Chenmark Holdings and Acquisition Growth Strategies

Diversification Versus Specialization

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Trish Higgins (Harvard Business School 2013) sat in the car with her two partners wondering what their company, Chenmark Holdings, should do. On that February afternoon, they were driving back from Connecticut to their home in Portland, Maine, after visiting the sellers of a major potential landscaping company called Connecticut Landscaping Pros (CLP). The acquisition opportunity stirred up a vigorous debate in the car ride back. With several landscaping companies already in its portfolio, would it be judicious for Chenmark to acquire another?

CLP generated more than $15 million in annual revenues, an outlier in an industry with few high-quality companies generating more than $10 million annually, but CLP's revenue mix skewed more towards non-recurring, project-based work than Chenmark's current landscaping companies. Earnings before interest, taxes, depreciation, and amortization (EBITDA) margins were attractive, but the company's larger size would likely require a higher valuation than Chenmark would normally offer. The Connecticut-based landscaping company would fit nicely, though, in their broader portfolio, as it would extend Chenmark's New England geographic presence into Connecticut, a market in which they had little preexisting business. The partners were also familiar with CLP's owners who had plans to retire, but they were unsure about the internal talent that would transition into leadership.

Higgins and her partners had started Chenmark five years earlier with the goal of building a diversified portfolio of profitable small businesses through a serial acquisition program. They targeted companies with durable cash flows with the intention of holding them for at least several decades. James Higgins, one of the partners, felt that they should seize the opportunity to add another landscaping company to create a large, best-in-class portfolio of landscaping companies that would strategically expand their geographic presence from Maine to Connecticut. Palmer Higgins, the third partner, questioned the timing of the acquisition, especially given that it would be a larger-sized deal, and wondered if they were better off investing in accelerating the growth of their current portfolio companies. Trish felt they should stick to their original investment thesis of building a diversified portfolio and eschew the CLP opportunity.

After Chenmark’s first acquisition in 2015—Seabreeze Property Services, a landscaping company based in Portland, Maine—the company unexpectedly received several inbound requests to evaluate other landscaping acquisitions. Chenmark had initially planned to own only one landscaping company as part of its broader diversified portfolio, but they now owned four, which were scattered throughout New England. Additionally, the trio of partners owned a frozen dough company in British Columbia, Canada. The CLP acquisition opportunity was forcing the three partners to confront an important question—is Chenmark a diversified portfolio of companies, or is it a large landscaping company with a dough factory?
The three-hour drive from Connecticut flew by as they re-evaluated what Chenmark was as a company. Did the partners want to lean fully into the landscaping industry now that they were credible buyers in an industry they understood well, or would they be better off following their original plan of diversifying to reduce Chenmark’s industry concentration?

**The Origins of Chenmark**

Prior to Chenmark, James, Trish, and Palmer Higgins all enjoyed successful professional experiences after completing their undergraduate studies. All three partners had started out with finance jobs in New York City.

James Higgins studied at Yale University and, after graduating in 2006, worked as a trader at a hedge fund and a hedge fund-of-funds before founding his own hedge fund, Chenmark Capital Management, in 2010.

Trish Higgins also studied at Yale (2007), after which she worked as an investment research analyst at a hedge fund-of-funds. She later earned an MBA from Harvard Business School and worked at AQR, a hedge fund, post-graduation.

Palmer Higgins studied at Bowdoin College and, after graduating, worked as an equity research analyst at a large investment bank. After two years, he decided to pursue a career in entrepreneurship and was hired as the COO of a digital textbook e-learning company.

Palmer’s tenure at the e-learning company eventually became frustrating, though, as he began to realize that the owner and CEO refused to empower him to do the job that he had been hired to do. The industry was rapidly growing and evolving, and Palmer increasingly felt that the window of opportunity to capitalize on the industry tailwinds was closing with the current management structure. He found himself constantly lamenting about this missed opportunity with friends and family.

Eventually, James, Palmer’s brother, told Palmer that he was tired of hearing him complain and urged him to do something about it. James suggested Palmer raise money to buy the owner’s stake in the company to take control and transform the e-learning company and position it the way that he felt would best help the company take advantage of this window of opportunity. Palmer considered this suggestion, but eventually concluded that it was too late—critical missteps had been made and the window had closed, with one of his competitors being the likely winner.

Yet, the seed of a new idea had been planted, leading the brothers to begin thinking about the market opportunity for small and medium-sized enterprises (SME) that Palmer had been exposed to through the e-learning experience. Palmer had spent a lot of time at conferences where he met many SME owners and learned more about the industry. As the new idea began to take hold, the brothers looped Trish in and began learning more about the market opportunity for small businesses.

All three happened to be at a point in their careers where they were not fully satisfied with their professional lives. In a 2015 New York Times profile on Chenmark, Trish said “I feel like I’ve spent a huge amount of my career analyzing and very little actually doing something. I want to go out and get my hands dirty and use my education to contribute and be a business leader in my community.”

The more they learned about the attractiveness of the SME market, the more driven they became to launch their entrepreneurial journey through a serial acquisition strategy. This ambition, paired with a shared dissatisfaction toward their career trajectories, helped them realize that the opportunity cost was very low to venture out on their own and pursue acquisitions of SMEs. After agreeing to become partners...
in this new enterprise, James converted Chenmark from a hedge fund to a holding company of SMEs, and their shared journey into new territory began.

A Family Affair

The name “Chenmark” originated from a fictional Higgins family word, which is a play on “question mark.” It has come to mean being unafraid of “taking a plunge into the unknown,” and it serves to remind the partners “to always face uncertainty head-on, to challenge the status quo in search of excellence, and to actively push the boundaries of [their] comfort zone in all aspects of life.”

Chenmark is very much a family affair. Besides James and Palmer being brothers, James and Trish are married with two young children. Many people are hesitant or reluctant to work with their family, but the partners feel that it is a competitive advantage. Because they are family, they deeply trust each other and recognize each other’s strengths and weaknesses. Each partner has different tendencies, but they view these differences as complementary.

Specifically, James is the big picture visionary focused on executing decisions that will pay off in ten to twenty years. Palmer is more of an incremental thinker, asking what needs to be done today, this week, this month, or this year. Trish sits in the middle of the brothers, although she leans towards James’ big picture thinking. Although each partner differs in natural tendencies, they were aligned on where they wanted Chenmark to end up. If anything, they strongly believed that their differences served Chenmark well, preparing them to consider various vantage points that might be missed with just one or two partners who think similarly.

Given their divergent perspectives, disagreements naturally arose, but the partners agreed on a decision-making process to constructively move past disagreements as a family unit. Regarding their decision strategy, Trish noted the following:

We decided from the beginning to always maintain a family-first attitude that meant never doing anything that impacted our relationship with one another. On important decisions like acquisitions or hiring, we all have to be on board. We’re all in, or we’re out.

