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PRIVATE EQUITY
# PERSPECTIVES
PODCAST

## EPISODE 17:
## CAPITALIZING ON TECH'S EXPANSIVE GROWTH IN 2020

INSIGHTS FROM THE BDO PRIVATE EQUITY PRACTICE

TOPICS DISCUSSED INCLUDE:



## INTRODUCTION

**Todd: Hello, and welcome to another episode of BDO's Private Equity PErspectives Podcast. I'm Todd Kinney, National Relationship Director with BDO's Private Equity Practice, based here in New York City. Really thrilled to have two special guests here with me today, and we're going to be discussing investment opportunities and value creation in the tech sector. First, I'd like to introduce Drew Meyers, who's a Partner at Seaport Capital, and second, I'd like to introduce Ryan Ziegler, who's a General Partner at Edison Partners. Thanks for joining the program. We're looking forward to hearing your insights.**

**Drew & Ryan:** Yeah. Thanks for having us.

## INTRODUCTORY QUESTIONS

**Todd: Alright, let's get right into it. Drew, maybe you could tell us about your role at Seaport Capital as well as your personal approach to sourcing and analyzing investment opportunities.**

**Drew:** Yeah. Thanks, Todd. Seaport has been around for over 20 years now, investing in the smaller end of the middle market across software and tech-enabled services, communications, some business services, and media. We're currently investing out of our fifth fund and typically we're backing founders or families who are looking for a value-added partner to help them build their businesses and grow their businesses either organically, inorganically or sometimes a combination of both. From a sourcing perspective, we really benefit from the fact that we have been in those sectors for so long. We have a pretty well-developed network and we've leveraged that to source both proprietary and what I would consider kind of limited processes that we've participated in over the years. And so, it's really been a combination of that getting known in the marketplace for where we focus. As far as structuring goes, we tend to be control investors, just depending on the situation we'll structure the investment as appropriate. So, that's kind of us in a nutshell.

**Todd: Yeah. Appreciate it. Ryan, maybe you can take us through your role at Edison and additionally touch on some of the key areas of focus for your firm.**

**Ryan:** Sure. This year's our 33rd year in business and Edison is excited and grateful to be in this business. We have 11 partners and that's kind of unique relative to the size of our firm. I'll expand on that. We're in our ninth fund, $365 million, and we like to back customer-funded businesses with growth capital opportunities, typically verticalized software companies, B2B tech-enabled services. Sometimes we'll dip our toe in consumer opportunities when we have deep domain, really excited about the opportunity. But it really all comes down to people, we think, magical when entrepreneurs figure out how to customer-fund their business. They get to a certain level of scale and they need help frankly to professionalize it. So, that is a good relationship and partnership for Edison. So a few funds back, what we figured out is—listen, money is table stakes and we wanted to build the scaffolding around how to really partner up with entrepreneurs, help them on the go-to-market, product, together we call that Gearbox and as a product, we call that the Edison Edge. So, what we did is bring in a bunch of world-class operators, as part of our partnership. Half of them have 15 to 20 years of investment experience including myself. Half of them have 15 to 20 years operating experience at Dell software businesses from zero to $100 million, a couple times over. So, you get a team-integrated approach. With that said, we are minority investors, so it's a bit of a pull model where we're looking for entrepreneurs to pull us in to help professionalize their company. Usually you can get to $5 million to $10 million in sales. We want to scale them to $15 million to $100 million, so we help them do that.

## TECHNOLOGY INDUSTRY UPDATE

**Todd: Excellent. Well, I appreciate the background for both of you guys. So, I'm curious—what are some of the types of software or tech-enabled services investments that you've been seeing out there? Drew, I'll throw this one to you first and then let Ryan chime in.**

**Drew:** Yeah. It sounds like Ryan and I actually come at software in a bit of the same way. We tend to look for opportunities in vertical-oriented applications where we think there's meaningful market opportunity, but for whatever reason, the business hasn't been able to fully exploit the opportunity. From our perspective, the company has a viable product. There's some level of market acceptance. But again, for whatever reason, whether it's because they've been so product-focused that they haven't really transitioned to the business-building around sales and marketing, we try to move in, partner with them, and help them kind of advance to the next level. So, we're not taking early-stage tech risk in any way, shape, or form, and we've not made an announcement on it yet, but we recently just invested in a business that is a software application specifically focused at this point on the beverage distribution industry. And they do route accounting, warehouse management, and other functions for those businesses. It has these exact attributes. It's a great product. It has some level of adoption with some logos that you'd certainly recognize, but we think that they have not spent nearly enough time focused on sales and marketing, and it's one of the things we've done really well with companies over the years, help them start developing that. In terms of tech-enabled services, we've been spending a lot of time around intelligent transportation systems, a lot of focus in and around that traffic information and data services around that vertical. There's just so much more of a focus on it both from DOTs and municipalities just facing a lot of the challenges that they do with their growing populations. We recently acquired a business called All Traffic Data, which is squarely focused on that area and we're excited about the prospects for that one.

