

Business Without Borders:

Growth Story of the Decade

Welcome to the first issue of *The Journal*. You'll notice a new format for our semi-annual chapter publication, with enhanced content on current topics in corporate growth and expanded coverage of ACG Chicago news and programs. Please let us know what you think of our new look.

We welcome submissions of content pieces of interest to our membership. Articles should be under 1000 words in length and must focus on a relevant issue, topic or situation; marketing materials will not be considered. We reserve the right to select and edit all submissions. Please send articles for consideration to chicagoacg@acg.org

Karin O'Connor
Perimeter Advisors

Globalization has matured from a brave new concept in the 1990s to a fact of life in the booming international markets of the 2000s, creating a world without borders for the business of growth.

More than \$7 trillion in merchandise is traded across borders every year, while the value of commercial services is some \$2 trillion annually.

Whether you're looking to grow through acquisitions, direct investments, foreign sourcing, or joint ventures, the world is becoming smaller and competition is becoming fiercer. Entrepreneurs are going wherever the action is – whether it's Australia for optical engineering or Ireland, India, and Kazakhstan for software coding ... Israel for security technologies or South Korea for online gaming and broadband ideas ... Taiwan and Japan for electronics or China for entrepreneurial growth across the board, especially manufacturing. "Venture capital is a global industry, and we are going to see more cross-border companies being funded," said Ash Lilani, head of global sales and marketing at Silicon Valley Bank.

That's why the Chicago Chapter of the Association for Corporate Growth, as America's leading authority on corporate growth, is sponsoring a comprehensive conference on international deals and trade on Tuesday, February 15 at the Sheraton Chicago Hotel & Towers. "Business Without Borders" is aimed at taking the mystery out of doing business across country borders and enabling participants to hit the ground running in the world of international growth. "There is a clear need for a wide-ranging program on how to do business across borders, and that's why we organized this conference," says Mike Sklar, Chicago Chapter executive vice president, and chairman of the conference. "This is not only relevant for people who are funding and putting together deals to promote growth, but it's extremely important for middle-market enterprises who are attempting to compete in today's globalized world. We are hoping that this is just the first in what will become a valuable annual event for our ACG chapter."

Business Without Borders will run from 7:30 a.m. to 2:45 p.m. on February 15 and include three panels and a Consular Trade Fair that will allow participants to speak one on one with consular officials and trade representatives of America's 10 leading trading partner companies. Keynote luncheon speaker for the program will be David Hale, Chicago-based economist and founding chairman of Hale Advisors and China Online. Hale works with investment

Continued on page 15...

Inside

- ▶ Enquiring Minds. pg.4.
- ▶ Finding the right Financial Services Partner... pg.6
- ▶ Healthcare System Asset... pg.8

Board of Directors

Executive Committee

President

Craig A. Miller
Oak Ridge Capital
cmiller@oakridgecapital.com

Executive Vice President International Conference Chair

Michael L. Sklar
Piper Rudnick
Michael.Sklar@piperrudnick.com

Executive Vice President Capital Connection Chair

Susan W. Wilson
Lincoln Partners LLC
swilson@lincolnpartners.com

Treasurer / Secretary

Warren T. Jacobsen
Capital Results LLC
warren@capitalresults.net

Past President

Advisory Council Chair
Carol A. Carsella
LaSalle Bank, N.A.
carol.carsella@abnamro.com

Officers

Awards

Raymond T. Daly
IBM Global Financing
rdaly@us.ibm.com

Mary Warmus
Kensington Financial Consultants, Inc.
mwarmus@kensingtonconsultants.com

Corporate Development

Mary Lou Bartlett
LaSalle Bank, N.A.
mary.lou.bartlett@abnamro.com

Ross S. Rosenberg
Zebra Technologies
rosenberg@zebra.com

Marketing

Karin D. O'Connor
Perimeter Advisors
Karin@perimeteradvisors.com

Karen A. Peters
Merrill Lynch Capital
kpeters@exchange.ml.com

Membership

David A. Bronner
Jenner & Block
dbronner@jenner.com

Gerald T. Eisenstein
RSM McGladrey, Inc.
gerry.eisenstein@rsmi.com

THE JOURNAL *A publication of ACG Chicago*

Editor: Karin O'Connor
Karin@perimeteradvisors.com

Production Manager: Terry Cobb
chicagoacg@acg.org

Graphic Designer: Elisa Hillock
chicagoacg2@comcast.net

Writer: Art Miller

We welcome submissions of content pieces of interest to our membership. Articles should be under 1000 words in length and must focus on a relevant issue, topic or situation; marketing materials will not be considered. We reserve the right to select and edit all submissions. Please send articles for consideration to ACG Chicago at chicagoacg@acg.org

Professional Development

Patricia M. Borkowski
JP Morgan
tish_borkowski@bankone.com

Terrel G. Bressler
Cleary Gull Inc.
tbressler@clearygull.com

Programs

Arnold T. Davis
Accenture
arnold.t.davis@accenture.com

Dirk B. Landis
Tatum Partners
dirk.landis@tatumpartners.com

Sponsorships

Joseph P. Davisson
GE Commercial Finance
joseph.davisson@ge.com

Kimberly A. Jablonski
First Business Capital Corp.
kjablonski@fbcapital.com

At-Large Directors

Capital Connection Co-Chairs

Barry D. Freeman
Goldsmith Agio Helms
bfreeman@agio.com

Thomas P. Guido
Wynnchurch Capital Ltd.
tguido@wynnchurch.com

James A. McNair
Lincolnshire Management, Inc.
jmcnair@lincolnshiremgmt.com

Capital Connection Emeritus

L. Thomas Gregory
American Capital Strategies, Ltd.
tom.gregory@americancapital.com

Capital Planning Committee

Stephen R. Ferrara
BDO Seidman, LLP
sferrara@bdo.com

Corporate Development Support

Al B. Reid
Abbott Laboratories
al.reid@abbott.com

Andrew W. Rice
Jordan Industries, Inc.
arice@jordanind.com

Corporate Growth Research

William C. Golz, Jr.
American Appraisal Associates, Inc.
wgolz@american-appraisal.com

