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Streetlight Confidential

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The Art of the "Roll-Up"

How to Get in on America's Next Billion Dollar Roll-Up… BEFORE It Goes Public

-by Bob Byrne

You've probably never heard of Bradley Jacobs or Wayne Huizenga, but I bet you're familiar with several of the companies they founded.

Brad founded XPO Logistics, United Waste, and United Rentals. Wayne created Waste Management, Blockbuster Video, and AutoNation.

Wayne, having passed away in 2018 at 80 years old, is no longer with us. But he and Brad had something extraordinary in common — and it isn't simply the fact that both men amassed billion-dollar fortunes throughout their corporate lives.

Both of these entrepreneurs understood and mastered the art of the *corporate roll-up*.

I'll tell you a little bit more about Brad and Wayne in a minute, but before I do, let's get into the nitty-gritty of what a corporate roll-up actually is.

"Rolling Up" the Profits

A corporate roll-up strategy refers to a process in which a company acquires and consolidates smaller companies in the same industry to achieve economies of scale and increase market share.

The roll-up strategy is easy to understand, but don't let its simplicity fool you.

The right environment needs to exist within an industry to allow a roll-up strategy to flourish. And the team orchestrating the acquisition spree must have a battle-tested integration plan.

There are four ways to know if an industry is ripe for roll-up consolidation.

1. The industry is *highly fragmented, comprising small, family-owned companies* with no single company capturing a significant market share.
2. Affordable acquisitions are *plentiful and sell for 5x (or less)* cash flow.
3. The industry provides an *essential service or product*.
4. The industry is generally easy to organize and integrate into a larger platform *with shared and automated overhead*.

The key ingredient for determining whether an industry is a candidate for a roll-up strategy comes down to how fragmented the industry is.

While some operators may look at an industry and see five significant players and argue only three are needed, the ideal candidate is a large industry that is both highly fragmented and provides an essential product or service.

The company I'm going to introduce you to in just a minute is rolling up small companies in an industry where the largest privately held company generates an estimated $200 million in revenue — but still holds a mere ***0.2%*** of the $100 billion market. Numbers like these speak to the fragmented nature of the industry I'm about to tell you about.

And while I know you may be tempted to skip ahead to read the details of the private offering I'm about to share with you, it'll help if you understand the industry this company is operating in and the strategy it's using to grow its operations.

But at the end of this report, I will provide you with everything you need to purchase your Partner Shares in this incredible company.

And it'll be worth the wait because, based on my research, the company I'm going to tell you about has the potential to generate long-term, blue-sky returns of as much as *20x* your original investment.

"While some operators may look at an industry and see five significant players and argue only three are needed, the ideal (roll-up) candidate is a large industry that is both highly fragmented and provides an essential product or service."

The Pros and Cons of a Corporate Roll-Up

Let's assume you're the CEO of a company operating within a highly fragmented industry, and you want to grow your company inorganically via a corporate roll-up strategy. The benefits and risks of this acquisition strategy are very straightforward.

The benefits of a corporate roll-up strategy include:

- Increased market share and competitiveness
- Economies of scale likely result in lower costs and higher profits
- The ability to expand into new markets (via new platform acquisitions)
- Diversification into new revenue streams (via add-on acquisitions)
- Increased negotiating power with suppliers
- Synergies from combining complementary businesses

The risks of a roll-up strategy, on the other hand, include:

- Integration risk from managing multiple acquisitions

- Execution risk which stems from operational inefficiencies
- Deal risk, i.e. overpaying for acquisitions when demand increases within an industry
- Cultural clashes and the potential loss of critical employees (a form of integration risk)
- Failure to achieve projected synergies and cost savings

There's one last thing I want to mention regarding corporate roll-ups...

While roll-ups were popular in the 1990s and early 2000s, their success rate wasn't great. That's because the operators, typically private equity firms orchestrating the acquisitions 1) failed to develop integration plans, 2) focused on a fix-and-flip methodology, and 3) lacked the desire to grow the combined businesses over the long term.

The company I'm about to introduce you to doesn't believe in acquiring companies only to clean off the cobwebs and flip them for a small profit. These guys subscribe to the Warren Buffet mindset of "buy and hold forever." And this mindset translates to a better reputation within their industry, which results in far more roll-up opportunities.

Roll-Up Billionaires

Get up early, do the jobs others won't, and provide impeccable service every step of the way. That, according to many entrepreneurs, is the recipe for success.

Wayne Huizenga took that mantra to heart and, through an incredible work ethic and good timing, amassed a multi-billion-dollar fortune.

