

Q4 NEWSLETTER

MILWAUKEE, WI | JANUARY 2022

Borgman
CAPITAL

Borgman Capital LLC is a privately held investment firm focused on acquiring majority interests in established closely held lower-middle market companies.

IN THE NEWS

BORGMAN CAPITAL Q4 HIGHLIGHTS

A NOTE FROM SEQUOYA BORGMAN, MANAGING DIRECTOR, BORGMAN CAPITAL

As we look back and contemplate this past year, we cannot help but be thankful for the growth our firm has continued to experience; 2021 saw numerous accomplishments for our team, our firm, and many of our portfolio companies. Notably, we expanded our team and closed on five transactions. While we were pleased with our success on the transaction front, we acknowledge that some of our portfolio companies continue to face market-related headwinds.

In many ways, 2021 offered a much more difficult business environment than 2020. Past economic recessions gave us a clear playbook to deal with the economic challenges we faced in 2020. We conserved cash and focused on fundamentals. We played a lot of defense, finishing 2020 with strong balance sheets across our portfolio. We entered 2021 in a solid position, expecting to be able to capitalize on the investments we had made and to start playing offense. However, the year did not unfold as we had anticipated; 2021's unique market conditions meant that past business cycles offered few insights into how to address the constraints we experienced. Unprecedented labor shortages, which severely restricted production capabilities, combined with significant supply chain disruptions prompted some difficult-to-navigate issues.

One of our bright spots was the demand side of the equation remained strong. Normally, excess demand would be a great problem to have. In this unusual situation, however, it fueled monthly inflation on an ever-increasing basis. The companies that did the best over the past year were those that stayed in front of inflation and were able to pass on their input costs faster than they had to absorb them. The companies that struggled were those that let inflation impact their margins. Every company was forcibly enrolled in a Master Class, so to speak, on how inflation flows from the beginning to the end of the entire supply chain.

The primary lesson learned by many companies over the past year was that it is good practice to focus on the levers that are within your control. Pricing was the one lever that every company had some control over, and it became the lever that was used most often. Unfortunately, companies' historical pricing power turned into fuel that stoked the inflationary fire. We will continue to see inflation well into 2022, even as the Fed starts to pump the brakes on easy money via rate increases.

Labor and supply chain issues, on the other hand, were outside of many companies' control this year. Focusing efforts on a non-existent workforce was not fruitful. Focusing on boosting productivity within the available workforce proved to be a far better use of time and resources. I cannot stress enough how challenging the labor market was this past year. Many companies will use this experience to accelerate the adoption of automation and robotics technologies within their businesses to avoid labor-related opportunity costs in the future. Given the demand, lead times, and supply chain challenges in the automation space, we do not anticipate this transition to have an impact in 2022, but we do expect to start seeing impacts in 2023 and beyond. A paradigm shift will see many labor-intensive positions permanently removed from the economy.

The last two years have been challenging, but I have been constantly amazed by and proud of our businesses and management teams' ability to weather the storm. That resilience will remain incredibly useful, because the storm is far from over.

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**SEQUOYA BORGMAN,
FOUNDER AND MANAGING DIRECTOR OF BORGMAN CAPITAL**

PORTFOLIO COMPANIES – PRESIDENTS’ UPDATES

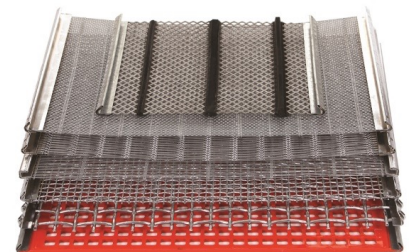


Through improved forecasting and inventory management, Durex was able to manage hurdles related to sourcing raw materials and increased material prices; ultimately, they delivered outstanding results.

DUREX PRODUCTS, INC

CHAD HACKETT PRESIDENT

Durex Products, the latest acquisition for Borgman Capital, has been manufacturing wire cloth and urethane screen media and wear products for the aggregates and mining industries since the 1960s. Their products are manufactured in Luck, WI and are distributed throughout North America.