**Todd: Awesome. What are you seeing, Ryan?**

**Ryan:** So, the way we're matrixed at Edison is we have this Edison Edge, which is sort of a horizontal capability. We go to market though by vertical. I lead the Enterprise Software Practice and we also have a Healthcare IT in Fintech Practice with each partner and a team leading it. So, let me just kind of touch on those three categories. I would say any private equity firm would be lying if they say they aren't opportunistic. I'd say probably 25% of the time we see a great deal, we're going to run at it. With that said, we are thematically based and do a lot of research where we're looking at. Speaking about enterprise, touch on a couple of things. In the HR segment, we're looking at workplace solutions. We're looking at things like quantified coach-up human potential within the workplace because there's a fundamental shift going on with both leadership of Gen Y and Millennials now become supervisors for the first time and leading the workforce. So, it's a data-driven solution set that's needed to help train them up as well as analyze what's going on inside the business. And high productivity yields revenue and we think the best businesses in the world are being run by sort of this next generation of workplace solutions. We're also seeing just a ton of innovation happening in the supply chain, particularly around verticalized marketplaces as well as sort of last-mile digitization through either marketplace models or what we call transportation management solutions (TMS). Another interesting trend going on is frankly the lack of engineering talent in this country and because of that, what we're seeing sort of a revolution of low-code and no-code systems, where regular managers can really code through these applications to create automated workflow in the enterprise and it's a really exciting time within that space. We also believe in proptech, that legacy brokers are a dying breed. With that said, there's modern brokerage solutions that agents are now becoming data-powered. And we ultimately think that the end consumer client will win. And solutions that aid in the next generation brokerage model for the data perspective is interesting. Touching on healthcare quickly, we're looking at non-clinical cost optimization solutions. We're also looking at patient engagement and medical adherence solutions. And then lastly, focus on data analytics that work on the effectiveness of health care and solutions while reducing the cost to deliver it. Then in thintech, the two themes, there's just a lot of innovation around regtech, for obvious reasons. Then there was a trend around unbundling of banks. Through the financial crisis, consumer confidence loss on Wall Street, what we're seeing is a reemergence of digital solutions that re-bundle solutions for the benefit of consumers that are accessing the capital markets as well as coming into generating wealth.

**Todd: Awesome. Lots of exciting sectors and trends for our listeners to consider. So, let's shift gears and let's talk about IPOs for a moment, as this has certainly been a blockbuster year for IPOs, tech IPOs at that. I guess, looking forward to 2020, Ryan, I'll throw this to you first, and then let Drew add his commentary. What do you think will have the greatest impact on tech companies pursuing an IPO?**

**Ryan:** Two points. The first big one is the election. So, we believe that there are actually not going to be any IPOs after the election, for the second half of 2020. So, there's a window right now, in the next six to nine months, frankly, to get out effectively. And then whatever happens to the election, the markets will react to it and the dust will settle. The actual other thing that's going on that we're really excited about, because it's sort of the DNA of our firm, there is, sort of, a flight back to quality and normalcy, relative to cash flow and profit. Cash is king. So, there's always been a disconnect between private and public markets. It's been amplified with the headlines, as of recently, of what's going on. At Edison, we actually went back and looked at a time frame from 2011 to 2015—what were the best software tech IPOs? A very interesting trend line came out of that. Of the top 20 deals that went out in terms of performance, 14 of them raised less than $125 million in capital, six of them less than $50 million, and one never raised an ounce of private equity in terms of performance.

**Todd: Wow.**

**Ryan:** Fast forward that to today, you look at public market performance, there's actually - now, it's a small sample set - there's an inverse correlation of revenue to capital in, meaning the less capital that the company has raised and the higher performance is, perform extremely well in the public market. So, when you look at the ratio of revenue to capital in, it speaks to capital efficiency. What we're really saying, at the end of the day, is gross market, profitability, sustainable unit economics, the market is finally rationalizing again. Great businesses with sustainability, the type of things that we focus on and actually talk to our entrepreneurs about how to build their business moving forward. So, it's nice to see that. With that said, there is a dichotomy between B2B companies and B2C. B2C take a longer time to mature and season. We are B2B investors and frankly, we need to look at B2B versus B2C investments. They have performed exceptionally well on a comparative basis to B2C companies.

