CIE CONNECTS SEMINAR
ENTREPRENEURSHIP THROUGH ACQUISITION
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Eric Close
TPR ’97
eric@closecentral.com
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

DIFFERENTIATE YOUR PITCH

• 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
  – Early Stage
  – Workout (troubled company)
  – Growth Company
  – Stagnant Company - Living Dead
  – Stable Mature
• Industry Preference - NAICS
  – 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
IDENTIFY AND GROW PLATFORM COMPANIES

• ProLine Services – 2 years
  – Sold to TRN
• PartsZone – 4 years
  – Sold to Private Equity
• Blue Fish Labs – 1 year
  – Sold to APPL
• RedZone Robotics, Inc. - 8 Years
  – Sold to Private Equity
• TrueLearn Inc. – 4 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

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\n\nabla \cdot B(r,t) = 0. \]
LEVERAGE YOUR UNIQUE PRODUCT DEVELOPMENT SKILLS TO DISRUPT MARKETS IN NON-OBVIOUS PLACES

Underground Infrastructure Asset Management

From

Physician & Medical High Stakes Licensing Exams

From

To

To
HOW TO FIND ACQUISITION OPPORTUNITIES

• Building your network - get into the 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
APPROACH TO UNCOVER POTENTIAL ACQUISITIONS

• Direct (generally ad hoc - proprietary)
  – Personal relationships
  – Networking within the professional community
  – Direct Mailing - SIC code search
  – Entrepreneurial support organizations
  – Bankruptcy attorneys, bank workout groups
  – CMU/University of Pittsburgh
  – Company divisions and product lines
  – Start with a thesis - industry roll up

• Indirect (generally a process)
  – Investment Banker
  – Business Broker
  – Search Fund
WHAT TO DO WHEN YOU MAKE CONTACT - DIRECT TO OWNER

• Gauge owner’s reason for selling and hot buttons
• Ballpark valuation
  – EBITDA/Cash flow multiple
  – Strategic valuation
  – Asset value
• Don’t waste time - decide quickly
• Indication of Interest - legitimizes the process
• Letter of Intent
• Due Diligence & Management Meetings
  – Market
  – Product/Service
  – Customers
  – Team
  – Financial
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
  - Cash flow (1 to 3 turns)
  - Receivables (80%)
  - Assets - Inventory and Equipment (50%)
  - Plant improvements (65%)
  - Real Estate/Building
  - 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

Embrace the nexus of Entrepreneurship and M&A

Opportunities for disruption and innovation are everywhere
get into the game