



## MONTHLY NEWSLETTER

Vol. 3 • Issue 1 • September 2009



### The President's Letter

Welcome back from what, for many, turned out to be a great opportunity this Summer to reacquaint ourselves with our most important priorities like our families and friends. This year, the ACG Atlanta Board's commitment is to our friends - our members. Under the leadership of our Vice President of Strategic Planning, Joe Longosz (Golub Capital), the ACG Atlanta Board remains focused on driving value for our members.

We believe we are starting this theme off right with our annual wine tasting event at the King Plow Art Center, which is FREE to all of our members. Last year's event drew a full house with over 325 guests. Several private equity groups, mezzanine groups, senior lenders and other capital providers travelled to Atlanta last year from as far away as California. We expect much of the same for this event this year and expect to reach our capacity before the deadline, so please register early.

Under the guidance of our Vice President of Programs, Alex Mammen (TM Capital), we intend to move the venues of our dinner events around periodically to enhance the general buzz our high level executive speakers bring to these events. As another member benefit, Greg Cinnamon (Kilpatrick Stockton), our Academy Breakfast Series Chair, intends on leading the effort to provide "white papers" in connection with each of our quarterly Academy Breakfasts to increase the valuable content these panels bring to our members.

We continue to drive value for our "Young" ACG members with several events planned for this vigorous group of our future leaders. Under the leadership of the Young ACG's Steering Committee consisting of Amanda Norcross (Bryan Cave), Josh Kuder (Linx Partners), Phil Krieger (TM Capital) and Philip Fitch (Mazzone & Associates), this initiative has been a wonderful success here in Atlanta, and we believe is paving the way for similar successes for ACG chapters around the world.

Speaking of leaders, our Chapter's own Stuart Johnson (Barnes & Thornburg) has been honored nationally as the Chairman of this year's ACG Intergrowth in Miami, Florida in May 2010. As a special increased benefit to our members, we are planning an ACG Atlanta reception at Intergrowth this year.

This year we are focused on driving value for our members. We have all, in some way, been impacted by the current economic environment. I am convinced that the best way to combat adversity is head on and together. We are looking forward to a year where we create an environment for our members to pull together, strengthen our relationships and use any obstacles we have found in business as opportunities to strengthen our commitments to each other in the ACG community: our commitment to deliver service, our commitment to treat others fairly, our commitment to bring value to our customers, our commitment to be good partners with our vendors and our commitment to be leaders in our community.

Very truly yours,

Dominic C. Mazzone  
Managing Director, Mazzone & Associates  
President, ACG Atlanta  
dmazzone@globalmna.com

<b>Calendar of Events</b> .....	2
<b>New Members</b> .....	2
<b>Board of Directors</b> .....	2
<b>Maria Saporta's Column</b> .....	3
<b>Call for Volunteers</b> .....	4
<b>Member Profile</b> .....	5
<b>Thought Leadership</b> .....	5
<b>Newsletter Opportunities</b> .....	6

### Contact ACG Atlanta

Margie Poole - Executive Director  
1631 Phoenix Blvd.  
Suite 4  
College Park, GA 30349