Born in the suburbs of Chicago in 1937 and growing up in Florida in his teens, Wayne drove a truck and pumped gas after school and on weekends to help with family expenses. And after a stint in the army and college, Wayne worked with a family friend who owned a garbage collection company.

Wayne Huizenga

Within two years, Wayne bought his own truck, branched out on his own, and the wireframing of Waste Management Inc. was born.

Starting out, Wayne would drive his garbage truck from 2:30 am until noon. And when there wasn't more trash to haul, he would canvas neighborhoods knocking on doors, introducing himself, and doing anything necessary to drum up new business.

By 1968, Wayne's company grew to 40 trucks and merged with another trash collection company in Chicago to officially form Waste Management. In 1971, Wayne's company went public. And thanks to its newfound access to capital as a public company, Waste Management acquired nearly 150 local and regional garbage services.

Fast forward to 2023, and Waste Management, through the efforts of Wayne and his predecessors, has grown into a $62 billion company with trailing twelve-month revenues of $19.45 billion.

Brad Jacobs' story is similar to Wayne's in that Brad is also a master of the corporate roll-up. But instead

Brad Jacobs

of beginning his career behind the wheel of a garbage truck, Brad, at 23, started an oil brokerage that he eventually sold.

Following his success in the oil brokerage and trading business, Brad rolled-up companies in the garbage collection and tool rental industries.

Brad's garbage collection company, United Waste, was sold to Waste Management in the late-1990s for just under $2 billion. And his tool rental business, United Rentals, went public in late 1997 and has grown into a nearly $30 billion business generating more than $11.5 billion in revenues over the past twelve months.

The bottom line is that while corporate roll-ups may not be a sexy or head-turning business strategy that the folks on CNBC will devote an entire show to, it's an incredibly profitable strategy when executed correctly.

And when the right management team with the necessary skill set is paired with a highly fragmented industry, the resulting profits for stakeholders can be life-changing.

The Next Great Corporate Roll-Up

In just a minute, I'm going to introduce you to the company using a roll-up strategy similar to what Wayne utilized to create Waste Management and Brad used to develop the heavy equipment rental giant United Rentals.

And just as Wayne and Brad benefited from the highly fragmented yet recession- and inflation-resistant nature of their industries, the company I'm about to tell you about benefits from the same thing, but in the heating, ventilation, and air conditioning (HVAC) and plumbing industries.

I want to give you an idea of how fragmented the HVAC industry is. Because before I met this company and performed countless hours of due diligence, I had no idea how the industry operated.

According to the consulting firm FMI, the largest privately held HVAC contractor in the U.S., Service Logic, with its estimated $200 million in revenue, controls a minuscule 0.2% of the $100 billion HVAC market. This is precisely the type of industry dynamic ripe for consolidation from public and private buyers.

And the consolidation is already happening.

According to Capstone Partners, total transactions in the heating, ventilation, air conditioning, and refrigeration industry topped 350 in 2021, growing 50% over 2020 levels.

The fragmented nature of the HVAC and mechanical, electric, and plumbing (MEP) industries makes it easy to understand why intelligent roll-up artists are targeting the space. Of course for consolidation to occur, you need a catalyst.

Even if the next Wayne Huizenga is lurking in an unmarked boardroom, ready to strike a deal, you still need *a willing seller*.

Lucky for us, the HVAC and MEP industries are full of willing sellers.

Many HVAC and plumbing business owners are approaching retirement age and are finding it difficult if not impossible to pass on their family business to the next generation.

Thanks mainly to societal pressure, young people have been brainwashed into believing that the trades (HVAC and MEP) offer low pay and unfulfilling careers. Suffice to say that could not be further from the truth.

According to Angi (previously known as Angi's List), over 80% of tradespeople list their job satisfaction as very or somewhat satisfied.

And when it comes to salaries, here's what HousecallPro.com tells us:

> *"Across the U.S., plumbing positions' average salary ranges from $45 per hour to $200. This range includes a variety of roles. The pay scale for a plumber is based not only on location but also on certifications and years of experience."*

The average tradesman is 45 years old, with fewer than 10% of workers under 24. This shortage of young talent has kept small HVAC and plumbing contractors from innovating and growing their businesses the way they might if new talent were plentiful.

The bottom line is the lack of innovation presents an opportunity for companies with a successful roll-up strategy to increase margins and profits by maximizing innovation, expertise, and efficiency through acquisition and modernization.

Introducing Snowball Industries Inc.

Snowball Industries Inc., established in 2020 and headquartered in Nevada, is a holding company specializing in acquiring, updating, and expanding HVAC and plumbing firms across the U.S.

