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What makes the grade in valuation?
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Carving out a niche: Harwood Capital targets public-to-private market

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Inform, engage and execute your way to accelerated growth

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Don’t trip as you skip to a sale

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MARKET TRENDS :: M&A ACTIVITY

Brown Gibbons Lang & Company is a leading independent investment bank serving middle market companies and their owners throughout the United States and internationally. BGL’s professionals are experts in mergers & acquisitions, debt & equity placements, financial restructurings, and fairness opinions & valuations with industry expertise across the global growth sectors of the economy. www.bglco.com.

If you have a question, need more information, or would like to obtain a digital copy of Smart M&A, contact BGL’s Wendy Neal at wneal@bglco.com.
Market uncertainty puts not only valuations to the test but also a buyer’s willingness and ability to transact. However, my experience has shown that quality remains the trump card, and solid middle market businesses will always attract buyers and financing sources, even in the most challenging periods. That being said, buyers are being more disciplined in their approach to acquisitions, causing a flight to quality that is pushing up purchase price multiples for the best companies. Envision a quality “scorecard,” which buyers are using to assign an overall grade—A, B or C—to a business based on the number of positive attributes tallied. The key factors driving the valuation multiple are:

**Leadership at the helm.** Management teams must possess depth and experience and demonstrate a strong commitment to the future growth of the business.

**Earnings quality.** Recurring revenues with stable and predictable cash flows are in focus. Companies that performed with cash flows that held up during the recent downturn are garnering higher multiples.

**Size.** EBITDA size is a measure of stability, with $10 million a defining threshold in the marketplace. For companies with cash flow in excess of this amount, the so-called “larger company” premium can equate to a valuation multiple of 1x or more of EBITDA.

**Growth.** Healthy growth can command a purchase multiple in the high single- to low double-digits, depending on the industry and prospects for a business. Sought-after targets are those that bring identifiable synergies and opportunities to grow through acquisitions.

**Industry.** Industry and growth often go hand in hand, and generally speaking, sectors that have proven their resilience through the downturn, such as food, technology, healthcare, and business services, are attracting greater buyer interest. Cyclical businesses draw more skepticism, although quality companies are garnering significant attention and attractive multiples.

**THE SCORE:**

**Grade A** businesses possessing all of these characteristics are attracting significant interest from both corporate and private equity buyers at robust valuations of 8x EBITDA or more.

**Grade B** businesses possessing most of the characteristics are being sold at respectable valuations from a historical perspective, with purchase multiples in the 6x to 8x range, but are highly scrutinized during due diligence.

**Grade C** businesses are more challenging in terms of attracting interest, as buyers and lenders are focusing their attention on higher quality companies. Valuations are modest, causing some owners to hold and wait for a longer trend line of improving performance.

Key drivers of M&A and ultimately deal value are buyer appetite and capital availability. Corporate and private equity buyers with capital to spend suggest more will be on the hunt for acquisitions in 2012. For middle market companies that can make the grade, there are hungry buyers at healthy valuations.
BGL’s Global M&A German partner advised Metallurgica on its sale to Cookson Group plc (LKE: CKSN). Cookson acquired 100 percent of the outstanding shares of Metallurgica in the transaction. The acquisition included the operations of Metallurgica Beteiligungesellschaft mbH and Metallurgica Gesellschaft für Huttenwerkstechnik mbH & Co. KG, based in Mülheim an der Ruhr, Germany, and Metallurgica North America, LP, based in Canfield, Ohio. Founded in 1957, Metallurgica is one of the world’s leading suppliers of metallurgical fluxes, which are mineral powders used alongside refractory products to absorb impurities and help lubricate and prevent oxidation in molten steel during the production process. The company supplies products to more than 350 customers in 45 countries and generated revenue of approximately $62 million in 2011.

Metallurgica will be integrated into Cookson’s Engineered Ceramics division, whose subsidiary company Vesuvius Group SA, is a leading supplier of advanced consumable refractory products and systems to the global steel and foundry industries and specialty products to the glass and solar industries.

“We are excited to integrate the Metallurgica business with Vesuvius, creating one of the largest and most experienced materials testing businesses in the United States,” says Patrick Walsh, CEO of AAIPharma Services.
Perfect timing

Rennillo Deposition & Discovery found the right buyer to make the right deal

Rennillo Deposition & Discovery personifies the definition of a well-run, family-owned business. Lou Rennillo, his wife, Irene, and his son, Nicholas, each brought unique assets to cultivate a business that would find, in less than a decade after its founding, national firms in the deposition and litigation support services industry “courting” the company.

Even with the attention of industry buyers, the Rennillos stayed the course, intent to see the fruits of their labor. “The company had not reached its optimal size to sell, and I was still too young to cash out,” Lou says with a laugh. “And Nicholas wanted to gain more experience before reaching a point to consider taking over the business.” While that represents some of the considerations that are tangible, the intangibles made up the rest of the story. The Rennillo family enjoyed working together and took pleasure in watching the business grow and retain satisfied clients. Even more important, all three Rennillos needed each other in the business. It was a few years later that Rennillo was courted again and the family decided to sell—when the timing and buyer were right.

Lou and Nicholas Rennillo shared their thoughts about growing and selling the family business:
The company was back on a growth track where the potential of exploring a sale made sense.

— Lou Rennillo
Rennillo Deposition & Discovery

would work for a reputable litigation house and bring business to the firm. Even though he chose not to practice law, some of the contacts that Nicholas made while attending law school went on to firms that eventually became our clients, which was a significant source of revenue for the firm.

