

Q4 NEWSLETTER

MILWAUKEE, WI | DECEMBER 2022

Borgman
CAPITAL

A Milwaukee-based private equity firm focused on investing in profitable and stable lower middle-market businesses. We are opportunistic in nature, ready to explore deals in a fair, flexible and creative manner.

MARKET UPDATE - Q4 2022

SEQUOYA BORGMAN, FOUNDER & CEO

As 2022 comes to a close and we reflect on the past year, we cannot help but be grateful for what we were able to accomplish. The recession that we were planning for and anticipating has not yet come to fruition. All of our portfolio companies experienced better than expected results. In fact, several companies had all-time record quarterly or annual results. This was not something that we would have predicted a year ago. We did see a slower deal flow this year and I'm disappointed to admit that we did not meet our internal firm goals. That being said, we did add one new platform and several add-ons during the year. Perhaps the brightest spot was our industrial real estate investment activities. We really saw that part of the business take off, despite the pressures that come with a tightening debt market. The Federal Reserve's rate increases during the year have really started to put pressure on large deals and we are seeing leverage come down substantially. Unfortunately seller expectations have not followed suit. We expect 2023 to be another challenging deal environment.

The year also marked the five year anniversary since we launched the firm in 2017. I could not be prouder of what we have been able to accomplish over that period. Our early goal was to focus on one deal at time with the intent of building out an institutional quality team. Over the past sixteen acquisitions, I'm confident we have exceeded that endeavor. Our success has come down to two simple principles; 1) Do what you say you are going to do, and 2) Always do the right thing. I must admit, some decisions have been harder than others but we know that the difficult decision is usually the right decision. If it was easy, the decision would already have been made.

I also want to recognize that we are very fortunate to be able to do what we do every day. We owe a debt of gratitude to the investors, lenders, employees and communities that rely on us and allow us the opportunity participate in the capital markets. That responsibility is not something that we take lightly.

ON BEHALF OF THE ENTIRE BORGMAN CAPITAL TEAM, WE WISH YOU HAPPY HOLIDAYS AND A PROSPEROUS 2023.

(Left to Right) [Matthew Pikus](#), [Marit Harm](#), [Dave Bartelme](#), [Mike Pepke](#), [Sequoia Borgman](#), [Brent Adam](#), [Megan Brobson](#), [Matt Kiefer](#) and [Alex Reinhart](#)



ACQUISITION ANNOUNCEMENT

K.G. STEVENS

BORGMAN CAPITAL ACQUIRES MILWAUKEE COUNTERTOP SUPPLIER K.G. STEVENS



Borgman Capital acquired K.G. Stevens, fabricator and installer of countertops, and provider of cabinetry and luxury appliances, on October 4. K.G. Stevens is the largest countertop fabricator in Wisconsin.

Founded in 1997, the company started as a manufacturer of solid surface windowsills, but quickly evolved into a leading provider of solid surface countertops. Today K.G. Stevens offers a product line including quartz, natural stone, solid surface, and porcelain. As a result of continued investment in automation, the state-of-the-art fabrication facility cuts 50 slabs per day of quartz, stone, or porcelain and up to 20 sheets per day of solid surface countertops. In 2020, K.G. Stevens added cabinetry and luxury appliances to their offering as a convenience to its builder and contractor partners.

Associated Bank provided senior financing. Godfrey & Kahn s.c. served as legal counsel. Accounting diligence and advisory services for the transaction were performed by Sikich.

[READ MORE HERE.](#)

"I'm impressed with Borgman Capital's track record in the lower-middle market, and am confident they're the right partner to take the business into its next phase of growth."

-Steve Kobliska
President and CEO
K.G. Stevens

FIRM NEWS

OCTOBER | NOVEMBER | DECEMBER 2022

EXPRESSING OUR GRATITUDE THIS HOLIDAY SEASON

As 2022 comes to a close, we are grateful for another prosperous year, and reflect on our blessings big and small. One way we are expressing our gratitude this holiday season is by paying it forward to non profit organizations in the form of a financial donation on behalf of each Borgman Capital team member. Employees have selected the nonprofit organizations below to receive their donations in addition to the other organizations Borgman Capital supports throughout the year.



WE'RE HIRING!

Learn more about our open positions by clicking the links below:

Vice President of Portfolio Management

Senior Analyst or Associate

WHAT INVESTORS SHOULD KNOW ABOUT QUALIFIED SMALL BUSINESS STOCK

NATE NEUBERGER, SHAREHOLDER, REINHART BOERNER VAN DEUREN

Nate Neuberger represents private equity firms in a wide range of transactions including leveraged buyouts, strategic mergers and acquisitions, corporate governance and financing. He specializes in deals with transaction values between \$10 million and \$250 million. Here, he explains how QSBS can be a significant benefit to investors in lower-middle market companies. This article is intended to provide only a general summary of the QSBS benefit and its requirements. Code Section 1202 contains numerous technical rules that must be satisfied for an investment to qualify as QSBS. We recommend contacting a tax advisor before assuming any investment qualifies as QSBS.

