

Private Equity (Loves) Wisconsin

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Financial buyers have always had an affinity for Wisconsin-based companies. Be it groups from the East Coast, West Coast or right here in Milwaukee, private equity buyers continue to look toward Wisconsin as a place to put their capital to work growing businesses. Private equity can be a great source for growth capital and a good exit option for owners.

Of the more than 1,000 private equity groups in the U.S., at least 133 have invested in over 130 companies in Wisconsin since 2011, according to data provided by *Pitchbook*. Since 2011, Milwaukee-based Mason Wells,

the state's largest fund, has acquired 6 companies in Wisconsin, more than any other fund. During this same time period, fourteen private equity groups each acquired at least 2 companies in Wisconsin.

Several out-of-state firms, including Capital For Business, The Riverside Company, Tonka Bay Equity, Pflingsten Partners, Huron Capital Partners, and Bertram Capital among many others, have acquired companies in Wisconsin during the past 2 years. Of this group, Detroit-based Huron Capital has been particularly busy, investing in 5 Wisconsin-based companies. Huron has made more investments in Wisconsin than any other state, according to Gretchen Perkins, a Partner at Huron. She went on to say, "we really like Wisconsin, where there is a multitude of privately owned businesses and a like-minded work ethic. Many of the companies here serve niche markets across a diverse range of industries, which is very appealing to Huron."

Another out-of-state group actively putting their money to work here is St. Louis based Capital For Business. Currently, CFB has 5 portfolio companies in Wisconsin, representing over 20% of their total portfolio, and they would love to add more. In describing their interest in Wisconsin, Holly Huels, Sr. Vice President, explains "Wisconsin is home to many entrepreneurial manufacturing and distribution companies with smart, dedicated management teams. We look to partner with these management teams and provide capital to continue the growth of their successful companies."

In addition to PE from around the U.S. putting their capital to work here in Wisconsin, the groups based in the state make a conscious effort to invest close to home. In the last two years, private equity groups from Wisconsin completed more than 25 acquisitions, according to the *ACG Wisconsin Deal Log*, and more than half of these were of Wisconsin-based companies. Wisconsin is home to approximately 30 private equity groups including several that have raised funds, and others that invest family or privately pooled capital that is committed on a deal-by-deal basis.

Holding periods tend to vary between funded and family or fundless sponsors. The median holding period for portfolio investments has risen between 2007 and 2012 from 3.5 years to 5.3 years, according to *PitchBook*. Family and privately pooled capital tend to have longer holding periods.

For example, the principals in Jacsten Holdings invest their own money and take a long-term view, as reflected in holding periods that have ranged from 5 to 18 years. "Beginning with Mike Hansen's first acquisition in 1986 through Jacsten's latest deal in March 2013, all of our investments except one have been in Wisconsin. We have a strong affinity for investing in businesses within our state because the companies we have acquired reflect the values of the people of our great state. The companies we acquired were successful, entrepreneur-led organizations run by good, hardworking people, who knew how to service customers with a quality product or service, manage a P&L, and maintain a conservative balance sheet. We like investing in those kinds of businesses and partnering with those kinds of owners" according to Jake Hansen. So far in 2013, Jacsten has acquired 2 companies, and 7 of their 8 portfolio companies are headquartered in Wisconsin.

Lubar & Co., like Jacsten, is a multi-generational family business

| Acquisitions of WI-Based Companies (2011 through July 2013) | | |
|---|----------------|---|
| PE Firm | PE Location | # |
| Mason Wells | Milwaukee, WI | 6 |
| Audax | Boston, MA | 4 |
| KPS Capital | New York, NY | 3 |
| Lubar & Co. | Milwaukee, WI | 3 |
| TPG Capital | Fort Worth, TX | 3 |
| Baird Capital | Milwaukee, WI | 2 |
| Bertram Capital | San Mateo, CA | 2 |
| Blackthorne Partners | Milwaukee, WI | 2 |
| Capital for Business | St. Louis, MO | 2 |
| Generation Growth | Milwaukee, WI | 2 |
| Great Point Partners | Greenwich, CT | 2 |
| Huron Capital | Detroit, MI | 2 |
| Sun Capital | Boca Raton, FL | 2 |
| Blackstone Group | New York, NY | 2 |

