

In The Trenches_ Conversation ...with Jay Davis & Jason Pananos

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SPEAKERS

Steve Divitkos, Jason Pananos, Jay Davis

S Steve Divitkos 00:00
Jay, Jason, welcome to the show.

J Jay Davis 00:04
Thanks for having us here, Steve. Good to be here

S Steve Divitkos 00:07
I'm thrilled to have you here. And I've been looking forward to this conversation for quite a while. And interestingly, a couple weeks ago, I posted something by way of my blog talking about, I think the title was, Why You May Want to Reconsider our Industry Roll Up Thesis and that, you know, was intended to act as a cautionary tale of sorts for those prospective acquires. We're looking to pursue theses largely centered around inorganic growth said more simply, you know, this is when inorganic growth can go very wrong. But your story is the complete opposite of that. This is when an inorganic growth thesis can go very right. And that's where I want to focus our discussion today. But before we get there, let's just kind of set the table for those listening. For those who may not be familiar with your stories before you acquire several businesses, you started by acquiring one. So can you guys just share with us the arcs of your respective careers, including your acquisition of Vectors, Disease Controls.

J Jason Pananos 00:43

I can start there, Jay. And you can feel free to jump in. And even you know, prior to embarking on acquiring Vector Disease Control, which was our first acquisition, I spent a couple years in corporate finance after undergrad and a rotational program, worked in a corporate M&A program. So I got some deal experience, but mostly worked on larger deals. In that role, ended up working on a smaller acquisition, that kind of changed my perspective and got learned I got a lot of energy from smaller deals. And when Jay and I were at HBS, together, we explored various career opportunities and came across the search fund model. And that's how we ultimately decided to pursue teaming up together and finding a company to buy and run which ultimately was Vector Disease Control, which you know, we can get a little more into it in a minute. So you want to share anything Jay on that?

J Jay Davis 02:13

Sure, I can just talk from college to that, finished Vanderbilt and then worked as a healthcare consultant for several years before going back to business school at HBS, which is where I met Jason. I went back to business school, wanting to be an entrepreneur, I didn't know exactly what that meant at the time, I always thought I would try to start a business. And then as Jason mentioned, we learned about the search fund model going into our second year in business school. And it was one of the proverbial light bulb went off for me moment. It was the perfect fit for what I wanted to do. And we really never looked back after that, and raised a traditional search, and our second year started searching right after graduation. That was in June of 2008, which was an interesting time to start that process. It took us a while to find a company we'd like to blame that on the on the financial crisis. I think there's hard truth to that. But we ultimately two and a half years later, bought Vector Disease Control.

S Steve Divitkos 03:21

So of particular interest in that answer Jay, was the fact that you search in June 2008. Like you guys, I would imagine I get a lot of questions from second year business school students inquiring about, like, to what extent do I consider the state of the macro economy, whether it is good, bad or otherwise, as it relates to taking the entrepreneurial plunge, can you share with us the realities of starting your search during the great financial crisis? And what impact that had or perhaps did not have in your search process?

J Jay Davis 03:53

It's a good question. And you're right, we get that question a lot. I honestly find it interesting. Because I think like the the deepest entrepreneur probably won't even think to ask that, you know, like, they would just go do it. So that's partly my answer. Sometimes it's there's no better time than now. But there are realities, right. So we started searching in June of 2008, the world basically fell apart that fall. And I think more than anything, it just delayed our timing. 2009, you know, the economy was not in good shape. Businesses were suffering, at least certain kinds of businesses were suffering. Getting debt was very difficult. And so there was this gap between what sellers thought their business might be worth, what buyers were willing to pay, and it just felt frozen. And so that ultimately, I think the easiest way to explain the impact is it just took longer. Having said that, I actually think there are benefits to it. For example, when you're Looking at a business at the end of 2009 or early 2010, you had the benefit of seeing how it performed through that time. And you know, what a better way, or what a great way to determine the quality of the revenues. Some of the businesses we looked at suffered quite a bit. But some actually just kept on ticking right through that timeframe. And that was a great testament to the stickiness of their customer relationships. And in many ways, it was a a helpful way to underwrite the businesses. So there's, I think, two sides to it. We tell our students and, and people that are thinking about this as a career path, is I wouldn't put too much emphasis on the macro economy at any given time. The reality is the small business world is very resilient. If you're looking for a business that has great economic characteristics, like recurring revenue, and sticky customer relationships, I think that trumps sort of where you might be in the cycle. And you're at a certain age most searched on entrepreneurs anyway, where there's about to be a lot of life changes for them, and their risk appetite will change as they get married and have children etc. And so what, what better time than now? That's still what I believe. So I hope that's responsive to the question, Steve.

S Steve Divitkos 06:26

It is, and it's well aligned with how I think about it as well, I actually encourage folks to not put an undue level of weight towards the macro economy, it's entirely out of your control. And there's so many stars that need to align in order for one to take the entrepreneurial plunge anyways, that have nothing to do with the state of the macro economy. With respect to Vector Disease Control, can you guys just contrast the size of the company at entry versus the size of the company at exit? And just at a very high level? Like, can you walk us through the major drivers of that growth, bifurcated between organic and inorganic growth?

J

Jason Pananos 07:06

I can take that. Some of Jay's comments are a good segue into the VDCI as well given, you know, that time period being an interesting one to underwrite companies, but you know, 2008 and 09, were actually really great years for VDCI, you know, mosquitoes don't follow the stock market. So, you know, the, the factors leading to needs for mosquito control in those years were pretty strong, and the company performed really well, which gave us a lot of confidence in the business. And we frankly, weren't looking for a consolidation or a growth through acquisition story. So we can kind of talk through how that evolved at a VDCI, we were really just looking for a great company, and VDCI, was a great business had a lot of recurring revenue. We certainly felt like it had, you know, a high probability of a good outcome, you know, is a really, really great team that was really passionate about what they what they did, it's a very mission critical service in a lot of the areas that we serve. So just really liked the business and felt like it was a great company to get in the game. And at that time, it was roughly around 7 million revenue at the time we purchased the business. And was, you know, in the mid 50, millions in revenue when you when we exited the business and had, you know, pretty healthy margins throughout that throughout that seven year journey of building the business. And acquisitions was a major driver of growth. So I'd say a lot, majority of the revenue growth over that seven year period was through acquisitions, you know, many of which came in the later years, which we'll talk about. But we were, you know, most of the businesses, not all, but most of the businesses that we did acquire, and we acquired 14 companies over that time period, were kind of single digit growing businesses. And, you know, as we grew and got larger, and we were able to build a professionalized sales team, we did end up increasing our organic growth rate into the mid teens. And that certainly contributed to, you know, the quality of the business at exit, you know, some of the revenue growth in the last couple years. But for the majority of the journey in the earlier years, it was mostly growth through acquisition.