For example, in a situation where Palmer likes a company enough to move forward, while James doesn’t, Palmer may be unhappy, but he respects James’ perspective and is able to accept it. There is a shared expectation that you need to voice and talk about concerns openly right away. Through continuous micro-conversations, we’ve developed relationships where we can speak up when something bothers us. We hold each other accountable to maintain a personal responsibility over our emotions.

Ultimately, I think it’s been better to have three partners rather than two because we avoid deadlocks. Alliances shift all the time. One week it’s Palmer and me trying to convince James, and the next it’s James and Palmer trying to convince me.

In the realm of making decisions, the partners respected one another and could accept differences of opinion. If a partner ultimately decided to give the nod for a decision to move forward, even though they were not fully in agreement, the partners would collectively “disagree but commit.” There would be no ambiguity after a decision was made. They would each take responsibility as partners.

The partners also wanted to make sure that they kept control over Chenmark and that it remained a family business, so they initially chose to not accept outside investors beyond the friends and family first tapped to start the business. As they thought about potential scenarios several years out, they understood that
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If their acquisitions were operating well and they were doing an excellent job from a search perspective, it was likely that there would be more opportunities to deploy more capital than the amount that Chenmark presently had available.

This decision was not taken lightly, as accepting outside investors would have allowed Chenmark to achieve greater scale more quickly. Outside investors could also bring valuable operations and management advice that was worth far more than the capital provided. Yet, the central issue was finding outside investors who were strongly aligned with Chenmark’s values with respect to the long-term time horizon. The partners had come across investor groups that started out sharing a similar interest in a long-term hold but soon began asking about the liquidity provisions after five years of an investment, revealing a problematic misalignment.

Ultimately, the partners were confident about where Chenmark was heading and inclined to bet on themselves, so they chose to sacrifice an accelerated pace in the short term for their long term vision. This would allow them to be patient enough to recognize the right partnership when it arose and avoid pressure down the road to exit or grow their businesses faster than they wanted. The partners and their employees would also benefit from retaining a greater share of the equity over time. For the foreseeable future, decisions would be solely made by Palmer, Trish, and James.

Creating an Investment Philosophy: Diversification, Decentralization, and Interdisciplinary Thinking

As the partners immersed themselves into learning how to source and identify SME acquisition opportunities, they discussed how they wanted to represent Chenmark’s investment philosophy. Major influencing factors included their formal finance training and the mentors that they had had throughout their academic and professional lives. They also wanted to incorporate their theoretical learnings—most notably, modern portfolio theory and risk management through strategic asset allocation. For example, how should Chenmark create diversification, or not, within its portfolio of SMEs? Chenmark could diversify by coupling operating assets with disconnected assets outside of their direct operating assets.

The partners knew that through a diversified portfolio of assets, Chenmark could generate a meaningful, uncorrelated return stream and minimize idiosyncratic risks related to acquisitions. Thus, they planned to diversify by casting a wide net while sourcing opportunities and acquiring SMEs in a variety of industries located across North America. Individual businesses might be inherently risky, but diversification would drive down risks associated with a high concentration in an industry that could potentially face significant headwinds or an overly dependent exposure to a specific region’s economic health. Diversification would also help the partners sleep at night, knowing that the likelihood of completely losing their investment capital was low based on their holding of varied companies in unrelated sectors.

Chenmark’s partners also drew inspiration from Berkshire Hathaway’s value investing principles and management philosophies—specifically, maintaining valuation discipline, holding assets for the long-term, investing in simple-to-understand business models, managing through decentralization, and incorporating interdisciplinary thinking into business operations. These approaches, they hoped, would help tip the odds of success in their favor.

Valuation discipline means investing with a margin of safety. By only acquiring assets at reasonable entry multiples, Chenmark would avoid pressure to accelerate growth or drastically improve operating margins to realize a successful investment. In fact, Chenmark would only acquire companies that they believed would realize attractive returns even if they assumed minimal revenue growth, slightly worse margins, and much higher levels of capital expenditures and working capital needs than historical trends.
Chenmark’s long-term outlook meant deploying a “buy and hold” strategy that would allow capital to benefit from compounding over a long period of time. The goal was to acquire and manage steady and durable businesses that were likely to continue generating excess cash from operations instead of buying assets to flip a few years later. As excess cash is prone to multiply over time, Chenmark would have more investment capital to acquire more businesses, resulting in capital compounding over decades and potentially leading to substantial wealth creation. A long-term outlook also paired well with valuation discipline, as the partners could be patient until they found the right deals.

Chenmark felt that investing in simple-to-understand business models would also be key to their success. Investing in uncomplicated businesses with a clear value proposition through products or services and a proven history of earnings would provide an additional margin of safety. This would likely mean investing in multi-generational service-related or light manufacturing businesses that were unlikely to disappear in the coming decades. Targets’ operating models and how they make money should be readily apparent.

Turning to management philosophies, Chenmark’s ultimate goal was to manage its portfolio through decentralization. To one day efficiently manage dozens of portfolio companies, the partners would need to rely on capable leadership who could operate autonomously and consistently deliver on key performance indicators. To reach these ambitions, Chenmark’s partners would need to clearly define Chenmark’s standards for their portfolio companies and implement controls that would promote transparency and accountability within each operating entity.

Finally, Chenmark’s partners strongly believed in the power of incorporating interdisciplinary thinking into their problem-solving skillset. This meant employing a well-rounded perspective to efficiently solve business issues and bringing transferable skills and learnings from other disciplines and fields that may face similar problems differently. A 2003 speech by Charlie Munger of Berkshire Hathaway given at the University of California at Santa Barbara stressed the value of interdisciplinary thinking and inspired Chenmark’s approach:

> The big general objection to economics was the one early described by Alfred North Whitehead when he spoke of the fatal unconnectedness of academic disciplines, wherein each professor didn’t even know the models of the other disciplines, much less try to synthesize those disciplines with his own.

> I think there’s a modern name for this approach that Whitehead didn’t like, and that name is bonkers. This is a perfectly crazy way to behave. Yet economics, like much else in academia, is too insular.