Like many manufacturing companies, Durex had to navigate supply chain and labor challenges throughout 2021. Through improved forecasting and inventory management, Durex was able to manage hurdles related to sourcing raw materials and increased material prices; ultimately, they delivered outstanding results. Durex increased its wages, which improved its ability to bring aboard additional labor. Today, the company is in a strong position to continue increasing its productivity and sales.

The aggregate and mining industries continue to grow, and we expect their growth to be further accelerated by the recently passed bipartisan infrastructure bill. Management believes that 2022 will be a record year in the aggregate industry, with many customers ramping up production in anticipation of new projects. Successfully navigating supply chain challenges and executing good inventory management will be key to Durex’s ability to supply its current customer base and win over new customers. Durex was able to maintain some of the shortest lead times in the market throughout 2021, and the company will continue to focus on lead time reduction and staffing additions in 2022.

Focusing on the customer and on product quality have always been core components of Durex’s business plan. As more and more competitors become unable to supply products in a timely manner, Durex has an opportunity to win new customers while maintaining its current customer base. The quality product that Durex supplies has a lower failure rate and lasts longer than competitors’ products. Durex believes in the simple notion that you get what you pay for. Although their products are not the cheapest in the industry, their performance, and the Durex support that comes with them, are unmatched.

Management intends to grow in 2022 through customer education. In 2021, Durex onboarded additional employees to help educate and train distributors on how to use its products. Durex has been building relationships and developing customer interest throughout 2021. The stage is set for those relationships to be strengthened in 2022.



Consistent with overall grocery market trends, strong demand for our frozen meats and vegetables continues to outpace our available supply.

SOUTHEASTERN MEATS

MARINO PAPAZOGLU PRESIDENT

Congratulations to the entire Southeastern Meats team for achieving Safe Quality Food (SQF) Certification in November 2021! Thanks to the hard work of the entire team, supported by thorough training that ensures best-in-class systems and processes, Southeastern Meats now meets all Global Food Safety Initiative (GFSI) Standards based on Hazard Analysis Critical Control Points (HACCP). This Certification will meet our current customers' Food Safety and Quality requirements and enable our team to win additional business.

Consistent with overall grocery market trends, strong demand for our frozen meats and vegetables continues to outpace our available supply. While we are proud of the outstanding year we have had, there are still opportunities being left on the table. Increased demand will create a springboard for growth in 2022, especially for markets located in the Southeast. We will continue to have to manage supply chain challenges (particularly delays in product delivery) as well as increasing costs for ingredients, packaging, and freight. Our team is working hard to qualify new suppliers, for both current and new products, to help maintain and add resiliency to our robust supply chain.

Through high sanitation standards and Lunch-and-Learn sessions with healthcare professionals, the team has been able to minimize the impacts of COVID-19 on operations and boasts a vaccination rate above 85%.

Outstanding work by everyone in our team resulted in zero Near-Misses or Recordable Employee Safety Incidents.

AWP - AERIAL WORK PLATFORMS

ROBERT RIVERA PRESIDENT



Like many others dealing with labor shortages, we have found ways to work shorthanded while still providing the high level of customer service that we pride ourselves on.

We here at Aerial Work Platforms are very excited. Our efforts throughout the pandemic and the extended period of supply chain turbulence have put us in a very strong position relative to our competitors. Like many others dealing with labor shortages, we have found ways to work shorthanded while still providing the high level of customer service that we pride ourselves on. While the supply chain challenges remain present, we have had great support from our vendors, who found creative ways to feed us the right machines at the right times to fill our rental demands through 2021.

Our newly launched Kenosha location has been gaining traction every month. However, we see even more impressive market share gains ahead in this territory, given that we offer better service, equipment, and training than our competition.

Market intelligence on both the local and national levels point towards an increase in demand for both equipment rentals and sales in 2022; contractors will begin to work their way through the heavy backlog of projects created by supply chain delays.

Year one of our transition of ownership could not have gone any better, in my opinion. Now, year two has everyone excited and motivated to see how we can continue to grow AWP across the board.



ASCENDTEK

RICK PLOECKELMANN PRESIDENT



To further enhance recruitment and employee retention, we are actively recruiting for key additions to our HR team, who will, in turn, help us increase our capacity and focus.