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Steve Divitkos 09:34

So you mentioned that you were not explicitly looking for an industry that would lend itself well to inorganic growth. So I guess, first question is, please correct me if I'm wrong, but I guess if that was the case, like what was the original investment thesis going in? What compelled you to buy this company in particular, and I guess how, how obvious or clear or deliberate was in organic growth when you first acquired the company?

J

Jason Pananos 10:03

Yeah, I'll start. You can jump in there, Jay. So yeah, you heard it right, Steve, it was really just focused on buying a good company. And I'm pretty sure that, you know, add on acquisition was maybe a couple of bullets, if we had a 60 page investment memo, or through acquisition was probably a couple of bullets. So we knew that there was opportunities either in the larger pest control market, which was bigger than mosquito control. And we knew that, lake and pond management, which ended up being, you know, an industry that we got into, it was our first add on acquisition, was a good complementary service line, to mosquito control. But it was not a initial focus of the thesis. And, again, we really just felt like VDCI was a really good company that had solid, really solid recurring revenue, we had single digit churn, and opportunities for growth. And it was just a great business to own for a long period of time. So what did end up happening is, you know, an acquisition came along, it was one we had uncovered in our initial search, but it was a little bit over a year into, into operating the business. And it was in the lake and pond management industry. And really at the time, the way we thought about that first add on is we had you know, VDCI was basically what we thought. It was a smaller companies, and we were under 2 million in EBITDA, in that first acquisition, really just got, you know, from our perspective, and from the board's perspective, it increased our addressable market, it got us in a different service line and got us over 2 million EBITDA. So, it really wasn't, you know, super thoughtful and that we have this this master plan of consolidating those two industries. It kind of grew over time, you know, that that first acquisition went really well, we ended up really liking that industry and had a good team. And you know, another player in the New England market, which is where our first acquisition was, was open to doing a deal. About a year later or so, the pacing was kind of, you know, the first add on came two years after the first acquisition, the next add on was a year after that. And it was a very nonlinear acquisition strategy. And, you know, by the time we were four years in, we had probably done four or five deals, and you know, we can kind of talk about that inflection point. And then we ended up doing, you know, 10 deals in the next few years after that. So it was really, about three or four years in that we realized we had a pretty exciting growth through acquisition, consolidation path, and really stepped on the gas pedal. So it wasn't a plan going in. And it was something that evolved over those first few years.

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Steve Divitkos 13:11

Interesting. I have so many follow up questions for you. Maybe where I can start, how did you know that you guys were like, quote, unquote, ready to do your first acquisition? Because you mentioned that you had this deal come across your desk rather opportunistically, roughly, one year after first being thrust into the CEO seat. You would be forgiven for thinking at that point that you weren't quite ready to swallow another business, after just beginning the process of digesting your first so how did you guys think about as a partnership, whether you were quote, unquote, ready to do your first and then maybe you can comment on how you thought about whether you were ready to do your second?

J Jay Davis 13:55

Not sure we ever were ready. Can that be the answer? No, I think we use the words. This is all in retrospect, Steve, with the benefit of hindsight, but the words enterprise control to think about your quote unquote, readiness as you're thinking about a consolidation strategy, and if you go back to the first year or two of VDCI. If I could just add one quick comment to Jason's earlier comments, the way that we thought about the VDCI deal originally was very much in the context of thinking about ETA or small business acquisitions, as a career. Because the reality was VDCI was a little smaller than we wanted, and it wasn't growing quite as much. It had a lot of really wonderful things about it. Mainly recurring revenue and highly sticky customer relationships. There's a little small wasn't growing as fast but we thought about eta as a career. And so when we looked at that business, we felt like it was a very I likelihood of at least a modest outcome. And when thought about that way, in the context of a longer career in ETA or small business acquisitions, it made a lot of sense. And it wasn't until later, as Jason described that the acquisitions came into play. But back to your question, we had been involved in VDCI for, you know, 12, 18 months at that point. And it's the simple things like, are you closing the books on time? Do you have a regular reporting cadence with your managers or review process? All of those things that sort of go into running the company day to day? Are you clicking on all cylinders when it comes to that? And we kind of refer to that as enterprise control. We did have that, I think 18 months in, and so we were ready to try to grow the business. You can do that organically, obviously, inorganically. We were selling into government's very long sales cycles, the market was smaller than I think we thought we got that a little wrong in diligence. And so we were finding it difficult to grow organically. And the acquisition was really just an answer to that question. It's how do we grow our company? Well, here's an acquisition that's available. It's a very adjacent service line to what we're already doing. We have quote, unquote, enterprise control. And so we felt like we were ready. I'm not sure you're ever really ready for that first one, especially when you haven't done it before. And so we had a lot of learnings in really the first several, and still today, as we invest in and are involved in consolidation strategies, you're always learning. But it goes back to that enterprise control, we felt like the business was being run effectively on a day to day basis. And this was the answer to how to grow the company.

S Steve Divitkos 16:52

So for a CEO listening to this, who is considering inorganic growth, and is being introspective about their own state of readiness, what are some of the things specific to enterprise control, that they might evaluate whether or not they have in place? So for example, one of my bigger regrets, from my time as a CEO, is it took me way too long to hire my CFO. Once I hired the right person. I said, oh, boy, I wish I did this a year or two ago. So presumably some capabilities in the finance and accounting side is some component of the enterprise control that you're referring to. But what else should a CEO have in place to evaluate their own readiness from an enterprise control standpoint?

J Jay Davis 17:39

Yeah, Jason, I can mention one or two, I'm sure you'll have additional thoughts. But I think the table stakes one is what you just mentioned, is the finance and accounting function. And that is under a microscope when you're doing deals, because you're likely you're either raising additional equity or debt. And I know we'll talk about that. So I'm sure you're reporting to your lender, to your investors. And as you buy additional businesses and fold them into your own finance and accounting function, that can be difficult and must be done correctly. But I think that is the first and first thing to think about is the finance and accounting function, and some of the things like are you closing the books as scheduled? Whether that's the eighth 10th or 12th, business day of the month, whatever that is, but do you have a closing checklist at closing process, you get the books closed, any deliver a recording package that helps you understand how the business is performing on a consistent and accurate basis? That's table stakes. I think the next layer is do you understand what the KPIs are in your business that are driving the business performance? And can you track those effectively? Again, report on them and in our view, it shouldn't be 20 KPIs, it should be three, four or five, whatever, but some small number that allows you to focus, can you report on those? And then use those to manage the business? There's probably a conversation around talent. Where do you sit with the managers that are reporting to you as the CEO? And how many of those do you think are ready? Versus if you're really honest with yourself need to ultimately be replaced? How good are your recruiting those and onboarding? So those are the things that come to mind. But for us, it's always first and foremost, finance and accounting, and the other stuff is really important as well. But that is the easiest way to fall down, I think as you start to do acquisitions. Jason, what did I miss? Anything else?