Lou: Rennillo expanded into multi-district litigation in 2003. In 2005, we were selected as the dedicated court reporting firm for the Commercial Money Centers Leasing Litigation, one of the largest multi-district litigations ever in the Federal Northern District of Ohio. We completed 500 depositions over a two-year period, which was the largest case ever handled by a court reporting firm. We reinvested the cash flows from that case back into the company.

Our use of industry-leading technology differentiated us in the marketplace. We stayed abreast of developments in the litigation markets on the East and West Coasts, which begin filtering to the Midwest typically after a period of about five years. Technological advancements brought increasing demand for videography in depositions and trial presentations. We attended seminars on technology and started bringing those offerings to Ohio before our competition.

We opened an office in Columbus a few months before the transaction closed. The expansion represented a substantial commitment to the Ohio market. We already had a recurring base of referral work in Cleveland, so the new office expanded our footprint to the Columbus and Cincinnati markets.

We grew our employee base more than four-fold by the time we sold the company in 2011.

NEARLY ALL BUSINESSES WERE HIT BY THE RECENT ECONOMIC DOWNTOWN. HOW WAS YOUR COMPANY IMPACTED? DID IT AFFECT YOUR DECISION TO SELL?
Lou: It was the first time during my years in the profession, so since 1965, that an economic downturn negatively impacted the court reporting industry. Typically when the economy softens, deposition and litigation work pick up. In this recent recession, it was the opposite. Everybody tightened their belts.

We decided to be more proactive and hired our first salesperson. She was a former court reporter and owner of a court reporting firm, so she brought a number of business contacts which helped accelerate our growth.

WITH SUCH A SUCCESSFUL MOVE, DID IT CREATE AN INTEREST THAT THE TIME MIGHT BE RIGHT TO SELL?
Lou: The company was back on a growth track where the potential of exploring a sale made sense. It was about a year later in 2010 that the partners decided to see what the market had to offer.

Nicholas: I knew Effram Kaplan at BGL; we went to grade school together and knew each other during our high school years. I’d kept in contact with Effram over the years, and initiated discussions when the prospect of selling became more concrete.

Lou: We were impressed with the depth of experience of Effram and the BGL team and decided to hire BGL to represent the company in its sale.

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Perfect timing
continued from page 7

CAN YOU DESCRIBE THE PROCESS OF FINDING JUST THE RIGHT BUYER?
Lou: BGL marketed the company in a competitive sale process that included a targeted universe of “strategic” firms in the court reporting industry, as well as private equity firms. They prepared a 50-page marketing document that detailed our history, operations, and financial position, which was provided to the prospective buyers. Selected firms were invited to meet and interview management. Through the process we got to know our own company better. We realized what our market value was, which exceeded our initial expectations.

Nicholas: I was surprised by both the amount of capital and number of private equity firms looking to invest in the space. I had never been involved in a transaction like this, so it was an eye-opener.

Lou: The most difficult decision, ultimately, was determining who the right partner would be. It is the area where we spent most of our time. As Irene and I would begin to transition out of the business, we wanted to make sure that Nicholas could stay on with a company that possessed a strong foundation and future. We felt that Veritext was the most fiscally responsible company in the court reporting industry, and its private equity partner, Investcorp, could provide that foundation. Veritext also had national and international clients that could bring additional work to Rennillo.

Nicholas: As to the question of when is the right time to sell, for us the time was right because of the changing dynamics in the litigation services industry, particularly within our local marketplace. For us to have access to more of a national platform was a positive move for the company.

WHAT OTHER FACTORS DID YOU FEEL WERE IMPORTANT IN THE TRANSACTION PROCESS?
Lou: BGL understood why we were successful and the investment attributes that would make us an attractive acquisition candidate in the marketplace. Their guidance was right on point. They serviced us as well as we serviced our clients over the years.

Nicholas: I probably worked the closest with BGL during the process. Beginning from day one when we retained BGL as our advisor up to the final closing of the sale, they were hugely supportive. They provided great advice throughout and really ran a tremendous process.

WHAT ADVICE CAN YOU GIVE FOR A FAMILY BUSINESS THAT IS LOOKING TO SELL?
Lou: Don’t try to sell your company on your own. We couldn’t have attracted the caliber of buyers had we tried to manage the sale process on our own. Also, get clarity on the transition period following the sale—understand the roles of the senior managers that are staying on and their involvement in the decision making going forward.

Nicholas: If you’re being acquired by a strategic buyer, particularly where there will be material integration efforts, it’s important to put a good integration plan in place so that you can hit the ground running post-sale.

Nickolas: Integration of systems and procedures posed logistical challenges during the first six months, particularly as we migrated to a new IT platform. Overall, however, it has been a great move to partner with a larger enterprise.

Nicholas Rennillo is now vice president of Rennillo Deposition & Discovery, a Veritext company, and Lou and Irene Rennillo continue to be involved in an advisory capacity.
CPI makes tough choices to move forward

It hasn’t been an easy few years for CPI Corp. as a slow economy has people less willing to spend money on its traditional portrait services.

To counter that trend, and to position itself to come out stronger on the other side of the recession, the company continued to make acquisitions in 2011 and broaden its services beyond the traditional newborn and children’s portraits, says CPI board member and interim President and CEO Jim Abel.