One year ago, the FCC held a record-breaking auction for significant access to C-Band Spectrum (critical for 5G deployment) that generated proceeds in excess of \$80 billion; the overwhelming majority of these proceeds came from Verizon, AT&T, and T-Mobile. This tremendous investment spurred many months of market disruption and uncertainty as the winners developed plans for utilizing their new C-Band Spectrum; what was crystal clear, however, was that the market was moving all-in on 5G and that companies would need to both utilize and deliver a return on their significant investments.

As we move into 2022, our clients have organized strategies to leverage their access to the acquired C-Band Spectrum. That has opened up long-term opportunities for AscendTek, which sees a consistent workload and organic growth ahead as network enhancements are deployed over the coming years. Some deployment is already underway; AscendTek's partnership with Verizon in the Midwest has kicked off, the T-Mobile "Rip & Replace" project in Georgia is in full swing, AT&T's build in Washington is expanding by 55% YOY, and DISH is rapidly moving ahead, providing over 300 site assignments to our team with additional commitments coming through every week. These are only a few of the fantastic opportunities we have in front of us thanks to our team's superb efforts and the excellent relationships we have built across our platform.

Accessing the growth these opportunities present necessitates our bringing more great people onto our team while continuing to provide operational excellence. Our recruitment and training team is working with great verve, leveraging our value proposition as an industry-leading employer to attract the best talent; we are continually engaging our resources, employing referral bonuses, sign-on bonuses, and specialty recruiters to meet operational needs as efficiently as possible in this tight labor market.

To further enhance recruitment and employee retention, we are actively recruiting for key additions to our HR team, who will, in turn, help us increase our capacity and focus. Our efforts to recruit and onboard AscendTek's COO continue, with initial interviews already underway. This key addition to our leadership team will help drive our Operational Excellence initiatives, improving margins, strengthening processes, and generating meaningful performance improvement for our operations.

Market challenges related to COVID, supply chain issues, inflationary pressures, and access to manpower all remain. These challenges are not unique to AscendTek, and we expect them to continue through 2022. Proactive planning, project management, and active communication with our clients will help us mitigate our exposure to these challenges while keeping us focused on growing our business and improving margins. We are excited to execute on the opportunities we have been presented with and deliver strong results in 2022.



**We have
persevered
through this tough
year at Gilman
Cheese, and in the
process we have
become more
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oriented.**

GILMAN CHEESE CORPORATION

DAVID DELGADO PRESIDENT

Presenting a complex operating environment affected by an unpredictable pandemic, inflationary pressures, labor shortages, and supply-chain issues at both the national and global levels, 2021 was certainly a challenging year. One thing that stood out, however, was the exceptional hard work displayed by the entire Gilman Cheese Family.

Despite all challenges they faced, the people of the Gilman Cheese Corporation have demonstrated incredible resilience. Thanks to consumers' enduring preference for our product portfolio and our outstanding quality, we outperformed 2020's sales!

Our sales team has focused on expanding our visibility and maintaining relationships with all of our customers, old and new. Strategic price increases, coupled with a deepening understanding of our customer base, resulted in an increase in our margins.

Gilman Cheese, like most sectors of the economy, has experienced inflation pressures due to price increases across a wide range of raw materials. Despite these challenges, thanks to our operational excellence, we have become more efficient and well-aligned across all aspects of our business.

As a result of diligence and teamwork, we have improved our working capital, which has allowed us to manage our day-to-day operations and make key decisions without hesitation.

We have persevered through this tough year at Gilman Cheese, and in the process we have become more efficient and team-oriented. As we move forward into 2022, we are very optimistic.

MHH - MATERIAL HANDLING HOLDINGS

STEVE DEANGELIS PRESIDENT

Material Handling Holdings LLC

LIFT PRODUCTS INC.
INNOVATIONS IN ERGONOMICS



**Lift Products
Manufacturing finished
2021 strongly, shipping a
record level of orders in
December and ending the
year at 783 days without an
OSHA-recordable incident.**

MHH continued to experience solid demand across our business through the fourth quarter. Customers pushed to spend the remainder of their annual capital budgets before the end of the year, and many of them recognized the need for, and chose to invest in, new and replacement material-handling equipment. As a result, our business is entering 2022 with its healthiest backlog in recent history.