> The nature of this failure is that it creates what I always call, “man with a hammer syndrome”. And that’s taken from the folk saying: To the man with only a hammer, every problem looks pretty much like a nail. And that works marvelously to gum up all professions, and all departments of academia, and indeed most practical life. The only antidote for being an absolute klutz due to the presence of a man with a hammer syndrome is to have a full kit of tools. You don’t have just a hammer. You’ve got all the tools.8

The partners felt that, between them, they could bring a unique set of tools to the SME world and apply their formal training in a completely different setting. Similarly, the grit and knowledge of the entrepreneurs with whom Chenmark partnered would help the partners become better investors and operators. Chenmark believed this interdisciplinary approach translated into a powerful investment thesis.
Acquisition and Relocation

A year after starting the search to acquire its first company, Chenmark closed a deal on a landscaping and snow removal company in Portland, Maine, named Seabreeze Property Services. The search had taken them across the country to visit companies in Washington, Nevada, Kentucky, South Carolina, and New England, among others, with services varying from elevator maintenance to event planning. At the same time, the partners moved Chenmark’s headquarters to Portland which they viewed as a competitive advantage. It simultaneously allowed Chenmark to have relatively low overhead expenses and allowed the partners to have an incredible quality of life compared to a metropolis like New York City. As the purchase came through, the partners decided to move to Portland to facilitate close involvement with their first acquisition. According to James, “There was definitely a part of [them] that valued being close to wherever the first investment happened to be.”9 Beyond business strategy, they had been in Portland every other week for six months prior to the close, and it had ended up feeling like home.

As their personal responsibilities grew and free time decreased, the value they attributed to having a high quality of life held firmly, and the significantly lower cost of living compared to New York eased the financial pressure associated with their new endeavor. They had not started out expecting to get involved with landscaping and snow maintenance services in Maine, but they were eager to begin building Chenmark. They finally had the opportunity to become business leaders and contribute to the community in Portland.

Building the Flywheel

Chenmark’s high-level aspiration could be characterized by the turning of a large, heavy flywheel—a concept popularized by Jim Collins in his book Good to Great.10 An entrepreneur slowly and persistently pushes little by little to rotate the flywheel until they build enough momentum to achieve a breakthrough, at which point the weight of the flywheel begins to work in the entrepreneur’s favor.

To achieve this breakthrough, Chenmark would build a serial acquisition program of steady, slow-growing businesses at reasonable valuations (3-5x EBITDA multiples) that have few reinvestment opportunities for the excess cash generated. Chenmark would then use this cash to purchase other businesses with similar characteristics. Theoretically, using this approach of building a large, diversified portfolio of companies that continuously generate excess cash over time to fund more acquisitions would drive the breakthrough of a rapidly compounding machine capable of growing exponentially larger as the investment capital multiplies.

Exhibit 1 demonstrates the underwriting model for a generic acquisition target and its free cash flows. The target has revenues of $10 million, EBITDA of $1.5 million, grows revenues at 2.5% annually, and holds margins steady. Assuming a 4x EBITDA multiple, the target is acquired at a $6 million valuation with close to half financed by bank debt and a seller note (a common debt instrument provided by sellers in SME acquisitions). The remainder is financed by an equity contribution from Chenmark.

Financing Strategy

In determining their financing strategy, Chenmark’s partners had to weigh the consequences of each type of debt. First, bank debt accrues interest annually at 5% with interest payments due in the first year and principal repayments beginning in the second year. Bank debt is typically secured by collateral and is senior to seller notes and equity.
Second, seller notes accrue interest annually at 5% with interest payments due in the first year and a lump sum repayment due in the fifth year. Seller notes are typically unsecured and subordinate to bank debt but senior to equity. They also benefit both parties by aligning dueling interests—i.e., Chenmark ensures that the seller acts in good faith before and after the transaction because the seller is incentivized to care about the asset’s outcome since they still have “skin in the game”, and the seller ends up with a higher purchase price through the interest payments and a smaller tax liability with the full purchase price paid over several years instead of in one lump sum payment. With consideration to these factors, Chenmark assumed they could refinance the bank debt and seller note in five years to fully pay off the seller note.

Chenmark also charges its portfolio companies a 15%-20% cost of capital annually for its equity contribution. This charge is considered a management fee meant to hold operating assets accountable by requiring a minimum return. Chenmark uses the fees to fund headquarter salaries and expenses and to invest the remaining capital (after expenses) in other deals which they believe will result in much higher returns than the capital charge. Typically, Chenmark will shoot for deals to bring 25% or greater returns, so the fee ensures capital is used efficiently and only deployed into areas where returns are consistently high. If an operating asset is incapable of delivering returns that clear this hurdle, it is in Chenmark’s interest to redeploy the cash into more profitable destinations. If an operating asset consistently delivers returns above the hurdle rate, it’s leadership and employees will participate in a free cash flow bonus and Chenmark can reinvest additional capital into the business because it has proven the ability to invest in projects that provide attractive returns.

The final assumptions concern capital expenditures and working capital. The capital intensity of any potential acquisition varies depending on the industry and businesses model, but Chenmark typically assumes an increased capital expenditure and working capital drag on cash flow generation to provide an additional margin of safety.

Exhibit 2 demonstrates the Chenmark flywheel model, which accumulates the free cash flows of Chenmark’s current portfolio and the free cash flows of the acquisitions made by Chenmark over the next fifteen years. If, at the end of the year, Chenmark’s free cash flows are greater than the equity contribution needed to acquire a company, then an acquisition is made. Figure 1 below visually demonstrates when the Chenmark flywheel breaks through around year ten, and Exhibit 3 demonstrates the implied equity values after 15 years.

Figure 1: Chenmark’s Flywheel Annual Free Cash Flows assuming 2.5% vs. 5.0% revenue growth
Permanent Capital

Implied in Chenmark’s flywheel model is an indefinite hold period for the acquired businesses. Drawing inspiration from Berkshire Hathaway’s philosophies, Chenmark plans to hold acquired companies for at least several decades. A line from Warren Buffett’s 1988 letter to Berkshire Hathaway’s shareholders captures Chenmark’s position beautifully—“our favorite holding period is forever.”

Chenmark’s partners strongly believed a long-term holding period was key to their success (see Exhibit 4 for Chenmark’s analysis of SME market opportunity). Palmer noted the following reasons for this strategy:

- We realized that there was a structural imbalance in the small business market where there was a far greater supply of small businesses compared to the number of firms looking to acquire. If the current environment’s valuations are attractive for buyers, it’s because of this supply-demand imbalance, so then why become sellers in that market?

- There is also the reality that leakage from selling is quite high. You have tax leakage, deal leakage from transaction fees, and then the problem of seeking alternative reinvestment opportunities with the deal proceeds. As we looked at other industries that heavily transacted like private equity, we learned that, in many cases, they wished they could hold on to their investments longer but were forced into sales because of their fund structure.

Chenmark was an early proponent of a growing trend amongst hedge funds and private equity firms highlighted in a 2015 Financial Times article about permanent capital: “Instead of traditional funds that allow investors regular opportunities to redeem their money, or buyout funds that wind up after 10 years, buyers are looking to raise money for vehicles that bring cash in that can be invested in perpetuity.” For Chenmark, their family-based structure and lack of external capital further relieved them from the pressure to go through untimely and unnecessary sales.

