Buy Side Work in M&A: The Hunt for the Perfect Acquisition and Navigating Negotiation Challenges with Bill Snow

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Andrew [00:00:00]:

Welcome to the Investing for Beginners podcast. Today we have a very special guest. We have Bill Snow. He is a middle market investment banker for the firm Focus Investment Banking. He also wrote a great book. He is the author of Mergers and Acquisitions for Dummies. So Bill, thanks for joining us today. We're really happy to have you.

Bill Snow [00:00:22]:

Well, thank you for having me. It's a delight.

Andrew [00:00:24]:

Can you talk about out maybe your background before we start getting into the nitty gritty of what MNA is?

Bill Snow [00:00:30]:

Sure. When I got out of college I think this was back in the dark Ages, around 1500 when I finished school, I did not know what I wanted to do and I bounced around with a lot of different jobs. I had sales jobs, I worked for a retailer and I was running stores. But I was helping with a lot of acquisition and integration of a lot of mom and pop type stores which actually dovetailed well. I can't say it was part of a master plan, but it does dovetail well into the M A work I do now. I got interested in where businesses come from, the genesis, the germ of an idea. How does that come together? So I got involved with friends and family, angel funded businesses, venture capital, working my way up the food chain. And for a few years I worked for a matchmaker between venture capital and entrepreneurs and did a lot of bird dogging for venture capital firms and saw good, bad and indifferent, mostly bad, doing that kind of job. And you end up getting a lot of information, a lot of knowledge, a lot of experience in terms of general business, whether it's selling, whether it's managing people, financial, accounting and so forth. So a few years after the venture capital thing went the way of the Dodo, a former colleague, one of the VC jobs, had gone to a middle market investment banking firm, and they were looking for somebody to add to the staff, somebody who could execute transactions, make phone calls and negotiate, knew how to read a balance sheet and things like that. And so I very wisely turned that job down four or five times and the owner of that firm thought it was going to be a sales job. I didn't want to do that. And the owner caught me in a moment of weakness and I said, okay, fine, I'll go be an investment banker. And what you learn is it's really not selling when you're selling a company because you quite often and are selecting the buyers so we can get into that a lot more. But that's how I got into the investment banking racket. That was almost 20 years ago now.

Andrew [00:02:13]:

Awesome. Can you break down middle market for somebody who might not be familiar with that term?

Bill Snow [00:02:18]:

Sure. The definitions vary. Everybody has their own idea of what middle market means. But generally speaking, we've always thought that is roughly 10 million to 300 million in revenue. Although today, with the inflation we've had, I would say probably 20 million minimum in terms of revenue, up to 300 million. And then in terms of earnings, we'd like to see at least $2 million, preferably more in earnings or this horrible acronym that investment bankers like to use called EBITDA. So at least 2 million in earnings. Okay, cool.

Andrew [00:02:48]:

Is there a particular size that tends to be a sweet spot for M A, or is it really case by case basis?

Bill Snow [00:02:56]:

It's a case by case basis, and it really depends on what two sides want to do. People always talk about deal flow, and it's a term everybody uses it in the business. We like ampersands. In the M A business, if they could only put an ampersand into deal flow, it'd be even better. I don't like that term because to me, it's very passive. Something that happens, it rains. Okay, that's something that's passive. We have no control over that. Right. It's cold, it's hot, whatever. M A deals require a buyer and a seller. So you have to have a company, probably a good company and an owner of a mine to do a transaction, and you have to have a buyer that wants to line up and do a transaction. What I always tell, whether it's somebody who wants to make an acquisition or somebody wants to sell a company, put your plan together. Do what you want to do. Because business owners in particular are inundated with overtures from private equity firms, from individuals who want to buy companies, from other companies who want to make acquisitions. And quite often, they find themselves kind of jury rigging an offer. Well, it's not quite or I don't know what I want. And it's kind of square peg, round hole type situation. So if you have a company, if you're looking to sell, put your plan together. What do you want to do? I want to retire. I want to sell a piece and work for a few more years. No right or wrong in this. You can do whatever you want. And the same thing with the buyers. Put together your plan. What are you looking for? But not just that, because everybody's looking to make an acquisition. What do you bring to the table? Do you see something different? I call it having a thesis. Do you have a thesis? So if you talk to a business owner, it's just not we have a lot of money in industry experience, and we want to buy you. The whole world says that if you can come up with something else, I'm seeing something in the industry. I think I can take advantage of it, like, to get your thoughts on it and let me know if I'm onto something, if I'm way off base. If you can do things like that, have an actual conversation. Quite often you can move the needle and find a meeting of a minds between buyer and seller.

Andrew [00:04:42]:

Cool. Talk about the buyer, maybe for a second.

Bill Snow [00:04:44]:

Sure.

Andrew [00:04:45]:

Who's doing a lot of the buying, either in general or with types of people you'd work with.