J Jason Pananos 19:51

Yeah, those were those were all on my list. So I think you hit everything I would have said, I mean, maybe just two more things to throw in. There's fees that we had in place that I think favored, are really doing the first deal and subsequent deals, but one is we had each other. So having the two of us and having, you know, leadership capacity to focus on the actual deal process in integration, which we'll get into. But that really just gets down to, as Jay said, talent, so even if you're not at a partnership, but you're a solo entrepreneur, CEO, do you have capacity in your senior team, you know, to spend the time on the acquisition and integration? And having the two of us help that in early days. But probably, more importantly, too, is just and we talked about already, but you know, having recurring revenue in our business was just really helpful. And for example, we'd be in March of the calendar year, and because our revenue was so recurring, like, we kind of knew what the revenue and profitability of the business was going to be for the year around that timeframe. And a lot of people think about recurring revenue is like a safety defensive tool in your business, but it can actually be pretty offensive. And I think, again, for us, like having the stability of that business, and the ability to plan for the year that far in advance, allowed us and our team, frankly, as we grew, to be able to spend that time on things like building the acquisition pipeline and integrating the businesses. Because you have a business that has that predictability that we had in our company, those were pretty key tenants, I think, to the, the acquisition strategy as well.

S**Steve Divitkos 21:43**

So you mentioned that inorganic growth wasn't necessarily super deliberate or clear or obvious at entry, the thesis kind of emerged over time. And I guess, as you thought about that thesis, like beyond sighs like, what specific benefits did you think in organic growth might provide the company with because often when I have searchers, approaching me with the prospect of investing in inorganic growth strategy, I often ask the question of like, what's the one plus one equals three in this industry? Which is to say, beyond simply getting bigger? What other benefits does inorganic growth provide the company with? Can you guys talk about like that aspect of the thesis and how you thought about it in the early days?

J**Jason Pananos 22:30**

I can take that, and you could add on Jay. You know, the way I think about it, a lot of people think of it as if you're gonna build a business through acquisition, it's you know, you're going to be able to cut cost in have cost synergies and improve the businesses that you buy that way. And our experience, certainly in, you know, the services or kind of in field services, like we were, you often don't have that, if you're generally acquiring a new geography. And a lot of times, you are just getting bigger, but it's really a way to allocate capital in your business. And even if we talked about financing, and we essentially used basically all debt and cash flow to do our add on acquisition. So we never brought in new equity again, after our first acquisition. But even if you're using 100% debt for, for an acquisition, I mean, you're essentially using, you know, the EBITDA of your existing business and capital in your business to make that investment. And, you know, our view is, you know, if you're, let's just say you're levered at three and a half times EBITDA, you're paying four times for, for an add on, you're obviously using equity capital to do that, but that's a very high return and a good use of equity capital, simply by making that you know, investment in your business. So there's that aspect of adding value in that acquisition. But I think also just getting bigger, there are a lot of benefits to professionalizing your business as you grow. And it could be geographic diversity, it could be sharing, you know, assets or equipment. But a lot of it's like scaling talent in your business. So you know, when you're a \$40 million company and you have a head of HR head of sales, you can really scale process and talent in your business to do things that a \$8 million business can't do. So a lot of the companies we see that have been able to grow through acquisition can bring you know, better technology to their service and bring better talent to the table. And obviously, the bigger you get ad it's, you know, harder to continue to provide like really good customer service. But there's really the opportunity to deliver better service as you grow, and you can really scale your size and do that we again, we were able to promote people to the business and somebody was moving from Florida to Tennessee and we had operations in both places, we could transfer that employee as opposed to losing them from the business. So there's a whole host of benefits that we got to running and building our business, as we grew it that weren't just necessarily Oh, you buy this company, and you can take out cost. And I'd say it was often that we were almost increasing costs, because we were building increasing the marketing spend, or adding sales talent to a business we bought to ultimately, improve the growth rate as an example.

S**Steve Divitkos 25:56**

I'd love to hear more about that first acquisition, and specifically if you guys made any mistakes, or had any particularly meaningful or memorable lessons that you've learned from that first acquisition that you then leveraged when consummating subsequent acquisitions?

J**Jay Davis 26:22**

Jason, see if you agree with this, like, the first acquisition we did went well, so it's hard to look back and say, Oh, we messed this or that up, but I do think, and there's a fine line here. Okay. So I guess I'll hedge my comment. We were probably too conservative in making appropriate changes. You know, we had been in our deal for two years by then. And, you know, there's an adage in the UK world, you know, don't fix it, if it's not broken. And we really forgot the heart. And I think that's a good advice. But we were two years in, and there were probably things on our business that we could have improved from a process standpoint, that we just were really slow on. And in a consolidation strategy, as you ramp up pace over time, which is a common pattern, you sort of slow at first, but then you ramp up pace over time, you have to get to a point where you're able to make process in your business across the acquire companies. Very similar, going back to the KPI conversation we had earlier because you need to be able to understand what's driving performance in the business. And you can't do that, if you have a vastly different process in business X versus business Y. And so if I look back at anything, it could have been a little more change sooner, that would have put us in a position to then do more deals sooner. Now, we didn't get to that point until really, based in probably our fourth tuck in, where we bought a business that that had, that, frankly, was just better at process and service delivery than we were and was a valuable acquisition to us for that reason. And we ended up really thinking that this process, and blowing it out throughout the organization, at least most of it, you know, wasn't 100%, but we took probably 80% of what they were doing. And that was the opportunity for us to sort of truly integrate those first couple of acquisitions. This is our process. This is how we deliver service to our customers. This is how we measure it internally keep our team accountable. And that was the process there forward. We could have been better about getting that place sooner, I think.

S**Steve Divitkos 29:03**

It's interesting you mentioned that because like the prevailing wisdom within our community, which I think comes from a thoughtful and genuine place is in the first let's say six to 12 months take a bit of a Do No Harm approach, diagnose before you prescribe, don't make too many changes too quickly. I think in some circumstances, that is the right counsel. But I've spoken to many, I guess who I'll refer to as serial acquirers who take a bit of a contrarian view and say, look, when you first buy a company, people are expecting change to happen in those first, let's say six months. And that's a bit of a unique and fleeting window of time during which you have some almost implied permission for lack of a better way to put it, to make those changes. It sounds like you lean more towards the latter approach than the former, is that accurate?