Beyond Chenmark’s initial strategic reasons for long-term holding, the partners were pleasantly surprised to realize that it was a key differentiator to sellers during the negotiation of their Portland landscaping acquisition. They learned that many owners refuse to sell if they think you are going to flip the company within ten years. Many owners have grown their companies from scratch and want to sell to entities that want to continue enhancing their legacy and providing opportunities for their employees, many of whom have been with the company for a long time. Although sellers reasonably wanted fair compensation for their businesses, the highest valuation was not necessarily the only factor driving who they eventually partnered with, which favored Chenmark as a values-driven entity.

Many sellers were likely going to do only one transaction in their lifetime, making the entire process very personal and intimate, so trust and rapport were essential for getting the deal across the finish line. Chenmark believed that acting fairly and transparently throughout the deal process was necessary to build this rapport and would serve the partners well over the long-term as they built a reputation for being authentic, fair, and open buyers who would take care of the assets and employees.

Chenmark’s Serial Acquisition Strategy

As the partners embarked on building Chenmark, they defined their mission: to become the liquidity provider of choice for North American small business owners (see Exhibit 5 for Chenmark’s mission
statement). They felt that Chenmark's value proposition was the sweet spot where the following stakeholders intersected:

- Owners seeking a fair exit plan but with limited options
- Investors seeking returns higher than and uncorrelated to traditional asset classes
- Operators seeking a meaningful career where they can have an impact

Sourcing opportunities with small business owners became slightly less difficult after Chenmark had closed their Portland landscaping acquisition. During the first year of searching, the partners had started where nearly all searches begin—Google—and their approach evolved to incorporate a mix of proprietary outreach and broker relationships. The majority of these initial discussions were fruitless but served as an integral part of the process, nonetheless, as they prepared Chenmark to better educate brokers on what they were seeking, which eventually led to more productive discussions. As the year progressed, Chenmark was regularly approached by business owners and brokers as their name spread in the SME world and they gained credibility as serious buyers.

Specifically, Chenmark was industry agnostic and sought business that met the following conditions:

- Established, steady, uncomplicated, and cash-generative operations
- Revenues of $5–20 million and EBITDA of $1–3 million
- Attractive valuations of 3–5x EBITDA multiple
- A strong base of recurring revenues
- Greater exposure to local micro-economies than global markets or an industry niche
- An owner with a clear motivation to sell (i.e., owners who want to retire)
- Little outsourcing risk and a lack of technology-basis
- Few large financial adjustments

(See Exhibit 6 for Chenmark's acquisition target profile.)

Upon identifying a promising opportunity, Chenmark would move to diligence and stress testing several scenarios that could result from the acquisition. Chenmark strived to evaluate deals conservatively by focusing on four key assumptions:

- Revenue growth – typically assuming little to no growth
- Profitability margins – typically lower than actuals suggested
- Capital expenditures – typically greater than actuals suggested
- Working capital – typically greater than actuals suggested

If a multi-scenario analysis based on very conservative assumptions cleared Chenmark’s hurdle rate, they would proceed to negotiate a purchase price in line with the analysis. Once there was a mutually agreed-upon price with the seller, Chenmark would work with its bank and the seller to finance the deal. Assuming a company with $1.5 million in EBITDA transacting at a 4x EBITDA multiple for a $6 million purchase price, the ideal capital structure would be the following:

- $3 million bank debt
- $2 million in equity contribution
- $1 million in seller debt
Finally, Chenmark would turn to maximizing the value of the acquisition over time by growing revenues, improving margins through operational improvements and tuck-in acquisitions, investing in supporting infrastructure, and thoughtful branding (see Exhibit 7 for Chenmark’s execution strategy).

**Refining the Business Model: The Chenmark Playbook**

Chenmark made 14 acquisitions over its first five years—six major deals and eight tuck-in acquisitions (see Exhibit 8 for deal timeline). All but one of them were in the New England region, so Chenmark benefitted from the proximity to its companies, allowing the partners to be more involved in the individual companies’ strategies and operations. This also allowed the partners to experience first-hand the challenges that arise when managing SMEs and to realize the grit and resilience needed to show up every day to keep implementing strategic and operational decisions that would better improve Chenmark’s probability of success. Thinking about Chenmark’s definition of success, Palmer noted the following:

> We are ultimately seeking the institutionalization of small businesses—to standardize processes and make things scalable. We want to take things out of peoples’ heads and create frameworks for how to solve problems. Instead of being proud that we put a fire out today, how about going beyond that and getting to the root cause of the problem, solving that issue, and fixing it so it doesn’t come up again?14

To transform into a truly decentralized portfolio of companies across North America that could be managed at scale (a nod to their original investment thesis), Chenmark would need to create a holding company organizational structure that would establish frameworks to efficiently find, acquire, onboard, and integrate acquisitions to be run by local leadership afterward.

To achieve this, the first step was to build best-in-class, shared services for finance, technology, human resources, and marketing. For example, Chenmark hired a director of technology and innovation to build a reliable technology stack that would replace antiquated technology with the proper infrastructure and security needed for each of Chenmark’s companies to survive, promote scalable growth, provide a better customer experience, and synthesize operational data into actionable insights.

The second step was to slow down the pace of acquisitions and focus on internal initiatives that would ensure solid returns on already deployed capital. Chenmark had gone into acquisitions expecting few growth prospects but were pleasantly surprised to see some companies growing faster than anticipated and with some reinvestment opportunities after all. The partners were flexible enough to temporarily deviate from their initial thesis to invest in existing businesses and corporate infrastructure to build mechanisms that would likely pay off many years later.

At the same time, the partners also observed valuation multiples trending higher in the SME space, which only reinforced their disciplined approach. Combining patience with five years of acquisition experience improved Chenmark’s initial filter, allowing the partners to better anticipate potential post-close headaches and be pickier with their time and capital.

The final step was to establish a framework for acquiring and inserting leadership and talent into their companies. The more the partners thought about building Chenmark’s culture to attract the right people, the more they realized how little their mission statement captured their intentions post-acquisition. The vast majority of Chenmark’s time would be spent on managing the operations after closing the deal, so the partners institutionalized “The Chenmark Playbook” with an updated, more holistic mission to communicate who they were to potential companies and employees:

> We are a team of small businesses committed to the constant pursuit of better.
The Chenmark Playbook also formalized a core set of values that the partners aspired to live up to and foster among their portfolio companies and employees:

- **Chase Better** – believing in your capacity to improve, practicing discipline to make small and sometimes hard changes daily that lead to big improvements, cultivating grit, and maintaining a sense of urgency
- **Keep Score** – believing in the value of competition, relying on data to measure success, digging in to understand why you succeeded or failed, and using these insights to drive repeatable behaviors
- **Play the Long Game** – measuring success as sustained, exceptional performance over many decades, being a trusted and respectful partner, and striving for balance in health, fitness, and personal relationships
- **Put the Team First** – doing whatever is necessary for the team to succeed and believing that the whole is greater than the sum of the parts

(See Exhibit 9 for Chenmark’s Refreshed Mission and Values.)

