

MFG Week Webinar Series Transcripts

Navigating Private Equity in Manufacturing

00:00:10:00 - 00:00:17:19

Speaker 1

Well. Good afternoon. I think people are still joining us here, but, welcome to, Frost Brown. Todd's the for.

00:00:17:19 - 00:00:19:13

Speaker 2

The the last.

00:00:19:13 - 00:00:23:01

Speaker 1

Day of Frost parent, second annual manufacturing.

00:00:23:01 - 00:00:25:11

Speaker 2

Week. Right.

00:00:25:14 - 00:00:34:12

Speaker 1

We've we've had a successful five successful year, four successful presentations so far. And we're knocking on look for this one. As.

00:00:34:12 - 00:00:35:20

Speaker 2

As you.

00:00:35:20 - 00:00:50:10

Speaker 1

Probably know, if you've registered, we have applied for CLE for this program. If you attend, you've and you've and you've checked the box for CLE, if there's a box to check, I probably shouldn't have said that because I don't know if there is a box to check if you.

00:00:50:12 - 00:00:50:18

Speaker 2

If.

00:00:50:19 - 00:00:53:22

Speaker 1

If you're expecting CLE, you will get a separate email.

00:00:53:24 - 00:00:54:22

Speaker 2

00:00:54:24 - 00:00:59:13

Speaker 1

Regarding the CLE, you will also get a follow up email.

00:00:59:15 - 00:01:00:00

Speaker 2

With.

00:01:00:06 - 00:01:03:15

Speaker 1

Our contact information. And I know you don't know who we are yet.

00:01:03:15 - 00:01:04:11

Speaker 2

But I will.

00:01:04:11 - 00:01:30:06

Speaker 1

I'll fix that shortly. And then also there will be some time for Q&A. At the end of the presentation, there was a whole slide that says questions. So that's our trigger to know that those are coming. But, there are there is a Q and A button in the, in the box on your screen. So if you have any questions throughout the presentation, please throw them in there.

00:01:30:06 - 00:01:38:03

Speaker 1

We will do our best to, address all of those at the end of the presentation. But I want to make sure that everyone knows that that's there.

00:01:38:05 - 00:01:39:06

Speaker 2

00:01:39:08 - 00:01:48:24

Speaker 1

Now, on to introductions. I'm Josh O'Brien. I'm a partner at Frost Brown Todd in our Louisville, Kentucky office. I am in our private equity.

00:01:49:01 - 00:01:49:22

Speaker 2

00:01:49:24 - 00:01:58:22

Speaker 1

Industry team, private equity venture capital industry team. I focus more on the private equity side and the M&A piece of the private equity side.

00:01:58:22 - 00:01:59:20

Speaker 2

And I'm,

00:01:59:22 - 00:02:13:09

Speaker 1

Pleased, thrilled, actually, to be joined today by, David Walden. David, David's a, a long time friend and client and the director at Middle Ground Capital.

00:02:13:11 - 00:02:13:24

Speaker 2

Dave.

00:02:14:00 - 00:02:15:16

Speaker 1

David was,

00:02:15:18 - 00:02:16:15

Speaker 2

The,

00:02:16:17 - 00:02:33:23

Speaker 1

There's there's there's questions as to whether or not David was the fourth or fifth hire. I think it's depends on who you ask, because he and, the other person were hired the same day, right at the time that middle ground launched. But to say he's been there from the, from the beginning is, is an understatement.

00:02:34:00 - 00:02:35:07

Speaker 2

00:02:35:09 - 00:02:36:00

Speaker 1

David, you want.

00:02:36:00 - 00:02:37:05

Speaker 2

To,

00:02:37:07 - 00:02:40:16

Speaker 1

Say a little bit about middle ground and what you do there?

00:02:40:18 - 00:03:14:19

Speaker 3

Yeah, sure. So, thanks, everybody, for being here. So, as Josh said, I work for middle ground capital. We're, industrials and specialty distribution focused, private equity firm based, out of Lexington. I think by our count, we're the only private equity firm in the state. And we have been around for coming up on eight years, which is, while that's been that long, but we raised in 2019.

00:03:14:19 - 00:03:45:07

Speaker 3

Our first fund was 460 million. And I'll spare you the in between. And right now, we're, raising our third fund, which we're targeting \$800 million for, everything we do, as I said, is manufacturing or specialty distribution. The heritage of the firm, is automotive. Two of our three original co-founders, had, you know, virtually entire prior careers at Toyota before being recruited into private equity.

00:03:45:07 - 00:04:14:22

Speaker 3

And so we take a, you know, quite a hands on approach to our investments, and are always looking for, you know, fundamentally good businesses, and, you know, looking for ways we can make them better. And so I think we have 22 a little over a few over 20 portfolio companies. I should know that over 200 manufacturing facilities that we own globally, across those, across those, you know, 20 odd portfolio companies.

00:04:14:22 - 00:04:17:04

Speaker 3

So that's that's us in a nutshell.

00:04:17:06 - 00:04:22:11

Speaker 1

And we're waiting for that first Kentucky portfolio company where we're looking for it.

00:04:22:13 - 00:04:23:03

Speaker 2

Yes.

00:04:23:04 - 00:04:31:07

Speaker 1

Do what we can do. Well, again, David, thanks for for, joining me here today. And, this is going to be.

00:04:31:09 - 00:04:33:20

Speaker 2

You know, a, a somewhat.

00:04:33:20 - 00:04:37:03

Speaker 1

Of a general conversation about what private equity, you know, the.

00:04:37:05 - 00:04:38:04

Speaker 2
The, the, the.

00:04:38:04 - 00:04:42:06

Speaker 1
Impact of private equity in, the manufacturing space.

00:04:42:06 - 00:04:46:04

Speaker 2
And you know that at the outset.

00:04:46:06 - 00:04:52:21

Speaker 1
I want to talk about a few things we're going to discuss today. We're going to, you know, talk about industry insights in particular some some.

00:04:52:23 - 00:04:54:19

Speaker 2
Deal,

00:04:54:21 - 00:05:06:06

Speaker 1
Information, information regarding deals. And, you know, over the past few years and the number of deals in the manufacturing space that private equity has been involved in,

00:05:06:08 - 00:05:12:24

Speaker 2
Current events in the, that in that in the world that,

00:05:13:01 - 00:05:24:12

Speaker 1
How those are going to affect both manufacturing and private equity. I mean, we're talking about, those in tandem, but they're going to have, similar effects in some places and different effects and others.

00:05:24:12 - 00:05:25:21

Speaker 2
So,

00:05:25:23 - 00:05:50:19

Speaker 1
More to come there. And then, of course, a few legal developments as, as folks are, certainly aware, the legal landscape is, ever changing these days, changes daily. Some sometimes. So, we're we're certainly staying on top of that, but going to have some significant impacts on, on private equity in the, in the manufacturing space. Industry insights.

00:05:50:19 - 00:05:56:13

Speaker 1

So obviously private equity deal activity.

00:05:56:15 - 00:05:57:00

Speaker 2

You know.

00:05:57:04 - 00:05:59:13

Speaker 1

From, from 2015 really from.

00:05:59:13 - 00:05:59:24

Speaker 2

You know, if.

00:06:00:04 - 00:06:03:00

Speaker 1

If we stretch this out another ten years, you'd see.

00:06:03:02 - 00:06:04:24

Speaker 2

That, that that, you know.

00:06:05:01 - 00:06:15:22

Speaker 1

Has really ramped up over the past 20 years and just continues to grow, you know, in 2025, we've already got 374 deals.

00:06:15:24 - 00:06:16:19

Speaker 2

00:06:16:21 - 00:06:18:19

Speaker 1

That are closed and,

00:06:18:21 - 00:06:19:13

Speaker 2

The, the.

00:06:19:13 - 00:06:40:22

Speaker 1

Bulk of the bulk of the deals will get closed at the end of the year as, as they. David, I'm sure you're very familiar. And the attorneys on the call are certainly familiar. So that number will rise significantly as the year goes on. But, you know, these these numbers are, certainly evidence that.

00:06:40:24 - 00:06:41:11

Speaker 2

The.

00:06:41:13 - 00:06:46:08

Speaker 1

Private equity involvement is not going away. And, and.

00:06:46:11 - 00:06:46:20

Speaker 2

00:06:46:20 - 00:06:48:23

Speaker 1

We don't want it to.

00:06:49:00 - 00:06:49:11

Speaker 2

It's.

00:06:49:11 - 00:06:54:12

Speaker 1

It's definitely, part of the, the entire M&A.

