

CIE CONNECTS SEMINAR ENTREPRENEURSHIP THROUGH ACQUISITION

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ENTREPRENEURSHIP THROUGH ACQUISITION

- Interviewing for a job envisioned by someone else? Instead create a job by
 - hiring yourself
 - finding a company to acquire and
 - transforming the company into a disruption machine

REVIEW OF ALTERNATIVES REGARDING THE M&A COMPANY

- Long-term Plan
 - One Company vs. Quick Flip
 - Growth (Venture) vs. Operational (PE) Focus
 - Learning Step - Combination of above
- Company Size and Stage in Life Cycle
 - Start-up/Early Stage (<\$2-3 million in sales)
 - Workout (troubled company)
 - Growth Company
 - Stagnant Company
- Industry Preference
 - High Tech vs. Low Tech
 - Service vs. Product
 - Commercial vs. Industrial vs. Retail
- Marketing vs. Finance vs. Production Focus

OPPORTUNITIES FOR INNOVATION EXIST IN NON-OBVIOUS PLACES

RedZone

ROBOTICS



PARTSZONE™



TRUELEARN

IDENTIFY AND GROW PLATFORM COMPANIES

- ProLine Services – 2 years
 - Sold to TRN
- PartsZone/Stratolift – 4 years + ongoing
 - Sold to Private Equity
- Blue Fish Labs – 1 year
 - Sold to APPL
- RedZone Robotics, Inc. - 9 Years + ongoing
 - Sold to Private Equity
- TrueLearn Inc. – 3+ Years
 - Sold to Private Equity

FROM RESEARCH TO COMMERCIALIZATION

REDZONE ROBOTICS



MY “INNOVATION OPPORTUNITY FORMULA”

- Research and Find a Great Market Opportunity through Distressed Business Acquisition and M&A Due Diligence
 - Big Problem
 - Acute Customer Pain
 - Enormous Consequences to Failure
 - Innovation results in a Pain Killer

$$\begin{aligned}\nabla \cdot \mathbf{D}(\mathbf{r}, t) &= \rho, \\ \nabla \times \mathbf{H}(\mathbf{r}, t) - \frac{\partial}{\partial t} \mathbf{D}(\mathbf{r}, t) &= \mathbf{J}, \\ \nabla \times \mathbf{E}(\mathbf{r}, t) + \frac{\partial}{\partial t} \mathbf{B}(\mathbf{r}, t) &= 0, \\ \nabla \cdot \mathbf{B}(\mathbf{r}, t) &= 0.\end{aligned}$$



LEVERAGE YOUR UNIQUE PRODUCT DEVELOPMENT SKILLS TO DISRUPT MARKETS IN NON-OBVIOUS PLACES Underground Infrastructure Asset Management

From



To



Physician & Medical High Stakes Licensing Exams

From



To



HOW TO FIND ACQUISITION OPPORTUNITIES

- Building your network - the Pittsburgh deal flow
- Lining-up your financing
 - 60/40 equity share
 - Search fund
 - Commitment letters
- What's out there
 - Young, undercapitalized companies with new technology
 - Troubled companies and turnarounds
 - “Living Dead” in traditional industries (older owners)
 - Job shops in disguise
- What we found
 - Two type of owners
 - Examples

CHANNELS FOR IDENTIFYING POTENTIAL ACQUISITIONS

- Direct Mailing - SIC code search
- Entrepreneurial support organizations
- Networking within the professional community
- Bankruptcy attorneys, bank workout groups
- Business brokers - (there is a need for a good one in Pittsburgh)
- CMU/University of Pittsburgh
- Company divisions and product lines
- Industry roll up
- Free press

WHAT TO DO WHEN YOU MAKE CONTACT

- Gauge owner's reason for selling and hot buttons
- Ballpark valuation
 - EBITDA/Cash flow multiple
 - Strategic valuation
 - Asset value
- Identify exit strategy
- Don't waste time - decide quickly
- Preliminary Letter of Intent - legitimizes the process
- Preliminary due diligence
 - How are key company assets protected (leases, employees, patents, etc.)
 - Potential shareholder return
- Consult-to-buy strategy

STRUCTURING AND CLOSING THE DEAL

- Full due diligence
- Explore several different structures with the owners
- Secure a good lawyer who can help drive the process
- Develop a good business plan
 - Listen to your gut
 - Use historicals in proforma
- Solidify financing and bank approval
- What can you can expect to borrow
 - Owner financing
 - Bank financing
 - Receivables (80%)
 - Assets - Inventory and Equipment (50%)
 - Plant improvements (65%)
- Personal guarantees
- Vendor negotiations
- Raise enough for closing costs & working capital in case you slip

AFTER THE DEAL CLOSES – NOW WHAT DO I DO?

EXECUTE, EXECUTE, EXECUTE

- Deal misrepresentations –\$ back from previous owners
- Property lease – Forced to buy into owning the property
- Joe Kovalchick – No railroad track
- Charlie Daniels – Original manager left
- IBEW – Needed to fight off a union
- Theft – Constant break ins
- Loss of our largest customer - Huntsman chemical
- Flooding – The day of the due diligence walk through



PEARLS OF WISDOM

- Build a company, not just a product or a feature to a product
- M&A and venture development is messy – difficulties and failures must be anticipated
 - “Pivot” quickly if things aren’t working
- Potential value in remaking old industries
 - Stodgy
 - Blocking & tackling
 - Look hard for hidden value
- Get the owners out
- Hire talent – Make decisive HR and management decisions
- There are advantages to having a partner in the beginning
- Be bold, take risks, and have fun

*Express yourself by mastering the nexus of Entrepreneurship and M&A.
Opportunities for disruption and innovation are everywhere, get into the game.*