

2018 UPWARD TRENDS

How Small Biz Beat the Odds

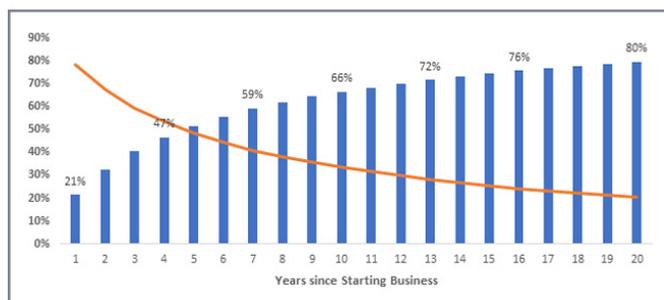
Accepting Support is the First Step to Elevating Value

According to the U.S. Small Business Administration, 99.7% of all businesses in the United States are small businesses, defined as those businesses with less than 100 employees. These are the founder led companies that make up the backbone of our American economy, employing 56.8MM employees and generating approximately half of total U.S. non-farm Gross Domestic Product (GDP) in any given year. They are the individuals, families, and entrepreneurs who sought to bring goods, services, or innovations to market in a way that capitalized on their specific expertise and provided value for America, across the consumer and enterprise markets. They are confident in their expertise on which they founded their business and they have borne the risk of starting their own company. However, these business owners, while highly skilled in their respective market niche, very often lack capabilities in the key functional areas critical to managing and growing their business. What we have seen over the years are business owners overly optimistic about the prospects for their business and their own capabilities in growing it, while most often the reality is that there comes a point at which the capabilities, focus, and even interest level of the owner/founder hit a ceiling and business performance plateaus or very often declines; without key business area expertise, small businesses will not continue on the same trajectory to the next level of growth.

Is False Optimism Masking Business Challenges?

According to a survey from the U.S. Department of Labor, 75% of small business owners are confident in their business, while both qualitative experience and quantitative information tell us that this may be false optimism. Based on data from the U.S. Bureau of Labor Statistics, failure rates for small businesses are perilously high. From 1994 – 2015, 21% of small businesses failed just one year from having started, and after 5 years of operating, failure rates climb to 50%, and 66% by year 10. In other words, the probability of success for small businesses in just 3 to 5 after launching is very low.

