Podcast Precis

Abi: John, I have known you since the early days of starting TresVista. You were one of our first partners, and we have grown together. You have been an entrepreneur and a business builder for a lot longer than I have been in business as a professional individual. Maybe for the audience, can you share your background?

***John:** We met back when I started Moorgate in 2010 with my partner, Mike Alexander, both Mike and I had spent the bulk of our career, 20 years or so, at JP Morgan. We started Moorgate when the consolidation occurred during the financial crisis. We noticed that clients were not getting the same level of advice that they had been getting from the bulge bracket firms because they were smaller than the target market candidate. We are more of a consultative firm to clients and are at many times on retainer for multiple years for these clients. These clients look for strategic advice to either make an investment or divestment in a business that they may own.*

Abi: How has investment banking evolved from the days where lending was kept separate from what happened in the financial crisis and to where it is now?

***John:** I think the combination of two platforms, advisory and financing, has been tremendously beneficial. The two products seem to work well in terms of a market share perspective. We are focused on the areas that the bulge bracket firms are not. Our focus is on down-market family-owned businesses that, although have historically got a lot of M&A attention but are not getting any now as they are not big enough for the bulge bracket firms to focus on.*

Abi: Given the current crisis, what dislocation and evolution in the advisory industry do you see coming out?

***John:** I think that the way the deals are going to be done going forward, may change a bit because of the pandemic. Initially, in a buy-side or sell-side process, there was initial vetting and then there were management meetings. Today, we are seeing very intensive data rooms with zoom interviews with management teams that are all downloaded into the site. These processes allow a potential buyer to decide much earlier on whether this is an asset that they are interested in. As a result, the formal management meetings and site visits which were very common when I started 25 years ago, have been put to an end. Now, one needs to be careful as to what they put in the data room.*

Abi: You talked about how a lot of your relationships are with family offices. What do you find with those family office relationships that distinguishes you as an advisor for them?

***John:** We advise private families that have their own corporations as opposed to multi-family offices. What I think differentiates us is that we are not transaction orientated. We tend to work for three to four years with some of the families with a modest retainer, helping them determine strategic objectives and goals for the next generation. We spend our time helping families determine whether a particular business is for the next generation and is a long-term hold. We then aim to sell that business and re-deploy the capital into a new business.*

Abi: What we see with a lot of private equity firms is they have a platform and add-on approach to investing, where they try to create their own strategic acquire, so that they can compete with strategic buyers. With the family office clients you advise, how much of the acquisition is directly aligned with the existing business that they are in, versus how much of it is diversification?

***John:** I would say it is a little bit of both. The ultimate objective of these families is to create a portfolio of companies that can withstand the changes in the economic environment, whether it be in technology or in the way the business is done, which makes that business more challenging. So they will move out of that business and into a new business that has a longer shelf life.*

Abi: As you have a lot of experience working with private equities and family offices, when you are doing a sell-side mandate, how do you think about what is a better acquire in form of the capital? How do you determine whether the underlying business is better suited for a family office or a private equity firm to acquire?

***John:** As private equity firms are in the business of deploying capital, they are more focused and are quicker with respect to the timing of the transaction, as opposed to family offices, who take more time as they tend to have a long-term approach. The issue is how they compare it to a strategic buyer and how much value can a strategic group create. On the family office side, it needs to be an asset that they can own for a long time and deploy not only capital, but also resources from within their own business and family generations. They want an asset that has a long tail and a stable cash flow stream.*

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Abi: When you were at JP Morgan, you were the head of the Media and Telecom banking division, but in the middle market, it is much more diversified. How does that experience translate in how important or not important is being industry-focused?

John: *Having been an investment banker for many years, I would say it is very valuable to have a sense of the industry dynamics. We have ironically advised in a financial services company recently, where the expertise was much more on the structure of the transaction for a complicated deal. These skill sets apply to any industry. I would say, if you have both and can do it in any vertical, then that is the best environment for us.*

Abi: Which industries or subsectors do you think present the most opportunity for you in the near term, especially given the current market disruption?

John: *In this disruption, we categorize into three sets of assets. The first set of assets are those that are levered and are going to get impaired due to the pandemic like retail, traditional media distribution, etc. The second set of assets are those that will survive and will go through a recovery period. The third category of assets are those that are benefitting and growing like e-commerce, technology, etc.*

Abi: From an operational perspective, where are you seeing the winners within say, e-commerce and who are the guys who are performing well and are taking advantage of disruption? Also, who are the ones who are not able to see far enough into the future?

John: *Larger Tech and eCommerce players are doing very well. Small players who have a niche and direct relationships with subscribers are also expected to do just fine. Those that are in between will struggle. The public trading value of some of the pure broadband players is at circa 14x up from 11-12x due to higher demand for high bandwidth infrastructure.*

Abi: In terms of your business development processes, as you have expanded, how have you sourced new business opportunities, or is it still entirely relationship driven?

John: *It is majorly relationship-driven. Most of the connections that we make are largely inbound and are from CEOs with whom we have done work for and have mentioned to another CEO who are looking for sophisticated advice. Many of the new families that we are doing work for have been referrals from existing family clients.*

Abi: As an entrepreneur, can you share the stories that you may have of making this position and what advice you might have for someone thinking about doing something similar?

John: *Firstly, it takes twice as long and twice as much money. Secondly, you need to evolve on where your position in the market is valued. When we started, we found out that there were families in the billion-dollar range that were receiving no M&A advice. One needs to evolve in the area where the market sees you have a real value add.*

Abi: Do you see any of the large banks coming down the market for winning deals in an environment like this?

John: *I think when the market slows a little bit, the larger bulge bracket firms suddenly find that a $500 million deal is a lot more attractive than it used to be. Until the M&A market returns to a more robust form, which is probably going to be sometime in the first or second half of next year, you will see a lot of competition in the down-market.*

Abi: Bulge bracket firms have the big brand names, but do you think they are equipped to provide the advice smaller companies need, or is there inherently a different dynamic in smaller businesses that an advisor for a large public company is not going to be equipped to be able to be as functional as Moorgate?

John: *I think the patience level that we have is much greater as we like what we do, and we are not transaction orientated. This is going to be the big difference. If you are a managing director at a bulge bracket firm, you need to bring in and close deals. Our philosophy is sometimes more of a consultant than an M&A advisor.*

Abi: Where do you see yourself 10 years from now?

John: *Our objective would be to potentially create an environment that is focused on what we do best, which is to be long-term advisors to people. We like running a small profitable advisory firm. We also do focus from time to time on creating investment opportunities for our family clients, through our network of CEOs that we know. Being big is not always better.*

Abi: How does outsourcing fit with your operating strategy?

John: *Having best in class talent outside of your permanent payroll, is a key thing that allows you to be better, smarter, and faster. TresVista was a tremendous advantage in our early stages that helped us with a lot of high-quality analytical information that in turn helped us to be more powerful in front of our clients.*