SCALING UP+ VIRTUAL SUMMIT

SCALING UP VIA ACQUISITIONS

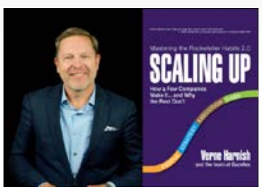
Moderated by Verne Harnish,
CEO and author of *Scaling Up*

SCALING UP
A GAZELLES COMPANY

SPEAKER NOTES

THURSDAY, 23 MARCH 2023

[Bios at *scalingup.com/march-23-2023-scaling-up-virtual-summit-series/#speakers*]



INTRO: VERNE HARNISH

Summit Host and CEO of Scaling Up

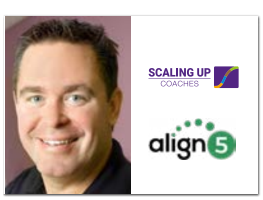
Conclusions:

- Riches are in the niches. Find a highly niched opportunity and then acquire small firms in that niche to create a national or global firm.
- Become the platform company in your niche by creating the culture, the playbook, and scalable infrastructure (technology) that makes it attractive for firms/founders to bolt on and win.
- Start with small acquisitions – you can't afford to mess up a big one early.
- Talent is always key. Build a bench and use acquisitions to attract talent that wouldn't otherwise be available.
- Actively network in your industry/niche – through your trade associations and hosting events. Membership in YPO and EO can help connect you with other founders/CEOs.
- As the CEO of a business, you have an advantage over PE firms in reaching out and connecting with other like-minded CEOs/owners.
- Have a dedicated team to integrate the acquisitions.
- Demonstrate immediately that you care for the people in the firm being acquired – ease their fears.
- Over-communicate!!

Summary of Presentations:

The spring equinox is the perfect time to put the pedal to the metal when it comes to scaling up through acquisitions—and to make time for fun and play, which drive profits and culture.

Wealth is created though transactions!



JOHN RATLIFF

Summit Co-Host: CEO Scaling Up Coaches, Founder Align 5

- John did 24 buy-side acquisitions at Appletree Answers, a call center company, and he took profitability from 4% to 21.8%. A $2 billion company acquired Appletree for a 14 times multiple
- When John started Appletree in 1995, it was a "24/7, 365 business," where he was the only employee. Once he started hiring, it took from 1995 until about 2001 to crack the $1 million mark

- A CPA friend encouraged John to think about buying other companies. He didn't have the cash on hand, but a friend had a relationship with a banker at a regional bank who was willing to back Appletree.
- Appletree did its first acquisition in 2003.
- After closing that deal in 2003, a broker told him about an opportunity to bid on a deal in Portland, ME. He opted to bid $1 million—more than his firm's gross revenue that same year. The economy was under pressure, and week before it closed, his banker called and said he couldn't do the transaction. John managed to get a meeting with the head of credit at the bank, someone who normally does not meet with customers, demonstrated why Appletree was a good credit risk, and the deal went through. The critical takeaway: Think of the bank as a partner, not a vendor.
- John was able to get an acquisition line of credit from the bank by consistently doing what he said he was going to do. At one point, during the financial crisis of 2008, his bank actually increased his acquisition credit line by 50%, asking him to sign an acknowledgement his company would go out and do acquisitions. "We bought six companies in the next 13 months because our bank was our partner, not our vendor," says John.
- Appletree kept the name of each acquisition for a year while changing it internally for the team on day one so they would fall in love with the brand. Externally, he would keep the old brand for a year and raise prices within that brand before the name change.
- Appletree kept the benefit packages in place at each acquisition unless Appletree's was better. The company did not cut jobs.
- The mindset around acquisitions was to nurture employees and make sure they felt cared for and part of the team from day one.

NEIL MALIK

CEO K1 Investment Management

- Neil manages strategy governance and investment strategy activities for K1 Investment Management, a private equity firm that focuses on the narrow niche of B2B software companies. He is actively involved in the professional development of the team and the portfolio executives.
- He is a graduate of Harvard Business School where he received his MBA, and the University of Pennsylvania, where he received a BS in finance from the Wharton school and BAS from the School of Engineering and Applied Sciences magna cum laude.
- He serves on the board of directors for Junior Achievement of Southern California and is an alumnus and board member of Sponsors for Educational Opportunity and a member of the Young Presidents Organization (YPO).
- K1's BHAG to do 1,000 acquisitions—a goal it set on the heels of hitting 100 deals. Today the company is about one-quarter of the way through that goal. "It definitely provides that North Star to really make us rethink all of our processes and all of our activities for scale," says Neil.
- To date, K1 has done 50-60 "platform" investments and around 170 or so add-on acquisitions, largely in the last 6-7 years.
- In "platform" investments, acquisitions are bolted onto the original company. Neil's take is that a platform investment has greatest degree of scale.
- K1 cares deeply about a handful of metrics and has scorecards when any new investment comes its way. Because all of its acquisitions are in the same industry, doing roughly the same thing, in its due diligence, K1 looks at:
  - *Number of clients*, *and client diversification*
  - *Gross retention within revenues*. What is the renewal rate of those software subscriptions year over year?
  - *Net retention*. How good is the target at upselling or cross selling other products as they penetrate their existing customers over time.
  - *Gross margins*
  - *Capital efficiency*

