

3 | RIVERS CAPITAL

“Unlocking The Hidden Value of Small Companies”

**3RC Strategy Report Series:
Summary & Phase I Conclusion**

April 2019

Introduction

The previous thirteen *Strategy Reports* provided a top-down view of the marketplace with the hope of narrowing the universe of industry segments to a list that was manageable, actionable, and where 3RC had conviction that opportunities exist for significant outperformance. At the start of this journey, 3RC locked in on what we saw as the four most pertinent *Factors of Influence* over the next decade and then studied what was likely to manifest from those factors. 3RC honed in on specific areas of the market that could and likely would take advantage of the manifestations that stemmed from the four factors. In the end, this work helped to develop 3RC's *Thematic Lens* and ultimately the thrust of 3RC's outbound and inbound sourcing efforts. In this report, 3RC summarizes all of the reports to-date and concludes the series by highlighting which *Areas of Interest and Sub-Verticals* within them we intend to explore. As we enter into Phase II of our research process 3RC will focus within these *Areas of Interest* with the goal of better providing actionable investment opportunities for investors.

Over the last several months, 3RC drilled down into all of the identified *Areas of Interest* to determine where the best investment opportunities may be found. 3RC understands that there are several factors that go into a compelling investment opportunity. But finding industries where the environment is well positioned for growth and where 3RC has gained substantial insights and built a network of expertise helps to significantly better the odds of producing outperformance. It also helps to focus the team and their sourcing efforts to efficiently evaluate potential opportunities.

In Phase II, 3RC will be shifting our research away from the broader perspective and focusing in on the specific *Sub-Verticals* that have emerged from the previous reports. 3RC will define the specific segments of the market that provide the most compelling investment opportunities and discuss how we plan to take advantage of the family ownership dynamic within those segments by outlining a specific strategic framework within each sub-vertical of interest.

A summary of 3RC's reports written to-date follows on the next page.

Report Summary Outline

Factor of Influence	Factual Drivers	Manifestations	Areas of Interest Discussed
Modernization of Things	Increasing necessity for technological innovation to fuel growth	<ul style="list-style-type: none"> Overall productivity growth fueled by embedding technology into existing systems 	<ul style="list-style-type: none"> Technology infrastructure maintenance and installation services Technology infrastructure suppliers
	Advancements in the Internet of Things (IoT) and Artificial Intelligence (AI)	<ul style="list-style-type: none"> Improvements in the Industrial base through use of the Internet of Things (“IoT”) and Artificial Intelligence (“AI”) for predictive maintenance and advanced problem solving 	<ul style="list-style-type: none"> Building and facility automation services Security implications and applications Advanced machinery automation providers
	Modernization of infrastructure within the United States	<ul style="list-style-type: none"> Increased infrastructure budgets and improvements in technology help to maintain and rebuild aging civil and energy infrastructure in the U.S. 	<ul style="list-style-type: none"> Energy efficiency products and services Specialty materials Specialty infrastructure contractors
Lower Domestic Energy Prices	The dawn of United States energy independence	<ul style="list-style-type: none"> Increased energy production domestically Increased demand for energy storage in the United States Increased supply of inexpensive by-products 	<ul style="list-style-type: none"> Energy storage systems Renewables and the smart grid Backup power Logistics and maintenance Export logistics
	The evolution of the U.S. energy grid	<ul style="list-style-type: none"> Increasingly efficient charging processes and technology Necessity for power protection and maintenance 	<ul style="list-style-type: none"> Logistics and warehousing Downstream handling Smart energy products Energy efficiency services
Escalating Conflicts	There are several conflict zones internationally where military presence will likely be required to maintain peace	<ul style="list-style-type: none"> Increased defense spending Border protection 	<ul style="list-style-type: none"> Aerospace & Defense Security Services
	Increased terrorism and violent crime in the U.S.	<ul style="list-style-type: none"> Increased demand for asset storage and transportation protection Increased demand for Infrastructure refurbishment and protection 	<ul style="list-style-type: none"> Specialized/value-added storage/warehousing & transportation Energy/Civil/Transportation Infrastructure Risk management services Protection products & services
	Illegal immigrants make up 3.5% of the U.S. population (approximately 11.1 million people as of 2014)	<ul style="list-style-type: none"> Continued reduction of immigrant workforce leading to a unskilled -labor shortage Advances in agricultural technology 	<ul style="list-style-type: none"> Agricultural automation Lighting system design and implementation
Shifting Demographics	The Aging Baby Boomer population	<ul style="list-style-type: none"> Rising demand for health products and services 	<ul style="list-style-type: none"> Elderly and disabled services Home care providers Behavioral Health Nursing care facilities
	Millennials enter peak spending years	<ul style="list-style-type: none"> Heightened demand for pet care services Changing consumer preferences 	<ul style="list-style-type: none"> Pet grooming and boarding Intelligent vending & logistics E-commerce

Determining Focus

As you can see from the previous table, 3RC explored a number of potential actionable *Areas of Interest*. To narrow the list, 3RC conducted a deep dive into each *Area of Interest* to determine which fit best within the Firm's skill set and valuation discipline. 3RC found that several of the *Areas of Interest* were related in some way, so they were combined into broader category descriptions.