The company currently offers HVAC and plumbing services in various cities in the U.S., including Phoenix, Arkansas, and Washington, DC, and considers these markets to have the potential for further growth. Snowball is also considering new acquisitions in the southwestern and southeastern regions of the U.S.

Though a private company, Snowball considers itself the definitive anti-private equity (P.E.) option, and for a good reason. While traditional P.E. employs a “fix and flip” model, the Snowball strategy is designed around Warren Buffet’s mantra of buy and hold forever.

The company is willing to consider acquisitions of any size, provided that the economics make sense. However, as a general rule, Snowball aims to be the preferred buyer for small to medium-sized home services firms through a distinctive approach to mergers and acquisitions.

And the company believes it is quickly becoming the acquirer of choice thanks to its five-part strategy for acquiring, integrating, and growing home services companies over the long term. I’ll touch on the company's five-part strategy in just a minute.

Now that I've introduced you to Snowball, let's analyze the company's business fundamentals, identify its advantage in the market, and talk about its return potential.

A Foundation for Success

In order to analyze a company's fundamentals, we need to start by knowing what industry it's in.

For example, suppose we're considering investing in a biotech company. In that case, we're looking at how much debt the company has taken on, its cash needs to complete FDA trials, and whether it has any more significant pharma partners.

And suppose we're digging into a tech company operating a Software as a Service (SaaS) model. In that case, we'll focus on the company's recurring revenue, dollar-based retention rate, and revenue growth.

As you know, Snowball aims to be the acquirer of choice for small and medium-sized HVAC and plumbing companies. To properly evaluate the company's fundamentals, we need to analyze how much it's paying to acquire companies and what the metrics look like once the newly acquired companies have been modernized and made as efficient as possible.

Before I walk you through a couple of examples that the company's Chairman of the Board, Deven Soni, took me through, let's cover the basics.

So far, Snowball Industries has acquired targets with over $1 million in EBITDA using only $1 million in equity capital. They're basically buying earnings at a discount.

(EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It calculates a company's operating profitability by excluding the impact of financing decisions, taxes, and non-cash expenses such as depreciation and amortization.)

They have already raised $6 million in funding and expect to generate approximately $8 million in EBITDA in 2023.

Based on an 8 to 10 times multiple of their projected $8 million EBITDA for the fiscal year 2023, management believes that if Snowball were a publicly traded company today, it could be valued at $64 million to $80 million.

Public HVAC Co. EBITDA	Trades @ Multiple of EBITDA
$0 - $1M	3-5x
$1M - $2M	4-6x
$2M - $5M	6-8x
$5M - $10M	8-10x
$10M - $20 M and higher	10-15x and higher

I'll outline the full details of this fundraise in a few minutes, but you should know that...

Snowball is raising $5 million at a pre-money $46 million valuation.

That means based on the EBITDA figures that management believes are realistic for 2023, and their view that in a public market Snowball would already command a $64 to $80 million valuation, you have the opportunity to invest at a discount of between 39% and 73.9%.

Now I want to shift gears for a moment and walk you through the two types of deals that management is focused on — Platform and Add-on acquisitions.

In private equity or corporate roll-ups, a platform acquisition refers to the first acquisition made by a company to enter a specific industry or geographic

location. Add-on (or bolt-on) acquisitions are subsequent acquisitions of smaller companies in the same industry or geographic area to support and help grow the larger platform company.

Deven spent considerable time explaining this strategy to me, and frankly, I love it.

The "Platform Acquisition"

Deven considers a platform acquisition a large, well-run business that generates $2 million or more cash flow. These companies are sufficiently mature and developed that Snowball can build their business around them and be located anywhere geographically.

The company's purchase strategy is simple; they use a small down payment and some outside financing, similar to how you or I would purchase a home.

Snowball begins the acquisition process by negotiating a sale price with the business owner.

From there, purchase terms are negotiated, with a big part of the purchase price, usually between 30% and 40%, being via seller financing (a loan provided by the seller back to Snowball).

Once a purchase price has been agreed to and some seller financing is locked down, Snowball works with their bank to secure a loan to complete the acquisition. According to Deven, banks typically lend up to 4x annual cash flow, but Snowball tries to borrow no more than 2x to reduce their risk.

Here's an example with real numbers.

If Snowball identifies a company making $2 million per year in cash flow and negotiates a purchase price of $8 million, the seller would loan Snowball $3 million to buy the business (to be paid back over five years), Snowball's lending bank would extend $4 million credit, and Snowball would contribute $1 million as its down payment.