ACG Chicago
P.O. Box 220
Westmont, IL 60559
Phone: 630-455-1740
Fax: 630-455-1741
E-mail: chicagoacg@acg.org
Website: www.acg.org/chicago

Public Relations Support

Steven M. Dresner
Dresner Investment Services, Inc.
sdresner@dresnerco.com

TMA Liason

Thomas E. Jones
Concord Financial Advisors, LLC
tomjones@concordfinancialadvisors.com

Advisory Council

James J. Blaha
Focus Capital Advisors, Inc.
jjbgenova@aol.com

Michel J. Feldman
Seyfarth Shaw LLP
mfeldman@seyfarth.com

Paul E. Krantz
GMAC Commercial Finance
pkrantz@gmaccf.com

Gary I. Levenstein
Ungaretti & Harris
gilevenstein@uhlaw.com

Upcoming Events

February 15, 2005

“Business Without Borders”
Sheraton Chicago Hotel & Towers
7:30 am – 3:00 pm

March 4, 2005

Breakfast Meeting
Exits: IPO? Strategic? Financial
Buyer? Questions to Ask and
Things to Consider.

The Metropolitan Club, Sears Tower
7:30 am – 9:15 am

March 15, 2005

Luncheon Meeting
Emerging Growth Award
Presented to Zebra
Technologies

The Metropolitan Club, Sears Tower
11:30 am – 1:15 pm

April 1, 2005

Breakfast Meeting
Annual Market Trends

The Metropolitan Club, Sears Tower
7:30 am-9:15 am

April 12, 2005

Luncheon Meeting
The Metropolitan Club, Sears Tower
11:30 am-1:15 pm

April 19-23, 2005

ACG InterGrowth Conference
JW Marriott Desert Springs
Resort & Spa, Palm Springs, CA

President's Column



Craig A. Miller
Oak Ridge Capital

I must start this column with a thank you for the hard work and dedication that so many people have put into making ACG Chicago the premier organization that we all enjoy. The most visible contributors are those who chair the events and programs, but many others such as those serving on the Membership, Sponsorship, Marketing and Executive Committees should also be recognized. Thank you all chairs and committee members!

Your ACG Chicago Board recognizes the need to continually improve our premier communications, content, and networking opportunities as an integral part of our role as the "Leading Authority on Corporate Growth". You should now be receiving a national journal, *Mergers & Acquisitions*, *The Dealmakers Journal*, the new official publication of the ACG and the result of a joint venture between ACG and Thomson Media. On the local front, ACG Chicago's *The Journal* has been developed to provide enhanced content to our members, an outlet for our sponsors to speak to you from an expert's point of view on topics of interest, short recaps of previous events, and information about upcoming programs. In addition, you should be receiving a monthly e-news piece, *ACG Chicago Connection*, which provides local member news, program announcements and other chapter news. This strong communications effort is a great example of ACG Global's and ACG Chicago's commitment to exceed your expectations.

Program content continues to be a strong point as we present one of the most ambitious and highest quality schedules among all ACG chapters. It is the suggestions of committee members and members like you that help us reach out to the business and thought leaders who share their experiences with you monthly. I urge you to contact any board member with your ideas, comments, and suggestions.

One step beyond that, I urge you to get involved. Join a committee. This small commitment allows you to network more intensely with other ACG Chicago members and to make a difference in how we direct the evolution of this growing organization. It might also provide some insight as to whether a board role could be a logical step for you.

This very kind of commitment and involvement, in fact, has led to the creation of our first international business conference "Business without Borders"- the focus of this premier issue of *The Journal*. While there has been a general reluctance to acknowledge the importance of international trade, it is inconceivable to me that any business in today's day and age can plan for the future without addressing the issue of global competitive influences. I urge you to read what is presented here, review your current and future business plans, and attend the February 15th program in order to be better prepared for business competition in the 21st century.

With this strong communication and content foundation, your board clearly understands that a key value to your membership lies in networking opportunities. In addition to our regular programming, we continue to pursue social events like the recent holiday party, the golf outing, and the boat cruise that allows us to network among ourselves and with members of other organizations. We, in conjunction with ACG Global, also continue to develop your global web access to content and member directories at the www.acg.org/chicago website. And of course, InterGrowth is always a networking feast where you can catch up with peers from around the country and maintain connections to the diverse network of ACG members. Chicago has traditionally brought the largest chapter contingent to InterGrowth, so if you haven't signed up yet, please join us!

Finally, on a more strategic basis, we have been actively working with ACG Global to develop a cohesive and sensible approach to the menu of services it offers for member and chapter support, to utilize best practices of other chapters and to share ours so that you get the best value from your membership in ACG: the Leading Authority on Corporate Growth. Please, help us keep the improved communications going by letting us know what you think.

Enquiring minds

This article is one in a series of contributions by ACG Chicago's Platinum Sponsors. We appreciate their support.

Many buyers of middle-market companies fail to ask the right questions during due diligence, leaving their deals open to serious complications

By Margaret Shanley, RSM McGladrey, Inc.

An ancient Russian proverb tells us “There are two fools in every market; one asks too little and the other asks too much.” The maxim certainly applies when it comes to buying a business. But the problem in this market is that, rather than asking too many questions, many acquirers of middle-market companies do not ask enough of the right questions at the right time.

You can ensure your due diligence is truly a value-added experience by raising these issues in a timely manner:

Manage stakeholder expectations.

Typically, there are personnel, other than the owners, who are vital to the operation and growth of the business. It is imperative you determine the expectations of these individuals and manage them well in advance of drafting the purchase agreement.

Sometimes buyers overlook or undervalue the expertise of managers in production, sales, purchasing or other business processes. If these managers do not believe they will receive fair compensation and incentives, they will leave, taking vital knowledge and relationships with them.

Documenting terms, including remuneration and other expectations, in an employment or consulting agreement reduces ambiguity for the employee

and risk for the new owner. The buyer should also require former owners, and in some cases high-level managers, to sign non-compete agreements for a period of at least three years.

Understand and apply business processes.

