AVONDALE STRATEGIC PARTNERS

Inc. 500

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Avondale focuses on value-maximizing activities that help grow shareholder value for businesses. To do this, we believe that a firm must have solid leadership, strategic direction, and engage in thoughtful analysis. To that end, we aim to provide our perspectives on these three key competencies that we hope provide your business with a fresh way of thinking to build value. In addition, we share our latest firm happenings and news.

In this Issue:

Stop Wasting Time In Staff Meetings

Do members of your staff frequently miss staff meetings? Do they openly grouse that the meetings are boring wastes of time? Do you, in fact, wonder what impact your meetings have on anything truly important? If so, you may recognize one or more of the following:

1. The Smartphone-/iPad-/Laptop-/Sleep-Inducing Readouts: Each week, everyone gets together to update the "team" on their individual objectives, e.g., new 401(k) investment options, possible locations for the all-employee meeting, status of the new financial reporting package, the new color scheme for the company PowerPoint template, the plan for……….zzzzzzzzzzzzzzzzzzzz
2. The Feel-Good Waste of Breath: An issue arises and everyone eagerly contributes ideas, opinions, solutions, and perspectives. The group feels smart and productive yet the energy disperses like steam from a kettle when the meeting ends. Without follow-up, the same discussions recur frequently.
3. The Wandering Issue: The team begins discussing resource allocation priorities and five minutes later is arguing about whether to provide free soft drinks in the break room. Ultimately, changes to resource allocations are not made.

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4. The Uncomfortable Dodge: The discussion touches a sensitive topic. Discomfort rises until someone saves the day by offering to take the topic "offline," ostensibly to save valuable time in the meeting. Everyone breathes a sigh of relief and the issue goes unresolved.

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5. The False Resolution: The meeting ends with everyone nodding agreement and pledging support. In reality, three people didn't pay attention, two flat-out disagreed, and the rest agreed to very different and unique interpretations of what happened. Confusion reigns.

In fact, these types of meetings are much worse than a waste of participants' time; unresolved issues from dysfunctional meetings trickle down throughout the organization in the form of misaligned and wasteful activity.

It doesn't have to be this way. Here's how to address those five meeting-killers to make your meetings more valuable to you, your staff, and the company:

1. The Smartphone-/iPad-/Laptop-/Sleep-Inducing Readouts: These are the easiest to solve – don't hold them at all! Readout meetings are held by "wannabe" teams who do not share a common purpose; without a shared purpose and goal, it's hard to make meetings worthwhile. Instead, have everyone write 3 or 4 bullets on their personal progress or issues each week and distribute. Each person will spend no more time than they would have to prepare for the update meeting, with the exception that there will not be an update meeting. Better yet, identify the team's shared purpose and hold meetings to achieve it!
2. The Feel-Good Waste of Breath: This can occur in creative or entrepreneurial teams who lack "adult supervision." Such teams would do well to include a more detail-oriented scribe to document their meetings so that the wealth of creativity and insight may be harnessed and put to good use.
3. The Wandering Issue: Teams prone to this trap must appoint a "designated facilitator" for each meeting. Like the designated driver on Friday nights, this person abstains from the debate and instead stays focused on keeping the car on the road.
4. The Uncomfortable Dodge: This is symptomatic of teams that don't take time to know and trust one another on a more vulnerable level. Constructive conflict, therefore, is impossible. Ironically, this tendency can be exacerbated by attempts to shorten meetings that leave insufficient time to address larger issues. Give big issues enough time up front and you'll save time in the long run.
5. The False Resolution: Reserve the last 10 minutes of every meeting to write down on a flip chart or whiteboard all decisions and conclusions made during the meeting. Poll each participant to verbally confirm commitment or state objections.

Remember, true teams seldom have boring meetings that waste time. This is because the members share a common purpose and goal, which motivates them to take the difficult steps to know and trust one another, embrace constructive

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and often uncomfortable conflict, commit to decisions as a team, and hold one another accountable to the behaviors and discipline necessary to achieve their goal.

Why Better Customer Insights Will Help You Profitably Grow Your Business

"Garbage in, Garbage out" is an old computing phrase that has expanded over the years to generally describe failures in human decision making due to faulty, incomplete, or imprecise data.