CPI specializes in portraiture photography, running studios in Sears and Walmart, and in 2010, acquired Kiddie Kandids, with studios based in Toys “R” Us and Babies “R” Us. In 2011, it completed the acquisition of Portraits by Bella, a high-end photographic portraiture chain based in San Francisco, with studios in malls that target the engagement and wedding picture business.

Abel says the company continues to look for opportunities to position itself for growth when the economy improves and people have more disposable income.

HOW DID YOUR BUSINESS PERFORM LAST YEAR?

On a macro basis, the high unemployment level has put more pressure on our customer base. A lot of our customers bore the brunt of unemployment, and that was exacerbated by the expiration of unemployment benefits. In addition, fuel prices were very high. As a result, the competition for disposable income increased over the past 18 months.

When you consider the type of business we have, consumers can make a decision not to spend money on photos more easily than they can to not spend money on gas or food. There has been more pressure on pricing from that reduction in disposable income than has been from competition in the marketplace.

In the fourth quarter of 2011, which is normally the strongest season for portrait services, the company’s performance declined significantly as continued market pressures were exacerbated by inefficiencies in operating performance. This resulted in liquidity issues for the company.

HOW IS 2012 SHAPING UP?

With GDP growth of about 1 percent, sales have been pretty flat, and I see 2012 as more of the same. We are probably going to see that base business continue in a no-growth situation for another year or so until there is some break in the employment picture.

The company has continued to experience very tepid demand, and has moderated its outlook for the year. This has resulted in studio closures for all brands and reductions in force to align the overhead structure with the business demand. Liquidity concerns will persist until the company’s financial performance improves.

HOW WILL CPI MEET THESE CHALLENGES?

We have restructured our field sales organization to improve management coverage of our studios and focused our efforts on improving the customer experience through better training of studio sales personnel and photographers.

In addition, the marketing programs have been reviewed to provide more clarity and value to the customer. We are committing more resources to local marketing efforts directed by studio personnel, which we believe will attract more customers and be more responsive to their changing needs.

We are also conducting more business electronically, which helps on the cost profile and makes it easier for people to make appointments, view photos, and look at different finishes.

Also, people have the ability to take their own digital images, and that has had an impact on our business. Instead of getting formal portraiture work done, people are taking their own photos. However, they don’t know how to organize them, or create collages, and that is an area that we are exploring, as well.

We’re trying to expand the product offering and market reach that we have and see that as a real opportunity to grow as the overall market conditions begin to change over the next couple of years.

“We’re trying to expand the product offering and market reach that we have and see that as a real opportunity to grow as the overall market conditions begin to change over the next couple of years.”

– Jim Abel, CPI Corp.

For more information, contact Jim Abel at (314) 231-1575 or www.cpicorp.com.
Christopher Mills has spent more than 35 years in the investment business on both sides of the Atlantic, as an asset manager and in private equity, negotiating the purchase and sale of companies across a diverse range of industries. But it wasn’t until the 1990s, after stints at Samuel Montagu & Co. and Aetna Inc., that Mills would find his niche.

After founding J.O. Hambro Capital Management Limited in 1992, which he helped grow to a $12 billion fund management business, Mills ventured into private equity, forming U.K.-based Harwood Capital Management in 2011 after J.O. Hambro was sold. Today, with more than $1.0 billion in assets under management, Harwood’s investment business consists of closed-end mutual funds, private wealth management, private equity, and real estate.

It is in the private equity arena where Mills has carved out a niche by identifying strong but undervalued businesses, partnering with management, and in the case of public companies, taking them private. “We are looking to build specialist niche businesses in industries where we have depth of expertise,” Mills says. “We focus on relatively small public companies, considered micro cap companies (defined by market capitalization) in the United States.”

“The management teams at these companies want to have liquidity, and they want to have a long-term business plan that they can believe in and not be concerned about corporate raiders trying to take them over.”
From the London headquarters of Harwood Capital Management, Mills spoke about the company’s investment strategy and how the global financial and economic climate will impact investing activity.

What are your thoughts on the global financial situation, and in particular, what is going on in Europe and the United Kingdom? How has it affected deal flow?

The real fundamental parameters behind most European economies are truly dire. Budget deficits and unemployment rates are significantly higher than publicized, and there is simply not enough money to solve the problem. Politicians are in denial hoping the markets don’t wake up and discover they are not wearing any clothes.

A classic example of this denial is the sale of the post office by the British government. The post office has £28 billion (US$44 billion) in its pension scheme, and the government is saying, “OK, we have that amount to spend.” But because the government does not take the liability of those pensions onto its balance sheet, it is saying “We have a £28 billion surplus.” The reality is it is taking on a £38 billion (US$60 billion) deficit on the pension scheme.

This muddled thinking is going on across the whole of Europe. When you look at the British government’s pension fund deficit, which doesn’t appear on its balance sheet, it is more than £1 trillion (US$1.6 trillion), or around 75 percent of GNP. If you add it to the actual budget deficit, which is what anybody in the real world does, the true deficit is at 180 percent of GDP. Germany is at 150 or

Quality private equity firms are not finding it hard to raise money, added to which there is a significant amount of accumulated unspent capital that needs to be invested.
160 percent. So the deficits are massively worse than anyone is talking about.

When the European governments really work to address their deficits, a number of questions will arise. What will the impact be on corporate profitability? What will the impact be on the financial markets when interest rates rise because governments are no longer injecting money into the economy? Ironically, certain areas of the economy stand to benefit, such as the savings sector. However, the resulting contraction in consumer spending will negatively impact most other sectors.

We are trying to direct our private equity fund investing toward global business-to-business or defensive businesses that are less impacted by a recession.