Bill Snow [00:04:50]:

Sure. So in the middle market, the buyers tend to be private equity firms and other strategic companies who want to make an acquisition. And you'll see this all the time. You'll see this the big stories in the newspaper, those are typically the really big transactions, the smaller transactions, the transactions that have a value of whatever, 1020, 30, $50 million. Small, relatively small. Quite often those fly under the radar, maybe some sort of mention in a local paper, especially if the company is in a secondary or tertiary market. You'll quite often see a little mention of that. But certainly the big national papers, that's just not very fun and exciting. So the buyers it's a tough job being a buyer. And I think the mistake that a lot of people make, especially for young people who have a fancy MBA, and they go work for a private equity firm, and they think, this is great. I'm going to buy companies. I'm a buyer. I make the buying decision. We think of buying as going to the grocery store, right? You need a can of soup. You go down the aisle, you have your choice. You are the buyer you pick. Right. The seller is hoping that you pick them. In M A, quite often the roles are reversed. And so the person pushing that shopping cart is the seller. And the buyers are all the private equity firms and other strategic firms up on the shelf, trying to differentiate, trying to be the one that gets picked. Because a good company for sale, especially if the owner has reasonable expectations, is a very rare commodity. And so just making those acquisitions, finding a good company to acquire, extremely difficult. One of the most difficult things I think to do in business.

Andrew [00:06:20]:

Would you say that competition has intensified? Does it ebb and flow over time when it comes to the number of buyers?

Bill Snow [00:06:28]:

It ebb and flows. And the last roughly 15 years, where we had this, I think, very destructive, low interest rate environment, it made money very cheap. And so we saw a lot of private equity firms and everybody could jump in and buy companies because borrowing money was very cheap, the cost of capital was very low. We're seeing some culling of the herd, I suppose, and that is putting some downward pressure on valuations. I do think that we've had a lot of inflation in M A and valuations until recently. But the competition, it's always going to be there for the buyers. And the biggest competition that buyers have, and it's the same thing with me trying to find clients. The biggest competition is not necessarily other firms. Certainly that comes to play once in a while. The biggest competitor is the nondecision. Right. The owner, who maybe has some conversations and maybe even an offer is made, maybe even some negotiations go on, and then the owner, for whatever reason, decides, I don't want to go forward. So the nondecision is probably the biggest competitor when you're buying companies, whether you're looking to be signed up as an investment banker to represent the seller or as an acquirer trying to make acquisitions.

Andrew [00:07:37]:

Yeah, there's got to be that reason to do it. And I guess if you're on the seller side and you feel like the world is your oyster, then there's probably less of an urgency on that side.

Bill Snow [00:07:46]:

Exactly. Yeah, you hit the nail on the head. There that sense of urgency. And that's why when I talked about the low interest rate environment as being very destructive and a lot of people don't realize that, oh man, I could get a mortgage for 2%. That's fantastic if you can get that. But it's very destructive if you're on a fixed income, if you're looking to retire. People didn't talk about this and yeah, the owners could get a higher multiple valuations were inflated because of the cheap money that we had. But what happened is the owners started doing some calculations. Okay, yeah, that's a pretty good deal. I get a lot of money from selling the company. When we get to closing, three people show up the buyer, the seller, and Uncle Sam. Uncle Sam's going to take away a third or more of my hard earned money, my capital, which is right now 100% in this business. So I'll have two thirds left that I've got to pay the investment banker and the lawyer. Maybe I've got to pay off the bank. There's all kinds of debt you have to settle up. And I'm left with whatever and a nice little pile of money. Well, I don't want to put it in the stock market because I need to have income. I don't care about sky's the limit return anymore. I want safety on my principal and a decent return on top of that. Okay, so what are AAA bonds paying? What are government bonds paying? Half a point. Forget it. We had zerp, we had zero interest rate policy for over a decade. It was extremely destructive for anybody on a fixed income, and it ate into their savings because they couldn't get the sort of return on their capital that they used to. And I think it also prevented people from moving forward because they thought instead of going through all that rigor and roll and paying all those taxes and then getting a hidden on my return, I'll keep my capital in the business and maybe I'll hire somebody to run the business for me. But I'm going to continue to clip a coupon basically by owning the business. And so that's when I talk about interest rate, that low interest rate environment being destructive, I think it was very destructive.

Andrew [00:09:36]:

So there's a chance that's flipped now, very recently.

Bill Snow [00:09:40]:

Sure. And of course, everyone is promoting the fact that, yeah, money costs more. Maybe we've raised interest rates too high, maybe we should have been doing this long time ago. But I'm old enough to remember when interest rates were in this range, four, five, six, 7% on a mortgage. That seemed normal. Now, when we're used to paying 2% on a mortgage, especially for young people, they just think that cheap money has been the way it always is. No, it isn't. So maybe you have an adjustment period. What I was telling business owners, of course, nobody listens to little old Bill, the harmless little furball investment banker in Chicago. But I said, what's going to happen is people are passing on selling their company. And I think in part, there's a whole host of reasons, but in part because of that replacement income issue. And then when interest rates rise, and they will at some point, and that will put downward pressure on the price, but the income that you can make from a fixed income product will go up and become much more palatable. At that point, they're going to say, well, now I can get a good return on my money, but how come I'm not getting as much money? So I was trying to encourage people, strike while the iron is hot, get these high multiples, get a higher valuation. Today, I don't know when, I don't forecast, but at some point, interest rates will rise. And of course, we've seen that in the last couple of years. And people who are looking for a fixed income, it's much more palatable to do that right now. But of course, everybody wants the big maximum valuation. Who doesn't? But trying to time the market, you're going to go crazy trying to time the market.

Andrew [00:11:04]:

Oh, yeah, the FOMO is real. So can you talk about the valuation in middle market? Is that similar to public stocks, public equities, where it can vary based on the industry? Are there any insights you can give us around valuation in general when it comes to middle market M A?