As the process proceeded, 3RC was faced with some critical decisions, including abandoning certain segments altogether. For example, there is confidence that conflicts, both domestically and overseas, are steadily on the rise. With no clear sign of near-term improvement, it is likely that there will be greater spending on aerospace and defense in the next decade as there was in the last 10 years. But 3RC has elected to abandon the aerospace and defense segment as the supply chain ultimately ends with a handful of industry leaders and valuations are generally robust. With a combination of high valuation expectations and customer concentration risks that can not be effectively mitigated, 3RC has elected to abandon the area.

After applying a number of binary criteria screens, 3RC focused on crossover among the *Factors of Influence*. The manifestation of an aging population and increased need for healthcare products and services did not cross over with other factors. 3RC did, however, observe significant crossover among the other factors. 3RC viewed crossover as further evidence strengthening the opportunity within that *Area of Interest*. Accordingly, we have determined to focus on those areas. While the *Shifting Demographic* factor may not directly crossover with the other non-healthcare *Areas of Interest*, in some ways it relates to all factors indirectly. However, our focus is mostly on the aging Baby Boomers and wave of demand for healthcare services and products we expect to see over the next decade plus.

Lastly, it is important to acknowledge the fact that recent public market volatility is reflective of political and economic uncertainty globally. Domestically, the economy appears to remain strong and without significant inflationary concerns. But the U.S. economy increasingly influenced by foreign economic conditions. With China's economy cooling after decades of rapid growth, significant uncertainty in the EU, and continued difficulties in the emerging markets, the backdrop for a continued U.S. expansion entering its 9th year, which ranks as the 3rd longest economic expansion in U.S. history, does not seem likely.

3RC will initially focus its sourcing efforts on segments that would either benefit from or be more resistant to the negative effects of an economic downturn. Thus, segments in healthcare, where demand is more inelastic and where the industry relies on people aging rather than discretionary demand are likely to be part of 3RC's initial sourcing efforts.

Crossover Summary

3RC's eight *Areas of Interest* are illustrated in the in the graphic below as part of its *Factors of Influence* construct.

	Area of Interest	Escalating Conflicts	Lower Energy Prices	Modernization	Shifting Demographics
	Automation Controls				
	Energy Supply Management				
	Protection Products & Services				
	Specialty Construction Services				
	Specialty Materials & Packaging				
	Specialty Storage & Logistics				
	Non-Hospital Healthcare Services				
	Healthcare Products & Support Services				

Outside of the healthcare theme related to an aging demographic, 3RC has elected to focus on areas where significant crossover was observed. While each theme may touch on different sub-verticals within the *Area of Interest*, they are generally related. For example, the shortage of unskilled labor will likely lead to more automation in farming, thus, we will look at automation controls within farming, while facility automation driven by IoT within the Modernization theme would focus on access control systems and smart manufacturing systems and components.

The following pages attempt to define each of the eight *Areas of Interest*, while providing specific examples of sub-verticals within each that 3RC continues to explore.

Automation Controls

Definition: Automation or automatic control is the use of various systems for operating industrial equipment, processes in factories, monitoring and controlling smart buildings and communications networks, and steering and stabilization of ships, aircraft and other applications and vehicles with minimal or reduced human intervention. Some processes have been completely automated, while others are still at the forefront of their automation evolution.

Automation covers applications ranging from a household thermostat, to a large industrial control system with tens of thousands of input measurements and output control signals. In control complexity it can range from simple on-off control to multi-variable high level algorithms.

Automation has been achieved by various means including mechanical, hydraulic, pneumatic, electrical, electronic devices, and computers, usually in combination. Complicated systems, such as modern factories, airplanes and ships typically use all of these combined techniques. Automation benefits include labor savings, lower electricity and material costs, and improvements to quality, accuracy and precision.