J Jay Davis 29:55

Well, I would nuance that, so I think it's the former for your niche skill acquisition. And that's the difference. So like the very first deal we did, I think that's wonderful advice. And it's okay to listen and not make significant changes early. And I think that's important in most of the CEOs stepping in to the businesses have never run anything before. So you also have that dynamic. When you're doing a consolidation, by the time we were doing one or two deals a year, we had been running our company for three or four years. Now, that doesn't make us super experienced CEOs, I understand that. But the reality is, we had more experience than we did when we first stepped in day one. And so that's the difference for me, if we had been running a company that you want to call it a, quote, unquote, platform for several years, by the time we were doing these smaller deals. And that's, I think, another point is that, by the time we were doing our third, fourth, fifth acquisition, they were becoming a smaller proportion of our overall business. And so there wasn't this like, in most cases, Jason, you had to jump in here, if I'm wrong, with the exception of one or two deals, the businesses we were buying, they could have gone to zero, and it would have been a bad thing, but it wouldn't have taken our company down. And so that is that also gives you a little more freedom to integrate more quickly, make changes if necessary, and make them part of your overall company.

S Steve Divitkos 31:24

Did you guys find it easier to connect with sellers, when you were viewed as a strategic buyer via VDCI versus when you were just an entrepreneur looking for a business to buy. So maybe you can talk about how much easier or more difficult was it depending on the label that you put on yourself, and maybe how you adjusted your pitch to sellers at both stages of the journey.

J Jay Davis 31:54

It's hard to describe how much easier it is to source deals when you're in an industry versus outside of it. And so as anybody in search will tell you, it's really hard to get your first deal done. When you're in an industry, you know, the players, you're at the conferences is just a lot different. That's a lot different. And we did not, you know, we did not explain ourselves as a quote unquote, strategic, that's not how we positioned it. Our approach was to be really great counterparties to the sellers, that we were buying companies from, you know, we never fought it out to the last penny. That's that's not how we operated. We didn't want to do deals with people that operated that way. And we found middle ground that worked for both parties, and we tried our best to be great counterparties. And as a result, most of the sellers that we interacted with were references, basically all of them for owners that we were talking to in the future. And that just builds on itself. I mean, there's a compounding benefit to that. And we thought of our brand as a business, of course, but we also thought of our acquisition brand. So what is our brand as an acquirer? And do people recommend us as a buyer of their company? And that was really important to us. And I think for any person doing serial acquisition, that's something they should be thinking about. We might have talked over each other for a second, were you going to say anything?

J Jason Pananos 33:33

Yeah, no, I was totally gonna say that. And we're never perfect, but it was always our goal for every seller to be a reference for another seller. And certainly, when we were reaching out, and it helped to be in a, you know, local service, regional service business, where when, you know, if you're reaching out to people in different parts of the country, you're generally not competitive. So everyone's generally open to meeting and getting to know you, but you know, we always referenced who we'd already partnered with, and oftentimes, you know, everyone, it's a smaller industry, so people knew each other. So if you're doing right by your employees, and the sellers that you're dealing with, that word gets around. And even aside that, I think people are open to conversations with peer companies and getting to know each other. And I'd say, certainly, you know, once we were doing multiple deals per year, or you know, the time period where we're doing three or four per year, I mean, those were conversations that had taken a couple years and we had spent time with the people but getting a meeting with someone or you know, getting them to take your call is much easier once you're in the industry and you know, 10 times easier than when you're call it you don't have a company yet and you're you know in the search phase looking for a company.

S Steve Divitkos 34:58

We've talked about pacing a little bit and I'd love to double click on that if we could, like, how did you guys think about pacing, your acquisition activity? I guess, how deliberate was your pacing versus being more reactive? And how did you think about the merits and risks of moving too slow versus moving too fast?

J

Jason Pananos 35:25

Yeah, I think for us it, again, the pacing, it wasn't deliberate in that we said, Okay, we're not gonna do anything for the first few years and then do nothing for the first year. It was pretty opportunistic to start. And then I think once we realized we had a big opportunity to acquire more companies is Jay kind of mentioned, you know, we had done four deals, you know, fairly opportunistically, we had done a great job, I think, at integrating finance in back office and had a great CFO who, you know, enabled that piece to happen, but we hadn't done a ton of integration. Really, beyond that, until, as Jay mentioned, about the fifth deal. And that's really where the hard work comes in. And we can certainly can certainly talk about that. But I think for us, we kind of realized at that point, if we want to move faster, we need to have better standardized processes, we probably need a single brand we had done, you know, we were terrified to do it. But we had combined a couple of brands earlier on and realized that done the right way, that can be an opportunity, not not a risk in the business. So I think it was at that point, we realized, we need a platform in place to be able to move faster than we have. And once we really did that integration and brought the company together and had a good platform to pull stuff into, we felt more more confident about moving faster. And the other piece I would say on that is, you know, the early deals, it was basically, me and Jay doing, doing all aspects of the deal, we could be on site in the early days, and, you know, help build rapport with the team and decide what changes needed to be made. And I would say the first time we kind of had, you know, more on our plate, and we're kind of relying on our team to do some of that, I'd say that's where we, you know, we kind of made some mistakes. And, you know, the reality is, we hadn't really trained our team to do that we didn't have a playbook. There wasn't as much standardization, we weren't really getting our team involved in the process earlier. So those were things again, that I think helped us move faster, after we had more of our team involved in the deal process. And they had had a couple feel both the deal process and the integration process under their belt. And ultimately, we kind of had a project management software, and we'd have an integration quarterback that has institutional knowledge and functional leaders had seen the movie play out. So we didn't have a dedicated integration team. But we had, you know, kind of all the top leaders, about 20% of their job was integration. And until we had all that in place, we really couldn't move, move faster. So it took us again, going back, it really took us about four years to build that. Now, I think we could have done that sooner, and probably in hindsight, moved a little faster. But we were, I think being first time CEOs. We were trying to be conservative with the risks that we were taking in the business. But you know, we've certainly now invested in and been on boards where, where people move faster than than we did. But I feel like there's always this point of like, a third or fourth deal where you do hit that inflection point you need to digest, make sure you have the right team at the Holdco level and make sure you have a process to integrate your businesses because anyone can kind of do four deals and hold it together. But if you want to do 10, to get to 10 You really got to have a team and process. And that does you can't do that overnight. That takes a couple of years to build.

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Steve Divitkos 39:32

So just to set context and remind those that listening, we were roughly 7 million in revenue at entry roughly 50 million in revenue and exit. And that growth was attributable in part to 14 acquisitions. Though I understand that some of them were opportunistic in nature. I assume after a handful of deals you guys had to ask yourself the question, do we get to our goal via a larger number of smaller deals, or a smaller number of larger deals. So for example, you know, maybe there's a world where you went from seven to 50 million via five acquisitions instead of 14, I guess, did you guys discuss that? How deliberate was where you landed? And why did you land where you did?