00:06:54:14 - 00:06:55:06

Speaker 2

And.

00:06:55:06 - 00:07:03:05

Speaker 1

Corporate landscape in the country these days. So, deal count by deal size.

00:07:03:07 - 00:07:03:18

Speaker 2

One of.

00:07:03:18 - 00:07:17:14

Speaker 1

The things that I noticed pretty significantly and of course, this is a smaller number of, but deals in 20 that are closed in 2025, but the percentage that are \$1 billion and higher.

00:07:17:16 - 00:07:17:24

Speaker 2

On.

00:07:18:00 - 00:07:21:10

Speaker 1

And frankly, over 500 million is.

00:07:21:11 - 00:07:22:00

Speaker 2

00:07:22:02 - 00:07:35:23

Speaker 1

It jumps off the page there. We'll see if that trend stays the same as the year closes out and more private deals get closed. But we'll see. It's a, it's a nice.

00:07:36:00 - 00:07:37:12

Speaker 2

A maybe not.

00:07:37:15 - 00:07:44:11

Speaker 1

Depending on your perspective, depending on who you are, but it looks like, values are holding. So.

00:07:44:13 - 00:07:45:05

Speaker 2

00:07:45:07 - 00:07:53:13

Speaker 1

That's that's a good sign. Dave, I don't know if you have anything you want to add in that, in that context, but,

00:07:53:17 - 00:08:18:07

Speaker 3

No, I mean, I think that's certainly, you know, representative, what we're seeing, in the market, I think the, the interest rate environment is starting to stabilize. You know, despite some of the tariff and macro noise, I think the rate environment stabilizing and coming down and certainly, opened up some of the deal volume for the bigger deals to get done.

00:08:18:09 - 00:08:22:12

Speaker 1

Excellent. Thank you for that. And then a little bit by the numbers, as far as,

00:08:22:14 - 00:08:23:14

Speaker 2

00:08:23:16 - 00:08:27:15

Speaker 1

Private equity activity in the various,

00:08:27:17 - 00:08:29:23

Speaker 2

The, the, the, the

00:08:30:00 - 00:08:34:21

Speaker 1

Various, manufacturing verticals.

00:08:34:23 - 00:08:36:10

Speaker 2

00:08:36:12 - 00:08:41:07

Speaker 1

Not anything significant to point out there, but in the ones that, you know, if.

00:08:41:09 - 00:08:41:21

Speaker 2

You,

00:08:41:23 - 00:08:56:11

Speaker 1

In middle ground is focused, significantly in the automotive space, anything else on this page jump out at you that, that that affects middle ground?

00:08:56:13 - 00:09:35:19

Speaker 3

Let's see, You know, I would say, I mean, where, where we play kind of, machinery to an extent, industrial supply is obviously being kind of a big, big piece of the equation, automotive being smaller. You know, I think in industrials world, I mean, there's just so, I mean, I continue to be amazed by the number of exceptionally high quality businesses that are out there that, you know, you're like, well, I won the war.

00:09:35:19 - 00:09:55:09

Speaker 3

I was looking at one this morning in Concord, you know, it's in the concrete and asphalt space and it's, you know, you're you're just amazed at some of these. They're really high quality industrial assets, which I think is why, you know, you see that kind of towards the top end of kind of the deal count and certainly deal size spectrum.

00:09:55:11 - 00:09:57:23

Speaker 3

On on the chart.

00:09:58:00 - 00:09:59:11

Speaker 2

00:09:59:13 - 00:10:02:15

Speaker 1

Curious as far as,

00:10:02:17 - 00:10:03:04

Speaker 2

What middle.

00:10:03:04 - 00:10:05:00

Speaker 1

Ground is targeting.

00:10:05:02 - 00:10:06:18

Speaker 2

It.

00:10:06:20 - 00:10:16:11

Speaker 1

Are you looking for new platform investments or you have platforms that are looking for add ons? Is it a mixed bag? What what do you see in, coming up?

00:10:16:13 - 00:10:53:09

Speaker 3

Yes, yes, yes and yes. The, the beauty of of, of our, our model is we're constantly, you know, raising the, raising, deploying and returning capital. And I think that's kind of that's not unique to us. That's every private equity firm. And I think, you know, every not every portfolio company of ours is looking for add ons, but, you know, certain ones kind of where it makes sense, where, you know, the industry is kind of set up more favorably for that, than others and obviously is also dependent on the performance of the platform and what we're trying to accomplish there.

00:10:53:11 - 00:11:03:08

Speaker 3

But the short answer is we're always looking for, for new investments, and in, in the industrial space.

00:11:03:10 - 00:11:08:06

Speaker 2

Excellent. Lots of lots of activity.

00:11:08:08 - 00:11:10:21

Speaker 1

So talk about a little bit about.

00:11:10:23 - 00:11:11:06

Speaker 2
You know.

00:11:11:10 - 00:11:14:21

Speaker 1
Current events.

00:11:14:23 - 00:11:16:23

Speaker 2
Pre or PE.

00:11:16:23 - 00:11:18:23

Speaker 1
Activity and manufacturing. I mean.

00:11:18:24 - 00:11:21:05

Speaker 2
If, if, if you, if.

00:11:21:05 - 00:11:28:20

Speaker 1
You haven't seen it, if you're in the space and you haven't seen it, you will be seeing it soon. I assume that every.

00:11:28:22 - 00:11:30:04

Speaker 2
Everyone who.

00:11:30:06 - 00:11:57:19

Speaker 1
Who either an attorney or an owner of a manufacturing industry are getting calls. You're getting calls from from brokers, you're getting calls from private. I mean, I'm sure that I know I know that a number of PE firms are doing their own reaching out, building, trying to build relationships with, owners of of manufacturing industry, you know, manufacturing companies.

00:11:57:21 - 00:12:01:16

Speaker 1
We see regularly investment bankers are reaching out.

00:12:01:18 - 00:12:02:17

Speaker 2
To, to.

00:12:02:17 - 00:12:15:13

Speaker 1

Us to get introductions to our clients and reaching out to clients directly to, to start building those relationships. So again, if you're not seeing it, you will be seeing it.

00:12:15:15 - 00:12:15:21

Speaker 2

I'm.

00:12:15:21 - 00:12:16:24

Speaker 1

Sure, but I.

00:12:16:24 - 00:12:17:22

Speaker 2

I would.

00:12:17:22 - 00:12:20:10

Speaker 1

Expect that you're already seeing.

00:12:20:10 - 00:12:24:01

Speaker 2

It. You know.

00:12:24:03 - 00:12:26:23

Speaker 1

Carve outs and divestitures. We've seen.

00:12:27:00 - 00:12:27:03

Speaker 2

A.

00:12:27:03 - 00:12:32:23

Speaker 1

Number of those, the number of product lines that are getting, getting.

00:12:33:00 - 00:12:35:20

Speaker 2

Pulled out for, for.

00:12:35:22 - 00:12:38:22

Speaker 1

Private equity acquisitions.

00:12:38:24 - 00:12:39:08

Speaker 2

You know.

00:12:39:08 - 00:12:45:10

Speaker 1

The domestic production incentives that were, and we'll talk a little bit more about.

00:12:45:10 - 00:12:45:23

Speaker 2

That.

00:12:45:23 - 00:12:55:18

Speaker 1

As we get to the, you know, to the legal side. But, you know, the obviously the idea behind the one big beautiful Bill was to.

00:12:55:20 - 00:12:56:24

Speaker 2

You know, and, you.

00:12:56:24 - 00:13:01:00

Speaker 1

Know, as it was presented was to reassure.

00:13:01:02 - 00:13:01:11

Speaker 2

A lot.

00:13:01:11 - 00:13:03:14

Speaker 1

Of us manufacturing.

00:13:03:16 - 00:13:05:02

Speaker 2

We're.

00:13:05:04 - 00:13:14:11

Speaker 1

Interested to see how that how it plays out. But there's certainly some incentives for investing in manufacturing. And and whether that's,

00:13:14:13 - 00:13:16:08

Speaker 2

Through,

00:13:16:10 - 00:13:23:04

Speaker 1

Sell to private equity or, you know, a strategic investor.

00:13:23:06 - 00:13:23:19

Speaker 2

Or.

00:13:24:00 - 00:13:31:21

Speaker 1

Through, you know, independent activity, there are going to be a lot of opportunities for manufacturers to take advantage of.

00:13:31:23 - 00:13:32:07

Speaker 2

Some.

