Transcript of Matt Brugner

Hall T. Martin: [00:00:00] Well, hello, this is Hall Martin with Investor Connect. Today we're here with Matt Brugner of Stewardship Partners. Stewardship Partners seeks to acquire one company and care for it well for the benefit of all stakeholders. Matt has a unique investment model centered on the values informed by his faith.

Matt intends to operate the business he acquires full time, giving the exiting founder a win win succession plan. Matt, [00:00:20] thank you for joining us.

Matt Brugner: Thanks, Hall. Great to talk with a fellow Baylor Bear. Appreciate it.

Hall T. Martin: Looking forward to it. So where are you calling from today?

Matt Brugner: here in Dallas, uh, you know, as a solo investor, entrepreneur, I come into a co working space.

And, um, we've lived in Dallas for about seven years, so love being up there, not too far from you, Hall.

Hall T. Martin: [00:00:40] Great. So tell us more about your background before joining Stewardship Partners.

Matt Brugner: Yeah, it's been an interesting journey to get to, where I am today. You know, I've always wanted to be entrepreneurial.

Grew up with an entrepreneurial father. wanted to, to start and lead businesses. And didn't know how that would, how that would happen or how my career would shape out. I went to Baylor, [00:01:00] undergrad. sick of bears. And studied entrepreneurship there. Thinking I would start something. Um, ultimately didn't have an idea I was particularly passionate about.

Also did a finance major. So I wanted to explore kind of, a career in finance before hopefully starting something. that led me to Goldman Sachs up here in Dallas. And my role at [00:01:20] Goldman was, was twofold. In one, one piece of the business, we were lending money to entrepreneurs. So I got to see a lot of interesting businesses, a lot of different industries, a lot of people who, um, were successfully leading companies.

Um, and then another part of the business we were lending to private equity funds. So I got some exposure to the M& A world. [00:01:40] I got to see how deals were done, how value was created after an investment, and both of those really fascinated me, but really at Goldman, I felt, I felt a little too far from the action hall.

I really wanted to, to get in the operator's seat, kind of roll up my sleeves and run a business as opposed to, just invest from the background. I wanted to kind of get in the seat of the operator. So... [00:02:00] I went to business school with the intention of doing that. I went to Northwestern Kellogg full time during COVID with the hopes that I will be able to come out of business school, raise some capital and go buy a business.

And that's what I've done. So that's, that's how Stewardship Partners came to be. Um, you know, we are a fund of one. The goal [00:02:20] is to buy one business and I've got a great group of supporters helping me do that. But it's been a great journey to get here, and I can't wait to get in the operator seat and help help lead a business forward

Hall T. Martin: great So what excites you right now?

Matt Brugner: There's so much going on the market right now. It's really interesting me [00:02:40] particularly is, particularly for, I think values based, faith based business operators, I'm starting to see just more of a focus on using, business as a, platform to do good for the world. I'm seeing more and more business owners seeing business more as [00:03:00] a mission and a ministry than simply just a kind of bottom line net profit.

And that gets me excited because I think that creates opportunity for, for a lot of good to happen. So I'm excited about that. I'm seeing that. I'm also seeing all just a lot of... need for thoughtful succession planning in the market. So a lot of businesses I think are going to come for sale in the next 10 [00:03:20] years.

A lot of generational wealth transfer, which creates opportunities for someone like me, younger entrepreneurs, to step in and be a thoughtful succession plan for somebody. That gets me excited because I think there's going to be a lot of opportunity for the next generation of entrepreneurs to take over and steward businesses forward.

That's really fun.

Hall T. Martin: Great. So you're running a search fund. [00:03:40] Here. Can you tell us more about what that is and how it

Matt Brugner: works? Yes. The search funds are a bit unique. This model was created at Stanford's Business School, I think in the late 80s or early 90s. A professor backed a student to buy a business. from a retiring founder and at that went really well.

, and the model has expanded from [00:04:00] there, really to kind of other top business school programs, , across the country. And so now you'll see, you know, a handful of folks every year doing this, but the idea is I've raised some capital from family offices, some small funds, some operators who've sold their businesses.

to [00:04:20] acquire a business which I will go lead. So, it's private equity in the sense that we are acquiring a majority stake in a business. it's different from private equity in the sense that you're really selling your business to an entrepreneur and an entrepreneur is going to come lead the business forward.

obviously we're different from VC because we're not taking minority stakes and sometimes these businesses can be [00:04:40] a little bit later stage than what a VC might focus on. so that's the search fund model. My investors will... Providing with the capital to buy this business. They'll serve as a board of directors and mentorship for me And then I'll go in as the sort of the day to day operator for the transitioning founder.

