MERGERS& ACQUISITIONS

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Lender of the Year: Fifth Street Management

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Fifth Street Management LLC had a blockbuster 2013. The lender doubled deal value, took a second business development company (BDC) public, bought another lender, started a venture lending operation and an aircraft leasing operation, and expanded and added new offices.

Greenwich, Conn.-based Fifth Street increased its deal value total in 2013 to $2 billion, up from $970 million the previous year. Despite the competitive lending environment that 2013 presented, Fifth Street's deal volume increased dramatically. In 2013, the company worked on about 110 deals – 45 more transactions than in 2012.

In July, Fifth Street took public Fifth Street Senior Floating Rate Corp. (NASDAQ: FSFR). "The second BDC is really focused on senior floating-rate assets," Tannenbaum says. "It offered us a different flavor for the investors." The loans pay interest at rates that are periodically determined on the basis of a floating-base lending rate, which changes based on the market. Fifth Street took public its first BDC, Fifth Street Finance Corp. (NASDAQ: FSC), in 2008.

The new BDC raised about $100 million in the initial public offering. The group focuses on investing in senior secured loans, including first lien, unitranche and second lien debt. During the last quarter of 2013, Fifth Street Senior closed almost $98 million in investments, and increased net investment income by 79 percent.

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In April, the lender closed a pair of back-to-back financing facilities for more than $100 million each, proving that it is among a small group of middle-market lenders that can hold unitranche positions of more than $100 million.

In May, Fifth Street paid $110 million to buy New York-based health care lender Healthcare Finance Group (HFG). The target, Fifth Street's first strategic portfolio acquisition, provides asset-based loans to health care companies. After being acquired by Fifth Street, the company closed a $475 million loan to Prime Healthcare, which the borrower planned to use partially for acquisition purposes.

Leonard M. Tannenbaum
Chief Executive Officer

"HFG's reputation in the last 15 years is just unbelievable, and we couldn't build that brand, reputation and team," Tannenbaum says. Thanks to the acquisition, the two lenders can work together on deals. If HFG takes the senior part of a loan, then Fifth Street may handle the second lien or stretch piece, says Tannenbaum.

"It provides a very competitive solution for our health care private equity sponsors," Tannenbaum says.

Moving into the venture capital space, Fifth Street launched Fifth Street Technology Partners, a venture lending operation that will allow the company access to businesses as they exit the venture lending stage and move into other stages, including private equity ownership. In addition to giving Fifth Street access to Silicon Valley, the business should increase the firm's expertise in the technology, internet and information technology sectors.

Other milestones included: forming a company in the aircraft-leasing sector, First Star Aviation LLC; doubling the size of the Chicago office; and adding offices in Dallas and Palo Alto, Calif.

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—Allison Collins

FIVE YEARS OF M&A MID-MARKET AWARD WINNERS

	Deal of the Year	*Seller of the Year	Dealmaker of the Year	Strategic Buyer of the Year	Private Equity Firm of the Year	Law Firm of the Year	Investment Bank of the Year	Lender of the Year
2013	Hormel Foods' (NYSE: HRL) deal for Skippy peanut butter	Vector Capital	Stewart Kohl and Béla Szigethy, the Riverside Co.	Yahoo Inc. (Nasdaq: YHOO)	GTCR	Latham & Watkins LLP	Lincoln International LLC	Fifth Street Management LLC
2012	Starbucks Corp.'s (Nasdaq: SBUX) purchase of Teavana Holdings Inc.	Blue Sage	Mark Brady, William Blair & Co.	Covidien (NYSE: COV)	The Riverside Co.	K&L Gates LLP	Harris Williams & Co.	Madison Capital Funding LLC
2011	Diamond S Shipping's purchase of 30 tankers and charters from Cido Shipping	SRA International	Roger Perlmutter, Amgen	eBay Inc. (Nasdaq: EBAY)	First Reserve Corp.	Sullivan & Cromwell LLP	William Blair & Co.	NXT Capital Inc.
2010	Oak Hill Capital's sale of Duane Reade	n/a	Brian Humphries, Hewlett-Packard Co. (NYSE: HPQ)	Thermo Fisher Scientific	Berkshire Partners	Jones Day	Harris Williams & Co.	GE Capital
2009	KPS Capital Partners' purchase of High Falls Brewery, Labatt USA and AB/InBev	Advent International's purchase of Charlotte Russe	n/a	Oracle Corp. (Nasdaq: ORCL)	The Riverside Co.	Skadden Arps Slate Meagher & Flom LLP	Houlihan Lokey	Fifth Street Capital

*Previously named Exit of the Year

What We Look For

The M&A Mid-Market Awards honor the leading dealmakers and deals that set the standard for transactions in the middle market in the previous year. To determine the winners, Mergers & Acquisitions considers a variety of factors. We look for companies and individuals who overcame the challenges the year brought, embodied the trends of the period and took their businesses to the next level.

Picking the Winners

Market leadership and performance are important, but league tables aren't everything. Growth counts for a lot, especially when it outpaces peers and the overall industry. Innovation also counts. We value companies that changed the M&A landscape, ventured into new territories and transformed their businesses. Thought leadership in the industry is also relevant.

A great example of what we look for can be found in the $700 million acquisition by Hormel Foods Corp. (NYSE: HRL) of the popular Skippy peanut butter brand from Unilever plc (NYSE: UL), which won our award for 2013 Deal of the Year. The transaction allowed Hormel to continue growing in important new markets, specifically healthconscious consumers and international customers, especially in China. These areas of expansion aren't significant just to Hormel but to the whole middle market.

Another model winner is GTCR LLC, which won our 2013 Private Equity Firm of the Year award. The 30-year old Chicago firm has been refining the Leader Strategy, which involves teaming up with an experienced management leader to develop through acquisitions an industry-leading company in a sub-sector of the financial services and technology, health care and information services. The approach paid off well in 2013, with the firm's successful sales to strategic buyers, the creation of new companies and with the raising of a new fund, the firm's biggest ever.

Process Points

To be eligible for the awards, deals must: be valued at or below roughly $ 1 billion; involve a U.S.-based company as either buyer or seller; and have been completed by Dec. 31, 2013.

We encourage nominations, but they are not required. Ultimately, the winners are chosen by our editorial team.

We made two important changes in the nomination process this year. The first was that we pushed back the deadline to Jan. 31, a couple of weeks later than in previous years. This was in response to feedback from many companies, who said they needed the full month of January to analyze their deals and data from the previous year. The change also resulted in moving the announcement of the winners from the March issue of the magazine to the April issue.

Another improvement to the process is that we launched an online system for submitting nominations. Whereas the old system offered little guidance on what information to include in the submission, the e-forms allow us to ask specific questions that will help us compare apples to apples. As folks filled out the e-forms, some had questions, and we were able to make modifications based on this input. Our goal is to make the process as transparent as possible, and we continue to seek your feedback as we improve the system. We're always looking for input, so if you have any suggestions or questions, please email me at marykathleen.flynn@ sourcemedia.com.

—Mary Kathleen Flynn