



## Quarterly Update Newsletter

July 17, 2019

Hello everyone,

We've reached the one year mark. Hard to believe, but the time has been flying.

Another quarter and another busted deal! Some wise person said this was a long, lonely process - and they were right. Ultimately, I killed the deal upon doing a first pass of diligence and realized that the unit economics of the business were very challenged with no path to improving them. The operation did not generate sufficient cash flow to fund the business while the short paid insurance claims were being collected. It was not the business I thought it was.

That being said, I'm still very optimistic. My pipeline is looking healthy and I've learned a lot of lessons along the way.

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,

A handwritten signature in blue ink, appearing to read "Eric Fluor". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

## 1. Summary

1 LOI signed - 1 LOI presented -- 9 offers -- 26 Seller Calls

### 1.1 Offer Updates

Nine new offers this quarter, with one deal coming back around after the seller had more time to think about their motivations to sell, resulting in six offers I am actively working on. Any of these pique your interest?

Company	EBITDA	Offer	Pros	Cons
	(\$,000)			
Screen Printing REVIVED DEAL	936	3,638 (3.9x)	<ul style="list-style-type: none"> <li>- No-inventory model serving B2B only</li> <li>- Very profitable vs. industry</li> <li>- Top tier accounts (UC Berkeley, Stanford, etc)</li> </ul>	<ul style="list-style-type: none"> <li>- Seller has options and been very indecisive about selling in the past</li> </ul>
Specialty Cleaning for Beer Distributors ACTIVE	793	3,573 (4.5x)	<ul style="list-style-type: none"> <li>- State-mandated bi-weekly cleaning of draft beer lines</li> <li>- 7,500 accounts in Bay Area</li> </ul>	<ul style="list-style-type: none"> <li>- Seller has unreasonable expectations on price and may not be serious about selling</li> </ul>
Frame Scaffolding ACTIVE	411	1,500 (3.7x)	<ul style="list-style-type: none"> <li>- Big upside to grow (organic and roll-up) over time</li> <li>- Lots of low hanging fruit to improve operations</li> </ul>	<ul style="list-style-type: none"> <li>- Highly cyclical business subject to a downturn</li> </ul>
Fire Systems Installation ACTIVE	1,800	4,000 (2.2x)	<ul style="list-style-type: none"> <li>- Good team in place</li> <li>- Strong growth for 5+ years</li> </ul>	<ul style="list-style-type: none"> <li>- Seller is young and has options</li> <li>- 90+% of revenue from new housing starts</li> </ul>
Wireless Integrator ACTIVE	276	3,860 (14x)	<ul style="list-style-type: none"> <li>- Huge upside driven by 5G rollout work</li> </ul>	<ul style="list-style-type: none"> <li>- LY EBITDA was negative due to lost customer</li> <li>- Located in Sac and Austin, TX</li> <li>- In the middle of a turnaround from LY</li> </ul>
Niche Continuing Education Training LOST	500	1,625 (3.3x)	<ul style="list-style-type: none"> <li>- Great niche with ongoing certification requirements for opticians</li> </ul>	<ul style="list-style-type: none"> <li>- Unclear growth path given how niche the business is</li> </ul>

Window Washer <b>PASSED</b>	400	1,250 (3.1x)	- Simple, straightforward business with room to grow and dedicated staff	- Very small - Young owner with options
Organic Juice Mfg <b>PENDING</b>	418	2,200 (5.3x)	- Very differentiated vs. Odwalla, etc. - Additional mfg capacity to grow more	- Owner expectations - Tradeoff on freshness/quality as you scale beyond the region
Glazing Company <b>LOST</b>	510	2,000 (3.9x)	- High growth glazing company focused on mid-sized projects	- Owner recently bought and had a dispute with partner leading to sale
Event Networking Provider <b>PASSED</b>	500	2,000 (4.0x)	- Nice industry, high growth - Strategic growth opportunities and multiple expansion	- Management structure - Would have been a buyout of existing partner and running the business with the other partner

### Updates on previous offers

Company	EBITDA	Offer	Pros	Cons
	(\$,000)			
Shipping Software <b>ACTIVE</b>	1,800	10,980 (6.1x)	- I am very familiar with the problem this solves from my last role at Valore - Expensive for a typical deal, but cheap for software - Calls ⅓ of the top 200 law firms clients - Lost two clients in 10 years - 95% of revenue is recurring	- Higher multiple will require more growth - Very niche, may limit upside growth and the existing target market is not growing
Windshield Repair and Software <b>KILLED LOI</b>	500	1,273 (2.5x)	- Cheap, but with huge growth potential - Physical operation with proprietary software	- No CA presence yet - Huge AR from outstanding claims - Very litigious
Compliance Software <b>PENDING</b>	1,500	12,000 (8x)	- Niche info management service with broad applicability - Huge market in governance, regulation, compliance - Strong team in place	- Too expensive to have significant leverage - Far outside price target - EBITDA is run rate, last calendar year did \$500k
Security / Alarm Company	450	1,300 (2.9x)	- Strong local brand with mechanical and alarm divisions	- Three partners involved - Partners seem to be very involved in daily