Hall T. Martin: And so it's different from VC How is it different from private [00:05:00] equity?

Matt Brugner: Yes different from PC and it's not investment It's different from private equity in the sense that you know, typically private equity funds are building portfolios and businesses And, they may place an operator in the business, but you may or may not know who that person is when you sell to private equity.

and the deals tend to be a little bit bigger than maybe what I'm focused [00:05:20] on, on average. I'm intending to come run the business full time. And so it's really like selling your business to, to an entrepreneur. Although it's private equity, like in the sense that we are buying a majority stake of the equity in the business.

Right. And I intend to probably hold for longer than a private equity fund might intend to hold it as well.

Hall T. Martin: Great. Well, you see a lot of [00:05:40] startups and investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that

Matt Brugner: check? Yeah, it's, it's really interesting.

And. You know, it's almost odd to use the startup language in this sense, because a lot of these businesses are later stage. Although, I do look at a lot of B2B software at all, and those businesses [00:06:00] sometimes look early stage. It may not be an older, retiring founder. It may be a younger. serial entrepreneur who loves building businesses, loves product market fit that kind of early stage.

But as that business grows and scales, they may be hitting an inflection point in their growth where their role as the leader of that [00:06:20] business has changed significantly. And I find sometimes that that doesn't work for everybody. They might not want to be the CEO of a 5 million ARR business anymore, because maybe that's not what they're good at, or that's not what they like doing.

the job changes. And so, my advice for people who are running a search or thinking about what it might [00:06:40] look like to invest via this model in early stage software companies is to look for that founder that may be hitting a growth inflection point. Maybe their skill set was really good getting the business from zero to two or zero to five.

But they may not be the right person to take it from two to 10 or five to 20. Right. And so [00:07:00] looking for those founders that really care about the business, know that they may not be the person to lead the ship forward. That's a really good fit for me. And I think a really good fit for, for this model,

Hall T. Martin: particularly.

Great. And then on the other side of that table, what's your advice for people running businesses? What do you tell those startups to do before they go out to raise funding?

Matt Brugner: [00:07:20] Oh, yeah. I mean. talk to a lot of early stage people who are not ready for a full exit, right? They're either really early and raising early stage capital or they're off to the races.

I typically see a lack of focus on key SaaS metrics. especially if they haven't had any [00:07:40] institutional investors in their group yet, making sure you're understanding the metrics behind a B2B SaaS business. What's the fuel in the tank, if you will, um, is going to be key and will help them both raise money more easily.

It'll help an investor diligence business more easily, but it'll help them truly understand kind of where their business stands and [00:08:00] benchmark it against other similar products. I see a lot of founders sort of. Missing that piece of it. And so when I come in to look at the business to buy it, we're often starting from scratch on building out those metrics.

And then once we determine the metrics, it often reveals, Hey, these are some places you can tweak and tune and improve to get [00:08:20] yourself either ready for a full exit to someone like me, or more ready for maybe a series a B round, which wouldn't be me, but would be more kind of a traditional BC path.

Hall T. Martin: Well, great. So let's talk about the state of startup investing today. How do you see the industry evolving in the current market?

Matt Brugner: Yeah, it's interesting. So [00:08:40] particularly for me, which is focused on buyout instead of pure growth investing, there is more private equity appetite to come down market, I think, on deal size, which is creating some interesting opportunities for even smaller businesses to sell majority stakes.

Um, the other thing I'm seeing, at least in this last year, [00:09:00] lots of emphasis on, cashflow and profitability more so than historically, just given people's sensitivity to where the economy might go. formerly, if you looked at a business and it was 60% growth, 0% net, even on margin, like that's a great SAFR investment, let's do it [00:09:20] in my world.

You know, now investors want to set the rule of 60 business. Now investors might prefer Hey, it's rule of 60, but actually 30% growth 30% net margin makes us feel a lot better I'm just seeing more emphasis on that side of the table than growth at all costs despite profitability Let me see a little bit of that

Hall T. Martin: [00:09:40] great and you deal a lot with SAS businesses What do you think is the biggest change we'll see in SAS businesses in the coming years?

Matt Brugner: Oh, it's uh, It's fascinating. I think you'll see more emphasis on retention, as a key metric, particularly if the economy gets challenging. I think retention, and retention really is a measure of how critical [00:10:00] is your SaaS product to your end user. That's something I'm highly focused on when I'm looking at a potential business, is that criticality metric and how that criticality metric is reflected in churn metrics.

so I think we'll see more emphasis on that. yeah, I recently looked at a business, in kind of field services, sass, you know, the business had a [00:10:20] really, really nice top line growth, but the retention measures We're below industry norms that raised some significant concerns for us on sort of what's the viability if we can't achieve that growth rate going forward.

