Yale SCHOOL OF MANAGEMENT

YALE CASE 18-019 SEPTEMBER 1, 2018

Sumit Aneja

Getting the Right Investors

A.J. Wasserstein[1]

Sumit Aneja (SOM '14) had been looking forward to his meeting with Jason Pananos. Aneja was seeking to launch his first search fund and Pananos was an experienced entrepreneur and serial search fund investor. Aneja hoped that Pananos would provide him some tips for his pitch to investors and maybe even give him some leads as to possible targets.

However, at their meeting, Pananos had launched into a discourse about the differences among search fund investors and the importance of finding the *right* investors. Aneja was taken aback by the waterfall of information, but had to agree that it seemed insightful. However, could he operationalize any of this? After all, he was just getting started in the search fund ecosystem and any investment in his fund seemed like a good investment.

A Varied Resume

In a little less than 30 years, Sumit Aneja had put together a wide-ranging resume that highlighted work and interests in a variety of areas.

Aneja grew up in India and did his undergraduate training at Punjab Engineering College in electrical engineering. He then secured a position with Tata Consultancy Services as a Systems Engineer.

In addition to this full-time work, Aneja advised his family's real estate construction business. His responsibilities included strategic planning, business expansion, and capital structure. The work taught Aneja valuable skills such as acquiring land, negotiating deals with suppliers and vendors, and managing and compensating managers. Aneja's informal work in the family business had extended for more than a decade as an adjunct to numerous educational ventures and professional positions. However, by 2017, the business had reached a mature phase where Aneja expected little more involvement going forward.

While his uncles ran the construction business, Aneja's father was a career banker. After two years with Tata, he decided to exercise this aspect of his intellectual inheritance and earned an MS in Financial Engineering from Claremont Colleges in 2009.

After Claremont, Aneja spent four years with the International Monetary Fund (IMF) doing macro financial research focusing on the euro zone, the U.K. and the US. He became one of the youngest research officers in the history of IMF and advised senior central bankers and government officials during his tenure. He was a key member of the Early Warning Exercise (established during the financial crisis of 2008) and focused on the financial and real estate sectors. Aneja cofounded the IMF-World Bank Young professionals group in Washington, D.C. to provide a forum for staffers from the two institutions to share research ideas. For his part, he wrote a number of well-regarded papers, including "Domestic and International Linkages in the Belgian Banking Sector," "The IMF-FSB Early Warning Exercise," "Financial Contagion through Bank Deleveraging: Stylized Facts and Simulations Applied to the Financial Crisis," and "How to Stop a Herd of Running Bears? Market Response to Policy Initiatives."

Aneja matriculated at the Yale School of Management in 2012. During his time at Yale, he held student leadership positions as co-president of South Asian Business Forum, and a leader of the Finance Club. He also founded and was CEO of a stealth mode, luxury shaving startup. He developed a business plan, modeled financial projections, spearheaded brand management, and raised $50,000 from angel investors. As CEO, Aneja recruited and managed a team that consisted of a Chief Strategy Officer, a Chief Design Officer and a group of interns from Yale University. While operating the company, he developed relationships with manufacturers in India, China and South Korea.

His first job after earning an MBA was at Bank of America Merrill Lynch advising financial institutions and technology, media, & telecom clients. He performed sell-side and buy-side M&A advisory, debt and equity financings, strategic alternative assessments, and valuations. After two and a half years, Aneja moved to the Manhattan office of Houlihan Lokey, a Los Angeles based investment bank. He was named an associate covering the business services sector, where he initiated coverage for the training services vertical.

Time for the Next Move

Aneja enjoyed parts of investment banking. He relished meeting and interacting with clients. He recognized that exploring all the fascinating and obscure businesses that came his way was a wonderful learning opportunity. However, as he was approaching his 30th birthday, Aneja began to tire of other aspects of his position. Late nights perfecting Excel financial models and PowerPoint presentations for clients and lots of travel began to wear on him. He found himself daydreaming what it would be like to build, run, and lead his own business.

In 2017, Aneja made the decision to leave investment banking and launch a search fund, an investment vehicle where an entrepreneur would raise capital to fund an effort to locate a business to acquire, operate, grow, and ultimately exit. Aneja wrote a Private Placement Memorandum (PPM) for his fund, seeking 12 investment units at $35,000 each. (See Exhibit #1)

Different Types of Investors

To aid in his search for investors, Aneja visited Yale SOM to sit in on an Entrepreneurship through Acquisition class in the Fall 2017 semester. He was hoping to talk to Jason Pananos. Pananos, a Visiting Fellow at the SOM, launched a search fund in 2008, with his partner Jay Davis, and ultimately acquired VDCI, a commercial pest mitigation services business. Pananos grew the business from $7 million to $50 million in sales by 2017. In addition to being an accomplished operator, Pananos was developing into a serial search fund investor. Aneja wanted to pick Pananos' brain for ideas on who to pitch and how.

After class, Pananos and Aneja met at Charley's Place (SOM's café) and quickly fell into a conversation about all things search funds. Aneja probed Pananos for investor names and his thoughts on specific investors. Who would be easy to access, who would be supportive, and who would show up with funds in hand. Aneja was particularly curious to hear what Pananos though about the renowned investor Tobby Yi.

Yi had graduated from SOM (2018) and was considered a smart and insightful investor who drew from his experience in consulting. Additionally, Yi had a reputation as being a very selective investor whose endorsement could ensure raising all the funds necessary to finance a search. Yi had made his mark quickly in the search fund industry as a shrewd investor, but one with limited time. Aneja told Pananos that Yi was his first choice for an investor.

Pananos liked Aneja's enthusiasm and curiosity, but thought his young protégé needed to slow down and expand his thinking about investors. The search for investors, Pananos explained, required far more thought than simply coming up with a single target and pitch that would land the requisite capital. There was no right set of investors; rather an entrepreneur should consider what they wanted from their entrepreneurial journey and try to attract investors who buy into that vision. Pananos argued the very best capital was, in fact, more than just money – it added value in many different ways.

Pananos asked Aneja to consider how investors could help an entrepreneur and a new CEO. For example, when searching for a business, the right investor might provide feedback about industries or specific targets. When an actionable opportunity presented itself, the right investor might help review and analyze an offering memorandum and design diligence questions and processes. When financing and closing a deal, the right investor could recommend debt sources and advise on deal structure. Once a deal is closed and a searcher became a CEO, investors with experience in the business could help with a plethora of operating issues and details.

Pananos noted investors varied according to a number of characteristics that would determine what they could bring to the search fund. For example, there were both institutional and individual investors, each group with its own strengths and weaknesses.

The primary institutional investors in search funds consisted of a group of a half dozen investment funds with anywhere from $20 million to over $100 million in committed funds. These funds acted as agents, raising capital from investors and then deploying it in search funds. The fund managers structured their investments like private equity funds with a specified fund life. Pananos noted that this meant these investors could write a big check, but they might prefer to do larger deals. The funds also were big. Pananos noted that some of the institutional funds might have as many as 50 portfolio companies and perhaps as many searchers at any one time. However, while the fund's attention was divided, many of the institutional investors could add value to entrepreneurs through their team of full-time employees, related advisors, and standard work resources.

Individual investors in search funds, Pananos explained, were more of a mixed bag. Some individual investors invested at the low end of the spectrum in the $100,000 to $250,000 range, while others could place as much as $1 million in a deal. The expectations of individual investors could vary, but most were focused on MOIC rather than IRR.

Another factor differentiating investors was their orientation. Generally speaking, investors could view search funds from either a finance or an operational background. Pananos argued investor orientation was an important determinant of how an investor would interact with the CEO.

Financial investors tended to focus on the deal and its capital structure. As a rule, they did not engage as much in the daily operations of a portfolio company, although they might be intensely active or helpful at the time of the investment and the exit.

Operational investors, like Pananos himself, concerned themselves with running a business and dealing with the daily nuts and bolts of leading and growing a small enterprise. Pananos noted that some operating investors were sitting CEOs, and some had led businesses in the past. These investors tended to get involved the most after the actual acquisition of the business.

Another key investor attribute was the length of time an investor had spent in the search fund ecosystem. Pananos noted that investors who had been in the ecosystem for a long time would bring a lot of knowledge and pattern recognition from their experiences. On the other hand, new entrants to the field could bring a helpful perspective to a search fund entrepreneur based on their experiences and their ability to empathize with the entrepreneur. For example, Pananos himself was a relatively new investor to the search fund world, but had been running a business for seven years and had been living in the search fund world for a decade.

Investor Inclinations

To get the right investors, Pananos counseled Aneja that he would have to go beyond investor characteristics and consider investor inclinations. Again, there was no correct predisposition for investors to have, but it was something that Aneja had to monitor and factor into his considerations.

One of the most important inclinations was an investor's time and desire to consult. Some investors were open to regular meaningful conversations, but such investors, at times, could be too attentive or even invasive. Other investors could be more difficult to reach and would share little expertise. To some extent, investor engagement was a function of their portfolio size. Obviously, the number of investments an investor had simultaneously would influence his or her bandwidth. However, an investor with a large portfolio might also bring many network connections of value.

Pananos noted that an investor's capital capacity was also a consideration. Some investors were inclined to write big checks at deal time and others would not. Attracting too many investors who wanted to write big checks could cause conflicts when trying to close a deal and having a handful of small check writers might preclude making a deal altogether. Investor capital capacity also could affect their expectations about hold period. Some investors might want to turn over their investment quickly, while others did not mind being patient.

In addition, investors came with a whole slew of other preferences regarding the nature of the investment. Some investors had particular beliefs concerning the industry of the investment. Pananos recounted that a recent string of successful search fund deals in the software industry had enticed many investors to seek out operators who wanted to go into that industry. However, many other search fund investors believed that software was not a good industry for search fund acquisitions.

Investors could also differ in their beliefs about the size of the company being acquired or the purchase price. Some investors set a hard criteria that a company had to be larger than $3 million in EBITDA. Other investors were comfortable with smaller companies (under $3 million or even $2 million in EBITDA), especially if they were growing. And while all investors preferred a low purchase price, some investors were comfortable with a higher range of EBITDA valuation multiple for a really great company. Other investors took a hard line with valuation and would only invest in deals with a low multiple.

The Long Ride Home

Having completely thrown off his interlocutor with his extensive catalogue of considerations, Pananos sought to reassure Aneja. From 1983 to 2016, 258 search funds had been formed.[2] Furthermore, the search fund space was heating up and there had been a particular uptick in recent years. He observed that there were quite a few search fund investors in the marketplace, perhaps a hundred or so. Pananos believed that as the number of entrepreneurs increased, so had the number of investors.

