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Field Guide preview

Chapter One: A Platform Starts as an Idea

Explore the opening chapter, worksheets and completed examples.

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Chapter 1

A Platform Starts as an Idea

Chapter 1 of the book. A platform begins as one page about a market, with a list of what you will refuse there, found by walking down from a public trend to the plain work its winners buy again and again. Instruments: worksheets 1 and 2.

Every platform runs on a thesis, whether or not anybody wrote one down. When nobody on the buying side has, the banker's book supplies it, and you will notice that it fits the company in the book remarkably well.

So I want two pages on the table before anyone opens a model. The first is the thesis: five plain lines about a market and, under them, the kinds of company you won't buy there, however well they present. The second is the walk that led you to the market, from a trend everybody has read about to the unglamorous work that trend's winners must keep paying for. Neither page costs more than a few weeks of thinking. Both are hard to write well once a company is in the room.

What does it cost to skip them? Nothing at first. The cost arrives in year two or three, when an add-on turns up that nobody on the board had a written reason to refuse, and the CEO is the one who has to fold it in.

WHAT IT LOOKS LIKE WHEN IT IS MISSING

- The market section of the investment memo follows the banker's book, paragraph for paragraph.
- Ask the deal team what it would refuse to buy in this market, and you hear about the company it likes.
- The pipeline holds a reseller of one maker's brand, a new-build contractor and a target with a quarter of its sales in one account, and nobody can say which written rule each one breaks.
- The thesis page in the board pack is dated after the letter of intent, and it describes the company, not the market.
- The CEO and the deal partner give different answers when asked where the money will come from over five years.
- The model carries an exit multiple, and nobody can name the kind of buyer who would pay it.
- The operator who will run the platform has never been asked to read the thesis, let alone argue with it.

The tell is a no list nobody can recite, or one written after the company was chosen.

IN THE BOOK

Chapter 1 argues that the market has to come before the company. Start from a company and diligence turns into a defense of it. Start from a thesis and the same findings sort themselves, because you settled in advance what you would refuse. The first instrument is the platform thesis: one page with five lines on it, each a claim you could check on a plant floor (a need that comes back, who owns the pieces, why bigger is better here, where the money will come from over five years, and the next buyer), and under them a no list naming the three or four sorts of company you refuse to own. A line you cannot fill is a finding, not a gap to paper over. The second instrument is the downstream walk. It starts at a tailwind anyone can see, steps past the winners whose prices already carry the trend, asks what those winners must keep buying and repairing, and stops where the business has stopped describing itself in the trend's words. The walk tells you where to look and proves nothing about any company. The thesis is also the first agreement between the CEO and the sponsor, and it goes to the investment committee as a request for a theme: leave to spend weeks, travel and outside help on a market, and no money for any company. Its rule is to write the page before there is a company and to refuse what the page refuses. At Marlow Bend, Audrey Penhale and Abe Sorensen walked from three public tailwinds down to the wear parts on conveyor belts, and on Tuesday 30 June 2020 the committee gave the page its approval as a theme, ten months before Tolliver closed. Its Do This list, as a checklist:

CEO: before the next board meeting, put your company's thesis on a single page: five lines, then a no list.

CEO: name five things your customers must buy again soon, and what halts at their site when each one fails.

Sponsor: draft the thesis and its no list before anyone opens the next banker's book.

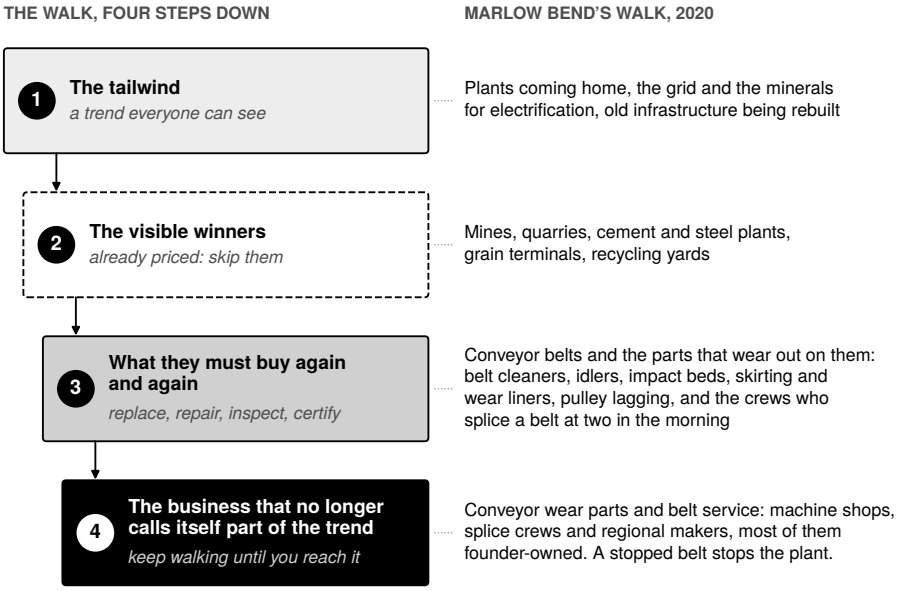
Sponsor: this quarter, take one public tailwind three steps down the line and note where you stopped, and why.

