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The Anatomy of a Turnaround

How we bought CultureMap with no money down, turned it around, and sold it within two years. Step-by-step.



Almost two years ago my partner and I acquired a regional online publication called CultureMap and combined it with RSVP (social calendar) and Courtem (mobile dating app) in a company we called ViewMarket. Last week we negotiated the sale of ViewMarket to Gow Media (SB Nation Radio) for cash and stock. The combined company is on track to grow by more than 50% over the next twelve months and depending on market conditions, the plan is to hold a public stock offering to create liquidity for our investors. Here is how we did it:



Identifying a Distressed Asset:

Founded more than eight years ago, CultureMap’s investors had pumped millions of dollars into the company over the years. By

the time we found the company it was losing more than \$100,000 per month and the investors were worn out. The company had been so cash strapped it had been unable to exploit even its most basic assets. For example, the website was slow artificially depressing their page views and even more depressing was the fact that they didn’t have mobile or video to sell to their existing client base. We realized that if could streamline their editorial content, update the site, offer ads on mobile and video, and open two additional markets (Fort Worth and San Antonio) the company could

generate positive cash flow in short order.



Negotiating the Price: So what is a website that loses more than a million dollars a year worth? The investors assumed it was worth at least as much as they had invested and were asking \$10 million. It didn't take long for us to realize that the company, as it sat, was worth

less than zero to us. Though, with a little cash on the balance sheet, an experienced manager, and a little luck we figured it could be worth a whole lot more. The trick was to negotiate a price that reflects the investor's expectations that took into account the realities of the circumstances. **The most important rule of acquiring distressed asset is that ALL capital should be used to fix the company—none of the capital should go to former investors/founders/employees.**

In this case we decided that the best course of action was to issue multiple classes of stock. The first class of stock was for the sellers. They would receive the majority of the company to reflect the value they were placing on the business. The second class was for us (the buyer). It had two primary features—control and anti-dilution. If we were going to invest our time turning around this asset we didn't want to worry about having to convince the old owners/managers of the company our plans were sound—we wanted total control. Our class of stock achieved that by featuring 10-1 voting on shareholder votes and 3-1 voting for board votes. In the event the company wasn't worth as much as the seller assumed and we had to raise additional capital at a lower valuation our share of the company would not decrease due to the anti-dilution provisions.

Negotiating this sort of deal is not as easy as it may seem. The seller will almost always want you to pay some cash—don't do it. The seller will want some level of control—don't give in. The seller won't like the anti-dilution feature—tough cookies. Stick to your guns—turning around a distressed company is not easy and it is rife with risks and pitfalls.

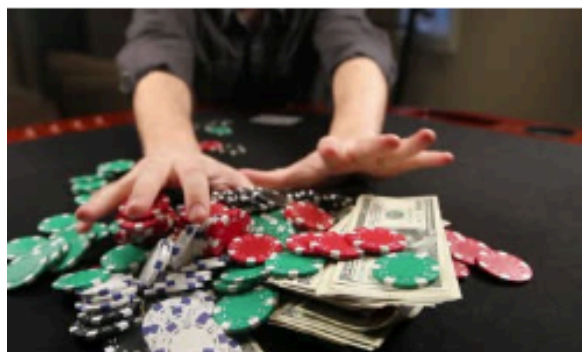


debt. We reached out to a local merchant banker named Tom Montgomery and had a deal worked out within a few days. Debt is almost always the cheapest funding around—companies with revenues can almost always support some level of debt.



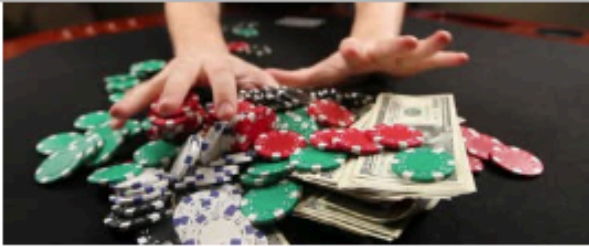
Fixing the Asset: Once we closed and raised the necessary capital we set about to right-size the staff, streamline operations, update the website, implement mobile and video ad units, launch additional markets, and grow the technology and sales teams.

Within four months the company was breakeven and growing nicely. Within seven months the company was on auto-pilot and it was time to raise additional capital to organically grow the company, find a buyer, or find additional complimentary companies to acquire. We tried a little of all three—ultimately acquiring two additional companies (RSVP and Courtem) before meeting Gow Media, our eventual buyer.



Cash out or Let it Ride: Without using any additional equity we were able to create significant shareholder value in just under two years and it is tempting to extract that value immediately; however, it is our belief that Gow Media will be

able to use their existing footprint to expand CultureMap much faster than we would have been able to do on our own. We're still very bullish about the space so we made a tactical decision to take preferred stock in the combined companies—a bet on David Gow and our combined teams. It is our hope



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Cuban and the von Gontard brothers

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Stepping Back or Staying In:

Soon after CultureMap was on autopilot I took a step back from day-to-day involvement to focus instead on possible M&A opportunities. One of those opportunities was Courtem. Around the same time my partner and I acquired CultureMap, the von Gontard brothers, descendants of the famed Anheuser-Busch family, working with Mark Cuban as an advisor and stakeholder, created Courtem—an

innovative mobile dating application. Courtem was unique (and sometimes daunting) because it required users to propose an actual real world date to their match. CultureMap is ALL about events and it occurred to us that by including our events as proposed “dates” in the app we could streamline the experience. While we were negotiating the sale it occurred to me that the Gow Media deal might be the thing we needed to unlock the real value from Courtem. Gow Media runs a national, 500-station sports radio network called SB Nation Radio. What if we promoted Courtem as THE dating app for sports fans on each of these 500 radio stations and partnered with StubHub to propose “sporting event” dates to our users? What do you think? Should I stay in the game and help build the Courtem app or focus on my next big thing? Any advice?



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