the CEO and management through positions on Boards of Directors with the*

*target of a successful liquidity event.*

*ASI's partners included Argosy Partners, Milestone Partners, NewSpring Capital, Horizon Capital and Marquette Capital.*

**Q: Can you please give us some background on yourself and your recent experiences?**

A: I have been President, CEO, Managing Director, Director (inside and outside) and Chairman (Executive and Non-Executive) over a dozen times for private and public companies in the U.S. and Europe. I have acquired and operated entities and have completed liquidity events, both domestically and internationally. I believe I've seen the "good, the bad and the ugly" a few times.

Yet, there is always much to observe and learn, especially when invested in the enterprise.

**"Having a strong Chief Executive Officer and executive team as well as a few years of robust financial performance are clearly paramount factors in achieving an outlier valuation."**

After a seven-year holding period, with mostly economic headwinds, we recently closed on Project Fusion, a medium tech industrial technology company, with a good outcome for all stakeholders. Even with a strong CEO, four independent ex-CEO directors on the Board, an experienced investment banker, a sophisticated private equity buyer with a well-known law firm and many consultants, the transaction was at



times an arduous, challenging and tiring process.

**Q: What aspects of a company and sale process do you believe help contribute to a strong valuation?**

A: Having a strong Chief Executive Officer and executive team as well as a few years of robust financial performance are clearly paramount factors in achieving an outlier valuation. However, a number of other dynamics can also play critical roles in the speed, efficiency and outcome of a sale process. First, an important but sometimes overlooked characteristic in companies sold for outlier valuations is a talented Chief Financial Officer. In addition to the CFO being a vital player in the due diligence process during a sale, his or her pre-sale work is a critical item by which buyers review a company – accurate and easily digestible financial data is crucial to an effective process.

*(Continued on page 2)*

Second, deep industry experience within the management team is a vital characteristic of those businesses that excel. A management team that possesses a full understanding of the industry can more effectively articulate how the company plans to innovate, grow and thrive in the market. When I help with a potential acquisition, I focus the most on the CEO and his executive team prior to evaluating technology, equipment, strategy, tactics, etc. The company's value is often correlated to its market position, which is closely tied to the leadership team's industry experience.

Thirdly, it is also important that the company and its management are competent and experienced to compete internationally. Businesses across industries are increasingly global in focus, with successful, highly valued businesses leveraging international opportunities to improve and grow. In addition

to the management team, the Board should also have such experience in order to better evaluate and participate.

Fourth, for lower mid-size companies of \$20 – \$200 million in revenues, a Board should have no less than one independent director and no more than three. While having independent directors adds a unique perspective and substantial benefits to businesses, there is a degree of diminishing returns as the number of additional independent directors increases. Since most professionals want to contribute, having too many "hands in the pot" can use up valuable Board time without major value-add.

Finally, from an advisory perspective, it is critical to have a good investment banker. An investment banker who understands the dynamics of negotiations and deals can often prove more valuable than a banker solely focused on the industry. Many investment bankers claim to be great in both respects – determining an advisor is thus critical in driving value for the stakeholders. Similarly, it is vitally important to find a very strong transaction attorney with a "can do" attitude. Completion and timelines often end up as crucial as content. As such, when selecting an advisor of any sort, my focus is first and foremost on "people" – the team who will be executing the transactions – and, secondly, on other aspects, including

strategy, tactics, market, technology, procedures and the like.

**Q: What characteristics of a Board of Directors are common in highly valued businesses?**

A: First and foremost, successful businesses usually have a strong Board of Directors. In contrast to the management team's deep industry knowledge, it is important for a Board of Directors to have diverse experience and strength across industries, functions and geography. While this sometimes seems counterintuitive for financial investors, oftentimes an abundance of individuals with "vertical" industry-specific focus at the Board level ends up having a short shelf life. A diverse background to a Board can help ensure fresh perspectives and a greater degree of independence. Generally, while good "vertical" directors ask specific industry questions, good "in-breadth" directors ask deceptively simple, important questions.

In addition, companies should seek directors who have (at least once) acquired, operated and successfully completed a liquidity event previously in their career, with significant ownership, so they "get it from A to Z." This can be more important than industry experience in driving value from the Board level.