**Todd: Well, I thought we had some good stat guys, but it looks like the Edison folks have us beat. I guess, Drew, obviously, at Seaport, your typical exit is not an IPO. But perhaps you want to add any commentary to Ryan's perspective?**

**Drew:** Thanks, Todd. Dovetailing on Ryan's comments, he's actually hit the nail on the head as far as we're concerned, just in terms of getting back to that flight to quality and that concept that actually building good businesses and real businesses that have governance, real management in place, are back to fundamentals, and seeing the market kind of come back to that is refreshing, frankly, because that's what we try to invest behind. And I think we'll talk about unicorns later in the conversation, but the reality is, for a lot of tech businesses, that's not the trajectory that they're ever going to hit or the path they're going to take. But there's still really good businesses out there. And for us, again, the IPO markets really aren't a consideration set from an exit perspective. But you want to see that health in that marketplace. And you want to see people paying attention to those factors that we value because ultimately, the valuations that people are looking at in the public markets do translate, in some level, to our exits, ultimately.

## COFFEE BREAK WITH BDO'S AFTAB JAMIL

**Todd: Sure. Well, I think the flight to normalcy is going to be refreshing for all of us. So, I appreciate both of your viewpoints. Now we'd like to take a moment for our coffee break with Aftab Jamil, Partner and National Leader of BDO's Tech Practice. Aftab is based in BDO's San Jose office. Let's hear from him now.**

**Aftab Jamil:** Well, thanks Todd. Hello, my name is Aftab Jamil and I'm the global leader of BDO's Technology Industry Practice. Today, I will be discussing the importance of partnerships between technology companies and private equity firms and really how to make the most of these critical relationships.

The $3 trillion tech industry has a multitude of exciting growth prospects. Yet developing some companies past that startup stage can sometimes prove to be a threshold that is really challenging to overcome. For high growth tech companies looking to scale quickly and sustainably, partnering with a private equity firm can sometimes be a really good option. Of course, it depends on each business's circumstances. In addition to infusing the company with critical capital, PE firms can also provide market access, mentorship, access to their own business network, operational expertise and advice, and other tools that are needed to drive greater revenue and attain growth goals. Plus, PE firms can help shoulder the burden of growing a new business. So, in short, partnering with a PE firm is a step towards scaling for sustained growth for tech companies.

Now, technology companies and PE firms have a lot of added value to offer to each other, and a newly cultivated partnership between a tech company in a PE firm can be really exciting. However, partnership success requires effort and investment from both sides. So, how can tech companies optimize their relationship with their PE partners and ensure that goals of both sides are really being met? Well, some of the best practices that I've come across, I'd like to share those with you today.

First, define the relationship between the tech firm and the PE partner. This is crucial to ensuring an effective and productive relationship. Unfortunately, many companies often overlook this step when joining a PE firm's existing portfolio. Whether it is defining titles, setting expectations and transparency levels, or simply assigning responsibilities, it is best to establish those parameters early and open lines of communication upfront. Otherwise, you might find yourself in a situation with the looming fear of one or both parties over promising or underdelivering and not meeting each other's expectations.

Second, shore up your corporate governance. For younger tech companies, or those with less mature board models, learning to adapt from current board governance practices to the level at which, perhaps, their PE partners expect can be challenging. Nevertheless, a tech-PE partnership can be a great opportunity for companies to get many of these necessary practices in place, while also receiving guidance along the way. So, while it may be difficult to initially cease total control or perhaps formalize the structure, doing so will help both parties deliver maximum value to each other and really meet those expectations, as well.

Third, share the good, the bad and the ugly. A good PE firm will also help a tech company's executives in the management team really assess every aspect of their business and point out inefficiencies and areas of improvement. This ongoing process requires a great deal of transparency and communication that are frequent between both parties. And while it is tempting to share only the good news with the investors, the PE partners, the board, and other stakeholders, management teams should flag every major development or risk that can potentially affect their business. Highlighting potential problems earlier on will enable companies to get help they need to address them before they've really spiraled into full-blown business issues.