Most earnout agreements allow key owner-managers to remain in the business on a consultative basis for a period ranging from one to three years. Usually this allows the new owner enough time to understand and apply the business processes.

This assumes the current owner is already developing a strong backup team to support each of those key individuals. Therefore, it is essential to evaluate the second tier of management before you close the deal. Once the deal is done, sellers are not as motivated in their role as consultants as they were as owners, regardless of the terms of the earnout agreement.

If the second management tier is non-

existent or of insufficient caliber, you need to seriously assess how quickly you can replace these managers as part of the due diligence.

Determine inventory valuation methodology.

Where inventory is a material asset, it is vital you understand the inventory valuation process, in particular capitalization of overhead. Capitalization of excess overhead will inflate inventory values and distort gross margin results.

If the business is a distributor, there should be little or no overhead, only that which truly adds value to the product once it is received into the seller's warehouse. Clearly, a manufacturing business will have a sizable overhead rate as part of its inventory costing process.

No matter the nature of the business, you should always complete detailed price tests during the due diligence process to ensure you have a clear understanding of how inventory is valued and that you are not paying extra as a result of the seller's poor accounting practices.

Consider purchase price adjustment mechanisms:

It goes without saying that among the cornerstones of a good letter of intent are mechanisms to adjust the final purchase price, a popular example of which is a working capital adjustment. Typically, the buyer stipulates that the purchase price will be adjusted dollar-for-dollar for any change in working capital as specifically defined, on the date of closing, compared to an average working capital balance over a defined period.

The key risk is that the seller could run up payables and reduce inventory and receivables, starving the new company of working capital before the deal closes. A working capital adjustment mitigates this risk.

It is vital that the buyer understands the components of the company's working capital and how they have changed over the defined period before committing to a certain dollar threshold in the documents. Furthermore, each component of working capital should be clearly defined in the purchase documents, so there can be no

It is vital that the buyer understands the components of the company's working capital and how they have changed over the defined period before committing to a certain dollar threshold

ambiguity at any stage. A good practice is for the buyer and seller to agree on a sample working capital format to be included as an exhibit in the purchase

agreement. Such a mechanism also protects the interests of the seller, which is entitled to any upside between the average and closing working capital amounts. Buying a company has never been easy, particularly in the current tightened-credit environment. However, the bottom line remains the same: If you don't identify and openly discuss certain issues during due diligence, you could adversely affect key deal components including price, deal structure, buyer-seller relations and ultimately whether the deal actually closes.

Margaret Shanley is a transaction support services director for RSM McGladrey.



today's opportunity
Making your deal a done deal.

\$25,000,000
Senior Secured Financing to
Victor Plastics, Inc.

\$15,000,000
Senior Secured Financing to
ABRA Auto Body & Glass

PNC Business Credit. Seeing opportunities where others may not.
As one of the nation's top asset-based lenders, PNC Business Credit's team of professionals is experienced in working with virtually every industry. PNC consistently solves complex financing issues, no matter how quickly a deal needs to close. If you need financing for working capital, growth, mergers and acquisitions, recapitalizations, restructurings, or turnarounds, PNC can deliver.

Learn more today. Call Joe Fobbe at (312) 338-5688 or visit www.pncbusinesscredit.com.

PNC BUSINESS CREDIT
Every day is an opportunity to do more.

©2004 The PNC Financial Services Group, Inc. PNC Business Credit is the asset-based lending arm of PNC Bank, National Association, a member of The PNC Financial Services Group, Inc.

Finding the Right Financial Services Partner to Grow in the Global Marketplace

This article is one in a series of contributions by ACG Chicago's Platinum Sponsors. We appreciate their support.

By Shawn Platt, LaSalle Bank N.A.

Your global banking partner must have operations in the countries where you do business.

International M&A activity in the middle market segment is expected to grow 20 percent by 2006. Similar to large multinationals, middle market companies must navigate the intricacies of international transaction and liquidity management, cross-border lending, and foreign exchange risk mitigation.

Leveraging a banking partner with global resources and expertise is a critical component to successfully tackling these cross-border issues. Banks with dedicated International Corporate Banking experts can provide specialized international resources and expertise. Clients can look to their International Corporate Banking partner when searching for opportunities to optimize growth, manage day-to-day global business, and to mitigate the risks of multi-country, multi-currency deals.

So how do you know if you're getting the most out of your International Corporate Banking relationship?

Your international banking partner should be a trusted advisor who knows your company's operations and aspirations. By knowing where you want to be, your international banker can make recommendations appropriate for your company's growth plans and risk appetite.

Your global banking partner must have operations in the countries where you do business. True international banks use their own global branch network to deliver a broad range of International Corporate Banking expertise and services. Because banking through a

network of correspondent banks can't deliver the same level of true global integration, a single, globally networked bank is a key success factor to structuring and executing an effective multi-country deal.

Your international bank should think outside of the box. Cookie cutter solutions do not exist for international companies. Your company is unique. Your banker should know it. A creative and globally savvy international banking partner will deliver solutions truly customized for your company.

Chicago-based LaSalle Bank has a wealth of indigenous resources in 3,000 locations in over 60 countries through its parent company, ABN AMRO Bank, N.V. As part an integrated global banking powerhouse, LaSalle Bank offers seamless global solutions to its clients.

It is this seamless network of global colleagues that helped make possible the acquisition of an American firm by a Spanish company. LaSalle Bank's International Corporate Banking experts in the U.S. worked with their colleagues in Madrid to structure acquisition financing for the deal. They also facilitate working capital lines for the American and Canadian operations of the company. This deal required

JENNER & BLOCK

*We are proud to support
The Association for
Corporate Growth*

For more information
please visit
www.jenner.com
Jenner & Block LLP

Chicago-based LaSalle Bank has a wealth of indigenous resources in 3,000 locations in over 60 countries through its parent company, ABN AMRO Bank, N.V.

complex consulting and purchase advice on a multi-country scale.

The bank's ability to effectively manage this challenging deal led the company to choose LaSalle Bank as its full-stop international banking partner for financing, foreign exchange, and daily cross-border transaction and liquidity management.