Um, so it was a bit of a challenging 1 that that founder is now working on those retention metrics, right? as his focus area. So I see that being a big point of [00:10:40] emphasis kind of in the next 2 years and B to B sass investing.

Hall T. Martin: Great. Well, let's talk about your investment thesis for the search fund. What exactly is it?

And what exactly are you looking for?

Matt Brugner: Yeah, so my thesis is centered around Probably a more bootstrapped or maybe angel lightly funded B2B SaaS business I like [00:11:00] vertical markets. So SaaS business is targeting a particular Uh, in market as opposed to a horizontal SaaS business serving all industries. Um, and I can talk about some of those verticals I've focused on and where I like to play.

But in general, vertical B2B SaaS, I like businesses in this kind of 2 to 6 million ARR [00:11:20] range. So they've hit this inflection point where they're not chasing product market fit. This business has staying power. It's got real customers. It's got real growth. It's got real employee and team. but it hasn't built the machine so much that they've hit this, you know, 10, 15, 20 million of ARR business where they're really in kind of a [00:11:40] different ballgame and a different league at that point.

And I'm looking for that founder, like I mentioned before, that really loves that product market fit stage, but as they do more finance, NHR, and that organizational process building that you do when the business hits 2, That's where I could add a lot of value and kind of help push to that [00:12:00] next growth level.

and I'm a big believer that businesses need different leadership at different times. So that is my kind of perfect thesis. I think there are a bunch of businesses out there and a lot of times because they're vertical. These businesses have, they can't really raise traditional VC money. The TAMs aren't big enough.

And that creates an [00:12:20] opportunity for a buyout player like me to come in and say, we can get you a really nice value for your business. We can scale it, but we're not going to be up against the VC backed startup over here that's just burning cash to acquire customers. and so that's a good fit for a searcher like me who wants to come lead a business for the next, you know, five to 10 [00:12:40] years.

Well,

Hall T. Martin: something like vertical market sass, uh, aside from the, uh, the economics of it, what, what else do you like about them? Why do you, choose vertical

Matt Brugner: sass? Yeah. I mean, certainly we talked about the economics. We talked a little bit about, it's a nice place to play in. Because, uh, the bar is higher to raise VC money if the TAM is too [00:13:00] small.

So that can create some nice barriers to entry for someone like me. I also like it on that criticality piece we touched on earlier. Like these, processes tend to be critical to the end markets they're serving, which I appreciate, but tend to be not a lot of great alternatives. And I often like it because the founders are often industry experts or industry [00:13:20] people.

That's all problem in their industry and then are circling back to fix it. give a quick example. I looked at a nonprofit tech business recently that was helping nonprofits, essentially budget for the year. This is a person who worked in nonprofit accounting, realize that budgets were a major pain point for nonprofits.[00:13:40]

Right, their non profit leaders are not accountants, they're typically not very financially savvy. So he created a simple SaaS tool that allowed non profits to more efficiently budget for the year. Great, niche y, vertical SaaS product, right, and a, and a great example of what would be a good fit, kind of on multiple, on multiple levels.

So love vertical markets, [00:14:00] think it's a great place to play for kind of small buyout, and it's been a good fit for, for me. To meet industry experts and go deep in these

Hall T. Martin: verticals. All right. We talked about criticality being one of your key criteria. What are maybe a couple of other key criteria you look for in these vertical SaaS startups that you were looking forward to [00:14:20] acquire?

Matt Brugner: Yeah. Key criteria, top three would be like, you gotta have some growth. No growth is scary. So I certainly look at growth, certainly look at profitability, kind of how efficient are they with capital, which is one of the reasons I really like more bootstrap businesses. They tend to be pretty capital efficient.

The founders had to be capital [00:14:40] efficient, maybe at the expense of growth, but that can be a good fit for me to say, well, let's make a couple of strategic investments and increase growth. But not lose kind of our profitability focus. I like that. And then thirdly, of course, criticality, which I think is is certainly reflected in turn.

You know, the other thing I'll mention that it's not [00:15:00] so much a. investment criteria. It's a personal criteria. You know, I'm going to go run this business. there's a values and culture component that is highly important, if not the most important thing for me, because I'm going to go spend 10 years helping lead and grow this thing.

