



Quarterly Update Newsletter

Jan 15, 2019

Hello everyone,

Happy 2019! I trust that the end of the year was a chance for everyone to spend time with friends and family. It is hard to believe that I am now six months into my search.

This past quarter was a good one, despite some slowdown due to the holidays. Overall, I wanted to make a shift to more proprietary deals instead of brokered deals. The numbers show that I was able to do that.

My goals for the quarter were as follows:

1. Buy a business
2. Submit 9 offers to businesses that meet my criteria
3. Source 5,000 valid leads
4. Shift pipeline from 80/20 brokered deals to 50/50 or better, using conversations completed as a key metric

Unfortunately, I didn't meet first three goals. The first is obvious - you would have known if that occurred! The other two, I fell short. Only four offers went out, and 4,193 leads were captured. Despite falling short, I was still able to make good progress on the fourth goal, completely reversing the ratio from 80/20 brokered deals to 20/80.

There are three offers that are currently outstanding and I am negotiating to get to an LOI on. Two are proprietary and one is brokered. As I get closer to a deal, I am also putting more effort into building out my legal and accounting teams. Referrals are welcomed.

All the best,

A handwritten signature in blue ink, appearing to read "Eric Flu".



1. Summary

1.1 Search Update

0 LOIs -- 4 offers -- 32 Seller Calls

This Quarter's Key Stats

Funnel Steps	Proprietary	Broker	Grand Total	Funnel Steps	Proprietary	Broker	Grand Tot
Leads	4173	20	4193	Leads	100.00%	100.00%	100.00%
Contacted	1176	20	1196	Contacted	28.18%	100.00%	28.52%
Reply	254	13	267	Reply	21.60%	65.00%	22.32%
Positive Reply	39	12	51	Positive Reply	3.32%	60.00%	4.26%
Conversation Complete	25	7	32	Conversation Complete	2.13%	35.00%	2.68%
Offer Made	2	2	4	Offer Made	0.17%	10.00%	0.33%

Last Quarter's Key Stats

Funnel Steps	Proprietary	Broker	Grand Total	Funnel Steps	Proprietary	Broker	Grand Total
Leads	2456	120	2576	Leads	100.00%	100.00%	100.00%
Contacted	1536	120	1656	Contacted	62.54%	100.00%	64.29%
Reply	191	55	246	Reply	12.43%	45.83%	14.86%
Positive Reply	38	54	92	Positive Reply	2.47%	45.00%	5.56%
Conversation Complete	15	49	64	Conversation Complete	0.98%	40.83%	3.86%
Offer Made	1	5	6	Offer Made	0.07%	4.17%	0.36%

One main point of emphasis in this quarter was to focus on proprietary lead generation instead of relying on brokered deals and on quality. Overall, I believe we achieved that, with a strong pickup in the overall leads we collected - more than 4,000 new leads compared to ~2,500 the quarter before. Our total conversations is down overall, but proprietary conversations is up to 25, from 15. I basically cut out most of the brokered conversations I was having before.

The pace of outreach slowed, but that was driven by the holidays more than anything. With both Christmas and Thanksgiving, there were prolonged periods where I did not reach out to any new leads. This should pay dividends as things ramp up in the new year.

This quarter, four offers went out the door, two of which are still being negotiated:

(In order of my general excitement about the offer)

1. **Labor Compliance Service** - Lost
2. **B2B Screen Printing and Embroidery Company** - Active
3. **National Outdoor Advertising Service Provider** - Active
4. **Home Healthcare Company** - Lost

Additionally, I have been laying the groundwork for building my professional team (legal/CPA) once I get something under LOI. **If you have any strong recommendations, please send them my way.**

1.2 Personal Update

The quarter offered a great chance to catch up with family. One key benefit of working for yourself is being able to set your own schedule.

We were fortunate to spend time exploring London/Scotland for 5 days in November before spending Thanksgiving with my family back in New York. The kids did great adjusting around multiple time zones. It took them 35 fewer years than me to get to London for the first time.