With the Chenmark Playbook and five years’ experience in their back pocket, Chenmark’s partners felt that they were well equipped to establish what “A+” outcomes looked like at their current companies and to move ahead with expanding their portfolio again.

**Operators vs. Capital Allocators**

Before the February 2020 drive down to Connecticut, another major potential deal came across Chenmark’s desk. It was an attractive Maine tourism business with greater than $1 million in EBITDA that Chenmark was close to acquiring. One of the yet unanswered questions was who would move into the CEO role since the sellers would not continue operating the business. The partners decided on Trish. It was not the first time a Chenmark partner would transition to the operator role—Palmer had done so about a year earlier for one of the six major acquisitions after the previous CEO failed to stick. Given the sudden change at the portfolio company, Palmer felt that he would best maximize Chenmark’s value by positioning himself as CEO and striving for operational excellence, and the initial results seemed to back this sentiment.

The partners felt that the tourism company was too good of an opportunity to pass up and that it would be best for Chenmark if Trish led the company. Chenmark had few other leadership options before closing the sale, the company was near their home in Portland, and Trish was interested in testing her operational skills and confident that she would excel just as Palmer had.

The transition from capital allocators to direct operators raised interesting questions for Chenmark and their aspirations of decentralization and managing at scale. Their aspirations to build the flywheel inherently assumed that the companies would continue operations independently and produce the investment capital that the partners would allocate in other acquisition opportunities. As they considered their next move, the partners were forced to ask themselves: “Are we capital allocators or operators? Does this distinction matter or are we simply allocators of scarce resources—whether that means time, effort, human capital, or investment capital?”

The more they thought about these questions, the more they realized that they viewed the operator versus capital allocator question as a distinction without much of a difference, given the small business setting. The partners relished and thrived in an unstructured setting where one moment they wore an investor hat and the next they worked as operators, human resource specialists, or the person who runs out to fetch lunch and coffee for the team. Chenmark prided itself on avoiding the “us versus them”
mentality where they sat behind a screen at headquarters separate from those in the field who were plowing snow or cutting grass.

To be part of Chenmark, you had to understand and appreciate the operational tasks, but also be well versed in the investment tasks. A lot of personal time and energy had been spent by the partners to help strengthen the financial literacy of their operational talent through their investment in a professional development curriculum and weekly communications detailing how they thought about the business. They viewed the opportunity to be CEO and lead operations as a further development of their understanding of the operator role. On the whole, the partners strived for equal appreciation and understanding of both operator and investor perspectives.

There was one question remaining, though. With two of the three partners soon to be fully tied to operating companies, would Chenmark have enough capacity with James leading headquarters to continue growing their footprint through another landscaping acquisition?

Evolving Acquisition Strategy: The Case of Connecticut Landscaping Pros

Landscaping Industry Background

The landscape services industry consists of landscape maintenance and development services, as well as a number of related ancillary services such as tree care and snow removal, for both commercial and residential customers. According to IBISWorld’s report on Landscaping Services in the US, the services provided typically fall into three categories:

- Design-build-installation services
- Maintenance and general services
- Arborist services and other services

Services can range from simple maintenance lawn mowing to much more complex landscape design and construction. Value-added services can also be offered, like pest control and sprinkler-system and irrigation installation.

The Demand for Landscaping Services

The US landscaping industry is estimated to represent an opportunity close to $100 billion. The industry has grown moderately over the past five years and is expected to continue demonstrating stable, moderate growth.

Demand depends on the health of the housing and property markets. Since landscaping services are often discretionary, industry demand also depends on levels of per capita disposable income. The industry relies on demand from the high-income demographic, which generates a healthy portion of its market, and from institutional and commercial clients that result in higher per-service revenue. Seasonality and weather patterns also greatly influence industry demand causing fluctuations over the course of a year.

The Supply of Landscaping Services

The industry is highly fragmented with a large number of small operators. According to the IBISWorld report, there are an estimated 500,000 operators across the country with approximately more than three-quarters operating as sole proprietors. Most companies operate in a narrow regional market and do not have a substantial influence over the industry. For example, despite being the largest provider of
commercial landscaping services, Brightview Holdings currently holds only a 2.6% market share in the commercial segment. The industry provides an inviting environment for new entrants as there are low barriers to entry with relatively low capital and technology requirements. Due to the competitiveness of the industry and the lack of differentiation between services, operators compete on price, reputation, and quality of work.

Industry Regulation

The industry operates under a moderate level of regulation overseeing the two largest cost drivers: labor and materials. Federal, state, and local regulations subject operators to provide adequate safety and health training for the use of power tools and machinery and to follow labor laws related to wage and hourly workers. These regulations also govern the use of foreign national workers under the H2-B worker program, which is a common practice to meet seasonal demand. Over the past five years, the industry has also seen an increase in state and local environmental regulation restricting the use of certain materials, like fertilizers comprised of harmful chemicals.

Connecticut Landscaping Pros

Chenmark first came across Connecticut Landscaping Pros (CLP) after their involvement in the landscaping industry through four other acquisitions. Chenmark’s stature had grown in the communities its companies were operating in and in the broader industry as the partners attended landscaping conferences and invested in branding efforts like a small business podcast or a weekly newsletter. Through these efforts, they met the ownership group who founded and operated CLP.

The owners were considering retirement after 35 years in business and approached Chenmark about a potential partnership. They were in the process of taking bids and invited Chenmark to explore the opportunity. Chenmark was interested to learn more about the company given its size and the complementary fit to Chenmark’s geographic presence. The partners were wary, though, of the competitive bid process because experience had taught them the difficulty of accurately throwing a value on a business with very little information provided, but they were intrigued enough to start gathering more information.

CLP was based in Connecticut and had greater than $15 million in revenues with approximately $1.6 million in EBITDA according to the financial documents provided by the owners. The company had about 150 employees and mainly operated in Connecticut, but its irrigation installation division also worked along the east coast, going as far south as Florida for larger projects. High-quality landscaping companies were rare, especially those that made more than $10 million in annual revenues, so CLP was unique in size and profitability. Chenmark decided to drive down to Connecticut to meet the owners that weekend.

A big question was who would directly operate the company. When Chenmark visited CLP, they also met the current COO who expressed an interest in transitioning to the CEO role if Chenmark acquired CLP. Chenmark was open to the idea but unsure of the leadership potential of the individual, and recognized that transitioning from a COO role to a CEO role was a big jump.

After the visit, Chenmark had a better understanding of CLP’s business. On the positive side, the company operated in an industry Chenmark understood and knew well. The size and profitability of the company were attractive and would be a strategic geographic expansion to the current portfolio. CLP also offered a couple of services that were not in Chenmark’s portfolio: golf course maintenance and retail garden centers. The golf industry was very insular, so it could be a foothold in a highly profitable industry. The retail garden center was less interesting, but there could be a strategic value to owning a large grow
operation that would produce plant materials cheaply for other Chenmark landscaping companies. Plant materials were one of the largest costs in landscaping construction, so it could help Chenmark landscaping companies differentiate on cost and improve margins.

