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K1 Exits Portfolio Company TeamDynamix

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K1 Investment Management exited one of its more than 20 portfolio companies last month with the sale of work management-software firm TeamDynamix to New York-based Level Equity for an undisclosed amount.

K1, based in Manhattan Beach, will roll a material portion of its proceeds into the newly capitalized business and remain a significant equity holder alongside Level Equity, a move that is common among investment groups, according to Lloyd Greif, the president and chief executive of investment bank Greif & Co.

“K1 could be retaining an equity position to facilitate the transaction with Level Equity,” Greif said. “For example, this transaction may be too large for Level Equity to do on its own, hence K1 participating as both buyer and seller. This would be similar to a seller taking back seller paper to partly finance the deal.”

K1 Investment Management maintains offices in Manhattan Beach.

Firms such as K1 typically hold their investments for three to seven years. The exit from TeamDynamix falls right in the middle of that range. K1, a private equity firm that specializes in software companies, made its investment in 2017.

According to Greif, another reason for K1 remaining a stakeholder is that TeamDynamix has significant runway ahead of it in terms of top- and bottom-line growth.

TeamDynamix has grown its revenues organically from approximately $6 million to $27 million since K1 made its initial investment. K1 will reinvest its proceeds into the company for those reasons, as well as the company’s total addressable market expansion and new product development. K1 will also maintain a presence on the TeamDynamix board.

“We had created a significant return for our investors and wanted our investors to have a chance to get liquid on that gain,” K1 Managing Partner Taylor Beaupain wrote in an email to the Business Journal. “However, given the company’s expanding product portfolio and market position, we believe TDX will only continue to grow in the future. So, we told potential buyers that we wanted to roll a significant portion of our equity and continue to support the company going forward, and Level Equity was able to accommodate that."

Beaupain added that the exit generated a material distribution of cash to K1's limited partners.

Improving workflows

TeamDynamix has grown from providing a combined IT service management and project portfolio management platform to now also offering an integration-platform-as-a service solution. The integration platform is cloud based and enables companies to achieve smooth transfers of data between different applications and improve workflows and outputs.

The company, based in Columbus, Ohio, has worked with clients including Oklahoma City, the University of Michigan, Nutrabolt, Shaner Hotels, Gratz Bank and Covenant Healthcare. The sectors of business using its offerings include financial services, health care, hospitality, manufacturing, education, and the public sector.

"In a challenging year for technology companies, TeamDynamix has emerged as a category leader by expanding its market position and driving profitable growth," Beaupain said in a statement. "This transaction is the culmination of the TeamDynamix team's hard work, customer focus and product leadership over the past five years. Going forward, we are excited to continue the journey alongside Level Equity in support of the company's long-term growth strategy."

Greif noted that even in a challenging environment for obtaining liquidity for technology companies, the deal makes sense given the strong financial performance of TeamDynamix. He added that, considering its growth, the company could stand out as "a diamond in the rough."

The U.S. tech industry, including big players such as Meta, Twitter and Amazon.com, have had a turbulent year characterized by plummeting stock prices and layoffs, among other issues. According to Layoffs.ai, more than 154,000 employees were laid off from tech companies around the world last year.

"Software companies like TeamDynamix are typically extremely profitable," Greif wrote. "That is key to getting deals done these days. Companies that are generating red ink instead of black ink will find it harder to consummate sale transactions on attractive terms during a recession, which is the environment that appears to be barreling down the pike in 2023."

Pausing to celebrate

Ken Benvenuto, the chief executive of TeamDynamix, said in a statement that his company is focused on smart growth. "To see that strategy manifest in a strong five-year return to our investors is a moment of tremendous pride for our team," he said. "Today, we pause to celebrate alongside our partners and K1, and tomorrow we look forward to paving the way for continued growth in a new partnership with Level Equity and continued partnership with K1."

Beaupain said one reason for selling to Level Equity was a long running relationship with the firm that goes back more than a decade. K1 has co-invested in deals with Level Equity before, and there is strong level of trust between the firms. Level Equity backs more than 100 software technology companies, and in 2021 raised more than $1 billion for new equity funds.

K1's exit from TeamDynamix, secured late last month, capped off a busy year for the company. Last year, it completed its 200th investment and had 24 of its portfolio companies named to the Inc. 5000 list of fastest growing companies. As of last April, K1's portfolio companies had more than $2.6 billion in annual recurring revenue. Beaupain wrote that, heading into this year, K1 will continue to focus on supporting its portfolio companies and investment in high-growth enterprise software.