For Christmas, my parents visited and were able to spend a couple of weeks with us. A huge help for daily logistics, but also precious time for the grandparents to spend with the kids. Plus, my dad never likes to sit around, so a few projects around the house got checked off the list. We were fortunate to be joined by some additional family for Christmas - we went up to the beach to get some sunshine and show my aunt and cousin a California Christmas!

Sheela continues to be very supportive of my efforts, even the really down weeks when it seems like this is might be an impossible task. Getting a routine that allows me to exercise, read, and spend quality time with the family have been really helpful in maintaining balance.

2. Gory Details

In this section, I will go into the details on a few different pieces of the search so far.

2.1 Details of Offers

Company	EBITDA / SDE	Offer	Pros	Cons
	(\$,000)			
Labor Compliance LOST	1,200	6,483 (5.4x)	<ul style="list-style-type: none"> - Strong team/culture - 6+ years of solid profitability - Sleepy niche - Effectively a 'warranty' company that sold high margin product to ensure compliance in the future 	<ul style="list-style-type: none"> - Competitive deal, didn't get to meet with seller directly

Screen Printing <i>ACTIVE</i>	1,100	3,600 (3.2x)	<ul style="list-style-type: none"> - Strong team - Repeat B2B relationships - Needs technology (my strength) - Amazing working capital (50% on order/50% COD) - No inventory taken 	<ul style="list-style-type: none"> - Quasi-manufacturing business will require some CAPEX to maintain and grow top line - Seller is very passionate, loves her 'baby,' and had a previous partnership go bad putting her defenses up
Outdoor Ad Services <i>ACTIVE</i>	625	2,500 (4x)	<ul style="list-style-type: none"> - Exclusive provider of billboard maintenance services for Clear Channel in TX - Huge growth with new markets opening up 	<ul style="list-style-type: none"> - Located in TX with national footprint - Industry has yet to adopt outsourced model in mass - All staff was contract - moving them to employees would increase costs
Home Healthcare Company	4,800	24,000 (5x)	<ul style="list-style-type: none"> - Significant profitability - Differentiated service 	<ul style="list-style-type: none"> - Only 15% is private pay

Active deal from prior quarter

IP Translation Service	\$1,010	5,011 (5x)	<ul style="list-style-type: none"> - Includes \$800k in cash and receivable - Niche business in fragmented industry 	<ul style="list-style-type: none"> - Two founders will leave of three person key mgmt team
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Details on Previous Offers are in the Appendix

In trying to learn from prior experience, I got much more aggressive on the labor compliance company, bidding over 5x. I ended up being there on price, but lost a competitive process because I lacked secured funds. Not much I could have done about that. I prefer to remain aggressive, but disciplined.

2.2 Companies in the Pipeline I Like

Are there any of these that pique your interest as an investor/advisor? Why?

1. **Compliance Software** - provides software to CIOs at blue chip companies that helps them map and maintain relevant regulations and standards that they must comply with. Long time founder/owner is coming off of a few hard years where his previous partner had health problems that impacted the business, but the business is doing very well in the last few years.
2. **Educational Software** - software to help social workers and other therapists with interventions for at-risk kids. Education is a space I am familiar with, and can leverage my experience with more.
3. **Solar Panel Installation** - SF based installer of commercial and residential solar panels. On the smaller side, EBITDA wise, but CA just enacted legislation that requires all new builds to include solar power. Also has a good opportunity to do more with servicing. Tariffs and unclear federal policy create short terms risks, but may allow for a discounted purchase with good long-term growth potential.
4. **Technical Training Company** - husband/wife team that provides training and certifications for niche technical skills. This business is a spin-off from a consulting business that they run, but is fully setup and delivering classes.