Compensation guidelines vary, but generally a quarter to a third of a director's total compensation stem from director fees. Such a structure helps make sure the CEO and his executive team view the director as an asset to the company, hopefully utilizing him or her to sound ideas and issues out. The remainder of compensation then comes from incentives (such as founder/management shares, options, etc.) as well as from investment to have "skin in the game". This aligns incentives to keep directors independent and thinking from an owner's perspective.

**Q: What are the positives and negatives of a separate Chairman of the Board position?**

A: There are a significant number of benefits to a separate Chairman position. First, this can help create more space for more candid dialogue with and about the

CEO. A separate Chairman can be a more effective "sounding board" for the CEO and his direct reports. The Chairman can then contribute to develop and coach the CEO toward improved company and professional performance.

Secondly, a Chairman position helps in better allocation of responsibilities for Board matters with the CEO. The Chairman oftentimes becomes the natural conduit between Board members and CEO. Very often, a Chairman saves work and improves effectiveness and lowers the workload for financial investors on the Board. Additionally, a Chairman provides opportunity for a more balanced overall company and Board agenda.

However, there are a few perceived negatives to the Chairman role. A separate position can create some confusion about executive or non-executive powers and responsibilities. The higher absolute cost can be considered a deterrent, even if beneficial overall. A singular Chairman position can also provide independence concerns if incentives are not properly aligned.

**Q: How are the roles and responsibilities shifting in corporate governance?**

A: There has been an increasing trend in American corporate governance to separate the Chairman or Lead Director roles. This trend is likely to continue globally and probably accelerate. It is a good idea to identify the Chairman's role as Executive or Non-Executive. In Europe, in many corporate governance systems, the President cannot also be Chairman.

Unfortunately, in Europe the Chairman often is placed on the Board by the bank or merchant bank. Therefore, the Chairman ends up motivated to look after the debt than the equity. Trust and openness by management is often likely to be higher with an independent experienced Chairman than representatives of financial lenders.

I hope these thoughts will encourage a healthy dialogue in board rooms as well as in private equity and mezzanine investment firms. ■

# The Lincoln 500 Database — Lincoln's Perspectives on the Middle Market

**About The Lincoln 500 Database:** Lincoln maintains an extensive proprietary database in connection with its quarterly portfolio valuation activities containing valuation and financial data for a diverse group of companies across ten primary industry segments. The database offers a glimpse into the middle market where reliable data is otherwise limited. Valuation metrics reflect observed transaction multiples. Financial results reflect information available at the end of each calendar quarter (typically, financial statements for one or two months preceding the end of the period). The database contains nearly 500 companies.

In 2013, corporate cash levels and available debt financing reached and remained at record levels. Yet, despite the strong financing markets and pent-up cash, M&A failed to break out through the first three quarters, as both activity and valuation levels remained relatively steady in comparison to historical levels. Many speculated this supply-demand gap to be in a large part due to the low growth environment

many companies were facing. Fortunately, these trends seem to be reversing course. Although total volume remained steady, valuation multiples increased significantly in Q4 2013, reaching levels not seen since the economic downturn. This surge in valuation multiples is likely to embolden sellers and to drive more owners to explore strategic alternatives.

Similarly, company performance continues to improve. Based on the data collected by Lincoln, middle market company performance is gaining momentum, as a significant majority of companies reported year-over-year revenue increases. Similarly, the percentage of companies reporting EBITDA gains increased for the third consecutive quarter and now represents nearly 50% of businesses.

Presented below are selected data from our Q4 valuation activities as captured by our proprietary database.

## M&A Transactions

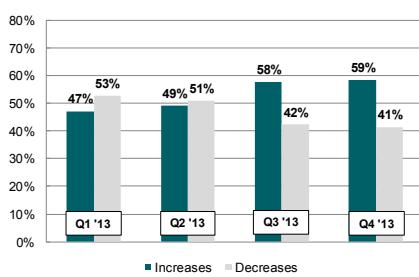
	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13
TEV / EBITDA	7.2x	6.6x	8.1x	7.5x	7.3x	7.4x	7.5x	8.0x
Total Debt / EBITDA	3.9x	3.9x	4.5x	4.1x	4.2x	4.4x	4.9x	4.6x
Senior Debt / EBITDA	2.9x	3.2x	3.4x	3.2x	3.0x	3.5x	3.5x	3.4x
Equity % of Total Cap	43%	39%	44%	43%	43%	38%	33%	42%
LTM EBITDA (Average)	\$30	\$32	\$35	\$31	\$24	\$21	\$53	\$26
Count	11	13	22	31	10	12	16	12

