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Chapter One: A Platform Starts as an Idea

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CHAPTER 1

A Platform Starts as an Idea

> *"Though I do not believe that a plant will spring up where no seed has been, I have great faith in a seed. . . . Convince me that you have a seed there, and I am prepared to expect wonders."*
>
> *— Henry David Thoreau, "The Succession of Forest Trees," address to the Middlesex Agricultural Society, Concord, September 1860, in* Excursions *(1863)*

A banker's book lands on a Monday morning. It is the sale document the seller's investment bank sends to every likely buyer. This one describes a well-run company in a respectable market, with management meetings in three weeks and first bids due in six.

By Wednesday there is a model. By Friday there is a story about all the smaller companies this one could buy. By the end of the month there is a deal team that has spent real money and wants very much for the deal to be good.

Who in that room decided, before the book arrived, that they wanted to own anything in that market? Nobody. The company came first and the reasons came later, most of them from the banker.

That is how a lot of platforms start. It is backward.

The Company Comes Second

A platform is the first company a sponsor buys in a market, the one every later company is added to. (The sponsor is the private-equity firm that owns the company and backs its CEO. An add-on is a smaller company bought and folded into the platform.) A platform is a thesis with a company attached, not a company with a thesis attached. Get that order wrong and very little you do afterward will put it right.

If you start from a company, everything you learn in diligence (the checking a buyer does before the price is final) becomes a reason to keep the company. The customer who buys a fifth of everything becomes "a deep relationship." The product line nobody else wants becomes "a niche." The price list nobody has touched in a decade becomes "upside."

Nobody is lying. You are defending a decision you made before you had the facts, and the longer diligence runs, the better the defense gets.

If you start from a thesis, the same facts land differently. You wrote down months ago that no customer may be more than a tenth of revenue, so the customer who buys a fifth is a no, not a strength. You know what kind of company would make the platform better, so you can tell a good company from a good company for you. The thesis gives you somewhere to stand when the fever starts.

If you are the sponsor, test yourself on the last three companies your team bid on. Did you want the market before you saw the company, or did the company sell you the market? There is no shame in the second answer. There is a cost to it, and the cost shows up years later, in the add-ons nobody could find a reason to refuse. A month spent writing one page is cheap next to five years spent defending a company.

If you run the company, this is your problem as much as the sponsor's. The thesis is the reason your company sits in their fund. If nobody can say it on one page, nobody can tell you which deal to refuse — and you are the one who will integrate the deals nobody refused.

One Page, Five Lines

An investment memo can run fifty pages and never say why this market, why now, or who will pay more for it in five years. Length is not the trouble — a memo is written to approve a company, and by the time it is written the company has been chosen.

I call it the platform thesis: one page, five lines and a short list of what you will not buy. It is the flight plan you file before anyone starts an engine. Here is what we want on that page, in order.

1. **The need that comes back.** What must the customer buy again and again, and what stops when he doesn't?
2. **The pieces.** Who owns the companies in this market: how many, how big, how old the owners are, and why they would sell.
3. **Why bigger is better here.** What a company with more crews, parts and sites in one region can do that a small one cannot. This

is density: more customers per mile, more of each site's spend, records of what is installed where.

4. **How the money is made in five years.** Name each source: price, purchasing, the tail (the many small customers and products that cost more to serve than they earn), growth with the best customers, and add-ons bought for less than the platform is worth.
5. **Who buys it next.** The kind of buyer, and what that buyer will be paying for.

Under the five lines goes the no list: the three or four kinds of company you will not buy, however good the book looks. When I read a thesis, I read the no list first. It is the part of the page a banker cannot write for you.

Each line is a test. If you cannot write a line, that is not a gap in the memo. It is a reason not to buy.

"The market is large and growing" is not a first line. "The customer must replace this part on a schedule he doesn't set, and his plant stops if he doesn't" is one, because you can check it on a plant floor. I would rather see an honest blank than a hopeful sentence.

Write it in words a plant manager could follow, too. If the people who will do the work cannot read the thesis, it is not finished.

The caution: don't write the page backward from a company you already like. A thesis written to fit a deal is a brochure.

