

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 record boosts investor confidence about how to forge a value-creating 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.

In 2011, Prospect Partners backed a pair of veteran operating executives in a corporate carve-out from Culligan International, a worldwide leader in water treatment solutions. The executives, Don Fuller and John Capone, spent decades at Culligan, ultimately running operations and sales at its dealer division.

Prospect Water Co., their new company with Prospect Partners, is 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 knew exactly what they wanted to do with Prospect Water Co. to achieve their goal of building the most successful Culligan franchise in the network.”

From an investor’s standpoint, such depth of knowledge is irreplaceable. “We couldn’t hire someone as talented as Don and John to run a business like Prospect Water Co. – 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 know more than we ever will about their acquisition targets, the right entry plan into those



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

Prospect Water Co., which started with 11 Culligan-branded dealers, is now a top franchise owner in the Culligan system, with 35 locations nationwide, a strong reputation as an operator, and the buyer of choice for sellers of privately-owned franchises, according to Kenter.

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

Not every seller has a full management team. Investors often look to back at least one or two seasoned leaders around whom they believe the rest of the team can be built, and help with long-term organizational planning to identify gaps and talent needs so the company can execute its strategic plan.

Take, for example, Education Futures Group (EFG), which operates Vista College, a for-profit career college with campuses primarily in Texas. Prospect Partners formed EFG in partnership with operating executive Jim Tolbert. Tolbert was a proven industry veteran, formerly CFO and minority owner of Education Corporation of America, operator of post-secondary schools in the southeastern United States and a prior portfolio company of Prospect Partners. Tolbert wanted to pursue a similar strategy in a non-competing geographic area.



“Jim brought tremendous experience, capability, and credibility in the post-secondary education industry,” said Maneesh Chawla, a Principal of Prospect Partners. “He was very experienced in the for-profit education market, and we knew we could develop a team around him.”

Vista College started small – buying a single specialized career college in El Paso, Texas, in 2006. Senior management consisted of Tolbert and the president of the El Paso school.

A key to EFG’s success was building Tolbert’s team as the company opened new Vista College campuses and acquired other career colleges. That included key hires both at the individual campuses and at the corporate office.

Tolbert knew how to round out his campus teams. For Corporate, Chawla explained, “a lot of strategy work went

into understanding the evolutionary nature of the company to properly support the business during each phase of its growth.”

Through careful planning, Prospect Partners helped EFG add key leaders in lockstep with the company’s needs, ultimately – when the time was right – recruiting a veteran COO with deep experience managing multiple geographic locations, and a seasoned CFO to standardize processes and ensure operational consistency throughout the whole Vista College system.

Vista College now has 10 campuses in Texas, New Mexico, and Arkansas, as well as an accredited online campus, that provide a variety of programs in many different career-training disciplines.

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.

Take, for example, Prospect Partners’ portfolio company Owen Equipment Company (Owen). Owen sells, rents and services environmental infrastructure maintenance equipment, including street sweepers and sewer cleaning equipment. Its customers include municipal governments and industrial and commercial businesses in the western United States.

Prospect Partners recapitalized Owen in 2013 with its CEO Earl Rose. Industry veterans, Rose and his Owen team “had

Q&A

Prospect Partners’ Principal Maneesh Chawla answers common questions sellers have about management teams.

Who does an investor want to back? The leadership team that built the organization. Usually, for us, that’s at least the top two or three people in the business.

Is it a deal-breaker if the team is incomplete? No – as long as there are strong key executives to build around. Over the life of our investment, we typically see a company’s team grow to include four or more proven professionals in the following roles: CEO, CFO, COO or VP of Operations, and VP of Sales and Marketing.

What is attractive about 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 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 existing teams and have them continue to run the business while providing financial and strategic support.

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 how often they have made management changes, and why they have made them. Ask what roles they typically recruit and why. Ask for references. Call their other portfolio company executives. Find out how, and how well, the investor supported them and their team during the investment period.



very 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,” said Prospect Partners Principal Brett Holcomb. “Earl also knew everything about the industry and had long ago established Owen’s superior customer service reputation.”

Prospect Partners saw an opportunity to leverage Rose’s relationships to substantially grow the rental side of the business. Owen is a dealer for Federal Signal, maker of top-performing products like Elgin® street sweepers and Vactor® hydro-excavation and sewer cleaning equipment.

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

Over the last few years, Owen has tripled the size of its rental fleet and the company has experienced dramatic growth. In addition, Rose has continued to build Owen into a top dealer within the Federal Signal network. In fact, the company has become the leading renter of Elgin® and Vactor® equipment on the West Coast.

About Prospect Partners

Prospect Partners is a leading private equity firm that invests opportunistically nationwide 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 140 transactions to build nearly 50 platform companies in widely diverse niche manufacturing, distribution, and specialty service markets. Prospect Partners manages \$470 million of committed capital across three private equity funds.

Reach Out To Our Team

Prospect Partners is actively investing in new portfolio companies and in follow-on acquisitions for existing platforms. If you know about an interesting company you think will interest us, please call us today at 312.782.7400, or contact a team member.



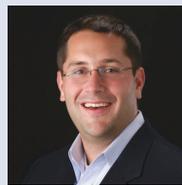
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