The U.S. federal tax code provides a significant benefit to individuals who make a qualifying investment in Qualified Small Business Stock (QSBS). If properly structured, QSBS can be a significant benefit to investors in lower middle-market companies by significantly reducing or fully eliminating an investor's income taxes upon sale of the investment.

The tax benefit for QSBS under Code Section 1202 has been in existence since 1993. However, the benefit was significantly enhanced by Congress in the early 2010s. Moreover, the 2017 Tax Cuts and Jobs Act reduced the federal C corporation income tax rate from 35% to 21%, which made it less punitive for businesses to organize as C corporations. These changes made the QSBS benefit significantly more valuable, and we have seen a proliferation of private equity and venture capital investors seeking to take advantage of QSBS in the past several years.

To qualify for the QSBS tax benefit, an individual investor must make an investment in newly issued stock of a C corporation at a time when the corporation has a gross asset value of less than \$50 million. The QSBS must be held by the investor for at least five years before disposition. If all of the QSBS requirements are met, upon sale the investor's capital gains tax rate will be reduced to 0%. Further, the 3.8% net investment income tax also will not apply. In some states, state income taxes may be avoided.

Individuals that invest through LLCs or other pass-through entities (for example, through a private equity fund) can also receive the tax benefit if the pass-through entity makes an investment in QSBS. Importantly, to qualify, the individual must be a member of the pass-through entity on the date on which the pass-through entity acquires the QSBS.

If an individual investor or pass-through entity invests in multiple rounds of C corporation stock over time, each of those rounds is independently tested for QSBS status. The five-year holding period for each successive round of QSBS starts to run on the date on which the investment round closes.

There are a number of limitations that apply to the QSBS benefit. For example, companies in certain industries (such as financial services, professional services, health or hospitality) are ineligible to issue QSBS. Further, the capital gain exclusion for an individual investor for any particular investment is generally limited to \$10 million of gain or 10x the investment amount, whichever is greater. Certain actions by the company during the investment period (such as certain redemptions or excess passive investments) can also limit QSBS eligibility.

There is very little caselaw or IRS guidance to help interpret the QSBS requirements. Future cases, regulations or rulings could further limit the applicability of the QSBS benefit.

Many states provide tax exemptions similar to the federal QSBS exemption. For example, Wisconsin provides a 50% reduction in state income taxes for a QSBS sale. Wisconsin also provides a separate benefit for "Qualified Wisconsin Businesses" that is similar to QSBS, which can fully eliminate capital gains taxes for investments in certain Wisconsin-based businesses.

PORTFOLIO COMPANY UPDATES

Investment Criteria

Our investment approach is relationship-focused. We do this by being honest, straightforward, and always professional. Because lower middle-market businesses are our focus, there is no one who will take better care of you and your organization. Here's what we look for:

- Revenue of \$10 to \$100 million
- Record of profitability
- EBITDA between \$2 and \$15 million
- Engaged and growth-oriented employees, leaders and management
- Midwest focus; open to opportunities across the U.S.
- Industry agnostic with proven expertise in Food, Infrastructure and Manufacturing

Portfolio



If you or someone you know is considering selling their business, we'd love to have a conversation.
Contact sequoya.borgman@borgmancapital.com or 414.975.4629

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



Countertop installation at the Couture in downtown Milwaukee will take place in summer 2023.

K.G. STEVENS

MOLLY MADSEN DIRECTOR OF SALES AND MARKETING

Since K.G. Stevens was acquired in early October, the ownership transition has gone seamlessly. Borgman Capital Managing Director Dave Bartelme conducted several “townhall meetings” to answer any questions employees had about the new ownership. Employees left the meetings excited about the vision for growth and possible expansion of our geographic footprint. Employee retention remains high and we’re operating with full crews in all departments. There’s a tremendous amount of excitement for this next chapter for the company, which is backed up by the numbers. As 2022 comes to a close, we’re seeing our highest revenues since the inception of the business.

ADDITIONAL BUSINESS UPDATES:

- A new president has been appointed and will be publicly announced in the coming weeks.
- Customer satisfaction scores remain incredibly high. We just exceeded 700 Google Reviews with a 5-star (highest possible) rating.
- New software is being implemented in the plant for machine tracking and capacity documentation. In Q3 the plant hit 90% of department goals for safety, quality, on-time delivery, and cost. Process and organizational improvements have resulted in jobs being ready 72 hours in advance.
- Our relationship with Costco remains strong. We were recently awarded four new stores in northern Illinois, and just opened another new location in Madison. We are number two in the nation YTD, and our escalation rate is the lowest in the nation.
- Cabinetry sales are growing rapidly. In less than two years since entering this market, cabinetry sales will reach \$3 million.
- Fabrication for the Couture, a 44-story high-rise apartment building in downtown Milwaukee will start this winter, and installation will take place in summer.
- Luxury appliance line Signature Appliances continues to gain momentum. A team from KGS along with several Milwaukee designers visited the Signature Experience and Design Center in Napa, Calif. and received hands-on training.
- K.G. Stevens is hiring a Controller. [View the job description here.](#)

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



DUREX PRODUCTS, INC.

