

# FOCUS ON Private Equity

PAGE 19  
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SCOTT PAULUS PHOTOS

Eight Milwaukee executives attended The Business Journal's private equity roundtable Nov. 1 at The Pfister Hotel.

## Equity firms target health care, energy

BY STACY VOGEL DAVIS  
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Some things don't change in Wisconsin. Traditional Wisconsin industries such as agriculture, food ingredients and manufacturing continue to be popular targets for private equity.

But investors also are paying attention to changing industries, particularly those facing new government regulations, according to a group of private equity executives who gathered for a Business Journal roundtable Nov. 1. Those sectors, including health care and energy, offer opportunities for new, lucrative businesses that can take advantage of the new rules.

"We've tended to like businesses that are driven by the regulatory, environmental, legislative mandates of some sort," said Steven Peterson, managing director of Brass Ring Capital Inc., Milwaukee. "If you can understand the legal structure and what's going to drive a certain industry and hit it the right way, you can really see the floodgates open for business."

Private equity firms are looking at deals in dynamic industries as the sector struggles to rise above the recession, which significantly slowed deal-making in the last few years. Lingering uncertainty over the election and the looming "fiscal cliff" could keep the deal-making environment sluggish into 2013, executives said, although some believe the sector is due for a breakthrough.

The environment for private equity deals improved somewhat this year, but not as much as some were expecting, said Ron Miller, managing director of Cleary Gull Inc. in Milwaukee. But uncertainty with the tax environment is keep-

ing business owners from selling and buyers from pulling the trigger.

"In our business, the biggest part of the recession was uncertainty," he said. "If we know where our company is going to go, whether it's down or up, we can do a deal."

The picture hasn't gotten much clearer when it comes to taxes and government action. Congress is headed for the so-called "fiscal cliff" Jan. 1, when a deal over the debt ceiling will trigger automatic spending cuts and tax increases unless politicians reach a new deal.

Some business owners were more willing to sell this year because they were worried the government might increase capital gains taxes next year, said Kent Velde, president of Lakeview Eq-

uity Partners, Milwaukee. But if taxes do go up next year, that could discourage more deals.

"One of our fears is if taxes do jump significantly next year, we might have some entrepreneurs and business owners who just say well, 'I'm not going to pay that level of tax to sell my business. I'll wait,'" Velde said.

But Cory Nettles, managing director of Generation Growth Capital Inc., Milwaukee, said sellers might be willing to overlook higher taxes if revenue is growing and they see increased valuations for their businesses.

"A lot of us feel that the economy has been holding back and just waiting, and something is going to happen that's going to break through this logjam," he said. "We could see some accelerated growth."

### HEALTH CARE INTEREST

John Beagle, managing director of Grace Matthews Inc. in Milwaukee, agreed that deals will increase moving forward.

"Big strategic buyers at the end of the day are paid to grow," he said. "They're paid to grow earnings. Their balance sheets are stronger than they've been in decades."

Grace Matthews, an investment banking firm, is particularly looking at deals in the health care, food and food ingredients, and oil and gas industries, he said. It also is looking at what it calls "green-green" companies, or firms that make money with environmentally friendly products.

"What we found is, you'll get public money racing into green ideas, but it has to work better than the non-green products," he said.

The best green products are superior products that just happen to be green, he said. For exam-



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ple, Grace Matthews and Robert W. Baird & Co. Inc., Milwaukee, backed ColorMatrix Corp., a manufacturer of colors and additives for plastics, in a sale in December. The company created technology for a lightweight plastic bottle that soda companies love.

"They didn't develop it to be green, they developed it because their customers wanted it," Beagle said.

More than half of Cleary Gull's recent transactions have had something to do with the changing energy industry, Miller said.

"There are so many industrial companies that are growing because of the 10-year trend in

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ROUNDTABLE EVENT SPONSOR



# PRIVATE EQUITY: Health care, food and ingredient industries attractive

CONTINUED FROM PAGE 19

changing energy infrastructure in our country," he said. "Companies you would never imagine are playing the energy card."

Health care also is a big industry for Baird Capital Partners, said partner Randy Mehl. The market is in a time of upheaval as it tries to figure out how the Patient Protection and Affordable Care Act will affect it.

