LIQUIDITY EVENT LESSONS

WITH LATTICE WEALTH MANAGEMENT

00:00:32.11] - Mike Ross

Welcome to Liquidity Event Lessons. I'm Mike Ross.

[00:00:37.16] - Ryan Ross

I'm Ryan Ross.

[00:00:39.14] - Mike Ross

Liquidity Event Lessons are all about what you should be thinking about and doing both pre- and post-sale of a business, certainly for the business, but really for yourself.

[00:00:53.18] - Ryan Ross

In this episode, we talk with Sean Flynn, who is an investment banker. We talk about the deals he has been involved in and when he gets involved in transactions. We talk about the teams he puts together, what skill sets he includes on those teams for a deal, where he sees problems and roles, and what he does when he needs to switch people out in making sure the deal can go through. We also talked about how to increase your multiple when selling a business, and we looked at this from a five year out perspective to enjoy this conversation with Sean Flynn. Cool. Well, Sean, thank you so much for coming on the show. For those that didn't watch the previous podcast, can you just give us a little bit of background about who you are and what do you do?

[00:01:41.05] - Sean Flynn

Thanks for having me here. I'm very excited. I really enjoyed the first interview we had. I'm an investment banker. I focus on mergers, acquisitions, growth capital. I'm not sure if your audience, I'm pretty sure they know what that is, but think of it this way. You go through life, you meet that special someone, two people come together, they get married, that's merger. Maybe now they're walking hand in hand in the park, and they see a little puppy and they think, oh, my gosh, I want to bring this puppy into my house, make the house so much bigger, so much more love. They acquire that puppy through an acquisition. Now that puppy needs to go to the vet, it needs shots, it needs food to go from this little puppy, this big dog. It needs money. It needs growth capital. So, all those transactions that happen in life, I help businesses with those all day long.

[00:02:23.14] - Mike Ross

This is a great way to say it.

[00:02:25.10] - Ryan Ross

Yeah, that was great.

[00:02:29.09] - Sean Flynn

It’s funny. Some people actually remember me. They go, Oh, you're a veterinarian. I'm like, Oh, you missed that.

[00:02:37.00] - Ryan Ross

That's so funny. Well, let me ask you this. What are some recent marriages or dog adoptions that you've been involved in recently?

[00:02:46.07] - Sean Flynn

I mean, one that was just announced a few weeks ago that we can now talk about. I help Removely. It's a company. They were acquired by DuckDuckGo. It's the first and only acquisition from DuckDuckGo to date. That was a very exciting project to work on. They rolled it in with a bunch of different product suites and launched it to their 100 million plus users. Some of the others, there's one that we can't talk about, but oh, my gosh, it was such a brutal transaction, but it went through. That closed a few months ago. Alan, most of the transactions, the last few months have been a little slow in the market, but beginning of the year was very hot. Last year was great. And we'll see how things develop in the coming months.

[00:03:35.10] - Mike Ross

So, Sean, let me ask you a question, and I'm going to ask it two different ways to really get the flavor in the context of the question. The first way I would ask it would be, what do you need to know about the person, the person, both personally and professionally, to choose to work with them? So that's one way to ask the question. The other one is, when you put together a deal team, what skill sets are you usually looking to include? What collection of people, personalities, skill sets does it take to make something work well?

[00:04:14.12] - Sean Flynn

Great questions. For the first question, the people I want to work with, we'll have a few meetings before any engagement is signed. In those few meetings, you really get a good understanding if personalities collide or if they work well together. The reason that's so important, these transactions are on average 6-9 months, and they're very emotional, super highs, super lows. Because this is the biggest transaction in a lot of people's lives. They've spent 10, 12. You have no idea the number of years they've spent building out this company. Some of them, as bad as it sounds, have lost marriages because of it. They've gone bankrupt maybe once or twice because of it. And who knows what it is. But to get to that point, there were a lot of sacrifices made. So, to be able to work with that person on that level of I feel comfortable to talk to them, they feel comfortable to talk to me, That's key. Also seeing how well-prepared they are for the transaction. One thing is, yeah, I want to raise capital for my company, or yeah, I want to sell my company, but really sitting down with them and going, Okay, have you planned this out?

[00:05:28.04] - Sean Flynn

What do you see at the end of the transaction for you? Have you already visualized your life beyond? Because if not, maybe the 11th hour, they just say, No, I don't want to go through with this. At that, you're thinking, Gosh, I spent... There's one transaction I worked on for 13 months in. We had found the buyer at an offer higher than that person had dreamed of. That person signed that piece of paper, could retire, do nothing the rest of their life. At the 11th hour, they said, I just can't see myself not being a CEO. I don't know what I should do. We're looking at him going, Where was this months ago? What is going on here? I thought we had this conversation. I thought you told us you want to spend time with your kids and all this other stuff. What? Having that conversation advanced that they want to go through the transaction is big. Having that conversation of, are you prepared? Have you talked to the people needed for that deal team party already? For example, we asked them right off the bat, have you talked to a wealth advisor? Have you talked to a tax strategist?