Source: Pitchbook

with a focus on long-term growth. Lubar has invested its own capital for decades, in partnership with exceptional management teams at dozens of companies. Lubar has acquired 3 Wisconsin-based businesses in the past 2 years, and 6 of its current direct investments are either headquartered or have substantial operations in Wisconsin, according to Vince Shiely, Partner.

A recent trend has been for former executives and professionals to join forces and pool funds to invest in companies, particularly after they have successfully sold a business. Former manufacturing executives Rick Amhurst and Roland Parker formed Sparta Capital Partners, which has acquired 2 companies in Wisconsin since 2011. Wing Capital, led by former executives Jeff Beischel and Gerry Schwarz, has also acquired 2 companies in the past 2 years and all 4 of their current portfolio companies are in Wisconsin.

Another strong supporter of Wisconsin businesses is PS Capital, who invests from a pool of capital they raise on a deal-by-deal basis from prominent members of the Milwaukee business community. Since 2004, PS Capital has invested in 10 companies, 9 of which are located in Wisconsin.

Blackthorne Partners has invested in 3 companies in the past 2 years and made all 4 of its investments in Wisconsin. In each situation, Blackthorne invested in a company that already had a good brand or product and was profitable, yet the entrepreneurial owner had reached a plateau and wanted to retire, yet see his business continue to grow. Blackthorne provided the owners with a successful exit and brought resources to build seasoned management teams to take the companies to the next level. One particular company, Berlon Industries, has already seen a 40% increase in sales since being acquired by Blackthorne. "We focus our efforts on investing in profitable companies with around \$1 million EBITDA that could use more resources to grow. We believe this segment of the market is underserved by traditional private equity, which leads to more opportunities for us," according to Managing Partner John Syburg. Syburg went on to say, "We are fairly involved with our portfolio companies, especially in the first 6 months, which is one reason we prefer companies that are close to home."

Wisconsin is also home to Baird Capital and Mason Wells, two large private equity groups with committed funds. Mason Wells recently raised a \$525 million fund, which is the state's largest such fund, and makes Mason Wells one of the largest middle-market PE firms in the Midwest. Of their current portfolio, 7 of 12 are Wisconsin-based companies. According to Greg Myers, Senior Managing Director, "we really like the Wisconsin market, and are extremely familiar with it after 30+ years of investing in the state. The work ethic and business philosophy of Wisconsin-based business owners is very much in sync with our approach

of building sustainable value over the long term. In addition to a great work force, we also think Wisconsin's diversified economy and natural resources are a big plus. Wisconsin's strengths in packaging materials, food and beverage, and engineered products are also a perfect fit for our focus."

Brass Ring Capital, Generation Growth Capital and Lakeview Equity Partners have also raised at least one fund. Their investors include many prominent Milwaukee area institutions, foundations, and local families with substantial ties to the business community, who would all like to strengthen and grow Wisconsin businesses.

Generation Growth recently raised their second fund and has over \$35 million of capital to put to work. Their investors have strongly encouraged a focus on helping smaller Wisconsin-based businesses with growth and succession issues. In that spirit, Generation Growth's first fund was focused exclusively on Wisconsin-based companies and they anticipate a continued strong focus on Wisconsin with their second fund. Generation Growth has acquired 3 companies in the past 2 years, and 5 of their 8 investments have been in Wisconsin.

According to John Reinke, Managing Director, Generation Growth's portfolio companies employ 250 people, including 170 in Wisconsin. Two of their investments were in struggling companies that likely would have faced liquidation had it not been for Generation Growth's investment. Not only did this save 35-40 jobs, but they have since added another 10. Reinke also pointed out that their portfolio companies, which they acquired using a responsible amount of leverage, have been able to more easily ride through the recession without the pressure of having too much debt on their balance sheets.