Success/Failure Rate of Owner-Led Businesses, 1994-2015

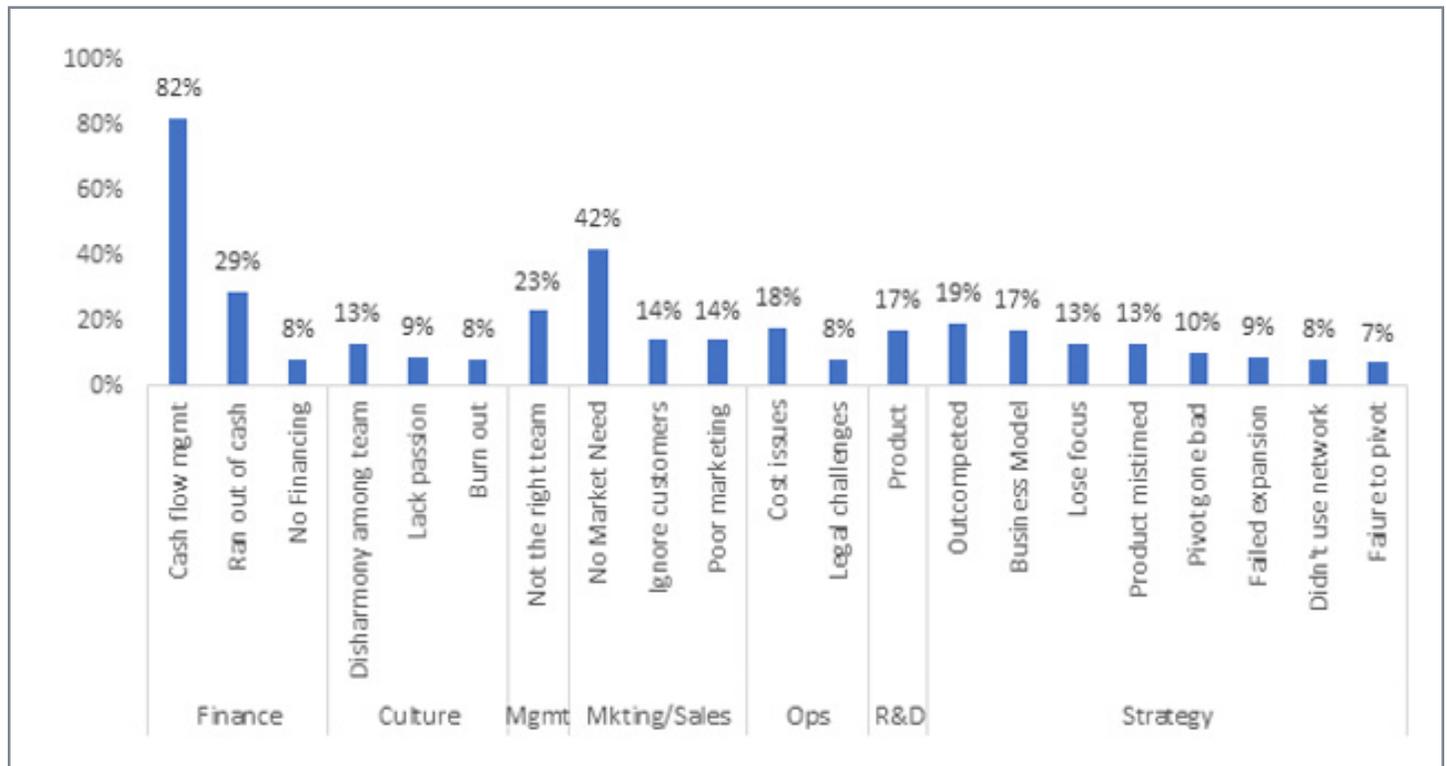


Source: Bureau of Labor Statistics

Further, when looking at the reasons why most small businesses fail, as reported by studies from U.S. Bank and CB Insights⁽¹⁾, we see that the most common failure points are very clearly business challenges rather than issues related to the offering itself or the specific domain expertise of the founder. Looking across the data, failure is due to challenges in managing finances, people, marketing and sales, operations, R&D and strategy. In short: failure happens because founders flounder on the business-side of the equation. Here inlays the discrete value proposition of private equity: perhaps even more than capital is the business expertise, the functional area talent, strategic foresight and executional capabilities necessary to maintain a successful business and drive growth throughout the organization.

⁽¹⁾ CB Insights offers companies that are engaged in private equity, venture capital, corporate development, investment banking, and other related enterprises a tech market intelligence platform that is built to evaluate millions of data points to help them come to the best decisions at critical junctures of their business.

Reasons for Failure



Sources: US Bank, CB Insights

Partners in Value Creation

At Main Line Equity Partners, we employ an active management model in which we become true partners to ensure success of the business and optimize value for all stakeholders. It distinguishes us from other private investment firms. Where typical private equity will step away from the company post-investment and maintain connection via intermittent updates or board meetings, we increase our direct involvement. The firm’s significant participation in the management of each portfolio company places it directly on the front lines of the organization. Further, Main Line Equity Partners can adapt strategy, execution tactics, make changes, and identify issues immediately rather than waiting until a quarterly board meeting.

As experienced investors and operators with decades of demonstrated success inside companies developing and scaling operations, we understand how challenging it can be every step of the way. We know the typical failure points because we have faced similar challenges ourselves, and we understand how best to navigate the waters to mitigate

these risks. Both portfolio companies and investors benefit from our experience and domain expertise as investors, operators, strategists, marketers and sales leaders.

During our rigorous due diligence process, we access all functional areas of the prospective investment, from the front (sales) to the back (R&D) of the company and develop an overall strategic growth and tactical execution plan for the business.

Post-investment, we then take a very active role across all functional areas, from top level strategy development, to financial management, marketing and sales tactics, to day-to-day operational oversight. Capital is only a small piece of what Main Line Equity Partners brings to the table. Once dollars are deployed, we have boots on the ground, either via daily interaction with portfolio company management, or by placement of our own operating partners where gaps may exist within the management team. Throughout every step of the process, and across all pillars of the business, we take steps to ensure that financial and operational risk is mitigated to every extent possible, and that we are taking every opportunity to optimize growth of the business.

Active Management Across all Functional Business Areas



Foundation Period

The Foundation Period takes place over the first six to twelve months after Main Line Equity Partners’ investment in the portfolio company. The Firm immediately embeds an investment team member into the company to provide management expertise and guidance. They assess all facets of the organization from an internal standpoint and makes efforts to build relationships with the customers and vendors.

This critical step allows Main Line Equity Partners to establish the foundation on which the portfolio company will grow. It is during this period that Main Line Equity Partners develops the future strategy and vision of the company. At least one member of the investment team will be embedded within the BPO Company and will work with our operating partner to find new acquisition targets as well as organic growth opportunities.

Growth Years

Through its operational expertise, Main Line Equity Partners actively works within the organization of each portfolio company to accelerate growth and unlock new sources of revenue. During this phase, Main Line Equity Partners assists with high level strategy, day to day operations, and everything in between, including:

- **Investing in the organization through new R&D to spur innovation and develop new products;**
- **Providing management expertise where necessary;**
- **Boosting sales and marketing through industry, region, and product expansion;**
- **Improving operations, efficiencies and processes;**
- **Driving towards a culture of excitement and innovation**

Components of Active Management

Strategy: Prior to closing an investment, Main Line Equity Partners begins working on a strategic plan for the company. This plan encompasses a targeted growth strategy as well as potential exit opportunities. We work hand-in-hand with the existing management team to evaluate and address the potential markets, industries, partners, and products into which the company should aggressively grow. Its active management model allows it to be part of the organization and adjust the strategy as needed. We believe that working within the organization also allows it to better evaluate add-on and related acquisitions, providing for a higher level of synergies.

