Richard Erickson

Co-Founder and Managing Director of Lightview Capital

Editor's Note: *Richard Erickson is the co-founder and managing director at Lightview Capital, a lower middle market-focused private equity firm. He has 30+ years of combined operating and investment experience in the technology segment. Prior to Lightview, he served as general partner at Updata Partners. He has held numerous executive roles at both private and public technology companies, including Alphanet Solutions, iXL, Excelan, and Digital Network Associates. He currently serves on the board of directors of The Clarke Companies, Educational Measures, Metova, and Buchanan Technologies (a company that **martin**wolf represented in its investment from Lightview).*

You have significant experience in the technology industry. Tell us about your background and what led to the founding of Lightview.

I spent the first 20 years of my career as an operator in technology companies with experiences that ranged from working for one of the early Silicon Valley startups called Excelan, to helping found and bootstrap an IT services/MSP in NYC -- organically growing it and selling it to a public company. I've also ran public IT SW and services businesses as the CEO. Through that experience I learned what it takes to build and operate a business, as well as how challenging and exciting that can be. After I sold my last portfolio company, I met my current business partner and we co-founded Lightview. He and I have worked and invested together for almost 18 years now.

How has your experience as an operator influenced how you manage Lightview?

I think that at the end of the day any business is about the quality of the people within it. Understanding and evaluating the quality of the human capital is a critical factor in finding the right fit in a business and team that partners with us. We look for owner-operators that are excited and can see the value we bring beyond the capital. Hopefully some of my experiences as an operator can help them avoid some of the mistakes I made in my career as they navigate the challenges of a growing business. I leverage those operating experiences in almost every business that we invest in as an advisor at the board level and work collaboratively with our CEOs and management teams.

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What is Lightview's investment philosophy? What makes an asset attractive?
Our firm is really focused on investing in capital efficient, founder-owned, bootstrapped businesses that are in high-growth markets with strong recurring or highly repeatable customer revenue in their business model. We like to get behind the customer data and numbers and see that these companies have demonstrated strong same store sales and revenue and customer retention rates. A typical financial profile for us is a growing owner-operated business that is generating between $3-$10M of EBITDA annually. Typically, that founder may be looking for some liquidity as well as a partner that can help them take the business to the next level and grow it meaningfully over a 3-7-year time horizon.

We also look for strong secular growth trends in the market that companies are in as well as fragmented market opportunities. Our typical portfolio company is historically growing between 10 and 20 percent when we invest in it. The company is often leveraging some form of workflow, software or technology enabled service to allow it to scale the margins of its offerings.

Pitchbook reported a record $300 billion in PE fundraising last year. How do you think PE firms are going to deploy those funds? What three sectors will see the most activity?
There's certainly a lot of capital out there. One of the reasons we focus on the lower middle market is because it is very fragmented. From a size perspective, we think it holds the most opportunity. There are tens of thousands of companies in that segment of the market and fewer PE firms focus on it compared to the larger mid-market.

From a sector perspective, based on demographics, areas we think will continue to have strong secular trends and opportunities include healthcare IT, regulatory and compliance solutions, outsourced B2B services and data analytics and business intelligence.

What are your thoughts on the US economy right now?
Thus far we've not seen indications that the economy is slowing down. I think the upcoming election will be a critical factor in determining the direction the economy and markets potentially take.

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We've seen volatile market conditions and cuts in interest rates throughout 2019. How do you continue to adapt to changing conditions at Lightview?
We have pretty consistent views on where we are willing to enter into a business based on profitability, growth and quality of revenue visibility.

It's important to have pricing discipline in economic cycles so that you're not caught up in the froth. That's not to say that there hasn't been some inflation of entry pricing but if you remain focused on core metrics, add value, and consistently achieve quality profitable growth in your business, you'll have good exit options.

Tell us what you're seeing in the lower middle market and what you expect moving forward in 2020.
I think we'll see more of the same. To some extent, owners and operators realize this economy won't last forever and activity remains robust. The uncertainty of the presidential election and potential administration changes certainly remains prominent in owner's minds.

You have a history of investments in the MSP space – previously with NexusTek which you exited and just recently with Buchanan Technologies (who was represented by *martin*wolf). Why is the MSP space a good place to invest?
We like the attributes of MSPs. These businesses have strong recurring revenue, high revenue retention from their customers, are consistently profitable if managed efficiently, and can differentiate themselves based on segment of the market, vertical knowledge or geographic focus. It's a hugely fragmented space with thousands of MSPs across North America, so there's a real opportunity to build and scale through both organic and inorganic growth.