On the negative side, the company skewed more towards project-based work and construction. With less recurring revenues, the partners wondered how repeatable the sales process would be and were wary of the cyclical nature of the construction business. The company also operated with antiquated technology, performed payroll in house by hand, and had weakness in financial reporting.

Chenmark would next need to put together an underwriting model analysis to get a better understanding of the potential financial outcomes that a deal might produce given their understanding of CLP (see Exhibit 10 for a CLP underwriting model example and Exhibit 11 for a summary of the low, base, and high scenarios). Regardless of the math in the CLP model, Trish, James, and Palmer needed to assess whether CLP, with its potentially higher valuation and broader scope of services, actually fit into Chenmark’s current landscaping and lawn services model. Beyond the CLP fit, the trio were not sure who would actually run the target. Fit and leadership were hard to account for in a spreadsheet model.

**Buy vs. Build**

As the three partners returned to Maine from Connecticut after visiting CLP, they evaluated the deal. James wondered aloud whether Chenmark could potentially integrate CLP into one of its current companies. A perfect landscaping deal would be one where CLP was integrated into a current Chenmark company with excellent operations, growth potential, and the managerial capacity to add CLP as an additional branch.

Although their companies had made great progress since being acquired, the Chenmark partners lacked confidence that this sort of integration could be pulled off successfully at this moment. Palmer questioned the timing and the partners’ capacity to take on the deal given the looming tourism acquisition with Trish tapped to lead as CEO. Palmer was also unlikely to have much capacity given his role as the CEO of Chenmark’s lawn care business, so he wondered if now was the right time to digest a deal of this size.

The CLP visit spurred yet another debate when Palmer highlighted some recent developments. One of Chenmark’s companies had been solicited to extend operations into Connecticut by one of its larger customers. The customer was a financial institution based in New England that had branches scattered throughout the region. The customer asked Chenmark’s company if it would be interested in servicing its Connecticut branches as a trial to potentially open up a much larger, enterprise-wide relationship. Palmer wondered whether an investment into their current portfolio might provide as attractive of a return with much less risk and investment capital on a more patient timeline. If Chenmark decided to expand into Connecticut, should it buy or build?

**Diversification vs. Concentration**

As the debate continued in the car and the partners neared Portland, Trish asked the important question that they had been avoiding—should they buy another landscaping company at all or focus on industry diversification?

Four of Chenmark’s major deals were landscaping companies with the other two deals being in lawn care and a frozen dough company. Adding the tourism company would further diversify Chenmark’s portfolio, but they would still have significant industry concentration and tilt toward landscaping.
Although the partners had originally planned on a diversified industry portfolio when beginning Chenmark, intra-industry acquisition opportunities with favorable terms had presented themselves, and Chenmark had seized them. The industries may not have been as diversified as initially intended, but the partners learned that the local geographies their companies operated in were diversified, even though they were mainly based in the New England.

Through their experience acquiring and managing the operations of companies, they had also realized the importance of considering the idiosyncratic characteristics of acquisition opportunities. It was overly simplistic to pass on acquisitions solely based on industry without understanding how the business uniquely addressed the market needs of the environment it lived in.

Wrestling with the question of whether to concentrate or diversify, James made the following comments:

As I think at a macro level of where we want to be, I believe that with the right operating model, we are more likely to achieve better returns on capital with acquisitions in industries we are already involved in. I’m generally predisposed to evaluate with a high degree of depth industries that we already hold stakes in. We can establish what “right” looks like, meaning we can more confidently apply our pro forma margins and returns to a business that we acquire.

The problem right now with landscaping, specifically, is that we have not established what “right” looks like. All of our landscaping companies have made fair progress in the last two years, but not one of them is getting an A+. The range of outcomes has been wider than we’d like.

The other thing I’d stress is how little information we get before we have to assign a value to a transaction. If we focus on spaces that we already know, we can ask more thoughtful questions upfront to identify potentially sub-optimal aspects of a business. We may also be able to mitigate those issues with in house resources."

Although Chenmark could more quickly develop into a best-in-class, regional landscaping powerhouse by acquiring CLP, the partners had to consider how this decision would reconcile with their initial investment thesis of diversification, which was built on many years of formal finance training. Conversely, if they declined to move forward with CLP, when would another opportunity that fit so well present itself?

Moving Forward

As the partners got out of the car after arriving in Portland, Trish decided to go for a walk. It was a habit she picked up from her father who used to block off an hour from work each afternoon to go for a walk and think. He still talked to this day about coming up with some of the best solutions to problems during this time, so she hoped for some inspiration.

Should Chenmark continue forward with their initial strategy of diversification, or should they seize another opportunity to become specialists in the landscaping industry? She wasn’t sure which path the partners would go down, but she knew one thing for sure—they would all be in on the decision or they would be out.
## Exhibit 1: Sample Acquisition Model

### Company Free Cash Flow

#### 4.00%
- **Purchase Price**
  - $6,000,000

#### 4.00% 45%
- **Senior Debt Principal**
  - $2,400,000
  - $2,400,000
  - $2,133,333

#### 4.00% 45%
- **Equity Contribution**
  - $2,700,000

#### 15%
- **Seller Financing**
  - $900,000
  - $900,000
  - $900,000
  - $900,000

### Year 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

#### 2.5%
- **Revenue**
  - $10,000,000
  - $10,250,000
  - $10,506,250

#### 0.0%
- **EBITDA Margin**
  - 15.00%
  - 15.00%
  - 15.00%

#### $1,500,000
- **EBITDA**
  - $1,537,500
  - $1,575,938

#### $810,000
- **D&A (Deal)**
  - $600,000
  - $600,000

#### $810,000
- **D&A (CapEx)**
  - $ -
  - $61,500

#### $390,000
- **Pre-Tax Profit**
  - $232,500
  - $209,438

#### $1,110,000
- **Net Profit (Cash)**
  - $772,050
  - $816,488

#### $-16,000
- **Seller Financing Interest**
  - $120,000
  - $106,667

#### $2,700,000
- **Management Fee**
  - $540,000
  - $540,000

#### $30,000
- **Operating Cash Flow**
  - $439,550
  - $209,005

#### Summary

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### Notes

- **EBITDA Margin**
- **Less: Income Tax**
- **Pre-Tax Profit**
- **Management Fee**
- **Operating Cash Flow**
- **Net Profit (Cash)**