Phone: 770 991 2170  
Fax: 866 534 6438  
acgatlanta@informedhorizons.com

## Calendar of Events

**Tuesday, October 6, 2009: 7:00 a.m. - 9:00 a.m. • Maggiano's Little Italy**

### **ACG Academy Breakfast**

The New Capitalism: The Impact of Regulation in the 21st Century

**Sponsored by:** Kilpatrick Stockton LLP

**Thursday, October 15, 2009: 6:00 p.m. - 9:00 p.m. • Villa Christina**

### **Monthly Dinner Meeting**

**Speaker:** James Rubright, Rock-Tenn Company

**Thursday, November 12, 2009: 6:00 p.m. - 9:00 p.m. • 103 West**

### **ACG Atlanta November Reception**

**Speaker:** John Poelker, Georgian Bank

**Tuesday, December 1, 2009: 7:00 a.m. - 9:00 a.m. • Maggiano's Buckhead**

### **ACG Academy Breakfast**

Challenges Facing Family Business

**Thursday, January 21, 2010**

### **Monthly Dinner Meeting**

**Wednesday, February, 2010**

### **Atlanta ACG Capital Connection**

**Tuesday, March 2, 2010**

### **ACG Academy Breakfast**

**Thursday, March 18, 2010**

### **Monthly Dinner Meeting**

**Thursday, April 22, 2010**

### **Monthly Dinner Meeting**

**Tuesday, May 4, 2010**

### **ACG Academy Breakfast**

**Tuesday, May 11, 2010**

### **Golf Tournament**

**Thursday, May 20, 2010**

### **Monthly Dinner Meeting**

## New Members

Adam Beckerman, *Habif, Arogeti & Wynne, LLP*

John Conlin, *J & BC Enterprises*

Stephen Conwell, *PGA TOUR Superstore*

Paul Fancher, *Troutman Sanders LLP*

William Greene, *Webster Business Credit*

Robert Heller, *Southern Equity Partners, LLC*

Travis Higbee, *Careerbuilder*

Greg Hlozek, *Grant Thornton LLP*

John Holloway, *UPS Capital Corporation*

Trey Huffman, *EarthLink*

Keith Kirkland, *Presidential Financial Corporation*

Taylor Moister

Jeffrey Phillips, *McKenna Long & Aldridge LLP*

Sara Richards, *Gray Ghost Ventures*

Stephen Saferight, *HLB Gross Collins, PC*

Jeff Schultz, *Morgan Keegan*

Hilton Shub, *Habif, Arogeti & Wynne, LLP*

Joe Singer, *Morgan Stanley Smith Barney*

Jack Smith, *YDM, LLC*

West Streib, *KPMG LLP*

Richard Taft, *ACM Capital Partners*

Brendan Wales, *Sun Life Financial*

James Welch, *Habif, Arogeti & Wynne, LLP*

Christopher Wilkins

## Board of Directors

### **President**

Dominic Mazzone  
Mazzone & Associates

### **Vice President of Programs**

Alex Mammen  
TM Capital Corp.

### **Vice President of Membership**

Todd Wade  
Bryan Cave Powell Goldstein, LLP

### **Vice President of**

#### **Corporate Member Affairs**

Daniel Bauer  
CardioMEMS Inc.

### **Vice President of Awards**

Betty Reed  
Abraxas Business Services

### **Vice President of Strategic Planning**

Joseph P. Longosz  
Golub Capital

### **Treasurer**

Jim Toopes  
Tatum LLC

### **Secretary**

Wayne Bradley  
McKenna Long & Aldridge LLP

### **Capital Connection Chair**

Kurt Putkonen  
PNC Business Credit

### **Immediate Past President**

Katherine Morris  
BDO Seidman, LLP

### **Chair of Past Presidents**

#### **Advisory Board**

Nancy Halwig  
UPS Capital Corporation

### **Directors at Large**

Greg Cinnamon  
Kilpatrick Stockton LLP

David Duke  
FD Capital Advisors

Ezra Field  
Roark Capital Group

Ed Fisher  
SouthPointe Ventures, LLC

Winston Gillum  
Harbert Management Corporation

Ransom James  
Arcapita Inc.

John Kahn  
Financial Asset Management Systems, Inc.

Richard Kopelman  
Habif, Arogeti & Wynne LLP

Teri McMahon  
Alston & Bird LLP

Ira Moreland  
Private Equity Investor

Robert Owen  
Tucker Midis & Associates, LLC

Allen Taylor  
Bank of America

Truc To  
KPMG LLP

# Check in with Business: How Companies are Thriving in Today's Economy

In hindsight, Chris Munro can trace the first signs of the economic slowdown to two years ago. Munro, then-CEO of the Atlanta-based logistics transportation company, RoadLink, saw sales beginning to slow — a telling sign in an industry that often is a leading economic indicator.

But reality hit between August, 2008 and September, 2008. In that one month, RoadLink's business volume declined 21 percent.

"Somebody just switched the light off," Munro said.

How RoadLink responded to the economic tailspin can provide insights for the myriad of other Georgia companies that have been trying to steer their way to survival.