- Not every target fits the bill on every count. K1 aggressively pursues an add-on acquisition if a target company has the desired customer concentration or it has lower margins or some other deficiencies that K1, as a strategic acquirer, could materially change or improve upon
- There are riches in niches, especially very narrow ones. One example was K1's acquisition of a business that made software for chiropractors. The business, ChiroTouch, built very high market share.
- Loyalty and meritocracy don't fit really well together when it comes to deciding who should hold particular positions as a company scales. Neil says the job of the CEO is to put the best team on the field The ability to "Topgrade" and make those difficult choices and changes is what allows companies to scale.
- K1 focuses on deals for companies with $5-$50 million in revenue and finances them using its private equity fund. It then goes to the bank market. K1 includes a variety of tools, such as earnouts, stock, holdbacks and sellers' notes, in its financing.
- Neil believes it is critical to assign people to a dedicated responsibility for integration of acquired businesses and cultures.
- Overcommunicating with the new, extended team is important, to alleviate anxiety about potential layoffs and the like.
- Neil's top lessons:
  1. It's easiest to acquire a direct competitor because you will understand the space.
  2. It's important to start off with smaller deals. You don't want to spend all of your money on one deal. Start small and get smarter, then build a rhythm.
  3. Winning the hearts and minds of the people in the companies being acquired is the most important requirement for success.
  4. Closing thoughts from

PK SCHEERLE,
RN, CEO Emeritus, Gifted Healthcare

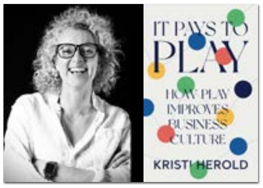
- PK's leadership career started in 1982, when she founded American Nursing Services, growing it to more than 2,500 employees.
- In 2009, PK rejoined her previously successful management team a Gifted Healthcare, serving as CEO and chairman and growing it to $400 million in gross revenue by the time she stepped down as CEO in 2021. The company provides clinical staffing, disease management, vendor management, home care, and therapists in nine states. It grew to 31 offices, with four or five acquisitions.
- PK studied business administration and management at Harvard Business School and serves on numerous company and nonprofit boards. She is a member of YPO.
- She founded a growing national program, the 100 Nurses Celebration.
- Gifted Healthcare acquired a $3 million company in Alaska because of his like-minded approach, similar core values, and same work ethic, among other factors. "We really wanted that founder and the strength of that founder," says PK. Their niche: RNs in a very tight vertical with extremely good results for clients.
- "One of the important things with founders is to quickly, long before the deal closes, talk with them about what arrows they still have in their quivers that they've never shot and always wanted to," says PK. "We work very hard at trying to make that happen." PK's team immediate got founders involved in a bigger picture than their market, to get them excited about the possibilities. "If you can turn that entrepreneurial zest into real work for that founder, you'll never lose," PK says.

- PK has always embraced technology and shared services, making substantial investments. “We have enjoyed the luxury of always having better tech infrastructure than anybody,” she says. That was a selling point to targets, who were typically nurse/entrepreneurs who could appreciate that.
- The company developed an “office in a box” that made it easy to set up an office after the acquisition—a hit with targets. “They loved it because they could hit the ground running and feel successful by the wind of our wings,” says PK.
- PK and her team spread the word about what they were doing by speaking at industry associations. She is frequently a keynote speaker for nursing organizations, which she does not charge a speaking fee.
- She and her team started holding gatherings to attract like-minded professionals.
- Being part of YPO helped with networking.

PHIL MINER,
Founding Partner, Sidekick Operators

- Phil grew up on the Texas Gulf Coast, fishing with his father, where he developed a passion for the world’s oceans. This interest led him to Texas A & M University, where he graduated with a degree in ocean engineering. Following graduation and a stint in a family business, he launched the Miner Corporation, a leading national provider of mission-critical services for materials handling equipment. The company’s 2,000 employees served more than 300 of the Fortune 500 and has been recognized as one of the top 500 fastest growing private companies in America by *Inc* magazine today.
- Phil is founding partner of SideKick Operators, a strategic firm investing in mission- critical services. Sidekick partners with business leaders to build national brand reputations through operational excellence.
- Phil also serves on the Advisory Board for the McFerrin Center for Entrepreneurship at Texas A&M University.
- The roots of Phil’s company go back to close to 50 years ago, when he was working in a family business in the waste handling equipment business. “I stepped into a service truck in 1974 and got a real education about what it feels to be out there and doing that hot dirty work, and wondering if anybody really understands or appreciates what you’re giving and worse yet do they really care?” says Phil. “In most companies today and even back then, of course, that answer is no.” That company was sold in 1992.
- His parents cried when they signed the documents. “You think, ‘Well it it’s their baby,’ he says. “I thought about that moment over the years. For them it was about the people. Every seller, particularly cultural leaders, has great concern about their people.” He sees a genuine opportunity to make a genuine connection with people and really drive success.
- Having a deep sense of what the frontline employees need is essential, especially when it comes to attracting and retaining talent when you scale.
- The Miner Corp. grew through acquisition from the beginning, but it was largely opportunistic. “Through our network we would be approached about certain opportunities or through people in the company we would see that there was an opportunity out there to bring in another culturally-led organization alongside maybe an existing operation in the market, and add additional horsepower to the company,” he says.
- As they continued to expand, they developed the right capital structure to grow and extended Miner Corp.’s footprint across North America.
- Part of the growth was driven by customers. “You’d get a customer, and they’d say, ‘Hey, you guys do such a great job. Could you service us in these other markets?’”
- The company was able to leverage some of its customer relationships from other markets like Texas as it moved into Florida, Arizona or other states in a “greenfield” strategy.