J

Jay Davis 40:24

I can take that. I think there are two reasons that we landed where we did. One is that the reality is that there wasn't a lot of larger businesses in our industry. And it truly was just a long tail of smaller companies. I mean, there were a few that were larger, but for the most part, it was smaller businesses. And so that was the opportunity set for the most part that was in front of us. The second thing, and I think it's related to the question you just asked is that we were really, really focused on equity returns into capital structure, in a large way, drove our pace. And it also drove the target, or ideal acquisition that we did, we could buy the smaller ones for, let's say, five times or less, sometimes even closer to four times, whereas the bigger ones would have been, six, seven, maybe even seven plus times. And so as we thought about the returns that we were producing for our investors, it just, it just was easy to sort of gravitate towards more of the smaller ones, because the multiples so much better. Keep in mind that these were recurring revenue businesses, the industry was growing. And we were in the industry. So we didn't feel like the smaller businesses were any less quality. In some cases, they were just as good or better than maybe a larger one. But we had to pay less for them. And so that led to better equity returns. And that ultimately, I think, is the answer to your question.

S

Steve Divitkos 42:10

Yeah, that makes a ton of sense. You talked about financing the deals. And that's actually where I want to go next. So I've seen prospective entrepreneurs, or prospective consolidators, I should say, propose deal by deal financing. Which sounds like is what you guys did, though, correct me if I'm wrong. And I've also seen other theses that propose more of a committed capital structure where they raise a certain amount of money over time and just call or draw down that money on as deals present themselves. I guess the question is, like, why did you guys land where you land? Why did you land where you landed? And how did you guys decide on the relative mix of debt and equity to finance these 14 subsequent acquisitions?

J Jay Davis 42:55

Yeah, so just a little context, when we were doing this, the idea of like having a committed, pseudo committed capital vehicle to do a consolidation, like it just didn't exist, and in fact, quite the opposite. At that time, there was really a bias against consolidation strategies, just on the idea that you have inexperienced CEO, doing too much acquisitions, trying to integrate them. It's just complicated and hard. And there were some examples of where it just didn't work very well, but that really wasn't an option for us. Now, we can circle back on how we think about that today. But in our situation, we didn't have a committed capital vehicle, I guess. So we could have raised additional equity, but we're trying to produce the best equity returns, we can. And the way that we thought about it is we had this sort of enterprise leverage number that we were managing to. And for us, that was four times EBITDA, for our size of business that was about right, we probably maybe could have been a little more aggressive, but not much more. And so as you think about the sources of capital, you've obviously you've got cash, you've got additional equity, you've got debt. And then we were using those sources to then do acquisitions. And actually, we made some distributions along the way as well. But the way that we thought about it, Steve, is we would first use any cash on the balance sheet for an acquisition. Then we would use incremental debt, up to four times enterprise leverage, which we should note includes the target's EBITDA on a pro forma basis. That's what our windows were comfortable with. That's what our covenants were built around. And so we would manage to that and then if we needed capital beyond that, we would have raised equity. Fortunately, our business was very cash generative, we had some emergency response service lines that produced outsized cash every few years. And based on the pacing that we had employed, as discussed earlier, we were able to fund all the acquisitions with cash produced from operations, plus available that capacity. So we were able to do all 14 deals with no additional equity from the original deal. And you don't have to pop that into Excel to sort of understand that that's going to result in very good equity returns. Jason, anything to add there? And then how would you, you know, we see a lot now the committed capital. And I know we have thoughts on that. But would you say on that topic?

J

Jason Pananos 45:44

Yeah, no, I totally agree with you. And this is where we get pretty excited. I hope we're not boring your listeners, but this is, you know, it is pretty exciting stuff for us. And I think for those interested in consolidations. I do think people underestimate what you can get done with debt, in a consolidation strategy, in prudent debt by the way, I don't think you need to over lever, the companies. And when you think about using the debt capacity of your existing business, the debt capacity of the company you buy, certainly, if you're in a, you know, high quality revenue industry and company, you probably have some organic growth, even if it's not massive, that's adding debt capacity every month, quarter and year, you're generating cash that can be used for acquisitions. And certainly, if you think about pacing too, as the governor on how much equity you need. If you're being prudent on your pacing, and you're building the components we talked about earlier, such as enterprise control, and team and integration playbooks and all that, if you're pacing properly, that can affect the equity efficiency of a strategy like this. And I do think people underestimate, or either overestimate how much equity primary equity, you need to build something big. Or under appreciate. How do you leverage? So that's one point. And, you know, you mentioned committed capital pools, which is much more common in the ETA world today than it was even 4 years ago. Certainly 15 years ago, when when Jay and I got started, that didn't exist. And, you know, I think those can work really well. I think deal by deal can work just fine as well, too. And I think the key is picking a good industry, you know, having good process, building great team doing all the things that we've talked about. I think with all those things in place, and I think, you know, for a first time to first time consolidate, or having smart people around, you who've done it before, having all those things in place, I think can really help help a consolidation strategy. I think the benefit of a committed capital pool is you kind of have the capital already, despite what I just said about that, you can go all equity on the first couple of deals, and it gives you a little bit of runway, and then you can bring in debt over time. I think on the flip side, if you didn't have a committed capital pool, but you're doing capital deal, by deal, I mean, the equity is always going to be there if you need it, especially if things are going well in the ETA world. So I think it can really work. It can really work either way. But there are certainly some benefits of having a capital pool available to fund the process. I do think, you know, going back to my, the point I just made earlier, I do think people tend to overestimate what they actually need. And in the in the pool of capital to get to, you know, flywheel which is kind of a term that's used for the point in your consolidation strategy where you don't need equity anymore. I think capital pools can probably be a little smaller than people think when they're going into this.

J

Jay Davis 49:11

So one of the reasons entrepreneurs want the committed capitals, the which is an obvious, but so far unsaid fact is that it locks in economics. And I think that's one reason that drives entrepreneurs to getting the committed capital, which as a former CEO, I totally understand, but to Jason's point. We believe it should be tied to some need, it's not finger there, I'm gonna raise X millions of dollars, but based on some real thoughtful analysis of the industry. Here's what I think I need based on the strategy. And I think that's what it should be based on.

S

Steve Divitkos 49:49

So you guys mentioned your use of debt. And this is a difficult question because it's it's basically entirely hypothetical in nature. But given that you guys started Research in 2008, presumably, we were in 08, 09, 10 period where rates were effectively zero? Would your approach to financing bolt on acquisitions change in an elevated rate environment, like the one that we find ourselves in today in May 2024? And I understand it's an entirely hypothetical question. But can you just speak to like the pricing of debt? And what role that may have played in your financing decision?

