



# BDO's Private Equity Practice Knows Industries

An Inside Look at Fund & Portfolio Company  
Challenges, Opportunities and Results in...



Life Sciences

Manufacturing

Natural

Resources

Manufacturing

Healthcare

Real Estate

Life Sciences

Real Estate

Natural Resources

Healthcare

Retail

# Editor's Note

Private equity fund sponsors live and die by their ability to identify great investment opportunities and bring value to those investments. As a result, fund managers are continuously looking long and hard for compelling investments, and when appropriate, attractive exit opportunities. At the same time, they face investment hurdles, including fluctuating valuations and uncertainty caused by the regulatory environment and potential tax changes.

## There is plenty to keep fund managers up at night.

In uncertain times, it's more important than ever that funds engage partners who understand their industry and the challenges that they face when sourcing and closing deals, growing their portfolio companies and ultimately exiting their investments.

## How BDO Can Help

BDO's integrated, multidisciplinary teams support private equity funds and their portfolios across the globe and in more than 15 industries with a full spectrum of professional services. Our dedicated Private Equity practice understands both the complexities of today's environment and the unique opportunities financial sponsors face. We assist private equity, venture capital and other investment funds, as well as their portfolio companies by supporting fund operations and structuring, portfolio management and compliance, transaction advisory and exits through a comprehensive suite of integrated and value-added services across the fund cycle. Our professionals know what can make or break a deal, and we stand ready to help you navigate an increasingly complex and global business environment.

## Read on to learn how we have worked with funds and portfolio companies in a few of our focused industry groups:



### Healthcare

BDO helped a private-equity backed healthcare company navigate the new environment as it sourced and closed multiple bolt-on acquisitions, and after significant growth, BDO assisted the fund with a successful and profitable exit.



### Life Sciences

Leveraging its deep capital markets and industry experience, BDO helped a fund prepare its portfolio company for a successful IPO by establishing a stronger financial footing that would enable the company to successfully enter the capital markets.



### Manufacturing

When a private equity firm acquired a manufacturer, it selected BDO to help identify and steer the company through a series of transactions and provide guidance on complex audit and tax challenges and opportunities.



### Natural Resources

After a fund invested in an oilfield services company, BDO was brought on to conduct the first-ever audit, provide internal control recommendations and ultimately help the company achieve rapid growth.



### Real Estate

BDO's experience navigating costly business interruptions and insurance claims proved valuable for a fund whose new hotel investment saw significant damage after a large fire.



### Retail

When an apparel retailer filed Chapter 11, BDO was brought in by a private equity fund that purchased the company to serve as a trusted advisor through the turnaround.

# BDO Knows Healthcare & Private Equity



## An Industry Case Study

### THE SITUATION:

Private equity investments in the healthcare industry have increased significantly during the past several years, as the industry has garnered more and more of the total private equity capital invested annually. This trend is likely to continue as private equity funds look for opportunities to invest in companies that will excel in the new healthcare environment created by a continually aging population and the changes required by the Patient Protection and Affordable Care Act.

One private equity firm that has successfully capitalized on investment opportunities in the industry specializes in investments in medical devices, biotechnology and pharmaceuticals. In 2004, this fund invested in a company that acquires and develops radiation oncology centers created in response to the growing need among cancer patients, hospitals and physicians for accessible and advanced radiation treatment therapies.

### BDO's Tailored Approach:

BDO's successful relationship with the fund – which was developed through servicing other healthcare companies in its portfolio – made BDO the service provider of choice for this radiation oncology company. BDO was engaged to provide a full suite of services including audit, tax compliance and consulting, state and local tax, employee benefits audits and transaction advisory services.

Following the private equity fund's investment in the radiation oncology company, it began working to strategically grow the company, completing five to 10 acquisitions per year of radiation oncology treatment centers across the United States. During that time, BDO provided transaction advisory services to help the fund grow the value of its investment.

When it came time for the private equity fund to exit its investment, BDO was engaged to conduct reverse due diligence on potential strategic buyers. Ultimately, through quality service delivery, BDO helped position the company for a sale to a financial sponsor and realize a significant return to its investors.