Pananos told Aneja that the first thing he needed to do was set out his vision for the business and the interactions he wanted from his investors. He also suggested that it might be productive for Aneja to define the value of each type of investor to his search, so Aneja could be cognizant of the implications of his choices. Finally, Pananos offered that if Aneja felt a deeper emotional connection to a particular investor or investor type, he should consider that as well.

As Pananos got up to leave Charley's Place, he reminded Aneja that investor selection was a key strategic decision. The best investors were more than just capital and having the wrong investors in a deal could be debilitating. The choice of investors was specific to the entrepreneur based on his needs and goals. No one investor would likely have all of the characteristics Aneja was seeking, so he should consider the composition of the entire investor group. Finally, Pananos noted investors can fire the CEOs, but a CEO is married to investors forever.

Aneja departed Evans Hall as well and began the one-hour drive back to his home in Larchmont, NY. The meeting had not gone as he would have liked, but he appreciated the information Pananos provided. He had not realized the subtle differences the investor selection process could present. He had been concerned with gathering funds, now he realized that composing a group of investors would be more complex.

While Aneja understood the importance of defining what he was looking for, he wondered what he might do to get the right investors for his fund. Would he be in a position to pick among investors, or would he be lucky just to get the necessary capital to begin a search? Aneja hoped he could entice the superstar investor Tobby Yi to join his project and wondered whether his story was compelling enough. As Aneja accelerated on I-95 heading south he smiled. As difficult as all this was, he was excited to meet the challenges.

Endnotes

[1] Eugene F. Williams, Jr. Lecturer in the Practice of Management

[2] https://www.gsb.stanford.edu/sites/gsb/files/files-fpp/26891/ces-search-fund-study-2016.pdf

Exhibit 1: Pivoton Private Placement Memorandum

Pivoton Capital LLC

Private Placement Memorandum

PRIVATE & CONFIDENTIAL

LEGAL DISCLAIMER

This confidential Private Placement Memorandum (this "Memorandum") describes investment units (the "Units") being offered by Pivoton Capital LLC ("Pivoton Capital"). This Memorandum has been prepared on a confidential basis, exclusively for the benefit of qualified prospective investors in the Units.

This Memorandum may not be reproduced or provided to others without the prior written permission of Pivoton Capital. Any reproduction of this Memorandum, in whole or in part, or the disclosure of any of its contents, without the prior written consent of Pivoton Capital, is prohibited.

THE UNITS OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR BY THE SECURITIES REGULATORY AUTHORITY OF ANY STATE, AND NEITHER THE SEC NOR ANY SUCH AUTHORITY HAS PASSED JUDGMENT UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM, NOR IS IT INTENDED THAT THE SEC OR ANY SUCH AUTHORITY WILL DO SO. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE UNITS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). POTENTIAL INVESTORS SHOULD PAY PARTICULAR ATTENTION TO THE INFORMATION CONTAINED IN THE SECTION ENTITLED "INVESTMENT RISKS" PRIOR TO MAKING THEIR INVESTMENT DECISION IN Pivoton Capital.

The Units offered hereby will be subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act, and applicable state securities laws, pursuant to registration or exemption therefrom. In addition, investors will not be permitted to transfer Units without the written consent of Pivoton Capital. Accordingly, investors' ability to resell Units will be significantly restricted. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Investors should have the financial ability and willingness to accept these risks. There can be no assurance that Pivoton Capital' rate of return objectives will be realized or that there will be any return of capital to investors.

Prospective investors should not construe the contents of this Memorandum as investment, legal, tax, or other advice. Each investor should conduct its own due diligence and consult its own advisors as to Pivoton Capital and the terms of the offering, including all legal, tax, and related matters. In making an investment decision, investors must rely on their own examination of Pivoton Capital and the terms of the offering, including the merits and risks involved.

Pivoton Capital reserves the right to withdraw this offer at any time and this offer is made subject specifically to the terms described in this Memorandum. Pivoton Capital reserves the right to reject any subscription in whole or in part and the right to modify any of the terms of the offering and the securities described herein.

Neither Pivoton Capital nor its principal, Sumit Aneja ("Sumit" or the "Principal"), will be registered under the Investment Company Act of 1940, as amended, as he expects to rely on certain exemptions from registration available thereunder. Neither Pivoton Capital, nor any of its affiliates, members, employees, advisors or the Principal has registered as an investment adviser under the Investment Advisers Act of 1940, as amended.

Each prospective investor is invited to meet with the representative of Pivoton Capital to discuss with, ask questions of, and receive answers from the representative concerning the terms and conditions of this offering and to obtain any additional information.

Inquiries should be directed to:
Sumit Aneja
Principal
Pivoton Capital LLC
Phone: 909.753.6947
E-mail: sumitaneja@gmail.com

Contents

EXECUTIVE SUMMARY

Pivoton Capital is a search fund formed to identify, acquire and operate an existing private company with initial enterprise value between $7.5 and $20.0 million. This summary provides an overview of Pivoton Capital's Principal, the financial structure of the search fund, and the strategy to identify and acquire an existing private company.

The purpose of the search fund is to provide investors with the opportunity to participate in the staged financing of the search for and acquisition of an existing private company. Search funds have been in existence since 1984 and have been structured to mitigate many of the risks associated with purchasing a small business. To date, over 258 search funds have been raised, primarily by recent graduates of Harvard Business School, Stanford Graduate School of Business, The University of Chicago Booth School of Business, and Yale School of Management. A 2016 study conducted by Stanford concluded that a portfolio of 258 first time search funds produced annual returns of 36.7%.[1]

Principal Background

Sumit Aneja ("Sumit" or the "Principal") was most recently an investment banker with Houlihan Lokey ("HL") covering the Business Services sector. He initiated coverage for the training services vertical within the Business Services industry group. He spent two and a half years at Bank of America Merrill Lynch ("BAML") prior to HL advising Financial Institutions and Technology Media & Telecom clients. He performed sell-side and buy-side M&A advisory, debt and equity financings, strategic alternative assessments, and valuations.

While attending Yale School of Management ("Yale SOM"), Sumit founded and was CEO of a stealth mode, luxury shaving startup. While operating his company, he developed relationships with manufacturers in India, China and South Korea, to optimize manufacturing cost. He developed a business plan, modeled financial projections, spearheaded brand management, and raised $50,000 from angel investors. He recruited and managed a team that consisted of a Chief Strategy Officer, a Chief Design Officer and a group of interns from Yale University.

Prior to attending Yale SOM, he spent four years with the International Monetary Fund ("IMF") doing macro financial research focusing on the Eurozone, the U.S. and the U.K. Sumit was one of the youngest Research Officers in the history of IMF. He advised senior central bankers and government officials during his tenure at IMF. He was a key member of the Early Warning Exercise (established during the financial crisis of 2008) and focused on the financial and real estate sectors. His paper on "Domestic and International Linkages in the Belgian Banking Sector" was published by IMF and has been widely used as a reference in research on macro financial issues across the world. Some of his other contributions include "The IMF-FSB Early Warning Exercise", "Financial Contagion through Bank Deleveraging: Stylized Facts and Simulations Applied to the Financial Crisis", "How to Stop a Herd of Running Bears? Market Response to Policy Initiatives", "A Fistful of Dollars: Lobbying and the Financial Crisis".

While working for the IMF, he cofounded the IMF-World Bank Young professionals group in Washington, D.C. for the professionals across the street to share academic ideas that resulted in many research ideas being translated to published papers at IMF and World Bank. He worked with Tata

[1] 2016 Search Fund Study: Selected Observations

Consultancy Services ("TCS") as a Systems Engineer, upon finishing his undergraduate studies in electrical engineering.

In addition to his full-time endeavors, Sumit has been involved in the family real estate construction business in an advisory capacity for more than a decade. His responsibilities include strategic planning, business expansion and advising on optimizing capital structure, among others. His family business is at a mature phase where Sumit's involvement is expected to be minimal going forward. Sumit learned extremely valuable skills while working in the construction business, such as acquiring land, negotiating deals with suppliers and vendors, helping manage the middle-level managers, and setting up compensation for middle and senior-level managers. All these acquired skills will enable Sumit to efficiently operate the acquired company from the first day and help him ease his way up the learning curve.

Sumit also held the following student leadership positions during his undergraduate and graduate studies: Co-President of South Asian Business Forum, Leader of Finance Club at Yale SOM, and Vice President of Graduate Student Association at Claremont Consortium.

Sumit completed his undergraduate studies at Punjab Engineering College and received an MS in Financial Engineering from Claremont Colleges. He graduated from Yale SOM with an MBA in 2014.

Sumit will remain the Principal throughout the search process, and will become CEO of the acquired company, assuming senior operating roles at the firm. Sumit has a strong record of success in his career to date and possesses both the skills and experience to directly address the acquisition and management of a small business.

Pivoton Capital will proactively source acquisition opportunities using both industry and opportunistic search strategies. The target company will possess stable revenue, stable cash flows, healthy and sustainable margins, a diverse customer base (low concentration), and will demonstrate potential for growth. Although Pivoton Capital maintains a long-term view of operating and creating value for a company, the Principal is committed to maximizing returns and will provide opportunities for investor liquidity.

Investment Structure

Pivoton Capital is raising $420,000 through the sale of 12 investment units ("Units") priced at $35,000 each. This initial capital is intended to sustain a dedicated search for up to 24 months. For each Unit purchased, investors will receive:

Right of First Refusal	Investors will have the right, but not the obligation, to participate in financing the acquisition. Depending on the size and structure of the acquisition, investors are expected to have the opportunity to invest another $208,333 to $833,333 per unit at the time of acquisition. Investors will be given the opportunity to provide 100% of the required equity capital in order to prevent dilution from outside investors.
Investment Step-Up	All Units will be converted to securities in the acquired company and stepped-up by 50%, structured as a combination of equity and subordinated debt on terms *pari passu* with the investor capital provided in the acquisition round of financing (i.e., for every $1.00 invested in Pivoton Capital, the investor will receive $1.50 of securities of the acquired company). This 50% step-up is meant to compensate the initial investors for the increased risk of investing in the first round of financing.

Pivoton Capital intends to finance the acquisition through a combination of bank debt, subordinated debt, seller financing and investor capital, which may include subordinated debt, preferred stock and common stock. Subordinated debt securities can provide attractive returns through interest and tax-free principal repayments, while preferred equity provides the benefit of capital gains tax rates rather than ordinary income. The common equity allows the investor to participate in the expected upside upon sale or recapitalization of the acquired company.