00:13:32:07 - 00:13:36:14

Speaker 1

Significant changes to the tax code. And,

00:13:36:16 - 00:13:36:23

Speaker 2

You know.

00:13:36:23 - 00:13:47:21

Speaker 1

Just a generally, production favorable, administration. I say it that way.

00:13:47:23 - 00:13:48:03

Speaker 2

Yeah.

00:13:48:09 - 00:13:57:18

Speaker 1

Regulatory clarity and the new tax incentives certainly spurred private equity activity in manufacturing.

00:13:57:20 - 00:13:59:08

Speaker 2

The,

00:13:59:10 - 00:14:04:14

Speaker 1

But we'll see what happens with, with interest rates and, and hopefully they continue to trend down.

00:14:04:14 - 00:14:07:14

Speaker 2

I saw that,

00:14:07:16 - 00:14:11:14

Speaker 1

That, looks like inflation ticked up a little bit again, but.

00:14:11:16 - 00:14:12:16

Speaker 2

It.

00:14:12:18 - 00:14:13:24

Speaker 3

Was lower than expectations.

00:14:14:00 - 00:14:39:24

Speaker 1

Lower than expectation. But we'll and we certainly like to hear that technology sustainability and AI Dobson are also big, big deals. So Middle Ground's obviously been around since 2018 and I know it probably some days it feels like no time and sometimes it feels like forever. But technology has certainly changed in the last eight years.

00:14:39:24 - 00:14:41:05

Speaker 2

Which, you know, you.

00:14:41:06 - 00:14:49:22

Speaker 1

Can't always say it's changed as significantly as it has in the past eight years. You know, when you're looking back that during that period.

00:14:49:22 - 00:14:51:14

Speaker 2

But if you.

00:14:51:14 - 00:14:52:05

Speaker 1

Can.

00:14:52:11 - 00:14:53:20

Speaker 2

David.

00:14:53:22 - 00:15:00:22

Speaker 1

Tell us a little bit about how technology and how you're viewing technology in the manufacturing space.

00:15:00:24 - 00:15:01:18

Speaker 2

00:15:01:20 - 00:15:07:12

Speaker 1

Differs between when things started and, and what you're doing today.

00:15:07:14 - 00:15:16:24

Speaker 3

Well, yeah, of the certainly, I mean, I think.

00:15:17:01 - 00:15:37:14

Speaker 3

It has changed and I think look like the overarching kind of comment or thought is, you know, we're sitting at a time, you know, when to your point, the administration, you know, and, you know, has been you look at Covid and supply chain and now the administration and you have all of this work kind of moving back on.

00:15:37:14 - 00:16:03:19

Speaker 3

Sure. But, you know, the for lack of a better way to put it, kind of defense, they, you know, defensive supply chains, but we don't have people who want to work in manufacturing plants. And so and we have a ton of thoughts on that. We have. I'm, I won't do the middle ground commercial and how all of the, everything that we bring to the table that kind of help solve that.

00:16:03:19 - 00:16:30:07

Speaker 3

But I would say, I mean, fundamentally, you have an increase in, an increase in demand for, you know, domestic made products and domestic supply chains at a time when you have fewer labor and so, you know, I think as we think about, you know, fewer people to work in the, in that environment, you know, you fundamentally have to, automate and implement technology.

00:16:30:09 - 00:16:52:02

Speaker 3

And so that's I think we're the only firm we're certainly the only permanently firm in Kentucky. We think we're probably also the only, the only private equity firm with an in-house automation team. So we have 10 or 15, electrical and mechanical engineers that have a kind of a test lab that's, you know, about a mile from our headquarters in Lexington.

00:16:52:02 - 00:17:28:20

Speaker 3

And they get deployed across our manufacturing facilities to solve the biggest kind of automation and, you know, automation challenges, which we we kind of call technology in our world. And it's they have been pivotal. I mean, that's a it's a huge differentiator for us. And it's a it's a way that we win deals, to be honest, because you have, business owners who, you know, say, well, I have a really good business, but I have these three challenges that I'm really trying to work through, and it's like, yeah, every time labor is one of them.

00:17:28:22 - 00:17:49:03

Speaker 3

And our ability to bring that to the table, you know, kind of quickly and at a reasonable cost is really unique and differentiated relative to other funds. And so that's kind of how we're, you know, how we're implementing kind of technology and automation specifically in the context of manufacturing.

00:17:49:05 - 00:17:49:19

Speaker 2

Yeah, no.

00:17:49:19 - 00:17:51:20

Speaker 1

And that's.

00:17:51:22 - 00:17:53:21

Speaker 2

And, and and I guess.

00:17:53:23 - 00:17:57:00

Speaker 1

Would you say that it has.

00:17:57:02 - 00:17:58:16

Speaker 2

Have well, I guess how.

00:17:58:16 - 00:18:07:10

Speaker 1

Much has that changed? I mean, obviously, if you have your own automation team, when, when when did you all decide, hey, this is something that nobody's doing and we, we really need to do this.

00:18:07:12 - 00:18:08:20

Speaker 2

00:18:08:22 - 00:18:39:18

Speaker 3

You know, that's a good, I've that's a good question. A number of years ago. But, I mean, I think I would say that has been core to all the years run together now, but that's kind of always been a core to our strategy is kind of, a number of things. One, you know, across the board, we have made a big effort to increase the minimum wage, kind of notwithstanding kind of any state or federal mandates or, you know, on that topic.

00:18:39:18 - 00:19:00:14

Speaker 3

And, you know, we have seen that kind of in that was kind of the very, very early days of of the firm. And as we were buying businesses and, and, you know, executing our, our, you know, plan to improve them, you

know, you kind of see, okay, well, you don't have that many people. So you got to make sure you keep the high quality ones, you got to pay more.

00:19:00:16 - 00:19:24:17

Speaker 3

And then you kind of supplement that with automation. There's kind of always been, you know, credited to John, our, founding partner. He's kind of always had that vision of, okay, what is. Well, you know, what does manufacturing look like in, you know, over the next ten, 20, 30 years? And how will that change? In fact, he just wrote an article, just came out this week, that he wrote for Forbes on the future of automation.

00:19:24:19 - 00:19:28:16

Speaker 3

In, in the industrial manufacturing context.

00:19:28:18 - 00:19:33:17

Speaker 1

At John's, a John's a prolific guy. He's he's a net Netflix star.

00:19:33:19 - 00:19:38:11

Speaker 2

Private equity, private equity, mogul.

00:19:38:11 - 00:19:41:07

Speaker 1

And, Forbes author. That's that's pretty.

00:19:41:07 - 00:19:44:23

Speaker 2

Good. You know,

00:19:45:00 - 00:19:48:09

Speaker 1

I want to move on to some of the other slides in a minute, but.

00:19:48:11 - 00:19:48:24

Speaker 2

I think.

00:19:48:24 - 00:19:59:21

Speaker 1

That middle ground's approach is so cool in the hands on approach, the operations focused approach.

00:19:59:23 - 00:20:01:10

Speaker 2

00:20:01:12 - 00:20:03:06

Speaker 1

If you have a and and I.

00:20:03:06 - 00:20:05:11

Speaker 2

Know we don't want to.

00:20:05:13 - 00:20:07:04

Speaker 1

You can only speak for yourself.

00:20:07:04 - 00:20:14:23

Speaker 2

So in, in, in, with.

00:20:15:00 - 00:20:31:02

Speaker 1

Notwithstanding the fact that you said you don't want to do the middle ground commercial, I'm going to ask you to do a little bit of middle ground commercial. Not so much as selling it, but just explaining to folks, if you have a if there's a founder on the call and they're thinking about.

00:20:31:04 - 00:20:31:13

Speaker 2

A.

00:20:31:13 - 00:20:33:07

Speaker 1

Succession plan.

00:20:33:09 - 00:20:35:21

Speaker 2

And, and what would it.

00:20:35:21 - 00:20:52:15

Speaker 1

Look like if middle ground work were to come in, if they did an acquisition process and middle ground came in, what does that look like for them? And obviously everybody's situation is different. So, you know, but if they're if they.

00:20:52:15 - 00:20:54:00

Speaker 2

You know.

00:20:54:02 - 00:21:17:13

Speaker 3

Yeah, I mean, I would say, I would say out of the gate, we do a lot of listening as we're kind of pre acquisition, kind of in the due diligence process, we do a lot of listening and questioning and question asking. And it's not hey, we have this is our playbook every time. And this is what we do.