Sponsor: ask the investment committee for a theme, not a deal, on one page asking for time, travel and outside work.

WORKED EXAMPLE

Deal flow stopped in the week of Monday 16 March 2020, when the country locked down. That Monday, Audrey Penhale, the partner who would lead the deal, and Abe Sorensen, the Marlow Bend principal behind the models and maps, started on a thesis, because for once they had the time. They listed six tailwinds and took three of them down one road: manufacturing returning home, electrification with the grid and minerals it needs, and the rebuilding of old infrastructure. The winners at the top were the ones every fund could name (recycling yards, grain terminals, steel and cement plants, quarries and mines), and they were priced already. One step further down, each of those sites depends on conveyor belts, and each belt wears through the parts that touch it: idlers, belt cleaners, pulley lagging, wear liners and skirting, impact beds. When a belt tears, a splice crew goes out, often in the middle of the night, and until the splice is done the plant stands still.

The six tailwinds opened onto twenty-six end markets, and those broke down into 140 niches. Twenty-two niches passed the five market questions of Chapter 2, roughly one in six ($140 \div 22 = 6.4$), five earned a closer look, and one was left: conveyor wear parts and belt service. One niche in 140 was a hard funnel, and that was the point of it. Figure 01-01 sets the walk out step by step.



Don't buy the headline. Buy what the headline's winners can't run without.

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.

By June the thesis fit on one page, and the part most likely to matter later was the no list: no business built on new-conveyor construction, no company whose prices a resold brand sets, and no customer worth more than a tenth of revenue. Applied later to Tolliver's $96.0 million of 2020 revenue, that last rule capped any one account at $9.6 million. On Tuesday 30 June 2020, 106 days after that first Monday, the committee approved it as a theme, which bought time, travel and outside help on the market and no money for any company. The operator, Wes Calder, did not sign until Tuesday 8 September 2020. When he did, the no list did most of the work as he cut thirty-one candidates to nine.

WORKSHEETS

Two worksheets carry this chapter: the page that says what you will buy and what you will refuse, and the walk that tells you where to look.

Worksheet 1

The platform thesis

One page of five lines and a no list, each line with the evidence behind it or the gap where evidence should be. The deal partner and the CEO write it together, or the deal partner and the executive partner where no company exists yet, and both put their names to it.

The five lines. One sentence each, plain enough for a plant manager to check. Under each, the evidence for it, or the word gap.

1. The need that comes back

Evidence, or the gap

2. The pieces, and why they will sell

Evidence, or the gap

3. Why bigger is better here

Evidence, or the gap

4. How the money is made in five years

Evidence, or the gap

5. Who buys it next

Evidence, or the gap

The no list. The three or four sorts of company you refuse to own, written before any company has a name.

We will not buy

Evidence for each refusal, or the gap

Market, signed by both chairs, and the date

Every blank line marked as a reason not to buy, not filled with a hope

Tolliver's version

Audrey Penhale and Abe Sorensen wrote it in the spring of 2020, and the investment committee made it a theme on Tuesday 30 June 2020. The fourth line stayed a gap until there was a company to put dollars on.