### Commentary:

- Average equity cushions observed in Q4 2013 increased, ending four consecutive quarters of declines.
- Average total enterprise value (TEV) to LTM EBITDA multiple implied by closed M&A transactions in Q4 2013 increased to 8.0x. This is the highest level observed since Q3 2012 and higher than the cumulative average since Q1 2011.
- Total leverage (4.6x) and senior leverage (3.4x) decreased in Q4 2013 relative to the prior quarter but remain in line with the 2012 averages of 4.6x and 3.4x, respectively.

## Revenue & EBITDA Trends

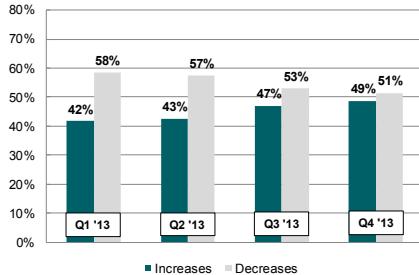
### Revenue Growth - % of Companies (Qtrly YoY)



### Commentary:

- Approximately 59% of the companies observed reported revenue growth in Q4 2013 vs. Q4 2012. This was the third consecutive quarter in which an increasing number of companies reported revenue gains. Similarly, the proportion of EBITDA gains increased for the third consecutive quarter from 47% in Q3 2013 to 49% in Q4 2013.
- After a significant drop in Q1 2013, the percentage of companies showing growth are back in line with Q4 2012 levels following steady improvement throughout 2013.

### EBITDA Growth - % of Companies (Qtrly YoY)



Note: Aerospace & Defense, Automotive & Truck, Chemicals, Energy, and Financial Services excluded due to limited historical data

## % Financial Growth Rates (Mean)

### By Size:

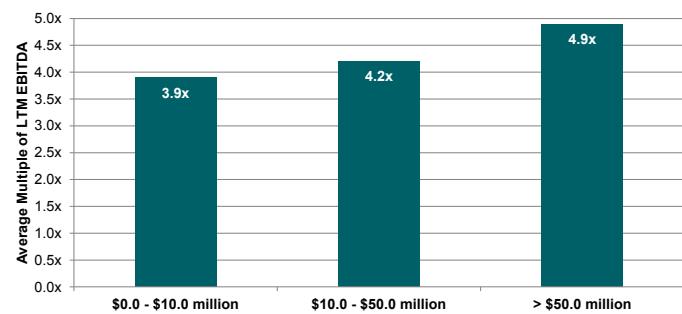
EBITDA	Q4 '13 LTM		Q4 '13 vs. Q4 '12		Q3 '13 vs. Q3 '12	
	EBITDA Margin	Revenue	EBITDA	Revenue	EBITDA	
\$0 - \$10	16.6%	-2.3%	-4.6%	-2.8%	-3.0%	
\$10 - \$50	19.0%	3.9%	-1.9%	5.2%	0.1%	
> \$50	24.5%	3.6%	0.9%	3.6%	1.1%	
Total	20.0%	2.5%	-1.5%	2.8%	0.0%	