How are challenges facing private equity from a regulatory, operational or fundraising perspective impacting deal flow?
Quality private equity firms are not finding it hard to raise money, added to which there is a significant amount of accumulated unspent capital that needs to be invested. However, there are genuine concerns around the availability of bank financing in Europe. The reality is bank balance sheets are shrinking, and their appetite for risk is virtually zero, so when you can find the financing, it is expensive.

Our deal flow is still healthy, although it is becoming more challenging to find opportunities as liquidity in the public markets is limited, making it difficult to acquire our initial stakes. We are typically pursuing microcap businesses at reasonable valuations and niche businesses outside of an auction process.

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Water Street Healthcare Partners’ Peter Strothman talks about AAI Pharma Services Corporation and the acquisition of Celsis Analytical Services. BGL advised Harwood Capital on the Celsis divestiture, which was completed in December 2011.

What are trends driving growth in the pharma services industry?
Pharma companies no longer have the old blockbuster model available to them, so they are trying to outsource their fixed costs and turn them into variable costs as a way to preserve margins, which is creating substantial tailwinds for the outsourcing industry in pharmaceutical services. Growth in the outsourced component of R&D is projected to be fairly substantial. Even if growth in global R&D spending slows, the outsourced component is growing at a much faster rate because of that dynamic.

Can you offer your perspective on your investment in AAI Pharma Services?
We formed AAI Pharma Services in a corporate carve out in July 2009. In AAI, we saw a real differentiated asset in drug development. It was a business with a 30-year history and a reputation as a customer-service oriented provider with scientific expertise that was second to none. We also looked at the competitive landscape, which is highly fragmented. We saw the opportunity to continue to build scale by growing organically and through acquisition. The core business that we were buying was a great platform for that.

AAI is a problem solver for drug development companies—pharma companies that either want to outsource their business to us or solve drug formulation issues they can’t on their own—whether it is analytical services or formulation development, laboratory services related to drug development, or clinical and commercial manufacturing that we perform as a result of that capability. We are in a position relative to drug development to provide a full suite of services, and that resonates with our clients in a meaningful way.

The investment has been a tremendous success. We are growing our customer base, increasing our penetration in existing relationships and adding new customers—the “who’s who” of pharma and biotechs. When you look at the financial performance, it verifies it.

What led you to the decision to pursue a transaction with Celsis Analytical Services?
We acquired AAI as a platform for acquisitions. Celsis was a competitor and on our radar screen, and its business fit strategically with our growing presence in the material testing space. Celsis augmented our capabilities in that area and expanded our capacity with the addition of two new sites. Importantly, it also gave us access to many new customers, increasing our customer base across the organization nearly two-fold.

How do you see consolidation shaping the industry going forward?
There will continue to be consolidation. If you look at the drug development space, in particular for pharma services outsourcing, there are a variety of opportunities in the United States and internationally. And it is a fragmented landscape. The challenge is being able to gauge the direction the industry is moving and identifying the best platform upon which to build additional capabilities and be there five years from now when these services are very important to the customers that are innovating. That is why we invested in AAI and why we are going to continue to invest in the space. The tailwinds are there. It is all about picking the right investments.

Water Street Healthcare Partners is a strategic private equity firm focused exclusively on the healthcare industry. For more information about Water Street, visit waterstreet.com.
What is the importance of developing a niche that your competitors have not filled?

We can access the public markets and acquire equity stakes in listed companies while seeking to build meaningful, long-term relationships with the management teams of those businesses. We are building that relationship early on, before the company is in a sale process, and are able to gauge the appetite for going private. Other firms wait for the announcement that a public company is evaluating strategic alternatives and then make a move. When we approach the senior managers about a management buyout, we have cultivated that relationship, and because we have an equity stake in the company, it makes it more difficult for other parties to bid.

There is no question that there are hundreds of companies that are too small and the cost associated with being public doesn’t make economic sense. The proactive management teams of those companies see going private as an opportunity to build a successful and more valuable business with a new financial partner.

As a private equity investor in healthcare, where will the deal opportunities lie?

Broadly, we are looking for specialized, niche businesses with attractive growth profiles, recurring revenue and high free cash flow, and defensible market positions. We have been successful in identifying those businesses where we can partner with strong management teams to drive growth.

Within healthcare, we are focusing on niche product companies that are less susceptible to macro industry pressures. One of our portfolio companies, Bionostics, is a global manufacturer of liquid control solutions employed in medical diagnostic testing equipment. A primary market is diabetes, which is seeing a growing patient population given that the number of diabetics is increasing every year. Our 10-cent diabetes test will not likely be subject to regulatory controls but is critical to preserving the lives of diabetic patients.

Another company is the global market leader in the supply of cryo-preserved human liver cells used in early-stage drug testing by pharmaceutical companies, which is driven by the level of spending on pharmaceutical research and therefore is less impacted by macro trends.

We also own a company that is a global supplier of specialist plastics to the orthopedic market. The company is one of only two suppliers of ultra high molecular weight polyethylene, an engineered plastic material used in part design, for specific applications in orthopedic implants. Every plastic component produced that requires the use of this medical grade polymer is supplied by our company or our competitor. The cost of our part in the context of a hip or knee replacement is probably less than 1 percent, so our growth will be driven by the number of hip and knee implants and not by price issues.

Celsius Analytical Services was acquired in a take-private of Celsius International plc in 2009. Tell us about the Celsius investment and divestment.