"The bottom line is this… Snowball can acquire strong companies generating reliable cash flow without having to pay a lot out-of-pocket."

The $7 million loan ($3 million to the seller and $4 million to the bank) can be paid back over five years from cash flow ($2 million per year in free cash flow). Even if the acquired company failed to grow, Snowball would expect to collect $10 million in cash flow over five years, making the loan repayment straightforward.

In a nutshell, Snowball can increase its net cash flow by $2 million by using only $1 million of its own capital. And based on what Deven told me regarding public market multiples (8x to 10x EBITDA/cash flow), increasing Snowball's cash flow by $2 million can result in a $16 to $20 million increase in market capitalization.

The bottom line is this.

Snowball can acquire strong companies generating reliable cash flow without having to pay a lot out-of-pocket. As the scenario above illustrates, a seemingly modest increase in cash flow can dramatically impact the company's market capitalization.

"Add-on" Acquisitions

Add-on or bolt-on acquisitions are typically smaller companies, not as well run as the platform it's being attached to, and generate less than $1 million per year in cash flow. These add-on acquisitions, however, are often located close to the platform company it's being tucked into.

The owners of these smaller companies tend to be older and are often looking to retire. Unfortunately,

because these companies tend to be small or inefficiently run, the owners don't have many options for selling.

This is one of the areas where Snowball shines.

Thanks to Snowball's market resources and shared services such as accounting, finance, and purchasing from its platform acquisitions, it can improve cash flow and overall efficiency in short order. And because these small add-on acquisitions are typically underutilized and have an owner looking for an exit, Snowball is often able to purchase the business by paying for only the business's assets (trucks, plumbing/HVAC equipment) and a promise to continue to employ the service technicians.

As Deven told me, it's often possible to acquire these add-on companies, that generate $500 thousand per year in cash flow for as little as $200 thousand!

There is clearly a bit of financial engineering that goes into structuring these roll-up acquisitions. But when you consider the multiple that the public market applies to these types of companies, it's clear that as long as debt levels are managed conservatively, acquisition targets are thoroughly vetted, and the target companies have a loyal book of customers; this is a desirable business plan that can spin off vast amounts of cash.

An Outstanding Management Team

Amir Haboosheh — Cofounder and CEO

Amir joined Snowball Industries in 2020 as a leader with 25+ years of experience. He is known for building teams, leading M&A, and strategic planning.

As head of operations in the US and Canada, he creates a culture of empowerment and accountability.

Amir was previously a founding member of Kingmakers Inc., serving as the Director of M&A and handling all due diligence.

He is also a Managing Partner of Shircoo Inc. in LA, an investment and advisory firm evaluating early-stage companies.

Matt Ballard — Chief Operating Officer

Matt joined Snowball Industries in 2020, bringing expertise from his background in a family of HVAC professionals and experience in contracting, sales, wholesaling, and training.

Before Snowball, he was Product Manager at Geary Pacific Corp. in Anaheim. He led 250%+ indoor air quality sales growth for three consecutive years and developed a sales training program for the company's 30 locations.

Matt also spent nine years as Operations Manager at Sahara Air Conditioning in Las Vegas. He has attended the University of Nevada, Las Vegas, Brigham Young University, and College of Southern Nevada.

Deven Soni — Cofounder and Chairman of the Board

Deven co-founded Snowball Industries in 2020 with a focus on acquiring HVAC and plumbing businesses. He has over 20 years of experience as an investment banker and investor.

Deven started his banking career at Lazard, advising on major deals such as the Hotels.com $2 billion buyout by InterActiveCorp and Microsoft's $200 million acquisition of PlaceWare.

He later worked as a tech-focused venture capital investor at Goldman Sachs' GS Capital Partners.

Currently, Deven serves as chairman of Matador Gold Technologies, connecting consumers to precious metal manufacturers, and as founding COO at Tokens.com, a publicly traded firm linking consumers and investors to Web3 innovation. At Tokens.com, he built the investment infrastructure and executed two M&A transactions.

Amir, Matt, and Deven each bring unique skills to the Snowball team. Based on my many hours of interaction with each of them, they, as a team, are entirely devoted to growing the company in a manner that benefits all stakeholders.

Five Steps Ahead of the Competition

Snowball's key advantage in its quest to roll up HVAC and plumbing companies revolves around its five-part strategy for purchasing, integrating, and growing its portfolio companies for the long term.

Step 1. Proprietary Deal Flow

It isn't easy to purchase high-quality assets at or below fair market value, but it is achievable. What's required is active deal flow, a motivated seller, and brand power, which, in this case, refers to Snowball's strong reputation in the industry.