00:21:17:13 - 00:21:47:11

Speaker 3

And if you don't fit that model then sorry. You're not a right. You're not the right. You know, you're not the right partner. You know, I think we, you know, just having now done this for, you know, eight years, with middle ground, I think every situation is a bit unique. And we've got a, a toolkit of, you know, I said toolkit have two multiple teams of different kind of operational experts, which I think about as a deal guy, as, you know, a bit of a toolbox.

00:21:47:13 - 00:22:19:14

Speaker 3

And so as we're doing work on a new potential investment, you know, it's okay. I have our, you know, plant ops team, which is, you know, folks that we'll send, you know, into a, into a manufacturing, you know, business or business. I mean, it's like, okay, go optimize the four walls of the manufacturing facility. We've got, financial operations team that helps with financial reporting and they'll they'll help kind of dig through the numbers and make sure everything is consistent and standardized.

00:22:19:14 - 00:22:47:07

Speaker 3

We've got the automation team that I mentioned. We've got an internal human capital team that helps with recruiting. You say, okay, well, I have, you know, 75% of the executive leadership team that I want will come in and, you know, say, okay, what are you solving? What's the role you're missing? And, and, and we just do this over and over and over and, I mean, there's certainly things, that we, you know, that we like to do in, in most contexts.

00:22:47:07 - 00:23:10:20

Speaker 3

But at the end of the day, you know, we just see so many the benefit of, you know, what? We you know, what we do is we don't we're never going to know your business better than you. But we have the benefit of seeing, you know, we'll look at, you know, 100 deals to do one. If that that's actually seemed like a high ratio.

00:23:10:20 - 00:23:30:08

Speaker 3

I don't think it's that, but, but we just, we see a lot and so we see a lot of different business models in a lot of different ways to be successful. And so we draw on all of that experience and just ask a lot of questions in the lesson, and then we will come in Post-closing and say, hey, this is this is kind of what we saw and heard and understood.

00:23:30:10 - 00:23:44:12

Speaker 3

And, you know, here's what we're here's what we're thinking. And we kind of just, you know, you lock arms on, you know, here's the here's our plan to execute and we go, you know, kind of get it done together as partners.

00:23:44:14 - 00:23:52:03

Speaker 1

Awesome. Thank you. And and all of those different you know you talked about all the different you know the operations team and finance finance team.

00:23:52:05 - 00:23:52:15

Speaker 2

You know.

00:23:52:15 - 00:23:55:06

Speaker 1

They're they're all part of a comprehensive.

00:23:55:08 - 00:23:56:04

Speaker 2

You know about.

00:23:56:06 - 00:24:07:00

Speaker 1

Value plan. So I mean I think that's the that's the right terminology. So you're, you're looking at a,

00:24:07:02 - 00:24:07:11

Speaker 2

At an.

00:24:07:11 - 00:24:08:23

Speaker 1

Acquisition.

00:24:09:00 - 00:24:09:13

Speaker 2

As.

00:24:09:15 - 00:24:20:13

Speaker 1

As the ability, you know, the ability to take what someone's already built and, and is expert at and enhance it to create additional value. Is that a is that a.

00:24:20:14 - 00:24:47:09

Speaker 3

Yeah, absolutely. I mean, we we want to buy fundamentally really good businesses and make them really great businesses. And you know, inevitably you know it every you know, if you say, well my business perfect I don't have any issues. And it's like, okay, well, you know, we're having a different conversation. But you know, we're really looking for the businesses who's kind of offered.

00:24:47:13 - 00:25:14:18

Speaker 3

Yeah, the opportunity to kind of suit our skill set and what we've seen and done historically. And we look for pattern recognition and, you know, well, you know, even though if it's even though it's a different industry and a slightly different manufacturing process, if it's a similar go to market or, you know, like that's one or totally different end market, somewhat different product, but similar manufacturing process like we're looking for always for pattern recognition.

00:25:14:18 - 00:25:34:17

Speaker 3

But it always and fundamentally, you know, good businesses where, you know, we're partnering with you know, a management team or we obviously love situations where an owner who's you know, especially in the case of, you know, where they're still running the business, say, okay, well, and I need a partner because I want to go do these three things.

00:25:34:17 - 00:25:49:12

Speaker 3

I want to continue to own 30%. For example, just make up a number of the go for business. I mean, like there's there's no better set up for us than, than that. And we love we love those kinds of partnerships.

00:25:49:14 - 00:25:54:21

Speaker 2

Excellent. Yeah. Thank you for that. That's the.

00:25:54:23 - 00:26:16:00

Speaker 1

It's a couple of case studies. You know, this is more general private equity sponsors are you know, they're targeting non-core units. I think this is more, you know, this is certainly more general. Targeting. Yeah. Non-core units are spun out from larger corporations. Have you all have you all bought a product line? I mean, as opposed to buying a full business.

00:26:16:02 - 00:26:40:12

Speaker 3

We so we, would, you know, would call we have on the carve out front. We've done a couple of those and, you know, where you're buying either a division of a bigger a bigger business or, you know, we've got a, you know, a couple of plants out of a really big business, you know, and there's certain, you know, nuances and complexities that come with that.

00:26:40:12 - 00:26:47:02

Speaker 3

But fundamentally, you know, we we have done that. We've done it. Well, we've made money on those investments. And so.

00:26:47:04 - 00:26:48:14

Speaker 2

00:26:48:16 - 00:26:53:15

Speaker 3

Yeah, we where we are, we certainly, traffic in that world.

00:26:53:17 - 00:26:53:24

Speaker 2

Yeah.

00:26:54:05 - 00:26:55:16

Speaker 1

Being, as new, I.

00:26:55:16 - 00:26:56:18

Speaker 2

Mean, eight, eight.

00:26:56:18 - 00:26:57:11

Speaker 1

Years.

00:26:57:13 - 00:26:59:22

Speaker 2

Again, it's it's it.

00:26:59:22 - 00:27:15:00

Speaker 1

Depends on your point of view. But as new as you are, you know, as young of a, firm as middle ground is, you haven't had a ton of exits at this point. I assume you guys looking at all options as far as exits, but,

00:27:15:02 - 00:27:18:13

Speaker 2

Okay, I know you're, you know, a.

00:27:18:15 - 00:27:32:17

Speaker 1

You're right in the sweet spot of you're beginning to exit the number. Yeah, at a number of levels. So, why don't you tell us how that's going and what, what you're looking for there?

00:27:32:19 - 00:27:53:17

Speaker 3

Yeah. I mean, as, simply put, as possible, you know, our business, our business is raising capital, making companies more valuable, and selling them for more than, you bottom floor, and generating some free cash flow along the way. And so, you know, as far as exits go, I mean, that's that that that's really it in a nutshell.

00:27:53:19 - 00:28:16:03

Speaker 3

You know, to your point, we are, you know, we're eight years old and, you know, the way that our kind of ecosystem works, you you're typically owning businesses for, you know, historically it was probably 3 to 5 years. Now it's probably, you know, 5 to 7 plus. And some of that is the rate environment. And some of it is folks are just realizing it's just better to hold your winners and kind of let them ride.

00:28:16:05 - 00:28:39:03

Speaker 3

But yeah, I mean, we had a we had, this is all, you know, public we had a great exit to a Blackstone backed, portfolio company earlier this fall. We've got a couple of others that are kind of we're working on in the background, you know, but we're, you know, we are open to, you know, whoever is willing to pay the highest price.

00:28:39:05 - 00:28:41:06

Speaker 1

Understood.

00:28:41:08 - 00:28:43:21

Speaker 2

And, you know.

00:28:43:23 - 00:28:48:14

Speaker 1

To the slide, you know, private equity firms do have record dry powder, which you saw the.

00:28:48:18 - 00:28:49:03

Speaker 2

The.

00:28:49:03 - 00:28:54:17

Speaker 1

The deal numbers and the deal values on the first slides. I mean, it's just continuing.

00:28:54:17 - 00:28:57:23

Speaker 2

To, to go up.

00:28:58:04 - 00:29:04:04

Speaker 1

Obviously there is some there's optimism in the in the space, I think in both spaces around.

00:29:04:06 - 00:29:04:17

Speaker 2

The.

00:29:04:17 - 00:29:13:00

Speaker 1

The Trump administration's views on US manufacturing and views on private investment.

00:29:13:02 - 00:29:15:07

Speaker 2

Which, you know, hit, hit all the.

00:29:15:07 - 00:29:18:21

Speaker 1

Marks for this topic. So.