Celsius is a case study example of a candidate for a take-private transaction. It was a strong business that had consistently grown. However, the group was a mini conglomerate with limited synergies between the various divisions. Further, management was located in the United States, so investors in the U.K. had little interest in the equity.

By taking the company private, we were able to significantly reduce expenses relating to the cost of being a plc and bring focus to the group, and in this effort, carve out certain businesses for divestment. We completed the sale of one of the divisions, Celsius Analytical Services, in December 2011. In doing so, we will earn back our invested capital and dedicate resources to the remaining holding, Celsius Rapid Detection, to better capitalize on growth opportunities available to that business. This world-leading company manufactures diagnostic kits used to test for microbial contamination in liquid products sold into the pharmaceutical, personal care, dairy, and beverage markets.

Looking ahead, what are the primary challenges in evaluating acquisition opportunities?

We are opportunistic as we look for investment opportunities, typically seeking businesses that are undervalued and/or underinvested from a management and strategic growth perspective. Because of our unique investment focus, particularly as it relates to public-to-private transactions in our local market, we continue to see opportunities to generate attractive returns.
Scott T. Berlin
Managing Director & Principal, Brown Gibbons Lang & Company

Scott Berlin leads BGL’s effort in the metals and metals processing industry. Below, he shares his insights on M&A activity in the sector.

HOW IS THE METALS SECTOR PERFORMING?
Metals is a cyclical industry, and right now we are experiencing an upswing in the cycle. Fundamentals are strong and company performance has continued to improve over the last several quarters. Corporate and private equity buyers are looking to acquisitions for growth, resulting in an active M&A market. Lenders are lending again, and there is availability of senior and junior capital to support acquisition financing. I would expect the next few quarters to continue to be strong, both in terms of company performance and the level of M&A activity.

HOW ARE DEALS GETTING FINANCED?
Many of the public companies are profitable and have accumulated cash and, in the current low interest rate environment, have been able to secure favorable terms on their credit facilities. That leaves ample “dry powder” to pursue acquisitions.

Capital providers are looking to grow assets, and funding for acquisitions is available. High-quality M&A transactions are attracting significant interest with multiple bidders in auctions and lenders competing to win the financing.

We have several active engagements in the metals space. In two transactions involving private equity buyers, the financing consists of senior debt and equity (without junior capital), with term debt provided by international banks. In another transaction, a strategic buyer is writing a check for the company.

HOW HAS THE SALE PROCESS CHANGED DURING YOUR TWO DECADES OF EXPERIENCE AS A FINANCIAL ADVISOR AND HOW ARE YOU MEETING CLIENTS’ NEEDS?
Prospective sellers today are more sophisticated and know they have many “options,” particularly for those with high-quality businesses. As a result, we are taking on much more of an advisory role to analyze the future growth prospects and strategic direction of a business as a way to maximize the alternatives available to our clients.

Buyers are more disciplined and the level of due diligence, including quality of earnings and third party industry reviews, has never been more rigorous. Despite the increasing complexity, we must still adhere to tight timeframes, paying close attention to hitting major milestones and company performance metrics during a process, while always keeping the lines of communication open.

You can reach Scott Berlin at (216) 241-2800 or sberlin@bgllco.com.

On the Side

First job: In high school, I leased a snow plow from my uncle and, in exchange, I gave him 25 percent of the revenue I earned from plowing driveways. On heavy snow days, I might plow as many as 25 driveways before and after school.

Favorite sport: Snow skiing.

Vacation spot: The Summit in Colorado for snow skiing or any sandy beach, particularly the Lake Erie islands in Ohio.

Favorite hobby: Endurance car racing. Our favorite series is the 24 Hours of LeMons; we participate in roughly 8 to 10 races a year.

Currently reading: Avoiding the Entitlement Trap. We are parents to three young children, ages 10, 8, and 6, so our daily schedule is geared around their school and extra-curricular activities. The book talks about teaching children to be responsible and self-sufficient—helpful traits as they enter the teen years.

People are surprised to learn that: I like to race cars.

Favorite wine: Chardonnay from any region.
Inform, engage and execute your way to accelerated growth

What if everybody in your organization was focused on making every customer interaction truly exceptional, and had the sense of accountability and authority to ensure that it happened?

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ENGAGE

Engage them in the process of defining what they will do … what actions will they take to drive the outcomes articulated in your vision. Collaboration is the key to ownership of the results broadly distributed throughout the company (notice that I did not say “down into the organization” … there is no “down” in successful growth companies.) A very effective means of engagement that I have experienced is to ask how certain outcomes will be measured to determine that success has been achieved. Once measures have been defined and targets set for each, it is much easier for folks to conceive of what must be done to move the needle on each measure closer to the target. These actions may be prioritized by the team into three to five “strategic imperatives” for each year of a five-year plan. By engaging the team in defining success and what actions are necessary for its achievement, the odds of realizing your vision for growth increase exponentially.

EXECUTE LIKE CRAZY

Waking up to the future that you portrayed in your vision requires a lot of hard work and discipline. A rigorous focus on execution, results and learning from experience is required for the outcomes that you and your team defined to become reality. Walking the walk, communication, accountability, decision rights, repeatable processes … all necessary elements to effective execution. In our organization, I am frequently heard repeating the statement like a drum beat … “the hard things should be hard and the easy things should be easy, but let’s not allow the easy things to be hard.” Having clarity of roles, clarity of authority, repeatable systems and processes and weekly or monthly forums for the sharing of what went right, what went wrong and what we can and will do better are critical to achieving successful, profitable growth.