Walk Downstream

Every fund reads the same front page. When a trend makes the headlines, its obvious winners get bid up the same week, and anyone who buys them pays for a future the whole market can already see. Where is the money that is left? Further down the line, in places nobody photographs.

John Chapman, the man the country remembers as Johnny Appleseed, was born on 26 September 1774 in Leominster, Massachusetts. He did not scatter seeds at random. He planted fenced nurseries — the first on Brokenstraw Creek near Warren, Pennsylvania, then many in north-central Ohio and later in Indiana — left each one with a neighbor to sell the young trees on shares, and came back every year or two. He stayed just ahead of settlement, so his trees were ready when the settlers arrived.

He grew from seed, not grafts, so most of his apples went to cider. From 1792 the Ohio Company offered settlers 100 acres, and to prove

a homestead was permanent it required them to plant fifty apple trees and twenty peach trees within three years. Chapman died on 18 March 1845 near Fort Wayne, Indiana, owning land in several states. He never bet on which settler would prosper — he sold what every settler had to plant to keep his land.

I call it the downstream walk. It is the walk from the front page to the maintenance shop, and it has four steps.

1. **Start at a tailwind everyone can see.** You don't need a secret trend. A public one will do, because the walk is about where you end up.
2. **Name the visible winners, and leave them alone.** They are in every fund's deck, and their prices already assume the trend.
3. **Ask what those winners must buy, replace, repair, inspect or certify over and over to keep running.** Write the list down. It is usually long and dull, which is the point.
4. **Keep walking until the business no longer describes itself as part of the trend.** A company that calls itself an electrification play is priced like one. A company that calls itself a repair shop is not.

How do you know you have walked far enough? The owners you meet stop talking about the trend and start talking about their customers' downtime. That is where we want to be.

It is the old idea of selling picks and shovels to the gold rush, with discipline added. Don't buy the headline. Buy what the headline's winners can't run without. The walk takes you to work nobody has bid up, where the need was there before the headline and will still be there after it.

Figure 01-01 lays the steps down a page. Beside each one is the walk taken in 2020 by Marlow Bend Partners, the Chicago buyout fund whose platform runs through this book, and we will follow it step by step below.

The caution: the walk chooses where to look. It proves nothing about any company you find there — that takes the questions in Chapter 2 and the reads in Chapter 4.

The First Agreement

The thesis is the first thing the sponsor and the CEO agree on, and it should be written before there is a company to argue about. Once a company is on the table, every conversation bends toward it.

If you are the sponsor, write the no list before anyone else is in the room. If you are the operator being recruited to run the platform, read

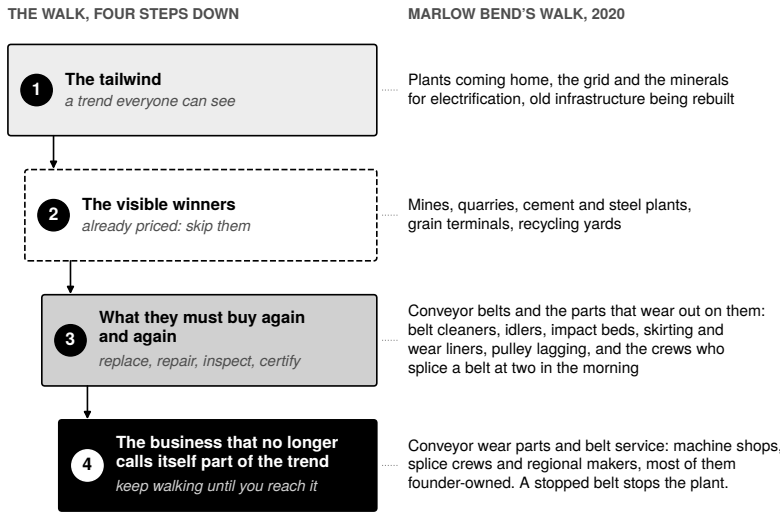


Fig. 01-01: The downstream walk starts at a trend everyone can see and stops at a business that no longer calls itself part of it. Beside each step is the walk Marlow Bend took in the spring of 2020, from the headlines to the parts that wear out on a conveyor belt.

the no list before you read the model. It tells you what you will be asked to refuse later, when refusing is expensive and a banker is on the phone.