00:29:18:23 - 00:29:20:23

Speaker 2

The,

00:29:21:00 - 00:29:26:17

Speaker 1

Potential for relaxed antitrust enforcement, the potential again, for.

00:29:26:19 - 00:29:27:13

Speaker 2

00:29:29:23 - 00:29:51:21

Speaker 1

Institutional private equity investment, 401 K, specifically the ability for people to direct their for one case to private equity investments, really is a, it's going to be a big opportunity for the PE industry and a big opportunity for manufacturers who are looking for succession planning opportunity. So.

00:29:51:23 - 00:29:52:14

Speaker 2

It it.

00:29:52:15 - 00:29:59:02

Speaker 1

Should be an interesting next few years.

00:29:59:04 - 00:30:01:12

Speaker 2

Did not mean to do that. Okay.

00:30:01:14 - 00:30:04:19

Speaker 1

Focusing on modernization and sustainability.

00:30:04:21 - 00:30:05:00

Speaker 2
You.

00:30:05:00 - 00:30:12:10

Speaker 1
Know, again, those are those are all the, you know, those continue to be drivers.

00:30:12:12 - 00:30:13:21

Speaker 2
The the.

00:30:13:21 - 00:30:18:18

Speaker 1
New tax rules which allow for some, accelerated.

00:30:18:19 - 00:30:20:15

Speaker 2

00:30:20:15 - 00:30:29:21

Speaker 1
Depreciation should spur a significant amount of, investment in, in manufacturing.

00:30:29:23 - 00:30:31:02

Speaker 2
How do you do you.

00:30:31:02 - 00:30:34:02

Speaker 1
And I know this isn't your, you know, you're in your you're on the.

00:30:34:02 - 00:30:35:11

Speaker 2

00:30:35:13 - 00:30:37:08

Speaker 1
The, transaction.

00:30:37:08 - 00:30:38:15

Speaker 2
Side and.

00:30:38:16 - 00:30:51:13

Speaker 1

And less on the, you know, the operations side. But do you know, is that something that you guys have have looked at the the accelerated depreciation opportunities at the portfolio company level?

00:30:51:15 - 00:31:21:20

Speaker 3

Yeah, I mean, it certainly makes it obviously more, more attractive, to invest the CapEx dollars. You know, at the end of the day, I mean, look, we are you know, detail oriented and kind of thoughtful on, you know, capital investments. I mean, obviously we want we want to support our businesses in kind of all of the ways that they are, you know, they need investment in order to grow.

00:31:21:22 - 00:31:41:18

Speaker 3

And so, you know, I think about it as, oftentimes in our context, you know, we're not make, you know, we're not making decisions because of the tax code. Certainly. It's a it's it's a nice benefit, you know, if you say, okay, well, but you can make, where I'm working on one of my portfolio companies right now.

00:31:41:18 - 00:32:02:11

Speaker 3

We're going to make a \$2 million, investment in a in a two blazer. And, you know, we're we're looking at. Okay, well, what's the payback period? And the ROI and kind of how does it change the kind of landscape of the, you know, manufacturing process and the opportunity that that it opens up and it's like, oh, by the way, you also have, you know, a nice tax benefit there.

00:32:02:11 - 00:32:05:16

Speaker 3

So that's kind of how we typically think about it.

00:32:05:18 - 00:32:13:17

Speaker 1

So it's not I mean, in your world it's not been something that it's not moving the needle necessarily, but it, but it it's certainly it's a.

00:32:13:17 - 00:32:14:24

Speaker 3

Nice it's a nice benefit.

00:32:14:24 - 00:32:16:18

Speaker 2

Absolutely. Okay.

00:32:16:20 - 00:32:22:04

Speaker 1

That makes a lot of sense.

00:32:22:06 - 00:32:22:18

Speaker 2

You all.

00:32:22:18 - 00:32:23:17

Speaker 1

Have a big.

00:32:23:18 - 00:32:24:13

Speaker 2

00:32:24:15 - 00:32:29:19

Speaker 1

ESG focus. Yeah. I know as a and I.

00:32:29:19 - 00:32:31:10

Speaker 2

And you know.

00:32:31:12 - 00:32:37:11

Speaker 1

Which is a certainly can get, political. I'll just say that.

00:32:37:14 - 00:32:40:18

Speaker 2

Yeah. What have.

00:32:40:20 - 00:32:46:20

Speaker 1

Have you seen what? I just tell it. What benefits have you seen from having that ESG focus, I guess is the.

00:32:46:20 - 00:33:15:21

Speaker 3

Yeah, I would say, yeah. I mean, look, the short answer is yes. Yes, we have it. Yes. It can be very political. I would say we take it kind of we have the it's apolitical in, in, in, in if you're thinking about it, you know, the right way. It really is apolitical. You say okay well you know caring for employees like I mentioned earlier kind of we've we've had a big push on, increasing wages kind of for the lowest earners across the portfolio.

00:33:15:21 - 00:33:41:16

Speaker 3

And, you know, our, our goal kind of way back when was, you know, getting all of our employee, all of our kind of the entry wage at all of our us, port codes or global equivalents to \$25 an hour by 2025. And, you know, an anecdote there on a we own a precast concrete business and we've done all kinds of stuff, to the to the business.

00:33:41:16 - 00:34:12:12

Speaker 3

And we, you know, streamline direct and indirect labor and improve sourcing and all this stuff, to improve gross margins and our gross margins are up something like 800 basis points, over our ownership. At the same time, we've taken the entry wage from I don't I don't quote me on the specific numbers, but call it from 15 bucks an hour directionally to, you know, just shy of \$25 an hour.

00:34:12:14 - 00:34:41:07

Speaker 3

So you're investing, I mean, several hundred basis points of margin dollars into your lowest paid employees, which drastically improves their lives. And at the same time, you know, our business is still up, you know, several hundred basis points on gross margin and turnover is down 80% or ish under our ownership for kind of that entry level, entry level job.

00:34:41:07 - 00:35:03:00

Speaker 3

And so to say, like, okay, well, that's, you know, ESG and you have this political conversation, what should the minimum wage be? And like, well, in our context, you just take care of people and, you know, and so it's it doesn't really matter. Republican, Democrat. I mean, there are those kinds of things that are just I mean, we have seen and that's just one example.

00:35:03:00 - 00:35:23:02

Speaker 3

I mean, there's so many across the portfolio, where the things that we're doing are, you know, they certainly fall under the bucket of ESG. And we are, you know, we we spend a lot of time on that. But at the end of the day, like it comes down to, you know, taking care of the people, taking care of our people and the planet.

00:35:23:04 - 00:35:28:02

Speaker 3

And, you know, there's really nothing political about that.

00:35:28:04 - 00:35:31:17

Speaker 2

Well, so thank you very much. All right.

00:35:31:17 - 00:35:40:03

Speaker 1

So I'm going to jump into some things that, I'll ask you about a few of these things, but I know that, you're not a lawyer.

00:35:40:03 - 00:35:43:01

Speaker 2

And we're not going to.

00:35:43:03 - 00:36:08:13

Speaker 1

Make you act like one. So we've already touched on a few of the key developments, you know, in the in the legal area, in particular with respect to the Trump, you know, Trump administration and some of their

initiatives, but they're also some state initiatives that, affect manufacturing and affect private equity, investment in in manufacturing.

00:36:08:15 - 00:36:12:15

Speaker 2

One of which, I will.

00:36:12:15 - 00:36:14:16

Speaker 1

Say, and I don't know.

00:36:14:18 - 00:36:16:06

Speaker 2

If I.

00:36:16:11 - 00:36:20:08

Speaker 1

I don't know if you've if you know, Scott Dolson I know Scott's been.

00:36:20:08 - 00:36:21:20

Speaker 2

And,

00:36:21:22 - 00:36:25:17

Speaker 1

Very, involved with John and John and Scott.

00:36:25:19 - 00:36:26:00

Speaker 2

Over.

00:36:26:00 - 00:36:31:01

Speaker 1

The years, but Scott Olsen's actually got a national profile these days.

00:36:31:03 - 00:36:33:06

Speaker 2

On his,

00:36:33:08 - 00:36:36:00

Speaker 1

His knowledge around qualified small business stock.

00:36:36:05 - 00:36:37:03

Speaker 2

Which.

00:36:37:05 - 00:36:56:18

Speaker 1

Is, and again, I don't I don't think this is something that's necessarily a middle ground, something that middle ground would be interested in or be part of your strategy. But the folks on the call, if they if they aren't familiar with qualified small business talk, it's certainly something.