Bill Snow [00:11:22]:

Yeah, valuation. Your viewers or your listeners might want to write this down and you might want to make a note, too. It's a very complicated mathematical formula, but I'm going to explain it to you and you'll understand. It's a very complicated mathematical formula that largely depends upon what side I'm representing. So that's a joke. Okay. But the valuation in M A, yeah, it starts with science, or so called science. Quite often they look at the earnings, right? The EBITDA earnings Before Interest Tax depreciation. Amortization. That horrible acronym. If only we could put an ampersand in that one. That acronym would be even better for investment bankers, because M A has an ampersand, right? But the valuation starts with science, right? Let's look at the earnings. Let's apply a multiple 45678, whatever that number is. But what happens as you're going through negotiation is it becomes more art after that. And it's what can you know, can we get some more from the seller? Or can the seller says, maybe we get a little more here? And so I can't say it's any kind of hardcore science. It is really an art in terms of that. Now, the valuation is important because if you have a company and a publicly traded company is going to acquire you, more often than not, they are not the publicly traded company. That buyer is not going to pay a price higher than what their earnings per share are at their EPS. Right? Why is that? Because they want not always, but they want earnings of an acquired company to be accretive. Right. Why buy a company if that is going to drive down your earnings per share? Nobody would want to do that. Now, that does happen sometimes, and that's why you'll see quite often on these big transactions when a merger is announced, people start selling from the buyer because they figure the earnings per share are going to go down. But that will give you an idea of a check, a ceiling of what a buyer, a publicly traded company, might be willing to pay. And the fact that they're buying a privately held company much smaller. If the earnings per share is 15, they're probably not going to pay 15 times. They're probably going to pay something less than that because they're going to want some wiggle room. And of course, a smaller company is different than a larger company. Part of the reason you have those high PE 15, 2030, whatever it is, is because it is a much larger company with great deal of liquidity with a publicly traded company.

Andrew [00:13:31]:

So you mentioned the price buyers are willing to pay. I was reading a book yesterday about Charlie Munger and Warren Buffett, and when they bought seas candies in the private markets, they had come in with an offer and then Seized Candy came with a different offer and know, they basically stuck to their guns on it. And Seized came back and said, okay, we'll do the deal after all. Do you get a lot of negotiation that can happen in these kinds of things? And does it lead to a lot of deals not eventually being done?

Bill Snow [00:14:01]:

Well, you're going to have negotiation in just about anything. When you say negotiation, sometimes that makes people very nervous. They think a lot of bluffing. They think pounding the table and very dramatic things, that would make for a good movie right in the boardroom. Someone pounding the table and throwing a chair through the wall and take it or leave it. I have found that the take it or leave it approach, you end up getting nothing out of that. And I like negotiating. I think that's a lot of fun for me. What I would recommend all of your viewers, this can drive you nuts is stop reading business books. They won't help you negotiate what you need to do. Seriously, stop reading that stuff. It's what other people have done. The best way to learn to negotiate is to do it yourself. And the best place to start is play cards. Get some buddies together and play poker for a little bit of money. You don't have to be big stakes or anything like that. It is best when you lose. It does sting a little bit because what happens is and that is the best lesson in M A. So stop reading business. I write business books. But stop reading them. They're not going to do you any good. Trust me on that. You got to get out there and do it. But if you're playing cards and you're playing cards for money, the big lesson in poker and the analogy to MNA is it's not bluffing. It's not lying because if you bluff, you're going to get found out and you're going to get trounced. Okay? The key thing is trying to determine when you have a good hand and when you have a weak hand. And if you have a weak hand, how do I get out of this with as little damage as possible? Then you know you can't push that much. And you just better get this thing done because you're not in a good position. And it's not just looking at your cards, right, not looking at your hand. You have to read the table and get a sense of where those people are and how do you determine that they're betting. Body language, tells and all kinds of things like that. And the real lesson is when you have a strong hand, because if you play cards, if you play poker, if you have a strong hand and you immediately start betting huge numbers, the maximum if you have a maximum in your game, or just big, big dollars that are far beyond the typical bets in the game, what is that? A signal that you have a great hand and you're just going to give it all away and people are going to fold, and so all you're going to win is the ante. So you've had a strong hand. You completely misplayed a strong hand. And so the lesson for negotiating is understanding. We can't stronghand what the other people have and be able to play it accordingly. You're not going to bluff. You have to explain. You have to be calm and rational and have discussions. And the best negotiation where it works out the best is that sort of thing where both people are agreeing, okay, this makes sense. Okay, we'll both compromise a little bit here because it's not about winner take all. You have to get a deal done that's going to make sense for both sides. Because ultimately, if it doesn't make sense for one side, that side will walk away. So you have to keep that in mind as well. So stop reading business books. I haven't said that already.

Andrew [00:16:40]:

One more time. Maybe I do like the advice to play poker. Maybe I could check, raise you on Paramas or something.

Bill Snow [00:16:47]:

Do you have friends? Do you play?

Andrew [00:16:49]:

Yeah, I started playing this crypto poker game. It's kind of fun.

Bill Snow [00:16:53]:

Oh, stop that. What's wrong with you young people? You get together in a room with some friends, okay, and you have some money on you, and you don't do any don't look at your phones. This is going to be bizarre for you guys. Don't trust me on this. Get together. Have regular poker games with your budies. It will be the best lesson. You'll have a lot of fun too, but you'll have a lot of fun too, because you have to learn how to read your hand in relation to others. So I encourage you, please have some fun, okay? But it will be one of the best lessons that you learn in business.