CHAD HACKETT PRESIDENT

The fourth quarter for Durex began with the normal softening of orders in wire cloth due to the seasonality of the industry. As a result, the team took advantage of the situation to start replenishing stock in preparation for 2023 and reinvigorate our safety and 5S programs. The departments have taken the time to go through a “deep” cleaning and observation process to bring the level of 5S up to where it needs to be. Along with this, we have brought in consultants, re-established daily supervisor safety inspections, and created an incentive program for the employees to report safety related observations. These combined focuses have resulted in over two hundred safety, 5S, and process improvement ideas and requests generated by the employees. Ranging from simple maintenance repairs and tooling improvements to larger process changes involving engineering. Over half of the ideas have already been addressed by engineering, maintenance, and the production employees. The success of this renewed focus could not be more obvious, not only in the appearance of the shop, but also in the engagement of the employees and their continued contributions to improvements here at Durex.

On the urethane side orders have stayed very strong. Engineering and sales have been working on a very large lining project for a large OEM equipment supplier for several months. That effort resulted in a securing a \$650k order to be delivered in 2023 and Q1 of 2024. This is a huge win for Durex in building these types of relationship with large OEM suppliers, demonstrating our technical expertise within the industry.

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



SOUTHEASTERN MEATS

JAMIE ARDREY PRESIDENT

Southeastern Meats is excited about its prospects for the coming year. 2022 was a challenging year for us – supply chain and labor shortages negatively impacted our ability to fill our customers' orders while inflationary pressures squeezed our margins. Despite these difficulties, demand for our products remains strong. In the face of uncertainty in 2023 around inflation and the state of the economy, we are confident that our product line initiatives have positioned us well to return to growth in an environment that should favor “value” brands.

Southeastern Meats continues to make operational progress. Our supply chain is improving, albeit at a slower pace than we'd like. Delays and out-of-stocks are fewer as we expand our supplier base, but cost pressures from select vendors continue. On the labor front, we continue to reduce our Covid-related reliance on temporary workers as our targeted recruiting practices bear fruit. As a result, our productivity metrics have shown significant improvement which we expect to carry over into 2023.

As we enter the holiday season, Southeastern Meats would like to thank Borgman Capital and our owners for their support. We'd also like to recognize and express our thanks to the hard-working associates at Southeastern Meats. Day in and day out they deliver for us in a challenging environment with smiles on their faces. Without their efforts, Southeastern Meats would not have made the progress that it has. We will be celebrating these efforts the evening of December 13 – please join me in wishing each and every one of them a happy holiday season and a prosperous and healthy New Year!

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



AERIAL WORK PLATFORMS, INC.



AERIAL WORK PLATFORMS (AWP)

ROBERT RIVERA PRESIDENT

During Q4 Aerial Work Platforms has been able to take advantage of the unseasonably warm winter that's allowed most contractors to continue working longer than usual. The fleet grew in units by 10% in 2022 and the increased utilization of fleet hit an all-time high of 88.6% as a company. This resulted in a 30% growth in top line rental revenue that far exceeded our budget target. This incredible spike in business can be attributed to the hard work our employees put into the business with longer hours and laser focus to provide the best customer experience possible.

Like many businesses, we've continued to deal with the supply chain challenge of receiving equipment or materials that were ordered over a year prior. However, the diversity of AWP's equipment and growth in fleet came at the perfect time to attract new customers as many local competitors have been absorbed by national players or faced challenges that opened the door for us to increase market share in the state. For example, while many potential customers started to receive materials during second half of 2022 and found it impossible to get equipment, they sought out a new vendor in AWP and AWP delivered.

I extend my deepest gratitude to our loyal employees who make it possible for AWP to provide excellent customer service. AWP would also like to thank its customers and vendors for their continued support. We look forward to continuing to support you and grow together into 2023 and beyond!