The Principal will have the opportunity to earn 25% of the common equity in return for identifying and acquiring the target company, and for achieving agreed upon operating results. A portion of this equity will be subject to meeting pre-established performance benchmarks. Neither the investors' nor the Principal's upside is limited in any way.

Search Strategy

Prospective companies must possess the following minimum attributes and will be evaluated against the following quality dimensions:

Minimum Attributes	Quality Dimensions
• Niche service / asset-light business	• Quality of people
• Management transition / absentee owner / owner seeking liquidity	• Quality of industry
• Privately held, U.S. based	• Quality of cash flows
• Recurring revenue (growing) and at least 3 year history of profitability	• Quality of market position

INVESTMENT THESIS

Illustrative Acquisition Opportunity

Pivoton Capital represents a compelling investment opportunity for the following reasons:

Sumit has acquired a combination of financial skills and a network in the middle market space through his experience at IMF, BAML, and HL. He has an extensive network of private equity executives and several investment bankers that can prove extremely helpful for evaluating and closing on a profitable acquisition.

While operating his luxury shaving startup, he recruited and headed the team as CEO, raised funds from angel investors to develop a prototype and to manufacture a batch of shaving products; identified the target market, and developed a go-to-market strategy. These invaluable skills will help Sumit lead the acquired company and produce desirable outcomes for the investors.

Sumit was also greatly exposed to the real estate construction business through family investments and operations in the sector. He also has an extensive network of private and public sector professionals in India that can be particularly helpful with opportunities in the business process outsourcing space.

Attractive Market Landscape	Approximately $4.8 trillion of net worth, representing the largest intergenerational shift of wealth in U.S. history, will be transferred over the next 20 years as virtually all closely-held and family-owned businesses will lose their primary owner to death or retirement.[2] Opportunities to acquire lower middle market businesses will be greater than demand, as these businesses typically fall below the investment parameters of most buyout firms and are often too large for private buyers. Furthermore, direct sourcing of these opportunities requires a significant time investment that is oftentimes not feasible for private equity firms due to their limited professional staffs. As a result, acquisition multiples in the lower middle market are lower than those found up-market.
Proven Investment Vehicle	Search funds have been in existence since 1984 and have been used by over 258 entrepreneur teams primarily from Harvard Business School, Stanford Graduate School of Business, The University of Chicago Booth School of Business, and Yale School of Management to support efforts to locate, acquire and manage an existing private company. A 2016 study of 258 “first time” search funds by the Stanford Center for Entrepreneurial Studies shows average investor returns of 36.7% per year.[3]
Committed Leadership	Sumit is fully committed to pursuing the search fund opportunity and is convinced of an outcome desirable for investors. Most recently he was employed as a Senior Investment Banking Associate at Houlihan Lokey, a prominent middle market boutique M&A firm. Along with major cash remuneration opportunities, he is also foregoing the opportunity to become a Senior Investment Banker and devoting himself to the search process for at least the next 5-7 years. Sumit has spoken to more than 35 searchers and investors who understand the fundamentals of a successful search and is taking a well informed decision to pursue the search.
Opportunity for Value Creation	The Principal’s experience with lower middle market companies and sponsors operating in the space has convinced him of the opportunity that exists to build value in small businesses. As a first step, the Principal anticipates assembling an experienced Board of Directors and management team who embrace his traditional values of hard work, integrity, humility and team work. Second, the Principal and management team will work to add rigor to existing business processes and upgrade the information systems at the acquired company to serve as a foundation for growth. Finally, the team will look to prudently pursue underexploited growth initiatives organically and potentially through select “tuck-in” acquisitions.
Attractive Exit Opportunity	Businesses that generate above $5.0 million in EBITDA can attract more interest from middle market private equity firms, growth equity investors as well as strategic companies in the relevant industry. Pivoton Capital will focus on revenue expansion as well as operational improvements to accelerate organic EBITDA growth in order to maximize value for all stakeholders.

[2] “The Ten Trillion Dollar Question: A Philanthropic Gameplan,” Initiatives, Robert Avery, Cornell University
[3] 2016 Search Fund Study: Selected Observations

Revenue and EBITDA growth along with professional management and board will make the company an attractive acquisition target. The Principal has an extensive network of middle market and lower middle market private equity firms that could make an exit a relatively seamless and well-planned liquidity event for investors.

PRINCIPAL BACKGROUND

Professional Experience

- Extensive M&A and financing advisory deal experience (please see Appendix A for details)
- Initiated coverage of training services vertical within business services sector at HL
- Extensive network of middle market private equity firms operating in business services space
- Founder and CEO of a stealth mode, luxury shaving startup
- Advisor for a financial technology platform to connect early stage investors and startups
- Experience with IMF, including performing macro financial research focusing on the Eurozone, the United States and the United Kingdom
- Recipient of the IMF Award: “Outstanding Contributions on the Early Warning and Vulnerability Exercises”
- Experience with Marshall & Stevens conducting valuations for lower middle market companies across industries
- Experience advising family construction business (residential and commercial real estate)
- Experience working with one of world’s largest information technology services companies (TCS)

Education

MBA, Yale School of Management 2014
MS Financial Engineering, Claremont Colleges Consortium 2009 (Beta Gamma Sigma Scholar)
BE Electrical Engineering, Punjab Engineering College 2006

Personal

Sumit resides in Larchmont, New York, with his wife Sonia. Sonia and Sumit met in New Haven while attending Yale School of Management. Sonia grew up in France for the first 10 years of her life and then relocated to Connecticut. Sonia is a member of the Finance Leadership Development Program. Sumit grew up in India and completed his undergraduate studies in Chandigarh (his hometown). Growing up, he was introduced to the world of finance through his father, who is a career banker, and to the world of real estate through his family business that was operated by his paternal uncles. Sumit enjoys playing squash and poker in his free time. Please see **Appendix A** for a complete copy of Sumit’s resume.

INVESTMENT OPPORTUNITY

Pivoton Capital is a search fund formed to identify, acquire and operate an existing private company with initial enterprise value between $7.5 and $20.0 million. The fund will allow the Principal to conduct a full-time search for a period of up to 24 months.

Overview of Search Fund Model

Conceived in 1984, the search fund is an investment vehicle in which investors financially support a manager's efforts to locate, acquire and manage an existing private company. Over 258 search funds have been raised to date, predominantly by recent graduates of Harvard Business School, Stanford Graduate School of Business, The University of Chicago Booth School of Business, and Yale School of Management.

In a search fund model, capital is raised in two distinct rounds of financing. In the first round, funds are invested into the search fund entity (e.g., Pivoton Capital) to cover operating expenses and allow the Principal to draw a modest salary while conducting a professional search to acquire an existing private company. In return, search fund investors obtain the right, but not the obligation, to invest in the second round of financing, the acquisition round.

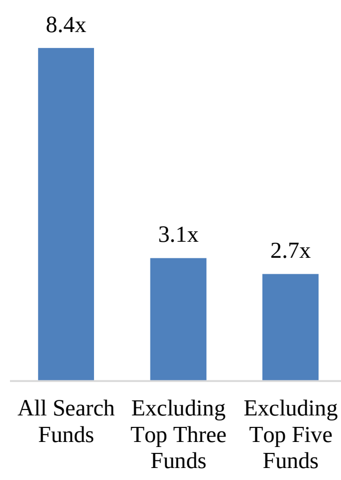
All funds invested in the first round will automatically be converted to securities in the acquired company and stepped-up by 50%, structured as a combination of equity and subordinated debt (i.e., for every $1.00 invested in Pivoton Capital the investor will receive $1.50 of securities of the acquired company).

A 2016 study of 258 "first time" search funds (funds raised by management teams without prior search fund experience) by the Stanford Center for Entrepreneurial Studies shows average investor returns of 36.7% per year.[4]

Median Statistics for Recent Search Fund Acquisitions [4]

	'06-'07	'08-'09	'10-'11	'12-'13	'14-'15
Length of Search (months)	19	14	18	19	17
Purchase Price	$9.4 M	$6.5 M	$7.9 M	$11.6 M	$12.0 M
Sales at Purchase	$9.1 M	$5.3 M	$6.0 M	$6.2 M	$7.0 M
EBITDA Purchase	$2.0 M	$1.3 M	$1.5 M	$2.0 M	$2.5 M
EBITDA Margin	18.2%	20.5%	23.5%	29.9%	23.4%
EBITDA growth rate at purchase	16.5%	9.3%	11.9%	18.0%	5.0%
Purchase Price / EBITDA	5.2x	4.9x	5.2x	5.6x	5.8x

Search Fund Asset Class ROI [4]



[4] 2016 Search Fund Study: Selected Observations

Five Stages of the Search Fund

The search fund model is executed over five distinct stages, the entirety of which can last anywhere from five to eight years.

2 – 4 months	1 – 24 months	2 – 6 months	4 – 6 years	4 – 6 months
Stage 1: Raise the Search Fund	Stage 2: Source and Evaluate Opportunities	Stage 3: Finance and Close a Transaction	Stage 4: Operate the Business	Stage 5: Exit the Business

Stage 1: Raise the Search Fund

Pivoton Capital is raising $420,000 through the sale of 12 Units priced at $35,000 each. This initial capital is intended to sustain a search for up to 24 months. For each Unit purchased, investors will receive:

Right of First Refusal

Investors will have the right to participate in financing the acquisition, but are not obligated to do so. Depending on the size and structure of the acquisition, investors are expected to have the opportunity to invest another $208,333 to $833,333 per unit at the time of acquisition. Investors will be given the opportunity to provide 100% of the required equity in order to prevent dilution from outside investors.

Investment Step-Up

All Units will be converted to securities in the acquired company and stepped-up by 50%, structured as a combination of equity and subordinated debt on terms *pari passu* with the investor capital provided in the acquisition round of financing (i.e., for every $1.00 invested in Pivoton Capital the investor will receive $1.50 of securities of the acquired company). This 50% step-up is meant to compensate the initial investors for the increased risk of investing in the first round of financing.

Upon completion of a transaction, any funds remaining in the search fund will be returned to investors on a pro-rata basis. Cash returned to investors will not be converted to securities in the acquired company (i.e., only capital consumed in the search process will be converted and stepped-up). Investors will be released from any remaining capital commitments once the acquisition has been completed.