[00:06:29.19] - Sean Flynn

Have you talked to all these key people to know at the end when this transaction happens, what's that range that you need to be in to have that lifestyle you and your advisors have talked about? If they say, Oh, I haven't had any of these conversations, it's, Whoa, go back, have some of these conversations before you come to us because that's another red flag on the 11th hour. They might go, I just talked to someone the other day, and where I need to be is not where we are. You're like, Well, we just spent 11 months working on it. You should have had that conversation before. Having those conversations in advance with the wealth advisor, with tax strategists, with insurance, whoever it is, state plans, having those in advance. Now, for the team itself, for the deal, the M&A lawyer is huge. Maybe having all the books checked by a CPA, getting a quality of earnings done on yourself instead of having the buyer ask for that. There are other professionals that you'd bring in to check things over and make sure everything's good. If you see red flags, go, Hey, can you clean this up? Maybe this lawyer here or that.

[00:07:36.16] - Sean Flynn

There's a lot of parties that get brought into a deal based on that deal itself. But there is that core team early on that we say, Hey, have you talked to the wealth advisory tax? Have you talked to these people? Have you had those plans so that when you come to us, we can say, Okay, we think we can get you in that range that you've already talked about with these people. Now let's move you along the process to the next steps.

[00:08:00.11] - Ryan Ross

Are there any soft skills that you have... I mean, you can't require these voices to have soft skills, but are there any soft skills that you'd really like them to have?

[00:08:14.06] - Sean Flynn

The advisors or the people I'm working with. The advisors, definitely. They need to know that appetite of the business owner. And what do I mean by that? Some business owners, super risk-takers. Everything's a green light, go, go, go, go, go, go. Well, if that's the case, the lawyer also on the deal should have a green light, go everything personality owner and a red-light lawyer where everything is stopped, transaction is not going to happen. There's going to be a lot of fighting in. They're just going to butt heads. The opposite, if you have that green light lawyer as everything's a go and the red-light owner, well, they're being pushed where they're not comfortable. Then that's also going to kill the deal. Having all parties aligned where they know, Okay, what's your appetite for risk? What's your appetite here? How about you? How aggressive are you? How calm are you? How about you? When push comes to shove, were you? Having that across the whole team, that's when the deal team is strong, and stuff gets happened. Soft skills are so important. I mean, not everyone, you don't need that account that cracks all the jokes all the time, which is fantastic if that happens.

[00:09:34.03] - Sean Flynn

But understand how to explain the numbers in a way for that business owner, depending on how they communicate, or that lawyer being able to explain the terms of the contract in ways that that business owner understands and checking out the buy lane. Okay, did they get that? Did they not? Should I explain it differently? Should I emphasize this? Those soft skills are crucial to get a deal done.

[00:09:59.23] - Mike Ross

So, Sean, your very thorough explanations are killing my questions. It's a good thing. But do you run into situations where you look at the combination of personalities and you say, Look, I need to have a nice, quiet conversation with the owner because the mixture of all these people just isn't going to make this thing happen. Do you end up having those little serious conversations with the owner?

[00:10:29.03] - Sean Flynn

Yes, and in the sense that sometimes they've already brought people on the team, that lawyer who's a family relative or someone that you know is not right for the transaction. And it’s okay, we have to work with this person. We've made the hint; we've made the self-suggest. We may have even said, here are three other alternatives that you might want to check out and have a call with. And they say, no, no, no, family, family first. And you go, okay, let's now talk to the lawyer and have that conversation of, listen, If there's issues, there's another lawyer that we can introduce you to that you could brainstorm with or talk to us and let's have more sessions where we're brainstorming or whatever it is to get it across the finish line. But take in that Taking that inventory of the person early on will save the deal later and making sure the lines of communication are always open. So, yeah, there's times where you can heavily suggest But ultimately, it's the owner who has been the CEO for however long, and it's always the decision maker that somehow knows best, even though this is most times the first time they've been in this situation, and you just have to go with it.

[00:11:50.10] - Sean Flynn

Ryan, I think you're on mute.

[00:11:53.06] - Ryan Ross

Sorry. If I'm a business owner, if I'm maybe five years out for actually wanting to sell my business, are there things that I can do to increase my multiple, like specific things I can do?