Escalating Conflicts

Lower Energy Prices

Modernization of Things

Sample Sub Verticals of Interest

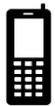
Distribution



Electrical Controls & Equipment



Security Equipment

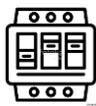


Telecommunications Equipment



Refrigeration Equipment

Manufacturing



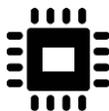
Power Circuit Breakers



Power Monitoring & Conversion Equipment



Air Purification Equipment



SCADA Systems



Smart Building Controls



Pressure Sensors & Equipment Monitoring Devices



Industrial & Fluid Controls



Navigational Instrumentation



Smart Meters



Distributed Antenna Systems



Smart Vending



Smart Valves & Pumps



Access Control Systems & Devices

Energy Supply Management

Definition: Energy supply management is the proactive, organized, and systematic coordination of procurement, conversion, distribution and use of energy to meet demand requirements, taking into account environmental and economic objectives. Objectives are resource conservation, climate protection, and cost savings, while users have permanent access to the energy they need. It is connected closely to environmental management, production management, logistics, and other established supply chain functions. Energy supply management can be broken down into six operational functions, including: 1) Facility Management; 2) Logistics; 3) Energy Procurement; 4) Production; 5) Planning and Control; and 6) Maintenance.

Lower Energy Prices

Modernization of Things

Sample Sub Verticals of Interest

Distribution



Heating & Cooling
Equipment



Electrical Controls
& Equipment

Services

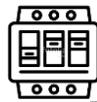


Solar Panel
Installation



Colocation Facility
Services

Manufacturing



Power Circuit
Breakers



Pumps & Compressors



Plastics



Power Monitoring &
Conversion Equipment



Batteries



Waste to Energy



Light Fixtures &
Bulbs



Motors & Engines



Heat Exchangers



Industrial & Fluid
Controls



Smart Meters



Smart Building
Controls

Protection Products & Services

Definition: Any product or service that either monitors, tracks, provides access, maintains or assures safety and provides relief or protection outside of the aerospace and defense industries are areas of interest. Services are most interesting because most manufactured products are highly specialized equipment with high technology disruption risks. Similarly, while on the surface a compelling potential area of opportunity, 3RC could not get comfortable with the general concentration risks of being a manufacturer or supplier in either the Aerospace or Defense industries.

Escalating Conflicts

Modernization of Things

Sample Sub Verticals of Interest

Services



Digital Forensic Services



Smart Building Controls/Systems



Background Check Services



Maintenance & Repair Services



Security Services



Emergency Relief



Building Inspection Services

Manufacturing/Distribution



Surveillance Equipment



Biometrics Equipment



Safety Equipment

Excluded/Abandoned



Aerospace



Defense

3RC has decided not to pursue due to inability to mitigate the risks of general customer concentration in both broad segments

Specialty Construction Services

Definition: Specialty construction services comprise establishments whose primary activity is performing specific activities involved in building and infrastructure construction or other activities but that are not responsible for the entire project. The work performed may include new work, additions, alterations, maintenance, and repairs. 3RC's primary interest is in the modernization of the U.S. civil and energy infrastructures, including establishments primarily engaged in testing, monitoring, preparing sites for construction or repair activities.

Lower Energy Prices

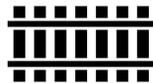
Modernization of Things

Sample Sub Verticals of Interest

Specialty Construction Services: Infrastructure



DAS Construction



Rail Maintenance



Sewer & Pipeline Rehabilitation



Water Supply Maintenance & Repair



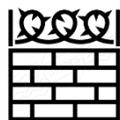
Excavation Contractors



Oil & Gas Pipeline Construction



Tunnel Construction



Fence & Wall Construction



Heating & Air Conditioning Contractors



Bridge & Elevated Highway Repair & Maintenance



Transmission Line Maintenance & Repair

Specialty Materials & Packaging

Definition: Specialty materials include a wide variety of nontraditional materials that can enhance performance, structural, and/or process characteristics. Specialty materials can also reduce manufacturing and operating costs through light weighting, waste reduction, parts consolidation, faster cycle times, and/or extended shelf lives. Specialty materials include high performance polymer or alloy materials, engineered polymer structures, composites, matrix structures, custom coatings, claddings, adhesives, or additives.

Specialty packaging is the wrapping of material around a good that serves to contain, identify, describe, protect, display, promote, and otherwise make the product marketable and keep it clean.