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All too often we hear that our clients have vast amounts of information within their data warehouses and have invested millions in building out their data infrastructure, but these investments have had minimal influence on improving results for each individual customer. In fact, we often hear that companies don't generally focus on deep customer-by-customer analysis because they are often bogged down in deciphering data and/or other reporting priorities that meet administrative necessities but do little to increase shareholder value.

As strategic advisors, we put significant effort into helping our clients utilize the vast amount of data they have to generate the most value insights about their customers, and therefore generate the most value from each customer relationship. This often results in a much higher level of information to help clients make the best decisions on behalf of their customers. These insights often can generate opportunities for additional revenue or profit from customers through cross-selling of products or services or more precise pricing models that optimize each existing customer relationship.

By performing deep and robust analysis on readily accessible customer data, you can generate some low-investment "quick-wins" to help build momentum to profitably grow your business.

Here are a few ways to begin:

1. Roll up your sleeves: Many executives have the data to help them make better decisions but do not invest the time or resources to deeply analyze this data. If you don't have the resources or capabilities necessary to enable value-creating decision-making for your most important customers, consider hiring outside help.
2. Adopt a profitability mindset: While many executives are focused on top-line revenue growth, analyzing the existing customer base can help you create significant value by identifying opportunities to more profitably serve this base. By freeing up additional profit, you will be able to incrementally invest in initiatives that lead to top-line growth. Further, focusing on profitability will create a

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much stronger foundation for a healthy, sustainable business model.

3. Don't be afraid to "pivot": We have had clients that continue to serve unprofitable customers or market segments with the only rationale being that they have long served that customer or segment and feel the need to continue. Of course if you can find ways to make this a profitable customer or segment through analysis and decision making, by all means, look for options to continue the relationship. However, if after analysis you can't find a way to serve a set of customers, then it's time to pivot to lower maintenance or more profitable customers. By proactively identifying those customers or segments that are draining your resources, you will be better equipped to invest those resources in higher quality, value-creating relationships.

How to Build a Successful Private Equity Partnership

"If you're running a growing company, or you're partnering with other growing companies, you're probably dealing with private equity investors. These days, it's common for an entrepreneurial or middle market company to have some private equity ownership, either in whole or in part.

In this article, we'll take a look at how private equity investors have evolved, what is driving their behavior, and how to find the right investors to help you build a foundation for long-term growth.

Why is everybody "owned" by private equity these days?

Prior to 1995, companies had raised less than $100 billion in the U.S. for private equity-funded buyouts. Not per year, but total. Beginning in 1995, however, buyout funds have raised more than $50 billion per year, every year, with the exception of 2003, which was just below $50 billion. In 2007 alone, almost $250 billion was raised for private equity funded buyouts.

All this cash had to go somewhere, and it led to more buyouts and higher valuations of companies. The biggest effect was on growing companies in the middle market. Entrepreneurs who had grown a company to a level of sustainable profitability were able to easily raise growth capital or cash out at attractive valuations.

What are private equity investors aiming to do?

The objective of private equity investors can be boiled down to one word: returns. In the early 1990s private equity funds were sporting average annual returns as high as 30-50%. This, of course, attracted even more investor money, most of which came from institutional investors, such as pension funds and foundations, seeking higher returns than what they were receiving in the public markets.

However, as simple economic principles would dictate, private equity funds that were flush with cash paid higher valuations, which led to lower returns. So much so that after 1995, U.S. buyout

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funds saw only one year of greater than 20% returns. Overall, investing in private equity wasn't any better than investing in the stock market.

As a result of these lower returns, private equity investors have become a bit more selective, which requires entrepreneurs to be more proactive and better prepared when seeking funding.

4 Steps to a Winning Partnership

A growing company needs to understand the motivations of private equity investors in order to find the right match. For example, if you are looking for growth capital to fund long-term investments, but your private equity partner needs to return capital to investors in five years, it's likely that you will soon be at odds with their motivations. Funds with 5 to 10 year life expectancies will need to cash out of their investments to show returns to their investors. Often, it's more important to them to get a 10% return on capital in the short term than to create a 20-30% return over 20 years.

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If you're seeking outside funding to fuel growth, you'll need investors who bring more than just money to the table. Here are four tips to building a strong partnership with your investors.