J

Jay Davis 50:27

I don't think it's hypothetical. Because I mean, it's obviously the reality in today's world. And we don't think that changes anything. I mean, if you look at the sensitivity of returns, in these strategies, it just really doesn't matter if the interest rate is 9% or 6%. It just doesn't matter, or 12%, even. What matters is the quantum of debt you can get as a function of EBITDA, in the terms of that debt, and encompassed in, quote unquote, terms. It's just like the partner that you have. Do you have a good partner? And we got really lucky on that dimension. We had a senior lender and a mez lender in our original deal that were wonderful partners. And so we see this all the time, where serial entrepreneurs, even in a non consolidation strategy, but in a consolidation strategy as well, where they get way too focused, in our view, on the actual interest rate. 50 basis points, is just not going to matter to their strategy. versus, you know, can you borrow on pro forma EBITDA? Can you fund the next acquisition 100% with debt, assuming you're in pro forma covenant compliance, like these are the things that matter not interest rate. Within reason, of course.

S

Steve Divitkos 52:03

What did you learn about, you mentioned that you had a commercial bank as a debt partner, you also mentioned you had a mez lender, what did you learn about the trade offs between the two with respect to pricing, flexibility, creativity? How would you counsel a searcher today who is contemplating like the merits and risks of a quote unquote, traditional bank lender versus a, you know, less traditional non bank lender? Any lessons that stick out to you from your experience working with both?

J Jay Davis 52:40

Yeah, I mean, I think it as you would predict, it gets more expensive and more flexible as you go down the capital structure. So your senior lender is going to be the cheapest, but it also comes with the most restrictions. And you have to amortize it. So Mez is gonna cost you a little bit more, but you don't have to amortize it generally. Maybe there's some amortization, but it's very light. And so it actually, in many cases, I mean, a Mez lender, you actually have more after debt service cashflow, even though the rates more expensive. And so we ended up more mezzanine heavy, because we have more cash flow available for debt service to do acquisitions. So I think it does depend on the business you're buying, whether your focus is on organic, whether it's a consolidation, strategy, whatever, on what is better. The reality over time, I think, is we ended up with Senior plus Mazz, which basically approximated a sort of unit tranche type of loan. Those are less common back then. But today you can get, you know, tranche that's just a land of senior mez and I think that can work really well also. Jason what else would you say on that topic? It's a good, good question.

J Jason Pananos 54:08

Yeah, I was gonna say the exact same thing. So I think great point. And I think too, it depends on the phase of your evolution. And I've seen now a few times where consolidators have started out with they could have got Senior. They decided to go with mez, they paid more on rate, but to Jay's point, you know, the overall package and terms was maybe more flexible with the mez. And if you do the first deal. You're you're building your own co team at the same time and having that flexibility was helpful. And, you know, maybe there were some stumbling blocks in the early years we're having that mez actually benefited, you know, gave them more flexibility and they were able to do things that maybe they wouldn't have been able to do with a senior lender advocate. But then I've seen I've seen situations where you don't need a ton of debt for the first couple deals and having, you know, having a senior lender and is your also your operating bank partner and has a line of credit just makes a lot more sense. So it's a little bit situation specific. But I think the point, again, just to double click on the point that Jay makes, that we tell entrepreneurs is like, sure, rate matters. But there's so many things that are more important. And I think people weigh over focus on rate, or they don't even go down the meze path, because it just seems too expensive. But the reality is your mez debt is way cheaper than equity at the end of the day. And it's helpful to have that perspective when you're thinking about capital structure.

S Steve Divitkos 55:50

So, in any given consolidation strategy, we've discussed the concept of a platform company, you know, the first business that you acquire in this case, as you guys think about consolidation strategies, more broadly now, as investors, how important is that platform company? Is it absolutely critical? Is it totally immaterial? Or is it somewhere in the middle?

J

Jason Pananos 56:20

Yeah, I think it matters a lot. And I'd say the first few deals really, it may sound obvious, but I think they, they really have to go right. And you could I think in a perfect world, you start with a deal that is a platform, it's a good size, it comes with some, you know, some infrastructure and team, we've certainly seen ETA entrepreneurs be successful, putting together a few smaller things to start in kind of creating the platform by bringing a few companies together, and then you know, building a few folks at the wholesale level. But even then, again, I think that can work in the red strategy. But even then you kind of hit that point where, as I talked about before, you kind of need to digest after the first few deals and integrate and the platform in place. But even then, I think the first few deals have to have to work well, and the bar should just be really high. And it may not mean that if you go under if it doesn't go perfectly or great in the first deal, but it can cost you time. And that's the biggest thing if if things don't go as well out of the gate, it just takes a little bit of a longer time to either build that debt capacity or get to get enough EBITDA to start building the right team. It'll set you back, even if it doesn't stop or impair the strategy. So I really think getting those early deals matters and you're better off keeping the bar high and being patient on those on those early deals.

S

Steve Divitkos 58:06

Now, everybody who has gone through a consolidation strategy successfully or otherwise always talks about how the acquisitions are the easy part, but the brutally difficult part is the integration process. And I think most people listening to this will understand that at a sort of academic or intellectual level. But I'd love to hear like a story or an anecdote from you guys to illustrate just how brutally hard the aquas are, pardon me, the integration process is like anything that can help us understand at a more like visceral, personal, emotional level, what everybody means when they say just how brutally difficult these integrations can be?

J**Jason Pananos 58:50**

Yeah, I mean, I can share some thoughts on that, Jay, and you can add in but you know, a lot of it is driving change management and getting people to change can be really hard. And a lot of times it can work really well you know, if you're obviously you're building culture and you're showing people the benefits of adopting a new system or changing the process how it's better for them and it's better for the customers but it's hard. It's really hard work and you can't just come in one day and say this is how we're going to do it. There's a lot that goes into getting people on board you know training people on new systems getting getting buy in, those are all really hard things. You know, certainly getting seller alignment and, you know, working with sellers and even if they're not staying on and part of a transition process even with best intentions on the seller side and the buyer side, that's always a dynamic that can be tricky to manage. And, you know, it's stuff like emerging benefit plans, and HR administration and integrating systems with, you know, every company we bought had a slightly different database and way of managing their data. Ensuring that data integrity when you put it in the system, and you know, doing insurance renewals. I mean, these are the things that you're doing in integration, it's not, you know, jet setting around the country, and doing deals. It's being in the weeds, you know, making all the back office and the operation side of these businesses work together. And one of our acquisitions had, you know, 60, 70 people in the field, and they had a way of recording the way they did their service in the field and brought it into the office. And you're talking about putting, you know, we were putting devices in people's hands and training them how to use it, and making sure the data went correctly into the system. And for a period of time, you're running the old system in the new system together to make sure you know, to make sure that the data is going in the same way. And when you're doing that with 60 people and trying to drive change all at the same time. Like, that's really hard work. And if you're doing a dozen, 20 acquisitions over time, you certainly get better at that every time. But, but you can imagine, you can imagine, that's hard work. And you know, sometimes it's, you know, most of the time, people can get really excited about that. But sometimes, you can have people on the team that you know, don't want to change. And that can be really hard.

