

3 Ways Management Can Help The Sale

Private equity investors are known for wanting sellers to have “a good management team in place.” What does that mean, exactly? Here are three qualities investors find attractive.

1. Experience, and a solid plan

A seasoned management team with an established track record boosts investor confidence about how to forge a value-creation path for the business, increasing the likelihood a deal will close on time and on the terms stated in the buyer’s Letter of Intent.

When Prospect Partners considered investing in Owen Equipment Company (Owen), the experience of its president Earl Rose was a key factor. Owen, a leading provider of infrastructure maintenance equipment used for street cleaning, waste management, sewer maintenance, and hydro-excavation, served a variety of customers in the western United States, including municipal governments and industrial and commercial businesses.

An industry veteran, Rose “knew everything about the industry and had long established Owen’s superior customer service reputation,” said Prospect Partners’ Principal Brett Holcomb. This deep knowledge translated into strong relationships with utility customers, municipalities, and industrial contractors as well as key suppliers in the equipment rental industry that were critical to the deal.

Prospect Partners saw an opportunity to leverage Rose’s experience to substantially grow the breadth and depth of the rental side of the business. Owen was a key dealer for Federal Signal, maker of top-performing products like Elgin® street sweepers and Vactor® hydro-excavation and sewer cleaning equipment, as well as other high-quality equipment brands Owen did not yet represent.

“Earl needed capital to grow his rental business, while Federal Signal wanted experienced dealers able to make larger capital commitments,” Holcomb explained. “Partnering with Prospect Partners provided Earl the resources he needed to substantially invest in various types of equipment. It also gave Federal Signal added confidence that Owen’s long-tenured management team could make a deeper long-term commitment to its product line and meaningfully add to its rental fleet.”

During Prospect Partners’ due diligence process, Rose presented a five-year financial plan he had built and outlined his experience meeting the goals he had laid out for the business. After the deal closed, during Prospect Partners’ ownership period, Rose implemented new systems that gathered data on all of the equipment bought or sold in Owen’s geography. As a result, he was able to continually



refine his plan, driving new sales strategies and prioritizing Owen’s strategic growth opportunities.

“There is no doubt the experience Earl brought to Owen and his team’s strategic plan drove significant growth within the business,” Holcomb said. “Without his expertise and well-considered plan, Owen would not have had such a phenomenal outcome during our ownership period.”

2. A strong core team that can be added to as the business grows

Not every seller has a full management team. Most small companies rely on the leadership of a few executives, or sometimes only the founder/CEO. And that is fine for many experienced small-company investors, which often look to back at least one or two seasoned leaders around whom they believe the rest of the team can be built, and to provide help with long-term organizational planning to identify gaps and talent needs so the company can execute its strategic plan.

Take Innovetive Petcare, Inc. (Innovetive), an operator of veterinary hospitals for companion animals. Prospect Partners formed Innovetive in partnership with operating executives Mark Ziller and Paul Covill, both proven animal health industry veterans. Ziller and Covill sought to build a premier veterinary care network in the southeast and Texas that providing specialty/emergency and general practice services.



“Mark and Paul brought tremendous animal health knowledge, relationships, and operational know-how,” said Brad O’Dell, a Principal of Prospect Partners. “We knew we could develop an industry-leading team around them. The key would be staging growth to optimize the equity capital supporting the business and to avoid the risks that can come with growing an organization too fast.”

Starting a new company such as Innovetive presented unique and exciting challenges. Management was able to establish its own priorities and culture from scratch, looking for entrepreneurial, team players who wanted to get in on the ground floor of a new enterprise. Employees in the early days wore a “number of hats,” but once the basic operational functions were in place to manage a small

collection of clinics, the company was able to focus on building the management team and infrastructure to support Innovetive’s long-term vision of becoming a leading consolidator in the veterinary hospital market.

The priority was hiring a talented, experienced CFO to take over the finance and accounting functions and implement operational and financial metrics to monitor and benchmark the portfolio clinics. In a company executing a “buy-and-build” strategy, hiring a CFO capable of both operating in a highly dynamic environment and ultimately leading the financial organization of a much-larger business was a worthwhile investment. With the CFO in place, Innovetive’s focus shifted to developing value-added resources to help grow its clinics – functions like marketing, recruiting, HR, and training – and hiring regional operations managers. Finally, when the corporate infrastructure was fully in place, additional investments in business development helped Innovetive scale the acquisition pipeline as management pursued its ultimate growth strategy.

In the end, working with Prospect Partners, Innovetive expanded operations to 13 clinics across five states.

3. Access to key relationships

Established relationships with customers, suppliers, and even owners of other businesses that could turn into add-on acquisitions are valuable to investors.