00:36:56:18 - 00:36:59:15

Speaker 2

To to get, you know.

00:36:59:17 - 00:37:03:10

Speaker 1

Looked at as an opportunity. And essentially what it is, is, is.

00:37:03:15 - 00:37:04:01

Speaker 2

00:37:04:01 - 00:37:09:00

Speaker 1

The ability to invest, make investments in.

00:37:09:02 - 00:37:09:18

Speaker 2

It well, it's.

00:37:09:18 - 00:37:11:09

Speaker 1

Qualified small business stock.

00:37:11:09 - 00:37:13:06

Speaker 2

Which, which,

00:37:13:08 - 00:37:24:07

Speaker 1

Has a number of parameters for establishing what, what satisfies the requirements, which I'm not going to go into because I would not I would butcher them.

00:37:24:09 - 00:37:25:03

Speaker 2

00:37:25:05 - 00:37:32:14

Speaker 1

But it's a, it's a, a tax abatement. Opportunity.

00:37:32:16 - 00:37:33:10

Speaker 2

To that.

00:37:33:10 - 00:37:43:04

Speaker 1

That, that essentially allows investors and small businesses to, completely avoid, growth taxation on, on the growth of their.

00:37:43:06 - 00:37:44:07

Speaker 2

Or at.

00:37:44:07 - 00:37:51:01

Speaker 1

Least up to \$10 million of growth. And I know there's some stacking opportunities which I won't get into there. Can increase that number.

00:37:51:01 - 00:37:52:21

Speaker 2

But,

00:37:52:23 - 00:38:14:01

Speaker 1

Up to \$10 million in growth of but at completely tax free. So, it's a it's a tremendous planning opportunity for folks, especially if they're going to remain invested in, you know, if they're going to invest for five years or longer, at least five years, and plan to it's a great opportunity. It's something that.

00:38:14:05 - 00:38:15:06

Speaker 2

Folks should.

00:38:15:08 - 00:38:34:19

Speaker 1

Certainly look into. Scott Dolson again, has got a number of articles. He's the first thing that pops up on Google. And when you put in qualified small business stock, but it's a, it's a, it's really it's a really a money in your pocket opportunity for, for qualified small business investors. So it's something to look into.

00:38:34:23 - 00:38:35:14

Speaker 2

00:38:35:16 - 00:38:45:03

Speaker 1

We already talked about, you know, the accelerated deductions for R&D, and expanded, you know, the interest deduction rules.

00:38:45:05 - 00:38:46:21

Speaker 2

Which are, you know.

00:38:46:23 - 00:38:59:16

Speaker 1

Tremendous planning opportunities and, and hopefully a source of significant investment over the next few years. The, also touched on this executive order, which is certainly interesting.

00:38:59:18 - 00:39:00:00

Speaker 2

Which.

00:39:00:00 - 00:39:04:09

Speaker 1

Would allow 401 K plans to, invest in private equity.

00:39:04:11 - 00:39:06:04

Speaker 2

It,

00:39:06:06 - 00:39:14:17

Speaker 1

It, it certainly creates questions around the fiduciary obligations and create, you know, plan administrators and who becomes.

00:39:14:19 - 00:39:15:00

Speaker 3

Who.

00:39:15:00 - 00:39:23:05

Speaker 1

Becomes, responsible under a Arissa. But it, as we see this play out.

00:39:23:07 - 00:39:24:07

Speaker 2

You know.

00:39:24:09 - 00:39:33:09

Speaker 1

We could see significant increases in private equity investments over the next few years. If this if this really, pans out the way it could.

00:39:33:09 - 00:39:34:22

Speaker 2

So.

00:39:34:24 - 00:39:44:06

Speaker 1

I think I said that is wishy washy in general is, possibly could so as not to take a position either way. But I do think it's a great opportunity.

00:39:44:08 - 00:39:45:01

Speaker 2

If it.

00:39:45:03 - 00:39:47:10

Speaker 1

If it pans out.

00:39:47:12 - 00:39:49:00

Speaker 2

00:39:49:02 - 00:39:56:14

Speaker 1

Without going into great detail, you know, the states, obviously, you know, if you're, if you're.

00:39:56:16 - 00:40:02:03

Speaker 2

Due in, in any space, where you are.

00:40:02:05 - 00:40:22:24

Speaker 1

From a jurisdictional standpoint and where you operate and touch from a jurisdictional standpoint has had significant implications, notwithstanding what's happening at the federal level. So Massachusetts and California, have passed or expanded bylaws that increase notification and approval requirements for transactions. So.

00:40:23:01 - 00:40:25:04

Speaker 2

00:40:25:04 - 00:40:29:11

Speaker 1

Additional hurdles are are always well, I mean, the lawyers.

00:40:29:13 - 00:40:30:10

Speaker 2

You know, we don't.

00:40:30:12 - 00:40:34:15

Speaker 1

We don't mind them, but they're not good for you guys. David, I don't know if you've.

00:40:34:17 - 00:40:35:05

Speaker 2

If you've.

00:40:35:08 - 00:40:38:10

Speaker 1

Bumped up against any of those issues in your work.

00:40:38:16 - 00:40:39:18

Speaker 3

We have

00:40:39:20 - 00:40:41:19

Speaker 2

You have I have not I'm sure you have not.

00:40:41:19 - 00:40:46:12

Speaker 1

Yeah. And not that makes sense. But, essentially it.

00:40:46:14 - 00:40:47:10

Speaker 2

You know, it.

00:40:47:12 - 00:41:09:09

Speaker 1

It can, it can they can create some regulatory hurdles that, like I said, I'm not going to go into them in detail. The materials are here and happy to answer questions after the fact. And you will get our material, you know, our information after the fact, but, there's some interesting things going on. We talked a little bit about antitrust and, and merger oversight.

00:41:09:09 - 00:41:20:17

Speaker 1

And of course, you know, heart's got Rodino has specific requirements as far as the value of deals and filings. But the pursuit of antitrust.

00:41:20:19 - 00:41:22:19

Speaker 2

You know, beyond.

00:41:22:21 - 00:41:25:23

Speaker 1

The pursuit of any antitrust,

00:41:26:00 - 00:41:26:20

Speaker 2

00:41:26:22 - 00:41:30:02

Speaker 1

Actions beyond those are the.

00:41:30:04 - 00:41:30:10

Speaker 2

Are.

00:41:30:12 - 00:41:36:13

Speaker 1

Are generally at the discretion of the well, whichever whichever, you know, it could be the state.

00:41:36:13 - 00:41:38:00

Speaker 2

But the, the.

00:41:38:04 - 00:41:39:11

Speaker 1

At the federal level.

00:41:39:13 - 00:41:39:24

Speaker 2

It's at the.

00:41:39:24 - 00:42:00:05

Speaker 1

Discretion of the prosecutor. So all of that is to say, no promises, but we we would anticipate that the Trump administration is going to look at potential antitrust, concerns a little more favorably, generally speaking. You know, and.

00:42:00:07 - 00:42:00:17

Speaker 2

Woe.

00:42:00:17 - 00:42:05:06

Speaker 1

To the woe to the people who've had bad tweets out there about.

00:42:05:08 - 00:42:05:23

Speaker 2

You know.

00:42:06:00 - 00:42:23:02

Speaker 1

The wrong people. But, they might get a little more scrutiny, but, it looks like things are going to go a little. It should be a little more smooth. For folks under the, Trump administration.

00:42:23:04 - 00:42:26:03

Speaker 1

And then, you know, as far as enforcement is concerned.

00:42:26:03 - 00:42:27:02

Speaker 2

And the.

00:42:27:03 - 00:42:32:09

Speaker 1

DOJ recently and this was kind of a big deal in, in my world, or at least in my, you know, in.

00:42:32:09 - 00:42:35:10

Speaker 2

The, the law, the legal writing in my.

00:42:35:10 - 00:42:53:10

Speaker 1

World. But DOJ declined to prosecute a PE owner that self disclosed some export control violations, which is seems to be evidence that, you know, if you get out in front of if you have issues and you get out in front of them.

00:42:53:16 - 00:42:54:03

Speaker 2

00:42:54:03 - 00:43:02:05

Speaker 1

That is the, the that's a more favorable way to do things. So,

00:43:02:07 - 00:43:03:10

Speaker 2

Again.

00:43:03:12 - 00:43:06:24

Speaker 1

And the lawyer in me, I have to be wishy washy, but.

00:43:07:01 - 00:43:09:11

Speaker 2

It it,

00:43:09:13 - 00:43:16:20

Speaker 1

There's certainly some opportunities out there if, if folks have things that they need to report.

