

Southport Ventures Q4 2021 Newsletter

Here's your quarterly [Southport Ventures](#) update from Nicholas and Trevor. As a reminder, we're a self-funded search duo with considerable operating, product management, and software engineering experience. The latest version of our search thesis is attached for anyone who'd like a refresher. We've included some updates on our product & software development business, [Southport Technology Group](#) (STG), as well.

2021 Reflection

2021 was a great year for us. On the personal front, the Ewen family grew (by three kids!) and the Evans family moved to Minneapolis. On the business front, we made one acquisition, we learned a significant amount, and we built up a solid base of business with STG. Our best experiences came from honing owner conversations, business criteria, and deal terms. One of our goals was to create a culture of continuous learning and improvement. We did that well, as evidenced by numerous improvements to our sourcing processes and tech and gains in our funnel conversion rates each quarter. Our acquisition of [SiteAlert](#) has panned out well. We've continued to run it at around 70% net profit margin while also growing it 44% since April 2021.

Launching [STG](#) went better than planned. It covers our bills and allows us to build credibility in the small business ecosystem. Three clients from 2021 signed significant contracts to build new products. We signed a project with a \$14B AUM Investment Advisor to build them a new fintech product. STG is doing work for a [Permanent Equity](#) portfolio company and we've seen some inbound interest from several other acquisition groups. STG gives us an opportunity to build systems that will aid us greatly when we make a larger acquisition. One example is a system for finding, hiring, training, and managing remote developers.

We'd summarize 2021 as "building momentum." Our network size and quality grew substantially. Almost every STG client has returned for more work. Several acquisition targets we'd previously spoken with returned with interest in resuming acquisition talks. Inbound referrals from communities we've joined steadily increased. Several advisors have sent us acquisition or STG business opportunities recently. Our goal is to be at this for a long time and build great partners along the way. We believe our growing track record and momentum increase the probability that we'll find a great business to acquire. We're grateful for all your support and we're excited to continue adding momentum to the flywheel with you.

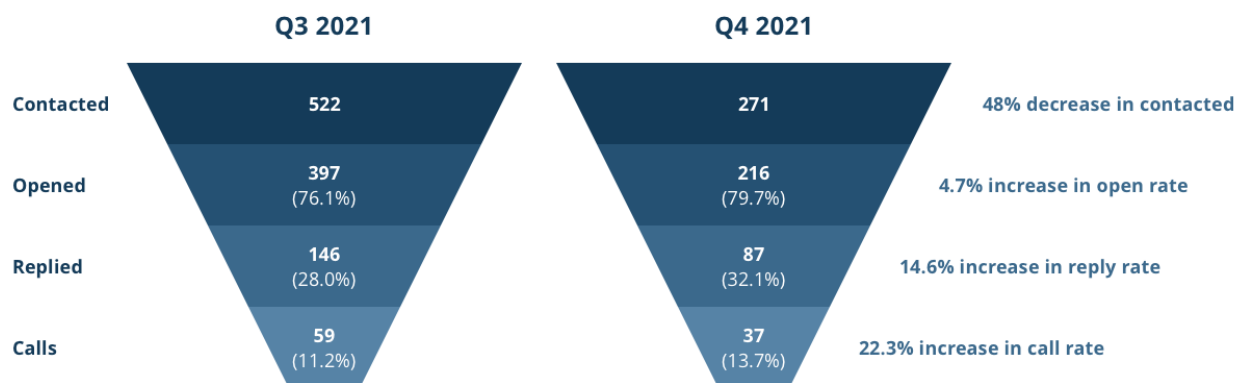
Q4 Highlights

1. We negotiated a good price & deal structure and went fairly deep on the diligence of a Canadian IoT hardware plus ERP business. Unfortunately, Q4 revenue turned out much softer than expected when we got the full 2021 numbers. We've paused this deal for now while the sellers either accelerate growth or agree to change the price and structure.
2. Three acquisition targets came back to us to ask if we're interested in picking the conversation back up.
3. [SiteAlert.io](#) grew 9.9% in Q4 with minimal time and money invested.

