

KEYNOTE INTERVIEW

A global approach to mid-market sourcing



*An international perspective is a strong differentiator for smaller mid-market deals, say Argand Partners co-founder **Heather Faust** and partner **Joyce Schnoedl***

Q You are a relatively young firm. When you launched Argand, what was your deal-sourcing philosophy?

Heather Faust: We are a mid-market sector specialist, focused on partnering with management teams in advanced manufacturing and business services companies. Our aim is to help niche market leaders grow into global champions in their sectors. All our businesses have a strong US nexus, whether that is headquarters, operations, primary growth market or the majority of revenue, but they also have a global aspect, which is really important to us.

Our global angle is what differentiates us in terms of what we can bring to the mid-market. We target the \$20 million to

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\$50 million EBITDA space, and in that size bracket, there just aren't that many private equity firms looking at global operations. They tend to be more country or region focused. We bring a global approach and mindset.

Joyce Schnoedl: Being global is really in our DNA. Our team has historically invested in companies with operations in the Americas, Europe, India, the Middle East, Asia and Africa, so we have the skill-set, investment expertise and networks to execute on our strategy. We also have a diverse team. Our team members have

lived and worked all around the world.

We believe that having a global operating footprint, while potentially more complicated to manage, can really benefit our investments. First, it provides downside protection, with diversification and resilience across market cycles on the sales side, and flexibility and the opportunity to share best practice on the operational side. Being global also offers an enhanced upside, by virtue of having access to expanded markets, diverse talent pools and low-cost resources.

Q What is your deal-sourcing approach and how is it resourced?

HF: We have a multi-pronged approach to deal sourcing and business development.

The whole team is charged with developing investment themes and sourcing new opportunities. We aim to avoid having any silos, so everyone is empowered to source, both directly and through intermediaries. However, we have found that having an investment team partner responsible for business development and lead generation, alongside deal management activity, enhances momentum and dealflow.

It provides flexible capacity within the team and ensures everyone is engaged throughout the investment lifecycle.

JS: I wear two hats within the firm. On the one hand, I am part of the investment team and was responsible for sourcing and executing three of the first four investments in our portfolio: Sigma Electric Manufacturing, Brintons Carpets and Concrete Pumping Holdings. On the other hand, I also spearhead our business development efforts, which means I organize and systemize our firm's deal-sourcing initiatives. I call directly on deal sources and organize and leverage all our professionals to do the same. For me personally, and for the firm, I think this dual role has proved to be differentiated and advantageous.

It means I can have detailed conversations with business owners and managers about what it would be like to partner with Argand. And I can go several levels deeper into that conversation than would typically be the case with an initial outreach. I can speak to our value-creation strategies – how we can help them pursue growth through M&A, or expand into overseas markets, or build a direct-to-consumer offering.

Q What are some of the key themes that you are focusing your sourcing efforts on today?

JS: The themes that we pursue have applicability on a global basis. Some examples include companies that cater to hobbyists and enthusiasts, as well as outdoor living, climate change and sustainability and

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HEATHER FAUST

authentication testing and supply chain verification. For instance, our ongoing pursuit of businesses catering to hobbyists and enthusiasts resulted in an investment in OASE Living Water, a water technology business that caters to water enthusiasts, and Cherry AG, a computer input devices manufacturer that caters to video game enthusiasts. Both are branded businesses with highly global operating footprints and strong international growth potential. Companies in the hobbyist and enthusiast segment also tend to be focused on product differentiation and quality, rather than just price, which we like as well.

Q How did the pandemic impact deal sourcing in the global mid-market? And how did you overcome any challenges?

JS: Rather than a challenge, the pandemic actually provided an opportunity for us to enhance our dealflow. Since the beginning of this year, our pipeline has been running at three to four times historical levels. This is partly due to external market forces, including pent-up demand as sellers that held off coming to market during the early part of the pandemic are now actively looking to sell, and as sellers look to crystallize gains in advance of potential tax changes. But the increased level of

dealflow is also due to internal initiatives we have carried out, as well.