Lakeview Equity Partners, much like Generation Growth, has invested a significant portion of its \$40 million fund in Wisconsin, with 4 of its 7 portfolio companies located within the state. Many of Lakeview's investors are committed to keeping dynamic businesses here in Wisconsin.

Brass Ring Capital, which maintains offices in Milwaukee and

Minneapolis, has also been active in Wisconsin. Since its 2004 inception, 3 of the firm's 6 deals have been based in state. Steve Peterson, who manages the Milwaukee office, echoes the sentiments of other PE firms in describing the large roster of well managed middle-market companies and quality managers that make for a great private equity environment.

Wisconsin is somewhat unique and fortunate, in that it has such a diverse range of smaller, privately held businesses. It is only natural that there is such a strong private equity presence in the state and so many groups around the country that want to invest here. Fortunately, this means that for Wisconsin business owners there are greater opportunities for their companies to attract growth capital and an increased likelihood that an exit strategy and succession plan can be executed when they are ready to retire.

PE Groups in Wisconsin

| Raised Fund | Family / Fundless |
|---------------------------|----------------------------|
| Baird Partners | Amfinity Capital |
| Brass Ring Capital | Blackthorne Partners |
| Cedar Creek Partners | Bluestem / Antietam |
| FCF Partners | Chirch Global |
| Generation Growth Capital | Dunsirn Partners |
| Lakeview Equity | Everett Smith Group |
| Mason Wells | Horizon Partners |
| McKinley Reserve | Jacsten |
| | Lakefront Partners |
| | Lubar & Co. |
| | Marcus Investments |
| | Mendota Group |
| | Meridian Industries |
| | Milwaukee Capital Partners |
| | Nordic Group |
| | Potawatomi B.D. Corp. |
| | Progress Capital |
| | PS Capital Partners |
| | Pyle Group |
| | Red Top Capital |
| | Rowe & Company |
| | RSA Capital |
| | Sparta Capital Partners |
| | Wing Capital |

Source: Eisen Fox & Company

Private Capital, Public Good



GARY LABRANCHE

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This spring the Association for Corporate Growth unveiled *Driving Growth: The Impact of Private Capital on the U.S. Economy* a report that graphically reveals that private equity and venture capital investments have been made in more than 425 Congressional Districts and in every U.S. state, the District of Columbia, Puerto Rico and the Virgin Islands. More importantly, this report reveals that, overall, companies backed by private capital outperform other companies by a wide margin in revenue growth and job growth.

The star of this report is the middle market. With 43 million employees, the middle-market accounts for one-third of American GDP and is the engine for job growth. Private capital investment makes an impact in every state across the United States. Wisconsin is no exception.

Driving Growth shows that Wisconsin attracted more than \$15.5 billion in private equity investment across 488 investments since 2003. This puts the Badger State in the top half of states for private capital funding. While Madison and Milwaukee lead as the two most active cities in the state for private capital investment, six out of eight Wisconsin Congressional districts attracted private capital investment. In each of those districts, private capital backed companies grew jobs at a faster pace than other businesses. A sampling of the Wisconsin data included in the book:

| District and Rep. | Job Growth | | Sales Growth | |
|-----------------------------|------------|-----------|--------------|-----------|
| | PE Backed | All Other | PE Backed | All Other |
| Dist. 1 – (Rep. Paul Ryan) | 52.6% | 1.1% | 63.5% | 8.3% |
| Dist. 3 – (Rep. Ron Kind) | 125.1% | 26.7% | 146.5% | 50.9% |
| Dist. 4 – (Rep. Gwen Moore) | +0.5% | (10.5%) | 68.4% | 3.4% |

ACG's published *Driving Growth* to bring more transparency and visibility to the role and value of private capital investment in the U.S. economy. The 347-page book was distributed to all members of

Congress and U.S. governors as well as media and academics. Digital downloads of *Driving Growth* are available free at ACG.org. "This collection of data is an important tool to help further educate lawmakers and the American public about the role and value of private capital investment," says ACG Board Chairman Charles J. Morton, Jr., a partner at Venable, LLP, said.