### Additional Information

- **Free Cash Flow**
- **Cumulative Free Cash**
### Exhibit 2: Flywheel Model

#### Current Portfolio Companies

| Year | 2019       | 2020      | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       | 2031       | 2032       | 2033       |
|------|------------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| FCF Buy Yr 1 | $3,882,564 | $3,875,329 | $3,901,190 | $3,875,253 | $3,596,310 | $2,197,724 | $3,571,849 | $2,014,255 | $1,074,617 | $7,680,163 | $6,832,958 | $7,320,956 | $7,209,218 | $6,894,648 | $6,507,418 |
| FCF Buy Yr 2 | $434,800   | $224,538  | $295,630   | $365,683   | $440,846   | $339,273   | $411,409   | $486,324   | $564,160   | $645,060   | $1,019,846 | $1,090,818 | $1,165,339 | $1,243,586 | $1,243,586 |
| FCF Buy Yr 3 | $434,800   | $224,538  | $295,630   | $365,683   | $440,846   | $339,273   | $411,409   | $486,324   | $564,160   | $645,060   | $1,019,846 | $1,090,818 | $1,165,339 | $1,243,586 | $1,243,586 |
| FCF Buy Yr 4 | $434,800   | $224,538  | $295,630   | $365,683   | $440,846   | $339,273   | $411,409   | $486,324   | $564,160   | $645,060   | $1,019,846 | $1,090,818 | $1,165,339 | $1,243,586 | $1,243,586 |
| FCF Buy Yr 5 | $434,800   | $224,538  | $295,630   | $365,683   | $440,846   | $339,273   | $411,409   | $486,324   | $564,160   | $645,060   | $1,019,846 | $1,090,818 | $1,165,339 | $1,243,586 | $1,243,586 |
| FCF Buy Yr 7 | $434,800   | $224,538  | $295,630   | $365,683   | $440,846   | $339,273   | $411,409   | $486,324   | $564,160   | $645,060   | $1,019,846 | $1,090,818 | $1,165,339 | $1,243,586 | $1,243,586 |
| FCF Buy Yr 9 | $1,104,400 | $673,615   | $880,891   | $1,097,050 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 |
| FCF Buy Yr 10 | $1,304,400 | $673,615   | $880,891   | $1,097,050 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 | $1,322,538 |
| FCF Buy Yr 11 | $1,739,200 | $898,153   | $1,174,521 | $1,462,734 | $1,739,200 | $1,174,521 | $1,462,734 | $1,739,200 | $1,174,521 | $1,462,734 | $1,739,200 | $1,174,521 | $1,462,734 | $1,739,200 | $1,174,521 |
| FCF Buy Yr 12 | $2,608,800 | $1,347,230 | $1,761,782 | $2,274,700 | $2,608,800 | $1,347,230 | $1,761,782 | $2,274,700 | $1,347,230 | $1,761,782 | $2,274,700 | $1,347,230 | $1,761,782 | $2,274,700 | $1,347,230 |
| Total FCF | $3,882,564 | $3,875,329 | $3,901,190 | $3,875,253 | $3,875,253 | $3,596,310 | $2,197,724 | $3,571,849 | $2,014,255 | $1,074,617 | $7,680,163 | $6,832,958 | $7,320,956 | $7,209,218 | $6,894,648 |

#### FCF Buy Yr Acquisitions ($)

|   | 2019       | 2020      | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       | 2031       | 2032       | 2033       |
|---|------------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| # of Companies Purchased | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 | $2,700,000 |

#### Assumptions

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### Exhibit 3: Flywheel Model Implied Equity Values at Year 15

#### 2.5% Revenue Growth

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<th>Year 15 EBITDA</th>
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#### 5.0% Revenue Growth

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<td>$43,758,225</td>
<td>15,000,000</td>
<td>28,758,225</td>
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<tr>
<td>FCF Buy Yr 12</td>
<td>$10,418,625</td>
<td>4.00</td>
<td>$41,674,500</td>
<td>16,600,000</td>
<td>25,074,500</td>
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<tr>
<td>FCF Buy Yr 13</td>
<td>$13,230,000</td>
<td>4.00</td>
<td>$52,920,000</td>
<td>24,266,667</td>
<td>28,653,333</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$95,131,344</td>
<td>$380,525,378</td>
<td>$76,413,333</td>
<td>$304,112,045</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit 4: Chenmark Analysis of SME Market Opportunity

INVESTMENT THESIS: M&A Market Opportunity

Chenmark believes the opportunities sourced to date are not unique. A structural supply-demand imbalance in the small business market creates the opportunity for multiple acquisitions of high quality operating businesses at attractive valuations (i.e., 3-5x EBITDA).

<table>
<thead>
<tr>
<th>Supply</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant number of target companies with aging owners in need of exit options:</td>
<td>Target company size (EBITDA &lt;$3 million) beneath the radar of traditional private equity:</td>
</tr>
<tr>
<td>~$1 trillion market opportunity*</td>
<td>~$8 billion of capital allocated to micro private equity and search funds</td>
</tr>
</tbody>
</table>

*~200,000 businesses w/revenues $10-24.5M & owners 50-68yrs old; assume 10% avg. margin, 4x EBITDA multiple Sources: International Data Corporation, internal estimates
INVESTMENT THESIS: Mission

We seek to become the liquidity provider of choice for North American small business owners.

- Seeking fair exit plan but have limited options
- Seeking meaningful careers where they can have an impact
- Seeking yield/return opportunities higher than and uncorrelated to traditional asset classes

Chenmark's Value Proposition
Exhibit 6: Chenmark Acquisition Target Profile

### INVESTMENT THESIS: M&A Target Profile

**Our Focus:**
- Focus on established, uncomplicated, cash-generative companies with specific characteristics provides margin of safety.
- Portfolio approach reduces idiosyncratic company risk, improves efficiency, and promotes team environment.
- Target companies typically more exposed to local micro-economies than global markets, providing diversification benefit.

**Target Company Profile:**

<table>
<thead>
<tr>
<th>Size and Valuation</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue: $5-20 million</td>
<td>• Service/light manufacturing</td>
</tr>
<tr>
<td>EBITDA: $1-3 million</td>
<td>• Geographical/industry niches</td>
</tr>
<tr>
<td>Valuation: 3-5x</td>
<td>• Strong cash flow generation</td>
</tr>
<tr>
<td></td>
<td>• Recurring revenue</td>
</tr>
<tr>
<td></td>
<td>• Aging owner seeking exit</td>
</tr>
</tbody>
</table>

**Examples**
- Commercial Property Services
- Frozen Dough Manufacturing
- Commercial Water Delivery
- Elevator Inspection Services

**Deal-Breakers**
- Technology based
- High outsourcing risk
- Large financial adjustments
- Unclear motivation for sale
- Turnarounds
Exhibit 7: Chenmark Execution Strategy

INVESTMENT THESIS: Execution

To be a liquidity provider of choice we must maximize the value of Chenmark Holdings.

