# STERLING PARNERS

Sterling Partners Investment Thesis Challenge (SPITC)
November 2012



#### STERLING PARTNERS: FIRM OVERVIEW

Proven, operationally focused team with top-tier returns

Who We Are

- 25+ year history and entrepreneurial background
- ~\$5 billion of AUM across institutional funds and co-investment program¹
- Top quartile performance in small and mid-market control funds

What We Do

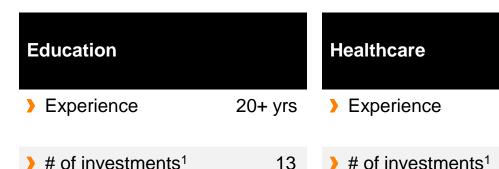
- Business model investors with an "all seasons" strategy
- Deep experience in education, healthcare and business services
- Control investments with up to \$200M of equity in each company

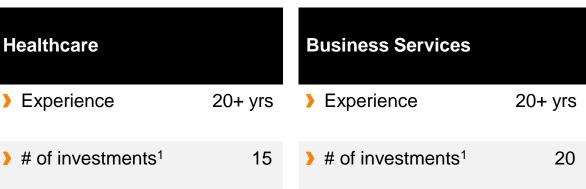
**How We Do It** 

- Differentiated operational approach to building businesses
- Dedicated resources in human capital, finance, operations, strategy, and governance
- Experienced and large team

#### STERLING PARTNERS: SECTOR EXPERIENCE & AREAS OF FOCUS

Historic success and experience in our core sectors has driven our business model focus and investment strategy

























(1) Does not include pre-institutional fund investments as well as 12 investments classified as "Other" (e.g., specialty manufacturing, information services)





#### STERLING PARTNERS INVESTMENT THESIS CHALLENGE (SPITC)

- Sterling Partners is sponsoring an investment thesis competition for students at the Kellogg School of Management
- SPITC debuted in 2011 multiple Chicago-area private equity firms participated including Sterling Partners, Madison Dearborn, and Lake Capital
- Goal is to provide (i) opportunity for students to work with private equity professionals to develop an investment thesis and (ii) idea generation for participating firms
- Investment thesis focus
  - Focused on industry segment, not specific deal opportunity (e.g. take private of a specific company)
  - Selected industry segment should provide opportunities for late stage buyout or growth equity investments (as opposed to venture)
- Sterling primarily invests in service companies; sectors of focus include healthcare, education and business services



#### **HOW DOES IT WORK?**

#### Phase I

- > Form 2-3 person teams
- > Preliminary investment thesis submission due in Q1 2013
  - Up to 8-page slide deck or Word document
  - Identify thesis and rationale, team members and project plan/milestones

#### Phase 2

- Sterling Partners selects investment theses which it is interested in pursuing
  - Sterling assigns a "sponsor" to selected student teams and works with teams to further develop theses through Q1 and early Q2 2013
- Selected teams acknowledge Sterling's exclusive right to use the investment thesis
- > Financial support / expense coverage of up to \$2,000 per team
- > Other private equity firms may choose to participate, although there will be no overlap in theses
  - Almost half of teams submitting theses last year were sponsored by a PE firm

#### Phase 3

- Teams present theses to Sterling Investment Committee in April or May
  - Winning teams receive \$5,000 prize (multiple winners may be selected)



#### **INVESTMENT THESIS: KEY ELEMENTS**

**Investment Thesis Overview** 

#### · Why the Industry

- · Long term trends
- · Market size & breakdown
- · Market growth
- Growth drivers
- Industry dynamics

#### Why the Business Model

- Business model characteristics
- Map the market & value chain
- Addresses key pain point
- Fits PE model
- Targets exist

#### Why Now

- Timing impetus
- Market impetus
- Path to invest
- POV on market evolution

#### Post Closing Strategy to Win

- Operational value adds
  - Strategy
  - Human Capital
  - IT
  - Governance
- Other value adds

#### Sample Long Term Trends

- Population changes
- · Compliance and risk management
- · Suppressed natural gas prices
- · Environmental sustainability
- · Aging infrastructure

#### **Sample Business Model Characteristics**

- Platform capable of high growth
- Sustainable and scalable
- Differentiated strategy
- · Recurring revenue
- · Attractive exit alternatives
- Low customer concentration
- · Opportunities for operational improvement
- Entrenched customers (e.g. stickiness)
- Defensible position/barriers to entry
- · Profitable and positive cash flow
- · Operating leverage
- Minimal adoption risk
- High value proposition