PENDING			- Growth potential with mid-market customers	operations - risk of transition
Event Company PENDING	429	1,287 (3x)	- Repeat, blue chip clients	- Owner seems to be driving creative force
Electrical Contractor LOST	2,800	8,000 (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 hospitality clients (hotels) that require updates every 5-7 years</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> <li>- Highly complex working capital in/outflows</li> </ul>

## 1.2 Sourcing Update

Quarter by Quarter Totals	2018		2019		2018		2019	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>Leads</b>	<b>2576</b>	<b>4193</b>	<b>1566</b>	<b>4249</b>				
<b>Contacted</b>	<b>1656</b>	<b>1196</b>	<b>2554</b>	<b>1650</b>	<b>64.3%</b>	<b>28.5%</b>	<b>163.1%</b>	<b>38.8%</b>
Replied	246	267	444	302	14.9%	22.3%	17.4%	18.3%
<b>Positive Reply*</b>	<b>92</b>	<b>24</b>	<b>203</b>	<b>72</b>	<b>5.6%</b>	<b>2.0%</b>	<b>7.9%</b>	<b>4.4%</b>
Conversation Complete	64	32	20	26	69.6%	133.3%	9.9%	36.1%
<b>Offer Made</b>	<b>6</b>	<b>4</b>	<b>6</b>	<b>9</b>	<b>9.4%</b>	<b>12.5%</b>	<b>30.0%</b>	<b>34.6%</b>
LOI Sent			1	1	0.0%	0.0%	16.7%	11.1%

\*2019 Q1 numbers are inflated due to a data adjustment that accounted for activity in Q4 in the Q1 reporting period.

In my last update, I mentioned some tactics I would be taking to better screen calls. The data shows that it did work. With six more offers, I generated three more offers. This is a combination of me being more comfortable making offers, and having better conversations to start with. Interns continue to crank for me on the lead gathering side. This was our best quarter yet. I slowed the pace of outreach some, to accommodate more in-depth discussions and my period of due diligence on Clear Vision Windshield.

## 1.3 Companies in the Pipeline I Like

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

- Regional Trucking & Logistics** - \$4mm EBITDA family owned trucking company that specializes in moving metal coils to plants in the region. Site visit was great. Current

CEO is a good guy. One challenge is that the 10 acre property near the port is very strategic for the business (and very expensive given the Bay's real estate market).

2. **Specialty Janitorial / Cleaning Company** - Family owned cleaner who does specialty hospital cleaning and large events. Two very different businesses, but seems to have a good team and solid customer base
3. **Swing Stage Scaffolding** - These are scaffolds that hang over the edge of a building. Has a component of recurring revenue because each time they are used, it needs to be inspected before people can go on them.
4. **Legal Services** - Provides document services to small/mid-sized lawyers in SF.
5. **Therapy Service** - Provider of speech, occupational, and other therapies to kids and teens in their school districts.
6. **Sustainable Packaging** - Makes sustainable packaging for traditional and quick serve restaurants.
7. **IT Trade Shows** - Provides regional IT trade shows in four locations. Highly profitable despite small size (4 shows, \$1mm in revenue, \$600k in cash flow).

#### *1.4 Personal Update*

This was a huge quarter for the family. Sheela's hard work came to fruition with Slack listing on the NYSE. Sheela was one of a select few who were able to attend the festivities on the floor of the stock exchange. She witnessed the initial market being made for WORK shares, made a cameo on Squawk Box, and got to ring the bell (not the "official" bell, but still awesome memories).

Aanika and lyla continue to keep us on our toes. Aanika started gymnastics classes to better harness her boundless energy and desire to climb/jump off of everything. lyla is now chatting up a storm and getting to know all the doggies and birdies in the neighborhood.

No big trips, but we are excited to get back to the Adirondacks in August for some time on the lake with my family. My father has re-finished his 1944 Chris Craft inboard boat and always eager to give rides. Plus Aanika should be able to try water skiing, and lyla should be excited to give swimming a try outside of the YMCA pool!

#### *1.5 Lessons Learned*

- Remain disciplined and skeptical as an investor - positive and optimistic as an operator
- Activities outside of the search are critical to keeping my sanity
- Engage investors early after LOI is signed