Take, as another example, a Midwest-based distributor of pre-recorded music. This \$1.3 billion company took the plunge into expanding cross-border when its largest customer made a UK acquisition. This customer paid the Midwest-based music distributor on 60 terms for the UK inventory. However, the music distributor pays its suppliers in 30-day cycles. This resulting 30-day strain on working capital was expensive and unwieldy to manage.

On its own, the UK subsidiary was unable to secure the needed funding through its local British banks. Plus, wide inventory swings during the holiday season, coupled with the fluctuating exchange rate between the U.S. dollar and the British pound, added additional layers of complexity to the client's woes.

LaSalle Bank's International Corporate Banking relationship manager knew there was a way to make the cash conversion cycle more efficient. The relationship manager worked closely with the music distributor to analyze their working capital needs in the U.S. and in the UK. Through this close partnership and collaboration, the

relationship manager crafted a customized working capital solution that allowed this U.S. based

company the flexibility to fully optimize local UK market opportunity during times of peak demand, while keeping an eye toward managing the inherent FX risks. This new structure helped the client grow their local business.

LaSalle Bank then provided the client with web-based electronic banking tools to manage their UK balance reporting and transaction initiation. With a daily eye on UK banking activity, the U.S.-based music distributor was able to truly optimize their working capital. The full scope of international services offered through the bank provided the company the tools to better manage their capital, execute local currency payments to vendors and employees, accept receivables in local currency, and quantify and manage the foreign exchange risk.

Another example of the power of global banking expertise is found in a recent scenario where two U.S.-based subsidiaries of an Irish parent company merged into a single entity. LaSalle Bank crafted a solution to manage the new entity's working capital needs while carving out a piece of the facility to repay the note due to the parent. The resulting credit structure created enough flexibility that the newly formed company was able to function independently of the parent. Further

efficiencies were realized when the new company chose to consolidate their U.S. domestic treasury management systems with their global treasury management. The bank's electronic solutions gave the company technology at their fingertips to manage liquidity on a global scale.

International business introduces company executives to an undiscovered world of financial challenges and opportunities. By engaging the right financial services partner, a company can increase their market share and improve the bottom line both domestically and in the global marketplace.

For information on LaSalle Bank's Commercial and International Corporate Banking services, please contact Mary Lou Bartlett. Ms. Bartlett is a Senior Vice President in Commercial Banking at LaSalle Bank and serves on the Board of ACG Chicago. She can be reached at (312) 904-0433 or via e-mail at mary.lou.bartlett@abnamro.com.

Healthcare System Asset Redeployment: A Prescription for Change

This article is one in a series of contributions by ACG Chicago's Platinum Sponsors. We appreciate their support.

By Steven Dresner, Timothy Coleman, and John Riddle,
Dresner Investment Services Inc.

Increasingly, healthcare systems are reassessing their investments in various operating assets, in an attempt to align their core mission with a strong competitive posture and forward-looking strategic planning. The result of such a top-down strategic review, more often than not, is the divestiture of one or more non-core ancillary businesses and investments. This allows for the redeployment of capital into acute and outpatient services that clearly are central to the system's mission.

These actions are altering a trend of a decade ago, where community and regional hospitals diversified their operations into a wide variety of ancillary business lines in an attempt to become a full-service healthcare provider. The result is a more focused, competitive organization that is exhibiting proper stewardship of its asset base.

Acute Care Landscape

Hospitals continue to face margin pressure in their core acute care business. This is the result of structural industry changes brought on by a combination of managed care and consolidation among the payer base, as well as reim-

bursement pressure driven by Medicare and Medicaid. Such pressure has caused healthcare systems to become leaner, and change the way certain services are delivered – driving efficiency in the acute setting. However, cost savings and efficiencies, over the long term, don't grow; they are one time benefits that are limited, while margin pressure in basic acute services is an ongoing trend.

Thus, hospital management must continually expand physician relationships, and look for new service lines, to drive revenue growth. There are many opportunities for a healthcare system to expand. Many of the most promising

high technical areas – neurology and orthopedics, oncology, and cardiology – require substantial capital commitments. Additionally, many hospitals are facing an aging physical plant, which will require a substantial renovation or a complete recapitalization in the next decade.

At the same time, most hospitals remain capital constrained. Certain core service lines are delivering less annual cash flow. Projections for investment portfolio performance remain cautious, at mid- to high-single digit annual returns. Rating agencies have ratcheted up key financial metrics, particularly liquidity requirements, leading to higher ongoing cash requirements. Fixed income investors are more discerning in choosing only investment grade credits. Thus, capital requirements to support expansion and facility improvements must come from asset redeployment.

Strategic and Competitive Review

Throughout the 1980s and 1990s, many healthcare systems expanded the scope of their operations into non-acute services, and related investments. Meanwhile, over the last decade, for-profit providers and investors have emerged within many of these ancillary lines of business, such as home nursing, RT/DME, renal care, and medical office building ownership. Companies like Apria and Lincare in RT/DME, and Fresenius and DaVita in renal care, have built large, national platforms. These are formidable competitors with the scale to compete and win against a local healthcare system.

At BDO Seidman, LLP, our experienced and committed business advisors understand the intricacies of middle-market business and what is needed to help them grow. We address the unique business and financial needs of growing companies and of the entrepreneurs behind them. Whether obtaining your first or next round of financing, going public, or expanding into other states or countries, BDO Seidman can help you achieve your business objectives, while managing risk. For more than 90 years, we have provided assurance, tax, financial advisory and consulting services to private and publicly traded businesses. BDO Seidman serves clients in more than 35 offices and 250 independent alliance firm locations.

BDO Seidman expanded its audit practice faster than any national Big Four firm in 2003, and added the largest number of new SEOs among all accounting firms, including the Big Four.

For more information, contact:
Stephen R. Ferrara, Regional Managing Partner
Assurance Services
233 N. Michigan Avenue, Suite 2900
Chicago, IL 60601
312-616-4683
sferrara@bdo.com



BDO Seidman, LLP
Accountants and Consultants

In many cases, these ancillary service lines are profitable contributors to a healthcare system's performance. They generate attractive returns on invested capital. And yet they are not core to the mission of the organization. Furthermore, a forward-looking market assessment many times indicates that the ancillary business, while profitable, is long-term at a strategic disadvantage, whether due to increasing competition or looming regulatory changes that favor the national provider.