In conversations with a diverse group of Georgia executives, several common themes emerge on how best to adjust to the new economic reality.

Munro has a dual perspective. He is managing director of the New York-based Fenway Partners private equity firm, which owns nine companies in the transportation, logistics and consumer goods industries including RoadLink.

Most companies in his industry have seen their business decline by 18 to 25 percent and profit margins have "come under pressure," said Munro, who has since stepped down as RoadLink's CEO but continues to serve on its board.

For Munro, the secret to RoadLink's success was adopting "a reasonably hard and fast model" to adjust to the new economic reality.

First, the company removed overhead last October when executives thought it was only going to be an economic blip. But when business continued to struggle, Munro said they instituted the second downsizing in January. In all, the company cut 200 jobs from its 1,000 member management team.

Munro also said they inserted a "feeling of crisis, a positive crisis" early on. Executives work hard to be "participative

and communicative" with employees so they will understand what's at stake.

"We are very open and transparent," Munro said. "But we are also expeditious and fast with our changes as we are resizing the business and resetting expectations."

The result?

"For an industry that is 20 percent off, year over year on a volume basis, RoadLink is off by only 4 percent," Munro said.

For Gypsum Management and Supply Inc. in Tucker, the downturn has meant having to rationalize its operations by cutting back personnel and its distribution centers.

Gypsum, founded in 1972, is the largest privately-held distributor of wallboard products in the country — operating in 26 states and generating more than \$1 billion in revenue.

Despite being part of the volatile construction industry, the company has been able to "provide a stable operating base" for its business because it adjusted its business to the new normal, according to Mike Callahan, Gypsum's chief financial officer.

"We've done a lot of evaluation of our operation matrix to reduce the cash requirements of our business," Callahan said. "Excessive leverage will absolutely come back to haunt you. We have always maintained a conservative balance sheet, and that has served us well."

Having experienced managers also has helped Gypsum.

"We have a very, very talented management team," Callahan said. "That has served us well. We have got very,

very seasoned people who may have been through two or three cycles. They are very well prepared to deal with this situation."

Having a strong relationship with your lender also is key, according to John Southern, chief financial officer of CareSouth Health System in Augusta.

"We have always been very conscious of our debt especially in the environment we are in right now," Southern said. "You have got to be flexible and be able to adjust your cost with fluctuations in your business revenue, price decreases or volume declines."

CareSouth, which provides home health services in the Southeast, Texas and California, had a record year in 2008; and business has held up relatively well in 2009.

But Southern said "2010 is a very, very scary year for us," because of the potential passage of healthcare reform in Congress, which could impact home health care especially hard. Medicare coverage also could change.

"Whenever the federal government changes Medicare, it impacts our business," Southern said. "About 93 to 95 percent of our revenue comes from Medicare. A normal recession doesn't really impact health care unless Medicare reduces its rates."

CareSouth also made a smart move when it was enjoying its record year. It invested in a new IT platform where its home care employees were given PDAs (personal digital assistants) devices to monitor the health care of its patients.

*Continued on page 4...*



**Maria Saporta**, one of Atlanta's outstanding journalists and observers of local businesses, will be writing a monthly story for the ACG Newsletter. She was with the *Atlanta Journal-Constitution* for 27 years as a reporter and business columnist. Maria currently is writing a weekly column on Atlanta's business community for the *Atlanta Business Chronicle*.

## Maria Saporta's Column - Continued...

"As it turns out, that clearly was the right thing to do," Southern said. "That capital investment has improved productivity and reduced administrative costs. After a good year, it was a good time to make that investment."

David Brazeal, chief financial officer for Norcross-based American Biosurgical, said the healthcare industry has not been affected by the economic downturn as much as others. The company, which sells medical cable assemblies to medical device manufacturers, is well positioned as hospitals use more technology to reduce personnel costs.

"We have seen cost pressure from our customers as they try to reduce costs in their businesses," Brazeal said. "Like any small business, in order to survive during tough times, cost management is critical.

We are extremely focused on reducing costs where we can across the board in areas like travel and entertainment, telecommunications and IT. We outsource whenever it makes sense so that we can keep our overhead costs low."

