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How Private Equity Helped This Founder Find New Growth in Old Products

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Diamond Assets founder Mike McKenna needed a PE firm that would let him continue to control operational decisions. He found one in Pfingsten Partners.

In 2017, Mike McKenna had accomplished more before his 30th birthday than many entrepreneurs do in their entire careers. The 29-year-old founder's startup, Diamond Assets, was on track to hit $43 million in annual revenue, enough to claim the No. 7 spot on the Inc. 5000 list of America's fastest-growing private companies. Founded in 2014, the Milton, Wisconsin-based company buys, refurbishes, and resells outdated Apple equipment from schools and government agencies.

A former account executive at Apple, McKenna knew better than to rest on his laurels, so he went searching for a financial partner that could also provide operational expertise to help his young company scale. He found Pfingsten Partners, a Chicago-based private equity firm that typically invests between $15 million and $100 million in manufacturing, distribution and business services companies.

A small group from Pfingsten, including founder Thomas Bagley, made the two-hour drive from Chicago to Milton for the initial meeting. McKenna was immediately struck by how personable they all were compared to the East Coast and West Coast investors he knew. "You could tell right away that they carried Midwest values," he says. "They earned a second date."

The date led to a happy marriage. In January 2018, Pfingsten acquired a majority stake in Diamond Assets for an undisclosed sum. McKenna insisted on remaining CEO and still controls all operational decisions. While that may have been a deal breaker for some buyout shops, it wasn't an issue for Pfingsten.

"We work with the management teams--we don't take them over," says Pfingsten managing director Ken Hessevick. "We don't come in with a three-ring binder that says, 'This is how you're going to start running your business today."

For Diamond Assets, Pfingsten's capital and advice have helped spur continued growth. First on the firm's list of recommendations was to invest in a larger warehouse and office facility. Step two was ramping up hiring to fill that space, which Diamond Assets has done during the past two and a half years, tripling its headcount from 30 to 90.

The move proved prescient: Economic recessions make consumers more likely to buy used tech, which has made Diamond Assets one of those rare companies that's seen a surge in demand since the coronavirus pandemic began. McKenna says the business is currently approaching $100 million in 2020 revenue, nearly double last year's $56 million.

McKenna also credits Pfingsten with mentoring him as a leader, helping him set annual strategic goals, and working with him to build a more collegial company culture. For example, weekly "Fun Fridays" feature company-catered lunches, while last year's first annual staff outing--which involved renting out a local park--helped the team focus on more big-picture ideas. "Sometimes, you're moving so fast that you don't stop to sit down, meet as a team, and think about the five or ten things that you can do to make the business better," McKenna says.

Because Pfingsten's exit timeline is typically four to seven years, Diamond Assets is roughly halfway through its private equity partnership. While a healthy return on investment is obviously a priority for Pfingsten, the firm also has a vested interest in setting up its portfolio companies for success, as McKenna will one day serve as a reference for other entrepreneurs. His advice to founders and CEOs considering the PE path is to move slowly.

"Take your time and do your due diligence," he says, "because once you're married, you're married."