Interestingly, current market conditions are favorable for such strategic considerations. Asset prices today, in healthcare particularly, are high. It is a seller's market. Public consolidators are very active in a variety of ancillary healthcare services, including those listed above. Furthermore, the capital markets, especially the private equity markets, are aggressively deploying capital into healthcare services. These two constituencies have enhanced transaction volume and velocity, leading to heightened relative valuations for ancillary services.

Not surprisingly, healthcare systems are taking advantage of such market conditions. At the same time that hospitals require capital to expand their core operations, and are re-evaluating certain non-core operating investments, the capital markets are supporting high relative valuations for those operating assets.

However, cost savings and efficiencies, over the long term, don't grow; they are one time benefits that are limited, while margin pressure in basic acute services is an ongoing trend.

Key Issues

Clearly, when evaluating a divestiture, both for-profit and not-for-profit enterprises are focused on maximizing economic value. Mission driven organizations like healthcare systems have additional concerns that many times are as important as price. The impact of a divestiture on the hospital's key constituencies – patients, employees, physicians, and the community –

loom large in any sale transaction. While the system has monetized its investment in an ancillary operation, the business continues to provide services to that hospital's patients, employ or receive referrals from the hospital's affiliated physicians, and interact with the community. Thus, to some extent the acquirer becomes a strategic partner with the hospital.

Therefore, a transaction must be consummated with a good partner. Most for-profit specialty providers and niche healthcare asset investors understand this, and have experience and success handling such issues correctly.

Conclusion

Mission-based healthcare organizations, like their for-profit counterparts, must continue to achieve top-line growth and improved operating performance, while focusing management and capital resources on areas where they can maintain a competitive advantage. An ongoing program of rigorous

strategic review of a healthcare system's operations, with selective pruning of non-core assets, and subsequent redeployment of such assets into growth investments, will lead to long-term success. Such a process also will allow management to take advantage of market opportunities, like those that exist today in monetizing ancillary operations, and in expansion of high technical services. In the end, this review and redeployment effort is critical to being able to deliver on the core mission, and is an important part of the ongoing stewardship responsibility of any healthcare system.

About Dresner Investments

Dresner Investment Services, Inc. is a registered broker-dealer and NASD member firm that was founded thirteen years ago with the sole purpose of providing middle-market companies with sophisticated investment banking solutions in the areas of mergers, acquisitions, capital formation, valuation and other advisory services. Please visit our website at www.dresnerco.com. For more information about our Healthcare Practice, please contact Steven Dresner, Timothy Coleman or John Riddle at 312-726-3600.



American Appraisal Associates
We value your business®

Merger & Acquisition Valuation Consulting Services:

- Business Valuations
- Fairness and Solvency Opinions
- Allocation of the Purchase Price
FAS 141 & 142 and IRC Section 1060
- Tangible and Intangible Assets
- Appraisals for Financing

More than 40 offices in 17 Countries to serve you

William C. Golz Jr., Vice President | 312.832.1203

Emerging Growth Award

Zebra Technologies Earns Its Growth Stripes

U • biq • ui • tous: *adjective, seemingly present everywhere at the same time.*

The dictionary doesn't include bar codes in its definition of ubiquitous, but those little black and white stripes are literally everywhere – from retail products to rental cars, from drug labeling to parking passes, and from military logistics to supply chains around the world.

Bar codes have become the new answer to the old riddle: "what's black and white and read all over?"

Zebra Technologies, based in Vernon Hills, is leveraging the ubiquity of bar codes to build an impressive growth record of its own, delivering innovative and reliable bar code and specialty label printing solutions to clients in 90 countries around the world, including more than 90 percent of Fortune 500 and Global 2000 companies.

As Edward Kaplan, chairman and CEO, modestly says, "We are fortunate to operate in an attractive specialty printing business with outstanding growth prospects."

And because of those future prospects, in tandem with its outstanding track record over the past 30 years, ACG's Chicago Chapter has selected Zebra Technologies as the Emerging Growth Award winner. Kaplan will accept the award at the chapter's March 15 luncheon meeting.

Kaplan, armed with a BS in Mechanical Engineering from the Illinois Institute of Technology and an MBA from the University of Chicago's Graduate School of Business, co-founded the company in 1969 with Gerhard Cless, currently executive vice president and secretary.

He's a former winner of the High Tech Entrepreneur Award sponsored by KPMG; the Inc. Magazine/Ernst & Young Entrepreneur of the Year Award, and the University of Chicago Graduate School of Business Distinguished Entrepreneurial Alumnus Award.

If the past is any prologue, Zebra has a bright future indeed.

Since its initial IPO in 1991, Zebra shares have risen 1,185 percent...

The company incorporated in 1969 as Data Specialties Inc, changed its focus to specialty on-demand labeling and ticketing systems in 1982, and became Zebra Technologies in 1986.

Since its initial IPO in 1991, Zebra's shares have risen 1,185 percent as of December

2003, compared with 186 percent for the S&P 500, 188 percent for the NASDAQ Composite, and 249 percent for the Dow Jones Average. The company stock has split 3 for 2 twice in the past two years.

Over the past five years, sales have increased 33 percent from \$402 million to \$536 million and net income has increased 32 percent from \$69.6 million to \$91.6 million. Zebra maintained its fast pace through the first three quarters of 2004, with sales for the period up another 25.4 percent and net

Knowledge makes ideas profitable

www.harrisnesbitt.com



A member of BMO Financial Group

income increasing 31.8 percent – both figures representing new records for the company.

Zebra Technologies' growth has been enhanced both by strategic acquisitions, along with organic growth spurred by innovations to take advantage of the bar code's ubiquity.

Zebra merged with Eltron International, a market-leading manufacturer of desktop bar code label and plastic card printers in 1998, positioning the combined company as a leader in printing ID cards, security access cards, shipping labels, receipts, tickets, and tags.