Andrew [00:17:25]:

And you get the people who you know are always going to play it really conservative, and the ones who are always going to overplay their hand.

Bill Snow [00:17:32]:

Well, that's true. And I have a friend, and we don't play that much anymore. I'm a little bit older now, but in my 20s, in college, we played a lot. But my friend, he thinks he's an expert poker player. And I've told him he has the worst poker face in the history of the world. And this is where it's important, because if he gets middling cards, they're kind of indifferent. There's nothing really exciting about his hand. He's leaning back, he's sighing. He's kind of rolling his eyes, slow to make the bets. The second he gets a good hand, he immediately sits straight up. He's looking everybody in the eye. He bets really quickly. You can't bet fast enough. Come on. The money there. It's mine. Bet, you jerk. And he's got this face, and the face is this is my expert poker face. You won't be able to tell, okay? And he has the worst tells, and so I know when he's got good hand. And so this is some of the lessons, seriously that you have to learn, and you have to do it face to face with some other people. And it doesn't have to be big stakes, but put some money on it, because when you win, you want to feel that's pretty good. And when you lose something, you know what? When it stings, then it's real. And then you start thinking a little bit differently about how you manage risk and how you move forward and how you position things. It's one of the best lessons any person can learn.

Andrew [00:18:46]:

I bet your buddy thinks he's got a real good poker stare too, like an iron, when he's really being serious.

Bill Snow [00:18:52]:

Fortunately, we don't play that much. I have told him I doubt he'll remember, but I've told him he has the absolute worst poker face. Yeah, I tease him. He can't change lanes fast enough when he's driving a car. It's absolutely hilarious. He just is zigzagging back and forth. But he's a great guy, though.

Andrew [00:19:07]:

It is a good lesson though, because I imagine you can gain a lot from how somebody is behaving and how willing they are to make a deal or not. So obviously money plays a big part. But you got to think with business owners, especially those who have poured their heart and soul into a business, there are other things they want to see from a buyer other than just money or valuation. So can you talk through some of that?

Bill Snow [00:19:31]:

Yeah, great question. One of the things that we talk about is chemistry and we tell them, look, we'll go through a process, we'll put the materials together, we'll put a buyer's list together, you approve everybody. We'll reach out to the buyers, we'll get materials to them, we'll get initial offers, okay? And then based on those initial offers, we might sit down with some of those offers, assuming those offers look like they would be of interest to you. And one of the big values and why it's so important to sit down and have meetings face to face stuff. So stop all this computerized crypto stuff. You kids get together, okay? No more zoomers and all this video stuff. You got to get together face to face because you want to see how well both sides play in the sandbox. Think about little kids playing in the sandbox. And it starts with chemistry. So we will tell somebody, look, if you don't like one of the groups, if you just don't click and that's going to happen, you're not going to connect with everybody you meet in life. If you don't like them for whatever reason, don't do a deal because it will be misery. It's kind of like getting married. Why get married to someone you can't stand? It would be complete misery. So it does start with chemistry and it goes back, though, to that. One of the first things I said in this interview for Sellers put your plan together, what are you looking to accomplish? And as much information as you can provide the buyers that helps you make sure that the buyer that you select is going to line up very well with what you're looking for. Not just we don't put a list price in the materials, but we will put down whether we want to do a stock deal, we want to do an asset deal, whether the owner wants to retire is going to stick around for a transition, is willing to work for X number of years. Wants to sell 70% of the business or hold on to a substantial piece and then sell it somewhere down the line. Whatever that is. Again, there's no right or wrong, whatever that is, we want to communicate that and make sure that the buyers have all that information. Former colleague of mine used to say the market responds to clarity and that is such an important thing for any seller. Be as clear as possible and detailed as possible with what you want. Be open minded. Someone might come up with a different idea that makes sense. There's nothing wrong with changing your mind. But it is difficult because I buy companies too, for clients, and it's very difficult for me because I write the offers. I cannot write an offer when a potential seller says, yeah, I'll do whatever. How can I write that? Give me an offer. Do you want to stay? Do you want to know? You want to sell? The whole thing? If you give me something to work with, I can put together an offer. And there's some back and forth in terms of crafting these things as well. But be as clear as possible with what you're looking to accomplish.

Andrew [00:22:01]:

What was it? Alice in Wonderland or something? Where do you want to.

Bill Snow [00:22:07]:

Very it's good pop culture reference here. I like it.

Andrew [00:22:10]:

You'll get one for me today and that's probably it. And nothing else for the rest of the year. Anything else we're missing on the whole M A thing in middle market that we haven't discussed yet?