In Q4, Lift Products, Inc. made tremendous progress identifying and targeting strategic dealers who serve large, mass merchant retailers, such as Walmart and The Home Depot. These dealers will continue to be a key target through 2022, as they represent a tremendous opportunity for LPI to leverage our value proposition of superior-quality ergonomic equipment. By continuing to build these dealer partnerships, we hope to become the preferred lift table brand among the nation's largest and fastest-growing distributors for years to come.

Lift Products Manufacturing finished 2021 strongly, shipping a record level of orders in December and ending the year at 783 days without an OSHA-recordable incident. Congratulations are in order for Jamison Davies and his team for achieving these accomplishments in the face of last year's economic and public health challenges. Going forward at LPM, we will continue to focus our efforts on capacity expansion through continuous process improvement. With a healthy backlog and incremental opportunities on the horizon for 2022, we also remain committed to boosting the throughput and efficiency of our highest volume product platforms. We are leveraging both internal and external expertise and making improvements on a weekly basis.

At Solution Dynamics, we continue to leverage our digital model. We are focused on optimizing our advertising and search spend to generate lead volume that is highly qualified. As a result of our efforts thus far, lead quantity was up substantially year over year, and our conversion rate surpassed historical records in 2021.

With our strong momentum coming out of Q4, combined with an industry forecast for steady growth in 2022, our solid focus on continuous improvement, and our commitment to delivering on our value proposition, MHH stands poised for a successful 2022.

INVESTOR HIGHLIGHTS



JEFF HOFFMAN

Jeff is a Principal at Cushman & Wakefield | Boerke and is the co-chair of their Industrial Services Practice. Throughout his 21-year career as an industrial real estate broker, Jeff has completed more than \$1 Billion in transactions.

He has won the CARW Industrial Deal of the Year award three times and has also won the Milwaukee Business Journal New Development of the Year award.

Jeff was also the recipient of the prestigious Milwaukee Business Journal “40 Under 40” Award, which is given to up-and-coming community leaders. Jeff and his wife Amanda reside in Wales, Wisconsin. They are the proud parents of Gavin (11) and Malayna (10).

INVESTOR HIGHLIGHTS



TONY HOPKINS

**SHAREHOLDER & VICE
PRESIDENT
THE HORTON GROUP**

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Tony Hopkins leads the Wisconsin M&A Practice of The Horton Group. Horton is an insurance, risk advisory, and employee benefits firm that specializes in providing insurance and employee benefit diligence during transactions, including placing representations and warranties insurance.

Horton's process identifies risks, potential additional costs, and opportunities for savings; they then strategically craft a plan with their clients to get them to close. In addition to doing the diligence work on many of the Borgman portfolio companies, Tony works with private equity, manufacturing, and distribution clients, helping them find the best insurance solutions for their operations.

Horton has grown to be one of the largest independent insurance agencies in the country, with approximately 400 employees, offices in six states, and clients based in almost every state in the country.

Tony has been with Horton for over 17 years, since graduating from UW-Madison with a degree in Risk Management & Insurance. Tony is a self-proclaimed "insurance nerd" who loves working with numbers and finding ways to get deals done.

Tony takes an active role in the communities and organizations he works with. His experiences include being a Board Member of ACG, a Co-Chair of ACG's Growth, Leadership and Capital Conference, an Associate on the Board of the Zoological Society of Milwaukee, a member of the Safety Committee of the Gas & Welding Distributors Association, and a Trustee of the Village of Pewaukee (as an elected official).

Tony lives in Pewaukee with his wife Amy, and their two kids, Greyson (11) and Harper (7). During the pandemic, Amy opened up her own business on Pewaukee Beach called Anchor Fitness, which specializes in providing personal training and small-group classes, including both pre- and post-natal classes, for women. An avid baseball fan, Tony also helps coach his son's traveling youth baseball team. He leaves Harper's dance coaching up to the professionals!

Borgman
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