The company then acquired Comtec Information Systems in 2000, adding its dominance in portable and mobile printing solutions for the retail and hospitality industries to Zebra's portfolio.

In November of 2003, Zebra acquired Atlantek, extending the range of its core thermal printing technology and allow it to enter the emerging area of digital photo printing, where it has an OEM relationship with Eastman Kodak.

And in October of 2004, Zebra continued to enhance its approach to the future by entering into an alliance with ThingMagic LLC, a leading developer of radio frequency identification (RFID) sensing and embedded computing technologies.

What's RFID and why is it so important to Zebra's future?

RFID uses radio waves to read data put on a chip embedded within a tag. When combined with traditional bar code and readable labels, they can be read automatically, and even updated with new information in real time as they move through supply chains.

Leading retailers, including giant Wal*Mart, and the U.S. Department of Defense are turning to RFID to squeeze costs out of their supply chains.

The Yankee Group, a Boston-based technology research firm, expects the RFID market to reach \$4.2 billion by 2008. But as the new technology penetrates numerous other high-end markets, some analysts are predicting growth to \$15 to \$30 billion by 2010, widening a niche market into a virtual chasm.

It's small wonder that Kaplan's growth story for Zebra Technology promises many happy returns.

"Zebra's market reach, financial and management strength, and product and technology portfolio have never been

greater, nor has our outlook been more positive," Kaplan wrote in Zebra's most recent Annual Report.

"More opportunities are ahead of us than ever before, as emerging uses for our technologies supplement growth in our core markets."

**What's RFID
and why is it
so important
to Zebra's
future?**

UNGARETTI & HARRIS Congratulations to our private equity clients on these recent transactions

 <p>ROUNDTABLE HEALTHCARE PARTNERS has acquired Excelsior Medical Corporation</p>	 <p>MEDASSIST, INCORPORATED (a portfolio company of Roundtable Healthcare Partners) has acquired Argent Healthcare Financial Services, Inc.</p>
 <p>Wind Point PARTNERS has acquired United Subcontractors, Inc.</p>	 <p>MARS EQUITIES has acquired Kitchen Distributors of America</p>

Gary I. Levenstein, Chairman
Corporate, Securities & Finance Group
gilevenstein@uhl.com tel: 312.977.4108

www.uhl.com
Ungaretti & Harris LLP

ACG Chicago's Inside Information

This synopsis of news and views captures growth insights from recent meetings of ACG Chicago.

Transitioning for Growth

December 15, Luncheon

Carol Tomé, Home Depot's chief financial officer, provided fascinating insight into how the country's largest home improvement chain transitioned itself for renewed growth under new CEO Bob Nardelli. Tomé, who joined Home Depot as CFO in May 2001, five months after Nardelli joined the company from GE, related how investing \$10 billion back into the company positioned it to grow past the \$50 billion annual sales plateau. **Home Depot recently reported a 15% jump in its fiscal third-quarter profit** on quarterly sales of \$18.8 billion and increased its full-year profit expectations for the third time in 10 months.

Named on Fortune Magazine's list of the 50 most powerful women in business, Tomé was the featured speaker at ACG Chicago's December luncheon meeting.

Emotional Due Diligence

November 5, Breakfast

When great-looking deals go bad, it's often because of the people involved, according to **Michael O'Malley, Jr.**, president of The O'Malley Group. The answer? Emotional Due Diligence, O'Malley says – a process of evaluating people that's as rigorous, and as important, as any financial due diligence. "Emotional Due Diligence is a process that creates an objective profile of leadership, management, culture, and the 'shadow side' of the business," he says, walking a recent professional development breakfast audience through his innovative solutions for relationship issues that can turn a good deal bad.

Where to Find Good Deals?

October 1, Breakfast

Mike McCoy, managing director of Crowe Capital Markets LLC, says that the down market for mergers and acquisitions of the past two to three years is being replaced by a **"hyper-efficient" market**. And that brings challenges of its own in finding deals.

According to McCoy, some of the attributes of today's hyper-efficient market include the following:

- ▶ Corporate confidence improving the quality of earnings increases.
- ▶ Global M&A activity up 40 percent.
- ▶ Private equity deals at 11 percent of fall M&A, the highest level in the past 10 years.
- ▶ Fundraising slowed, "but still a lot of dry powder out there."
- ▶ Valuations at 7 to 9 times EBITDA.
- ▶ Unpredictable strategic bidders.

"The question becomes, is it difficult to find transactions in this environment?" McCoy asks.

Patrick Eilers, director at Madison Dearborn Partners, says that his firm's strategy was to specialize in target industries, such as pulp and paper. "We're the most active players in this market next to International Paper," Eilers says. "It's a cyclical industry with a great deal of complexity, and that tends to eliminate a lot of competition."

Maneesh Chawla, a principal at Prospect Partners, says that focusing on the lower end of the market creates a different environment. "Business brokers and investment bankers bring a lot of business to us," Chawla says. "We see a lot of deals that are not shopped extensively and we often form a partnership with the entrepreneur."

Steve Brown, a partner with Code Hennessy & Simmons, says that their strategy is to concentrate where they can add value. "Ten or 15 years ago, we could make money on the buy, but those days are gone forever," Brown says. "Today, you need to add value to stay in business."

Congressman Rahm Emanuel

September 20, Luncheon

Tax reform will be the big issue on the table in 2005 in the view of Chicago Congressman **Rahm Emanuel**. "Given our \$450 billion deficit, the only option is to raise taxes," Emanuel says.

"You can't cut your way to a balanced budget."

Emanuel says that the need to raise taxes will open the door to reform proposals. He's working on a plan to enact a consumption tax with no income taxes on income of less than \$100,000 and a flat rate above that. "We've got to deal with the deficit, given that China and Japan alone own \$700 billion of our debt," he says. "I have a lot of respect for the American people and they understand the choice."

There are more similarities between private deal making and the public policy process, according to Emanuel. In both cases, you have to put a coalition together and align the issues into a win-win scenario for all parties, the Congressman told a recent luncheon meeting of ACG.