Bill Snow [00:22:21]:

Well, the buy side, we can talk a little bit about that. We've talked about how difficult it is by a company. And the reason that it's difficult is well, first is we have to understand how I divide buyside work. And most people do it the same way. I don't think that they really think about it this way. I look at buyside work as having three components search, negotiate and finance. So let's take those in reverse order. The finance is quite often the easiest. Money is plentiful, especially if you have a company, you probably have money, you have access to money. You have access to a line from your bank, right? Maybe you can sucker some I'm sorry, maybe you can get some of your friends or family to put up some money and help you out. Money is usually you can find. That the negotiation. That's the fun part. Crafting that, trying to come to a reasonable meeting of the minds, that's a lot of fun. It is like a chess game. It is like a poker game and I really enjoy that. The most difficult part of M A buy side m A is search, finding the company to acquire. And that's the part that gets short shrift all the time. I have a lot of friends in PE, private equity. I know it's 04:00 on Friday afternoon because that's when my phone starts ringing with all the PE people trying to make their outreach calls. Those poor suckers. They have to call people like me and they ask, what do you got? What do you got? And it's a terrible job. And they get phone reluctance because they get beat. Up all the time and people hang up the phone and they realize that they're just basically a pest. But their boss is saying, have you made X number of calls? So they wait till the end of the day. So very nervously, at 04:00 they're calling. So I always set my watch to 04:00 on Friday because that's when the PE guys start calling. But it's very difficult. And why is it difficult? A good company and an owner with reasonable expectations who wants to do a transaction is a very rare breed. And the hypothetical I give is, think of a 45 year old guy, owns a business, does really well, makes a couple of million bucks a year, has plenty of money in the bank, married, young kids, the wife is happy, the kids are happy, everything. His health is good. He jumps out of bed in the morning. He loves everything about the job. Okay? You can't offer that guy enough money to buy the company, right? He's going to say, what am I going to do? I'm already wealthy, I'm doing well, I like what I'm doing. What else am I going you couldn't offer him enough money unless you want to do some ridiculous huge sum of money. And even then he might turn it down and no one's going to pay some huge ridiculous sum of money. So that's just not going to happen. So what happens is that reduces the supply in M A, and so M A is supply side. Demand follows supply. You put the supply out there, demand will follow. You might not be happy with what the demand is paying, but you will get some information in terms of how buyers are evaluating businesses. And that's why all this nonsense about stimulating aggregate demand that we've seen which I think has just been so asinine and destructive the low interest rates, the zerp, the buying up of all the mortgage bonds I think it's just been just absolutely horrible. Because all that has done is that's created more capital, that's created more demand, that has absolutely no impact on supply. And so when you have more demand, not enough supply, what do you have? Inflation. And that's exactly what we've had.

Andrew [00:25:39]:

Are there outside events that have impacted the number of sellers willing to sell pandemic? Did that have an effect? Are there other historical events that may have had an effect?

Bill Snow [00:25:53]:

Yeah, that can have an impact, a systemic shock to the economy? The pandemic? I think that the reaction we had was just over the top and people were largely over it. We still had to wear masks and pretend those worked for a couple of years. But what you found is when people started going back to work, is people went back to work and buyers were willing to make an allowance. Okay, look, we know everything shut down for a couple of weeks, a couple of months in the spring of 20. So if second quarter. If those numbers are weak, we can look beyond that, assuming the numbers have come back third quarter, fourth quarter, and beyond. So things like that can have an impact. But I had a buy side client, and we were still doing transactions or trying to do transactions, doing the work, having a lot of meetings. We're doing a lot of zoomers at that time. But we did look at a lot of different things. So business still went on. That was obviously an extremely rare type of systemic issue. I've said this before, everybody's trying to time the market. You'll never time the market. You'll go crazy timing the market. So all your people who are reading their business books I had a friend in college, way back in the Dark Ages. Again, this was in the 15 hundreds when I was in college. And he used to like to pour over books. We had books back in those days. This is before the that age we did these things. Have you seen these before? Oh, by the way, I keep a little plug there's. M a for dummies. So it's these paper book. You might not have seen these. And so he would pour over these books and he would look at the stock charts, and he would fantasize about buying whatever stock at the absolute lowest and then selling it at the absolute highest. I used to tell him, you'll never do that. It's impossible to time the market. Be happy. If you had a nice gain on a stock, who cares if you didn't buy it at the lowest? Who cares if you sold it before it hit the peak or if you sold it after it hit the peak. You should look at the gain. And so timing the market is the same way to that extent. I always tell business owners because they're always talking about what's going on in the economy. M A is largely microeconomic. Yeah, some macro things can certainly have an impact, right? But a good company is going to trade. Okay? So a good company in a bad economy, you'll find a buyer, probably a buyer willing to pay a premium because it's just so hard to find a good company when the economy is not doing well. And the check there is a bad company, but the economy is going great. Gangbusters is going to struggle finding a bid. So focus on your company. M A is microeconomic. A good company, growing strong profits, good management team, no customer concentrations, all those checkbox items of a good company, whether it's a good economy or bad, that company will trade. The bad companies, revenues are dropping, losing money, management team about to retire, et cetera, et cetera. All those issues, big concentration, all those issues. A bad company in a good economy will struggle to find bids.

Andrew [00:28:41]:

So let's say we're talking about that bright eyed MBA who just got out of school that you talked about wants to be a buyer. Do you have advice for that person? Yeah.

Bill Snow [00:28:52]:

Don't. Don't.

Andrew [00:28:55]:

They harass you every Friday?

Bill Snow [00:28:57]:

No, go away. Don't do it. It's miserable. You're going to hate it. And I'm doing that just to call the herd. Everybody thinks they want to get into this. Don't do it. Do something else. Do something else, because you're going to be making phone calls. If you like making phone calls and being abused, then absolutely. When you get that fancy MBA and you can go work for a big private equity firm yeah, if you enjoy doing that, they probably stand out. But it is rough work just trying to find those deals. The PE, those guys that raise the money, they know it too. That's why they just hire young people. I get them all the time, the same firms. Every three months I get a new email and it's the new director of business development. And I just cringe because they all have the same wild eyed view on this and they don't last. Either they get fired or they just move on to something else. Because I'm sure they're smart people and I'm sure they're good people, but it is a tough thing to do to try and find companies for sale.

