

# The industry insider

MiddleGround Capital is a private equity firm wise beyond its years. Formed of leading industry professionals, the company is taking a unique hands-on approach to investment, with a focus on driving higher ESG standards across its portfolio



**A**lthough only established in 2018, MiddleGround Capital (MiddleGround) is the product of years of experience. A private

equity firm specializing in the business-to-business industrial and specialty distribution sectors, its founders worked together for more than a decade in middle market private equity

investing, prior to MiddleGround's founding. Currently, investing out of both its mobility and flagship second fund, the company takes an operationally focused approach to value

creation, partnering with its portfolio companies to support long-term growth strategies. But MiddleGround isn't your run-of-the-mill investment firm. With a board comprising

leading industry professionals, the company possesses the insider knowledge required to navigate industry trends and exploit market niches with greater agility than general investors.

Direct access to major CEOs, as well as influential customer connections, further drives MiddleGround's ability to identify high-growth companies.



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“We have real-world industry experience,” confirms Mike Bridge, Director of ESG and Data Analytics at MiddleGround, speaking to *Manufacturing Today*. “Our operations team comprises 25 individuals who have lived within the challenges that these companies are facing. “We have experience ranging from former hourly line workers to operations executives from major OEMs. In fact our founding partner, John Stewart, started his career installing bumpers on Toyota Camrys. Our DNA is factory floor experience.”

### Investing in what we know

Headquartered in Lexington, Kentucky, MiddleGround launched its first fund in August 2019, with a value of \$460 million. In June

2021, this was followed by its flagship second fund, worth \$800 million. It’s been a tricky few years for businesses, with the arrival of the Covid-19 pandemic in early 2020, followed by supply chain shortages, and the war in Ukraine. But amid these uncertain times, Mike argues that businesses are looking for a change – a factor that is driving healthy deal flow for MiddleGround. “In particular, we’re seeing an uptick in smaller and family-owned businesses coming to market,” he comments. “Although we’re only halfway through the year, we’ve already exceeded the deals we received in 2021, which puts us on track for a record-breaking year.

“The manufacturing deals we’re seeing are typically tighter processes; they’re asking buyers

to come to the table with more,” he continues. “They are not just looking for capital, they are looking for partners to help solve problems. That means our research-intensive approach, oriented around a particular thesis, has paid dividends, as has our operational expertise. We’re able to position ourselves well because we’ve already underwritten and understood the market trends at a macro-level.”

One such deal arrived in November of 2020, with MiddleGround’s acquisition of Shiloh Industries, Inc., a global innovative solutions provider focusing on lightweighting technologies. The move fits neatly within MiddleGround’s mobility thesis, and further echoes the company’s stated commitment to ‘invest in what we know’. The company’s

seventh platform acquisition from its first fund, it was the second automotive deal to be sourced, subjected to due diligence, and closed during the Covid-19 pandemic.

“Our automotive experience gives us the knowledge of where the industry is going when it comes to EVs and lightweighting, for which Shiloh had a really excellent portfolio,” Mike reflects. “At the same time, we have the capability to identify where we can add value to that company beyond others. That spoke well to the sellers, and was the basis on which we were able to close the deal.”

### An ESG-led approach

As it looks to build its reputation for value-added investment, MiddleGround is aiming high. In June 2020, it became the first sub-billion-dollar AUM company to sign the Principles for Responsible Investment (PRI). As Mike explains, it’s a topic “near and dear” to the company’s heart. “When we look for new investments, we identify transitional assets,” he indicates. “That might be companies who traditionally struggle to adhere to ideal working conditions, or those who are poor stewards of the environment, where we believe we can bring improvements.”

But ESG isn’t an add-on for MiddleGround; it’s a central part of the company’s investment criteria. “The ESG team attends investment committee meetings to discuss the risk and opportunities identified in our ESG screening process,” Mike goes on. “We assess every portfolio company on a common set of 15 key performance indicators, including governance, worker welfare, environmental stewardship, energy use, waste, safety indicators, board makeup, and more. We’ll compare that to our internal data and available information to understand where a company sits in relation to its peers, and set targets better than that. Many of our investments are precisely that: helping companies to know where they are in that journey, and being a resource for them to plot a path within ESG. It can be intimidating to get started, but we encourage everyone to get on board because it can make a substantial difference.”

