

Profiler Talk: Generation Growth Capital's John Reinke on investment in mystery shopping space
By Deborah Balshem in Fort Lauderdale
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*Generation Growth Capital (GGC) recently acquired **BestMark**, a provider of customer experience measurement services and related analytics.*

Headquartered in Minneapolis, BestMark assesses and improves customer satisfaction and loyalty for major companies in the retail, automotive, hospitality, technology and other industries. Its suite of customer information services includes mystery shopping, customer surveys, compliance audits, customer intercept interviews and employee feedback surveys.

Since its founding in 1986, BestMark has performed more than 8 million evaluations using its network of approximately 500,000 contract research participants/mystery shoppers across the US and Canada. The information gathered is connected via GuestLink, the company's proprietary web-based data collection and reporting system.

Mergermarket spoke with John Reinke, managing director of GGC, about the transaction and the company's growth strategy.

Reinke's full list of deals and relationships can be found on Profiler app - [John Reinke](#). Download the app [here](#) to check profiles of M&A individuals before meeting them.

The deal

BestMark fit well with GGC's operational model, which is specifically tailored to help small businesses through their first ownership and major management transition, Reinke explained. Ann Jennings, the founder and CEO of BestMark, built a very successful and profitable business, but recognized that she did not have the management depth and organizational structure in place to execute on aggressive growth plans or allow her and her senior team to retire, he said

Additionally, with revenue between USD 10m and USD 20m, BestMark fit into GGC's sweet spot, according to Reinke, who said deal valuation was approximately 5.5x TTM EBITDA.

GGC heard about BestMark via Madeira Partners, a boutique middle market investment bank that represented the company and that has done several deals with GGC. There were a number of financial buyers that showed interest in BestMark, according to Reinke, though he noted that strategic interest was limited because of the fragmented nature of the industry and the fact that BestMark is one of the larger and more established players.

Reinke said GGC was chosen because it was the best cultural fit for BestMark due to its small company planning and organizational development model that it has successfully executed with other first time sellers. The firm also has a significant presence in Minnesota with five other portfolio companies.

Though GGC didn't offer the highest price for the business, it ended up offering a bit more in upfront cash and bridging the gap with an earn-out, Reinke explained.

GGC closed the transaction within 60 days of signing the non-binding letter of intent (LOI).

New management

GGC is in the process of hiring a new CEO, CFO and IT Director. Reinke and GGC Founder and Managing Director Cory Nettles will join the Board.

BestMark has been limiting the number of new projects it takes on due to organizational capacity constraints. By investing in new systems and human resources, GGC plans to rapidly expand sales to existing customers that require more services from BestMark, Reinke said.

With the expanded capacity, GGC will look to develop an outbound sales and marketing strategy, which currently does not exist. BestMark's initial focus will be expanding service offerings with new customers in key markets, according to Reinke, who said GGC believes there is an opportunity to double the size of BestMark during the next five years.

Initially, BestMark plans to grow organically, while opportunistically entertaining add-on acquisitions, which would probably be of businesses in the sub-USD 10m revenue category. At some point in the next year or two, BestMark will actively seek buys, Reinke noted.

Deals would likely be funded with a heavy equity component (typically 50% of the deal) "because small companies and heavy leverage do not mix well," Reinke said. "We also like to get our mezzanine partners involved in the first platform investment so they have a comfort level when we need to capitalize future add-ons."

Industry landscape

BestMark customers include very large automotive, retail and consumer products companies. Smaller clients include regional restaurants and other hospitality companies, grocery stores, financial services firms and property management companies.

The company has served more than 500 clients, and has 140 employees.

BestMark is one of the top five largest players in the space, which is dominated by countless small, local mom-and-pop providers and groups focusing on a particular industry specialty, Reinke said.

Due to industry fragmentation and the fact that many sector players are closely held family businesses, "we would expect to see some consolidation as aging owners look to retire and diversify their holdings," he explained.

The Mystery Shopping Provider's Association estimates the US market to be in excess of USD 1.5bn annually – up from USD 600m in 2004. Rapid growth is attributed to the highly competitive nature of retail, hospitality and consumer services, with major players looking to achieve an edge through more consistent customer satisfaction, Reinke noted.

Exit strategy

GGC typically hold its investments for five years, though it has successfully exited portfolio companies anywhere from two to eight years.

GGC considers all options at exit, but believes the most likely BestMark exit will be a sale to a larger middle-market private equity firm that will continue to execute on the growth and consolidation strategies being put in place.

Advisors

Madeira Partners ([Justin Besikoff](#)) served as financial advisor to BestMark on the transaction. **Fredrikson & Byron** ([Sean Kearney](#)) was buy-side legal, while **Winthrop & Weinstine** ([Dave Moran](#)) was sell-side legal.

Riveron Consulting ([Mike Traeger](#)) completed buy-side quality of earnings and **Rose Cognition** ([Dave Hornung](#)) performed market intelligence.

Bell Capital Finance ([Seth Hove](#)) and **EXMARQ Capital Partners** ([Ryan McKinney](#)) provided the senior debt and mezzanine financing, respectively.

The fund

BestMark is the third investment in the Generation Growth Capital Fund III, LP, which was raised in late 2016. GGC normally invests in a total of seven to 10 platform companies per fund.

About Generational Growth Capital

With office in Milwaukee and Chicago, GGC typically invests in companies that have enterprise values between USD 5m and USD 30m, and are located in Wisconsin, Illinois, Minnesota, Iowa, Michigan, Indiana and Missouri. Investments usually range from USD 1m to USD 10m and may be structured as subordinated debt, or preferred or common equity. The firm considers control and non-control investments, and is generally agnostic as it relates to industry verticals though it gravitates toward industries where it has demonstrated success, such as aerospace, medical equipment and value-added distribution.

In the past 12 months, GGC sold aerospace machining house Atlantic Precision to Precision Castparts, and industrial spraying and coating systems company Midway Industrial Supply to Ohio Transmission Corporation. Within the past six months, GGC acquired Harrell's Car Wash Systems, private label breakfast sandwich solutions provider Select Food Products and artisanal sandwich maker Tino's Italian Specialties.