It doesn't matter what type of company you're trying to acquire; if you don't have unfettered access to the best companies coming up for sale before your competition gets wind of the offering, you're going to miss out.

And as management told me:

> *"The owners [of the selling companies] we talk to don't want to sell to traditional private equity. They want to sell to us, provided what we are offering is in the ballpark of competitive. This is why we typically get calls from sellers before they try to shop their deal somewhere else."*

Step 2. Legacy Preservation

Retiring business owners may be motivated by financial gains from selling, but non-financial issues can often be the biggest challenge.

Many small business owners view their business as a culmination of a lifetime of effort and a brand they've worked to establish for years or even decades. And they feel a sense of loyalty to their customers and employees and don't want to see layoffs or harm to important relations after they retire or sell the company.

Traditional private equity is known for rolling up a company, then swooping in, raising prices, firing employees, and air-dropping an MBA executive with limited industry knowledge in the front office to focus solely on improving financial metrics — and paying no attention to the customers, employees, or

countless relationships the original owner spent decades establishing.

Snowball's view on legacy preservation is simple. Here's what they told me on the subject:

> *"In our opinion, there's no better way to honor their legacy than by building an enduring public company that stands the test of time – all while keeping the local brand power that made us want to buy the business in the first place."*

I spoke at length about legacy preservation with Amir and Deven, and they told me they pride themselves on their ability to retain key management and technicians.

However, they allow selling owners to exit the business after a three to six-month transition period without the fear of any predatory earn-out structure or other "golden handcuff" strategy.

Step 3. The Executive Retention Program

Snowball's management team is very open about its desire to go public, and this strategy gives sellers a great incentive to accept stock-based compensation. Once Snowball goes public, their shares may be worth considerably more than the upfront cash payout they receive as part of their acquisition.

But stock-based compensation isn't the only benefit offered to sellers.

Upon acquisition, a board of directors consisting of three members is created, with one seat being offered to the CEO of the company being acquired, one seat for Snowball management, and a final seat for an independent director.

The creation of this board is a critical way that Snowball can preserve institutional knowledge and the key relationships that the original owner established over his career.

Step. 4 The Employee Retention Program

Recruiting and retaining talent is hugely important when running an HVAC, plumbing, or MEP-style business. And this is why Snowball places great importance on hiring local talent within the existing community and promoting from within its portfolio companies.

But hiring from within the local community is only the first step.

Snowball also provides stock incentives to offer employees a career path and ownership. Deven shared this with me, and it makes a ton of sense:

> *"We want to create a path to prosperity for our employees. There's a Patek Phillipe watch advertisement I love that says, 'you never own it; you just keep it safe for the next generation.' There's a similar line of thinking with our retention program. Simply put, we want to build our portfolio companies to last. And that means sharing the equity with the people who help us build it."*

Another initiative the company employs is one dedicated to providing ongoing training for current staff and collaborating with local educational institutions to create a pathway for future talent.

Snowball's long-term goal is to have a dedicated "Snowball Academy" at each location, specializing in various training programs. Currently, they are establishing partnerships with local training programs and certification courses.

Step 5. Snowball's Organic Growth Plan

Hiring or locating a solid pool of talent in the HVAC and plumbing industry is extremely difficult. It's well documented that with the younger generation having limited interest in taking up a trade, we're at a crossroads, given how many HVAC technicians and

plumbers are aging out and moving toward retirement.

Amir and Deven believe they can attract top talent by improving Snowball's marketing efficiency, speeding up cash conversion cycles, and creating more scalable service models. And utilizing advanced internal technology can also reduce the burden of administrative tasks and improve overall productivity.

When I pressed management on their plans to drive organic growth, they highlighted these four strategic plans:

1. Improve sales efficiency by using technology to track sales conversion progress throughout the entire sales cycle, including call pickup rates, appointment booking rates, and job completion.

2. Optimize pricing and cost management using specialized software to evaluate the optimal pricing it offers customers.

3. Implement a digital marketing led by Snowball's in-house digital marketing agency, Digitally Savvy and Build Media. Acquired in 2021, this company uses analytics and content marketing to optimize its current portfolio.

4. Expand its service offerings by leveraging the reputation of its portfolio companies to introduce new products, such as indoor air quality solutions and smart home appliances.

Like any well-run corporate roll-up strategy, Snowball is focused on getting the most from its technology — accounting software, customer relationship management (CRM) systems, and employee management systems — to drive operational improvements and efficiencies on the back end.