Operating expenses for Pivoton Capital are projected to be $420,000 for a 24 month search. These costs include salaries and benefits for the Principal, office space, travel, communications, research, and deal expenses. Specific expenses incurred during diligence and documentation of the acquired company will be included as part of the transaction's purchase price. A detailed search budget is as follows:

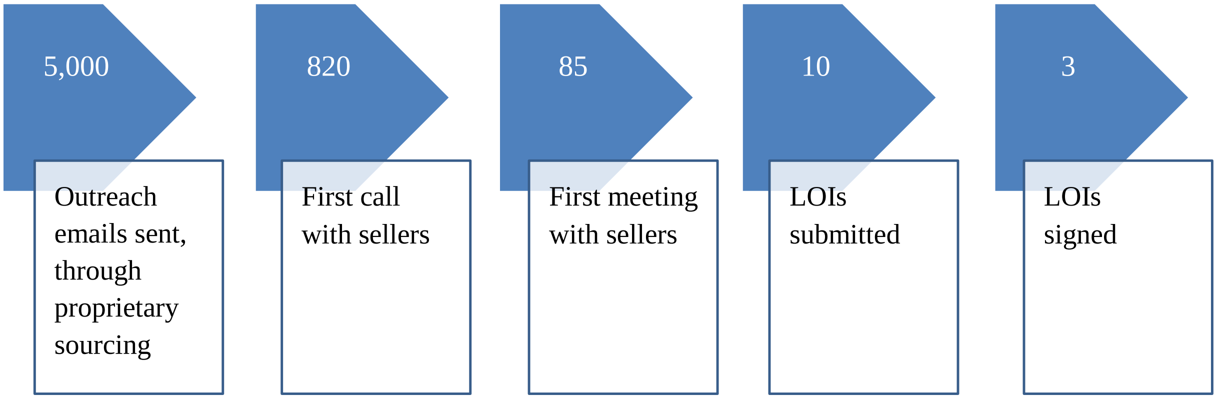
Estimated Budget	Year 1	Year 2	Total
Principal Draw	115,000	115,000	230,000
Payroll Taxes, Benefits & Insurance	20,000	20,000	40,000
Travel (including tradeshows and conferences)	20,000	20,000	40,000
Rent & Office Expenses	12,500	12,500	25,000
Marketing	10,000	10,000	20,000
Legal Fees	10,000	0	10,000
Databases /Misc. (CRM & Others)	10,000	10,000	20,000
Professional Services (including accounting)	10,000	10,000	20,000
Contingency / Diligence	7,500	7,500	15,000
Total	**215,000**	**205,000**	**420,000**

Pivoton Capital is interested in assembling a diverse investor base with expertise in successfully sourcing, investing, financing, operating, growing and exiting private companies. Pivoton Capital is also interested in identifying investors who have the time and interest to provide mentoring and advice throughout the search fund process, especially in the form of participation in an Advisory Board during the search stage and Board of Directors during the operating stage.

Pivoton Capital welcomes any level of investor participation and believes the credibility associated with a distinguished investor group will aid in approaching and negotiating with business owners.

Stage 2: Source and Evaluate Opportunities

Pivoton Capital will be based out of Larchmont, New York, and will perform an opportunistic nationwide search to generate deals that meet Pivoton Capital's acquisition criteria. The chart below depicts an illustrative search funnel[5].



At a minimum, companies must possess the following characteristics in terms of its industry, the direct company characteristics, financial performance and context of the transaction:

Industry

- Highly fragmented
- Lot of white space available
- Stable / low cyclicality
- Growing at >2x GDP
- Low external risk factors (i.e., regulation, technology obsolescence, etc.)

Company

- Privately-held and based in the U.S.
- Simple and straightforward business model
- High percentage of recurring / repeatable revenue
- Scalable business
- Diverse and loyal customer base without concentration
- Experienced, competent and honest middle management
- Niche service / asset-light business
- Low employee turnover

[5] The Evolution of Entrepreneurship Through Acquisition, Chicago Booth 2016

Financial	• Revenue growing at or above industry growth rates • Low capital expenditure and working capital requirements • Stable recurring and predictable cash flows • Sustained profitable operations – at least a three year history • Minimum EBITDA margin of 10% • EBITDA between $1.5 million – $5.0 million
Context	• Owner / management seeking liquidity and wanting to retire / transition out of daily operations (health reasons, liquidity issues etc.) • No succession plan in place • Company in need of additional management expertise, capital and board experience to capture growth opportunities
Value Creation Levers	• Expansion opportunities for new product lines or services • Potential to strengthen management structure • Potential to align employee incentives with performance • Opportunity to implement better internal controls and planning systems • Optimize capital structure
Competitive Positioning	• Differentiated, highly-specialized service offerings providing sustainable competitive advantage • Sticky customer base • Multiple avenues to deliver significant growth • Undisputed market leader in large, high growth industries
Exit Options	• Significant strategic buyer interest • Attractive platform investment opportunity for financial sponsors • Potential for vertical and horizontal integration in buyer supply chain

In addition to these minimum requirements, companies will be evaluated against the following dimensions:

Quality of People	Quality of Industry
• Honest and respected by customers and employees • Experienced, competent and honest middle management • Existence of sophisticated customers and suppliers • Seller open to provide seller financing	• Size, growth and stability of primary demand • Large fragmented industry, with consolidation opportunities • Resilience to regulatory changes • Low threat of external shocks – technological, regulatory, legal, environmental, fashion, etc.

Quality of Cash Flows	Quality of Market Position
• Recurring • High margin, growing • Diverse (by customers, products and markets)	• Defensibility • High switching costs • Clarity of competitive advantage

Quality of Operations	Quality of Liquidity Options
• Simple business model, easy to understand • High returns on invested capital • Identifiable areas of improvement (revenue expansion, cost cutting, etc.)	• Ability to generate 35% compound annual return on investor capital • Identifiable set of future buyers (strategic and financial sponsors) • Intermediate liquidity events

Sample Industries	
Education Technology and Training Services	Staffing Agencies (IT, Healthcare, Engineering, etc.)
IT Services	Technology Enabled Services
Facilities management	Human Resource Outsourcing
Business Process / Knowledge Process Outsourcing	Software as a service / Infrastructure as a service
Financial Technology	Insurance technology

Pivoton Capital will opportunistically search for acquisition candidates to create additional deal flow. The Principal feels an opportunistic search, rather than an industry specific search, is appropriate for the following reasons:

Opportunistic Search (For additional deal flow)

- The Principal has significant experience with deal sourcing and evaluation in his prior jobs at Bank of America Merrill Lynch and Houlihan Lokey across different sectors
- Most of the companies invested in by the Principal's sponsor clients were sufficiently unique such that they were difficult to uncover using traditional database tools
- The Principal has extensive experience in business services, financial services, and technology, media & telecom sectors but wants to keep the search relatively broad to be able to identify the best acquisition target
- A focused search could limit the universe of potential opportunities and could become dependent on macro dynamics or challenges within one particular industry at a certain time frame (e.g. sellers' unrealistic expectations about the valuation of the business)
- Encourages deal sources to show a broad array of investment opportunities that will help maximize returns for the investors

While a variety of sourcing alternatives exist for the opportunistic searcher, each alternative requires a different level of time and financial commitment to generate a specific volume and quality of deal flow. The Principal believes the key to a successful opportunistic search is to balance the use of these sourcing alternatives in a focused manner while also factoring in his professional experience and personal preferences. It is important to remember that the ultimate goal of the search strategy is to generate enough high-quality deal flow to close a transaction in not more than 24 months.

In order to add focus to the search, Pivoton Capital has divided the country into three regions, as defined in **Appendix B**. The Principal will invest roughly 65% of his time canvassing the primary region, 25% the secondary region and 10% the tertiary region. The Principal believes that this resource allocation represents the appropriate balance for developing both a breadth and depth of deal flow contacts. The primary and secondary regions were selected due to the Principal's existing professional network as well as personal considerations.

The specific sources Pivoton Capital will use to generate deal flow are as follows:

Business Brokers

Deal Flow Type:	High volume, high quality
Positives:	Owners are committed sellers and less sophisticated Opportunity for less efficient auction process
Negatives:	Wide disparity of broker quality High quality brokers run a process that equates to more competition for deals and corresponding higher purchase multiples
Pivoton Capital Strategy:	Compile database of brokers located in primary, secondary and tertiary regions Mail marketing materials to brokers with information on firm background, investment focus and deal criteria Establish contact with relevant brokers, using the Principal's network to gain introductions and establish credibility Contact brokers on a monthly basis to stay on deal radar; meet with brokers in primary and secondary regions

Lower Middle Market Investment Banks	
Deal Flow Type:	High volume, variable quality
Positives:	Owners are committed sellers Companies vetted by investment bank (QoE etc. completed prior to being in market)
Negatives:	Auction process leads to higher purchase multiples Sellers could have unusually high multiple expectations Pivoton Capital is a less attractive buyer than both strategic buyers and financial buyers with captive funds
Pivoton Capital Strategy:	Compile database of small investment banks located in primary, secondary and tertiary regions Mail marketing materials to bankers with information on firm background, investment focus and deal criteria Establish contact with relevant bankers, using the Principal's network to gain introductions and establish credibility with lower middle market M&A banks Contact on a monthly basis to stay on deal radar; meet with bankers in primary and secondary regions

Direct Marketing & Cold-Calling	
Deal Flow Type:	Medium volume, high quality
Positives:	Best source of proprietary deal flow Establish personal connection and rapport with the founder(s) Uncover companies not previously for sale
Negatives:	Can be time intensive to weed through opportunities due to low response rates Owners could be just testing the waters, are not always committed sellers
Pivoton Capital Strategy:	Initially focus direct marketing efforts on primary region Use database tools to generate lists of companies that fall within specified deal criteria Mail mass-customized letters with information on firm background, investment focus and deal criteria Expected 1-2% response rate on mailings, of which 25% will result in "real" opportunities Cold-call most interesting companies Use the Principal's existing database and connections in the business services space

Network with Deal Professionals and Service Providers (Lenders, Accountants, Lawyers, Financial Advisors, etc.)	
Deal Flow Type:	Low volume, variable quality
Positives:	Source of semi-proprietary deal flow
Negatives:	Serendipity required Can have low return on time investment Easy to fall off deal radar
Pivoton Capital Strategy:	Secondary source of deal flow Focus networking on primary region to maximize ROI Establish contact with relevant professionals, using the Principal's network to gain introductions and establish credibility with wealth managers from Merrill Lynch, Goldman Sachs, commercial Bankers from regional banks, etc.

