

**SILVER OAK**  
SERVICES PARTNERS

# **Silver Oak Investment Thesis Challenge at Kellogg**

**Kickoff Meeting**

**October 2, 2017**

# Agenda

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I. Introduction to Silver Oak Services Partners

II. Private Equity Overview

III. Investment Thesis Challenge

# Silver Oak Services Partners Overview

- Founded in 2005 by Dan Gill and Greg Barr
  - Over 75 years of combined experience in private equity across the firm
  - Prior to founding Silver Oak, Mr. Gill and Mr. Barr founded and managed several other private equity firms, including Willis Stein and Nautic Partners, respectively
  - Total of eleven investment professionals
- Exclusively focused on buyouts of lower middle-market services companies in the business, consumer and healthcare services sectors
  - Target company EBITDA of \$4 million to \$20 million
  - Typically invest between \$10 million and \$30 million in each portfolio company
- Differentiated investment strategy integrating in-house research capabilities, proactive origination and metric-driven portfolio management
  - Core differentiating factor is our research-led investment process to identify attractive services sectors for investment
- Top quartile performance through consistent application of Silver Oak strategy
  - \$80 million Fund I fully invested in seven platform companies, with 30+ add-on acquisitions to date
  - \$206 million Fund II fully invested in ten platform companies, with 20+ add-on acquisitions to date
- Currently investing out of Fund III (\$335 million)
  - Investments in four platform companies closed, with two additional platform acquisitions in the pipeline

# Differentiated Investment Approach

**Our Objective**

**Generate  
Attractive Returns for  
Our Investors**

**Core Elements of  
Our Approach**

**Sector Focus**

**Target Attractive  
Service Sectors**

Research process identifies interesting sectors with goal of pursuing 8 – 10 sectors at any given time

**Origination**

**Proprietary  
Deal Flow**

Systematically approach our extensive deal network for opportunities in our targeted sectors

**Due Diligence**

**Comprehensive  
Due Diligence  
Process**

Thorough, fact based process based on a detailed understanding of the sector and extensive micro analysis

**Portfolio Mgmt**

**Programmatic  
Metric Based  
Approach**

Comprehensive service sector based value creation playbook tailored to each company

In depth research on targeted sectors, acquisition candidates and portfolio companies, updated regularly based on the economy and current market conditions

Active monitoring of 60+ service sectors which represent the universe of opportunities for the Fund. U.S. efforts led by VP of Research and aided by two India based Research Associates

**Research Driven  
Analytical  
Foundation**

# Select Current Investments

## Business Services



Altura is a leading provider of voice and data communications solutions to corporate customers and government entities.

**Headquarters:** Fullerton, CA  
**Investment Date:** March 2011



BBG is a leading national provider of commercial real estate appraisals, appraisal management services, environmental and property assessments.

**Headquarters:** Dallas, TX  
**Investment Date:** July 2015



CCS is a leading provider of commercial janitorial services in key metro markets across the Western U.S., including Denver, Southern California and Phoenix.

**Headquarters:** Denver, CO  
**Investment Date:** December 2015



CLC is a leading provider of temporary staffing of skilled tradesman to the commercial construction market.

**Headquarters:** Richfield, OH  
**Investment Date:** June 2014



Pallet Logistics of America is a leading provider of recycled pallets and pallet management services with operations in Texas and Oklahoma.

**Headquarters:** Dallas, TX  
**Investment Date:** March 2016



Tranzonic is a leading distributor of disposable maintenance, cleaning and safety products to the "away-from-home" marketplace.

**Headquarters:** Cleveland, OH  
**Investment Date:** July 2013

## Healthcare Services



Redwood Dental is a leading provider of general and specialty dentistry services in the Detroit metropolitan area.

**Headquarters:** Madison Heights, MI  
**Investment Date:** July 2017



The Pediatric DPM is a leading provider of healthcare practice management services for dental, orthodontic and vision practices that focus on the pediatric Medicaid patient base.

**Investment Date:** February 2015



Physical Rehabilitation Network ("PRN") is a leading physical therapy clinic platform providing physical, occupational and hand therapy.