00:43:16:22 - 00:43:18:04

Speaker 2

We have.

00:43:18:04 - 00:43:19:11

Speaker 1

Gotten through the.

00:43:19:11 - 00:43:20:08

Speaker 2

00:43:20:10 - 00:43:23:22

Speaker 1

Through the presentation materials, and I don't see any questions in the.

00:43:23:22 - 00:43:27:12

Speaker 2

Chat, but,

00:43:27:14 - 00:43:38:01

Speaker 1

David, if you don't mind, I have a few other questions for you about middle ground and your approach. You know, please, if folks have any other questions, put them in the chat. We're happy to answer them.

00:43:38:03 - 00:43:39:23

Speaker 2

00:43:40:00 - 00:43:44:24

Speaker 3

So.

00:43:45:01 - 00:43:48:20

Speaker 2

This.

00:43:48:22 - 00:43:50:23

Speaker 1

You talked about interest rates.

00:43:51:00 - 00:43:51:21

Speaker 2

00:43:51:23 - 00:43:59:01

Speaker 1

And the interest rate environment a little bit. I'm going to go back, you know, a couple of years, talk about supply chain disruptions and.

00:43:59:01 - 00:44:00:21

Speaker 2

And and.

00:44:00:23 - 00:44:09:18

Speaker 1

Volatility, pricing volatility especially coming out of Covid coming out, you know, coming out of Covid in the domestic manufacturing space.

00:44:09:20 - 00:44:11:07

Speaker 2

Yeah. What did you what did what.

00:44:11:07 - 00:44:17:14

Speaker 1

Did middle ground. What are some steps the middle ground took to mitigate those issues. The supply chain disruptions.

00:44:17:16 - 00:44:18:13

Speaker 2

00:44:18:15 - 00:44:22:09

Speaker 1

Any other, pricing volatility or.

00:44:22:11 - 00:44:23:03

Speaker 2

Yeah.

00:44:23:05 - 00:44:25:22

Speaker 1

Unavailable inventory, those kinds of issues.

00:44:25:24 - 00:44:49:07

Speaker 3

Yeah. Yeah. I mean, with the ball, we dealt with all of the above. You know, thankfully a lot of our supply chains are, you know, North American based. And so we had less kind of that. There's not a that's not well, that's not totally true of 100% of our assets, but for the most part, they're kind of North American.

00:44:49:09 - 00:45:11:18

Speaker 3

Or I shouldn't say North American workers in Europe, but largely local supply chains is probably the best way to say it. And so we we had, you know, we had some supply continuity issues. But I would say the bigger one is, was, you know, material cost inflation. You know, because at the end of the day, most everything we're doing is, you know, buying some, some form of raw material, converting it into a finished good.

00:45:11:20 - 00:45:36:02

Speaker 3

And so I think, you know, the big thing for us, you know, on that topic, the big thing for us was just staying on top of it. But you know, and holding management teams accountable to okay, you know, the the price of steel went up, you know, 10%. Well, what are you going to do to recover that? And so I think that was a that was a big, a big, a big focus for us.

00:45:36:02 - 00:45:56:09

Speaker 3

And then, you know, unfortunately kind of at the same time you had this, you know, interest rate environment totally shift. And I think hindsight's 2020, but we're kind of kicking ourselves now, like, well, why didn't we hedge all of our interest rate exposure? And, you know, at the end of 2021? And that's certainly and that's in no way unique to us.

00:45:56:09 - 00:46:18:01

Speaker 3

I mean, every private equity firm out there, it's why you hear all of these headlines about, you know, longer hold periods and, you know, thanks. Thankfully, you know, we have, you know, we like you see, you know, bankruptcies. And thankfully, we're not a, you know, we haven't had any of those. And, you know, we're not we've managed through it.

00:46:18:01 - 00:46:40:02

Speaker 3

Okay. But it's certainly painful. I, I want one of my portfolio companies. We underwrote the deal. We bought we bought at the end of 2021 an interest expense on a dollar basis, is up to X from where we underwrote just because of the change in the base rate. And so, you know, that's stuff that we're actively working through.

00:46:40:02 - 00:46:58:02

Speaker 3

And I think, you know, the benefit of, of us in our strategy is that we have, you know. Yeah. I mean, look, in hindsight, I think we we should have I wish we had hedged a lot of our rate exposure. But, you know, you

never know. And I think now we're starting to have that conversation as rates are starting to, you know, stabilize and come down.

00:46:58:02 - 00:47:33:04

Speaker 3

And does it make sense. You know, does it make sense where where not why. But thankfully we have you know, we have operational stuff that's like, okay, well, we we have tools. We have tools in our tool belt, kind of offset some of those kind of macro factors that allow us to outperform. And I think if you look at, you know, us versus others, I would I would take our team over, you know, for anybody and where we are, you know, we're really good at what we're good at.

00:47:33:06 - 00:47:36:07

Speaker 2

Yeah. I, I.

00:47:36:09 - 00:47:38:04

Speaker 1

Fully support that statement.

00:47:38:09 - 00:47:39:09

Speaker 2

That you.

00:47:39:09 - 00:47:52:08

Speaker 1

Guys are, and I appreciate that. We've gotten a few questions. So there's, there's a key. I'll, I'll, I'll I'll go through them, because they're for you, David. Nobody nobody's interested in what I have to say, which I.

00:47:52:11 - 00:47:54:10

Speaker 2

Know, and, but.

00:47:54:12 - 00:48:12:22

Speaker 1

No, but they do it there are some questions for you. From from our friend Erwin Brenner. You know, he says, David, how hard is it to go about raising hundreds of millions of dollars? Do you all do it in-house? Do you use outside money finders? Do all the fund administration in-house, or do you outsource?

00:48:12:24 - 00:48:49:23

Speaker 3

Yeah. So, a mix, we, have, you know, have always had a placement agent help us, with who? With that, ultimately, you know, we're at we're developing our, you know, we're, we're developing investor. So the LP relationships kind of along the way, and we have an in-house investor relations team, but, but, you know, but it's a it's a mix of, you know, folks in-house versus, external folks, but, yeah, it's it's a constant.

00:48:50:00 - 00:48:54:16

Speaker 3

It's a constant for us. We're always, always in the market raising raise capital.

00:48:54:18 - 00:49:12:04

Speaker 1

How much money did you all raise on zoom in 2020 or whenever it was? I know, I know, you all. I know, I know, there was, as I recall, it was all zoom, and it was you all. I thought you were the only ones that I knew that closed the fund. That at that, you.

00:49:12:04 - 00:49:14:05

Speaker 2

Know, that. Yeah. It.

00:49:14:05 - 00:49:16:11

Speaker 1

Was, or the size of the fund. So.

00:49:16:17 - 00:49:31:05

Speaker 3

Yeah, we we our second fund was 800 million. And then alongside that, we raised, a fund focused on the future of mobility, which was another about 250. So it's a little over \$1 billion.

00:49:31:07 - 00:49:33:01

Speaker 1

On zoom calls during 2020.

00:49:33:01 - 00:49:36:20

Speaker 2

That's pretty, pretty impressive.

00:49:36:22 - 00:49:38:16

Speaker 1

Fund administration. I don't know if you said.

00:49:38:16 - 00:49:40:07

Speaker 2

Did you did, like, do.

00:49:40:07 - 00:49:42:22

Speaker 1

You all have a separate fund administrator?

00:49:42:24 - 00:49:46:06

Speaker 3

You know, that's a great question for our our, our team.

00:49:46:08 - 00:49:48:12

Speaker 1

I'll get back to you.

00:49:48:14 - 00:49:53:12

Speaker 2

On that one. And then,

00:49:53:14 - 00:50:08:00

Speaker 1

Meg asks, are you interested in investing in a new manufacturing firm before it has consistent revenue, which I don't know if that's a specific question or a general question, but I take it as a general one, and I'd I'd be interested to hear what your,

00:50:08:02 - 00:50:08:15

Speaker 2

You know, what.

00:50:08:16 - 00:50:10:16

Speaker 1

What are your what are your.

00:50:10:19 - 00:50:11:03

Speaker 2

00:50:11:03 - 00:50:12:14

Speaker 1

Requirements there?

00:50:12:16 - 00:50:39:04

Speaker 3

Yeah. It so the way that we are, you know, our kind of sweet spot is call it north of 10 million, EBITDA and cash flow positive. So I think, you know, but, you know, and, and and what that end up looking like in practice a lot of times, not all the time is a business. It's been around for, you know, a number of decades.