Personal Network	
Deal Flow Type:	Low volume, high quality
Positives:	Source of proprietary deal flow Existing rapport that could be leveraged into a mutually profitable deal and a great business relationship
Negatives:	Serendipity required Difficult to harness
Pivoton Capital Strategy:	Secondary source of deal flow Circulate a standing offer to pay a $25,000 finder's fee to friends, family, Yale classmates, Claremont classmates, etc., who provide an introduction to any business which is ultimately acquired

Buy-Side Brokers	
Deal Flow Type:	Low volume, variable quality
Positives:	Provide extra feet on the street that are keyed into the deal environment
Negatives:	Pay for what you get, qualified brokers require retainers “Lehman formula” fee structure
Pivoton Capital Strategy:	Secondary source of deal flow, if at all Research brokers who do not require retainers if ultimately acquired

Advertising & Public Relations	
Deal Flow Type:	Low volume, variable quality
Positives:	Enhances credibility with owners Introduces Pivoton Capital story to wider audience
Negatives:	Advertising can be cost prohibitive Difficult to generate meaningful publicity
Pivoton Capital Strategy:	Secondary source of deal flow Cultivate press coverage in primary and secondary regions Develop list of publications in primary and secondary regions and price out advertisement options

Investor Reporting / Board of Advisors

The Principal will send detailed quarterly reports updating investors on use of funds, existing deal pipeline, and select deals of interest. Furthermore, the Principal will leverage his network to elect three members outside the core investor group to form a Board of Advisors that will help evaluate deal momentum, monitor industry trends, and provide introductions to companies of interest. The Board will also act as sounding board for potential acquisitions.

Stage 3: Finance and Close a Transaction

Pivoton Capital intends to finance the acquisition through a variety of sources, including:

Bank Debt	Bank debt will constitute a significant portion of the acquisition financing. Typical revolving credit facilities provide advances against a negotiated borrowing base, such as 80% of accounts receivable and 50% of inventory. Senior term debt can be either asset-based or cash flow-based. Asset-based loans are determined primarily on the liquidation value of the company's fixed assets. Cash flow loans are predicated on the company's earnings. While search funds in the past have been able to secure bank debt for a substantial portion of the overall purchase price, the availability, interest rate and other terms for such debt will depend on the quality of the company's assets and cash flow and on the general lending environment at the time of purchase. Pivoton Capital will build on the Principal's existing senior lender relationships and cultivate new relationships throughout the search process.
Institutional Subordinated Debt	Institutional subordinated debt, also referred to as "mezzanine debt," may constitute a portion of the eventual capital structure. Mezzanine debt is structurally subordinate in priority of payment to senior debt but typically ranks senior to seller financing and investor capital. As with the senior lender market, the availability, interest rate and other terms for mezzanine debt will depend on the quality of the company's cash flow and on the general lending environment at the time of purchase. Pivoton Capital will build on the Principal's existing mezzanine lender relationships and cultivate new relationships throughout the search process.
Seller Financing	Owners of companies in Pivoton Capital's target range are often willing to accept a stream of future payments as part of the acquisition. Typical structures include seller paper, rollover equity and/or earn-out provisions. The availability and extent of seller financing is influenced by several criteria, including the seller's need for immediate liquidity, his/her tax situation and his/her desire to remain involved with the business. Previous search funds have shown that if the external lending environment is poor then seller financing is a convenient way to close the funding gap.
Investor Capital	Pivoton Capital anticipates that investor capital will represent between 33.3% and 50.0% of the capital required to fund the acquisition. Based on a targeted transaction size of between $7.5 million and $20.0 million, investor capital will total between $2.5 and $10.0 million. This amount represents $208,333 to $833,333 per Unit. Investor capital may include a combination of subordinated debt, preferred equity and common equity. The ultimate capital structure will depend on specific acquisition and investor preferences.

Subordinated debt securities can provide attractive returns through interest and tax-free principal repayments, while preferred equity provides the benefit of capital gains tax rates rather than ordinary income. The common equity securities allow the investor to participate in the expected upside upon sale or recapitalization of the acquired business.

Illustrative transaction economics can be found in **Appendix C**. **Please note the ultimate transaction size, structure and financial results may vary significantly from that which is depicted in Appendix C.**

Stage 4: Operate the Business

Getting acquainted with the business	Following completion of the acquisition the Principal will assume the role of President of the acquired company. For the first 180 days the Principal will be focused on acclimating himself with the acquired business without disrupting the status quo. The diligence process will provide an important foundation, however it is anticipated that significant time and energy will be required to gain a more thorough understanding of the business, to establish credibility with the existing management team and to formulate a strategy for the business.
Evaluating management team	Additionally, during the first 180 days the Principal will evaluate the strength of the existing management team, paying careful attention to how the strengths and weaknesses of the existing team overlay the current and future risks and opportunities of the business. The Principal, with the help of the investor group, will include an assessment of his individual strengths, weaknesses, interests, and areas of relevant expertise in this analysis in order to paint a complete picture of the management situation at the acquired company. The Principal anticipates making thoughtful additions to the management team in the first 12 to 18 months after acquisition to realize full potential of the acquired company.
Leveraging prior experience	Based on his experience at Bank of America Merrill Lynch and Houlihan Lokey, representative additions may include upgrading the finance and accounting team with the addition of a qualified Chief Financial Officer and/or hiring an experienced sales executive as a new Vice President of Sales. While change can be disruptive, the Principal believes that it is important to thoughtfully assemble a team that embraces traditional values of hard work, integrity, humility and team work and can accelerate the growth of the business.
Assembling Board of Directors	The Principal will recruit a Board of Directors for the acquired business. The Board of Directors will consist of between five and seven shareholders or leaders in the company's industry. The Principal is interested in assembling a Board of Directors consisting of individuals with expertise in operating, growing and exiting private companies as well as those with an interest in coaching and mentoring the Principal throughout the life of the investment.

Stage 5: Exit the Business

Long-term investment	Investment in Pivoton Capital should be viewed as a long-term investment. While interest payments and subordinated debt principal repayments could return a portion of investor's capital in the medium term, investor returns will primarily come from the Principal's ability to increase the value of the acquired company. Pivoton Capital expects to provide investors with a liquidity event between four and six years after acquisition.
Extensive network	The Principal has an extensive network of middle market investment banks, private equity firms and strategic companies in the business services space that he will utilize not only to maximize the value of the company at exit but also to make sure that the company is positioned well for future growth.

Liquidity event	Although liquidity will most likely come from a sale of the business, the Principal may in fact remain with the business following a sale, depending on the buyer and the continued growth prospects of the business. In certain situations, investors with a longer term investment horizon may be able to maintain their investment in the business. In addition to a liquidity event through sale, Pivoton Capital will explore additional opportunities to maximize investor returns, such as recapitalizations and share repurchases. As such, the duration of the investment could vary substantially from the initial expectations of five to eight years.

Investor Returns

Through the acquisition and active management of its company, Pivoton Capital targets a 35% compound annual return on investor capital. The overall return is a blend of the payments on the subordinated debt and equity portions of financing. This targeted internal rate of return, which is comparable to the returns of previous search funds, will be used to evaluate all investment opportunities. Investor returns on equity will not be capped in any way. Please refer to **Appendix C** for illustrative transaction economics.

Principal Carried Interest

The Principal will earn common equity in the acquired company in return for identifying and acquiring the target company, and for achieving agreed upon operating results. The Principal expects to have the opportunity to earn a 25% share of the common equity, depending on the ultimate size and structure of the acquisition. The earned equity is comprised of three parts: 1/3rd will be allocated at the close of the acquisition; 1/3rd will be based on operating the acquired firm and will vest evenly over a period of four years; and the final 1/3rd will be restricted equity, with restrictions that lift on a linear schedule from 20-35% investor IRR hurdles. In addition, an employee equity incentive pool will be granted for between 5% and 10% of the company's common equity. Equity will be used as a combination of time and performance-based incentives for employees, excluding the Principal, and must be approved by the Board of Directors prior to issuance. The Principal and investors will suffer pro-rata dilution from the equity incentive pool.

Investment Risks

The search fund model attempts to minimize risk for investors via a staged financing structure. The following are significant risks that should be considered when making an investment in Pivoton Capital:

A. Unable to Find an Acquisition Target: There is no guarantee that Pivoton Capital will be able to identify and then close a suitable transaction. If this were to occur investors would lose their initial search capital. Approximately one-third of known first-time search funds fail to acquire a company despite best efforts of partners over a two-year time horizon. In addition, even if a suitable target is found, there is no guarantee that a transaction can be completed at an acceptable price.

B. Proposed Acquisition Inappropriate for Search Fund Investor: Pivoton Capital will work closely with investors throughout each stage of the acquisition process, communicating regularly regarding industries and companies. However, the possibility exists that a proposed acquisition may not fit with an investor's profile or personal taste. If this is the case, the investor is not obligated to invest additional funds in the acquisition and will still receive an appreciated carried interest/step up related to the original investment.

C. Unable to Complete Acquisition Successfully: Pivoton Capital's successful acquisition of a target company will be dependent on its ability to acquire debt financing, the willingness of investors to participate in the equity financing, and factors outside the Principal's control, such as seller willingness and market conditions. The Principal will attempt to assess seller willingness and market conditions as he pursues opportunities, but must be prepared for some uncertainty regarding these issues.

D. Poor Performance of Acquired Company: The possibility exists that unidentified problems with the target company will surface after completing the transaction. Pivoton Capital will implement thorough and professional due diligence to reduce unforeseen risks and to ensure the financial health and operational performance of the company. The use of seller financing, rollover equity, and earn-outs will provide incentives for the selling party to provide full and open disclosure and to add value to ongoing operations after the acquisition. Nonetheless, despite aggressively pursuing operating targets and financial plans, there is no guarantee that the company performance will meet predetermined hurdles.

E. Unable to Manage Acquired Company: Because the future performance of the company is tied to incoming and current management team's abilities, the Principal is committed to gathering the appropriate skills necessary to lead the company successfully. In addition to his own abilities, he will rely on industry partners, directors, advisers, consultants, and new hires to bring requisite skills into the company.

F. Illiquidity of Investment: Since the investor units will not be registered under the Securities Act of 1933, there will be no public market for them, and the ability to resell them will be limited. Investor returns may be realized through subordinated debt repayment and possible equity liquidity events, such as the sale of the company, initial public offering, or recapitalization. An investment in a search fund is an illiquid investment and there is no guarantee that the investors can achieve liquidity within the projected timeframe.

G. Limited Operating History: Pivoton Capital has no operating history. The determination to become a member must be made primarily on one's appraisal of the ability of the Principal of Pivoton Capital to achieve the proposed objectives discussed in this Memorandum.

