# CIE CONNECTS SEMINAR ENTREPRENEURSHIP THROUGH ACQUISITION

September 2019

Eric Close TPR '97 eric@closecentral.com

### 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 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** 









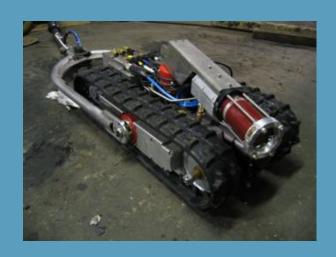


#### **IDENTIFY AND GROW PLATFORM COMPANIES**

- 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







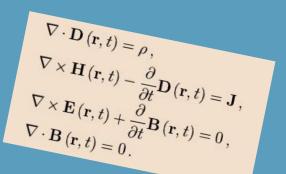




### MY "INNOVATION OPPORTUNITY FORMULA"

- 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





## LEVERAGE YOUR UNIQUE PRODUCT DEVELOPMENT SKILLS TO DISRUPT MARKETS IN NON-OBVIOUS PLACES

Underground Infrastructure Asset Management





Physician & Medical High Stakes Licensing Exams









#### 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

- 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