For Munro and RoadLink, another important move was meeting with its lender — GE Capital — soon after the economy began to sink.

"We were ahead of the curve," Munro said. "Our lender was on the inside of our thinking, and we started banking negotiations in October. We had an empathetic lender."

Now Munro believes his business is operating in a "plateaued volume environment" it's not getting worse and it's not getting better. But while other

companies might not make it through this stretch, Munro said RoadLink is "here for the long term."

For Callahan and Gypsum, the focus has been on customers and field operations — efforts that he believes will carry the company through.

"It's been a challenging environment, no question about it," Callahan said. "I feel we are bouncing along the bottom. Hopefully this economy will improve. We hope to see some movement in 2010, but it probably will be a gradual recovery."



## Call for Volunteers...

If you are interested in getting more involved in ACG, please reach out to Margie Poole at ACG Atlanta by calling 770 991 2170 or via email at [acgatlanta@informedhorizons.com](mailto:acgatlanta@informedhorizons.com) with your interests or ideas.

We are always thankful for more involvement from our members.

— Margie Poole  
ACG Atlanta Executive Director



## Member Profile

### Justin S. Daniels

Attorney, *Wagner Johnston & Rosenthal, P.C.*



**Corporate Background:** Justin is known as “the trusted legal quarterback” providing corporate and commercial real estate advice to fast-growing, privately-held entrepreneurial businesses. Justin’s corporate practice consists of representing businesses and business owners in all aspects of their operations from structuring new ventures, advising on acquisitions and divestitures and reviewing and negotiating key customer, employment and customer contracts. He has represented a variety of clients in the manufacturing, retail, professional services, consulting and technology industries. Justin’s commercial real estate practice consists of representing investor syndicates and commercial developers, who acquire, develop, finance and sell commercial real estate. He has advised investor syndicates and commercial developers in the retail, industrial, office, apartment building and residential subdivision market segments.

**Where did Justin go to school?** Justin received a bachelor’s degree in Political Science from Virginia Tech University and has a law and MBA degree from Duquesne University in Pittsburgh Pennsylvania where he grew up. He received a scholarship to play baseball at Colorado State and Virginia Tech.

**What does Justin do when he is not quarterbacking deals?** Married to wife Jodi, who works for AutoTrader.com, Justin has been coaching basketball with 11-12 year olds at Chastain Park. As the director of community service and a board member of the Sandy Springs rotary, he also volunteers consultation services with non profits, Heritage Sandy Springs and the House Mate Match program. In addition to basketball, Justine is an avid squash player and plays in tournaments all around the city. And, news few people know: he has played in the national amateur squash tournament twice!

#### Personal Interview:

**What book have you read that you want to share with our readers?** Jim Stovall’s book entitled [The Ultimate Gift](#).

**What is the best advice you ever received?** “I was an overnight success after twenty years” and “What are you committed to?”

**What advice do you have to share?** “Give it your best shot and let the chips fall where they may.”

**What would you be doing if you weren’t in your current job?** “My dream job would be getting highly paid to be a basketball coach!!”

## Thought Leadership

### Time to Sell

By Andy Mason



Despite the currently depressed M&A environment, the confluence of several factors is likely to drive a significant increase in merger and acquisition activity in 2010. This activity will be driven by both the “supply” side (more sellers) as well as the “demand” side (more buyers) resulting in increased activity but not any discernable change in valuations. There is also the possibility that there will be a “rush to market” in the first quarter of 2010.

From a seller’s perspective, it is always better to be on the front end of such a rush as once the pipeline has become clogged with transactions and potential buyers get engaged in deals, it becomes more difficult to attract their attention. In addition, although the current financing market is stabilizing, it will not be able to absorb a large influx in activity and will pull back and become more discriminating regarding credit quality once the initial wave of M&A activity has begun.

On the “supply” side of the M&A market, factors driving activity next year will include changing tax laws and debt refinancing activity.

#### Changing Tax Laws

Pending changes in tax laws will drive an increase in M&A activity in 2010. Proposals to increase tax rates on both capital gains and carried interest are gaining support and will likely be enacted and become effective in 2011. This provides a window of opportunity for business owners to sell in 2010 ahead of these changes.