"You can't go into a deal of any kind if your objective is for the other guy to lose," Emanuel says.



Capital Connection Re-Cap

The Sweet Sound of Capital Connecting!

The volume level in the Sheraton Chicago Hotel ballroom on October 19, 2004 was comparable to the uproar of open outcry trading on the floor of Chicago's Board of Trade or Mercantile Exchange. But in this case, it was the sweet sound of success of the 2004 Midwest ACG Capital Connection.

The enthusiastic roar of voices represented the clamor of commerce – and the sound of capital from around the country connecting with prospective deals throughout the Midwest was music to the participants' ears. More than 750 dealmakers came together for the Chicago Chapter's annual Capital Connection in October, including some 70 middle market private equity firms ranging from American Capital Strategies to Wynnchurch Capital.

"We believe this is the single most productive day of marketing and relationship building our participants will have all year," says Barry Freeman, managing director, Goldsmith, Agio, Helms, and co-chair of the event.

Special recognition for making the second annual Capital Connection such a success goes to the event's sponsors, according to co-chair Tom Gregory, managing director, American Capital Strategies.

It's the single most productive day of marketing and relationship building our participants will have all year.

Platinum sponsors were American Capital Strategies, KPMG, Aon, and Sonnenschein Nath & Rosenthal LLP; gold sponsors were Kirkland & Ellis LLP, Lockton Companies, Lincoln Partners LLC, and PNC Business Credit; and silver sponsors were AIG, Robert W. Baird & Co., Inc., Brown Gibbons Lang & Company, CapitalSource Finance LLC, Cleary Gull



Lawrence Lindsey, CEO of The Lindsey Group and former Assistant to the President and Director of the National Economic Council at the White House.

Inc., Crowe Capital Markets LLC, GE Commercial Finance Global Sponsor Finance, Goldsmith Agio Helms, Grace Matthews Inc., Harris Nesbitt Corp., Harris Williams & Co., Houlihan Lokey Howard & Zukin, Katten Muchin Zavis Rosenman, LaSalle Bank N.A./ LaSalle Business Credit LLC, and LaSalle Corporate Finance.

The event was launched by breakfast speaker Lawrence Lindsey, CEO of The Lindsey Group and former Assistant to the President and Director of the National Economic Council at the White House.

Lindsey said that some \$6 trillion was lost when the stock market bubble crashed, but that it could have been worse. "We used fiscal and monetary policy, including tax cuts and lowered interest rates, to avoid the ten-year malaise that has beset the Japanese

Former U.S. Senator Bill Bradley



economy since the Nikkei dropped precipitously ten years ago," Lindsey said. Looking forward, better economic policies are needed in Europe and Asia to create more balanced global growth, according to Lindsey. "It might be too late in Japan because once deflation starts, there's nothing the central bank can do," he said. "Europe continues to be held back by high interest rates and rigid labor markets – their goal is stability, rather than growth."

Former U.S. Senator Bill Bradley, now managing director of Allen & Company, told the luncheon gathering that change will continue to come quickly from unexpected sources throughout the world. "The challenge is to respond quickly with strategies based on an understanding of the underlying forces at work," Bradley said.

Key factors in today's world, according to Bradley, are globalization, technological change, and terrorism. "My conviction is that if we handle these elements properly, we can achieve the highest standard of living for the most number of people ever, along with a flourishing of democracy around the world," he said.

Outstanding Growth Award

Alberto Culver



Ray Daly, ACG Awards Co-Chair Presents the Outstanding Growth Award to Howard Bernick, Alberto Culver. From left...Craig Miller ACG Chicago President, Mary Warmus, Awards Co-Chair, Howard Bernick, Alberto Culver, Ray Daly Awards Co-Chair

Alberto-Culver's Outstanding Growth Comes from 'Little Company Approach'. When Howard Bernick joined the Alberto-Culver Company as director of profit planning and acquisitions in 1977, he adopted what he thought were extremely ambitious goals.

He wanted to grow sales of the Melrose Park enterprise from \$150 million to \$1 billion and hoped to increase profits from \$2 million to \$50 million.

Bernick, who today is president and CEO of Alberto-Culver, managed to accomplish that ... and quite a bit more.

Alberto-Culver sales in its fiscal 2004 year reached a record \$3.26 billion and net earnings hit \$195 million. In the process, the hair and skin care firm entered its 50th anniversary year with a market capitalization north of \$4 billion, a far cry from the \$30 million it was worth in 1977.

In recognition of these efforts, the Chicago Chapter of ACG presented Bernick and Alberto-Culver with its Outstanding Growth Award at a recent luncheon meeting.

Bernick credits Alberto-Culver's success to maintaining its focus and learning from mistakes along the way.

"We have reduced our market propositions from 10 to 15 down to two," Bernick said. "And by keeping a lot of 'little company' discipline even as we've grown has enabled us to benefit from economies of scale."

Bernick noted that changes in the marketplace that could seriously damage your results when you earned a 1% margin were much easier to absorb with margins at their current 9% range.

"About a third of our growth has come from acquisitions, but we have focused on growing what we buy," Bernick said. The company's consumer products division includes such popular brand names such as Alberto VO5, St. Ives, and TRESemmé. Its Sally/Beauty Systems Group is the world's number one profes-

sional beauty supply distributor, selling hair care and skin care goods, cosmetics, and appliances to professionals and consumers through direct sales and in more than 3,000 stores throughout the world.

The formula is certainly working, with 13 consecutive years of record sales and earnings. In 2004, sales and earnings grew at double digit rates of 12.7 percent and 20.5 percent respectively, faster growth than the compound rates experienced during its prior 12 years, according to Bernick.

Along the way, Alberto-Culver has bought and sold a boot company, a handbag company, and a food company, realizing each time that its growth potential was truly focused on what it knows best – hair and skin care products.

Bernick shared some of the fundamental "rules of the road" he has learned over his career, including the following: The most important thing to know is what you don't know. "Don't be afraid to get advice when you don't have the expertise to make an informed decision yourself."