S**Steve Divitkos 1:01:51**

So this kind of nitty gritty of changing the mailbox that the checks go to or migrating benefit plans or changing accounts and contacts from CRM A to CRM B, who is actually doing all this work? Is it some combination of the two of you? Or do you have a designated lead slash general manager at each of these target companies? And the reason why I ask that is because as an acquirer, you know, one has to balance tending to the farm and managing your platform, \$7 million dollar company at the time, which is a very real business, with doing all of this nitty gritty, difficult, time consuming work. So can you just talk about who's actually doing that work? And whether you designate someone in advance as kind of the point person to do this pre close?

J Jay Davis 1:02:43

That's a great question, Stephe. I think Jason alluded to this earlier, but it definitely changed over time. For us in the first few deals it was Jason and I, I mean, we weren't necessarily like running payroll, per se. But we were highly involved in all the things I just talked about. Fast forward three or four years, as we're doing deal, five, six, and then beyond, we took a very different approach, in part of what allowed us to do that as sort of just bigger, and we had more people on the team. But for the last, I don't know, seven or eight acquisitions, we had an Integration Manager who was running quarterback on all integrations. At that point, we had build out our management team. So we have a real experienced high level leader for each function. So think HR, technology, finance, obviously, operations, those functional leaders, we involved in the deal process, and diligence. We had a integration plan for each of those functions. And the functional leaders were in charge and ultimately responsible for integrating that part of the new business, all sort of quarterback by the Integration Manager. And I think that if you're gonna ramp up pacing, you have to get to that point, in our opinion. And something that we say, which I think this is a reflection of, is when you're doing a consolidation strategy, you have to think, of course, about your service you're offering as your core competency. But you also have to think about M&A and integration as a core competence. And so we made the decision to involve our functional leaders, because that was part of their job, doing deals and integrating them into our existing business was part of their job. And so that's what it looked like, in the end we weren't involved at all really, and it was our management team that was executing on those integrations.

J Jason Pananos 1:04:51

And I would say, we didn't make that up to doing we tried to learn from the best, we had a great board we had great you know, Relationships, investors and people like John O'Connell from Wind River environmental and AJ Wasserstein, who had done this, and we were able to learn from them. And even now, as we've studied some of the great consolidations, it's amazing to me how few people, those companies, you know, great PE backed, or longer term hold consolidations. Their M&A and integration teams are pretty mean. And it's really just part of everybody's job. And that always resonated with us. And that reflected how we built our processing team.

S Steve Divitkos 1:05:38

So now you guys are investors in small and medium sized businesses, and our investors and consolidation strategies, as well as theses that have nothing to do with consolidation. Given your very unique perspective of having done this and having done it successfully, can you talk about how you think about investing in a consolidation thesis today, given your experience, I have to imagine that there are some specific aspects of a thesis that might get you really excited. And conversely, maybe there are specific aspects of a thesis that would give you pause based on your experience. So now that you've been through the wringer, can you talk us through how you think about investing in a consolidation thesis today?

J

Jason Pananos 1:06:29

Yeah, I mean, as with anything, I mean, you want to see the team that you're partnering with, or investing in has, you know, been really thoughtful. Again, most entrepreneurs doing this haven't been CEOs before, you know, haven't done a lot of deals, you want to know, they've been really thoughtful, done their due diligence, have good people around them. I think industry wise, obviously, we believe in high revenue, quality, you know, good businesses, things you look for, you know, how many targets are in the industry, and almost really, the makeup of the industry is just as important. And you could have a super fragmented industry that lends itself very well to add ons, but you could have another, you know, another makeup that that doesn't, and you kind of have to look at, are there, a few big players and lots of little ones? Is there a lot of people in the middle? What are the multiples? You know, what are the valuations currently in the market at different sizes or types of business? You know, those all matter? Because you have to understand, like, what the entry point is going to be. What's the add on opportunity? So those are some of the things we look at. And yeah, is the capital base as well, fitting the opportunity? We talked about mid capital pools, and the reality is, like, there's a lot of capital out there. And, you know, sometimes the idea is raise X amount of dollars, because, you know, we have that much interest from investors. And, you know, maybe that's great for the entrepreneurs, but in our view, like, it should make the capital base for the, for the venture should kind of fit the, you know, the deal opportunity, and what do you need? So I think to the extent that a team has really thought through, and you know, the opportunity in the market they're chasing, and what that means for dollars, that obviously makes more sense than kind of an arbitrary pool of capital.

J

Jay Davis 1:08:37

I would add two quick things. One, so we focus on the same things that you might in a traditional search or acquisition, recurring revenue, asset light, hopefully you have some industry growth, and maybe not as critical when you can grow through M&A. But then two of the things I would say is a question we always ask is, what can you buy the proverbial million dollar EBITDA business for in this industry? And there are some industries that are popular in consolidation circles, where the answer to that question is like, seven or eight times? And then there are some where the answer might be four to five times and we felt much more towards that latter. There might be good reasons why the former raise for a higher multiple fine, but we'd like to be able to buy the proverbial million dollar event that business for five times or less. And I think that that is a really important ingredient to a successful consolidation strategy, especially early. The second thing is, back to one of your earlier questions is what is the economic rationale for being is being bigger better? Or is it just sort of a multiple arbitrage thing? Actually think multiple arbitrage is okay, like we need to recognize that that is, for sure part of the benefit, let's not hide behind that if I can buy for five and sell for 12. That is a good thing. But it needs to be more than that if you're going to do it over a really long period. And is there route density that might be a factor? Is there a purchasing synergies that might be a factor? And how much margin? Can you get out of those synergies? So like, that's the next level and understanding how, you know, what is the rationale for combining these companies and you get benefits from scale?