Andrew [00:29:52]:

How do the good PE, how do they do it? Like Carlisle back in the day, how are these guys? They're just persistent. They're that perseverance. What differentiates?

Bill Snow [00:30:01]:

Yeah. You know, a couple things. You'll have to ask the Carlisles of the world and these other groups, how they think they differentiate themselves. What happens is they're going to bid. There's going to be a process. So multiple bidders will usually, especially if it's a good company, multiple bidders will be putting in offers. Only one is going to get selected. Right. You can have demand, you can have ten buyers all putting together really good deals. Right. You can't go back to the factory and crank out nine more of the companies to satisfy the market. You can only sell that company one time. And so the PE firms, yeah, they win mandates, they pitch a lot too, and they're not going to get selected. Either they're not the highest bidder or they have too much structure, it's too complicated. And maybe someone else had a more straightforward deal with more cash, maybe less stock, less burnout, has just become Frankenstein's monster. Less of a note. So all those things factor into how someone determines whether they want to do a transaction or not. But you've got to get out there and play the numbers game. What I always tell, I get contacted all the time and I always tell the Pep, they always want to talk and I want to be polite and professional, but I always say the same thing, hey, when we have something that might be a fit, we'll be in touch. Absolutely. And so if they want to stay in touch and they want to get looks from investment bankers what they should do. And I don't own a piece of capital IQ, but make sure that all their contact information in capital IQ up to date. All the people in the firm who's overseeing what investments, make sure all the investments are up to date. Make sure the criteria of what you're looking for is up to date in capital IQ. Maybe PitchBook. Why? Because investment bankers quite often use those tools to put together a buyer's list. And if they don't put the information, if it's not up to date, that decreases the chance that they'll be one of the 100 to 200 firms that we will put on a buyer's list. Okay? So if they want to be on that buyer's list, they have to make it as easy as possible. So make sure all those online sources they're up to date. If they do that, they'll get more looks. And when we have something that might line up, believe me, we will reach out to them and we'll be very happy to have discussions at that point.

Andrew [00:32:12]:

Is it similar to the seller side where it's like, you better tell the investment banker what you're looking for, what you want, kind of a thing?

Bill Snow [00:32:20]:

Yes, that's important. The buyers, I will caution them and from spending too much time putting together their perfect list of the perfect company and why the perfect company is perfect for me. That's what those lists are, right? They all want these incredible I want it growing at 20% a year with at least 15% EBITDA margins and no customer concentration and a management team willing to stay who doesn't want to get paid, actually, and no regulatory issues. I want to have something that's easy to understand, but I want it defensible as well. And I mean, it's just they want these incredible things and an owner willing to sell at a low price. I want a motivated seller. And those are all great, okay? But what happens is you're never going to find that perfect company. And anybody who's done what I've done, you have these conversations with our friends in private equity, and they have this very detailed list of what they're looking for. And you say, well, we don't have anything like that, but I've got something completely else, something different. And they say, well, show me the teaser and why this is the dirty secret. Nobody wants to talk about it. They all have a list, okay.

And what goes on, this is going to be the big eye opener. I'm letting out all the dirty laundry for my friends here. All the PE firms, they have a list. There's probably a spreadsheet in Excel, and they want to track every deal possible, as many as possible. And why is that? There could be hundreds, thousands every year, and they're going to bid on a handful. Maybe they make 1234 investments a year. But why do they want to track as many as possible for a very simple reason. When it's time to go back and get more money, they can tell their investors, we see 90% of the deals every year. We pick the best of the best. Okay? Yeah. Those four things we invested in the other dogs, but trust me, those are the best. Okay? So give us more money, we see everything. So they're not necessarily going to be interested in doing a deal and then sellers should know this. Okay. And that's not to poo poo doing deals with private equity. Private equity is great. I've got a lot of friends in private equity. But you have to keep in mind are they genuinely interested or do they just want to add something to the list? And that list is serving a different master than trying to get a deal done right.

Andrew [00:34:21]:

Can you explain the seed thing because it lost me a little bit there.

Bill Snow [00:34:25]:

Explain what did I kind of gloss over?

Andrew [00:34:27]:

No, you didn't gloss over at all. I guess just somebody not in it. So what is it when a private equity firm wants to raise more money is what we're talking about, what is it that they're trying to communicate?

Bill Snow [00:34:37]:

Yeah. So they want to go to their investors. So private equity firm raises money from other institutions. That might be an endowment fund from a university, might be a pension fund, might be money from an insurance company. These large pools of money, they have to put their money somewhere. That might come from sovereign wealth fund, other groups that are managing money. So think about a pension for estate. They put their money, they're going to put some money in stocks and bonds, maybe buy some real estate. They'll put some money in a venture capital fund, they'll put some money in a private equity fund, maybe some other investments. Why? Because you don't want to put all that money into one investment. You want to diversify the risk. So when the private equity firms are going to raise money from those limited partners, those limited partners are going to say, well why should we give you money? What have you done? So you have to show a track record. And part of that track record is saying, yeah, here's where we've invested. But we see all the deals or we see 80, 90% of the transactions every year. Okay? So it's not like we did five deals and we only saw ten and 2000 deals happen that year. We see most of the deals, okay? We have our irons in the fire. We are talking to all the right people. We see all the transactions. Obviously not everything is going to be a fit but we see everything. And this helps us make sure that we are bidding on the best and winning the best of the best.