### By Industry:

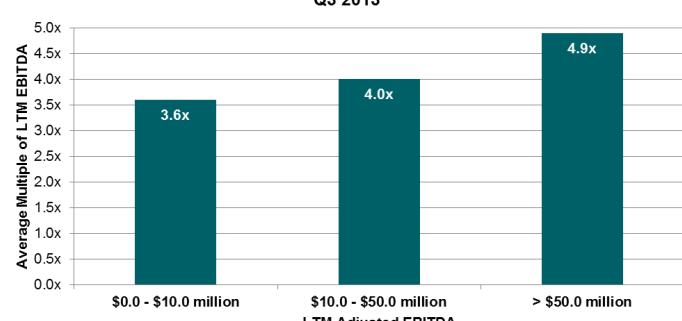
Industry Sector	Q4 '13 LTM		Q4 '13 vs. Q4 '12		Q3 '13 vs. Q3 '12	
	EBITDA Margin	Revenue	EBITDA	Revenue	EBITDA	
Business Services	21.1%	2.7%	-1.2%	3.4%	3.5%	
Consumer	15.2%	1.2%	-0.9%	4.7%	1.6%	
Healthcare	22.6%	6.6%	-3.0%	6.6%	-3.4%	
Industrials	17.6%	-4.9%	-0.3%	-4.9%	5.0%	
Technology	24.8%	0.4%	0.0%	0.4%	-7.3%	
Total	20.0%	2.4%	-1.5%	2.4%	0.0%	

## Total Leverage (By Size)

Q4 2013



Q3 2013



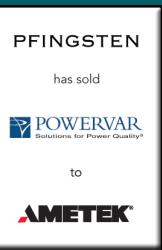
## Selected Recent Lincoln International Transactions



- Sell-side transaction (January 2014)
- Entegra Roof Tile is a leading manufacturer of concrete roof tiles for use in residential replacement roofs, new custom homes, new tract homes and commercial buildings. The company is headquartered in Okeechobee, Florida.
- Acquired by Headwaters Incorporated, a leading producer of light building products and heavy construction materials. The company is headquartered in South Jordan, Utah.



- Sell-side transaction (January 2014)
- Wabash Technologies is a leading designer and manufacturer of speed sensors, position sensors, actuators and ETC pedals. The company is headquartered in Troy, Michigan.
- Acquired by Sensata Technologies Holding N.V., a leading global industrial technology company focused on the development, manufacture and sale of sensors and controls. The company is headquartered in Almelo, the Netherlands.



- Sell-side transaction (December 2013)
- Powervar is a leading provider of power management systems and uninterruptible power supply ("UPS") systems. The company is headquartered in Waukegan, Illinois.
- Acquired by AMETEK, Inc., a leading global manufacturer of electronic instruments and electromechanical devices with annual sales of \$3.6 billion. The company is headquartered in Berwyn, Pennsylvania.



- Sell-side transaction (December 2013)
- PrimeSport is the global leader in providing access to the largest sporting events in the world through ticketing, travel and VIP hospitality packages and marketing services for corporations, professional sports teams, universities and fans. The company is headquartered in Atlanta, Georgia.
- Acquired by Clearlake Capital, a leading investment firm focused on private equity and special situation transactions. The company is headquartered in Santa Monica, California.



- Capital raise transaction (December 2013)
- Senco is a leading designer, manufacturer and supplier of branded fastening tools and related, consumable branded fasteners, primarily used in residential construction and industrial products markets. The company is headquartered in Cincinnati, Ohio.
- The debt financing consisted of a \$25 million senior asset based revolving credit facility provided by Bank of America and a \$42.5 million first lien term loan provided by LBC Credit Partners .



- Sell-side transaction (October 2013)
- JMJ Associates is a global management consultancy serving the oil and gas, petrochemical, mining and metals, building and infrastructure and general manufacturing sectors. The company is headquartered in Austin, Texas.
- Acquired by 3i Group plc, a leading international investment firm, with over £11bn of assets under management focusing on private equity, infrastructure and debt management. The company is headquartered in London, United Kingdom.

## Lincoln International's Global Footprint



150+ professionals throughout the United States

125+ professionals plus a 24-person advisory board in Europe

Offices throughout the "BRIC" economies of Brazil, Russia, India and China

★ Indicates Lincoln International office

## About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With fifteen offices in the Americas, Asia and Europe, Lincoln International has strong local knowledge and contacts in key global economies. The firm provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at [www.lincolninternational.com](http://www.lincolninternational.com).

## Save the Date



## Industry Groups

Lincoln International's dedicated industry verticals are organized on a global basis and led by senior professionals with significant advisory and sector expertise:

- Aerospace and Defense
- Automotive and Truck
- Building and Infrastructure
- Business Services
- Chemicals
- Consumer
- Distribution
- Electronics
- Energy & Power
- Food & Beverage
- Financial Institutions
- Healthcare
- Industrials
- Packaging
- Technology

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