H. Management Risks: Pivoton Capital will be substantially dependent upon the efforts of the Principal with respect to the identification of the target company and the operation of such company post-acquisition. The death, disability or withdrawal of the Principal could have a material adverse effect on the ability of Pivoton Capital to locate a suitable acquisition target or operate such company post-acquisition. In the event of such death, disability or withdrawal, after satisfying obligations of Pivoton Capital, any funds remaining would be returned to the investors.

I. Past Results Not Indicative of Future Performance: While the past investment experience of the Principal demonstrates his ability to find and invest in a company, such past performance is not necessarily indicative of future performance or the success of future returns.

J. Unknown Tax Impact: The operation of Pivoton Capital and the tax consequences of an acquisition and future sale of the acquired company are substantially affected by an investor's personal legal and tax situation. Potential members are highly encouraged to consult their personal tax, legal, and other advisors prior to investing in Pivoton Capital.

K. Arbitrary Offering Price: There has been, and there will be, no public market for Pivoton Capital's securities. The price of the Units has been arbitrarily established by Pivoton Capital and does not necessarily bear any relationship to any recognized value or risk criteria.

L. No Obligation to Update Memorandum: This Memorandum speaks to facts and circumstances as of the date of this Memorandum. None of Pivoton Capital or its management or any of their affiliates, has any obligation to update the information contained in this Memorandum.

While past performance of other search funds provides benchmarks for the type of returns the search fund is capable of generating, there is no guarantee that Pivoton Capital will achieve the same results. Pivoton Capital will attempt to mitigate risk factors by aligning the interests of investors and management, conducting extensive due diligence, and by reducing exogenous factors related to industry and company operations. Nevertheless, there can be no guarantee that investors will recover their initial investment or realize the projected returns. Investors may experience a substantial or complete loss of invested capital and therefore must be capable of bearing that risk.

Projections; Forward-Looking Statements: THIS MEMORANDUM CONTAINS FORWARD-LOOKING FINANCIAL PROJECTIONS THAT ARE BASED UPON A VARIETY OF ESTIMATES AND ASSUMPTIONS. WHILE THE FINANCIAL PROJECTIONS ARE CONSIDERED REASONABLE BY PIVOTON CAPITAL, THEY ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF PIVOTON CAPITAL AND CANNOT BE PREDICTED WITH ACCURACY AND MAY NOT BE REALIZED. THERE CAN BE NO ASSURANCE THAT THE FINANCIAL PROJECTIONS CAN OR WILL BE ATTAINED OR MAINTAINED. ACTUAL OPERATING RESULTS MAY VARY MATERIALLY FROM THE PROJECTIONS INCLUDED IN THIS MEMORANDUM.

THE PROJECTIONS INCLUDED IN THIS MEMORANDUM HAVE BEEN INCLUDED FOR PURPOSES OF ILLUSTRATION ONLY, AND NO ASSURANCE CAN BE GIVEN THAT THE ACTUAL RESULTS OF PIVOTON CAPITAL WILL CORRESPOND WITH THE RESULTS ILLUSTRATED IN THE PROJECTIONS. IF THEY DO NOT, THE ECONOMIC RETURNS TO THE INVESTORS MAY BE MATERIALLY ADVERSELY AFFECTED. EACH PROSPECTIVE INVESTOR SHOULD MAKE SUCH INVESTOR'S OWN JUDGMENTS AS TO THE REASONABLENESS OF THE ASSUMPTIONS, AFTER REVIEWING ALL OF THE INFORMATION PROVIDED HEREIN WITH AN INDEPENDENT INVESTMENT ADVISOR. EACH INVESTOR AND SUCH INVESTOR'S ADVISORS MUST CAREFULLY READ AND CONSIDER THE ASSUMPTIONS THAT ARE PART OF THE PROJECTIONS IN MAKING AN INVESTMENT DECISION.

APPENDICES

Appendix A: Sumit's Resume

SUMIT ANEJA
10 Byron Place, Unit 508 | Larchmont, New York 10538 | Tel. (909) 753-6947 | E-mail: sumitaneja@gmail.com

PROFESSIONAL EXPERIENCE

HOULIHAN LOKEY — **New York, NY**
Associate (BUS) — **2017**
- Sell side advisory for ~$300MM business services company
- Initiated coverage of training services vertical, managed relationships with private equity firms and company founders

FINTECH STARTUP (STEALTH MODE) — **Larchmont, NY**
Advisor to CEO — **2016-2017**
- Raised funds from high net worth angel investors to build IT platform and to run marketing campaign
- Evaluated different go-to market strategies, IT architecture, and on-boarding processes for angel investors and start-ups

BANK OF AMERICA MERRILL LYNCH — **New York, NY**
Associate (TMT/FIG) — **2015-2017**
- Financing advisory for 21CF on its £11.7BN acquisition of Sky
- Originated leveraged finance ($800mm TLB) deal for a ~$5 million fee opportunity
- Buy side advisory for Nexstar on its ~$5BN acquisition of Media General
- Financing advisory for Lam Research on its ~$11BN acquisition of KLA-Tencor
- Sell side advisory for First Eagle Investment Management on its $4BN sale to Blackstone and Corsair Capital
- Buy side advisory for a financial services company to acquire a ~$2BN asset management target

LUXURY SHAVING STARTUP (STEALTH MODE) — **New Haven, CT**
Founder and CEO — **2012-2014**
- Created business plan, modeled financial projections, spearheaded brand management, and raised $50K from angel investors
- Developed relationships with manufacturers in India, China and South Korea to optimize manufacturing cost
- Recruited and led a team that consisted of Chief Strategy Officer, Chief Design Officer, and a group of interns that was instrumental in building the prototype

HOULIHAN LOKEY — **New York, NY**
Summer Associate — **Summer 2013**
- Managed the valuation of a $500MM portfolio of eight controlling and two primary positions (majority of them VC backed)

INTERNATIONAL MONETARY FUND (IMF) — **Washington, D.C.**
Research Officer — **2008-2012**
- Led the internal modeling team for Bank Contagion and Term Risk Premia modules of Early Warning Exercises to gauge macro financial linkages and spillovers in advanced and emerging economies

MARSHALL & STEVENS, INC. — **Los Angeles, CA**
Valuation Associate Intern — **2008**
- Built financial models and conducted analyses for valuing intangible assets and employee stock options utilizing Black-Scholes and binomial pricing; Performed monthly industry analysis on the financials and real estate industry

TATA CONSULTANCY SERVICES LTD (TCS) — **New Delhi, India**
Assistant Systems Engineer — **2006-2007**
- Prepared technical specifications, designed test cases and programmed modules using SAS

EDUCATION

YALE SCHOOL OF MANAGEMENT — **New Haven, CT**
Master of Business Administration (MBA) — **2014**
- Co-President, South Asian Business Forum; Leader, Finance Club
- Research Assistant for Professor Rakesh Mohan (former Deputy Governor of the Reserve Bank of India)

CLAREMONT COLLEGES-PETER F DRUCKER SCHOOL OF MANAGEMENT — **Claremont, CA**
Master of Science in Financial Engineering (MSFE) — **2009**
- GPA: 3.75/4.00, Beta Gamma Sigma honor society (top 10%)

PUNJAB UNIVERSITY-PUNJAB ENGINEERING COLLEGE — **Chandigarh, India**
Bachelor of Engineering in Electrical Engineering (BE, EE) — **2006**
- Vice President, Student Federation of India, responsible for fund raising, campaigning and recruiting new members

ADDITIONAL INFORMATION

- Publications: "Internal and International linkages in the Belgian banking sector" (with Dr. K. Cheng)
- IMF Awards: "Outstanding Contributions on the Early Warning and Vulnerability Exercises"
- Technology/Software Skills: Bloomberg, Capital IQ, Factiva, Factset, Mergermarket, SAS, SNL, STATA, Thomson One

Appendix B: Geographic Segmentation[6]

Primary region (65% time allocation)

Secondary region (25% time allocation)

Tertiary region (Rest of the U.S., 10% time allocation)

[6] National Atlas

Appendix C: Illustrative Transaction Economics

Acquisition Capitalization ($ in thousands)

Source	Amount	EBITDA Multiple	% of Total
Senior Debt	$3,000	1.0x	19.2%
Transaction Costs	$4,500	1.5x	28.8%
Investor Capital	$8,130	2.7x	52.0%
Total Uses	$15,630	5.2x	100%

Use of Proceeds ($ in thousands)

Purchase Price	$15,000
Transaction Costs	$630
Total Uses	$15,630

Cost of Capital

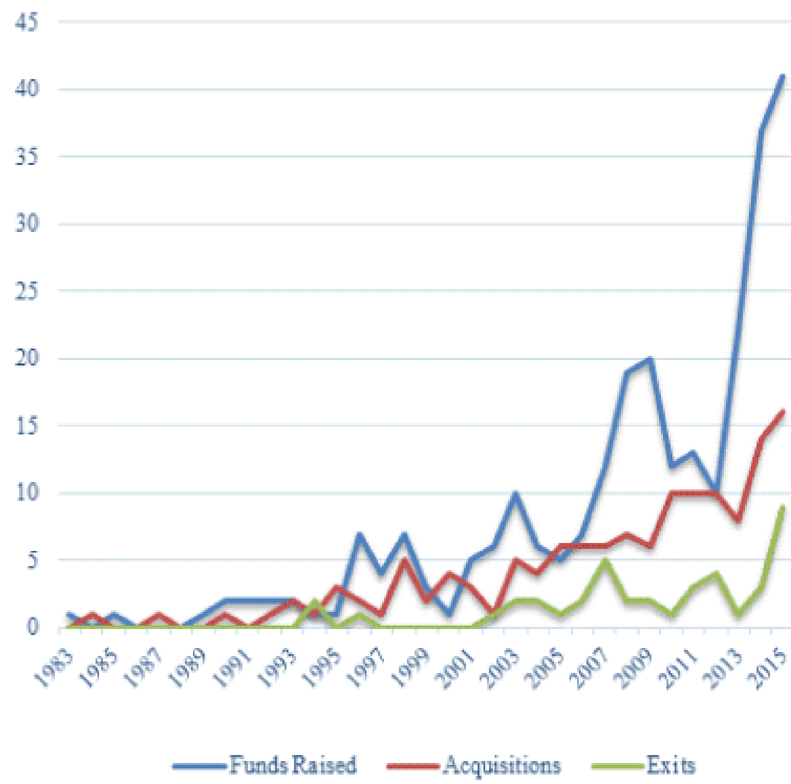
Preferred Equity	8%
Bank Debt	8%
Seller Note	8%