00:50:39:06 - 00:50:53:03

Speaker 3

And, but you know, it's not I'm actually I'm looking at one right now that's, you know, under a decade old and it's, it meets all the other, you know, criteria. So it really you know, it double devil's in the details on that one.

00:50:53:05 - 00:50:54:10

Speaker 2

You understood.

00:50:54:12 - 00:50:56:19

Speaker 1

Well and.

00:50:56:21 - 00:51:02:21

Speaker 2

You I think you, you handled that well.

00:51:02:23 - 00:51:08:00

Speaker 1

I'm looking for some. I've got some good questions here, but I want to,

00:51:08:02 - 00:51:08:23

Speaker 2

00:51:09:00 - 00:51:45:14

Speaker 3

Oh, here. Here's one. Do you ever invest below your criteria? And if so, what motivates you to do so? There you go. That's actually a really interesting one. So the answer to that is yes. We, you know, we are, how should I say this generalist industrial investors. So manufacturer and specialty distribution. That being said, we have a number of thesis areas that we've spent a lot of time and effort kind of developing, you know, industrial, sorry, industrial infrastructure products is one of them.

00:51:45:16 - 00:52:11:01

Speaker 3

I spend a lot of time on, mobility. I mentioned kind of future mobility. That's another thesis. We have another 1 or 2. But, you know, in, in the case of an asset falling kind of right down the fairway for us from, you know, industry and opportunity perspective where we have a thesis area, we will go kind of below that criteria.

00:52:11:01 - 00:52:35:00

Speaker 3

Absolutely. You know, in the absence of that, it does it does become tough. But, you know, I, I quoted 10 million. I mean, we've done, you know, deals, you know, less than 50% of that for if it fell in, you know, in our wheelhouse from a thesis area. And we kind of had conviction on, you know, the product, the subset of the market that it's in.

00:52:35:02 - 00:52:38:20

Speaker 3

Absolutely.

00:52:38:22 - 00:52:45:18

Speaker 2

Some well, what about, reshoring?

00:52:45:20 - 00:52:55:23

Speaker 1

Are you are you guys seeing opportunities for reshoring? I know you've got a big European, presence. But as.

00:52:56:00 - 00:52:57:18

Speaker 2

As the.

00:52:57:20 - 00:52:59:04

Speaker 1

Tariffs and and.

00:52:59:04 - 00:53:00:02

Speaker 2

The.

00:53:00:04 - 00:53:04:18

Speaker 1

Incentives come tell us what what you're looking at there.

00:53:04:20 - 00:53:34:17

Speaker 3

Yeah. So, yeah, I think the short and the short answer is yes. Like, I mean, we're we are seeing you know, I would say across the board like a little bit of just conservatism. And, as I said earlier, like, you know, supply chains are just being fortified. And I think, you know, that doesn't have, you know, it's it's not in every case.

00:53:34:17 - 00:53:44:02

Speaker 3

But I think in a lot of cases, you don't have continuity of supply. And, you know,

00:53:44:04 - 00:54:17:06

Speaker 3

Oh, how would I say it? You know, just, there's a there's certainly a more elegant way to say what I'm about to say, but, you know, having more control over your supply chain, and, you know, not having the. Okay, well, can I get steel? Can I get aggregate? Can I get aluminum? Can I get, you know, go down the list and it's like, okay, you know, I think, I think folks are starting to realize the, the opportunity cost of downtime.

00:54:17:06 - 00:54:59:09

Speaker 3

And we're seeing that actually, this is related but somewhat different. You know, in a number of like, in, like, data center buildout, we're seeing a number of assets kind of in the, that are selling into the data center supply chain. And that's like kind of the most paramount example of, you know, the cost of downtime for the hyperscalers and some of the, like, the colocation providers that are building data centers, you know, so their supply chains have to be so robust because the opportunity cost for them of you not having power or not having, you know, if they don't invest in the proper cooling system, for example, because they get so hot,

00:54:59:09 - 00:55:31:13

Speaker 3

like the, the, the risk for them is one of those things going down is, you know, so significant or the, you know, the financial cost to them is so significant that we're spending a lot of time and energy and effort to, you know, make sure there's, you know, backups for the backups for the power generation, for example. And so, you know, we are seeing a lot of, a lot of moves to kind of, you know, fortify, supply chains.

00:55:31:15 - 00:55:34:14

Speaker 1

And that makes it makes sense.

00:55:34:16 - 00:55:35:06

Speaker 2

I'm going to do.

00:55:35:08 - 00:55:40:17

Speaker 1

We've got, what, four minutes left. I'm going to do last call for questions on the on the.

00:55:40:19 - 00:55:41:16

Speaker 2

Screen.

00:55:41:16 - 00:55:47:00

Speaker 1

I'm going to ask you one last question for me.

00:55:47:02 - 00:55:47:10

Speaker 2

And.

00:55:47:10 - 00:55:49:05

Speaker 1

If we don't get any more questions, we'll end it.

00:55:49:05 - 00:55:50:12

Speaker 2

There.

00:55:50:14 - 00:56:02:24

Speaker 1

How how do you and how does middle ground define success for manufacturing investment? And how has that changed in the past five, six, eight years?

00:56:03:01 - 00:56:34:18

Speaker 3

Yeah. I mean, the, the, the short of it, you know, the, the most direct response is, you know, we are underwriting most all of our deals to a three times return in five years, which you'll find a lot of private equity firms do that. I would say that's the simplest answer. You know, and purely economic, but I think look like like I said, we want to build, you know, enduring great businesses.

00:56:34:18 - 00:57:06:10

Speaker 3

And, you know, we think we we bring a lot to the table, you know, from a from a, you know, support perspective as we're thinking about partnering with our companies. And I think any, any time where, you know, at the end of the day, like, you know, for us, right, right, wrong or otherwise, and every other private equity firm success is defined in your returns, you know, by your investors, even you can do so many great things from a, you know, from an ESG perspective or investments in a facility or otherwise.

00:57:06:12 - 00:57:37:05

Speaker 3

But at the end of the day, you know, if we're not returning capital, and making our investors an attractive return, we'll go out of protocol, out of business. So that always is kind of the North Star. You know, but that does kind of presuming that to be true. I mean, we're looking for, you know, great, great partners where, you know, we lock arms and for, you know, five, seven years are, you know, we go build a business that's substantially better than kind of, you know, where where we founded.

00:57:37:05 - 00:57:55:14

Speaker 3

And I think I didn't do this intentionally, but again, if I don't, you know, don't necessarily mean to leave us on an ESG note, but I think our kind of take on most everything is, you know, leave whatever. Yeah, we'll leave whatever you have better than you found it. Which I would say is certainly true of our, of our investments.

00:57:55:14 - 00:57:58:18

Speaker 3

And, you know, our kind of approach get well.

00:57:58:18 - 00:58:00:03

Speaker 1

And frankly, you.

00:58:00:03 - 00:58:01:04

Speaker 2

Know, you you.

00:58:01:04 - 00:58:03:24

Speaker 1

Guys have been successful. You you've done a great job.

00:58:04:05 - 00:58:05:04

Speaker 2

At at.

00:58:05:04 - 00:58:30:18

Speaker 1

That approach. And, you know, I, I understand that it's it's about investor returns, but I can't commend you and, and John and Scott and Lorne and all the folks and Monica and all the folks who started Middle Ground and everybody else that's come along the way for having that approach, leaving it better than you found it. And it's evident in what you guys do and.

00:58:30:22 - 00:58:31:06

Speaker 2

00:58:31:09 - 00:58:53:08

Speaker 1

Want you to know that it's that we see it and appreciate it. Thank you so much for taking the time. Thank you for doing this. I don't if I had to have droned on here for an hour by myself, people, probably we would have a lot less than our own participants. We still have. But, in any event, thanks again to you.

00:58:53:10 - 00:58:55:10

Speaker 1

Thank you to everyone who,

00:58:55:12 - 00:58:57:10

Speaker 2

Who,

00:58:57:12 - 00:59:13:14

Speaker 1

Logged on to, watch this presentation. Thank you for participating in FPT Manufacturing Week 2025. And we'll see you next year. So David thank you.

00:59:13:16 - 00:59:13:23

Speaker 2

Okay.

00:59:13:23 - 00:59:15:14

Speaker 3

Thank you Josh. Thanks everyone.

00:59:15:16 - 00:59:18:08

Speaker 1

Absolutely everyone take care I.