The current administration’s agenda regarding taxes includes an increase in the capital gains tax rate from 15% to 20% and perhaps higher. With a pending 33% increase in the capital gains rate, business owners wishing to sell within the next three years will be seriously considering a sale next year in order to maximize their proceeds on a present value basis.

In addition, there is current legislation in process which would eliminate capital gains treatment on the profits received by private equity firms, also known as “carried interest”. This

legislation will increase the tax rate on carried interest to the same rate as ordinary income, or 35%. Although not directly impacting the private business owner, this pending change may result in a "crowded market" for sellers in 2010 as private equity firms begin to divest portfolio companies.

### Debt Refinancing Activity

The current debt environment will also drive divestitures in 2010. Many acquisitions were completed over the past several years which deployed higher levels of debt than would be available in today's market. Over \$100 billion of such debt will mature in 2010 which will necessitate a refinancing or sale of the business. As many of these companies will not be able to refinance on acceptable terms, their owners may seek to sell the businesses which will also add to the volume of deals hitting the market next year.

On the "demand" side of the M&A market, factors driving activity next year will include the current overhang in private equity funds and the expiring investment periods of many private equity funds.

### Private Equity Overhang

Between 2005 and 2008, approximately \$700 billion of private equity capital was raised, an amount which exceeded the total capital committed to the industry in the prior 30 years. A significant amount of this capital has yet to be invested and it is estimated that the current "overhang" of private equity exceeds \$400 billion which represents over ten years worth of normal M&A activity.

The structure of these funds require the private equity firm to return to their investors all invested capital plus a preferred return plus any management fees paid prior to earning carried interest on the gains on their investments. Each year that passes without their capital being deployed, the accruing management

fees increase the hurdle that must be achieved before earning carried interest. As a result, private equity firms are anxious to put their capital to work and will be active acquirers in 2010.

### Expiring Investment Periods

Another element of private equity fund structures is the investment period. Most funds are structured whereby the private equity firm has a number of years (typically five) when committed capital must be invested after which their investors are not obligated to fund their commitments. Historically, extensions of this investment period were regularly granted, however with many investors currently looking to reduce their commitments to private equity, these extensions will be more difficult to obtain. The investment periods for a large number of private equity firms will expire between 2010 and 2012 which will create an additional motivation for them to invest capital in 2010. These factors, combined with a stabilizing economy, have the potential to create a boom year for mergers and acquisitions in 2010.

Due to the pending tax law changes, business owners wishing to sell within the next three years would be advised to seriously consider a sale next year in order to maximize net proceeds. Also, as the typical transaction requires six months to complete from start to closing, a business owner wishing to sell in 2010 would need to enter the market in the second quarter at the latest in order to ensure a 2010 closing.

### About the Author

Andy Mason is a Managing Director and Co-Founder of VRA Partners, LLC. VRA Partners is an investment banking firm focusing on providing M&A services to middle-market companies and private equity firms. VRA Partners also assists companies with raising capital for growth, acquisitions, recapitalization, going-private and management buy-out transactions, and provides fairness opinions, valuations and strategic advisory services.



## MONTHLY NEWSLETTER

The newsletter is a great way for you to share your expertise and news with the other 500 Atlanta members and the broader dealmaking community.

There are two opportunities:

- **Thought Leadership** - articles submitted by members of approximately 500 words with the author's picture and a brief bio should be submitted to ACG Atlanta. Only original previously unpublished articles on a topic or issue that is relevant to our organization and that members would find important to their business / Mergers and Acquisitions will be considered.
- **Member News and Announcements** - tell us about your deals, your good news such as new jobs, promotions, and awards.

We reserve the right to select and edit all submissions. Please send all items for consideration to the attention of the editor at [acgatlanta@informedhorizons.com](mailto:acgatlanta@informedhorizons.com).



# Thank you to all our ACG Atlanta Sponsors:

## Monthly Event Sponsors



## 2009 Wine Tasting Sponsors



## 2010 Atlanta ACG Capital Connection™ Sponsors

### Platinum Level



### Gold Level



### Silver Level



### Bronze Level