Lower Energy Prices

Modernization

Sample Sub Verticals of Interest

Materials



Polystyrene Foam Manufacturing



Sustainable Building Materials



PTFE Coatings



Urethane Foam Manufacturing



Automotive Coatings



Chemicals



Specialty Ceramics



Bioplastic Materials



Carbon Fiber & Graphene

Packaging



Plastic Packaging



Boxes & Containers



Metal Packaging



Packaging & Labeling Services



Flexible Packaging



Adhesives

Specialty Storage & Logistics

Definition: Storage & Logistics is the management of the flow of goods between the point of origin and the point of consumption in order to meet requirements of customers and suppliers. Managed resources can include physical items such as food, materials, animals, equipment, and liquids, as well as intangible items, such as time and information. Specialty storage is the physical location where goods are centralized for distribution or use on demand.

Escalating Conflicts

Lower Energy Prices

Modernization of Things

Sample Sub Verticals of Interest

Specialty Storage & Logistics



Freight Packaging



Waste Collection Services



Reverse Logistics



Farm Product Storage & Warehousing



Fleet Telematics Systems



Refrigerated Storage



Stevedoring & Marine Cargo Handling



3rd Party Logistics



Freight Forwarding



Specialized Storage & Warehousing



Document Management Services



Couriers & Local Delivery Services

Non-Hospital Healthcare Services

Definition: Non-Hospital Health care services provide for the furnishing of medicine, medical or surgical treatment, nursing, hospital service, dental service, optometrical service, complementary health services, or any other medical service, whether or not contingent upon sickness or personal injury, as well as the furnishing to any person of any and all other services and goods for the purpose of preventing, alleviating, curing, or healing human illness, physical disability, or injury that occurs outside of a hospital setting.

Sample Sub Verticals of Interest

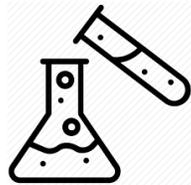
Clinical & Support Services



DNA Forensic Laboratories



Toxicology Laboratories



Contract Research Laboratories



Medical Case Management



Diagnostic Imaging Centers



Healthcare Staffing

Care Services



Urgent Care



Home Healthcare



Corporate Wellness Services



Physical Therapy Centers



Eye Surgery Centers



Hospice & Palliative Care Centers



Sleep Clinics



Adult Day Care



Mental Health & Substance Abuse Clinics

Healthcare Products & Distribution Services

Definition: Healthcare products and distribution services are defined as the manufacture or distribution of either durable or disposable healthcare items that are used in patient care, which can include items from latex gloves to MRI Machines.

Sample Sub Verticals of Interest

Distribution



Medical Supplies



Medical Equipment
Rental



Laboratory Supply

Manufacturing



Vitamin & Supplements



Robotic Surgery Equipment



Dental Equipment



Gym & Exercise Equipment



Ophthalmic Instrument
Manufacturing



Surgical Apparel



Foot Care Products



Disinfectants



Respiratory Equipment

Conclusion

Two years ago 3RC started with four *Factors of Influence* that we used to shape our *Thematic Lens*, which was shaped by 3RC's exploration into the manifestations stemming from the *Factors of Influence* where tailwinds were likely to be most prevalent.

By narrowing the investment landscape to a number of *Areas of Interest* where there is both confidence and firm insight, 3RC has increased the efficiency and effectiveness of our deal sourcing and investment process. Ultimately this should lead to a greater number of attractive investment opportunities for 3RC to share with investors. Due to 3RC's structure of syndicating investments on a deal-by-deal basis, any advanced insights 3RC can provide to investors to both educate and provide details into our investment strategies ahead of a live deal should lead to a more efficient process for 3RC and investors.

To that end, 3RC would welcome your feedback on our eight *Areas of Interests*. 3RC has found that advanced discussions with investors with interest or experience in a segment not only makes for a more efficient process but also often leads to a better outcome due to the combined efforts of 3RC with our investment partners.

We have compiled each of the previous reports into one for your reference. We segmented each chapter by the 4 *Factors of Influence* so that you can more easily see the line-of-sight down to our *Sub Verticals of Interest*. As 3RC enters the next stage of our research we will be providing more details on our strategy in specific *Sub Verticals of Interest* where we have and continue to search for opportunities through our always improving outbound sourcing process.

In the nearer term, we plan to leverage both our success with Phoenix Rehabilitation and our recent deep dive into urgent care. Therefore in the near term, we will be focusing on *Non-Hospital Healthcare Services* to identify sub-verticals that provide the most opportunity, where we have the network or resources to add significant value and where the pricing dynamic is favorable. As we move forward, we will selectively dive into various *Sub-Verticals of Focus* and we will be sure to share our findings and proposed strategies with you in the form of additional white papers.