The final tip that I will offer today is to remember that like any relationship, it is a give-and-take relationship. It is natural, perhaps, for tech companies to primarily focus on receiving the resources and constructive feedback and all the other help from PE executives that otherwise will not be available to them if they were to be operating on their own. Tech executives may even find their universe of viable business opportunities greatly expanded. But company executives need to remember that giving back is equally important. Tech executives are particularly knowledgeable about the triumphs and the pitfalls and the operational details of their own company as well as the industry sector that they operate in. These insights can be hugely valuable to PE partners who may not be involved in a day-to-day management of the company. And they may very well translate those insights for management teams to advice that is applicable to other portfolio companies. So, learning from one company could perhaps be an idea that benefit a PE firm's entire portfolio.

As I said earlier, every relationship is a two-way street, and a tech and private equity group partnership is no different. Looking ahead to 2020, and as your company looks to establish the next year, the next few quarters' targets and milestones, be mindful of the impact a PE partnership can have on your company. And if your company already engages in a tech-PE partnership, if perhaps you can keep these tips in mind to sustain and retain your investor relationship and perhaps even strengthen it. Networking and maintaining corporate relationships, if that is not a strong suit for you, perhaps consider leaving that into your new year's resolution. Good partnerships require proactive management, ongoing communication and a clear alignment of goals between both parties. Great partnerships demand an additional level of mutual trust, accountability and respect. The most successful relationships are those that have ambitious goals, instilled solutions to work through conflicting opinions, and high-performance expectations—as well as, of course, clearly defined strategies, tactical steps and resources to get there. Most importantly though, successful tech-PE partnerships create value for each other.

Thank you for listening to today's Coffee Break. I'm Aftab Jamil, and I'll send it back over to you, Todd.

**Todd: Thanks for your insights, Aftab. And now let's get back to our conversation with my guests Ryan Ziegler and Drew Meyers.**

## M&A DEALS

**Todd: Moving on to our next topic, let's get your thoughts on the factors driving tech M&A (mergers and acquisitions) in the year ahead. Drew, I'm going to throw this one to you first and then we'll go to Ryan.**

**Drew:** Thanks, Todd. It's interesting, we were talking about IPOs earlier, but one of the things that is certainly a trend and you're seeing more often, are companies staying private longer. I think part of that has been the fact that there's so much private capital chasing these opportunities now. Where multiples are and where folks like Ryan and myself are willing to transact, there's an attractive path for these companies - one, to stay private longer. And also when you put IPO versus M&A, and what that potentially means for your company, there's really attractive paths for these companies to go through an M&A process or even find growth capital and enable their business continue to grow, get the capital they need for that growth, but also find a great partner to help them build the business, and all without the, call it, scrutiny and public display of any mistakes you may make along the way of once you've gone down the IPO path. So, you've got that private capital, and from a PE perspective, you're seeing more and more firms actually form software practices. I think in part it's because there's great investment opportunities in companies of scale. So, for a lot of these folks that have not participated in the software boom historically, they're starting to realize, look, it doesn't take a leap of faith anymore around technology. You don't have to wait for market adoption. There are actually really good companies out there that have already proven out and really these opportunities can be evaluated against the typical value creation levers that they're used to looking at in industries like consumer, healthcare, even industrials, business services, etc. So, from my perspective, it's not surprising the percentage of M&A in software represented by PE continues to just expand. And at this point, is probably approximating what you see in M&A by PE in just the overall market. So, I think we'll see more of the same going forward.

**Todd: Lots of great insight there. Thanks, Drew. Ryan, care to add anything?**

**Ryan:** Yeah, 100%. Drew's spot one. When you look at the industry for the last several years, there's all this talk about private equity overhang, deal sizes, and deal fund sizes going up. And that's all true when you actually look at net cash flows, meaning outflows and inflows - it's the net positive in the past several years. So, it's a healthy industry, even with all the fanfare of what's going on, the private marketplace. What's more, to the point—so the biggest primary driver at least have we believe the software tech M&A is private equity, for that reason, and we've actually seen both in our deal count and you look statistically. So, in 2018, there are just under 1,500 software M&A transactions. Fifty-seven percent of them were led by a financial sponsor. That's flipped the script in terms of strategic for financial investors. There's many reasons for that. And we've also seen that at Edison in terms of now over 60% of our change of control transactions are financially-led, meaning private equity sponsor using one of their companies as a proxy or one of our companies as a platform, then consolidates. And there's many reasons for that. Increasing market share, they're acquiring our need for product differentiation. What happens in scale in this business is that you actually need multiple expansion with it. So, that leads to a strategy at Edison that we're really excited about—and love to work with folks like Drew—we call two bites of the apple. Both for entrepreneurs as well as growth equity investors like us, we're very aligned in that we can get to a certain point of scale. And we need more balance sheet strength, but we want to take liquidity off the table. So, we'll do that. Change of control with a private equity firm, you get to stash away a great return across the table, reinvest back into that new business, and you have a firm like Seaport leading the next wave of innovation and we get to participate in that value creation. So, we're pretty excited with what's actually going on private markets, and relative to tech M&A that's driven by private equity firms.

