

**Quarterly Update Newsletter**

April 17, 2019

Hello everyone,

Quarters go by fast! Lots of great learning this quarter. Despite ending up as a busted deal, I got my first LOI out there and went further on any deal than I have up to this point. I ended up engaging 27 lenders, learning a number of critical lessons, and feel much more confident in my ability to get the right deal closed when the time comes.

I'm experimenting with the format of the update - feedback is appreciated. I'm going to bring forward the information about deals that are further down the pipeline, instead of the earlier sourcing metrics (those are still critical, but less relevant to you all).

My asks for you:

- Who has deep experience with working capital and structuring working capital pegs for a business with very complex AR (insurance claims based)

As always, feedback is welcomed. Don't be a stranger if you are in the Bay Area (or if you want to hop on the phone)!

All the best,



## 1. Summary

1 LOI -- 6 offers -- 24 Seller Calls

### 1.1 Offer Updates

This quarter, six offers went out the door, five of which are still being negotiated

| Company                              | EBITDA   | Offer            | Pros   | Cons  |
|--------------------------------------|----------|------------------|--|---|
|                                      | (\$,000) |                  |  |   |
| Shipping Software                    | 1,800    | 10,980<br>(6.1x) | <ul style="list-style-type: none"> <li>- I am very familiar with the problem this solves from my last role at Valore</li> <li>- Expensive for a typical deal, but cheap for software</li> <li>- Calls ⅓ of the top 200 law firms clients</li> <li>- Lost two clients in 10 years</li> <li>- 95% of revenue is recurring</li> </ul> | <ul style="list-style-type: none"> <li>- Higher multiple will require more growth</li> <li>- Very niche, may limit upside growth and the existing target market is not growing</li> </ul>   |
| Windshield Repair and Software       | 500      | 1,273<br>(2.5x)  | <ul style="list-style-type: none"> <li>- Cheap, but with huge growth potential</li> <li>- Physical operation with proprietary software</li> </ul>  | <ul style="list-style-type: none"> <li>- No CA presence yet</li> <li>- Huge AR from outstanding claims</li> <li>- Very litigious</li> </ul>   |
| Compliance Software                  | 1,500    | 12,000<br>(8x)   | <ul style="list-style-type: none"> <li>- Niche info management service with broad applicability</li> <li>- Huge market in governance, regulation, compliance</li> <li>- Strong team in place</li> </ul>  | <ul style="list-style-type: none"> <li>- Too expensive to have significant leverage</li> <li>- Far outside price target</li> <li>- EBITDA is run rate, last calendar year did \$500k</li> </ul>   |
| Security / Alarm Company             | 450      | 1,300<br>(2.9x)  | <ul style="list-style-type: none"> <li>- Strong local brand with mechanical and alarm divisions</li> <li>- Growth potential with mid-market customers</li> </ul>   | <ul style="list-style-type: none"> <li>- Three partners involved</li> <li>- Partners seem to be very involved in daily operations - risk of transition</li> </ul>   |
| Event Company                        | 429      | 1,287<br>(3x)    | <ul style="list-style-type: none"> <li>- Repeat, blue chip clients</li> </ul>  | <ul style="list-style-type: none"> <li>- Owner seems to be driving creative force</li> </ul>  |
| Electrical Contractor<br><b>LOST</b> | 2,800    | 8,000<br>(2.9x)  | <ul style="list-style-type: none"> <li>- Included NWC and \$1.5mm in cash</li> <li>- Very attractive deal, economically</li> <li>- Two key employees would remain and be highly incentivized to continue</li> <li>- Developed a niche with</li> </ul>  | <ul style="list-style-type: none"> <li>- Deal busted</li> <li>- Seller not willing to introduce key employees until very late in process</li> <li>- Licensing requirements in state of CA</li> <li>- Limited growth due to union workforce</li> </ul> |

|  |  |  |   |  |
|--|--|--|---|--|
|  |  |  | hospitality clients (hotels) that require updates every 5-7 years | - Highly complex working capital in/outflows |
|--|--|--|---|--|

## 1.2 Sourcing Update

### This Quarter's Key Stats

#### Quarterly Update Summary

| Funnel Steps          | Proprietary | Broker | Grand Total |
|-----------------------|-------------|--------|-------------|
| Leads                 | 3167        | 23     | 3190        |
| Contacted             | 2531        | 23     | 2554        |
| Reply                 | 441         | 51     | 492         |
| Positive Reply        | 171         | 53     | 224         |
| Conversation Complete | 19          | 5      | 24          |
| Offer Made            | 4           | 2      | 6           |
| LOI Sent              | 0           | 1      | 1           |