[00:12:06.15] - Sean Flynn

There's a ton. There's a ton, especially, and I love how you said five years, because what normally happens is they come and say, Listen, it's October. I want to sell it in December, how do we get the maximum value? And you shake your head and you're like, Well, Santa Claus might give you an offer, but other not much we can do. But no, with five years, that timeline is fantastic because you can spend a good chunk of time at the beginning to actually assess the business, a true assessment, not just how you feel about it, but build out a data room and go, Okay, what documents are missing? Where are we weak? What metrics are we actually tracking right now? And what is the industry standard for these metrics? And make some comparisons. Not only that, if you are not sure, you have the time to talk to the investors, talk to other people in your profession, What are you tracking? What are your margins? Where should I be? And then based on that, start adjusting to aim for at least average. And if you can get to that top echelon, that's when you get those multiple bumps.

[00:13:15.22] - Sean Flynn

Companies trade, for the most part, depend on the sector in a multiple range. We'll say, just for simplicity, 4-6 times EBITDA. Ebitda is earnings before interest, tax depreciation, amortization. Maybe it's SD for smaller businesses, but we'll talk mid-market right now for the audience. If your customers are highly concentrated, maybe you have an unfavorable lease, maybe your staff are there just a very short amount of time. It looks like there's going to be a high turnover. There are all these little warning flags here and there. You're going to get to the bottom of that range if you even get that. Now, On the flip side, if you don't have the customer concentration, you have these long term agreements with suppliers and customers, and you have this NPR score that's off the chart high, and your team is super solid with all these processes in place that are well documented, your lifetime value of a customer, the cost of acquiring a customer is way above all these great things. You're going to get that top part or even higher than Who knows? But with five years, you have the time to see where that goalpost is and make adjustments to get there, bring in the right experts to help if you're not able to do it internally, but you have time to adjust the sail of the boat.

[00:14:48.06] - Mike Ross

Sean, I'm going to describe this question in the context of signal and noise. Are there circumstances where the owner is too caught up in the noise and is ignoring the signal of what they should be doing?

[00:15:05.05] - Sean Flynn

All the time. All the time. Are you kidding? When you hear some of these people, I make the final decision in every sale, and you're like, Whoa, what? You just limit the size your company can be at. Why are you so involved in all the data? I have to have the final check off on any modifications to any marketing or anything. Okay, Okay, great. That's right there, the choking point of your business. And not only that, it's if you're not there, what happens to the business? Does the whole business stop? Okay, now if the whole business stops, where's the value in the business? You'll hear these owners of these companies that, as crazy as it sounds, especially in Silicon Valley, will say, Yeah, I do everything pen and paper. You're like, What? And you're like, Okay, you run a warehouse, pen, and paper, and you are the only one there that knows where everything is, what happens if you get hit by a car? Oh, I won't get hit by a car. It's fine. We did this next last year. Okay, if you sell it, what happens? Well, then I'm going to retire. How? How are you going to transfer all your knowledge over to the new buyer?

[00:16:19.15] - Sean Flynn

Don't you think they're going to have you stay there for years? Well, I wouldn't do that. Well, you're going to have to. You're not going to be able to sell it. There's no value in it because you just told me yourself, 100% of the business runs through one ear and not the other. That's the business. And if you don't put that on paper, train other people, get the processes in order, you don't have a sellable business. So no, there are a ton of business owners that get to a level of their business, and they don't know how to get to the next stage. And it's because they do focus so much on the noise and not the signals.

[00:16:59.23] - Ryan Ross

Are there any... So, say the business owner, they did not do any of those things. They have a good data room, and they have a good NPS score, and they have great client retention and contract and things like that, and they're ready to sell Well, they're under what circumstances would you advise them to walk away from the deal?

[00:17:21.09] - Sean Flynn

There's a ton. Going back to the very beginning of, have you talked to the wealth advisors, the tax credit, all of them? If they're not getting those that they need, maybe it's not time. Or maybe there's other things that they've mentioned at the very beginning. When I pass on, I want to make sure whoever takes this company keeps my legacy alive, doesn't fire my employees, doesn't change this, keeps that, keeps the business in our city and won't relocate. Or who knows? There could be a ton of reasons at the very beginning. This is also why it's so important to have those conversations early on of what you really want out of this transaction. Is it just a paycheck? How is that paycheck structure? Is it cash or is it cash in the seller's note, earn out, roll over equity? Do you care if you get everything, or do you want a safe environment for your employees that have been there 10 years? All these things, having that conversation, do you want to see A six-month transition period or a five-year transition period? What do you want to do? Having those conversations beginning, that's fantastic because then when you go out to market, you're positioned in the business to be sold in that way, and that will most likely get you the best results.