1. **Find an investor that aligns with your objectives.**

Angel investors, venture capital funds, and large corporations all have different investment profiles. Each has a specific motivation and a process they typically use to create value. Partnering with the wrong investor often means that your business will be asked to meet investor goals that may not align with your goals for the business. It's critical, therefore, to find an investor whose objectives are in sync with the business you are building.

We've found that the best investors have three key characteristics:

1. Deep knowledge and interest in your product or industry
2. Experience with the unique challenges and idiosyncrasies of a growing business
3. An interest and ability to actively grow the company and to be invested in its success

While there's no single right answer to finding the ideal group of investors, we've found that it's best to start your search early, potentially even before you finalize your business model. Find a lead investor who has experience building businesses in your industry, and pitch a few alternative business models. Hearing their own experiences will help you shape the right approaches to developing a market/product strategy, raising capital, forming a management team, and creating a growth path (e.g., customer acquisition, M&A).

Once you've agreed on the business model and investment with your lead investor, you can approach other equity sources—VC, angel, PE or institutional investors—to fill in the funding gap. The investment will be much more attractive to these investors once the lead investor is in place.

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2. **Agree to a common view on how to maximize value.**

At the outset of your partnership, spend time to align on the facts around the business and its markets, then discuss your strategy and how it will maximize value for the business. Make sure both parties are clear on the roles they will play and the expectations for how the investors will participate and add value to the business. A successful relationship is all about setting and communicating the right expectations and engaging in open communication when events necessitate a change in those expectations.

3. **Align on the right incentives and desired outcomes for both parties.**

Clearly lay out the personal, professional, and financial goals for both you and your investor. Identify areas where you can work together to help each other reach his or her individual goals. The investor will likely have a specific timeline in mind for an exit and may have expectations about an exit price. This will have a large impact on their view of various strategic decisions. As a CEO and management team, you may also have specific expectations about how to grow the business. Put these all on the table, especially if they may be in conflict, so you can manage expectations upfront and amicably.

4. **Leverage your investor's experience, not just their money.**

Brainstorm with your investor about ways in which he or she might help push the business forward. In some instances this may be obvious, such as a partnership with a corporate entity, but you may be surprised at other things the investor can offer beyond financial support. Investors typically have seen successes and failures and can share their advice. They may have a wealth of contacts, even potential customer relationships, which could provide value to the business. Don't overlook these intangibles.

A private equity investor will be a key member of your management team, so you need to build a strong, lasting relationship with them – just as you would with any of your key team members. Using your investor to the fullest will be critical to fueling the growth of your business.

Firm Happenings: A Walk Through the 2012 Inc. 500 Conference

Inc. is a trade publication that targets entrepreneurs of high-growth businesses in the U.S. Each year, the journal recognizes the 500 fastest-growing companies in America on its "Inc. 500 list". This year, we were honored to have made the Inc. 500 list for the second year in a row, thanks to the support of our clients, colleagues and our employees. We also had the privilege to attend the Inc. 500 Conference in early October, which allows those recognized companies, spanning a wide array of industries, to come together and share their experiences.

This theme was underscored by one of the most enjoyable speakers at the conference: Bert Jacobs, co-founder of clothing company Life is Good. A dynamic storyteller, Bert related to the audience how he and his brother started selling t-shirts out of their car to build their business to over $100mm in sales. They did so through a positive messaging campaign of optimism and hope, turning a passion for charity and helping people into a major force for social entrepreneurship through successful business.

Even more powerful was the general feel of optimism throughout the conference. In a news cycle that perpetually seems to dwell on the negative, it was a breath of fresh air to congregate with so many talented, enthusiastic entrepreneurs who are optimistic about the future and have navigated their businesses through one of the most trying economic periods in American history. Through an open and engaging network of growing businesses, we had a chance to meet with entrepreneurs crossing industries from digital marketing to manufacturing, all with the same positive outlook for next year and a common question: How do we continue to grow? That's a great question for the drivers of job creation and one Avondale is always prepared to help answer.

About Avondale

Avondale is a strategic advisory firm that identifies and executes initiatives to drive sustainable value growth. Avondale's strategic and financial advice helps companies create value in their business and focus investment around the most profitable growth opportunities. Avondale offers a unique blend of Strategic Advisory and Principal Investing expertise to help its partners build and grow their businesses.

For more information on Avondale, contact one of our Managing Directors or visit our website at www.avondalestrategicpartners.com.

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