## VENTURE CAPITAL & ENTREPRENEURSHIP

**Drew:** See Todd—we're sourcing already [laughter].

**Todd: I was going to say, Drew, it sounds like you got a deal coming your way. So, I appreciate that insight, Ryan. I'll actually stay with you on the next topic. Being a VC investor, I'm sure you've seen plenty of successes and failures. I'm sure they're all successes, right? I guess the real question is what are some ways to apply these lessons learned to building world-class companies.**

**Ryan:** Sure. Well, one of my partners jokes that, "Hey, you bat over 300, you're an all-star in this industry," so it gives you some perspective on odds. With that said, our loss rate is below 15% as a plug for us, which our investors are excited about. But I break it down into the kind of three buckets. So—thoughts on people, thoughts on governance, and then maybe one or two tactics on company-building things that we've learned because to your point, we've seen a lot of failure and we try to apply that moving forward to mitigate that risk in every situation. That's the benefit of where we sit across the dozens and dozens of portfolio companies. When it comes down to people, 100% we're betting on the jockey and not the horse in this business. So, we're looking for really unique individuals, he or she that can build a business to a certain level, recruit a really interesting team around them. And we actually have a CEO scorecard at Edison. We've sort of back-tested what it takes as a filter to find people that we want to partner with. There's obviously got to be chemistry between the investment team and the entrepreneur in any deal. With that said, two of the biggest factors we find leading to success outside of just the fundamentals of the business, one, grit. We want to see some type of diversity and adversity that they've gone through in their career. But number two is actually an interesting one: coachability and vulnerability. And if you have all the answers, that usually ends in a disaster.

**Todd: Right.**

**Ryan:** So, what I'm saying though on coachability is we're not that we're not saying we're looking for people that are pushovers—or strong-minded folks that are hard-charging—but they have the maturity and confidence to overcommunicate and ask for help along the way, and that just creates great alignment. We also look for the mindset of 'want to be rich' versus 'king.' And that talks about management style and how you want to be able to push authority to where the information is. That's the edge, and that's about building a world-class team, hiring better people than yourself to make a business scale and those roles will narrow over time. On the governance side, what's really interesting in our stage, which is sort of between after VC and before private equity and the growth capital space is we think it's fundamentally important that governance is in place to build a world-class board. We believe building a world-class board means not a lot of finance people on the board. Actually, more independent operating directors that can work for the management team. The role of a lead director and chairman, their interaction was setting the tone to the CEO and teeing us up for success. We found that to work in a variety of situations. They can help work through the tough issues. They can anticipate things around the corner, help build consensus and drive alignment around the board. We find that this leads to decisiveness and a better-functioning board because without it, management teams spin their wheels. CEOs get whipsawed and outside the shot, that the company's executing perfectly and beating the numbers, usually folks back off a little bit. So, governance is so important to value creation that you touched on before in terms of performance in this market. Then, the last thing on company-specific lessons, money doesn't fix problems. We actually think money can break companies in terms of capital raising. So, there's got to be a really good reason you want to raise capital. With that said, if the product's not ready and we press accelerate on the sales and marketing, that usually doesn't end well. You really have to be resolute that there's great product-market fit before you add sort of the fuel around sales and marketing. The last reflection is that our best companies don't stay complacent. They disrupt themselves along the way in terms of product innovation. With that said, all our most successful companies started in one vertical and niche, owned it, got it predictable, got it profitable, and then they expanded product line or expanded geography and they layered on. What happens with that is TAM expansion. We can start off in a niche market and grow a massive business, just stay focused.