**Headquarters:** Carlsbad, CA  
**Investment Date:** April 2012

## Consumer Services



Caring People is a leading private-duty home healthcare agency serving seniors in New York, New Jersey and Florida.

**Headquarters:** New York, NY  
**Investment Date:** March 2017



VASA Fitness is the largest operator of health clubs in the Utah market, serving more than 210k members in 24 locations, with high amenity, quality clubs at an affordable price.

**Headquarters:** Orem, UT  
**Investment Date:** November 2014



SILVER OAK  
SERVICES PARTNERS

# Silver Oak Team

## Research and Business Development

## Investment Team

## Finance and Administration



Daniel Gill  
*Managing Partner*



Gregory Barr  
*Managing Partner*



Wade Glisson  
*Principal*



Andrew Gustafson  
*Principal*



David Friedman  
*Vice President*



Drew James  
*Vice President*



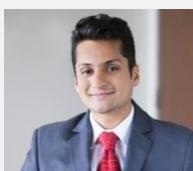
Dan Wellman  
*Vice President*



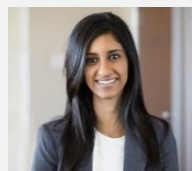
Brianna McNamee  
*Associate*



Andrew Pharaoh  
*Associate*



Biren Bhansali  
*Associate*



Kim Kawatra  
*Associate*



Katie Perry  
*Vice President of Finance & Chief Compliance Officer*



Linda Epstein  
*Controller*



Kyle Dulworth  
*Assistant Controller*



Bernadette Maida  
*Office Manager*



Patricia Collins  
*Executive/Marketing Assistant*



Lynn Lipsig  
*Vice President, Research*



Kathryn Pothier  
*Vice President, Business Development*



Ameya Khedekar  
*Research Associate\**



Shweta Desai  
*Research Associate\**

\* Research associates are dedicated third-party resources and are not employees of Silver Oak.

New in 2017

# Agenda

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I. Introduction to Silver Oak Services Partners

II. Private Equity Overview

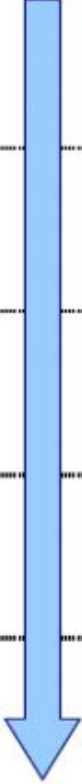
III. Investment Thesis Challenge

# What is Private Equity and How Does It Work?

- An asset class for investing in public and private companies or physical assets
- Capital that is invested in privately held securities, typically resulting in either a majority or substantial minority ownership stake in a company
- To increase investment returns, Private Equity firms typically raise a significant level of debt or leverage to purchase companies
  - This investment strategy is commonly referred to as a ‘Leveraged Buy Out’ (LBO)
  - LBO’s are the primary investment strategy of most Private Equity firms
- Private Equity investments are much less liquid and require a longer investment period than typical public market investments
  - Not traded in public markets like securities
  - Typically exit investments in 3-5 years
- Private Equity funds typically focus on well established businesses, while Venture Capital or Angel Investment funds focus on early stage companies



# Types of PE Investments

Type of PE	Company Stage (early > late)	Size of Typical Investment	Type of PE Firm	Description	Example Industry Focus
Venture Capital		\$50,000 to \$5 million	VC	Typically investments in companies that are early stage of development and are cash flow negative. Requires convincing market potential since not proven.	Life sciences; Technology; Software
Growth Capital		\$5 million to \$50 million	Small - Mid Tier	Typically investments in equity and/or debt instruments as these companies are growing and require increasing amounts of working capital, capital expenditures or an acquisition.	Most types
Mezzanine Financing		\$5 million to \$50 million	Small - Mid Tier	Typically subordinated debt or preferred equity investment into a company that falls between equity and senior debt on the balance sheet.	Manufacturing; Consumer products; Real estate
Leveraged Buyout		\$2 million to \$200+ million	Buyout (all sizes)	Acquisition of an operating company with a significant amount of borrowed funds to create value by realizing opportunities and improving efficiencies, etc. (use debt as financial leverage)	Consumer products; Food manufacturing
Distressed Buyout		\$2 million to \$200+ million	Buyout (all sizes)	Typically investments in equity or debt securities of financially stressed companies. Investor can look for a corporate restructuring or turnaround of business, for example.	Paper & pulp manufacturing

