Transcript of Arthur Petropoulos

Hall T. Martin: [00:00:00] Well, hello. This is Paul Martin with InvestorConnect. Today, I'm here with Arthur Petropoulos, founder and managing partner of Heelview Partners.

Heelview Partners specializes in mergers and acquisitions, business sales and exits, and capital advisory services for middle market and lower middle market companies generating one million to ten million dollars in EBITDA. Arthur, thank you for joining us.

Arthur Petropoulos: Hey, good to be [00:00:20] here, Paul. I appreciate it. Enjoy the content and happy to be a guest here.

Hall T. Martin: Great. So where are you calling from today?

Arthur Petropoulos: So we're based out of Providence, Rhode Island, actually. So, uh, just, uh, what do we say, kind of right between Boston and New York, down the street from, uh, Brown University here.

Hall T. Martin: Great. Well, tell us a little about your [00:00:40] background. What did you do before

Arthur Petropoulos: this? Sure. So my background was in, uh, investment banking, uh, private equity and corporate development prior to starting Hillview Partners.

So I went to law school, actually studied mergers and acquisitions, but went to, uh, was in New York for about 10 years, helping companies sell themselves, helping companies secure capital. [00:01:00] And then working for a kind of a diversified business services company is doing a lot in the data center space in particular.

Um, helping them on their kind of running strategic acquisitions and capital on their side. Uh, and then I think by the collective of all of that information and experience, I think we saw kind of holes and areas of inefficiency [00:01:20] within the mergers and acquisitions process. That was kind of the impetus or the starting inspiration of coming out and starting Hillview Partners 7 years ago.

Hall T. Martin: Well, good. Well, let's start with an overview of what an M& A transaction entails for startups. Can you give us a rundown

Arthur Petropoulos: there? Sure So,, broadly speaking, uh, mergers and acquisitions or M& A is [00:01:40] kind of the Colloquial acronym for anything that involves a business being bought by someone, a business being sold to someone, two businesses merging, whether they're equals, whether one's bigger than the other.

And then I think to a degree as well, some of the capital considerations that are involved with that too. So strategic capital. So we say M& [00:02:00] A, mergers and acquisitions, I think more broadly, it's the acquiring, disposition, selling, buying, merging, or strategic financing of corporations.

Hall T. Martin: So we deal with a lot of startups and they're always getting ready for an acquisition in order to pay back the investors. What should they, uh, take, [00:02:20] consider before they go down that path and what should they prepare for?

Arthur Petropoulos: So, so when we're helping the, uh, the, the, the sell side client to, to exit the business, you know, primarily they have to think about the three core pieces of the business from an operating perspective. So we always say kind of people process product. And [00:02:40] so are these things well defined? Are there processes in place that will kind of exist beyond the.

Start up founders. Are there people in place that are cross trained that have trajectory that can do things after the business is acquired? And is the product offering service, whatever it may be durable in a way [00:03:00] that will have value? And I think a platform for continued growth. And then in addition to that, you know, is kind of the contemplation around what are the selling points of the business.

And so in that we like to say, Okay, You know, there's fundamentals, access and capabilities. And so when you look at the company, you say, what are the [00:03:20] fundamentals? How much money does it make? What are sales? What are the metrics? What are the quantifiable things we can look at? We can look at it from the perspective of, uh, access.

Do they have access or a particular customer base or clientele that someone lastly, what's the proprietary capability? And if it's an earlier stage company, it [00:03:40] tends to be solving a problem that, People have, or that's in another process, but what is the special thing about it? So when someone's looking to sell a business startup or whoever it may be, we would say, look internally, people process product, look externally fundamentals, access capabilities.

And that usually builds out and rounds out a lot [00:04:00] of the narrative when, when having discussions with counterparties.

Hall T. Martin: Great. And so what's the potential reward here? What, what kind of exits are you seeing out there these

Arthur Petropoulos: days? Look, I think that's largely dependent on, uh, which part of the swimming pool you're in relative to, to clients you work with.

so the area that we focus in are [00:04:20] largely privately held companies, but companies generating a million to 10 million in EBITDA pre tax profit. So at that size level, you will see at each kind of rung of a million dollars of EBITDA that multiple change. And so a million dollar EBITDA company may be.

Six times multiple and a [00:04:40] 10, 000, 000. EBITDA company could be a 12 times multiple or more, it depends on the situation. But that's kind of the goalpost, or broad approximations for companies that we deal with. There are certain situations that if someone really wants something, they'll pay on a revenue basis or gross profit basis, depending on the situation.

And so, [00:05:00] I know in the startup space, everybody 50 times sales... Transaction. And look, things like that happen. And even in our space, there are outliers. Certainly when someone really is looking to get access or get the capability. And we always consider those kind of the enhancing variables of the dialogue.