[00:18:30.17] - Sean Flynn

But say, of those results, they're still not what you want to hear. You don't trust this person or this company you're talking to fully. And yeah, there's cash and an earn out, but you don't think you're going to collect. You know from your conversations; they'll do everything possible just to screw you out of that money. Or you know that going into that office every day for the next two years, which maybe is the transition period, you are going to hate every day of it, right? You know those people there. You're just going to bite your lips, suck it up and go, fine, I'll go to work tomorrow because I want this big payout at the very end because that was in the contract. If there's something like that, why? Why not just walk away, maybe make some adjustments to the business, and go back out to market a year later or two years later or who knows? Maybe those adjustments that you make, maybe it's short into transition time. So, the amount of time you're in the business anyway is about the same. But because you've increased the value of business, your multiple is higher, and you walk away in a better position.

[00:19:42.06] - Sean Flynn

Who knows? But there's definitely times where we've said in the past, where I've said to the person I'm working with, Hey, do you know what? This is not the deal that you want, or at least you've expressed to me that you wanted. Why don’t we take the weekend to think about it, reconnect on Monday, and just go over everything after you have some time to just breathe?

[00:20:03.12] - Ryan Ross

Yeah.

[00:20:06.01] - Mike Ross

Once again, you took the entire... I was going to ask you about what needs to be dealt with post-deal. Is there a tale for this? I just think you just answered that question. There's a tale.

[00:20:17.17] - Sean Flynn

In most situations, there's a tale where there's that transition period where it could be six months, a year, two years. Some people actually want just an employee agreement. And the reason is because they no longer want to be that boss. They don't want to be under that pressure. They want a steady salary. There's been transactions where I've talked to the people involved. Normally, they're more main street transactions where someone started a business, they have ups and downs, ups and downs, but they just had a kid. Now they go, Listen, I want something steady. That's it. I want to sell my business to someone else. They'll promise me a five-year paycheck salary at this amount, and that's what I want. That's what I want. And that's it. And that's how they negotiate. Others say, Listen, I hand you the keys. I'm gone six weeks later. Don't talk to me or anything, or maybe I'll be an advisor for the company, but this is my advisory salary, my board seats, whatever. Whatever it is. But every business is different. It's case by case. I saw the names just pop up there.

[00:21:24.23] - Ryan Ross

Yeah, that was my fault. But we still have the audio. I do have one final question because I know you have to go at 1:00 PM, Sean. I know that you've hosted events internationally, or maybe you have one planned. And I'm just curious about in terms of international, how international businesses work or businesses that are just not operating in this country. Are there any things that people that are based in the US that they could learn from international businesses that might apply here just differently? Soft skills.

[00:22:02.11] - Sean Flynn

Soft skills are key depending on where you're doing business is, especially people from Silicon Valley. They're normally relatively good. So many are from immigrate to Silicon Valley. A lot of them have a lot of international experience. But doing business in every country, never assume you know what's going on. Never assume the subtleties you're fully grasping, you're fully understanding. I didn't always look at it and question it. I can't tell you the number of times I used to live in China, where someone did something thinking they were polite, and all of us who had been there long enough just shook our head going, why would you do that? You just ruined the dinner.

[00:22:49.04] - Ryan Ross

You ate the soup with your left hand.

[00:22:52.03] - Sean Flynn

How could you? You raised your glass higher than our host. Oh, my gosh. I don't like this.

[00:22:59.16] - Ryan Ross

The deal is done. We're leaving.

[00:23:02.01] - Sean Flynn

On another day, I could tell some stories. But the biggest thing is prep in advance, find out a little bit some customary things. Whoever you're dealing with, you know that they're going to be curious as well. Try to figure out how deals are done there, how much power the legal team normally has versus the investment banker, versus the account, versus how much pull does maybe the CFO or CTO I'll have. Maybe it's a little different power structure than the States. There are so many things in business, just the amount of time maybe for the introductory meeting. Maybe here it's okay to make a quick 30-minute Zoom call. But the other day I was on a call for a Brazilian company. We were an hour and a half in, and I was just like, this translator has to be done.

[00:23:50.10] - Ryan Ross

Hope you know about soccer.

[00:23:52.06] - Sean Flynn

Yeah. So, you never know. I mean, everyone's different, but going with an open mind blocks off plenty of time to learn.

[00:24:01.14] - Ryan Ross

Cool. Well, Sean, this has been a pleasure once again. We really appreciate you coming on. How can people find out more about you?

[00:24:07.21] - Sean Flynn

Best is to connect with me on LinkedIn, Sean Flynn, S-H-A-W-N-F-L-Y-N-N. And as Ryan and Mike have mentioned, please contact me as early as possible before thinking of doing any one of these major transactions.