**Todd: Well, it's safe to say you knocked that one out of the park. I think you hit on a lot of lessons learned, and I know our listeners will appreciate that. I'll have to listen to the recording myself and take some notes because that was good stuff, Ryan. Drew, turning to you, you happen to mention tech unicorns, and there certainly seems to be a lot of focus around the rise of super high-growth companies. According to my stats team, not the Edison team, but they're pretty good [laughter], there are now more than 400 of these unicorn companies valued at over $1 billion, with a total value valuation of about $1.3 trillion. Now, having said all that, as an investor at Seaport not backing businesses like that, how do you find the ones that you feel are going to be winners?**

**Drew:** Yeah, it's an interesting question, Todd. Unicorns seem to happen, in large part, because their solutions address such a void in the market that adoption happens. It's an incredible pace of adoption, and by the time people really are waking up and understanding what the market opportunity is, they're so far out in front of everybody else that valuations tend to skyrocket and spread to try to keep up. And the number of unicorns have grown simply because there were so many industries out there ready for that disruptive force to come through. But as I alluded to earlier, the unicorn trajectory is not the fate of most of the tech businesses out there, right? There are really good businesses, with great solutions, addressing real market opportunities, and they can produce nice growth, and they can produce real cash flow, which is fundamentally what we care about. If you can grow cash flow over time, you're going to build a valuable business, and it's going to generate a real return. A lot of the things that Ryan focused on in terms of the things that they're looking for are very similar to ours. Our businesses tend to be more established. When we think of smaller and to the middle market, we're talking $3 million to $15 million of EBITDA, so they can be substantial businesses. But as I was saying, a lot of times, we don't take that tech risk, so there's been adoption, there's a proven product, but we're looking for a lot of the same elements that Ryan talked to. If that business has been around for a while and they say they want to take it to the next level, but there's not that willingness to kind of listen to the coaching and the things that we've seen over the 50-plus investments that we've made and the pattern recognition that we've developed on how we can help the business scale up and accomplish some of the goals that they want to go after, it's going to be a partnership doomed to fail, and it's just not a good fit for us.

We are not operators. We try to put a lot of operating resources around the table, too. As Ryan said, we're not looking for another financial mind around the table at the board level. We're looking for somebody who either understands the end-market really well, understands the business model, and can be a great sounding board for our CEOs and management teams. What you find with the businesses that we're investing behind, they're smaller in nature. You can't necessarily just come in and change the playbook entirely. It's an evolution over the course of our hold period, and we have to be patient enough to understand when it is time to push on the gas pedal and when it's maybe time to tap on the brakes and just make sure that the business is ready for some of those next steps, whether that's acquisitions, whether that's expanding the product set, or going after a new market with the solution they've created. I liked Ryan's point - that software business I alluded to earlier, we're going to help it own that niche that it's addressing now, but that platform can absolutely be appropriate for other verticals, as well. But it's a crawl, walk, run approach with businesses at this size and scale, especially when they've been around 10, 15, 20 years doing the things the same way and they're now seeing a new opportunity in front of them or they want to go consolidate and they want to acquire. That takes a different mindset, and it can't happen overnight.

We try to be very patient partners. The hold period for people has—and for private equity firms have started to come in a bit—we still think in that five-year time frame because we know that it's likely going to take that amount of time to get the business where we're all going to be excited about the time to exit. If it's earlier than that, great, we'll all know it, and we'll all be excited about the opportunity. But we really think in terms of partnering with the folks that we're backing and investing in and we're looking for that like-minded approach. They want the partnership. They want what they think we can bring to the table for them, and if that's there, we're going to be successful.

**Todd: Yeah. Great stuff. Appreciate all that insight. Ryan, anything to add to Drew's commentary?**

**Ryan:** The only thing I would add, maybe just to put a double click on is the reason why vertical versus horizontal is important to all of us. When we think about innovation curves and capital efficiency sort of thread this whole discussion, we typically find that the innovation curve around a verticalized business is typically 4 to 5 years versus a horizontal business which typically is 1 to 2 years. So, meaning, you could be obsolete in 12 to 24 months. The implications around how fast you have to innovate, test, and take market share while building product, the stakes are so high. So, the advantage of going to a vertical market business is a beautiful thing. You build domain, you build expertise, create client relationships, and you don't have to disrupt yourself every other year, which usually translates into great outcomes for the entrepreneurs and the shareholders at the table who are funding it.

**Todd: Well said. It's great to get your take on the market and where it's headed. So, Drew Meyers, Seaport Capital, and Ryan Ziegler, Edison Partners, thanks so much for joining us today. Trust that BDO values our relationship with both of you guys, and it was an honor to have you and your firms represented on our podcast.**

**Drew:** Thank you, Todd.

**Ryan:** Really Appreciate it.

**Todd: Awesome. To our listeners, thanks so much for tuning in. If you haven't already, we'd love for you to subscribe, rate, and leave a review of the show on iTunes. Until next time, this is BDO's Private Equity PErspectives.**

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