# Typical PE Investment Criteria

Valuation / Attractiveness Scale	
Low	High
Company Scale / Momentum	
<ul style="list-style-type: none"> <li>• Sales &lt; \$10M, EBITDA &lt; \$2M</li> <li>• Limited growth opportunities (flat sales)</li> </ul>	<ul style="list-style-type: none"> <li>• Sales &gt; \$30M, EBITDA &gt; \$5M</li> <li>• Visible, defined growth opportunities</li> </ul>
Operations & Management	
<ul style="list-style-type: none"> <li>• Customer and channel concentration</li> <li>• Need for additional financial discipline</li> <li>• Lack of management depth</li> <li>• Significant capital expenditure requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified customer base</li> <li>• Recurring, highly visible revenue</li> <li>• Management depth (institutionalized knowledge)</li> <li>• Established systems and procedures</li> <li>• Opportunity for margin improvement</li> </ul>
Market Trends / Product Offering	
<ul style="list-style-type: none"> <li>• Small, competitive industry</li> <li>• Commoditized product/service with margin pressure</li> <li>• Limited product/service line</li> </ul>	<ul style="list-style-type: none"> <li>• Attractive industry dynamics (size, growth prospects, fragmentation)</li> <li>• Diverse, differentiated product/service line</li> <li>• Proprietary products/services or processes</li> </ul>

# How Do PE Firms Add Value to Portfolio Companies?

- PE firms provide capital and other resources to help address common growth and business challenges

Growth Capital	Capital to support expansion initiatives – employee hires, working capital, capital investment
Knowledge Capital	Experience executing key strategic initiatives – systems integration, geographic expansion, capital decisions
Management Depth/ Transition	Management resources required to support next stage of growth
Balance Sheet & Financing Solutions	Strengthen balance sheet to add stability to operations Relationships with sources of financing
Industry Experience	Macro level industry knowledge and experience
Relationships	Relationships with key target customers, executives

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# Investment Thesis Challenge - Overview

## What is it?

- A collaborative and competitive opportunity for Kellogg students to gain hands-on experience developing an investment thesis with mentorship from private equity professionals

## How Does it Work?

- With the support of Silver Oak Services Partners, the Silver Oak Investment Thesis Challenge at Kellogg encourages students to form teams to conceive and propose an original investment thesis
- Over a period of six months, teams will work with senior professionals at Silver Oak, with guidance from a Kellogg faculty mentor, to develop an investment thesis and recommend an execution strategy

## Who is Eligible?

- All current first year, second year, one-year (1Y) and part-time students at Kellogg (see full eligibility criteria on slide 20)

## Benefit to Students

- Hands-on experience developing an investment thesis with mentorship from PE professionals
- A chance to receive course credit, plus a \$5,000 cash prize to the winning team at the conclusion of the Challenge

# Investment Thesis Challenge – Timeline

## Phase I Oct – Nov 2017

- ✓ Attend the Kickoff Info Session on Monday, October 2, 2017
- ✓ Form teams of 2-4 students each
- ✓ Draft investment thesis proposals
- ✓ Submit proposals by November 10, 2017
- ✓ Advancing teams notified by November 17, 2017

## Phase II Jan – March 2018

- ✓ Silver Oak selects the most promising teams to advance from Phase I
- ✓ Teams work with Silver Oak and Kellogg faculty mentor to develop theses
- ✓ Final theses due March 23, 2018

## Phase III March – April 2018

- ✓ Present final thesis to Silver Oak (dates TBD)
- ✓ Winning team receives a \$5,000 cash prize

# Phase I Detail – October – November 2017

## Activities

- Students are responsible for forming their own teams of 2-4 students each; teams may include any mix of full-time and part-time students, as well as first-year, one year (1Y) and second year students
- Teams draft their investment thesis challenge proposal and enter the challenge

