

**Quarterly Update Newsletter**

October 18, 2019

Hello everyone,

Another quarter in the books and fall is upon us!

I am currently negotiating an LOI on an education services company. I am re-trading on the price since new information was provided that indicate their customer revenue is more concentrated than originally thought, and that there may be additional insurance expenses that I would incur going forward. My hope is to get the deal signed for the \$4.2-\$4.3mm range, instead of the \$5mm we had originally agreed on.

In addition to that deal, I put out six new offers over the quarter. I am actively negotiating with three companies right now and am “slow playing” a few others whose owners aren’t committed or educated about what they can get in the market for their business. The pipeline has been up and down this quarter. Overall, I continue to generally feel good about it.

More specifics are on the next pages for you to dig into, as interested. If I can get this LOI signed for this education services company, you’ll be hearing more from me soon.

All the best,



## 1. Summary

1 LOI signed - 1 LOI presented -- 6 offers -- 51 Seller Calls

### 1.1 Offer Updates

Six new offers this quarter, with one of those six still active (three active overall). I came across lots of unreasonable expectations this quarter. In addition, the end of the summer really slowed down, which is consistent with what other searchers experienced, from those I have spoken with.

Company	EBITDA	Offer	Pros	Cons
	(\$,000)			
Educational Staffing and Consulting Negotiating LOI	1,000	5,000 (5.0x)	<ul style="list-style-type: none"> <li>- Stable demand for services</li> <li>- Fits my background well</li> <li>- Undermanaged with lots of low hanging fruit to improve</li> </ul>	<ul style="list-style-type: none"> <li>- Long sales cycle</li> <li>- Talent shortage makes recruiting expensive and hard</li> <li>- Customer concentration</li> </ul>
Specialty Hospital Cleaner PENDING	1,196	4,359 (3.6x)	<ul style="list-style-type: none"> <li>- Great niche in specialty hospital cleaning (blood borne pathogen)</li> </ul>	<ul style="list-style-type: none"> <li>- Some customer concentration</li> <li>- Seller not fully committed to a sale</li> </ul>
Diversified Electrical Contractor PENDING	5,000	18,000 (3.6x)	<ul style="list-style-type: none"> <li>- High and low voltage businesses, and a supply distribution business</li> </ul>	<ul style="list-style-type: none"> <li>- Seller thinks he'll get 8-10x for it</li> </ul>
EMT Training SELLER PASS	1,000	4,000 (4.0x)	<ul style="list-style-type: none"> <li>- Niche training for EMTs PLUS a medical transport business to employ the good students</li> </ul>	<ul style="list-style-type: none"> <li>- Seller thinks he can brow it 3-5x in the next 5 years</li> </ul>
IT Trade Shows SELLER PASS	453	2,500 (5.5x)	<ul style="list-style-type: none"> <li>- Regional trade shows for specialty IT professionals</li> <li>- Lots of growth in geographic expansion</li> </ul>	<ul style="list-style-type: none"> <li>- Unreasonable expectations</li> </ul>
Signage Design and Consulting PASS	430	2,000 (4.7x)	<ul style="list-style-type: none"> <li>- Strong management team in place for continuity</li> <li>- List of high profile clients</li> <li>- Ongoing need for the service</li> </ul>	<ul style="list-style-type: none"> <li>- Unreasonable expectations for valuation</li> <li>- Lots of management overhead as the seller has been determined to remove himself from daily operations</li> </ul>

## Updates on previous offers

Instead of repeating the pros/cons from previous updates, I will provide an update on specific deals, if there is new information to share.

Company	EBITDA	Offer	Update
	(\$,000)		
Shipping Software <b>HOLD</b>	1,800	10,980 (6.1x)	- Seller is engaging with a banker after he returns from a lengthy European vacation - Likely to be gone due to high valuation expectations
Screen Printing <b>ACTIVE</b>	936	3,638 (3.9x)	- Working to pin the owner down - she is very passionate but not very organized - She just hired a production manager who would be very valuable post-close
Specialty Cleaning for Beer Distributors <b>HOLD</b>	793	3,573 (4.5x)	- Owner is not ready to sell - Slow playing this one because he really does want to retire, but he needs to get some things in order first
Frame Scaffolding <b>PASSED</b>	411	1,500 (3.7x)	- Passed on this one because it was too small and ultimately there were more attractive targets to pursue instead
Fire Systems Installation <b>LOST</b>	1,800	4,000 (2.2x)	- Strategic buyer bid very aggressively on this and my offer wasn't (and could not be) competitive
Wireless Integrator <b>DEAD</b>	276	3,860 (14x)	- Still in the middle of a turnaround and not yet financeable with debt

## 1.2 Sourcing Update

Quarter by Quarter Totals	2018		2019			2018		2019		
	Q3	Q4	Q1	Q2	Q3	Q3	Q4	Q1	Q2	Q3
Leads	2576	4193	1566	4249	3753					
Contacted	1656	1196	2554	1650	1994	64.3%	28.5%	163.1%	38.8%	53.1%
Replied	246	267	444	302	197	14.9%	22.3%	17.4%	18.3%	9.9%
Positive Reply	92	24	203	72	80	5.6%	2.0%	7.9%	4.4%	4.0%
Conversation Complete	64	32	20	26	51	69.6%	133.3%	9.9%	36.1%	63.8%
Offer Made	6	4	6	9	6	9.4%	12.5%	30.0%	34.6%	11.8%
LOI Sent			1	1	1	0.0%	0.0%	16.7%	11.1%	16.7%

### *1.3 Companies in the Pipeline I Like*

1. **Regional Trucking & Logistics** - \$4mm EBITDA - This owner went dark for a while, but has re-emerged. Trying to get him to be more responsive to move things forward.
2. **Pollution Control Equipment Manufacturer** - \$800k EBITDA - Provides specialty equipment to a variety of industries (sludge incineration, marine, etc). Saw huge spikes in business due to regulatory changes. Good management team and solid history of financial performance.
3. **Marine Ship Repair** - \$1.5m EBITDA - Based in LA and Oakland - They repair ships in port. They do not dry dock - but they do have in port repair services.
4. **Injection Molded Ceramic Manufacturer** - \$750k EBITDA - This is a boomerang of a business I looked at early on - they have significant customer concentration, but have made good progress on that front since I last spoke with them. The manufacturing process is very unique and niche. Applications of the ceramic parts are numerous.

### *1.4 Personal Update*

Everything on the home front continues to go well. I'll save you the doting father updates about how amazed I am by the girls every day. That being said, they are pretty awesome! Hopefully this winter brings some good snow up in the mountains and we can keep Aanika progressing with skiing and we can get Lyla started.

Sheela continues to be supportive of me throughout the process. She is eager to have this search phase come to its successful conclusion, but I think most partners feel the same at this point in any search. At the end of the day, she will be the top reason that I am able to pull this crazy thing off.

We did get to spend some time at the end of the summer back east with my family. We also squeezed in a trip to North Carolina for a couple of days at the end of our trip to NY. It was great seeing friends in Durham, as well as spending time with another dear HBS friend who was celebrating her marriage on Bald Head Island. If you have never heard of that place or if you like sea turtles, check it out - it is well worth it.

### *1.5 Lessons Learned*

- This is a LONG process - stick with it and stay disciplined.
- Engage with your team early on
- Continue to be direct with owners, no matter what - otherwise you are just wasting everyone's time