2.3 Additional Metrics

Funnel Performance (Total)

Metric	Proprietary	Brokered	Total	Goals	% of Goal (Proprietary)
% of Goal (Valid Leads / Goal)				100.0%	43.8%
% of Quality Leads (Valid to Total)	75.5%	99.3%	76.0%	85.0%	88.8%
% Contacted (of Valid)	54.2%	100.0%	55.4%	100.0%	54.2%
% Replied (of Contacted)	16.4%	48.6%	18.0%	15.0%	109.4%
% Positive Reply (of Contacted)	2.8%	47.1%	5.0%	2.0%	142.0%
% Conversation Complete (of Replied)	51.9%	84.8%	67.1%	30.0%	173.2%
% Offer Submitted (of Conversations)	7.50%	12.50%	10.42%	20.0%	37.5%
% LOI Submitted (of Offers)	-	-	-	33.0%	

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2.4 Lessons Learned

- Cut the BS
 - My approach has become much more straightforward, and frankly, confident. I am much more direct with 'uncomfortable' questions and my comfort with addressing them has increased.
- Be aggressive, but disciplined
 - The geography I am searching in is wonderful for a number of reasons, but there is a lot of competition for quality businesses. Not necessarily coming from financial buyers, but from other smaller entrepreneurs like me.
- Create discipline through routine
 - The lessons from parenthood are helping me a lot with my search. Creating routines, systems, and automations is really helping me manage the workload and constant juggling act. Plus, if something is automated or a routine, I'm more likely to remain disciplined with it.

2.5 Goals for next quarter

These are the same, but still very relevant

1. Buy a business / get a deal under LOI
2. Submit 9 offers to businesses that meet my criteria
3. Source 5,000 valid leads

What else would you like to see in this update as a friend, advisor, operator and/or potential investor?

Appendix

Details of Prior Offers

Company	EBITDA (\$,000)	Offer (\$,000)	Pros	Cons
Traffic Equipment Distributor	\$792	\$4,000 5.05x	<ul style="list-style-type: none"> - Historical EBITDA averaged \$1.3mm - Enduringly profitable - Niche business in fragmented industry 	<ul style="list-style-type: none"> - Lost primary supplier last year, hence hit in revenue and EBITDA
IP Translation Service	\$1,010	\$5,011 5.00x	<ul style="list-style-type: none"> - Includes \$800k in cash and receivable - Niche business in fragmented industry 	<ul style="list-style-type: none"> - Two founders will leave of three person key mgmt team
Safety Training	\$655	\$2,100 3.20x	<ul style="list-style-type: none"> - ~33% EBITDA with good ops leverage - Obvious growth opportunities available 	<ul style="list-style-type: none"> - All-time high rev LY - High human capital risk - Requires deep specialization
Dental Lab	\$781	\$2,000 2.56x	<ul style="list-style-type: none"> - Bigger than most labs at \$2mm in rev - Clear roll-up strategy 	<ul style="list-style-type: none"> - Products priced at a premium vs. Glidewell (huge competitor)
ABA Therapy	\$408 annualized	\$1,300 3.18x	<ul style="list-style-type: none"> - Asset light, high growth therapy provider - Primed to grow geographically - Key team in place 	<ul style="list-style-type: none"> - Very short history, but scaling quickly - Still quite small - Owner not willing to take note or risk future
Contract Manufacturer	\$704	\$5,133 7.29x 4.20x excl WC	<ul style="list-style-type: none"> - Offer Incl. \$1.88mm in net working capital - 4.2x offer on cash flows when adjusted for working capital 	<ul style="list-style-type: none"> - Heavy working capital requirements - Owner started with \$16mm price, including \$4mm of real estate



Our Mission

“To identify, acquire, and operate a business in Northern California with untapped potential”

The mission is what we aim to achieve, regardless of the time horizon. It focuses and inspires our efforts.

Our Five Values

These five values are at the core of how we behave. Achieving a goal and our mission is of critical importance, but the manner in which you achieve that goal is just as important. Culture is not a buzzword that you implement with powerpoint slides and all-hands meetings - it is how you behave every day, even when nobody's looking.

Persevere	Anticipate and Act
Adversity is inevitable - don't shy away from it. Embrace it and beat it. Constraints breed the best solutions.	Move quickly as a proactive problem solver to address issues and capture opportunities. Prefer action over analysis.
Own the Result	Measure Everything
Strong opinions are loosely held. Use available information, vocally disagree, but commit. Be proud of your success and humble in your failure. Act with integrity.	You don't know what you can't measure. Data leads you to truth, but you will have to use your judgement along the way.
Have Fun! Life is too short not to	