## **APPENDIX**



#### **HEALTHCARE PORTFOLIO**





- > **Ameritox**: specialty toxicology laboratory
- > Centerre: post-actue care rehabilitation hospitals
- > First Choice: Network of free-standing emergency rooms
- > Foundations Recovery Network: provider of behavioral healthcare svcs
- **Pacific Interpreters**: provides interpreting services in healthcare industry
- > Remedi: regional long-term care pharmacy



#### **EDUCATION PORTFOLIO**

















- **Ashworth**: post-secondary and career-oriented distance education
- **Educate**: provider of branded education services (e.g., Sylvan Learning)
- **Educate Online**: online provider of live tutorial instruction
- > InfiLaw: consortium of independent, community based law schools
- **Laureate**: global provider of for-profit, post-secondary education services
- Meritas: network of proprietary K-12 schools
- Progressus: school-based and early intervention therapy services
- > School of Rock: national provider of performance-based music education
- > Tribeca Flashpoint Media Arts Academy: digital media arts college





#### **BUSINESS SERVICES / OTHER PORTFOLIO**





















- **Avectra**: provider of membership management software solutions
- Continental Case: provider of refrigeration refurbishment services
- > Cornerstone Records: full service record and information management co.
- > Desert NDT: provides non-destructive testing svcs to midstream oil & gas customers
- Foundation Partners: provider of end-of-life transition services to families
- **GEM**: provides de-gassing, vapor control and water treatment services
- **io**: designs, builds and operates data centers
- **Livingston**: provider of customs brokerage, transportation, and logistics svcs
- > Mosaid: intellectual property company focused on communications technologies
- Optimer Brands: builds companies with unique textile technology
- Prospect Mortgage: retail mortgage consolidation business
- > SAVO: provider of sales enablement solutions
- > SecureNet: provider of credit and debit card processing





# Sterling Partners Investment Thesis Challenge (SPITC) 2012



# **BENEFITS & COURSE CREDIT**

#### **BENEFITS**

- » Develop an investment thesis
- » Receive personal mentorship from seasoned private equity professionals
- » Present the thesis to the partnership or investment committee
- » \$5,000 cash award, in the event that a host firm, after the partnership or investment committee presentation, elects to pursue an investment thesis
- » Potential additional opportunity (including internships, consulting positions)

#### **COURSE CREDIT**

» Students who complete Phase II will receive a course credit for FINC-939-0 Buy-Out Lab in the Spring Quarter



# **RULES & ELIGIBILITY**

### Kellogg School of Management students only

- » First-year
- » Second-year
- » 1Y
- » PTMBAs that have completed 3+ courses before Winter Quarter 2012-13
- » Prior experience in the private equity industry is NOT required
- » Teams of 2 or 3 (max)



# **EVENTS & DEADLINES**

- » November 1 hour workshop
  - "How to Develop an Investment Thesis"
  - » November December, Mentoring sessions

#### **APPLICATION**

- » By 12:00 p.m. (noon), on January 9<sup>th</sup>, 2012
- » Email the following to <u>kiei@kellogg.northwestern.edu</u>
  - » Resumes of each team member
  - » Investment thesis proposal (8-page slide deck or 5 typed pages)
    - » Summary
    - » Rationale
    - » Team members and experience
    - » Strategy
    - » Execution timeline/milestones



# **TIMELINE**

#### **Phase I: November to Early January**

- » SPITC Info. Session
- » SPITC Investment Thesis Workshop
- » SPITC Mentoring Sessions
- » APPLICATION SUBMISSION: Due by 12 p.m. (noon) on January 9, 2013 by email to kiei@kellogg.northwestern.edu
  - » Teams that receive confirmation of the receipt of their proposal will be entered
  - » Sterling Partners and other participating firms review and select proposals

#### Phase II: February to Mid-April

- » Advancing teams receive a budget of up to \$2,000 for research
- » Receive and meet with mentor and professor(s) regularly

#### Phase III: Late April/Early May

- » Submit final investment thesis and execution strategy to host firm by May 8, 2013
- » Host firm will provide the student teams with constructive feedback and submit an evaluation form to Linda Darragh