Assumptions ($ in thousands):

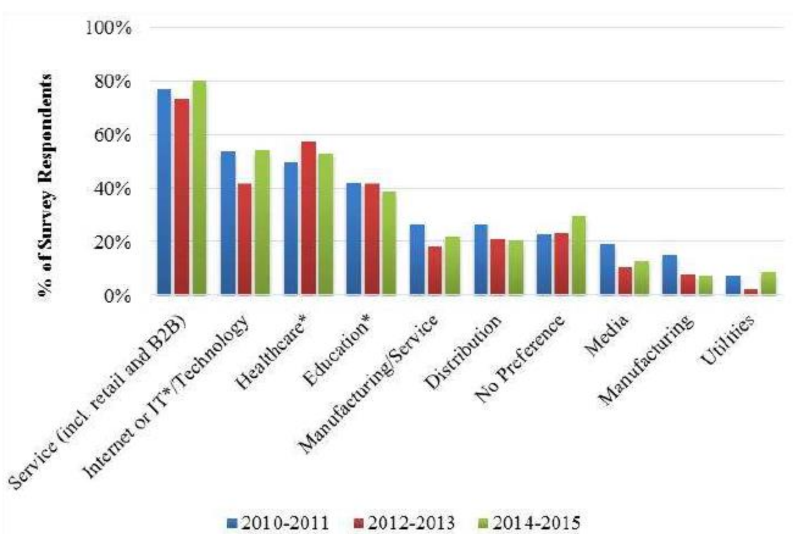
- LTM Sales: $20,000
- LTM EBITDA: $3,000
- Entry Multiple: 5x LTM EBITDA
- Exit Transaction Costs: $630
- Revenue Growth: 20%
- Exit Multiple: 6x Year 5 EBITDA

	Closing	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	$15,000	$18,000	$21,600	$25,920	$31,104	$37,325
Revenue Growth		20.0%	20.0%	20.0%	20.0%	20.0%
EBITDA	$3,000	$3,623	$4,374	$5,281	$6,376	$7,698
EBITDA margin	20.0%	20.1%	20.3%	20.4%	20.5%	20.6%
Less: Depreciation & Amortization	(500)	(600)	(720)	(864)	(1,037)	(1,244)
Less: Interest Expense		(240)	(126)	0	0	0
Earnings Before Taxes		**$2,783**	**$3,528**	**$4,417**	**$5,340**	**$6,454**
Taxes @ 40%		(1113)	(1411)	(1767)	(2136)	(2582)
Net Income		**$1,670**	**$2,117**	**$2,650**	**$3,204**	**$3,872**
Free Cash Flow						
EBITDA	$3,000	$3,623	$4,374	$5,281	$6,376	$7,698
Less: Cash Interest Expense		(240)	(126)	0	0	0
Less: Cash Taxes		(1,113)	(1,411)	(1,767)	(2,136)	(2,582)
Less: Changes in NWC @ 20% of Rev		(600)	(720)	(864)	(1,037)	(1,244)
Less: CapEx		(250)	(250)	(250)	(250)	(250)
Less: Mandatory Debt Paydown		(300)	(300)	0	0	0
Free Cash Flow for Voluntary Debt Paydown		**$1,120**	**$1,567**	**$2,400**	**$2,954**	**$3,622**
Cumulative FCF		$1,120	$2,686	$5,086	$8,040	$11,663
Capital Structure						
Cash	$0	$0	$0	$0	$0	$3,361
Beginning Senior Debt	3,000	3,000	1,581	0	0	0
Paydown (Including Mandatory Payments)		(1,420)	(1,581)	0	0	0
Ending Senior Debt	3,000	1,581	0	0	0	0
Beginning Seller Financing	4,500	4,500	4,860	4,963	2,959	243
Coupon		360	389	397	237	19
Paydown	0	0	(286)	(2,400)	(2,954)	(262)
Ending Seller Financing	4,500	4,860	4,963	2,959	243	0
Total Debt	**$7,500**	**$6,441**	**$4,963**	**$2,959**	**$243**	**$0**
Investor Capital - Non-Redeemable Preferred Stock	8,130	8,780	9,483	10,241	11,061	11,946
Total Capitalization (excl. Common Stock)	**$15,630**	**$15,221**	**$14,446**	**$13,201**	**$11,303**	**$11,946**
Exit Valuation						
EBITDA						$7,698
Valuation						6.0x
TEV						$46,189
Less: Net Total Debt						($3,361)
Total Equity Value						$49,550
Less: Value to Non-Redeemable Preferred Stock						$11,946
Value to Common Equity						$37,604
ROIC						
IRR						37.6%

Appendix D: Stanford GSB, Search Funds – 2016: Selected Observations[7]



Target Industries by Frequency, 2010-15



[7] 2016 Search Fund Study: Selected Observations

- As an asset class, search funds have achieved an ROI of 8.4x and an IRR of 36.7 percent. Since the 2001 study, the aggregate IRR of all search funds (which included both unsuccessful searches and those that completed an acquisition) has tended to fluctuate between 32 and 38 percent
- Since 1984, 98 percent of the companies acquired via a search fund acquisition had positive EBITDA margins at the time of acquisition. The median search fund acquisition has the following characteristics: $7.1 million in revenues, EBITDA margin of 22.9 percent, purchase price to EBITDA multiple of 5.3x, trailing annual EBITDA growth rate of 12 percent, and 45 employees
- The data demonstrates a strong correlation between performance and recurring revenue, with over 70 percent of the funds that produced a 2x to 10x ROI having reported high recurring revenues[8]

Selected Statistics for All Search Fund Acquisitions[9]

Additional Statistics for All Search Fund Acquisitions	Minimum	Median	Maximum
Company Revenues at Purchase	$0.4 M	$7.1 M	$103.0 M
Company EBITDA at Purchase	-$1.6 M	$1.8 M	$12.0 M
Company EBITDA Margin at Purchase	-18.5%	22.9%	83.3%
Purchase Price / Revenue	0.2x	1.3x	6.7x
Purchase Price / EBITDA	NM	5.3x	114.0x
EBITDA Growth Rate at Purchase	56.0%	12.0%	300.0%
Company Employees at Purchase	4	45	740

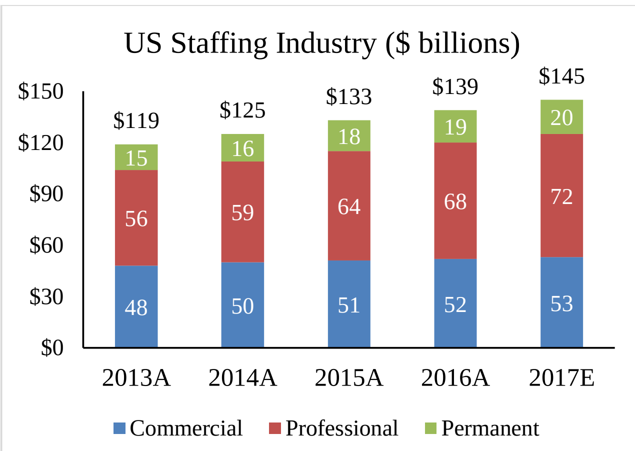
Purchase Price Statistics	All Acquisitions
Minimum	$0.6 M
Median	$9.5 M
Maximum	$71.0 M
<$4 M	12%
$4 M to $8 M	25%
$8 M to $12 M	24%
>$12 M	39%

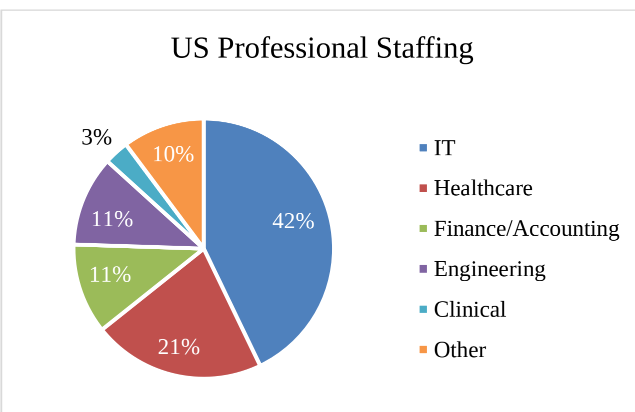
[8] Recurring revenue was defined as regular monthly or quarterly payments, or annual payments for services received every month or quarter, from customers who stay for at least 18 months
[9] 2016 Search Fund Study: Selected Observations

Appendix E: Staffing Industry Dynamics

Staffing market fundamentals remain attractive, driven primarily by a shortage of qualified talent across a variety of commercial & professional end markets (e.g. IT, healthcare, and engineering).

Tightening Labor Market – Shortage of Qualified Professionals
The staffing industry provides a variety of temporary and permanent workforce solutions that enable clients to more efficiently scale and manage their business
North American Staffing is projected to grow 4% annually in 2017 to reach $145 billion in 2017
US Corporations have increasingly desired to staff and manage their labor forces with temporary employees in order to protect against regulatory and economic uncertainty, while also being afforded the benefit of rapid augmentation in expansionary periods
Wage inflation due to a limited supply of qualified talent, an aging population and greater mobility has fueled US Professional Staffing growth
US Professional Staffing grew at a 7% CAGR from 1995-2016 and is projected to grow 6% annually in 2017





Global "War for Talent" IT Staffing Industry Drivers and Trends
Limited Supply of Talent: Ongoing talent scarcity within IT; lack of skilled professionals across a variety of IT fields such as artificial intelligence, big data, cyber security and cloud computing enhances the value proposition of top-performing IT staffing firms
Increasing Recruiting Demand: Over the past 15 years, IT employment has grown at a much faster rate than that of overall employment in the US. From 2000 through 2016, total IT employment grew 36.6%, versus growth of 7.5% in total nonfarm employment
Growing Buyer Preference & Awareness: Per the Bureau of Labor Statistics, the US temporary staffing penetration rate reached an all-time high of 2.064% in May 2017
Significant Sourcing Complexity: IT job openings are increasingly difficult to fill; the average technology staffing fill rate is only 4%