- Miner Corp. found that this greenfield strategy was slower than looking for a culturally-led company in an attractive market.
- The company has been aggressive about building a "virtual bench" of potential leaders. In one big move into Orlando, the acquisitions team had gotten to know a cultural leader who was deeply embedded in that market, had been there for quite some time, had a solid reputation in the industry and subject matter expertise. Eventually, the time came when Miner Corp. had the chance to acquire a $2 million business in Tampa, Fla., and Miner Corp. brought him in to lead the acquired company. "We matched that acquisition, which had some goodwill, customers, and service technicians operating in the market in tandem with this terrific cultural leader and provided that leader with the playbook we continue to execute today… and good things begin to happen," says Phil. Miner Corp., which has an eight-chapter playbook, grew it to $50 million in revenue, which Phil attributes to how it treated people. Talent started flocking to the organization, as word spread about how it recognized its team's professionalism.
- Phil believes it is important to follow Jim Collins' advice to know what business you're in. "We're in the business of advising and helping strategic and cultural leaders go down a path we've been down before," he says. "We stick to our knitting. We solely focus on mission-critical, mobile tech operations in the commercial industrial space with Fortune 500 customers, in industries that have a lot of runway, that are fragmented and--because of the recurring-revenue side of mission-critical services-- tend to be recession resistant." However, he adds, "if we don't have the right partner a cultural leader we are dead."
- Phil and his acquisitions team like to walk the halls of the building with the CEO to see what the culture is like and how the employees interact with the CEO, looking for signs that the leader and employees know each other's names and the team is comfortable engaging visitors without being coached.
- It's important for "relationship managers" – like the original founders – to stay on, even when "bolting on" companies, to make sure there is a successful transition, culturally.
- Miner's team has specific formulas about what markets to look at next. "We like to map where the other consolidators and other major competitors are and look at the markets others are ignoring. "Swim in the blue ocean and avoid the bloody red seas!"



KRISTI HEROLD,
Founder & CEO JAM

- Kristi is the founder and CEO of JAM, a multi-million-dollar global business that has connected millions of people to play.
- JAM is one of the largest adult recreational sports leagues in the world, having produced and delivered over 3,500 playful corporate events globally. Christy and her team of culture catalysts also consult with organizations to help create fun, thriving workplace cultures.
- In 2020 Kristi was named to the esteemed "Canada's Top 100 Most Powerful Women." JAM is certified as a Great Places to Work in Canada. Christie was awarded then the governor general's Queens Diamond Jubilee award in 2009 in recognition of her contribution in giving back to the community for her provision to get a million people playing annually.
- Her recently released book It *Pays To Play*, is focused on helping people connect through play and helping companies unlock profit through playing.
- After growing up in a small town in Canada and graduating from college, she moved to Toronto and started a recreational sports league for adults in 1996–"a small-town girl living in a lonely world."
- The Toronto Sports and Social Club grew to about 250 teams with about 2,500 people its first year. Today there are about 200,000 people playing in 15 different cities in Canada and the U.S. The company did 9 acquisitions before the pandemic. During the lockdowns, it switched to virtual team-building events, bringing in $1 million its first year.

- Now the company is hosting virtual events, hybrid and in-person team-building events as well as coaching companies on creating more fun engaging workplace culture.
- “Having your vision. purpose and values written down means nothing if you don’t have a cohesive, connected team of people bringing them to life,” says Kristi.
- Play is a tool that can help your people to be engaged, energetic, healthy and creative—and improve retention and customer satisfaction.
- Kristi’s book describes the benefits of playing the workplace in detail and shares loads of practical examples and ideas on how to implement play at work to reap the benefits while still ensuring all that important work gets done. One company has its own rock band. “They play music together every two weeks, they have rehearsals and then they put on a concert a couple of times a year,” says Kristi. At another company, a team member took a stuffed money, strapped it to a rocket and launched it,” creating a fun ritual—one of many examples of spontaneous fun that can build a company’s culture.

Thank you for investing the time in your own executive education!

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