My Benesch My Team – Evolution Capital Partners

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Jeffrey Kadlic
Founding Partner
Evolution Capital Partners

Since 2005, private equity firm Evolution Capital Partners has dedicated itself to supporting founders seeking to transform their entrepreneurially run small businesses into professionally run organizations. The following is a testimonial from Jeffrey Kadlic, Founding Partner of Evolution Capital Partners.

Tell me about Evolution Capital.

We are a traditional private equity fund by definition, but our focus and what we do are unique. We focus on the micro-cap market, which is generally businesses that have valuations under $20 million. Our core competency is professionalization. To use a baseball analogy, we are kind of a farm system for the big leagues. We find small businesses that are doing fine, but the founder recognizes that they can and should be doing better and/or there's some sort of catalyst in the industry that presents an enormous opportunity that they can't take advantage of because of where they are as business.

We have a professionalization strategy that has evolved over the past 16+ years. Not only are we an extension of the management team-so they have more people power-but we also eliminate a lot of trial and error (and the resulting loss of time and money) that goes into being a founder-entrepreneur. We plow a path for them that is much more certain, and with our people power, they can move a lot faster. It's a very difficult phase of growth, so the faster you can get through it, the better off you're going to be.

Our methodology is called the Five Fundamentals. It's not our new age way of doing business but is all the things that larger professional organizations know and do every day (and mostly take for granted), curated for small business. At first, when we started developing the Five Fundamentals in earnest, what we did was not very well understood. The experts we brought in to help us develop it needed to be coached on how to make it much more targeted for small business. Even they weren't sure how to take the things they had done and learned and apply it to businesses as small as the ones we work with.

Today, the Five Fundamentals methodology is on an LMS (learning management system) so that our teams have 24/7 access to materials, a resource center, and downloadable tools. This is unique compared to what private equity has done in the past.

We celebrate our founders because they are willing to risk it all themselves to benefit many others to create jobs, put food on other people's table, and create organization and a healthy routine in people's lives. Our end goal is to create life-changing events for the founder, their employees, and the communities in which they operate by selling to that next echelon of buyer, whether that is a larger private equity fund or a strategic buyer. For example, in December 2021 we sold a business to Oracle. It was a great event for all the employees and the executive staff. We also sold a business to a large California-based private equity fund, and now they're on their next phase of growth with a much larger partner.

Are these businesses across the board in what they do, or do you specialize in certain industries or areas?

The Five Fundamentals work for any business, but we focus on business-to-business services companies and we really like regulated industries. The last four businesses we've invested in recently have been in the environmental space. The deal before that was in the menu planning and dietary consulting space, where dietitians by law are required to certify the meals that are served to anybody that is receiving Medicare or Medicaid. The two deals before that were in the dental space, specifically a dental service organization (DSO) and a dental lab. Those are some of the kinds of regulated businesses we get involved in.

How did you start working with Benesch?

I initially started work with Benesch before I founded Evolution. Back in 2000, I met Jim Hill, Ira Kaplan, and Peter Shelton. We all worked on projects together back then because my employer worked a lot with Benesch. I was always really impressed with Benesch's entrepreneurial spirit. I met Mike Marhofer at the law firm we worked with when our business started, and when he transitioned over to Benesch about five years ago, I transitioned back to Benesch with him. Again, we feel like Benesch matches our entrepreneurial spirit and thinks out of the box, providing opportunities and using their research and expertise in a variety of different areas. You really feel like they're rooting for your success and looking out for you.

What kind of work is Benesch doing for you?

It starts with every new relationship. First, there's the actual acquisition, working with the Benesch group that does M&A and private equity transactions. Then, once the business becomes a partner company, Benesch does all of the typical corporate work that you would expect-reviewing contracts, employment matters, intellectual property, all that sort of stuff. Beyond that, they helped us organize our latest partnership. So we're dealing with the Tax group within the Fund group. Mike Marhofer's been great at creating future partners. We've also gotten to deal with Mitch Gecht, Sam Barbara, and Brian Mielcusny. More recently we have been working with a newly minted partner in Columbus, Amy Craig. We have really benefited from all they have to offer. We haven't touched litigation, which is good, but we have pretty much touched everywhere else in the firm.

What do you like about working with Benesch?

Honestly, it's the people. First off, they are all very capable and I feel good about their quality of work. When you're in the position our team is in, you can either have the attorney simply document everything you negotiate or they can participate in the negotiation because you trust their judgment.

Benesch is the latter. We feel fine going for it if they say, ‘This is the way these things should be and we’re going to bat for them.’ We have worked together for so long that we have a very good yin and yang. They know our strengths and weaknesses as people and an organization and they do a good job of putting a team together on the Benesch side that complements us very well.

What value does Benesch bring to you?

People get paid for their judgment. And sometimes when you’re in the business we’re in, you can get emotional about an issue. You may be entering new territory that you haven’t entered before, and Benesch is able to explain it to you. They don’t charge you for every time you pick up the phone and ask for advice or have a question about something. You get in this working relationship with them where all of a sudden, they’re part of your daily or weekly routine. You can pick up the phone and call someone and you don’t worry about the meter getting clicked. You know when you are on the clock and you know when you’re not and you don’t really even have to ask-it’s kind of unspoken. They’re smart people; they’ve got great judgment. I find that before I make major decisions, I am trying to get some sort of legal perspective, but even more, I’m looking for smart, experienced businesspeople’s perspective on what to do. Benesch provides that.

I know you consider yourselves a small business as well as the companies you’re helping. So, what are your goals for Evolution Capital?

All the things that Benesch does for the companies that we invest in, we can use the same exact services for our business as well. As a small organization, you need to have more than one product line. Our product line is being a traditional private equity fund, but there are other things we can do that we believe can help diversify our revenue streams. More diversified streams means more stability, and you can start to build depth in your organization that you wouldn’t otherwise be able to do for fear that you may get overextended. Benesch is helping us think through those next steps. We’d love to get to a three-legged stool position so that our organization has real long-standing value that will survive the existing partnership when we all decide to retire. It’s a huge compliment to us as professionals to create something that lasts.

Any final thoughts?

We’re very happy customers. We’re really strengthening our relationship with Benesch and doing more with more people. When we started, we were funneling everything through Mike Marhofer. Now there are other Benesch people that our management teams know well who are outstanding talent at a lower cost that small businesses can more easily afford. Benesch is thoughtful about how they staff relationships so that you have talent and people familiar with your business and the issues, but not at an overly expensive rate.