Walk us through the initial attraction of both NexusTek and Buchanan and the differences in the two companies.
NexusTek was our first MSP investment. As I noted previously, early in my operating career, I ran a business that was an MSP, so we were very familiar and attracted to that space. NexusTek was a Denver-based MSP that was focused on SMB customers at the time.

Our investment thesis was to take this Denver focused business that had a strong operating culture and financial and operating metrics and turn it into a leading MSP in the Mountain West Region. Over the course of the subsequent three years we were able to do that through organic growth, process improvement, and M&A. By the time we

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exited the business we'd almost tripled its revenue and built it into a true platform that had achieved critical mass and scale.

We went on to make our most recent platform investment in Buchanan Technologies in August of 2019. That business is another managed IT service business but focused on the mid-market – companies that are in the 1,000-10,000-employee range. It provides a suite of services for the IT organization around applications, system and network infrastructure and security. Its service offerings include application and help desk services, remote monitoring and IT management of infrastructure and IT Security, field support and dispatch services as well as consulting services. What we like about Buchanan is that the majority of its services are in the form of recurring multi-year managed services contracts. It has a true round the clock ability to support its customers with service/delivery locations across the US, Canada and Eastern Europe, with deep domain expertise in verticals that include higher education, financial services, and multi-location retail.

Who are the logical survivors in the MSP space? Service providers (ATT)? OEMs? Integrators (Accenture/Tata)? Vars?
This is an interesting question. It's a very fragmented market as you well know. There are over 12 thousand MSPs in North America.

An important element for MSPs is geographic reach and ability to service their customer locations. At some level, these businesses will always need to physically touch the customer's endpoint if there is a system failure. Ultimately, I think customers ask, 'can you service where I am?' That's challenging for a smaller single-city provider so there has to be consolidation.

I also believe market segmentation matters. The nuances of serving a SMB customer are very different than servicing the mid-market or large enterprise customers. Having a focus that can consistently be applied to support the target segment creates differentiation and is important. Some of the larger global IT outsourcing providers tend to focus on the large enterprise but are challenged to enter the SMB and mid-market which creates an opportunity in those segments today. SMB and mid-market tend to be more regionally oriented than nationally oriented and creates an opportunity for those providers that can establish wider geographic presence. Combining that with vertical and application expertise will further differentiate providers.

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You also ask a question around companies like AT&T. Companies that are building out data centers and hosting services remain a land grab and real estate play to some extent. While I certainly believe they will get computing and network cycles from customers, those applications and services still need to be managed. In today's world, most customers have a combination of private cloud, public cloud, on-site, services and applications and they'll want one throat to choke to help them manage that. So, whether a server sitting in a data center like an AT&T, or is on-premise, the customer still wants to know that it's monitored, managed and administered. And that's where the good MSP providers come in.

What is your advice to MSP's who are looking to receive private equity funding from firms like Lightview? How do they set themselves up for success?
The number one indicator of a value-add service offering is revenue retention from customers. If customer retention is high and you're able to show consistent growth and profitability in your business, you've built a winning formula.

My advice to MSPs is to focus on customer retention and processes, knowledge bases, and automation that allows you to continue to improve both your operating efficiency and profitability, and the quality of the services provided to customers. If all you've got is a bunch of smart employees answering phone calls and responding to problems and you're not doing things like robotic process automation, workflow automation, and knowledge capture, your ability to scale is going to be limited. Scalable operations and sales processes are extremely important to an investor like me. We want to look and see that there is a sustained productivity level from all parts of your sales and delivery organization, with KPIs and core metrics that show quantifiable ROI.

You currently serve on the board of directors for the Clarke Companies, Buchanan Technologies, Educational Measures, and Metova. What have you learned from holding these positions? Are there similarities across these companies?
We have board seats in all the companies we invest in and expect to be active partners with our management teams while taking the business to the next level. The consistent things we work on with our companies include expansion strategy (service lines, geography, verticals, etc), attracting and retaining key talent, corporate development and M&A, and implementing best practices for systems, KPIs and metrics in sales marketing, operations and the back office. Benchmarking our companies allows us to drive the company to

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consistently measure itself to make sure it is operating in best in class.

All these companies have elements of the above. And while they can vary in focus or solutions offering, we consistently apply a value-added-based process.

Finally, if you could give young Rich Erickson one piece of career advice, what would it be?
Never be satisfied. Maintain an intellectual curiosity. The desire to learn is really important in whatever you do. Never rest on your laurels, and always look to improve.