



Thomas Bagley describes how this private equity firm helps middle-market manufacturing and distribution companies get to the next level.

Pfingsten Partners



Building Better Businesses



For Deerfield, Ill.-based Pfingsten Partners, LLC, a private equity firm specializing in the acquisition of manufacturing and distribution companies, the goal is not to land the next big deal. According to Thomas Bagley, founder and senior managing director, the company's experienced staff helps build better businesses along the way.

"The strategy deployed by any private equity firm is driven by experience. For us, it is manufacturing and distribution companies, as well as an occasional service company. At least half of our professionals have operating backgrounds and have run bigger and more complex businesses than the ones we purchase," said Bagley.

Pfingsten Partners focuses on middle market companies between \$30 million and \$150 million in annual revenue. Many were built by entrepreneurs and need operational resources and capital to get to the next level, while others are underperforming or orphaned divisions or subsidiaries of larger companies. Bagley explained that this market segment was chosen because Pflingsten's team-based continuous improvement operating model works best for this size company, which needs to transition from entrepreneurial to professional management practices.

The next level

As Bagley described, most middle market manufacturing, distribution, or service businesses have several factors in common. First, many are run with an entrepreneurial management style, which is typically more autocratic than team-based. Second, they often don't have adequate access to capital. Third, they lack operational depth or corporate finance resources. Finally, middle market companies are often regional or national in scope and do not think or act globally.

To help middle market companies break through their plateau, Pflingsten Partners developed a team-based continuous improvement operating model that combines the best of modern management practices, including lean, Six Sigma, kaizen, and TQM. "Today's management practices have four common elements: they promote collaboration, the use of data in the decisionmaking process, cross functionality, and continuous improvement," said Bagley.



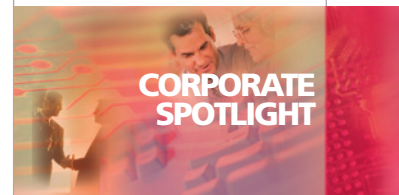
At least half of our professionals have operating backgrounds and have run bigger and more complex businesses than the ones we purchase.

For its portfolio companies, Pflingsten has eliminated the jargon from popular management practices, keeping its team-based continuous improvement process simple enough for everyone to understand and embrace.

Pflingsten Partners has developed a series of team-based continuous improvement training programs, one for senior management, one for middle management, and one for team leaders. Held in Chicago, the week-long team leader program teaches problem solving and effective communication techniques, as well as how to conduct effective meetings and gather and analyze data. Subsequent to the training, team leaders are charged with organizing two cross-functional teams to tackle key initiatives at their company. To gauge progress, Pflingsten Partners uses visual metrics, or a "wall of measures," at each facility to visually display performance against key operational metrics.

Going global

All of Pflingsten Partners' companies are headquartered in the US, but many need to embrace the global market. "Every middle market manufacturing or distribution company in the US





needs to deal with Asia—if it is ignored, it will become a threat; if it is embraced, it may provide an opportunity. But we have found through experience that most of these companies have neither the resources nor the experience to deal with Asia,” said Bagley.

For the past several years, Pfingsten Partners has been building relationships in Asia to provide its companies with three key services. Pfingsten’s 10-person office in Hong Kong sources high quality, low cost manufactured products and provides logistical support, quality control, and new product development in China. Pfingsten Partners also assists its companies that have an opportunity to sell products in Asia to analyze the opportunity and establish sales infrastructure.

In addition, Pfingsten Partners executes strategic acquisitions for its companies and is currently working on acquisitions in China for two of its platform companies.

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Final product

When searching for the perfect acquisition opportunity, Pfingsten Partners looks for common characteristics, such as revenue stability, market position, and most importantly, culture. “We are looking for businesses that have the potential to improve growth and profitability. To achieve that, the company culture has to embrace change. We seek cultural alignment around team-based continuous improvement and economic alignment through equity and merit-based compensation programs.” Bagley said.

To minimize financial risk, Pfingsten Partners uses a low-leverage capital structure. “Over the last 18 years, our average capital structure has had over 50% equity, which means that every dollar of debt is balanced with a dollar of equity. That is unusual for a private equity firm. We use low leverage because our focus is on building better businesses. A conservative capital structure maximizes our operating flexibility and allows the company to weather economic and competitive changes.”

Pfingsten Partners typically holds its investments between five and seven years. By that time, the company has outgrown the middle market and become attractive to larger private equity firms or strategic acquirers.

“We take our portfolio companies through the logical transition from entrepreneurial ownership to professionally managed businesses. If successful, we unlock growth and profit potential, building a business that is bigger, stronger, and more competitive,” Bagley concluded. ■