### The Client-Specific Results:

BDO's deep knowledge of the healthcare industry, combined with its integrated service teams, enabled the firm to work seamlessly with this private-equity backed radiation oncology company to facilitate its rapid growth. BDO delivered a tailored and practical approach to help address the private equity sponsor's and its portfolio company's pressing business needs and evolved its services as needed throughout the course of the investment cycle. During this time, the radiation oncology provider expanded to operate more than 40 radiation oncology centers in 12 states and grew from approximately \$30 million to \$200 million in revenue. BDO continues to be an ongoing service provider for the private equity sponsor, working with a number of current portfolio companies. In addition, BDO and its global network has been identified as the preferred accounting and consulting organization for a new fund as it begins to explore international healthcare investment opportunities.



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# BDO Knows Life Sciences & Private Equity



## An Industry Case Study

### THE SITUATION:

Within the life sciences industry, the medical device sector has experienced a great deal of change over the past several years and is poised to grow despite impending uncertainty from the Affordable Care Act and continued pressure from the 2.3 percent medical device excise tax. Medical device and life science companies trying to break ahead are creating greater efficiencies and becoming more innovative than ever. Innovative companies with strong value propositions are creating great opportunities for investors to provide the capital needed to fuel their development.

One private equity fund that specializes in investments in the life sciences sector has capitalized on the opportunities that exist with well-positioned medical device companies. The fund purchased a dental laboratory network and grew the laboratory through a series of bolt-on acquisitions to take advantage of efficiencies through critical mass and volume purchase purchasing.

### BDO's Tailored Approach:

BDO was initially brought on by the private equity fund to provide tax consulting services to this dental laboratory network as the fund worked to grow its investment. BDO was the tax service provider of choice, because of its extensive experience working with medical device companies, combined with the high-level of senior professional involvement that BDO brings to every client relationship. BDO was also able to leverage its international network to provide tax consulting services, as well as "feet on the ground" in both the U.S. and international markets.

As the private equity fund began to focus on its exit strategy it became clear that the fund also needed a responsive and experienced audit team that could skillfully advise and help the portfolio company prepare for an IPO. That's where BDO's assurance practice came in. The private equity fund realized the benefits it would achieve through a coordinated audit and tax services approach. The fund also recognized BDO's and its auditors' strong reputation and acceptance among the capital markets community.

To prepare this dental laboratory network for an IPO, BDO was tasked with helping the company

catch up with more than two years of financial reporting. Within three months of being brought onboard, BDO was able to conduct and finalize its initial audit, enabling the private equity fund to quickly move along its timeline to successfully exit its investment. The partner-led engagement team provided responsive service and was able to identify upfront any potential issues before they became a roadblock for the IPO; no "surprises" at the last minute.

### The Client-Specific Result:

BDO's robust knowledge of the life sciences industry, combined with its extensive experience working with private equity funds to help them prepare their portfolio companies for an exit to the capital markets, enabled BDO to seamlessly partner with this fund and its dental laboratory network to provide tax and assurance services. BDO's seasoned partners and professionals were involved in every aspect of the engagement, providing tailored, technical support and guidance to respond to the company's needs. As a result of BDO's timely and proactive support, the medical device company is now on stronger footing to enter the capital markets and provide a solid return on the private equity fund's investment.



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# BDO Knows Manufacturing & Private Equity



## An Industry Case Study

### THE SITUATION:

In today's economy, private equity funds are feeling pressure on all sides of the fund cycle – from identifying quality acquisition targets, to successfully exiting their existing investments. One private equity firm, however, that focuses on control investments in strategically viable, middle market companies was able to buck this trend through its acquisition of a company that designs and manufactures high-quality, stainless steel products for the chemical, food and beverage and pharmaceutical industries, among others.

In 2006, the private equity firm acquired the manufacturer of high-quality stainless steel products and subsequently helped the company complete a recapitalization, including a dividend to shareholders, and successfully execute numerous add-on acquisitions of companies in the U.S. and Mexico.

### BDO's Tailored Approach:

BDO's experience assisting private equity funds and their portfolio companies across the fund cycle and around the globe made it the service provider of choice for this private equity firm. BDO was engaged to assist the firm with its initial acquisition of this leading manufacturer by providing integrated transaction advisory services.

As the portfolio company grew through subsequent add-on acquisitions, BDO provided audit, tax and other compliance services to help ensure each transaction was successfully executed and continued to increase the value of the private equity firm's investment. Specifically, BDO helped the company structure each transaction as tax efficiently as possible from both a federal and state tax perspective. In addition, BDO leveraged its manufacturing industry knowledge to evaluate state tax incentives, the Section 199 deduction and accounting methods to help ensure they were all leveraged to the advantage of the manufacturer.

