

2011 Q3 UPDATE

It certainly has been an interesting quarter across the globe and in the business world. Summer has been anything but hazy and lazy. We in the Milestone family have been busy working on potential new platform investments, debt refinancing activities, portfolio company add-ons, assisting management on challenges inside portfolio companies, and getting off to a great start in fundraising for Milestone IV.

We are pleased to be publishing our second issue of the CEO Newsletter. We will seek to continue to evolve this communication with an eye towards making it interesting and valuable to our CEOs and Directors. In this quarter's issue we have a spotlight on Avure, a Milestone portfolio company that builds truly unique products for the markets it serves. We also highlight another "prized service provider", Performance Improvement Partners (PIP) who are IT specialists working with us in a number of situations. Take note of their announcement of their "Portfolio Company Support Program" where they are making themselves available to help answer any/all IT questions you may have at no cost or obligation.

As we move into Q4, no one really knows where we are headed with the economy. Some say we are headed into a "double dip" and others say we will avoid that and continue a slow steady climb upwards. What is certain is that uncertainty requires all of us to manage our businesses with great care. Tightening belts in the right places, keeping both feet on the ground in all decisions we make, making the extra sales calls and going the extra mile to close business are all part of the formula for surviving and thriving in these times. We ask that all of our boards keep these thoughts in mind as we navigate through the near term.

- Ric Andersen

BUILDING THE MILESTONE ECONOMY

We shared our developing list of "prized service providers" in our last issue.

	Pine Hill Group	CFO / Finance / Reporting
	Rody Salas	Strategy
	Kingfish Group	Expert Network
	Performance Improvement Partners	Information Technology
	Flow Consulting	Lean / Process Improvement
	Lewis Goldman	Social Media / Digital Marketing
	Middle Market Methods	Strategy / Planning
	Celerant Consulting	Operations

NEW

We continue to work on expanding this list and have trial activities underway with several new providers including a sales process improvement/sales recruitment firm and a tactical "lean" shop that is offering one week "kaizen" events for a favorable price and a money back guarantee. We continue to monitor the quality of the work these firms are doing for us as they expand their presence in our portfolio.

We are also beginning to explore an idea around a capability to share market research/analytics across the portfolio. Imagine a small dedicated team of researchers able to do small projects for your companies to understand a competitor, size a market, analyze a data set, build a model, etc. We often hear our companies talk about these types of needs and then complain that they are unable to afford such capabilities or find folks willing to do something so small or narrow. We would be very interested in hearing from you if you think this is something you could see benefit in. We will only do this if we can build an economic model that makes sense for Milestone and its portfolio companies. **Speak up and let us know what you think.**

SAVE THE DATE!

2012 CEO Retreat: Mon April 23 - Wed April 25, 2012



SPOTLIGHT:



During the past decade, Performance Improvement Partners (“PIP”) has become one of America’s most talked about full service IT consulting firms. They work exclusively within the Private Equity industry servicing portfolio companies, having completed hundreds of engagements in over 50 different consumer and business to business categories.

Their services include everything from Process Improvements, IT Roadmaps, and System Implementations to recruiting IT personnel at all levels. Their informative website (www.pip-llc.com) provides details on all 13 PIP service categories, and numerous testimonials from Private Equity Firms and Portfolio Companies alike. Principals take pride in the fact that all of these services are designed to make your business work smarter and more efficiently.

As you know, Milestone places a great emphasis on its value system. So does PIP.

1. They strive to provide every client on every assignment, large or small, the highest-quality custom-tailored deliverables.
2. They believe the quality of their deliverables is related to the quality of their staff. They take great pride in providing superior product at an excellent value, and strive to complete every assignment on time and within budget.
3. All their process decisions and client deliverables are based on what is in your best interest, not theirs.

As a member of the Milestone family, you are automatically enrolled in PIP’s **Portfolio Company Support Program**. PIP professionals will answer any/all Information Technology related questions and issues—at no cost or obligation to you. All you have to do is contact them at the East Coast office, (203) 261-1498 or the West Coast office, (415) 713-7869.

One phone call and we think you’ll find, the Milestone credo of “being a resource, not a burden” is also PIP’s credo.

LESSONS FROM THE FIELD

This quarter’s update focuses on a super important topic – management compensation. Specifically, I am focusing on core compensation elements – base salary and bonus opportunity. As I have engaged with more and more of our portfolio companies, I have discovered a wide variety of practices in place, some good and some not very good. Compensation is an enormous component of any company’s cost structure. Structured and spent well it is perhaps the best investment we can make in the success of our companies. The opposite is also true... a compensation program that isn’t thoughtfully designed and administered can have negative impacts and actually create inappropriate incentives and negatively impact morale, teamwork, etc.