Although this may be a gross oversimplification of the process, it really is this straightforward. The hard part is in the leadership required to shepherd the team through the process and sustain performance over the long haul. Creating clarity of vision, ownership over results and authority to take action with every member in our organization has been the key to unlocking our company’s growth potential. We now must continually challenge ourselves to lead the team every day to learn more, move faster and EXECUTE like crazy. If you are seeking accelerated growth, give it a try … you will be pleasantly surprised by the knowledge, energy and creativity that is unlocked in your team. I promise.

Randy Markey is leading the effort to accelerate growth at global X in Cleveland. global X is a market maker in transferable tax assets. The company provides equity financing to high-quality projects in historic preservation, renewable energy and film production infrastructure that yield benefits to investors in the form of tax savings. He can be reached at (216) 241-6689 or rmarkey@globalxtax.com.
Don’t trip as you skip to a sale

The biggest day in a business owner’s life: the day she sells her company. Ironically, many business owners do not take the proper time to prepare for this life-altering event. Perhaps, when business owners reach such success in life, they develop false confidence about abilities they do not possess. Maybe, they get caught up in the momentum and excitement and forget to keep a professional distance from the buyer. I have seen any number of mistakes made. From my experiences, I have some practical and simple advice to increase the purchase price received, preserve it throughout the transaction process, and ensure a successful close.

1. **Hire good advisors.** Having top-notch investment banking, law and accounting firms to guide you through the process is essential. Of course, you need a seasoned team from each that is truly focused on your deal. Make sure that the team that pitches you is the team that actually works on your deal. You should include the team members in the engagement letter. For example, the investment banking firm could be considered in material breach (and not entitled to a tail fee if terminated and a deal is consummated with another investment banking firm) if key members of the deal team are changed.

2. **Have a good process.** Once you’ve hired the right advisors, it is important to listen to and trust them. This seems like simple advice but it is the most common mistake I see made by sellers. It is hard for business owners who are accustomed to being in the lead chair to take a back seat to the advisors. It is a buyer’s dream to get direct access to the business owner, to develop a rapport and to get the seller to start empathizing with the buyer (particularly, when the seller is also rolling some of his equity into the buyer entity). Business owners should allow their advisors to be the “bad guys.” The advisors know all the tricks the buyers will try to pull. You will get a much better deal if you let your advisors do the job you hired them to do. Trust them on content and trust them on timing. If they ask you to go quiet, go quiet. If they ask you to go quickly, go quickly. Pausing at the right time can lead to an increased purchase price. Moving quickly at the right time can feed momentum and preserve a deal that might otherwise die.

3. **Know your sins.** You must always know more about your company and its little problems than the potential buyers. Once you get your arms around all the “issues” with your company, you can strategize a plan with your advisors on how and when to introduce them to bidders. Being on top of an issue can prevent a hit to purchase price or the request for a dollar one specific indemnity. Looking organized and “clean” will give buyers confidence in you and keep them from digging deeper. Before you start your sale process, take the time (with the guidance of your legal advisor) to clean up your company and, for example, update your record books, employment and option documentation (e.g., make sure you are 409A compliant), update expired contracts, obtain missing signatures to contracts and get old liens that relate to retired debt released.

4. **Know your assets.** Make sure you know all items that justify your ideal purchase price. Also, have a grip on what tax benefits arise out of the transaction as a result of retiring options, paying bonuses and accruing other selling expenses. As a seller, these should be your benefits even if they don’t arise until a post-closing period. Your accountant and lawyer should work together to quantify the value of the tax benefits. Be smart about every component of the purchase price. Have a supported view on what the working capital peg should be. Be aware of any item that
You must always know more about your company and its little problems than the potential buyers.

5. **Have your own house in order.** Before you sell your company, be sure to have trusted tax and financial advisors help structure whatever estate, tax or other planning that might work for your particular situation. Be aware if a particular sale structure will be more punitive to you from a tax perspective than another. I witnessed a deal fall apart when the seller didn’t appreciate his tax position and the impact it had on his ultimate proceeds. His proposed remedy for the issue was a non-starter for the private equity buyer. Had he known this at the beginning of the process, this factor would have pushed him towards a strategic buyer.

These five pieces of advice are where I most commonly see private company sellers trip up in their sale process. If you follow the above advice as a business owner, you will not trip as you skip into your new role as a business seller.

Denise A. Carkhuff is a partner in Jones Day’s Cleveland Office. The views expressed herein are the personal views of the author and do not necessarily reflect those of the firm. For further information, please visit www.jonesday.com or contact Denise at (216) 586-1079 or dcarkhuff@jonesday.com.
van Alver is the co-founder of Global M&A Norway, which along with Brown Gibbons Lang & Co., is a member of Global M&A, the world’s leading partnership of top-tier independent financial advisory firms serving the middle market.

Alver is the previous chairman and current board member of Global M&A. A graduate of Concordia University, Montreal, he has been an investment banker since 1997. Prior to that, he was an executive in the aquaculture industry, serving as controller, marketing director and head of business development.

What trends are driving capital inflows to the region?

Total foreign direct investment in Norway in 2010 totaled approximately US $174 billion, of which 53 percent represented equity capital. Geographically, foreign direct investment is dominated by EU countries and the United States, combined accounting for roughly 73 percent of all investments.