#### Quarterly Update - As % of Total

| Funnel Steps          | Proprietary | Broker  | Grand Total |
|-----------------------|-------------|---------|-------------|
| Leads                 | 100.00%     | 100.00% | 100.00%     |
| Contacted             | 79.92%      | 100.00% | 80.06%      |
| Reply                 | 13.92%      | 221.74% | 15.42%      |
| Positive Reply        | 5.40%       | 230.43% | 7.02%       |
| Conversation Complete | 0.60%       | 21.74%  | 0.75%       |
| Offer Made            | 0.13%       | 8.70%   | 0.19%       |
| LOI Sent              | 0.00%       | 4.35%   | 0.03%       |

### Last Quarter's Key Stats

#### Quarterly Update Summary

| Funnel Steps          | Proprietary | Broker | Grand Total |
|-----------------------|-------------|--------|-------------|
| Leads                 | 2549        | 20     | 2569        |
| Contacted             | 1176        | 20     | 1196        |
| Reply                 | 254         | 13     | 267         |
| Positive Reply        | 39          | 12     | 51          |
| Conversation Complete | 25          | 7      | 32          |
| Offer Made            | 2           | 2      | 4           |

#### Quarterly Update - As % of Total

| Funnel Steps          | Proprietary | Broker  | Grand Total |
|-----------------------|-------------|---------|-------------|
| Leads                 | 100.00%     | 100.00% | 100.00%     |
| Contacted             | 46.14%      | 100.00% | 46.56%      |
| Reply                 | 9.96%       | 65.00%  | 10.39%      |
| Positive Reply        | 1.53%       | 60.00%  | 1.99%       |
| Conversation Complete | 0.98%       | 35.00%  | 1.25%       |
| Offer Made            | 0.08%       | 10.00%  | 0.16%       |

Note: The Broker numbers look funny because of some data issues we had with reporting at the middle of the funnel last quarter. This was discovered after the last update was sent out. The issue is now resolved.

This quarter, I was much more aggressive in a few specific areas (outreach, pre-call screening, and offers). Each shows up in the metrics compared to last quarter. I still emphasize proprietary deals, but have brought in more brokered leads, as I have trained an intern to more actively monitor that channel, resulting in the increase there.

Beyond that, after some reflection, and looking at the data, I realized I was spending too much time with prospects that I could have screened with less effort than a 30 minute phone call. I now screen positive replies for size prior to offering to get on the phone. This has weeded out a number of the replies. Some reply and say they are too small, some don't reply. For those who don't reply, there may be some who meet my size criteria, but I think it is safe to assume they aren't truly motivated to sell if they don't get back to me.

## 1.3 Companies in the Pipeline I Like

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

1. **Wireless Infrastructure Provider** - Mid-sized wireless infrastructure integrator
2. **Plantscaping Company** - Provides plants to offices, including significant maintenance contracts (clean/water/dust plants in the office)

3. **Speciality Restaurant Cleaning Service** - Keg line cleaning service with repeat bi-weekly business
4. **Niche Data Management Provider** - Provides data cleaning/integrity services to financial services / fiduciary customers
5. **IT Services** - Custom app developer running agile teams for large corporate clients in financial services and telecom
6. **IT Services** - Performance optimization IT services firm
7. **Trade Show Internet Provider** - Temporary network provider for events and other trade show clients
8. **Coding Bootcamp** - Multi-location coding bootcamp / technical training company
9. **Customer Experience Mapping Software** - Customer experience tool used by Fortune 500 companies to manage their “customer experience” teams

#### *1.4 Personal Update*

The girls continue to amaze Sheela and me. Both of them have such distinct personalities. Aanika is a great, caring older sister. Lyla has developed quite a mischievous personality. I'm biased, but both are adorable and so much fun. Sheela and I couldn't be more proud of either of them. Sheela continues to a tremendous support for me in this process. Professionally, she is a complete a rock star at Slack.

We managed to get a handful of days skiing this winter, which was awesome. It has been record breaking snowfall in the Sierras. Lots of avalanche delays, but well worth it. Aanika went skiing for the first time, as well. She loved it, especially that she got to “go fast!” I also snuck in a trip to Utah for a few days. My reconstructed knee is back to full strength and nothing beats getting up in the mountains.

#### *1.5 Lessons Learned*

- Negotiate directly with the owner
  - Sierra made it very clear that negotiations are not serious if you are not negotiating directly with the seller/principal. Until you are doing that, you shouldn't consider the negotiation to be serious.
- Be clear about process early
  - Don't take process for granted. Sellers don't know what to expect - make sure you are on the same page early and reinforce this.
- Trust runs both ways
  - Sellers need to trust me, but I'm now more mindful that I need to trust them, as well. Seems trivial, but trust and momentum seem to be keys to getting deals done.