

A Capital Infusion Fuels Growth, Staff Opportunity



When Meritas Capital Partners, a boutique private equity (PE) firm, wanted to acquire a managed services provider (MSP) platform, there was one requirement that made the search a bit more challenging. Meritas had no interest in taking a hands-on role with the soon-to-be acquired company.

Meritas Capital founders Don Epstein and Robert Burkholder had started and operated Denver's largest MSP for nearly two decades until they recapitalized the firm in 2014. While their MSP experience gave them an expert viewpoint that most PE firms lack, it also convinced them that they wanted to be involved in their acquired companies on an advisory level, not in day-to-day operations.

While Meritas had come close to acquiring other platform companies in the MSP space, its one non-negotiable deal requirement was standing in the way of a completed transaction.

Key to Deal: Operational Executive in Place

"Meritas Capital Partners is not a typical private equity firm because we invest with our own money," said Epstein of Meritas. "We were looking for a platform company with a strong presence in the small-and-medium-sized business market – one that already had an operational executive ready to take over when the transaction was complete."

Cogent Growth Partners, a buy-side intermediary specializing in the managed services provider (MSP) technology market, encouraged Meritas to consider Madison, Wisconsin-based Applied Tech, a 20-year-old MSP providing IT support, advanced business management software solutions focused on Microsoft technologies, managed security services and outsourced business technology consulting to small-and medium-sized businesses. Applied Tech had built an impressive beachhead in Wisconsin, long recognized as a manufacturing and distribution hub, and was planning to expand regionally and eventually, nationally.

"The Meritas/Applied Tech deal was a complex transaction," said Bruce Teichman, Executive Vice President and Partner, Cogent Growth Partners. "Succession planning on Applied Tech's part was what made the deal happen. Meritas had looked at

other MSPs to acquire but walked away when there was no operational person to take over post-transaction."

Looking for PE Firm with MSP Expertise

Despite Applied Tech's strong balance sheet and impressive list of satisfied customers, Founder Kurt Sippel wanted to sell to a buyer who would help ensure the company's future. "I was holding the company back," Sippel said. "I wasn't willing to put all my financial eggs in one basket and fund the company to get it to the next level."

Sippel thought that the right buyer for his company would be a firm with the financial wherewithal to support the aggressive growth he knew was possible. Plus, he wanted the acquisition to create "a great place for my current employees – a place with opportunities for each of them to grow."

Additionally, Sippel wanted to launch his encore career. "I was ready to give back without having to make a living," Sippel said. "I had made it known throughout the company that I would be exiting to pursue this goal and this knowledge helped prepare the employees for the transition." Most importantly, Sippel had been grooming Daniel Petersen, a 20-year Applied Tech veteran, to take over the company when he moved on.



"Cogent understood the return-on-cash and growth expectations Meritas had of a candidate company, and they knew that the most important priority to Applied Tech's Founder Kurt Sippel was to find a buyer who would ensure his company endured as an employer with growth opportunities for the staff."

Daniel Petersen, President of Applied Tech



As it turned out, Petersen, who now heads Applied Tech as president, was not only pivotal to the transaction, he was one of its biggest advocates. "Meritas was an ideal partner for us because of its MSP background," Petersen. "Additionally, Meritas understood our business in a way that most private equity firms' bankers and partners do not. Meritas knew how hard we had all worked to maintain a 98% daily customer satisfaction score and what that meant to our future."

Aligned Cultures, Values Spell Success

Initially, it was Cogent's "matchmaking" abilities – consistently being able to see the potential of business combinations even before they come to fruition – that brought Meritas and Applied Tech together. "Cogent did a great job in bringing together two groups with similar cultures and values," Petersen said. "The fit between Meritas and Applied Tech was super critical to both sides – it was extraordinarily important to all of us, from a culture standpoint and a corporate direction perspective, that the customers and employees continued to be taken care of."

As the transactional process unfolded, Cogent's due diligence expertise, ability to manage all the players and keep the deal moving were the keys to completing the transaction. "The Cogent team is a group of direct communicators who keep all of us focused on the prize – a well-capitalized MSP operation full of opportunities for the staff," said Petersen. "With Cogent handling the due diligence and project management aspects of the transaction, we could concentrate on building sustainable momentum for Applied Tech post-transaction."

Moving Forward with Organic Growth, Strategic Acquisitions

Meritas and Applied Tech envision a good deal of organic growth for the combined company going forward, supplemented by strategic acquisitions. Petersen is excited to make acquisitions that will expand Applied Tech's reach beyond Wisconsin, making the company a regional player and then a national competitor as well, in the booming MSP marketplace. Sippel supports Applied Tech from his board seat.

Applied Tech's growth has continued at an impressive level – even during the COVID-19 pandemic. Demand for its MSP services is strong with the company's cybersecurity offering creating additional business opportunities in new and existing accounts as well.

"We intend to leverage our relationship with Cogent to make these strategic acquisitions happen," said Applied Tech's Petersen. "Having executed acquisitions with and without Cogent, I don't want to go through this process again without them."

About Meritas Capital Partners

Meritas Capital Partners is a growth-oriented private equity firm seeking investments in profitable, operationally sound, and founder or management-owned companies. Beyond these attributes, we are focused on businesses with opportunities to improve operations and drive growth through the use of innovative technologies. Meritas primarily invests in change of control transactions with retained management talent.

Meritas was founded by Rob Burkholder and Don Epstein after nearly 20 years operating, growing, and finally exiting the leading managed IT services business in Denver. Having completed twelve acquisition transactions together, Rob and Don bring a unique blend of operations, technology, financial, and M&A expertise to businesses looking for a partner in growth. Read more about our investment strategy at <http://meritascap.com/>

About Applied Tech

Applied Tech was established in 1999 to provide progressive managed IT services to organizations and companies in need of strategic IT support. Our mission is simple; to be the most proactive managed IT and security services provider in Midwest. With a culture aligned to run alongside your fast-paced and dynamic environment, you can trust us to support your mission-critical technologies while you focus on your core business. Applied Tech is headquartered in Madison, WI with additional offices in Waukesha, WI and Wausau, WI. We work as a team to provide responsive and comprehensive business IT support customized to fit your company's current need, future plans, and budget. Our team and our services are constantly evolving to provide our clients with the technology tools they need to run their businesses better. Give us a call or check out our website to learn more www.appliedtech.us

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