S**Steve Divitkos 1:10:20**

Like that makes a ton of sense, and very important question that I think any prospective consolidator ought to ask themselves. So there's almost like a third financing option, right. So with respect to the financing, any given consolidation thesis, we've talked about deal by deal, that's pretty easy to understand. We've talked about a pool of committed capital. But there's also this, I mean, related to number two, there's also this third category that has emerged, which is, I guess, for lack of a better way to put it, I refer to as like a blind pool. Where an entrepreneur doesn't have a platform company yet, but instead looking to raise a pool of money to finance a roll up. So, you guys had a platform company. And at that time, if committed capital structure, you know, had some more precedent, perhaps you would have chosen to utilize that. But with respect to these kinds of blind pool vehicles, where we don't even have a platform in our sights yet, how do you guys think about that, from an investor's perspective? Is that something that you lean towards, lean away from? And maybe just some some context on why?

J**Jay Davis 1:11:30**

Yeah, well, I think it's important to define blind pool because I don't think some of your listeners might hear that and say that it's just, you know, you have access to \$20 million, go for it. And I don't think that's exactly how it works. You know, you might have, quote, unquote, committed capital, but almost always, the capital is drawn down at the board's approval. So while it's committed in the sense that it's available to you economics are based on that number. It's not that the CEO can just call the capital. And that's it. So the board usually has to approve it. So I wouldn't say it's totally blind. I guess, in that sense. I think what you meant, Steve, is that there's a deal identified that we're doing, it's more that we have a thesis in an industry, and we're raising money behind that thesis. And we're actually okay with that. And if the thesis is thoughtful, and it's done a bunch of work around an industry and the industry is massive, then we get comfortable that, you know, unless this person is just not capable to get a deal done, they will find a deal in this industry, because there's 8000 targets. I'm exaggerating on purpose, but and so we're comfortable with those, back to the comment Jason has made a couple of times, like, it's just important that the capital raise matches the opportunity. And that might mean bigger equity dollars, and that's okay. But there's a reason for that. In some industries, you can do it for a lot less. And we want to see the committee capital pool reflect that. We've done a lot of that, and I'm comfortable with it again, as long as there's been a lot of thought into that industry.

S**Steve Divitkos 1:13:12**

As we look to conclude here, I'd like to ask if I may, a bit more of a personal question. You guys have done a lot together, you went to business school together, you searched, you operated, you exited. Now, you're investing together, now you're teaching together, which I think is incredibly cool. Talk to us about what you've learned about maintaining a healthy partnership, what lessons have you guys learned? What counsel do you give to business partners who might be just starting out with each other today? Because I'm sure as two individuals working in a high stress environment, I presume I'm safe in suggesting that you guys have had your personal ups and downs, what have you learned about how to maintain a successful partnership?

J**Jay Davis 1:14:03**

That's a great question. I mean, it's been really rewarding. I think first and foremost, I mean, let's go back to be in school together in 2008. And I think it was clear then. And it remains clear that we have generally the same goals in life, like we want to be very successful professionally. And we define that in a certain way. But we also want to be great husbands and great fathers. And that's really important to both of us. And so we were aligned, I think, from the beginning on what we want to accomplish, not only in business, but also in life, which is absolutely critical I think. We really, this is not necessarily a stated policy of ours, but we don't really have we have a no ego policy, like neither of us has to be right or wrong. Like I'm wrong all the time. And Jason's wrong some, and it's fine. And we just don't have that dynamic where it was my idea. And so we need to do that it just just doesn't exist in our relationship, which is kind of amazing to think about it. I think it helps that we have different personalities. So I'm comfortable doing certain things, Jason's less comfortable and vice versa. And I think that has helped us. And I think one thing that has also been a side benefit, I guess, to our partnership over the years is that we haven't lived in the same city. We searched in Boston together. So we searched in the same place. But then once we bought VDCI, Jason moved to Western Mass, I moved back to Nashville. And we've been in separate geographies ever since and actually think that the leaves a lot of potential stress. So like, we have different social circles, by definition, because we're in different cities. And we are able to live our lives relatively independently, in some sense, although there's no person, I talk to you more than Jason, maybe even my wife, I hate to say, we talk to each other all the time, but we are in different geographies and I think tha helps. So we're not on each other's toes in the same way that you might be if you're going into the same office day after day for 15 years. So I think that has been an important ingredient as well.

S**Steve Divitkos 1:16:19**

Are there any specific rituals or routines or habits that you guys have found to be particularly helpful or useful in the context of maintaining a partnership? So just to give you an example of what I'm talking about, you know, some partners have the first Monday of every month, we have like a quote, unquote, same page meeting, or some partners would say, hey, anytime there's a hint of resentment, or jealousy or disagreement, we immediately surface it. Any, like explicit routines, or strategies or practices that you guys have found to be particularly effective in maintaining this partnership for as long as you have?

J**Jason Pananos 1:17:07**

Yeah, I think we, my take on that would be we're not as like systematic. And even going back to like doing diligence on the beginning of if we wanted to do this together, you know, we hadn't worked together before. But I think the section experience in business school lends itself to us getting to know each other really well, for a whole year. We worked together on, you know, studies and going down the search fund path. So we had a really good sense of what it's like to work together, who we were as people, As Jay mentioned, so I always tell people, you know, don't speed date your partner, it should be someone you've either worked with, or spent a lot of time with. But I do see other people as they're getting into the partnership be a little more systematic about talking through what could happen if this happens, or if that does, or putting together a partner agreement or having to your point, Steve, having kind of more formalized meeting cadences. But we do all those things, and part of it is we talk all the time, and maybe more than we should, but, you know, we in some ways, we kind of know, after 15 years, before Jay says it, we can sense how each other are feeling and kind of know when to you know, know when to jump in and ying and yang or, you know, ask how you're doing. And I think having off site time where we're spending time together and stepping back and getting out of the weeds. Those are all things we we've done throughout our journey together and would recommend that others do. But I don't think we've been as systematic about it as maybe we, you know, could be and I think we've had a lot of luck too. I mean, it's really worked out for us. And we've had, you know, success kind of built on our partnership. And that way when it's, you know, when things haven't gone well, we've been able to work through that together as well, either in our partnership or in, in businesses that we're working on together. So I think building on that relationship over long periods of time, and I think communication has really, really helped.

S

Steve Divitkos 1:19:23

Well, guys, it has been a total pleasure to have you on today. I have been both following and admiring your success from a distance for many years now I first got introduced to the search fund ecosystem in 2010. So I haven't been doing it as long as you have but I have had a front row seat or at least a passenger level seat to your story and your success and it's just so awesome to see two people working hard together, forming a great partnership and creating a lot of value both for their investors but also for their employees and the communities they operate in. And now that you're giving back in your roles as professors at HBS is just like a wonderful full circle moment to witness. So congratulations on all the success. Continued success to both of you. And thank you so much for being generous with your time today.

J

Jay Davis 1:20:19

Well, thanks for having us, Steve. It's a pleasure to be here and we love following what you're doing in the ETA community. And thanks for all your contributions as well.