## Milestones

- Teams must formally enter the Challenge by sending an email to Debbie Brauer at [d-brauer@kellogg.northwestern.edu](mailto:d-brauer@kellogg.northwestern.edu) no later than **8 PM on November 10** including:
  - Subject Line: “Silver Oak Investment Thesis Challenge at Kellogg”
  - Each team member’s full name and class year (1Y/2Y/Graduation year)
  - Resumes of each team member
  - Investment Thesis Proposal (up to 12 slides in pdf format – details on pg. 15)
    - A definition of the industry or sector the team wishes to investigate and why
    - Demonstrate how the sector aligns with Silver Oak’s focus areas and key investment criteria, and why it would make an attractive area for investment
    - Outline an overall strategy – including milestones – for developing a complete investment thesis (see slide 18 for key components)

## Team Selection for Phase II

- Silver Oak will review the proposals and select those they find most promising to continue to Phase II by **November 17, 2017**



# Sector Selection Criteria

- Proposals should focus on sectors that align with Silver Oak's areas of focus and key investment criteria below, and would be an attractive area for investment
- Teams are encouraged to screen their initial investment thesis ideas with Silver Oak. Silver Oak will help guide teams to sectors with a higher chance of advancing to Phase II

Silver Oak Investment Criteria	
Focus Areas	<ul style="list-style-type: none"> <li>• Business Services</li> <li>• Healthcare Services</li> <li>• Consumer Services</li> </ul>
Geography	<ul style="list-style-type: none"> <li>• US Only</li> </ul>
Not Considered	<ul style="list-style-type: none"> <li>• Sectors Silver Oak is currently invested in</li> <li>• Start-ups, project – based revenue models</li> <li>• Note: retail and restaurants are less interesting to Silver Oak</li> </ul>
Availability of Acquisition Targets within Sector Having	<ul style="list-style-type: none"> <li>• EBITDA \$4 - \$20 Million</li> <li>• Buy-in valuations of 4-7.5X EBITDA</li> </ul>
Sector Attributes	<ul style="list-style-type: none"> <li>• Demonstrated volume growth</li> <li>• High recurring unit volumes</li> <li>• Fragmented industry</li> <li>• Limited regulatory and technology risk</li> <li>• Low capital intensity</li> </ul>



# Sector Research Universe

## BUSINESS SERVICES



ENVIRONMENTAL & ENGINEERING SERVICES

TESTING, INSPECTION & CERTIFICATION SERVICES

BUSINESS PROCESS OUTSOURCING

FINANCIAL SERVICES

HUMAN RESOURCES OUTSOURCING (HRO)

FACILITIES SERVICES

TRAVEL & LEISURE SERVICES

MARKETING SERVICES

TRANSPORTATION & LOGISTICS SERVICES

VALUE-ADDED DISTRIBUTION SERVICES

ENERGY SERVICES

IT SERVICES

VERTICAL MARKET SOFTWARE SERVICES

## HEALTHCARE SERVICES



MEDICAL SUPPLIES DISTRIBUTION

PHYSICIAN PRACTICE MANAGEMENT SERVICES

CONTRACT CLINICAL TRIALS AND RESEARCH

OUTSOURCED SERVICES TO PROVIDERS

CLINICAL LAB TESTING

SPECIALTY PHARMACY SERVICES

CENTER-BASED HEALTHCARE PROVIDERS

PREVENTIVE HEALTH / DISEASE MGMT. SERVICES

HEALTHCARE FACILITIES EQUIPMENT

## CONSUMER SERVICES



COSMETIC MEDICINE SERVICES

EDUCATION SERVICES

HEALTH & WELLNESS SERVICES

SPECIALTY FRANCHISE SERVICES

HEMECARE SERVICES

FINANCIAL / ADVISORY SERVICES

MULTI-LEVEL MARKETING & DIRECT SELLING

WARRANTY SERVICES

IN-HOME ASSISTANCE

MEDICAL CARE FOR AFFLUENT (CONCIERGE MODEL)

PET CARE SERVICES

Sector Key:  Current Priority Sectors

# Phase II Detail – January – March 2018

## Activities

- During Phase II, teams will develop their investment thesis, working with an assigned mentor at Silver Oak
- In addition, teams are expected to designate a faculty member at Kellogg who will provide coaching and presentation support for the duration of the Investment Thesis Challenge
- Teams are expected to meet with their Silver Oak and faculty mentors on a regular and scheduled basis