As Mike is well aware, it’s one thing for companies to have an ESG policy. It’s quite another to execute on that policy. “Nowadays, that’s not enough,” he emphasizes. “You need to be able to set targets, track and measure your performance, and prove what you’ve achieved.”

Crucially, MiddleGround’s emphasis on ESG is founded on the belief that an ESG-led approach can deliver operational and process enhancements. That, in turn, drives

the return on investment. “We’ve been in the shoes of operators, and we understand that enhancements are driven by supporting shopfloor workers and leaders first and foremost,” Mike argues. “We place a strong focus on culture, whether it’s through boot camps, the setting up of production management systems, or engaging factory workers directly and listening to their ideas.

“One company in our portfolio produces galvanized steel eye beams for the solar market,” he goes on. “At the time of our due diligence, the working conditions were inadequate – there was a lack of bathrooms, a lack of protection, a lack of a proper rest area. Whereas some firms might be scared of that investment, we immediately installed temporary facilities after acquisition, before investing \$2 million into permanent facilities, and another \$1.6 million into equipment upgrades. By visualizing targets for the employees and encouraging motivation, we were able to reduce a \$16 million backlog in less than ten weeks. We were even able to take 35,000 pounds of unnecessary waste that was formerly going to landfill, and repurpose that for the production of minerals for cattle – both saving the company \$200,000 annually, and protecting the environment.”

So firm is MiddleGround’s commitment to staff welfare, in 2021, the company mandated a minimum hourly wage of \$15 per hour across all its North American businesses. More than 500 members of staff had their pay increased as part of the initiative, but MiddleGround isn’t satisfied. The company is now planning for a so-called ‘25 by 25’ initiative, targeting a minimum compensation package of \$25 per hour by the year 2025.

“We feel that giving our staff \$10 per hour relative to employees in an industry such as fast-food hospitality is a good target area to be, in respect to the skills and expertise present among our workforce,” Mike notes. “We’re going to continue to evaluate that every year. It’s an investment in our people that we’re not afraid to make.

“At the same time, we’ve built out our own internal automation team, stacked with industry veterans, whose responsibility it is to identify which jobs are low value-added, and to automate those,” he continues. “That includes loading and unloading machines, repetitive work, or perhaps those jobs which involve a high ergonomic burden. Then, we’re able to repurpose the staff to other areas of the business, thereby increasing operator efficiencies.”

For Mike, it’s important for companies like MiddleGround to share this expertise when it

comes to ESG. “Collaboration makes the world a better place,” he states. “We’re happy to compete head-to-head, but we believe we have a responsibility to impart what we’ve learned, and to listen to how others have succeeded in order to improve ourselves.”

### International expansion

Moving into the latter part of 2022, MiddleGround is set to make further investments in its ESG team. “We’ve already brought onboard our Vice President of ESG, Madelyn Tutewiler, who brings a wealth of experience from the oil and gas industry,” Mike notes. “Together, we’ll look to build out our next industry thesis, centered around ESG, with a view to launching an ESG fund in the early part of 2023. We’re also in the process of building a five-year strategy for ESG, and educating our team company-wide about its importance.”

An international expansion is on the cards, as MiddleGround gets ready for the opening of its new Amsterdam office, scheduled for early 2023. “We already have a number of European facilities,” Mike notes. “The Amsterdam office will enable us to better support those, while opening up a new investment base. We currently have just over 80 members now, and we expect to be closer to 100 by the end of the year as we look to expand our team internally.

“MiddleGround will continue to be a front runner when it comes to implementing real change,” Mike concludes. “We’re going to continue to invest in our core thesis and stay on top of industry demands. At the same time, we’ll look to systematize our playbook, while also incorporating flexible tools to evaluate risks and opportunities. Above all, our focus remains on executing the actionable deals that come through our pipeline.” ♦



**MiddleGround Capital**

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