Q&A

Prospect Partners answers common questions sellers have about management teams.

Who does an investor want to back? Ideally, the leadership team that has built the company and driven its performance over a substantial period, preferably at least several years. Usually, we look to back at least two or three leaders who have been running the business and want to continue to run it for five to 10 more years or longer.

Is it a deal-breaker if the team is incomplete? No – if the company has a strong leader to build around. Over the life of our investment, we typically expect to help a company add new senior-level management talent and upgrade key positions as the business grows. By the end of our investment tenure, we expect a company’s senior team to include at least four proven professionals in the following roles: CEO, CFO, COO or VP of Operations, and VP of Sales and Marketing.

What is attractive about having a leadership position in a PE-backed firm? It can provide a tremendous career development opportunity that may not be available in a personally-held business. With the PE firm’s stable capital support, leaders can drive growth through a variety of ways, including acquisitions of other companies and

investing in a variety of organic initiatives, and be responsible for all that change. It can be financially lucrative as well, since most leaders maintain meaningful ownership stakes in the business.

Don’t PE firms look to make changes at every key position? Some firms do embrace a style in which they replace management. Prospect Partners prefers to back strong existing teams and have them continue to run the business while providing financial and strategic support. When needed, we would lead or support the company’s effort to add or upgrade key management positions.

How can a seller figure out what a potential PE partner will really be like? It’s important to spend time asking the right questions during the sale process to understand how the investor works. Ask for references. Call the firm’s other portfolio company executives. Find out how, and how well, the investor supported them and their team during the investment period in both good times and bad. Ask how they communicate with portfolio companies and how key decisions are made. Ask how they support companies in adding management talent.



In a corporate carve-out from Culligan International, a worldwide leader in water treatment, Prospect Partners backed a pair of veteran operating executives, Don Fuller and John Capone, who had spent decades at Culligan, ultimately running operations and sales at its dealer division.

WaterCo., their new company with Prospect Partners, was a franchised provider of water treatment services and Culligan-branded water softening, bottled water, and bottle-free cooling equipment and related supplies for consumers and commercial customers. Fuller, CEO, and Capone, COO, sought to grow the business by acquiring independent Culligan dealers and other water treatment services providers, consolidating clustered locations, and improving operations by applying the best practices developed over their years in Culligan’s corporate office.

“Don and John were strong managers with significant industry expertise and direct experience working with Culligan dealers,” said Lou Kenter, a Founding Principal of Prospect Partners. “They knew the Culligan business and the water treatment market inside out. And they had the relationships necessary to achieve their goal of building the most successful Culligan franchise in the network.”

From an investor’s standpoint, such relationships are irreplaceable. “We couldn’t hire a team as talented as Don and John to run a business like WaterCo. – the learning curve would have been too steep to deliver results on the timetable we wanted,” Kenter said.

From the onset, Fuller and Capone knew which Culligan franchises made the most attractive acquisition targets, and what the competitive landscape was like for those businesses. They knew each community’s demographics, propensity to rent or own water equipment, ability to afford water-treatment products, and if there were issues like lead in the local water supply.

“Don and John knew more than we ever would about their acquisition targets, including the personal dynamics at these acquisition targets, the right entry plan into those

opportunities, and the specific operational levers for a successful water treatment business,” Kenter said.

WaterCo.’s aggressive acquisitions strategy resulted in the successful purchase and integration of more than 20 add-on acquisitions of other Culligan franchises, independent water service dealers, and providers of commercial and industrial water purification services. These nationwide buys significantly expanded the company’s geographic footprint, market reach and bottled water delivery capabilities.

While a portfolio company of Prospect Partners, WaterCo. grew to operate with territory exclusivity in 36 locations in 13 states. It became one of the largest franchise owners in the Culligan North American dealer network, providing consistent, recurring top-line growth for corporate, and one of the fastest-growing dealers in the system.

About Prospect Partners

Prospect Partners is a leading private equity firm investing in smaller lower-middle-market companies. We focus exclusively on management-led leveraged recapitalizations and acquisitions of niche market leaders with revenues typically under \$75 million. Since 1998, Prospect Partners has completed more than 150 transactions in the building of over 50 platform companies in widely diverse niche manufacturing, distribution, and specialty service markets. Prospect Partners manages \$470 million in committed capital across three private equity funds.

Reach Out To Our Team

If you know about an interesting company you think will interest us, please call us today at 312.782.7400, visit www.prospect-partners.com, or contact a team member:



Brett Holcomb
Principal



Lou Kenter
Founding Principal



Erik Maurer
Principal



Mike McInerney
Vice President



Brad O'Dell
Principal



Rick Tuttle
Founding Principal