Parts of Snowball's five-step plan may seem like common sense systems that any innovative operator

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Improving
Communities
One Home at a Time

would implement, but common sense isn't as common as you'd think.

The fix-and-flip model (aka lipstick on a pig) that most private equity shops lean on is a recipe for disaster. Snowball's buy-then-build model is a proven and far more effective strategy to increase shareholder value and maintain the outstanding reputations of the businesses that management has to acquire.

Return Potential

Let’s review the financial potential I laid out for you earlier in this article.

Snowball Industries has acquired targets with over $1 million in EBITDA using only $1 million in equity capital.

They've already raised $6 million in funding, and expect to generate approximately $8 million in EBITDA in 2023.

Based on an 8 to 10 times multiple of their projected $8 million EBITDA for the fiscal year 2023, management believes that, were Snowball a publicly traded company today, it could be valued at $64 million to $80 million.

Amir and Deven are confident that with additional equity capital to fuel the company's growth initiatives and acquisitions, Snowball can grow into a $1 billion enterprise. But realistically, while a $1 billion enterprise value is achievable, it's a long-term goal and not something we should be expecting in the next two years.

While not placing a hard time line on their plans to go public, Snowball's management is targeting $30 million in EBITDA as a corporate milestone for when to start considering an IPO.

Based on today's public market comparables of 10x to 15x EBITDA, $30 million EBITDA could equate to a valuation of between $300 million and $450 million. (And for the sake of some simple math, we can assume that Snowball will need to generate between $75 million and $100 million in EBITDA to garner a $1 billion valuation.)

companies for the long term, Snowball has the playbook and right team to execute on all fronts.

Snowball is raising up to $5 million via Regulation CF at a pre-money valuation of $46 million.

Referring back to the near-term return potential of this deal, assuming the company IPOs with $30 million or more in EBITDA, it could result in a public valuation of between $300 million and $450 million. And an IPO could occur in as little as 18 to 24 months.

Based on the pre-money valuation, we're looking at a return potential of between 5.5x and 8.8x in two years or less.

The bottom line is Snowball has crafted an enviable roll-up strategy with impressive near-term profit potential and truly incredible blue-sky long-term potential.

Public HVAC Co. EBITDA	Trades @ Multiple of EBITDA
$0 - $1M	3-5x
$1M - $2M	4-6x
$2M - $5M	6-8x
$5M - $10M	8-10x
$10M - $20M and higher	**10-15x and higher**

I expect this Regulation Crowdfunding (Reg CF) offering to be live very soon, likely within a matter of days. I'll shoot you a note when the offering page is live so you can finish your due diligence, consult with your financial advisor and decide whether an investment is right for you.

Based on my hours of conversations with the Snowball team, $30 million in EBITDA is very achievable over the next 18 to 24 months. And that means an IPO and exit liquidity for those interested will likely be on the table in a relatively short period.

Deal Terms and How to Invest

Through its approach to acquiring platform and add-on companies and its five-part strategy for purchasing, integrating, and growing its portfolio

Company Name: Snowball Industries Inc.
Offering Type: Regulation Crowdfunding (CF)
Securities Type: Common Equity with Voting Rights
Share Price: $.30
Valuation: $46,000,000
Minimum Investment: $501.00
Max Raise Amount: $5 Million
Year Founded: 2020

The Last Word…
Is It Time to Root for a Recession?

-by Bob Byrne

The "R" word has become more of a focus in the financial news lately.

The administration insists the economy's doing great. Businesses, on the other hand, have been preparing for a less happy ending.

Recessions are officially determined, with the amazing benefit of hindsight, by a group of economists at the National Bureau of Economic Research (NBER) — usually long after you've been suffering through them.

A more forward looking (and reliable) indicator is the yield curve which has a near perfect track record as you can see below…

Source: The Federal Reserve Bank of St. Louis

Every time the spread between the 10- and 2-year treasury yields has inverted (gone negative) recessions (the gray bars) have followed. You can see where we are today.

And when bad news gets so that it can't be avoided, it's time to roll out another more hopeful scenario…

Enter the soft landing!

A soft landing is one of the G's many euphemisms that describes something they'd rather not talk about. (Like "quantitative easing" is the nice word for inflationary money printing.) A soft landing refers to a tightening cycle by the Fed that doesn't push the economy into a recession.

Until now, all the previous Captains of Air Fed have been unable to navigate a soft landing when inflation had gotten out of hand. But you gotta keep hoping. Or do you?