Asks

1. We are still working on our IoT data and analytics market thesis. We are seeking advisors with experience in this market. If you have connections, we would appreciate an introduction.
2. If you know anyone who needs custom software, business process automation, integrations, or APIs built, have them email trevor@stg.software or send them to <https://stg.software/coffee> to book a meeting. We'll send them a coffee and do an initial technology review.

Outbound Sourcing Update



1. We saw another quarter of increases in open, reply, and call conversion rates.
2. Our total new prospect outreach volume went down from Q3 to Q4. Part way through the quarter, we consciously chose to prioritize working on the deal mentioned in the highlights section and take on an STG client with considerable future potential rather than push volume.
3. From the chart below, you can see that we greatly exceeded our goal for the number of companies screened (thanks to Trevor building several time-saving automations). We greatly overestimated how many would fit our criteria screen and how many we could find good contact info for, though.

- While we've sourced many proprietary targets that fit our criteria, we've been quite selective on making offers. We believe we've been a bit too hesitant on this front and missed out on some learning experiences. We'll rectify that in 2022 by setting a quarterly offers sent goal.

Outbound Sourcing	Q1	Q2	Q3	Q4	2021 Total	2021 Goal	% of 2021 Goal
APIs Screened	1,512	5,403	4,206	1,602	12,723	12,000	106.0%
SaaS Screened	1,574	2,756	11,309	3,906	19,545	5,000	390.9%
Passed criteria screen	485	1,154	1,235	410	3,284	3,500	93.8%
Contacted	56	534	522	271	1,383	3,500	39.5%
Responses	44	135	146	87	412	788	52.3%
Owner Calls	0	43	59	37	139	88	158.9%

Inbound Sourcing Update

- We ended the year close to our forecast for top of funnel here, but fell short on CIMs reviewed and owner calls goals. When the businesses are good and the list prices seem reasonable, competition tends to push the prices out of an acceptable range.
- We don't plan to invest much time or energy into brokered deals in 2022 for those reasons.
- A bright spot for inbound sourcing: Deals coming from friends, referrals, and communities we've joined increased throughout the year.

Inbound Sourcing	Q1	Q2	Q3	Q4	2021 Total	2021 Goal	% of 2021 Goal
Businesses Screened	50	346	311	199	906	900	100.7%
CIMs Reviewed	35	68	27	13	143	180	79.4%
Owner Calls	6	14	7	8	35	45	77.8%

2022 Goals

With much more data, we can now set more realistic outreach volume and conversion rates goals going forward. We're simplifying the goals we report on down to the essentials and adding one more – IOIs sent. We're not setting explicit goals for inbound sourcing as investments there haven't correlated with opportunities we find attractive.

Outbound Sourcing	2022 Goals	Conversion Rate
Prospects Contacted	2,250	N/A
Responses	675	30.0%
Owner Calls	248	11.0%
IOIs (initial offers)	12	0.5%

1. Hire and train a virtual assistant to handle much of the vetting, outreach, and follow-up processes so we can focus on higher-value tasks.
 - a. We've learned that manual vetting of sourced companies is not a great use of our time. One-off contractor experiments have yielded disappointing quality. A focused VA clued into our process and tools is our preferred approach for 2022.
2. Grow SiteAlert revenue by 60%.
3. Grow STG revenue to \$700K.
4. Hire 2+ more full-time developers for STG.

Continued Strategy: Using Southport Technology Group to get an inside look at businesses

1. We've pitched some owners on doing a consulting project with them through Southport Technology Group. It's an easy way for them to get to know us better. It also gives an inside look from a different perspective.
2. We have a particular edge given our knowledge around [Xero](#), [Quickbase](#), [Paya](#), [OneSpan](#), [PDF-Lib](#), [Salesforce](#), [PACER](#), [MapBox](#), and [AWS Lambda](#) as well as our newly-acquired fintech expertise with [Apex Clearing](#) and [Plaid](#).
3. We believe this is a highly differentiated search strategy that will enable us to build much greater trust with an owner and greatly de-risk a transaction.

Know someone who'd be interested in being on our newsletter? Reply back and let us know.

All the best,
Nicholas & Trevor