- ▶ It's easier to buy than sell. "If you have money, you can buy anything, but there is nothing harder than selling a losing proposition."
- ▶ There's no such thing as a good deal with the wrong price or the wrong people involved.
- ▶ No investment banker ever tells you that your offer is on the high side.
- ▶ Integrating an acquisition often leads to a neglect of your existing business.
- ▶ Never bet the company on a deal or a new product.
- ▶ The seller always knows more than a buyer. "Not all acquisitions create value for a buyer, but they all do for the seller."
- ▶ There is always another opportunity coming.
- ▶ Growing organically creates more value than buying.

DUFF & PHELPS, LLC

INVESTMENT BANKING & FINANCIAL ADVISORY SERVICES

EXPERTS IN:

*Fairness Opinions and Valuations
ESOP and ERISA Advisory Services
Private Placement of Debt and Equity Securities
Merger and Acquisition Advisory Services*

CHICAGO • LOS ANGELES
SAN FRANCISCO • SEATTLE • NEW YORK

312.697.4600 • WWW.DUFFLLC.COM

...Business Without Borders

Growth Story of the Year

...Continued from cover page.

management companies and multinational companies in North America, Europe, Asia, Australia, and South Africa.

Before launching his own firm, Hale was the Global Chief Economist for the Zurich Financial Services Group, advising the group's fund management and insurance operations on the global economic outlook and a wide range of public policy issues.

Business Without Borders is aimed at taking the mystery out of doing business across country borders

As Hale recently said about China's dramatic change, "The world's most populous nation has radically liberalized its economy and gone from producing low-quality and simple exports to sophisticated high-technology goods, while nurturing a vibrant private sector and attracting nearly \$500 billion in foreign direct investment."

Business Without Borders will kick off with a panel on "The Current Climate." This discussion by leading economists and business journalists will focus on

economic and political conditions affecting cross border deals and trade. Joseph Cahill, Managing Editor of Crain's Chicago Business will serve as the moderator of the panel. Joining him in the discussion will be Gregory Anderson, Senior Foreign Exchange Strategist for ABN AMRO; Julie Sell, Midwest Bureau Chief, The Economist magazine; and Siva Yam, President, U.S.-China Chamber of Commerce.

The second panel discussion will focus on "Getting the Deal Done," with five experts addressing the nuts and bolts of putting together cross border deals and trades. They include:

- ▶ Brant Ahrens, Senior Vice President, LaSalle Bank, on Cross Border Financing.
- ▶ Allan Cheshire, former Director, International Consulting, RSM McGladrey, on Outsourcing.
- ▶ Philip Gawthorpe, Managing Director, Global Sector, AON Risk Services, on Insurance & Risk Assessment.
- ▶ Daniel McMann, Partner, BDO Seidman, LLP, on Taxation.
- ▶ Peter Tucci, Partner, Piper Rudnick, on Legal Issues in M&A Transactions.

After lunch, the final panel session of the day will be "War Stories of the Initiated," with area business leaders recounting their own personal experiences doing cross border deals.

The panel will be moderated by Dan Miller, Business Editor of the Chicago Sun-Times, and will include Brian McNeill, President & CEO, Southco, Inc.; Kenneth Pape, President and CEO, PFG Enterprises, Inc.; Thomas Parro, Director of Mergers and Acquisitions, Globe Union Group; and Thomas Quinn, President & COO, Jordan Industries, Inc.

"Our goal is to take the mystery out of the challenge of international business and equip our participants with the knowledge and understanding they need to find, finance, and complete good cross border deals," Sklar says.

Be sure to register now to assure that you'll be on the forefront of international business growth in the future. For more details, contact ACG Chicago at 630-455-1740 or log on to the Chapter's website at www.acg.org/chicago.

ACG Chicago Sponsors Underwrite Success

A total of 26 local firms are sponsoring the growth and success of ACG Chicago for the 2004-05 year, according to Joseph Davisson of GE Commercial Finance and Michael O'Malley of Wells Fargo Business Credit, our two vice presidents of the Sponsorship committee.

These outstanding contributors provide a strong financial base that enables ACG Chicago to maintain stability and flexibility in delivering outstanding programming and events for the entire membership throughout the year. Thanks to their help, ACG continues to be the leading authority on corporate growth.

The Chapter's six Platinum sponsors for the current sponsorship year are BDO Seidman, LLP; Dresner Investment Services; LaSalle Bank / LaSalle Business Credit; PNC Business Credit; RSM McGladrey; and Ungaretti & Harris. Our 10 Gold sponsors are American Appraisal Associates, Inc.; Crowe Capital Markets, LLC; Duane Morris, LLP; Duff & Phelps, LLC; Harris Nesbitt; Jenner & Block LLP; Katten Muchin Zavis Rosenman; KPMG; Lincolnshire Management, Inc.; and Sonnenschein Nath & Rosenthal LLP.

And rounding out the list are 10 Silver sponsors: Billow Butler & Company, LLC; Conway MacKenzie & Dunleavy; Grant Thornton LLP; Jordan Industries, Inc.; Mesirov Financial; Piper Rudnick; Schwartz Cooper Greenberger & Krauss; Tatum Partners; Vedder, Price; and Wells Fargo Business Credit, Inc.

Many thanks to our sponsoring partners!

Gold Sponsors

American Appraisal
Associates, Inc.

Duane Morris, LLP

Duff & Phelps, LLC

Harris Nesbitt

Jenner & Block LLP

Katten Muchin Zavis
Rosenman

KPMG

Lincolnshire
Management, Inc.

Sonnenschein Nath &
Rosenthal LLP

Silver Sponsors

Billow Butler & Company, L.L.C.

Conway MacKenzie & Dunleavy

Grant Thornton LLP

Jordan Industries, Inc.

Mesirow Financial

Piper Rudnick

Schwartz Cooper Greenberger & Krauss

Tatum Partners

Vedder, Price

Wells Fargo Business Credit, Inc.

Platinum Sponsors



BDO Seidman, LLP
Accountants and Consultants



UNGARETTI
& HARRIS



RSM! McGladrey



LaSalle Business Credit

ACG Chicago

Association for Corporate Growth

P.O. Box 220

Westmont, IL 60559