

Pacific Lake Searchers,

A lot has occurred over the past 10 days --- and I'm sure you have been inundated with communications related to COVID-19. At this point, it is clear that actions to prevent the spread of the virus will be wide sweeping and will have a significant impact on the economy and day-to-day life in the near term. It is not clear how long these actions will last, or how they will impact the spread of the virus.

We also recognize that in addition to impacting you personally, they also impact your search. We thought it would be helpful to share some perspective and suggestions.

- We expect good companies will continue to be acquired and business owners will still want to sell
- Ample capital is available for attractive opportunities, even if the market is volatile in the near term
- With seller meetings rescheduling, this is a great time to refocus on digging in on industries and developing company lists
- During any diligence, ensure you understand how current events are impacting the company and future growth prospects for the industry

See below for more details and thoughts on some key areas where you may have questions.

These are unusual times and the situation is developing rapidly, but we are confident in our partnership with you and that the historic durability of the search fund model will persist through an economic cycle. We are eager to engage on these topics, your search strategy, industries, and deals. Please reach out.

How does this impact my search right now?

With efforts to stop the spread of the virus, you have already likely canceled near-term travel. That's expected - business owners are not inclined to meet in-person over the next few weeks, and that could extend further. This is a great moment to spend time on (1) digging into industries and becoming an insider on those new industries - knowledge you can deploy in seller meetings and (2) building your contacts for future seller outreach. You can even draft personalized emails, but hold off sending them until appropriate. When you do send email, closely monitor your reply rates. On days like yesterday with rapidly developing news (market volatility and school closures), owners may be less inclined to read and reply to your email. If your reply rate is dropping, consider delaying your next outreach emails.

If you have pending seller meetings, you might want to be proactive in rescheduling those. Sellers may appreciate an empathetic note wishing them well and understanding that they are focused on the business and employees at this moment. This is an opportunity to differentiate yourself from private equity by being human.

How does this impact my ability to acquire a good business?

We do not anticipate COVID-19 or a potential recession will impact your ability to buy a good business. I discussed this with Jim Southern, who has been investing in search funds for 30 years. Here's his perspective:

"People on the fence about selling will become more motivated. Because this is a scary thing, a guy my age will say holy mackerel, I want out of this. If offered a fair price, he will take it."

We've seen excellent search fund businesses begin during recessions: VDCI, Griswold, Arizona College, and OnRamp were all purchased during the financial crisis of 2008/2009.

What does this mean for valuations?

A strong business - the type of business you want to acquire - will be resilient during a recession. Growth may slow, but the underlying engine doesn't falter. These will still be great businesses to acquire. That being said, public markets are clearly cheaper today than they were a couple weeks ago - largely driven by virus-related shock and a shift in earnings and growth expectations.

You've probably heard Keith say that valuation is a function of business model, growth, and scale. Assuming industry and scale are the same, a 20% growth business tomorrow will still be as valuable as a 20% growth business was three weeks ago. To that end, rather than relying on just historical growth for a company, it will be important to understand growth during the forward ownership period as you develop a view on valuation. Because of these factors, some less resilient businesses will reprice lower, but we expect that mission critical, low churn, high recurring revenue services business will still be very desirable companies to buy.

We're here to help think through this as you're looking through deals, so please reach out with any questions.

What does this mean for funding a deal?

Equity remains available. In September we raised Fund Four with more than \$175 million of committed capital. We know (as do many of your other investors) that some of the best deals get done at the worst times, and have ample capacity to invest through any financial pullback.

We anticipate debt will remain available for search fund deals. During the financial crisis, the credit markets froze resulting in challenges raising debt for search fund deals. So far, there has been ample liquidity for search fund companies and even this week we're seeing attractive term sheets arrive for Pacific Lake backed companies. Further, over the last decade, the private debt markets have also developed - with large pools of committed capital - and a eagerness to step in if senior lenders pull back.

What if I'm under LOI?

We recommend proceeding with your commercial diligence and deepening your understanding of the company and industry, but be cognizant that the seller is still running the business, and may have a need to focus on employees or short-term disruptions. As a key part of that diligence, understand how COVID-19 and the corresponding impact could affect the future growth and margin profile of the business. Also continue to get updated company data on both leading (funnel metrics, pipeline) and lagging indicators (retention/renewals, financials). Importantly, be proactive in discussing the situation and on-going learnings with your investors.