During the pandemic, we made significant investments in expanding our global reach, not only with our core intermediary relationships, but also with niche, sector-focused and regional deal sources and business owners. I also think that the technologies that became more broadly available during the pandemic, supporting video conferencing, for example, have meant that managers, intermediaries and business owners are now much more willing to hop on a video call for an introductory meeting.

In addition, and particularly due to the increased dealflow we are seeing, we are triaging opportunities early on, to make sure we focus internal resources on those opportunities that best fit our investment criteria and also that have the highest probability of closing.

To give you a specific example, we were able to execute on the acquisition of Cherry in the middle of the crisis. Cherry is a German-headquartered business with a highly global footprint, focused on manufacturing high precision keyboard switch technology for video gaming keyboards and other office computing products. We were able to move quickly, despite the pandemic, because we had already built a high level of conviction around the theme,



Q Transaction certainty is particularly important in the mid-market. How do you ensure you are perceived as a high conviction buyer?

JS: A great example to illustrate this is our acquisition of Sigma Electric Manufacturing, a global manufacturer of precision engineered metal components for electrical and other industrial end markets that I sourced in 2016. Sigma is headquartered in the US and derives virtually all of its revenue from US and global OEMs. When we acquired the company, it had nine manufacturing plants in India.

Our history of managing globally complex businesses and transactions meant we were able to leverage our reputation to get the sellers and management team comfortable with our credibility as a buyer, despite this being the first investment in Argand's first fund. This historical experience was also helpful in securing financing for the deal. We worked with a trusted adviser with highly relevant international expertise to structure an arrangement that got all stakeholders comfortable with the international footprint, while allowing for significant operational flexibility for the company.

“During the pandemic, we made significant investments in expanding our global reach”

JOYCE SCHNOEDL

we had visited Cherry's management and headquarters pre-covid – albeit a year before we closed the deal – and because we were able to work closely with a lender we knew well from our investment in OASE, another highly global German business.

Q What else are potential target companies looking for in a mid-market buyer?

HF: I think our ability to support both US and international growth means we are a differentiated partner for management teams, and I think management teams with global aspirations enjoy having a team behind them that can support that at a mid-market level. That isn't the only growth lever we employ, of course. We also focus on talent management, product expansion, and operational excellence, for example. But it is an important element to our strategy.

OASE, for instance, is a company we acquired in 2017. We helped management assess organic global growth opportunities, and supported the company in its acquisition of a market leader in the US, adding a new distribution channel, and in its acquisition of a German business that accelerated its entry into the water technology market.

Global business also requires an appreciation of cultural differences, a

willingness to travel internationally, and strong relationships with local transaction advisers.

Q The market is clearly becoming increasingly competitive. What challenges does that present to you going forward and how are you responding?

JS: Given the increasing competition in the marketplace, I think it is critical to have a differentiated and well-articulated strategy – to be able to stand out from the crowd. Intermediaries and business owners know what an Argand deal looks like and what it means to partner with Argand in terms of helping to achieve a company's global growth potential.

Another element to this is being proactive in the marketplace. You can't just wait for auctioned deals to come in. You have to be in front of business owners and management teams to build those relationships in advance of sales processes. I am constantly talking with companies, managers and other private equity firms to flag our interest, sometimes years before a process emerges.

Finally, I would refer again to the benefit of a diverse team. That helps us bridge any cultural gaps when relating with counterparties. This, combined with our high conviction investment strategy, means we can convey a deep understanding of a business and the global growth opportunities to its management team, which helps us stand out from other potential partners.

HF: The one thing that I would add to that list is the importance of reputation. We aim to be really good partners to management teams. We aim to be reliable and work with high integrity. You can do all the sourcing in the world, but people need to know they are dealing with a reasonable and constructive counterparty on the other side. That is really important to us, too. ■