As the company looked to expand abroad, BDO leveraged its international network to help make the manufacturer's acquisition of a Mexico-based operation tax efficient in the local country and for the partners of the private equity fund in the U.S. BDO also helped the manufacturer navigate the complex accounting issues that arose from its multiple acquisitions.

With the success of the manufacturer's acquisitions and the overall performance of the business, the portfolio

company elected to pursue a dividend recapitalization transaction. BDO helped with this process by providing tax consulting services to help make the recapitalization tax efficient.

When it came time for the private equity firm to exit its investment, BDO was engaged to assist with the sale of the manufacturer. Despite the complexity of the portfolio company – which at the time of the fund's exit included numerous separate operating companies and foreign entities – the fund was able to successfully and seamlessly sell the manufacturer to a strategic buyer and generate a return for its investors.

### The Client-Specific Results:

BDO's deep understanding of the manufacturing and private equity industries - combined with its integrated service teams - enabled it to provide responsive, coordinated and tailored strategies to the fund and its portfolio company from the initial investment, through multiple add-on acquisitions, and finally, to exit. Because BDO was involved through the full investment cycle, it was able to help – through tax planning and structuring, and assurance services – the manufacturer be well-positioned for sale when the private equity firm was ready to exit its investment. In 2012, a strategic buyer announced that it had entered into a definitive agreement to acquire the portfolio company for more than \$350 million. BDO remains the ongoing service provider for the private equity firm.



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# BDO Knows Natural Resources & Private Equity



## An Industry Case Study

### THE SITUATION:

The widespread exploration, production and use of U.S. natural gas resources has led to unprecedented growth of the national energy industry. With this growth comes new opportunity for companies that support technological development, mitigate environmental impact, or provide oilfield services to a burgeoning energy landscape. To keep up with marketplace developments and new growth opportunities, small to mid-sized companies are increasingly looking for new sources of financing; the private equity industry is meeting this demand with enthusiasm.

In 2011, a young but highly ambitious oilfield services company was approached by a private equity firm offering a \$50 million investment in return for an ownership stake in the company. This investment helped provide the financing needed to facilitate the oilfield services company's growth and prepare it for an eventual introduction to the capital markets.

### BDO's Tailored Approach:

BDO has extensive experience helping companies navigate the audit process and preparing them for the capital markets. When BDO was first introduced to the oilfield services company, the organization had never had a formal audit and experienced many of the financial and accounting challenges that come with being a relatively young company. After obtaining a line of credit, and with an interest in pursuing additional financing options in the capital markets, the company engaged BDO for its first-ever audit.

The audit process that ensued was complicated by the company's lack of extensive accounting knowledge and its acquisitions of numerous companies that also had never before been audited. BDO's experienced professionals were able to work with the company to state its opening balance sheet, resolving financial statements from the time of the company's founding, through its partnership with the private equity firm and its subsequent acquisition spree, to the present.

Equally important, BDO helped management of the oilfield services company develop an infrastructure that could support ongoing growth. When the audit process began, the company had millions of dollars in assets valued in terms of a tax basis. BDO provided the company with a framework for recasting these assets in terms of GAAP, aligning the company's financial statement with their debt requirements and making it easier for potential investors to benchmark the company's performance against competitors.

Numerous internal control recommendations were also put forth that factored in the company's decision to invest in an advanced accounting system, ultimately preparing the young firm to meet the accounting standards of the future. In short, BDO's recommendations addressed the short-term operational needs of the company with a long-term view that would ultimately better-serve the company as it continued to grow.

### The Client-Specific Results:

BDO's deep industry knowledge, combined with its first-hand experience working with the capital markets, made the firm an ideal partner for the young oilfield services company and its private equity stakeholder. Since beginning its relationship with BDO, the company has more than doubled in size from \$80 million to almost \$200 million in revenue, providing the necessary resources it needs to grow, while yielding a significant return for the private equity fund's investors. Without BDO's assiduous audit process, comprehensive view of the company's goals and resulting accounting framework, the company would not be in a position to enter the capital markets. BDO helped the company and the private equity fund realize their goals and position the company for future growth.