We can grow the earnings power of Chenmark over time by:

- Acquiring profitable stand alone companies with durable earnings streams.
- Growing the revenue and improving the margins of companies we already own via operational improvements and/or tack-on acquisitions.
- Thoughtful branding.

How to Build a Flywheel

- Buy cash generative operating businesses
- Focus on operational improvements
- Invest in supporting infrastructure
- Have a long-term holding period
- Reinvest Free-Cash-Flow
Exhibit 8: Chenmark Deal Timeline

**CHENMARK**

- **2014**
  - Seabreeze (Portland, ME) acquired 9/30/2015

- **2015**
  - Self-funded search for initial acquisition. Met with companies in Reno, NV, Hanover, MA, Charleston, SC, Seattle, WA, Louisville, KY, and others
  - OK Frozen Dough (Vernon, BC, Canada) acquired 4/30/15
  - Piscataqua Landscaping (Elliot, ME) acquired 9/30/16
  - Seabreeze closed two tuck in acquisitions

- **2016**

- **2017**
  - Mainely Grass (York, ME) acquired 5/31/17
  - Sitescapes, Inc (Cumberland, RI) acquired 6/30/17
  - Maffei Landscape (Mashpee, MA) acquired 9/30/17
  - Piscataqua closed two tuck in acquisitions

- **2018**

- **No major deals completed. Focus on internal system development and price discipline**

- **Sitescapes completed one tuck in acquisition**
CULTURE: Mission and Values

Who We Are
- We are a team of small businesses committed to the constant pursuit of better

What We Seek
- We seek to be the liquidity provider of choice for North American Small Businesses

Chase Better
1. We believe unequivocally in our capacity to improve
2. We practice the discipline to execute
3. We cultivate the grit necessary to stay the course
4. We maintain a sense of urgency

Keep Score
1. Competition is important
2. The scoreboard doesn’t lie
3. Data is more valuable than opinion or anecdote
4. Results are snapshots, not final judgements

Play The Long Game
1. Consistency over time is what counts
2. Think 10 years out
3. Relationships Matter
4. You can’t take care of your company if you don’t take care of yourself and your family

Put The Team First
1. The whole is greater than the sum of the parts
2. No superstars
3. When we lose we accept responsibility, when we win we share credit
4. Never do anything to hurt our collective reputation
Exhibit 10: Connecticut Landscape Pros Underwriting Model Example – Base Case Scenario

<table>
<thead>
<tr>
<th>Key Metrics</th>
<th>0%</th>
<th>5%</th>
<th>9%</th>
<th>10%</th>
<th>11%</th>
<th>12%</th>
<th>13%</th>
<th>14%</th>
<th>15%</th>
<th>25%</th>
<th>35%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company: Connecticut Landscaping Pros</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Valuation</strong></td>
<td>8,500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase Amount</strong></td>
<td>6,500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Senior Debt Principle</strong></td>
<td>3,250,000</td>
<td>1,625,000</td>
<td>1,520,398</td>
<td>1,597,368</td>
<td>1,672,358</td>
<td>1,747,372</td>
<td>1,823,412</td>
<td>1,899,500</td>
<td>1,975,628</td>
<td>2,052,798</td>
<td>2,130,000</td>
<td>2,207,335</td>
</tr>
<tr>
<td><strong>Equity Contribution</strong></td>
<td>2,600,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Seller Financing</strong></td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
<td>650,000</td>
</tr>
</tbody>
</table>

**Exhibit Details**

- **EBITDA Margin**: 10.39%
- **Net Profit (Cash)**: 1,189,364
- **Adj. FCF Yield**: 22%
- **FCF Yield**: 27%
- **Debt % EV**: 60%
- **Equity % EV**: 40%

**Additional Metrics**

- **EBITDA**: 1,629,266
- **Adj. EBITDA**: 1,483,315
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27
- **COCR**: 35%

**Key Financials**

- **EBITDA**: 1,629,266
- **Operating Cash Flow**: 863,511
- **Net Profit (Cash)**: 1,189,364
- **FCF Yield**: 22%
- **Adj. FCF Yield**: 27%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27

**Valuation**

- **EBITDA**: 1,629,266
- **Debt % EV**: 60%
- **Equity % EV**: 40%

**Assumptions**

- **Revenue**: 16,687,115
- **EBITDA Margin**: 10.39%
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27

**Key Metrics**

- **EBITDA Margin**: 10.39%
- **Net Profit (Cash)**: 1,189,364
- **Adj. FCF Yield**: 27%
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27

**Notes**

- **EBITDA**: 1,629,266
- **Operating Cash Flow**: 863,511
- **Net Profit (Cash)**: 1,189,364
- **Adj. FCF Yield**: 27%
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27

**Valuation**

- **EBITDA**: 1,629,266
- **Debt % EV**: 60%
- **Equity % EV**: 40%

**Assumptions**

- **Revenue**: 16,687,115
- **EBITDA Margin**: 10.39%
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27

**Key Metrics**

- **EBITDA Margin**: 10.39%
- **Net Profit (Cash)**: 1,189,364
- **Adj. FCF Yield**: 27%
- **FCF Yield**: 7%
- **Leverage**: 2.69x
- **Debt Service Coverage**: 1.629
- **Adj Debt Service Coverage**: 1.27
## Exhibit 11: Connecticut Landscape Pros Summary of Low, Base, and High Model Scenarios

<table>
<thead>
<tr>
<th>Company:</th>
<th>Connecticut Landscaping Pros</th>
<th>Downside</th>
<th>Base Case</th>
<th>Upside</th>
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<td>Revenue</td>
<td>$15,687,115</td>
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<tr>
<td>Transaction EBITDA</td>
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<tr>
<td>Purchase Price</td>
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<tr>
<td>Purchase Amount</td>
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<tr>
<td>Senior Debt</td>
<td>$3,250,000</td>
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<td>$3,250,000</td>
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<tr>
<td>Equity Contribution</td>
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<td>$2,600,000</td>
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<td>Seller Financing</td>
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<td>$650,000</td>
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<tr>
<td>Revenue Growth</td>
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<td>2.5%</td>
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<tr>
<td>EBITDA Margin %</td>
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<td>Mgmt Fee % of Equity</td>
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<td>Mgmt Fee /year</td>
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<td>$520,000</td>
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<td>x EBITDA</td>
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<td>x FCF</td>
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<td>Debt % EV</td>
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<td>Equity % EV</td>
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<tr>
<td>FCF Yield</td>
<td>1%</td>
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<tr>
<td>Adj. FCF Yield</td>
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<td>33%</td>
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<tr>
<td>Prob Adj. FCF</td>
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<tr>
<td>vs. Hurdle?</td>
<td>ABOVE</td>
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<td></td>
</tr>
</tbody>
</table>

*Blue Text = Link to another tab*

*Orange Text= Link within tab*

*Black Bold Text = Hard Code Input*