The Journey

From Pete Engineer to Entrepreneur
Key Decision Points

- SPE GCS Scholarship
  - First exposure to oil and gas industry

- Texas A&M University
  - Petroleum Engineering

- Permian Basin
  - Concho Resources, Field Operations, Reservoir Engineering

- Harvard Business School
  - MBA 2013, Entrepreneurship Through Acquisition

- TXE Capital
  - Starting my own Search Fund

- LK Industries
  - Acquiring a niche manufacturer of oilfield testing equipment
The MBA
Starting a New Path
Why an MBA (general)?

- Key reasons PETEs decide to obtain an MBA
  - Diversify your skillset
  - Management Training
  - Explore other career paths

- Two Approaches
  - Part-time or Exec Ed → Weekend programs, night programs, usually local
    - Pros: Continued technical development, no relocation, lower cost
    - Cons: split focus on MBA/work, little opportunity to explore new career options
  - Full-time → two year programs, on campus learning, geographically diverse
    - Pros: full engagement in learning, opportunity to “restart”, relationships
    - Cons: high cost, pause in technical learning, relocation, “back to school”

- My Thoughts
  - USE MBA to become manager at E&P Company
  - Aim high…nothing to lose
Harvard Business School

- Started in the Fall of 2011
  - Two years of work experience
  - Operational experience was extremely valuable in the classroom

- Areas on Interest
  - Focused on operations and strategy
  - Conducted independent studies with PEMEX
  - Committed to returning to oil and gas sector

- Two Unexpected Courses
  - Financial Management of Small Firms
  - Entrepreneurship Through Acquisition
The Decision
Starting my own search fund
A Search Fund

- What is a Search Fund?
  - Search funds are an alternative investment vehicle and are typically considered the most direct way for someone with limited financial resources to run a company that they partially own.
  - The first known “search funder” was a 1983 Harvard Business School graduate
- Stage 1 – Raising the Search Fund
  - The search fund entrepreneurs raise what is known as the “search fund.” This is a pool of capital that supports them in their search of a company.
A Search Fund

- **Stage 2 - Searching and Acquiring**
  - Searching, identifying and closing on a business is a time-intensive and diligence-rich process. Once a company is identified, the search funders then make a second capital call to their original investors.

- **Stage 3 – Operating the Company**
  - After an ownership transition, the searcher will assume daily operations. The goal is to create value by successfully growing the business through careful execution of strategy and operational efficiencies.

- **Stage 4 – Exiting**
  - There's a lot of flexibility on the exit, depending on the investor mix.
TXE Capital

- **About**
  - Sponsored by Double R Partners
  - Founded in July 2013

- **Strategy**
  - Focused on opportunities in the Texas Energy Sector
  - Developed Board of Industry Advisors
  - Personalized the selling process ("Eric" is the buyer)

- Completed First Acquisition in April 2015
The Search Process
Finding the Right Company
Kicking Off

- Key Characteristics
  - Annual Sales Greater than $5M
  - Based in the Greater Houston Area with a focus on energy
  - Low Customer Concentration
  - Owners Seeking Transition
  - High Value Business-to-Business Operations

- Getting Leads
  - Intermediaries
    - Brokers, Investment Bankers, Listing Services, Databases, etc
  - Network
    - Personal networks, accountants, attorneys, HBS/TAMU
  - Cold Call
    - Most Fun of them all!
    - Sometimes you get it wrong...
Kissing a lot of frogs

- 20 Months of Searching
  - Most effective leads came from brokers
  - Discipline is key
  - Emotions must be managed

- Results
  - Reviewed 168 deals
    - Over 1000 deals circulated
  - Issued 11 IOIs
  - Issued 3 LOIs
  - Closed 1 deal: LK Industries
    - Found through a broker (Idaho)
    - 86 year old manufacturing company
    - 89 Year old owner
The Acquisition Process

Becoming the Owner
General Overview

- Once a company is identified...

- An IOI (Indication of Interest) is submitted (Sept 2014)
  - This sets price expectations and timeline
  - Primary purpose is to have high level agreement on major issues

- An LOI (Letter of Intent) is issued (Oct 2014)
  - The details purchase price, diligence time line, sets exclusivity period, establishes break up clause, ensures all parties are notified

- Confirmatory Due Diligence is conducted (Oct 2014 – Jan 2015)
  - The Entrepreneur works directly with the seller to perform diligence in the following areas:
    - Finance, Customers, Products, Legal, Environmental, Operations
    - Often professionals are brought in to assist (CPA, Lawyer, etc)
General Overview

- Financing the Deal (Nov 2014 – Jan 2015)
  - Outside equity capital
  - The entrepreneur’s own capital
  - Debt (Bank/Non Bank)
  - Seller Contributions

- Marching Toward Closing (April 2015)
  - Settling any diligence issues with sellers
  - Announcing to Employees
  - Structuring the Transition Period
  - Completing a Purchase and Sale Agreement
  - CLOSE! (~120 days)
The Good, the Bad, and the Ugly

- **The Good**
  - Motivated seller with realistic price expectations
  - Good history and employees (selling not a surprise)
  - Company fit all of TXE's criteria

- **The Bad**
  - Six months to close (owner illness, holidays)
  - Balancing negotiations with son and father

- **The Ugly**
  - Environmental Concerns
  - Debt Financing
Lessons Learned

Hindsight is 20/20
Lessons Learned from Searching

- There is not a prescription for how to find a deal
- Find out what’s important to the seller (it may different than what’s important to the buyer)
- Trust your gut - what seems minor, can become a deal killer
- Bank financing takes time especially in a down market
- Buy side brokers can add value
- Some things are beyond your control
Lessons Learned from Operating

- Navigating a Downturn is Hard
  - Cash is king
  - Even good ideas may need to be shelved
  - Challenging to learn a business during a down cycle

- The Soft Stuff Matters
  - Managing people is a significant part of a CEO’s job
  - Businesses reflect their owners…new owner can mean new culture
  - Culture is hard to change quickly

- Get Used to Being Never Off
  - In small business, the owner wears many hats and is always on
    - 3 am security alarm, customer issues, supplier problems, Greg Ambrosia

- Find the Magic
  - Every successful small company has figured out a recipe that works. New owners must take the time to learn this (it’s not always obvious).

- Build the Right Team
  - As culture changes, people will too. Establishing the team that can help you carry out the goals of the company is crucial.
  - Getting the right people in is just as important as getting the wrong people out.
Is This Path For You?
Is This Path For You?

A few considerations...
Deciding if this is a fit for you…

- “Search Fund”
  - A new term for a familiar concept…
  - Moving from operator to owner

- Small Business Atmosphere
  - Recalibrating the definition of “small business”
  - Pros/Cons of running a micro-cap business
    - Limited red tape...limited resources

- Risk Tolerance
  - Are you willing to take a bet on yourself?
  - Determining the right time to make a move

- No Clear Path
  - Lots of different ways to succeed...
  - Lots of different ways to fail....
Thank you!

Comments/Questions?