By sector, oil and gas (O&G) attracted the lion’s share of capital inflows, accounting for 29 percent of all foreign direct investments. The Norwegian O&G sector has significant knowledge and experience in deep sea and harsh environment exploration and production, and is at the forefront of both upstream and downstream engineering and technology development. While the tax rate for O&G companies in Norway is high (78 percent), O&G exploration companies can deduct 78 percent of all losses related to search and exploration activities, which can be considerable. This attracts investment from foreign exploration companies in O&G exploration on the Norwegian shelf, which in turn fuels the domestic O&G services sector. Recently, there have been several new discoveries of large oil and gas deposits in the North Sea with multibillion-dollar investment potential, which most likely will increase the drive for capital inflows to Norway in the coming years.

In terms of other sectors attracting investment, services directed toward the public sector are considered attractive, having generally been less affected by the financial crisis and the current Euro crisis. Retail is also considered a strong and stable sector in the region. With a large O&G industry and a large public sector, consumer purchasing power actually increased during the financial crisis due to lower interest rates.

What industries are expected to see increased investment in the region and why?

The Nordic region, and Norway in particular, is considered more of a safe haven in these turbulent markets. As such, we continue to see strong interest within many industrial sectors. Less attractive are sectors where the operating companies are experiencing increased pricing pressure from central European suppliers—suppliers who are chasing volumes because their home markets have declined while at the same time are under pressure to reduce costs as a result of the financial crisis.

Who will be the buyers? Comment on corporate and private equity investment in the region.

We continue to see strong interest from both corporate and private equity buyers, probably due to the safe-haven aspects of the Nordic market. During the second half of 2011, we saw some U.S. and central European corporate buyers withdrawing from processes due to challenges in their home markets, in part driven by share price volatility and an increased focus on capital ratios.

In 2012, this trend seems to have reversed, and we are seeing those industrial buyers coming back to the market. A recent survey among the major Norwegian law firms concluded that 2011 was a very strong year for M&A and that 2012 is off to an even stronger start. Some even reported a record number of transactions in 2011. They saw very little difference in the level of interest between corporate and private equity buyers.

Norway is richly endowed with natural resources. As the world’s second largest gas exporter and sixth largest oil exporter, expertise clearly resides in your country. How is that expertise translating into cross-border acquisitions and investments?

The Norwegian O&G sector has been extremely innovative with significant opportunity for private entrepreneurs. This has been a requirement for finding solutions to the challenges of deep water exploration and production. Statoil, the major operator on the Norwegian shelf, has consistently encouraged innovation and startups to increase competition among suppliers and promote the advancement of new technologies and concepts. With the
development of challenging new deep sea O&G fields in other parts of the world, we now see a clear trend that these companies are both looking internationally for growth and are themselves attractive acquisition targets.

Norway’s sovereign wealth fund is the world’s second largest, valued at $500 billion in 2011. Does the fund directly invest in acquisitions?
The purpose of the fund is to invest a portion of the large surplus generated by the Norwegian petroleum sector. The fund does not invest in acquisitions, only listed shares, with a portfolio allocation of 60 percent to the international equity markets. The fund does make direct investments in real estate and can invest up to 5 percent of the portfolio in such interests. The fund was valued at $573 billion as of year-end December 2011, equating to roughly 1 percent of the global equity markets. With roughly 1.8 percent of portfolio holdings in European equities, the fund is said to be the largest stock owner in Europe. The Norwegian Ministry of Finance forecasts the fund will reach $717 billion by 2014 and $1 trillion by 2019.

What are the keys to a successful cross-border transaction?
Understanding cultural differences is important. Many buyers have addressed this issue by professionalizing their M&A teams. Corporate buyers have hired M&A professionals. Private equity firms have opened up local offices. M&A advisors have become more experienced in cross-border transactions. There is still room for improvement, for example in the way target companies are approached; in the professionalism of data room preparations and due diligence processes; in the ability to accept the inherent principles in the chosen SPA jurisdiction; and in how far the negotiations (or renegotiations) can be taken. Many believe the Nordic region is a homogenous market; however, there are significant differences in how a Norwegian, a Finn, a Swede or a Dane would negotiate.

How do M&A transactions in the region differ from other regions?
Very little. We have observed that it can be less challenging to scale down operations here than in many other locations. The social security system works well, and it is relatively easy to reduce manning if done correctly. This is probably the flip side of the high taxes we have. Fortunately, a limited number of transactions are driven by downscaling; the rationale for acquisitions is centered on building larger, stronger companies.

If you want to learn more about the opportunities in Norway, contact Ivan Alver at + 47 90 84 04 56 or ia@sagacorporate.no.

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BGL’s Global Reach
Brown Gibbons Lang & Company with its Global M&A partnership provides support and opportunities locally and internationally for clients buying or selling companies as well as financings, corporate restructurings and other corporate finance transactions.

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With access to the expertise of 12 industry sector teams and over 300 senior advisors, Brown Gibbons Lang will put together an international team appropriate for each particular mandate.