Andrew [00:36:02]:

So some of them are making basically like joke bids that are not serious.

Bill Snow [00:36:07]:

Sometimes that does happen and that's frustrating. I wouldn't say it's a joke bid, but just asking for a teaser when you send a teaser. So maybe we'll help if I go through the process when we sell a business. So we get a client, we put a book together. It's called a confidential information memorandum. SIM. Remember, we like acronyms in this business. We put a buyer's list together. So that's why they want to be on capital IQ PitchBook, things like that. Because that's where we do a lot of that building. And if they're not making themselves available, it is really hard for us to stay. Keep thousands of PE firms top of mind. There's no offense to them. It's just a numbers game. It's impossible to do that. So we put a buyer's list together, we get that approved by the client. We'll put a blind teaser together based on the book. And we have some financials, we have some description of the business, what the owner is looking to do. We don't put the name of the company and then we contact those approved buyers on that list somewhere 150, sometimes more. And then if those buyers are interested, they sign a confidentiality agreement and then we send the full book and that discloses the name of the company and a lot more information. As I like to say, that book, that SIM Confidential Information Memorandum has all the information they need to make a fully formed initial offer. So they read the book, they come back to us with an indication of interest. IOI. Have I mentioned that we love acronyms in this business? So we get these IoIs, these indications, and that says we love what we see in here. We'll pay from X to y. Usually the valuation is in a range. So we get a bunch of those IoIs, we sit down with the client, we go over them and then we make some decisions. Well, who should we invite? This is insanely low. Now, we might go back to some and say look, we would like to meet with you, but you're just way out of the market. Sometimes they come back and sometimes they don't. So we'll sit down with five, six, seven buyers. Not all at the same time, of course over the course of a week or two. And we'll have presentations, we'll talk about that, talk about the company, provide some updated financials, any other material, stuff that might have happened with the business. And then after those meetings we will ask the buyers to submit a letter of intent. Loi, have I mentioned we like acronyms in this business we love? Yeah, you might silly me for not mentioning that. So we ask for a letter of intent and that's a more detailed offer that will have a specific price. Any of the structuring, how much cash it close, a note. Any other? Some stock we expect some sort of earn out, whatever that is. We like to see as much cash of course, as possible. Quite often you'll see some horse trading and negotiating going on with those Lois, and then you sign an Loi and then you move to due diligence. And the Loi is like an engagement. Two people getting married, they're not yet married. We're engaged, right? We're working towards that wedding. We promise not to date anybody else. And so that's what goes on with that due diligence phase. The seller is not going to talk any other buyers. And so we'll go through due diligence, we'll write the purchase agreement, and then we close the transaction. That's like the wedding date and that's the process. So where PE firms, if they reach out, they want to see as many teasers as possible. And if they can learn the specifics of the company, they'll sign those NDAs all day long whether or not they're interested. And I know from running numerous processes over the year, over the years, that like clockwork. 30% of those who I reach out to will not respond. Okay? Another 20 or 30%. Those who actually get the teaser just don't have the common decency to say, we're passing and give me a reason. Sometimes they say we're passing, but they won't give a reason. Quite often the reason they're passing is something I told them. What kind of company is this? Well, they're a retailer. Oh, okay. And then they pass. Well, we don't like retailers. Well, they told me that initially and I told them it was a retailer. So you'll see that a lot. So that's why I know they're keeping their list together. Okay. And now that's not to say you shouldn't do that because you have to asked a widenet. You're going to get that. That's just what goes on, okay? But if you're selling a business, that's why you want to work with sophisticated, experienced people have been through this before because you can't forecast you don't necessarily know who's just collecting it for the sake of collecting it. But we're always thinking about that. How serious are they? And when you sit down to have a meeting with buyers, one of the things that we'll look at is, do they have the materials? Because if you sit down with the buyers and they have two, three, four people from the firm, the PE firm show up and the guy leading the charge says, what are we here? What are we doing? Somebody have a book? What is this? That's a bad sign. I want to see that. They've printed up the materials. They've got dog eared pages, they've got little postit notes all over the place that tells me they've been digging in, doing their homework. And that's a sign of seriousness when they're really digging in and asking very detailed questions in those meetings.

Andrew [00:40:52]:

So you really get sellers who try to do it on their own.

Bill Snow [00:40:56]:

That goes on. That goes on. And they don't want to pay a fee. They don't want to pay retainers, your monthly retainers or whatever, and maybe that makes sense. The mistake that sellers will make is they think, well, I did all the hard work. I found the buyer. Right? How'd you find the buyer? Well, he called me. Okay. But they think because they have a buyer, they did all the hard work, and I just need someone just to help out, kind of cross the T's for me. So I'm not going to pay you a big fee. Well, finding a buyer is the easiest part of M A. Okay? You can find a buyer, you walk around where are you right now? What town are you in?

Andrew [00:41:30]:

I'm in Raleigh, North Carolina.