Do you agree with it? Say so now, line by line. A thesis you have both argued over is one you will both defend.

What does an operator add to a page written by deal partners? A different reading of the same lines. A deal partner checks whether the money line adds up. An operator checks whether the first line is true at two in the morning, and whether the third describes a company anyone could actually run.

Then take the page to the investment committee (the partners who must approve every investment the fund makes). What we want from them at this stage is permission, not money. Don't ask for a deal. Ask for a theme: time, travel and outside work on a market, and nothing for any company.

It is a small ask, and it changes what the team does next. Nobody is racing a banker's calendar. You can meet owners who aren't selling, learn what a failure costs the customer, and walk away from the first company you meet without walking away from the market.

If you run a company and want to build it by buying others, the same ask works with your board. Bring them the market before you bring them a deal.

Tolliver

On Monday 16 March 2020, the week the country locked down, Audrey Penhale and Abe Sorensen started on a thesis. They worked at Marlow Bend Partners, a middle-market buyout fund in Chicago — Audrey as the partner who would lead the work, Abe as the principal who built the models and the maps. Deal flow had stopped. They had time, and with nothing to bid on they could follow a question as far as it went.

They began with six tailwinds and followed three of them down the same road: plants coming home, the grid and the minerals that electrification would need, and old infrastructure being rebuilt. The visible winners were easy to name — mines, quarries, cement and steel plants, grain terminals, recycling yards — and already priced.

So they kept walking. Every one of those sites moves material on conveyor belts, and every belt wears out the parts that touch it: belt cleaners, idlers (the rollers the belt rides on), impact beds, skirting and wear liners, pulley lagging. When a belt tears, a splice crew comes out to fix it, often at two in the morning. A stopped belt stops the plant.

That was one route among many: from the six tailwinds they listed twenty-six end markets and 140 niches. Twenty-two passed the five market questions of the next chapter, five got a hard look, and one was left standing: conveyor wear parts and belt service. By June the thesis fit on a page.

The thesis, June 2020: conveyor wear parts and belt service

1. **The need that comes back.** Every bulk conveyor wears out parts on a schedule its owner doesn't set, and a stopped belt stops the plant.
2. **The pieces.** Thousands of small owners — machine shops, splice crews, regional makers — most of them founder-owned, many near retirement.
3. **Why bigger is better here.** A company with crews and parts in a region learns what is installed where, gets called first and fills the truck: more customers per mile, more of each site's spend.
4. **How the money is made in five years.** Price, which nobody has managed. Purchasing of steel, rubber and bearings. The long tail.

Growth with the best customers. Add-ons bought for less than the platform is worth.

5. **Who buys it next.** A larger fund, or an industrial company that wants a national aftermarket business (parts and service sold after the equipment is installed) with crews and records.

The no list. No new-conveyor construction as the core of the business. No company whose prices are set by the brand it resells. No customer above a tenth of revenue.

On Tuesday 30 June 2020, Marlow Bend's investment committee approved the page as a theme. That bought time, travel and outside work on the market. It did not buy a company, and Audrey didn't ask for one.

There was no CEO yet. The page was written for one all the same, and the no list was written for the day a good-looking company would fail it. The operator who would run the platform, Wes Calder, signed on in September (Chapter 3). Ten months after the theme was approved, the thesis had its company: Tolliver Conveyor Products of Gadsden, Alabama.

Do This
In the CEO's chair

1. Write a one-page thesis for the company you run (or will run) before your next board meeting.
2. List the five things your customers can't wait to buy again, and what stops at their site when each one fails.

In the sponsor's chair

1. Write the thesis and the no list before you open the next banker's book.
2. Walk one tailwind three steps downstream this quarter, and write down where you stopped and why.
3. Take a theme, not a deal, to the investment committee: a one-page ask for time, travel and outside work.

A thesis is a seed you can inspect before anything is planted. Most platforms skip it.