## Milestones

- Teams must submit their completed investment thesis in the form of a PDF or PowerPoint presentation by **Friday, March 23, 2018 at 8PM** to Debbie Brauer at [d-brauer@kellogg.northwestern.edu](mailto:d-brauer@kellogg.northwestern.edu)

# What is Included in an Investment Thesis?

- **Description of the sector**, including types of services provided
- **Key metrics**, including total industry sales, growth, number of companies
- **Competitive landscape**, including key competitors, concentration of revenue, barriers to entry and ability to differentiate
- **Industry outlook**, including key demand drivers and trends
- **Sector economics**, including quality of revenue (recurring vs. project based), pricing (and pricing power), margin profile, operating leverage, capital intensity, volatility, etc.
- **Description** of any **regulatory** or **legislative** issues affecting the sector
- **Summary of M&A activity** within the industry, including valuation expectations (current and historical)
- List of **actionable target companies** (those within \$4-\$20 Million of EBITDA and \$15 - \$150 Million in revenue)
- **Merits and risks** of investment in the sector (which of the above criteria, and any others, make this an attractive or unattractive sector for investment)
- **Value and growth creation** (what are the different levers that can be pulled to grow the business and create additional value?)
- **Exit strategy** (how would you expect to exit the investment?)
- Assessment of **fit with Silver Oak Services Partners investment criteria**

## Phase III Detail – March/April 2018

### Activities

- Silver Oak will review and assess the investment thesis presentations and provide constructive feedback to the teams on their work
- Based on this feedback, teams have the opportunity to make final refinements in advance of an in-person presentation at Silver Oak's offices in Evanston
- Faculty members are welcome to attend their student team's presentation

### Milestones

- Feedback on the investment theses submitted at the end of Phase II will be given to teams by **Friday, April 6, 2018**
- Teams present their final investment thesis in person at Silver Oak (dates TBD)
- The final presentation is akin to a final exam. Teams will be evaluated on:
  - The quality of their work
  - Actionability of their thesis and recommendations
  - Presentation skills and quality
- Following the presentations, Silver Oak will submit a review of each team's presentation to Kellogg for the purpose of determining a grade for course credit
- After the investment committee presentations and at the conclusion of the Challenge, Silver Oak will determine the winning team will be awarded a \$5,000 cash prize

# What Else to Know?

## Rules and Eligibility

- The Challenge is open to current Kellogg School of Management students only
- First year, second year, one year (1Y), full-time and part-time students may apply; however, part-time applicants must have completed three or more courses before Winter Quarter 2017-18
- Students are encouraged to have completed the pre-requisites for Private Equity Lab as of the end of the Fall Quarter 2017:
  - *Finance 2 (FINC-431) **OR** Accelerated Corporate Finance (FINC-440) **AND***
  - *Accounting for Decision Making (ACCT-430 or ACCT-438B) **OR***
  - *Turbo Accounting (ACCT-434) **OR***
  - *MMM Accounting for Decision Making (ACCT-440)*
- Students enrolled in Winter Quarter 2018 PE Lab may participate in the Challenge, as grading is associated with spring quarter, and does not involve an internship at a PE Lab host firm. Prior experience in the private equity industry is not required

## Contact with Silver Oak

- During Phase I Silver Oak will provide feedback on potential sectors of focus to help guide teams towards successfully reaching Phase II
- During Phase II, teams are expected to have regular communication with Silver Oak and their faculty mentor. Key contacts will be established at the outset of the Challenge to centralize communications and maintain efficiency

# What Else to Know? (cont'd)

## Ownership of Ideas

- Silver Oak will have an exclusive right to advance any and all investment theses presented during the course of and/or following the conclusion of the Challenge, or any portion of any investment thesis, and any related intellectual property learned during the Challenge
- Northwestern University will not retain any rights to any student work product
- Challenge participants will retain the right to disclose their participation and investment in the development of the investment thesis for academic purposes, job opportunities, etc.

## Questions?

Email Mitchell Petersen

[mpetersen@kellogg.northwestern.edu](mailto:mpetersen@kellogg.northwestern.edu)