If that doesn't check the box, they can have the best metrics in the [00:15:20] world. And that's not going to. It's not going to be a great fit for me. So that's sort of mission critical. Number one is, , are the values and cultures aligned with what I want out of my career in business? And then, you know, certainly we got to get to the tactical, SAS metrics.

Great.

Hall T. Martin: Well, I always ask this question. What online resource do you find most helpful for your work?[00:15:40]

Matt Brugner: Oh, that's a, that's a great question. There, there are many, I'll mention two that I found extremely helpful for, uh, deal sourcing because I do a lot of proprietary deal sourcing. I think that might be helpful to, to this audience listening.

One, I use a lot of Grata, G R A T A, Grata. I think they're a [00:16:00] Series B startup. they're essentially a web scraper for private company info. So think of it as a sort of a search engine, Zoom info, LinkedIn, Crunchbase. It's pulling all that data in, plus it's pulling proprietary information from these.

Businesses, websites via web scripting and [00:16:20] allowing the user to quickly source list, build, find information, make quick determinations on what is this business? What do we know about them publicly? And then where do we want to go from there? So I use that for a lot of my outreach. For example, if I wanted to go build a list.

In nonprofit software. [00:16:40] I could do that pretty easily using that grata tool. Um, I'm a big fan of that, that is a paid resource. but a lot of private equity is picking grata up recently, so it's been, it's been pretty popular. the other one I would, I would highlight just in terms of contact finding that I've found recently that I don't know, is, I don't know how popular it is yet, is called [00:17:00] seamless.ai.

A great email, verification and finding tool. They've got a great LinkedIn plug in where all I could go to your LinkedIn profile, I could hit a button, it would pull up. What it thinks is the correct email address for you the percentage likelihood that it's correct phone numbers Addresses, whatever, you know, [00:17:20] whatever information it could gather which allows me to then do some kind of thoughtful prospecting and again I'm not spamming people.

I'm highly relational in this it has to be relational You do have to sometimes you gotta find somebody's email, right? And I found that to be the best tool to do that from the ones I've tested thus far

Hall T. Martin: and that's called C list AI

Matt Brugner: [00:17:40] Seamless, like a seamless process. Seamless, I get you. Seamless. ai, and then the other one is called Grada.

G R A T A, both paid software tools, but great businesses and, uh, highly recommend if you're doing any sort of kind of outbound prospecting.

Hall T. Martin: I have to check those out. Well, in the last few minutes that we have here today, what [00:18:00] else should we cover that we haven't?

Matt Brugner: That's a great question. you know, I would just highlight, again, the, the search model is unique amongst exit options.

in that you're really going to build a relationship with the entrepreneur that's going to run your business. And so for folks out there considering an exit, there are a lot of options [00:18:20] available to them. And, I would encourage those folks to think about kind of fit first and foremost, in terms of what they want their relationship with their buyer to look like.

Um, and then let that fit and form the types of parties you engage with along the way. and certainly, you know, go make sure you're gonna, you [00:18:40] get paid, highest price for your, your, your awesome business, , but don't let that fit piece slip away as you're thinking about who's going to be the steward of your business.

That's what I'm passionate about. Right? It's, it's not, Hey, let's go, let's go buy a thousand businesses. It's. Let's go by one, be really thoughtful about it and steward it well, um, and I think by [00:19:00] doing that I can provide a lot of value for a founder that really, really cares about that. but it's tough out there, it's tough to find a good deal.

So, you got to stay in the course, I would encourage investors just to stay the course right now, can stick to their criteria and be patient. Great.

Hall T. Martin: So how best for listeners to get back in touch with you?

Matt Brugner: Yeah, a couple different ways. We'd love to connect on LinkedIn. and again, if I [00:19:20] can't be a direct help, I love connecting, uh, people.

Um, it's, it's one of my favorite things to do. So we'd love to be helpful any way I can. And Holla, you've done that for me. So I really appreciate, the way you've connected me and your network. So thank you. so yeah, LinkedIn's great. Uh, Matt Brugner. I think the, the bio will, you know, the LinkedIn will [00:19:40] be in the, the show notes.

So hopefully it'll be there. email's great. Matt at stewardship hyphen partners dot com. those are great ways to connect with me. I'd love to, to speak with anyone who's interested in the search fund model and business succession. B2B vertical SaaS, happy to help on any of those fronts.

Hall T. Martin: Well, great.

We'll [00:20:00] put those contact details in the show notes. I want to thank you for joining us today and hope to have you back for a follow up

Matt Brugner: soon. Yeah, thanks for having me. Hopefully I'll be a CEO by the next time we talk.