Sales: Main Line Equity Partners has built strong sales teams within its previous investments and works with each investment to expand its internal sales resources, grow distributor relationships, partner with resellers and when appropriate, utilize external sales personnel. We will provide the sales team with the necessary tools and knowledge to develop a formal sales process with structured goals, a strong pipeline, and reporting metrics. Each company will require a different level of support, but in all cases, we will seek to improve upon the sales practices of the organization and motivate the sales team to accelerate growth.

Marketing: Main Line Equity Partners has and will continue to work with reputable marketing firms to tailor specific marketing campaigns with each of its portfolio companies. Members of the investment team have long standing relationships with some of these firms and as a result are able to achieve favorable pricing and immediate assistance with all marketing needs. We have worked with portfolio companies on basic tasks such as assisting with website overhauls to more complicated tasks such as establishing multi-channel marketing campaigns and complete rebranding initiatives.

Management: Where there is a senior management team in place, Main Line Equity Partners will work with them to better understand their strengths and weaknesses. Oftentimes with smaller companies, employees are forced to wear many hats. This means that managers may get burdened with work that takes them away from more important goals such as thought leadership and driving the growth of the organization. We will remove burdensome roadblocks and help them focus on driving the organization forward.

Operations: Many of the companies that we invest in are smaller in size and may not have formalized processes and procedures or benefits programs. To the extent necessary, we develop standardized operating processes and procedures into the company, giving each smaller portfolio company the benefits and tools of a much larger organization. We're generally able to secure marketing, accounting, legal, and HR support from third party partners at better rates by combining all of the portfolio entities under one umbrella. Offering better incentives such as medical and dental insurance, and retirement savings accounts to employees provides an immediate boost to morale and helps to align the existing employees' interests with that of Main Line Equity Partners.

Culture: We focus on companies with stable revenue that have not been able to grow or grow as fast as they should (in Main Line Equity Partners' view). From the inception of an investment, members of the investment team will work to motivate the employees of the company and get them excited about being a part of a growing organization. We seek to reignite the spirit and culture in our investments by getting to know the employees personally, understanding what motivates them, and support their drive.

Finance: Many of the investment targets we have reviewed lack strong record-keeping or cash management. Main Line Equity Partners' CFO and Assistant Controller will be involved in each of our investment opportunities prior to close. They work with reputable accounting partners to develop a plan and timeline to streamline and formalize bookkeeping. They put in place processes and procedures to automate and take much of the administrative burden out of management's hands, so they can focus on growing the organization. Our investment team will work to improve the cash conversion cycle, create realistic budgets focused on reinvestment for growth, and monitor the financial performance of the portfolio company on a frequent basis. Having the most up-to-date information immediately allows us to spot issues as they arise and correct as necessary, rather than waiting for periodic reports from the company.

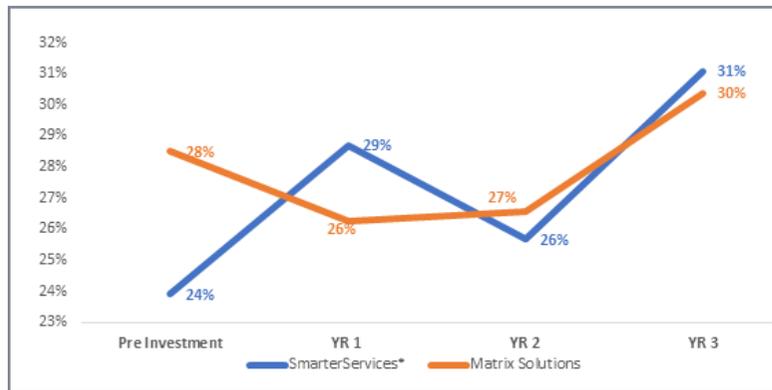
R&D: To stay relevant in any industry, companies must constantly adapt to the changing marketplace. This means investing in the company's existing offering and committing resources to explore opportunities for new products/functions. Very often, we evaluate companies that, while built on underlying technology that is differentiated and defensible, such a market position is fleeting if not maintained. The companies typically lack resources, talent, or time to invest in the continued effort to improve and enhance the product to keep pace with the market. Our initial assessment of the offering will include an industry expert to evaluate the robustness of a given opportunity/platform and to identify areas for improvement—fueling the R&D roadmap and the areas and pace of investment.

The Bottom Line

Combining all the components of the Main Line Equity Partners process: from initial vetting, to deal structuring, to developing and executing the growth plan across business functional areas all work to de-risk the investment and optimize value for all stakeholders.

As demonstrated by the chart below, Main Line Equity Partners has provided significant value as demonstrated by EBITDA margin improvements; 3 years following investment in 2 sample portfolio companies, Main Line Equity Partners improved EBITDA margins on average by 18%.

EBITDA Margin Improvement Post Main Line Equity Partners' Investment



Source: Main Line Equity Partners. *Year 3 EBITDA margin for Smarter-Services (portfolio company) represents Q1 2018 EBITDA margin.

About Main Line Equity Partners

Funding. Flexibility. Forward Thinking.

Leveraging broad skills sets, domain expertise, and capital through our *Alternative Asset Fund I*, we make strategic equity and debt investments in companies ready to transition their business or partner for the next stage of growth.

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