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2011 GDP by Sector (in NOK mill)

<table>
<thead>
<tr>
<th>Sector</th>
<th>GDP (mill)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil &amp; Gas</td>
<td>600,095</td>
</tr>
<tr>
<td>Health Services</td>
<td>235,854</td>
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<tr>
<td>Industrials</td>
<td>187,959</td>
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<tr>
<td>Trade &amp; Retail</td>
<td>180,756</td>
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<tr>
<td>Building &amp; Construction</td>
<td>141,118</td>
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<td>Public Services</td>
<td>132,577</td>
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<td>Education</td>
<td>109,278</td>
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<tr>
<td>Financial Services</td>
<td>106,345</td>
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<tr>
<td>Fish Industry</td>
<td>19,938</td>
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<tr>
<td>Agriculture</td>
<td>16,777</td>
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</tbody>
</table>

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Mergers & Acquisitions Activity in the Norwegian Market

<table>
<thead>
<tr>
<th>By Industry</th>
<th>Number of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrials</td>
<td>6</td>
</tr>
<tr>
<td>Information Technology</td>
<td>5</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
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<tr>
<td>Telecom</td>
<td>4</td>
</tr>
<tr>
<td>Financials</td>
<td>5</td>
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<tr>
<td>Consumer Staples</td>
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<tr>
<td>Materials</td>
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<tr>
<td>Utilities</td>
<td>1</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2</td>
</tr>
</tbody>
</table>

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*Transaction activity as of March 31, 2012 (count excludes transactions (45) with undisclosed values) Source: Ernst & Young
Off the sidelines?

The start of the year brought improved sentiment, as the talked-about fear of a double-dip recession had waned, setting a tone of cautious optimism in the market. However, mixed signals on the strength of the U.S. recovery, coupled with uncertainty in the global economy, are tempering investor enthusiasm.

Capital excess and a slow growth economy still have M&A in focus. The economic downturn sidelined many buyers and sellers, and now three years into a recovery with limited M&A activity, there is pent up demand to pursue transactions. Buyers remain hungry but are taking a cautious approach to acquisitions.

**THE BUYERS**

Buyers are exhibiting discipline in the face of market uncertainty. With the 2008/9 recession in the rear view mirror, they are taking a hard look at quality of earnings and the sustainability of future cash flows. Now that the survivors have proven their staying power, selectivity rests on differentiation and growth prospects of businesses, with premium valuations garnered by those companies that are showing growth and offer tangible synergies and a platform off which to build scale and expand through acquisition.

With organic growth still muted for many companies, acquisitions remain critical to bolstering the top line. Corporate buyers have fortified their balance sheets and recognize that their cash stockpile cannot sit idle for long. Further, time is closing in for private equity to make a meaningful dent in the capital surplus.

The overriding theme of too much capital chasing too few deals is driving a feeding frenzy for quality middle market businesses. Valuation multiples are ticking up in competitive auctions seeing multiple bidders, with corporate buyers playing a bigger role in middle market M&A. As lenders compete aggressively in an effort to grow their loan books, buyers that are seeking acquisition financing are able to secure more favorable terms.

**THE SELLERS**

In the M&A market, timing is everything. For many business owners, the decision to sell will be driven by the view of the economy and the prospects of growth going forward. As positive trend lines in performance support stronger EBITDA levels, current market dynamics will likely entice more sellers to come off the sidelines to ride the rising tide and stay ahead of potential tax changes on the horizon.

For sellers of quality businesses, the barometers of a favorable exit window are in place: purchase price multiples, by many accounts, are trending up; buyers, which there is no shortage of, evidenced by excess capital in search of assets; and access to financing, which is easier to come by, as the credit markets are accommodating acquisition activity.

Macro risk presents a formidable concern and has produced dramatic swings in investor risk appetite. It is the health of the economy that will determine how long that window stays open.
PRIVATE EQUITY INVESTING: EYE ON THE MIDDLE

By the numbers, private equity continues to prove its worth as buyers and builders of middle market businesses. The middle market (companies valued between $25 million and $1.0 billion) grabs a sizable share of private equity deal flow and dollars, having accounted for three out of every five private equity transactions since 2000 and 74 percent of all private equity capital invested in 2011.

The Deals

SHARE OF THE MIDDLE MARKET IN 2011

Deal Flow

Capital Investment

Industry

The Lower Middle Market
$25M-$100M

The Core Middle Market
$100M-$500M

The Upper Middle Market
$500M-$1B

Deal counts and values reflect private equity buyout transaction activity only.

PRIVATE EQUITY CAPITAL OVERHANG

*As of 3/31/2012

Source: PitchBook.
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acquired by Massey Fair

BROWN GIBBONS LANG & COMPANY
acquired by HIGH STREET CAPITAL

Celsius International Ltd.
acquired by Celsis Analytical Services to WATER STREET

BROWN GIBBONS LANG & COMPANY
acquired by Quanex building products

Edgetech
acquired by Lauren International, Inc.

BROWN GIBBONS LANG & COMPANY
acquired by Quanex building products

ECS REFINING
recapitalized by ZS Fund L.P.

METALS
METAGA
acquired by Delphi Technologies

BROWN GIBBONS LANG & COMPANY
acquired by cpl card group

METALS
Metrics
acquired by KCP

BROWN GIBBONS LANG & COMPANY
acquired by KCP

PLASTICS & PACKAGING
NOVAPAK
acquired by KCP

BROWN GIBBONS LANG & COMPANY
acquired by KCP

HEALTHCARE
PharmMedCorp
acquired by Oxford Finance

BROWN GIBBONS LANG & COMPANY
acquired by Oxford Finance

BUSINESS SERVICES
SKIPJACK FINANCIAL SERVICES
acquired by Fifth Third Bank

BROWN GIBBONS LANG & COMPANY
acquired by Fifth Third Bank

REAL ESTATE
BHP Management

acquired by Visual Physics, LLC

TAD Metals, Inc.
acquired by West Village Apartments

acquired by National Champion Real Estate

BROWN GIBBONS LANG & COMPANY
acquired by Visual Physics, LLC

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