Line	Marlow Bend's line, June 2020	Evidence, or the gap
The need that comes back	Bulk conveyors wear parts on a schedule their owners don't set, and a stopped belt stops the plant	Calls with plant managers and maintenance chiefs, spring 2020
The pieces	Thousands of small owners, mostly founders, many near retirement	Abe Sorensen's map: 212 companies, mostly founder-owned
Why bigger is better	Crews and parts in a region learn what is installed where and get called first	A 4 on the density question
The money in five years	Price, purchasing, the tail, the best customers, add-ons bought below the platform's worth	Gap: no dollars until February 2021
Who buys it next	A larger fund, or an industrial company that wants a national aftermarket business	A 4 on the next-buyer question
The no list	No new-conveyor construction at the core, no prices set by a resold brand, no customer above a tenth of revenue	Northfork broke the second line in 2023 (Chapter 12)

WORKSHEET 2

The downstream walk

Four steps from a trend the whole market can see to a business that has stopped talking about it, with what you found at each step. The deal team walks it, the operator checks the last step on a plant floor, and the deal partner signs it.

Step 1. The tailwind. A public one is fine. Where you end up matters more than where you start.

The tailwind everyone can see

Step 2. The visible winners. Write them down and leave them there. Their prices already assume the trend.

Its visible winners, already priced

Step 3. What the winners must keep buying. Everything they pay for again and again just to stay running, one row each.

What they keep buying	How often	What stops without it	Who supplies it now

Step 4. Where you stopped. Keep going until the owners you meet talk about their customers' downtime instead of the trend.

The business that no longer calls itself part of the trend

What the owners there talk about

Walked by, and the date

Walked past the winners to work nobody has bid up

The market at step 4 sent to the five market questions before any company is named

Tolliver's version
In the spring of 2020 Audrey Penhale and Abe Sorensen took three of their six tailwinds down the same road, and the walk ended at one niche out of 140.

Step	Marlow Bend's walk, 2020
The tailwind	Plants coming home, the grid and minerals for electrification, old infrastructure rebuilt
The visible winners	Mines, quarries, cement and steel plants, grain terminals, recycling yards, already priced
What they keep buying	Belt cleaners, idlers, impact beds, skirting and wear liners, pulley lagging, and a splice crew when a belt tears
Where they stopped	Conveyor wear parts and belt service, where a stopped belt stops the plant

RUNNING IT WITH THE TEAM

The thesis needs few people and a firm date. From the sponsor's side come the deal partner and whoever builds the models. From the other chair comes the CEO if there is a company, the executive partner if there isn't, or the operator you hope to sign. If you already run a platform, bring your head of sales too, because he knows which customers come back and why. Give it two weeks: one week apart, then a morning together, then a second morning after the walks are done.

Each chair drafts the thesis alone first, five lines and a no list, without comparing notes. In the first session the facilitator reads both versions aloud, line by line, and the room marks every sentence as evidence or as hope. The disagreements are the agenda. If the two pages differ on the first line, settle it before going any further, since the other four lines rest on it.

The walks are homework between the sessions. Each chair takes one tailwind three steps down and brings back the list from the third step, with how often each item is bought and what stops without it. In the second session, lay the walks side by side and choose where to look first. Nobody brings a company to either session. If someone already has one in mind, ask him to leave it outside until the no list is signed.

The deal partner opens by saying what the page is for: it will decide what both chairs refuse for the whole hold. The CEO opens by naming the line he trusts least. At the close of the second session the deal partner reads the no list aloud, and the CEO says whether he would run a company that passed it. If either one can't say yes, the page isn't finished.

The facilitator's job is to ask, of every line, where it could be checked, and to write down the answer or the word gap. At Marlow Bend, Abe Sorensen did that for the thesis and the deal sessions, before the platform had an integration lead to take the job over. A good facilitator also guards the walk. When the conversation drifts back to the exciting winners at the top, he moves it one step down.

The first time, the no list comes back as a list of preferences ("we like recurring revenue"), which refuses nothing. The money line becomes a wish list with no source named. The walk stops at the winners, because that is where the interesting conversation is. And someone proposes writing the thesis around a company the team already likes. Rewrite the first as refusals, name a source for every dollar in the second, push the walk one more step, and turn down the last.

THREE QUESTIONS FOR MONDAY

1. If your deal team had to name three kinds of company it would refuse in your market, how long would the list take, and would your CEO sign it?

2. Which of your five lines could you check on a plant floor this week, and which rests on something a banker told you?

3. Where did your last walk downstream stop, and does the business you own still describe itself in the trend's words?

BEFORE YOU MOVE ON

You should now have, on paper:

Worksheet 1 — the thesis in five lines, each with its evidence or its gap marked
The no list, written before any company was named and signed by both chairs
Worksheet 2 — one walk taken three steps down from a public tailwind, with where you stopped and why
A one-page request to the investment committee for a theme, with no company in it
The thesis filed where the pipeline review will read it every time