Bill Snow [00:41:32]:

Okay. You can walk around downtown Raleigh, North Carolina, and bump into people, ask people. In a matter of minutes, you will find somebody. Yeah, I'm looking to buy. That's part of my mandate. Or I work for the CFO. I know he's looking to make acquisitions. Finding a buyer is really easy. That's not difficult. And anybody with a business should understand that. Finding buyers is easy. Probably because they're calling and emailing every single day. You know what's hard? Getting a deal done. That makes sense for the seller. That's what's really difficult. So finding the buyer easy. Getting a good deal done, very difficult. And that's where we come in. And if you have a random sample of one, just one bidder, maybe it turns out to be a good deal, and then that's entirely possible. But you don't know unless you are able to compare and contrast it. Are you getting other offers? Maybe that price is low, or maybe somebody would be willing, maybe not pay as big of a valuation, but have more cash at close, and then you have to make decisions. Okay, do I take a $25 million deal that had 10 million at close and $15 million in structuring and note and earn out, or this person is willing to pay 22 million, so a little bit less, but $20 million cash at close. Maybe you make a decision, I'll take the offer that's a little bit less because I get more cash. And I want the certainty. Again, no right or wrong in that situation. It's up to the individual. But that's why having multiple choices will help you determine if you're really getting a good deal or something that's in market or something that's reasonable.

Andrew [00:43:01]:

It's amazing how much information you just dumped on us. I feel like we got your whole book.

Bill Snow [00:43:06]:

Oh, my God. Are you kidding? There's even more information in that book.

Andrew [00:43:10]:

Tell us about it, please.

Bill Snow [00:43:12]:

Sure. So mergers and acquisitions for Dummies. Yes, it is an official Dummies book. That's something that people always ask me. How did you get around the copyright? No, it is an official Dummies book. And they always ask, did I write the book or pitch the idea? They came to me. They came to me to write a book. And that turned into M and A for dummies. So the first one came out in 2011. So I wrote that in summer and fall of ten. It came out the spring of eleven. And then last year, a little more than a year ago, Wiley Publishing. And I'm always very appreciative of Wiley for reaching out. They contacted me again and said, how come we haven't updated this? And I said, Well, I've been waiting for you. It's your decision. I'd be happy to do that. So I updated the book and gave it a complete overhaul last when did I write that? Last summer. And really in the fall and wrapped up in the winter. We did the editing in the winter and it came out at the end of May.

Andrew [00:44:01]:

Is it a lot of what we talked about today? Just more in depth. Are there other sections in there that people would be interested in?

Bill Snow [00:44:07]:

It delves into the entire process of buying itself a company. So I ran through the basic steps. M a process. You'll see a lot more information on that. You'll see a lot more on the negotiating. We touched on that a little bit, but I get into a lot more detail there. Valuation. What really comprises valuation? I have a whole chapter. Chapter six takes a very deep look at not just the simple valuation, the investment banker right, multiple times EBITDA. But it takes a look at a lot of other factors that go into it. Enhancers detractors to valuation, working capital adjustment. Little things really picky uni boring accounting stuff that, if not done correctly, could cost you a couple of hundred thousand dollars very easily. So you go back to, why should people hire an investment banker? You might save fee. Congratulations. But because you didn't set the working capital right, it cost you half a million dollars. Well, there's a fee, perhaps. So sometimes they don't think about that kind of stuff. So it goes into a lot of detail on valuation. Goes into a lot of detail. What goes into a book, how to read a book, how to make offers. It'll change your life. I can say that very modestly. If you read the book, it will change your life.

Andrew [00:45:17]:

I appreciate your modesty.

Bill Snow [00:45:19]:

Yeah. Best skill.

Andrew [00:45:21]:

It does sound like something if someone has ever considered selling that, that would be the most logical first step.

Bill Snow [00:45:27]:

It is four dummies books. For those who are not familiar with them, they work as a resource guide. So you can certainly read it from COVID to cover. Nothing wrong with that, but it works very well as a resource guide. So as you're coming up with something, well, what does this mean? You can look up in the index okay, that's on page 165 and read the paragraph about it. It's not meant to be a deep dive into the subject, of course, it's enough where it's a starting point, get you conversational on some of the terms and processes and nomenclature and things like that. And to that extent, I think it does a very good job.

Andrew [00:46:00]:

Awesome. And I'm assuming you can get it on Amazon, Barnes and Noble? Anywhere your books are sold?

Bill Snow [00:46:07]:

Books. A million even sells it. Yeah. And anywhere Find books are sold, you can get. Although Amazon, of course, is the big dog these days.

Andrew [00:46:14]:

Awesome. Well, Bill, thanks so much. The amount of knowledge you dropped on us and your generosity with the funny stories and everything, we really appreciate it. One last time. That book is mergers and acquisitions for Dummies. And you also have your firm focus, Investment Banking, which I'm sure is a great place to check out. More about you as well. Are you on Twitter or anywhere there?

Bill Snow [00:46:40]:

I am on Twitter. I don't do much there, but on occasion I'll do something. So when this thing goes live, we'll probably tweet for that. You can find me on LinkedIn. Just type in Bill Snow. You'll find me. I have a website, Billsnow.com, so you can find me all over the place.

Andrew [00:46:54]:

Perfect. Well, thanks so much. That is going to wrap up our show for today. Don't forget to invest with a margin of safety. Emphasis on the safety. Have a great week and we'll talk you next time. Bye.