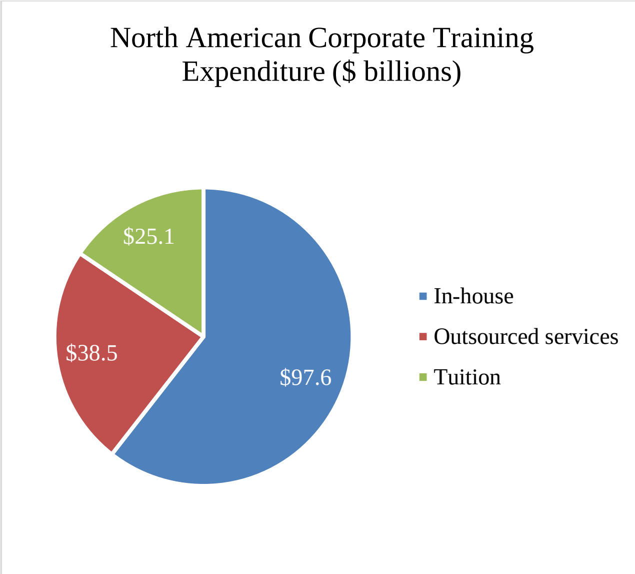
Staffing Industry Competitive Landscape[10]

Threat of new entrants	Barriers to entry are relatively low, although long-standing, established relationships between clients and existing industry operators make it difficult for new entrants to become quickly established (and represent highly skilled jobs) in this industry. It takes time for a client to develop trust in an agency's ability to provide suitable applicants; as soon as trust is established, clients often become reluctant to change providers. The global staffing industry is in the mature phase of its life cycle. As more sophisticated services are demanded by clients, new companies find it difficult to meet this level of sophistication.
Bargaining power of customers	Bargaining power of customers is moderately high for the staffing industry. Since the switching costs are low and competition is high, customers can switch between companies for a job and not suffer a large difference in price. The commoditization of the staffing industry is predicated on the ready availability of talent. Shortage of high skilled talent (e.g. IT, healthcare, and engineering) and retirement rates point to talent supply issues in the future and will create positive bargaining power for staffing firms.
Bargaining power of suppliers	Suppliers in the staffing industry are the workers. One of the key drivers is number of jobs filled, so firms have an incentive to have either a large amount of workers to fill jobs or staff low quantity but high-end executive jobs. The quality of the workers is dependent on the segment that the staffing company focuses on. Highly skilled workers have more bargaining power but there aren't many firms focusing on just high end staffing. So overall, suppliers have low to moderate bargaining power.
Threat of substitutes	The industry competes against internal corporate HR divisions that prefer to do their own recruiting. However recruiting today is increasingly complex owing to i) the rise of social media, ii) an increased importance on employer branding and iii) highly sophisticated sourcing tools and techniques. Complexity is driving an increased reliance on outsourcing. Internal HR departments lack the time and resources to recruit in such an environment; only 10% of corporate recruiters adopt strategies to utilize untapped talent pools. Threat of substitutes is moderately low.
Competitive rivalry	Staffing industry is highly fragmented, with a large number of small and medium-size firms operating in niche geographies and industries that leaves a lot of white space to be filled in by many small players in the industry. Many players also cater specifically to one country, due to the difficulty of breaking into a new market with differing cultural norms and labor market laws. Temp Holdings, for example, is the largest player in Japan, but it has a very small presence outside of the country. Success in the industry largely depends on firms' ability to understand their clients' businesses, cultures, and develop close & personal relationships with clients.

[10] Competition within the staffing industry—A study of competition forces, competition strategies and competitive advantage; KFORCE PROFESSIONAL STAFFING: "Equity Analysis and Valuation", IBIS report "Global HR & Recruitment Services"

Appendix F: Training Industry Dynamics[11]

Increasing corporate expenditures driven by regulatory complexity, rapidly changing worker requirements and increasing skill gaps help fuel the large and growing training industry.



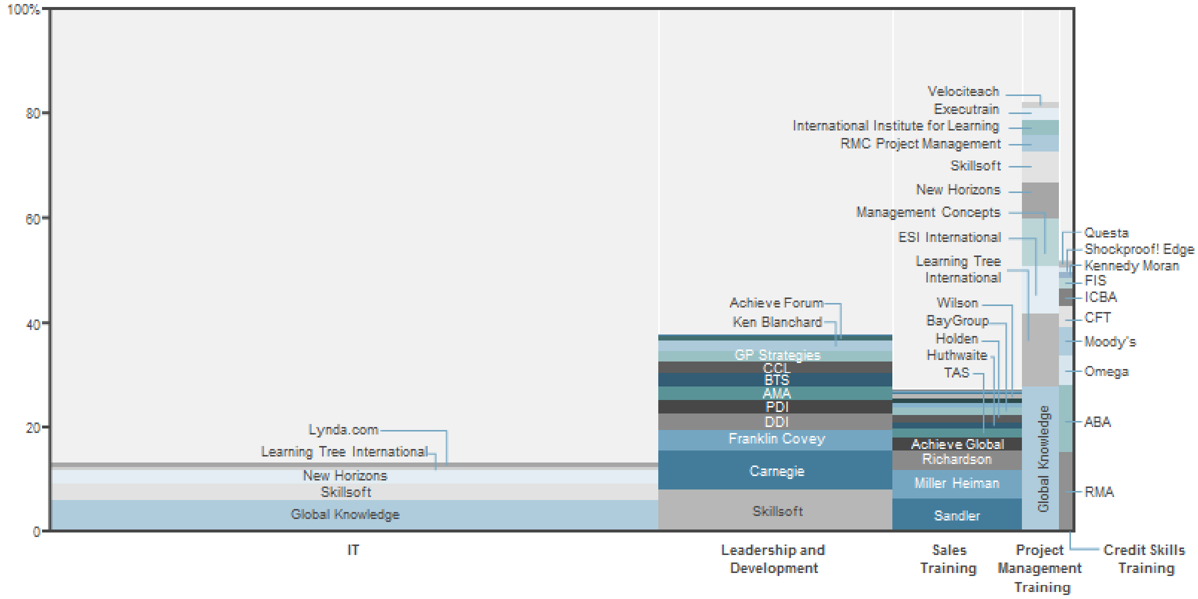
Macro Factors
As baby boomers retire, companies need to retain and transfer knowledge within the organization
As technologies change and the enterprise brings on new tools, employees need to be able to use them efficiently in a relatively short time frame
Organizations also must continue managing onboarding and staff retention, which is especially important due to the "skills gap" and associated challenges of hiring in technically-demanding roles, and the related need to reduce employee turnover

Training Industry Drivers
Nature of Work and Career Development is Changing: Previously established careers are becoming more technologically driven, which demands a new set of skills from workers and creates a significant training requirement
Increasing Burden of Regulatory Requirements: Staff training on new rules, procedures, and processes can be challenging to disseminate across the organization in a consistent and cost-effective manner, driving increased training expenditures across companies
Growth is Challenging Current Training Models: Companies require scalable support from training programs and systems to maintain sustainable growth

Training Industry Trends
Greater Emphasis on Employee Engagement in Learning: Digital technologies are enabling scalable platforms to deliver just-in-time training through interactive rich media content
Training Delivery Models are Evolving: Multimodal learning, the ability for learners to access virtually any training content on any device, enhances the learning experience. Video and rich media content are enabling micro learning which is becoming more prevalent
Increasing Training Spend to Bridge Knowledge Gaps: Training budgets are increasing to meet expanding business needs, technical complexity, and scope of training

[11] Trainingindustry.com

The competitive landscape is highly fragmented[12] among players specializing in different corporate training and development verticals. The training industry is poised for huge growth into existing white space.



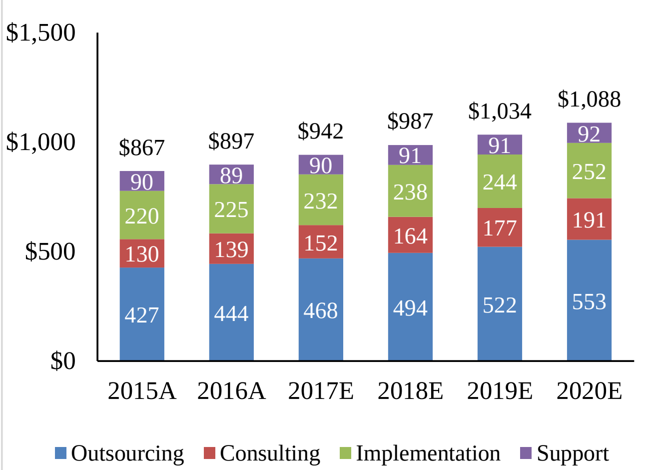
[12] Parthenon – Capital Roundtable: Non-political (or at least less political) education markets – seeking calm in turbulent waters

Appendix G: Worldwide IT Services Industry Dynamics

Strong Industry Tailwinds

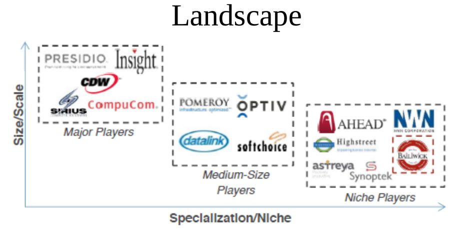
Outsourcing	~$430bn industry growing at a 5.3% CAGR through 2020 Key Driver: Demand for firms to achieve higher levels of operational effectiveness by leveraging technology to drive automation
Consulting	~$130bn industry growing at an 8.0% CAGR through 2020 Key Driver: The acceleration of digital transformation along with the acceptance of new technologies and delivery models
Implementation	~$220bn industry growing at a 2.8% CAGR through 2020 Key Driver: Transition from on premise to cloud drives sizable enterprise implementation spend – "physical to digital"
Support	~$90bn industry growing at a 0.6% CAGR through 2020 Key Driver: Digital transformation requires support to handle critical processes and ensure steady performance

Worldwide IT Services Spend by Segment ($ billions)



Continued M&A Activity

Managed Services Competitive Landscape



IT Services – General Valuation Drivers	
End-market Growth Rate	High growth end-markets: • Drive larger addressable markets • Create scarcity value for services • Support human capital development
Services Capabilities	• Consulting / advisory services help to build long-term relationships • Provide strategic advice • Become a trusted advisor
Vendor Diversification	• Companies with a disproportionate of revenue from a single vendor are less attractive • Reduces overall risk and dependence on the success of any single Original Equipment Manufacturer (“OEM”)
Managed Services	Create recurring revenue which helps to: • Provide visibility into future earnings • Build relationships Preferred by acquirers over product sales because of the reduced dependence on a client’s technology lifecycle
Attractive Margins	• Gross margins are the best proxy for the value that a solutions provider adds to the customer • Higher gross margins provide for better leverage as a company gains scale
National / Global Scale	• Preference given to national or global scale without concentration in specific markets • Validation of the business’ ability to scale reduces perceived risk