Right now I see the big risk in the possibility that Jay Powell and his merry band of Fed governors actually CAN engineer a soft landing. That they can push interest rates back to a more normal range — and keep them there — and even cool inflation without tanking the economy. Here's why…

It All Started Three Years Ago

As COVID-19 started spreading in January 2020, the entire world reacted by essentially shutting down. That included China.

And during this self-induced economic coma, as supply chains around the world began to run dry, one thing became abundantly clear… The products that China supplied the rest of the world were pretty essential.

> *Chinese pharmaceutical companies have supplied more than 90 percent of U.S. antibiotics, vitamin C, ibuprofen and hydrocortisone, as well as 70 percent of acetaminophen and 40 to 45 percent of heparin in recent years, according to Yanzhong Huang, a senior fellow for global health at the Council on Foreign Relations.*

Beyond that, China is a major producer of everything from electronic equipment and cell phones to furniture and clothing and on and on. They're not called "the world's factory" for nothing.

Their impact on global supply became even more noticeable when lockdowns began to loosen up in early 2021. While the rest of the world was reopening, and demand began to skyrocket, the Chinese stuck to their zero-covid lockdown policies all the way through 2022. They continued locking down ports and factories and distribution centers at the first sign of a positive diagnosis.

But then their self-imposed lockdowns began having an impact on them too…

> *President Xi Jinping's zero-COVID policy locked down large parts of the economy, leading last year to China's worst performance in nearly a half-century. Rather than the 6% type of rate to which we'd become accustomed, Chinese economic growth slowed to less than 3%, its slowest rate in decades.*

Eventually it became clear to President Xi that they couldn't eradicate the virus. So he declared victory over it anyway and announced that China was back open for business.

And therein lies the problem. Because aside from all of the things they *supply* to the world…

China is a Major Source of Demand

China is the world's second largest economy — 10 times larger than Russia's. According to Richard Martin the managing director at the IMA Asia — an executive forum for Asia CEOs — China accounts for fully 20% of global demand.

Just last Saturday China's cabinet said…

> *…it would promote a consumption recovery as the major driver of the economy and boost imports, state broadcaster CCTV reported, at a time of cooling global demand as major economies teeter on the brink of recession.*

They're coming back and they'll be buying with a vengeance. And their return has the potential to hit one sector particularly hard.

During the lockdowns, China closed roads, ports and even the skies. And reopening all that is going to lead to a massive demand for oil. As reported at OilPrice.com…

> *Demand for oil and gas in China is expected to rebound this year, as Beijing ditched the zero-Covid policy,… The IEA also expects a rebound in Chinese oil and gas consumption, with oil demand growth in China driving half of the currently projected global oil demand growth in 2023.*

Good News or Bad News?

The price of West Texas Intermediate crude (WTI) — the US benchmark — is currently trading in the mid-$70 range. A recession here would lead to a softening in demand for oil. China's return to the global market would serve to prop up that weakness. So we'd see prices hover in the current range.

If, on the other hand, the much hoped for soft landing materializes and global demand for oil holds firm, China's return would likely send the price of oil through the roof — I'd estimate $100 to possibly $125 per barrel.

And soaring oil prices would only serve to ***reignite the fire under the inflation monster***. Maybe a little recession wouldn't be such a bad thing…

You Can't Make This $#!% Up!

Washington's Latest Harebrained Idea to Avoid Default…

When you borrow from Peter to pay Paul and Patty and Perry and Peyton and Penelope and Paige and Pasquale and all the rest of the debtors in the alphabet, you eventually run out of money.

It's the fate of any (fake) economy based on debt. That's not to say that those responsible won't do everything within their power to keep the illusion of prosperity alive — no matter how stupid their idea may be.

Well the powers that be may have just hit a new high (or low?) in stupidity by recommending a stopgap solution to the current debt ceiling stalemate in Congress. The idea? (my emphasis)

> *A little-known statute gives the secretary of the Treasury the authority to issue platinum coins in any denomination. So some commentators have suggested that the Treasury* ***create two $1 trillion coins, deposit them in its account in the Federal Reserve and write checks on the proceeds****…*

Trillion dollar coins. That's the idea.

If this sounds like another stupid idea known as Modern Monetary Theory — which effectively proved itself a disaster during the lockdown/stimulus portion of the program — that's because that's what it basically is.

If at First You Don't Succeed

Believe it or not, this isn't the first time this idea has been floated through Washington. The quote above is actually from a 2011 article by Yale Law School Professor Jack Balkin who offered suggestions during the last major debt ceiling impasse. (The one that got the US's credit downgraded.)

If at first you don't succeed, keep floating the idea.

