ROCA PARTNERS: ACCELERATING THE GROWTH OF TECH-ENABLED SERVICES AND HEALTHCARE SERVICES COMPANIES

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When ROCA Partners invested in EZ Texting in June 2018, the ROCA team saw an untapped opportunity to significantly grow the value of the Santa Monica, CA-based text and voice messaging software platform for small and mid-sized businesses. At that time, EZ Texting was serving 50,000 customers across many industries. The ROCA team saw several avenues the company could pursue to predictably drive more profitable growth.

As they analyzed customer data, the ROCA team found that EZ Texting retained customers in certain industries – particularly retail, real estate and nonprofit – at a much higher rate than others. ROCA recommended a shift in EZ Texting's strategy to focus on targeting and retargeting customers in those industries. ROCA also discovered that while the company had a healthy base of voice messaging customers, the return profile on the text messaging customers was a lot higher. Despite this dynamic, the company was investing significantly in both product lines.

After sharing the analysis and insights with company leadership, they collectively decided to stop marketing the voice messaging service in favor of shifting marketing spend to acquire the more lucrative text messaging customers. As a result of these moves, EZ Texting was able to reduce customer churn and accelerate the growth of text messaging service revenue, which directly led to improved customer lifetime value.

A PLAYBOOK FOR SUCCESS

Founded in 2015, Los Angeles-based ROCA Partners is a special situations and growth investor in technology-enabled services and healthcare services. As flexible capital investors, ROCA transaction types range from control buyout to structured equity and debt. ROCA typically seeks to partner with founder/management-owned or controlled companies with $10 million in EBITDA or greater. The firm currently has six companies in its portfolio that consists of both control and non-control investments.

The firm identifies specific sub-sectors that are poised to continue to grow at a high rate driven by consumer and industry-specific tailwinds. The team then maps out the companies that have a strong competitive position in those sub-sectors, and proactively reaches out to those companies to see if there is an opportunity to partner. "What we found is that there is a large universe of growth companies that are seeking to partner with a flexible capital investor," explains Ravi Sarin, Partner. "And we are well-positioned to partner with them given our team's combination of sector and investment structuring expertise, a combination that few investment firms have."

Once the investment is made (typical investments range from $25-$100 million), the team leverages its Return On Customer Acquisition (ROCA) Playbook to help companies improve their customer unit economics. "Across our investments, the ROCA Playbook has helped drive both accelerated profit growth and improved capital efficiency," says Sarin.

In addition to EZ Texting, the firm's portfolio companies include Oceans Healthcare, a provider of inpatient and outpatient behavioral health services primarily for seniors; The Oncology Institute of Hope and Innovation, a national provider of value-based medical oncology care; Riviera Partners, a technology-enabled executive recruiting firm focused on engineering talent; True Blue Car Wash, a national platform of automated express car washes with a subscription-based membership model; and Vistar Media, a provider of advertising technology services to the digital out-of-home industry.

GOING ENTREPRENEURIAL

ROCA was founded by Sarin and James Stith, a former M&A executive at IAC/InterActiveCorp, a publicly-traded holding company of consumer media and technology companies. The two started working together in 2009 in the private equity group of Ares Management, a global alternative investment manager. “We found that we enjoyed working together and both gravitated towards sourcing opportunities instead of just relying on investment bankers to bring opportunities our way,” recalls Sarin.

Sarin had his eye on launching a private equity firm since business school, but it was his time at Ares that gave him the knowledge and experience needed to make a real go of it. “I helped lead several successful investments,” he recalls. “And it gave me the conviction that I can continue to do so under an independent firm.”

While Sarin and Stith both took an entrepreneurial approach to how they operated even while at Ares, once they launched ROCA, they learned one of the lessons many entrepreneurs have faced over the years – the need to prove again the same capabilities consistently demonstrated for years while under the umbrella of a larger entity. “If you’re in a larger firm, it’s often presumed you’ll have the resources to bring value, or you can speak to the experience of the firm collectively,” Sarin points out. “We have to both prove our ability to add value and demonstrate our expertise in the sector.”

That insight highlighted the need for the young firm to focus on an operating model that can strategically support the companies they invest in as opposed to simply providing capital. Or as Sarin explains, “If we do not demonstrate that we will add value or if we’re perceived as just a source of capital, then most companies would likely elect to partner with a firm that has more brand recognition.”

DOING WHAT THEY DO BEST

To date, ROCA has been operating as an independent sponsor, raising capital on a deal-by-deal basis. However, the team is looking to raise its first institutional fund sometime in the future. “I think we are seeing that our model is working well with the companies that we have partnered with,” says Sarin. “We’re able to find and execute high-quality investments, so I don’t see us changing our strategy in any material way.”

Until then, the firm will continue to invest in the sectors they know best – technology-enabled services and healthcare services. These areas have seen increased interest as COVID-19 has mandated that companies in virtually every sector leverage technology to automate or enhance products and services.

“There is a market share shift toward companies that leverage technology to build a better go-to-market strategy and deliver better customer experiences,” says Sarin. “I think what we are seeing during this environment is an acceleration of that shift and I expect we’ll see that shift continuing even after this pandemic.”