The database used to produce *Driving Growth* can be accessed at GrowthEconomy.org where visitors can conduct self-directed research by state, metropolitan statistical areas and Congressional districts. ACG's research proves that private capital investment is growing companies and jobs in Wisconsin and throughout the United States. *Driving Growth* reveals that private capital-backed companies, especially in the middle market, are the engines of sales and job growth.

These never before seen data result from a collaboration involving ACG, the Edward Lowe Foundation, The Institute for Exceptional Growth Companies and PitchBook Data, Inc. which utilized three independent databases to create GrowthEconomy.org. GrowthEconomy.org allows users to compare the performance of 23,211 private capital-backed companies to the universe of 52 million U.S. business establishments from 1995 thru 2010.

| Private Equity Firm | PE Location | WI Portfolio Companies |
|--------------------------------|----------------------|---|
| Audax Group | Boston, MA | Quest Specialty Chemicals, A&A Mfg. |
| Advent International | Boston, MA | ABC Supply |
| Arlington Capital | Chevy Chase, MD | Cambridge Major Laboratories, Aero-Metric, Inc., |
| Brazos Private Equity Partners | Dallas, TX | Golden County Foods |
| Bertram Capital | San Mateo, CA | Webex, Extrusion Dies Industries |
| B12 Capital Partners | Kansas City, MO | WEM Automation, Inc. |
| Brockway Moran | Boca Raton, FL | Crisis Prevention Institute |
| Capital for Business | St. Louis, MO | Kieffer, Lanair, McNally, Polymer Tech, WI Coil Spring |
| CCMP Capital | New York, NY | Generac Power Systems |
| Centerfield Capital Partners | Indianapolis, IN | Trans-Coil |
| Chicago Growth Partners | Chicago, IL | Advanced Pain Management |
| CIC Partners | Dallas, TX | Select Product Group |
| Eos Private Equity | New York, NY | Roadrunner-Dawes, Inc. |
| Goldner Hawn | Minneapolis, MN | Allen Edmonds, Mid Valley Industries LLC |
| Great Point Partners | Greenwich, CT | Connecture |
| Huron Capital | Detroit, MI | Blommer Plastics, Coakley Tech, CCI (in One Touch Point) |
| Incline Equity Partners | Pittsburgh, PA | Dorner Mfg. Corp |
| J.W. Childs Associates | Waltham, MA | WS Packaging Group, Inc. |
| Kohlberg & Company | Mt. Kisco, NY | Phillips Plastics Corporation |
| KPS Capital Partners | New York, NY | Waupaca Foundry, Expera Specialty Solutions |
| Merit Capital Partners | Chicago, IL | MTI International, Inc., Engendren Corp. |
| New Mountain Capital | New York, NY | RedPrairie Holding, Inc. |
| Northstar Capital | Minneapolis, MN | Kieffer Signs, Superior Health Linens |
| Norwest Equity Partners | Minneapolis, MN | Roundy's, Victor Allen's Coffee |
| Pfingsten Partners | Chicago, IL | Curt Manufacturing, Midwest Products & Engineering |
| Roark Capital Group | Atlanta, GA | Batteries Plus |
| Saw Mill Capital | Briarcliff Manor, NY | Jason Incorporated |
| The Riverside Company | Cleveland, OH | AIA, Insurance Claims Management, OnCourse Learning, Specialized Medical Services |
| Tonka Bay Equity Partners | Minnetonka, MN | Midwest Dental, Quick Cable |
| TPG Capital | Fort Worth, TX | Assisted Living Concepts |

Source: Eisen Fox & Company

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