So, lets face it, most of our comp programs are designed and evolved from the history and experiences of the founders, original management teams that built our companies. Very few, if any, are built from a thoughtful (and expensive) design process using market benchmarks and best practices. Base comp levels are often a function of history and/or simply what the market demanded for a specific hire at some point in the past. I would bet we would all agree that if we looked at our entire management team compensation on a clean sheet of paper and stack ranked our team by salary, it wouldn’t match a stack ranking by contribution. This isn’t really surprising... or abnormal. However, it is an opportunity for thoughtful consideration and for awareness as we move our businesses forward.

On annual bonus programs, I see a very common set of issues. First, too many of us have not effectively communicated the parameters of the program and the specific criteria to be used to evaluate a given manager. Communication in this sense is both to the team and to the individual. It is critical that everyone on the management team understand the playing field, the rules and, ultimately, why they should be comfortable that the “game” is fair and worth participating in. Failure in this can create many odd and/or negative impacts to teamwork and individual motivation. A very common issue here is the failure to communicate the exact budget/forecast that is the foundation for measuring performance and funding the bonus pool. I’ve seen multiple situations where there was no clarity on this and/or poor communication of actual performance during the year. A poor year will often leave a bonus pool either empty or only modestly filled. This should NOT be a surprise to bonus pool participants. In addition, individuals need to be clear as to their specific objectives and measures for their bonus opportunity. The more specific and measurable the goals are the better. Combine the first issue of overall confusion on the plan with the second, a lack of clarity in individual goals, and you’ve got a very high likelihood of missed expectations. So how bad would it feel to pay a \$50K bonus to someone who upon receiving it feels they were completely mistreated?

We will be taking proactive steps with our companies to engage with CEOs and Boards in the coming months on this topic. It’s a great practice to periodically step back and take an objective critical look at management compensation. It can also be a very high ROI activity.

- Ric Andersen



THREE QUESTIONS WITH PAT ADAMS CEO OF AVURE TECHNOLOGIES



Milestone: Tell us a little about your business.

Pat Adams: For 46 years, Avure has been the world's leading producer of ultra-high pressure capital equipment. The company designs, manufactures, installs hot and cold isostatic presses, Flexform® fluid cell sheet metal forming presses, and High Pressure Processing (HPP) pasteurization systems for packaged foods, each serving fairly discreet markets. Avure has delivered 1,800 high pressure systems worldwide. We sell into a broad range of markets, including manufacturing, electronics, energy, ceramics, medical, and food processing, none of which account for more than 40 percent of sales.

Avure has doubled its revenue in the last five years. Our company has a solid reputation for innovative technology, product performance, technical support, and the ability to deliver complex projects on time almost anywhere in the world. These strengths, along with Avure's diversity of products and a global footprint, have resulted in better than market performance despite a disastrous market for large, capital equipment for almost 2 years.

Avure at a Glance

Industry	Capital equipment manufacturer of contained ultra-high pressure systems along with related service and support
Primary Products	Hot and cold isostatic presses, fluid cell sheet metal forming presses, high pressure processing systems (HPP)
End Markets	Aerospace, manufacturing, food processing, medical devices, automotive, electronics, other industrial
Distribution	Global
2010 Sales Volume	60 systems into 42 countries
2010 Revenue	\$76 million
Locations	Franklin, TN (HQ), Vasteras Sweden (large system manufacturing), Columbus OH (small system manufacturing), regional sales offices worldwide
Total Employees	140

Milestone: Avure serves a very diverse range of customers spanning many independent and unrelated micro-markets. Tell me about one or two of the micro-markets you are particularly focused on right now and what your typical customer in these markets might look like.

Pat Adams: You are right about that. We literally have dozens upon dozens of micro-markets for each product line.



Our fastest growing product line is in High Pressure Processing (HPP) systems. These systems use isostatic pressure usually at 87,000 psi (6000 bar) to pasteurize ready-to-eat meats, soups, salsas, sauces, deli salads, raw juices and other refrigerated products. It also has the unique ability to shuck shellfish. HPP eliminates the need for heat or chemical additives, and is used globally to ensure food safety, dramatically extend shelf life, and create all-natural products. Avure has been successful in marketing HPP directly to the food processing industry as well as creating pull-through by marketing to retail chains. Though there recently have been a few news articles, consumers and the food service industry are both largely not aware of HPP's benefits. Our challenge is to build awareness and educate them in a cost-effective manner. Our plan is to use social media and a community website initially then create a marketing association similar to the Milk Advisory Board made up of HPP systems providers and food processors in order to create HPP product pull-through via mass marketing.

Milestone: Are there any challenges that Avure is facing right now that the readers of this newsletter may be able to help you address?

Pat Adams: One of the things that we are looking for right now is a solid market research analyst that can help us look at new markets for our products as well as to help build business cases for our new product development process. We would prefer to find an intern but would consider a full time position as well.