Written by Bob Snyder
09. 07. 2016

Ingram Micro sells off **AVAD**, part of Ingram Micro's Specialty Solutions Division.

Kingswood Capital Management, a private equity investment firm focused on buying mid-market companies where they believe they can add value operationally, acquired AVAD, LLC, including its wholly owned subsidiary, AVAD Canada Ltd.

AVAD is a North American distributor of high-end audio and video solutions focused mainly on residential custom installation markets in North America. With more than 10,000 customers across the United States and Canada, AVAD offers solutions for video, audio, networking, HVAC, lighting control, security, home automation, digital signage, system design and other products to small- and medium-sized businesses, some commercial venues and mid-to-high end residential markets in the United States and Canada.

Kingswood says it partnership and its operating team will provide AVAD with the executive leadership, operational resources and capital necessary to realize the Company's long-term strategic goals. **And what would those goals be, exactly?**

For the leadership at AVAD, surviving the divestiture from IM has to come first. But the dream must be to capitalize further on the boost in size and revenue afforded by the years with IM and take the dominate position as America's number one independent distributor in this AV niche. And maybe even more than that…

Ingram Micro bought AVAD in 2005, for less than one year's turnover. Back then, AVAD was a confederation of 12 regional distributors that had to be consolidated into one to complete the purchase. Turnover of all equaled about $200 million while IM paid $120 with a potential of $80 million in payouts across the next 3 years.

The market heralded this acquisition as the coming of age of the residential market, the confirmation of the importance of the custom install market. **To have a leading broadliner such as Ingram Micro to buy a specialized distributor like AVAD meant you could expect big things from the market as well as for AVAD.**

No one, as far as we've seen in the press, has drawn the opposite conclusion now that AVAD is getting divested. So we have to ask, "Why?"

First fact to consider, **Kingswood has recruited consumer electronics and distribution industry veterans, Tom Jacoby as Chief Executive Officer and Fred Farrar as President (among other key executives** to be announced). Both Jacoby and Farrar are connected through Klipsch. Prior to his time at Klipsch, Jacoby was CEO of Harman Consumer Group from 1980 to 2000.

To quote the new owner of AVAD, "Following this transaction, AVAD is well positioned to continue providing its comprehensive, premium products and services to its broad base of existing customers while growing its distribution in numerous underserved markets."

Alex Wolf, Managing Partner at Kingswood, comments, "As the market leader in distribution of premium audio and video solutions, AVAD is poised to grow its product offering and distribution reach under new leadership. Kingswood is fortunate to partner with an industry leader like AVAD and proven industry executives like Mr. Jacoby and Mr. Farrar in this transaction."

Tom Jacoby, AVAD's new Chief Executive Officer added: "Fred Farrar and I have had the pleasure of working with AVAD as one of our customers over our many years in the consumer electronics industry. We hold AVAD in the highest regard and look forward to joining its strong, passionate team and extending AVAD's market leading position. We have plans to invest in AVAD's infrastructure and will particularly focus on using web enabled technology to deliver added value to all of our trading partners. We are delighted to be able to contribute our experience and commitment to this great organization."

So it seems clear the plan is to move from analog to digital (in business process),

broaden the product lines (and maybe even categories) as well as the sales reach-- and do more business over the web.

Klipsch has had strong business overseas. **While there is no evidence of this in the announcements, AVAD could also certainly expand internationally** , buying up distributors in Europe, as an example. Probably AVAD will be busy putting its house in order in USA first, maybe expanding its national coverage to get more market share. Europe is, most likely, several years away from being even considered.

For a second reason, we might want to consider a similar benchmark in residential solutions history. The retail chain **Best Buy** acquired the specialist Magnolia AV in 2000. Like AVAD and Ingram Micro, Best Buy faced the “Dustbowl Years” of residential, 2009-2010 when a general economic crisis provoked by the financial industry made an empty wasteland of much of the American economy, converting the disposable income of US families into “disposed-of” income.

To-date Magnolia AV has not been divested, but it has moved all of its Design Centers inside Best Buy stores. And, more significantly, Magnolia AV announced they would start chasing the commercial market.

So another big opportunity for AVAD would be to move more into commercial business, as many residential distributors have done.

While these **four areas of potential for growth seem obvious to new owners (broaden product, more web, go international, go commercial AV**), none of those had appeal to Ingram Micro. IM is already overseas, already has a Pro AV business unit, already improving web sales, and already has a broader product mix (that covers all consumer electronics).

It also has echoes of Vincent Bruno's decision for a broader CEDIA . That echo says the residential business, flattened like a pancake during the global recession, has widened on the gridle of adversity. Widened perhaps to the point that Ingram feels it has most of it covered anyways-- and perhaps feels a bigger need to go after the emerging specialty channels in IoT, 3D printing and more.

It would seem, following the logic, that **AVAD was simply more valuable to others than to Ingram Micro.** The residential business didn't offer the growth Ingram Micro felt it had elsewhere. This was perhaps accentuated by the recent acquisition of IM by the Chinese conglomerate whose new mandate points IM to expansion in the more lucrative Asian markets...

Go Kingswood Capital

Go AVAD