Deal Makers Interview Series: Christine Jones

Deal Makers Series interviews leaders, experts, and innovators in the Merger & Acquisition and the Private Equity space about how they get successful deals done. The series highlights perspectives of investors, corporate development executives, and buy and sell-side advisors working across industries and geographies.

*For the fifth installment, we interviewed **Christine Jones, Co-Founder and Managing Partner of Blue Highway Capital** a US-based investment firm growing small middle-market companies nationally, focusing on the Northeast and Mid-Atlantic regions.*

What is your current role, and tell us a little about how you got there?

I co-founded Blue Highway Capital after stepping back into the professional world following a 10-year hiatus to attend to my children. I like to say that children are a form of investment, but they just have longer tails. I was looking for a strategic break and an opportunity where there wasn't lots of capital going. Looking at my own track record, I realized that—overall—two-thirds of my investments went to rural regions, and those investments outperformed the remaining investment portfolio. This was around the time the country was acknowledging and highlighting underserved areas.

Statistics show about 80% of PE and venture capital goes to California, New York, Massachusetts, and Texas. Fifty percent is in California, so it becomes straightforward— money goes to where money is. Naturally, people look to community banks in rural areas for investment capital, but in 2019, the Federal Reserve noted that just 15% of the funds go to business development. Building on our thesis that we can do well and do good; this is how our strategy came to be.

We have never competed with other funds for our companies, a fact that has helped us to establish trust and a strong reputation with the communities we deal with.

What makes for a successful investment?

Well, the first answer is people, the second answer is people, and the other answer is people. Its exceptionalism around people and the ability of people to adapt. We saw this with COVID—the determination and drive to persevere yielded results beyond expectations. Pandemic-related issues around the supply chain, finding people for open roles, and so much more highlighted how essential

people are to make suitable investments. You can always have a business plan and other added factors, but what every business doesn't always have is an exceptional management team.

We also have two nonfinancial metrics that we evaluate each year. We want our companies to do well economically, but we also track job creation and ways companies have shared their prosperity with the community. For example, we have a company that hires neurodiverse candidates, and we report this as part of our metrics to our fund partners in our annual report.

How do you evaluate whether the team and people are the right folks to bring an investment/company to its next growth point?

We are not a VC fund or investing in things such as technology innovations or new engineering years down the road, or a company that will burn cash for a long time. We look at strong fundamentals from the beginning. Having done this over time, I will say incremental change is more of our type than growth by leaps and bounds (hypergrowth). There are challenges with hypergrowth; it is not a panacea. We value incremental growth, because it is born out of the experiences of the management team and the guiding principles are clear.

So, you ask, how do you know? You don't always know, but we do our due diligence around people and their adaptability, background checks, and get recommendations. Ultimately, you don't truly know, so you need other people in your network to be there to assist you. These networks can manifest in the form of added independent board members, other investors with specific skill sets, etc. No one investor can do it all.

What are common lessons or themes you have seen in deals that didn't work out as planned?

I wouldn't blame a company for failing—but I will say where I failed as an investor. It's really around the people question. For example, I invested in a company brought to me by a person who had a stellar recommendation, and he vouched for these people, and it ended up being misplaced.

The lesson I took from that is, you can't always take the advice of someone you know very well and think highly of. You must be careful you don't misplace your trust. I can take on opportunities from people I know and are well intended, but I still must do my own work—pay more attention to my own instincts, trust myself and my experiences—so ultimately, trust and verify.

Are problems transparent before deals?

Not always but they do manifest quickly. We have a saying that lemons ripen quickly.

What are the most critical pieces of data that you obtain or activities that you perform during the due diligence phase?

We do a lot of financial due diligence. Most companies don't have audited financial statements, but more reviewed statements; many times, just QuickBooks and other simple ways of keeping records. So, we spend more time with the quality earnings report, and we have accounting expertise on our team who spend time verifying trends and numbers—as numbers tell your story—so there is a lot of

work around that. There's also a lot of work in structuring the investment to ensure its aligned. We always do background checks and talk to references, customer vendors, accounting firms, insurance brokerage firms, and attorneys to get to know people around them.

We do a lot of work on operational components, looking for ways to add value and at sales increasing. Sales channels are shifting so quickly now that a lot of work is focused on customers, identifying who your tribe is, and how you can get more sales from them. There's also thought on how you expand your tribe and customer acquisition tracks and build your sale in vast ways. Looking at the competitive landscape—who is out there and who is doing what—we like to look for niche opportunities and how they exploit some market gaps, e.g., regulatory gaps if it is a health company. So, looking for unique ways they approach the market.

How important do you see culture as a growth mechanism for companies looking to grow?

From my lens, it's important. However, I have seen companies do very well with cultures that aren't great, though I don't see them as healthy when compared to others. They don't do well for a long duration, but they can be okay if you can get them to a particular place where they can eventually sell. When you look at Silicon Valley and see what gets funded (think of the Theranos trial), some companies have dysfunctional cultures. If you measure success by returns on investments, it can still happen, but only for a little while with a dysfunctional culture.

We like the story where everyone wins. One instance was a client viewing us as a partner, not just an investor.

Have you come across an investment that meets your criteria but wasn't a good fit for BHC?

We back away from 99 out of 100 opportunities, and we accept fewer than one in 100. The major reasons an investment would not be a good fit include: 1) people, 2) scale, and 3) the market isn't there.

Looking ahead to the next few years, what excites you?

I'm excited about our strategy of investing in rural America. People have started heading back home, and rural America is exploding in terms of opportunities. There isn't currently enough capital to take advantage of those opportunities. Hence, the more people, the better. I think more people should look at the rural areas.

We are a women-run fund. We can grow the economy much more broadly and in a more democratized manner; that is exciting!

We're so grateful to Christine for sharing her expertise and insights on M&A. Check back here for more future installments of the Deal Makers Series.