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



ASCENDTEK

RICK PLOECKELMANN PRESIDENT

2022 has been a strong year for AscendTek. Throughout the year we have recognized significant organic growth across our platform, supported by expansion of key relationships unlocked by the value our collective value proposition as a unified operation. The market recognition of the value proposition AscendTek brings to market has no clearer example than DISH Networks. DISH initiated the infrastructure deployment of their grass roots wireless network late last year, and our alignment and partnership with them grows by the day. At the start of 2022 we had commitment from DISH to support execution of just over 300 total sites across three markets. As we near the end of 2022, that commitment from DISH has mushroomed to nearly 800 total sites across six markets. The AscendTek team has done an exceptional job of collaborating internally to share best practices, elevate relationships, and set each of our operations up for success; delivering consistent results that have established our team as a top ten partner in the nation. The deployment of the DISH infrastructure is forecasted through 2025, then forecasted to initiate upgrades, generating continuous business for years to come.

This level of value recognition in the market is not exclusive to DISH. We have successfully expanded our market relationships with Verizon, Ericsson, MasTec, and other critical industry partners to generate critical paths to profitable growth and market flexibility. These relationships and associated organic growth anchored our growth of 40% in Q3 year-over-year and have positioned our team for forward success as we finalize our strategic planning and commitments into 2023. A significant focus in 2023 will be assigned to operational excellence to drive continuous improvement to our margins and business practices across the platform. The deployment of 5G technology is just getting off the ground, there are many years of continuous investment required to support the functionality advertised in the commercials we have all been bombarded with for the last several years. The long term outlook is exceptional and AscendTek is well positioned to capitalize as a market leader.

PORTFOLIO COMPANIES

PRESIDENTS' UPDATES



GILMAN CHEESE CORPORATION

DAVID DELGADO PRESIDENT

In May of 2022 Gilman Cheese acquired Dairyfood USA Inc. and with this acquisition we have been able to greatly increase the diversity of our products, especially in the private label cheese snack category. Additionally, we now have tooling to make one-ounce cheese sticks. The photos below are just two examples of what Gilman Cheese Corporation can now offer our customers since the acquisition.

As we wrap up 2022 we are very excited about our future in 2023 and continuing to offer best in class service and products.



PORTFOLIO COMPANIES

PRESIDENTS' UPDATES

Material Handling Holdings LLC



MATERIAL HANDLING HOLDINGS

STEVE DEANGELIS PRESIDENT

Lift Products Manufacturing closes year with record

Lift Products Manufacturing (LPM) surpassed a notable milestone in Q4, passing the three year mark without a recordable safety incident. Built on a solid system of mindfulness, accountability, education, monitoring and formalized corrective action, LPM has truly created a culture committed to making the workplace as safe as it can be.

Achieving this milestone while this year also delivering record production levels is truly an exceptional accomplishment. Congratulations to General Manager Jamison Davies and his talented team at LPM on this outstanding achievement!



Solution Dynamics wins large order with leading foodservice equipment manufacturer

Solution Dynamics started Q4 strong, winning a major order with a leading restaurant equipment manufacturer based in the Midwest. This customer ordered 25 of Lift Products' Max-Lift series, DC powered mobile lift tables to be used to transport their heavy and bulky production units safely through various stages of their manufacturing process.

This is a great order win for MHH that benefits both our manufacturing and distribution businesses. Lift Products' equipment continues to set the standard for dependability in heavy-duty applications, while Solution Dynamics delivers on its commitment to best-in-class customer responsiveness and technical application support. Congratulations to both these teams on capturing another "win-win" opportunity.

REAL ESTATE PRACTICE UPDATE

TWO INDUSTRIAL PROPERTIES IN LOMIRA ACQUIRED

Borgman Capital has acquired two industrial buildings located in Lomira. The properties are fully leased to the Jor-Mac Company, a leading integrated supply chain partner.



“Jor-Mac is a strong tenant with an outstanding reputation that continues to deliver solid financial results while serving its Fortune 1000 customers. In addition, the properties are well located, in a strong market and fit our investment strategy which made them highly desirable,” said Matt Kiefer, director of real estate investments with Borgman Capital.

The buildings are the firm’s fifth and sixth property acquisitions since launching its real estate practice in 2021. Borgman Capital partnered on the transaction with Landmark Credit Union who provided financing and Reinhart Boerner van Deuren s.c. served as legal counsel on the deal.

[**READ MORE HERE.**](#)

REAL ESTATE INVESTMENT CRITERIA

Borgman Capital's Real Estate practice creates value and enhances returns for investors through a proven and disciplined - yet creative - investment strategy. Furthermore, our goal is to always leave a positive legacy on our real estate investments and the communities where they are located. Here's what we look for:

- Typical deal size between \$2 and \$40 million
- Industrial, Office, Multi-Family and Mixed Use asset classes
- Stabilized core-plus investments including sale leasebacks
- Value-add and opportunistic investments located in strong markets
- Joint ventures with developers and owner-users
- Location agnostic

If you or someone you know is considering selling a real estate investment, we'd love to have a conversation. Contact matt.kiefer@borgmancapital.com or 812.499.8770.

Borgman CAPITAL

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