Fortunately, not everyone is that stupid. Treasury Secretary Janet Yellen chose to maintain some level of fiscal sanity…

> *Treasury Secretary Janet Yellen said the Federal Reserve likely wouldn't accept a $1 trillion platinum coin if the Biden administration tried to mint one to avoid breaching the debt limit, dismissing an idea that has been floated to circumvent Congress on the issue.*

But what's the most shocking about this whole kerfuffle, is that it would seem Washington is putting so much ***more effort into finding workarounds*** for the debt situation rather than addressing the problem itself.

Of course, that's what gets you into trouble in the first place.

And now onto the portfolio…

January is in the books and like the market, our portfolio had a pretty good month. Some of our holdings rebounded spectacularly like Unity Software (U) and Cesars Entertainment (CZR) both of which gained roughly 25%. Everything else was up more in line with the market (the SP rebounded 6.5% while the Nasdaq bounced back 11.5%).

Only two of our holdings Vision Marine Technologies (VMAR) and AdvisorShares Pure US Cannabis ETF (MSOS) were lower for the month.

After a brutal bear year, there is still a lot of ground to be made up. But it's a decent start. Here's the rest of the portfolio for your consideration…

Symbol	Name	Comments	Entry Date	Entry Price	Current Price	Annual Dividend	Percent Gain
FPI	Farmland Partners, Inc	Buy shares of Farmland Partners (FPI) up to $18 per share	9/2/2022	$14.22	$12.88	1.68%	-9.4%
VOO	The Vanguard S&P 500 ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$351.06	$373.44	1.60%	6.4%
IJR	iShares Core S&P Small-Cap ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$93.35	$103.64	1.89%	11.0%
VTV	The Vanguard Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$131.74	$144.28	2.48%	9.5%
IJS	iShares S&P Small-Cap 600 Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$89.52	$102.22	1.79%	14.2%
SCZ	iShares MSCI EAFE Small-Cap Index ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$53.43	$61.14	4.72%	14.4%
VEA	The Vanguard FTSE Developed Markets ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$40.01	$45.76	3.89%	14.4%
DOCN	DigitalOcean Holdings Inc.	Buy a half position up to $60, reserving capital to purchase the remainder of your position on a dip.	6/2/2022	$49.31	$29.35	N/A	-40.5%
ONDS	Ondas Holdings Inc.	Buy a full position up to $8.75	6/2/2022	$7.55	$1.99	N/A	-73.6%
WONDF	Wonderfi Technologies Inc.	Buy a half position up to $0.60, reserving capital to add to the position on a pullback.	6/2/2022	$0.45	$0.14	N/A	-68.9%
VMAR	Vision Marine Technologies Inc.	Buy shares of VMAR up to $5.45 as a speculative investment in the growth of electric powertrains in the boating industry. UPDATE August 2022: Buy up to price was raised to $6.50.	5/2/2022	$4.27	$4.06	N/A	-4.9%
U	Unity Software	Buy a 25% starter position between $95 and $99. Then scale into the remainder of the position adding another 25% every 15% to 20% down. †	2/3/2022	$77.27	$35.52	N/A	-54.0%
EPD	Enterprise Products Partners, L.P.	Buy shares of EPD up to $23.00 as an income-generating investment.	12/1/2021	$21.20	$25.60	$1.86	20.8%
ARKX	ARK Space Exploration & Innovation ETF	Buy shares of ARKX up to $22.00	11/1/2021	$20.48	$14.00	N/A	-31.6%
MSOS	AdvisorShares Pure US Cannabis ETF	Buy shares of MSOS at market up to $33. Be prepared to add to your position on a dip to $27 ††	10/5/2021	$28.95	$6.70	N/A	-76.9%
GENI	Genius Sports Group	Buy shares of GENI up to $22.50	10/5/2021	$16.99	$5.49	N/A	-67.7%
JD	JD.Com	Buy shares of JD.com (JD) up to $80 per share	8/30/2021	$76.69	$59.53	N/A	-22.4%
CZR	Cesars Entertainment	Buy shares of CZR up to $101.75	8/6/2021	$90.50	$52.06	N/A	-42.5%
	Current Prices as of 1/31/2023	**Price Notes:** Entry prices are closing prices the day the issue is published. † Per our entry instructions a 25% position was initially purchased at $96.99 on 2/3, then another on 3/7 at $82.45, another on 4/27 at $71.10, and a final on 5/6 at $59.55 giving us an average entry price of $77.27. †† Adding an equal weight positon at $27 on 10/27 gives us an average engtry price of $28.95					