Baird isn't looking at businesses that provide health care, but rather those that provide services to the health care industry. For example, it's working with a company now that will provide marketing, communications and advertising services to health care providers.

"Providers and payers, insurance companies, really haven't had to spend a lot of time communicating with patients, communicating with prospective patients (or) communicating with doctors," Mehl said. "The trends toward accountable care and consumerism are driving a need toward communication and marketing."

## Private equity roundtable

Eight Milwaukee-area business executives attended The Business Journal's Nov. 1 private equity roundtable at The Pfister Hotel in downtown Milwaukee.

- **John Beagle**, Grace Matthews Inc.
- **Randy Mehl**, Baird Capital Partners
- **Ron Miller**, Cleary Gull Inc.
- **Greg Myers**, Mason Wells
- **Cory Nettles**, Generation Growth Capital Inc.
- **Steve Peterson**, Brass Ring Capital Inc.
- **Paul Sweeney**, PS Capital Partners LLC
- **Kent Velde**, Lakeview Equity Partners LLC

Randy Mehl of Baird Capital Partners



SCOTT PAULUS

# Despite skills shortage, investors still like manufacturing

BY JEFF ENGEL

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The skills gap dogging Wisconsin manufacturers hasn't scared off private equity firms from investing in the industry.

The skills gap — not health care costs, economic uncertainty or government regulations — is frequently cited by manufacturing executives as their biggest challenge right now. Manufacturers are struggling to find the right talent to fill open positions, despite high unemployment.

But the issue hasn't stopped private equity firms from investing in manufacturers, local

executives said Nov. 1 during a roundtable discussion hosted by The Business Journal at The Pfister Hotel in downtown Milwaukee.

"We certainly have not shied away from manufacturing because of the challenges in finding skilled labor," said Cory Nettles, founder and a managing director of Generation Growth Capital Inc., Milwaukee. "But we go into (those investments) sober about the labor challenge and try to identify a couple strategies short and long term that will allow us to address that so our portfolio companies have access to the talent they need to grow."

Machinists, welders and engineers were among the positions cited by private equity executives that have shortages.

"There's just a mismatch between who's unemployed, who's needed and the companies that we're seeing," said Ron Miller, a managing director at Cleary Gull Inc., Milwaukee.

The issue sometimes extends into the front office, private equity executives said.

"Trying to recruit a CEO to rural Wisconsin, surprisingly, it's really hard to do," said Greg Myers, senior managing director with Mason Wells, Milwaukee. "It's not only being able to find the skill set, but also being able to marry them to the right opportunity and location."

Steve Peterson, a Milwaukee-based managing director with Brass Ring Capital Inc., agreed. His firm often invests in businesses in



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Greg Myers  
Mason Wells

smaller communities.

"Getting people for the factory floor as well as executives that want to run a \$10 million manufacturer in 'Nowhere, Wisconsin' is not easy," Peterson said.

## INTERNATIONAL COMPETITION

John Beagle, a co-founder of Milwaukee-based Grace Matthews Inc., said he recently heard a chief executive officer suggest that manufacturers aren't competing with other manufacturers for top talent, at least not within skilled production.

"We're competing with Apple, we're competing with Goldman Sachs, we're competing with Facebook," Beagle recalled the ex-

ecutive saying. "And until the manufacturing industry sort of realizes that, they're going to be basically taking the scraps."

In recruiting young talent, Beagle said that CEO's company has emphasized its products and the markets it serves that "make life better."

"They're doing things that for a smart young person coming out of the university, it's not just about the money, it's about the quality of life and the intangibles," Beagle said. "And I think that has to be a piece of it as well if you're trying to get talent to come in."

As for filling open positions in skilled labor, private equity executives said manufacturing companies are trying a mix of strategies. Those include enticements such as offering more vacation time and definable hours or incentives for current employees who refer the company to their friends and family.

Manufacturers are also turning more to apprenticeship programs, reaching out to technical colleges and training employees on site.

"We certainly are having to be more creative," Nettles said. "We're willing to invest in training as part of the hiring of a particular employee who may have an adjacent skill set. We're willing to invest in him or her to bring them up to speed on a specific skill set we need."



"We go into (THOSE INVESTMENTS) SOBER about the labor challenge."

Cory Nettles  
Generation Growth  
Capital Inc.

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