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# BDO Knows Real Estate & Private Equity



## An Industry Case Study

### THE SITUATION:

When managing the value of an investment, private equity fund managers closely monitor the current and projected quality of earnings and cash-flow, working capital and personnel. However, for funds investing in industries like hospitality and leisure – where a significant portion of the investment value lies in the holdings' associated real estate – managers must also take a close look at the potential losses that could be caused by business interruption or property damages, and take steps to mitigate such losses.

One private equity fund that focuses primarily on real estate investments and has an ownership stake in more than 400 hotels learned the importance of having a disaster preparedness plan in place firsthand after several of its investments experienced significant property damage. In 2008, one of those holdings – a large hotel in the Midwest – was nearly burned to the ground during a large fire.

### BDO's Tailored Approach:

Because of BDO Consulting's experience preparing some of the largest and most complex business interruption and property insurance claims in the United States and abroad, it was the service provider of choice for this fund.

Shortly after the private equity fund invested in the hotel, the property experienced significant damage during a large hotel fire. In fact, the damage was so severe that the hotel was closed for nine months and operated below capacity for another six months after reopening. The damage to the property combined with the business interruption caused by the closed facility resulted in significant rebuilding expenses and loss of revenue.

BDO Consulting's insurance claims professionals helped the fund navigate the insurance claims process to ensure it would maintain and ultimately grow the value of its portfolio company. This included determining the indemnity period, assisting in the determination of actual cash value, obtaining the appropriate documentation – despite damage to the records during the fire – and compiling the property-damage claims.

### The Client-Specific Results:

BDO Consulting's experience working with companies to navigate the adjustment process following a loss and helping produce timely and equitable settlements enabled the firm to secure a settlement for the fund and its portfolio company, which covered nearly all losses. Since that time, BDO Consulting has been engaged by the fund sponsor to provide insurance claims services for all of its subsequent portfolio company investments, which has resulted in two additional settlements for separate facilities that experienced significant damage during a natural disaster; the first for more than \$6 million and the second for more than \$15 million. The private equity fund has recovered all core losses resulting from these unfortunate events and continues to grow its portfolio.



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# BDO Knows Retail & Private Equity



## An Industry Case Study

### THE SITUATION:

In the wake of 2009's Great Recession, many retailers were impacted by the lack of available senior debt and reluctance of trade vendors to provide credit, except on very strict terms. Without access to credit, many retail operations – even those that were otherwise well-run – experienced financial distress and ultimately wound up in bankruptcy. One such retailer was a women's apparel company with more than 150 stores in urban areas across the U.S, which filed for Chapter 11 bankruptcy protection following the downturn, after reporting losses for several years. It was initially expected that the chain would follow in the footsteps of several of its peers and be liquidated. However, a few months after filing, the retailer was purchased out of bankruptcy by a private equity firm specializing in retail, manufacturing and distribution.

### BDO's Tailored Approach:

As a result of BDO's deep-rooted retail and private equity industry knowledge – combined with its extensive experience helping clients successfully navigate restructuring after bankruptcy - BDO was contacted by both the retailer's CFO and the private equity firm to help the company after it emerged from bankruptcy. BDO conducted extensive research and led the fresh start accounting process, which determined the company's reorganization value and established a new basis for financial reporting.

In the year after the Chapter 11 filing, the company introduced a new CEO and CFO, and BDO served as a trusted advisor to the new executives during the transition. Today, the integrated, multi-disciplinary team at BDO continues to support the retailer on an ongoing basis through audit, tax planning and structuring services. BDO handles the financial statement and employee benefit plan audits, and also provides all of the retailer's tax consulting, tax provision assistance and full income tax return compliance services.

### The Client-Specific Results:

Since this large retailer successfully emerged from bankruptcy it has been able to reduce operating losses significantly and maintain a positive EBITDA year-over-year. Less than six months after filing for Chapter 11, the company secured financing to grow its stores and global e-commerce business. Today, more than three years after the retailer's bankruptcy filing, the trusted partners at BDO continue to support the company's growth and ultimately, the private equity firm's investment, as the retailer's ongoing service provider.



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**Strategically-focused and remarkably responsive, the experienced, multi-disciplinary partners and directors of BDO's Private Equity practice provide value-added assurance, tax and consulting services for all aspects of a fund's cycle, wherever and in whatever industry private equity firms are investing.**

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