But that being said, the vast majority of [00:05:20] things in the lower middle market are going to be in that kind of 5 to 15 EBITDA range, depending on the facts and circumstances. Great.

Hall T. Martin: Well, I often get asked by startups, should they bring on a advisor? for helping run their M& A campaign or should they just do it themselves?

How does assembling an experienced advisory [00:05:40] team contribute to a good M& A outcome?

Arthur Petropoulos: Yeah, I mean, look, we always say, you know, people don't sign their own contracts without their attorneys. They don't file their own taxes for the business without their CPAs. And therefore, this is another area that It's not to say that someone wouldn't be capable of [00:06:00] doing it if that's all they did all day, but it's not what they do all day.

And so there's just going to be so many nuances, idiosyncrasies, variables, you know, levers and pulleys throughout the process that they're just not going to be aware of, right? And so I think having the experienced people with you in all aspects of the business, but in particular, you know, if you're pursuing an exit.

[00:06:20] Someone who's done hundreds of them because they're going to know hey, what's normal? What's what should we be accepting? What should we be pushing back on? What do we really have wiggle room with what do we not because when you think of the Structure of a transaction dollar amount is what everybody thinks of.

Right? But if I said to you, Hall, I'll give you a billion dollars for your company. If you can [00:06:40] jump over a building, right? It's like, well, I don't know. Is that a billion dollar deal? I don't think so. Right? Because if you probability way, the outcome, it's not going to be that. And so I think it's dollar amount is important.

But at the same time, it's. What is the structure of the transaction? How much of it is at closing? How much is after? What are the [00:07:00] contingencies? What are the things you're waiting on, relying on, that may or may not happen afterwards, and how much is predicated on that? What happens to the employees, the stakeholders of the company, the community?

what is the transition period? Because a lot of times, particularly in early stage businesses, these are acquisitions, but they're also hiring teams. And so, I'll give you an example in that [00:07:20] regard. There was a, uh... A company in the electric boating space, so similar to electric vehicles and cars, but in the boating space that was acquired by a large strategic, and I'm not sure if they were represented, but they basically had a group of engineers that were working on the boats in the electric side of things, company gets acquired, and all of a [00:07:40] sudden, all of the engineers are getting acquired.

Pivoted over to kind of the traditional combustion engine stuff. And so it's like they got acquired, but it was really purely just to kind of get all of the engineers. And so it's almost like they cannibalized the company after the acquisition. So point being is, if they had somebody, I think, adequately representing them at that juncture, they might have said, look, [00:08:00] we want guarantees that we are going to still be able to kind of continue the mission post production.

Acquisition and so that's just an example. But point being is by having the team. It's like the Sherpa going up the mountain. They're going to know which things to avoid, which things to go towards how to pursue it. And I don't think that no, look, I'll say in the [00:08:20] world. Uh, it takes a brilliant person to learn from other people's, examples, it takes a decently smart person to learn from getting punched in the face, and a dumb person will never learn no matter how much they're punched in the face.

So in our business, we've been punched in the face enough, and we think we're radically smart that we can give that information and kind of avoid [00:08:40] some of the pitfalls along the process.

Hall T. Martin: Very good. So, One of the biggest questions in this, uh, startup space is valuation, and every fundraise and certainly at the exit, valuation is the key talking point.

Uh, what factors should a startup consider when evaluating their company for an M& A transaction?

Arthur Petropoulos: Well, because I think, [00:09:00] you ask ten people that question, you'll get ten different answers, and I think a lot of it is because... There was a frothy time where things were starting to trade on, you know, metrics that were kind of fabricated in a way.

And so it was like, just to keep it anonymous, but it's like a widget manufacturer. And they said, well, we are selling our company for a Thousand [00:09:20] times the amount of like inbound inquiries we get in one month for our stuff. And it's like, well, who made that the metric for, for this thing?

Right. And so it's like, you could make a comp set of anything, right. And say like, well, we're trading at, you know, 25 million per employee or is some crazy things like that. And so I think [00:09:40] as the kind of the craziness or the everything bubble has contracted a bit, I do think that. Uh, valuation metrics have kind of come back to some of the tried and true, you know, the EBITDA multiples, now for startups, the revenue multiples, the gross profit, but what we like to say is that if you're going to pivot away from those things, the [00:10:00] easiest or the most defensible metric is kind of a buy versus build analysis, or what profit is it to you?

And so what I mean by that is, let's say, We provide a service. Let's say we have a software. And this software basically allows for a dollar of profit for every client. Now, if we have ten [00:10:20] clients, then you say, Okay, your company makes ten dollars in profit, and we'll multiply it by ten. Right, but if we go out there and talk to people, and we say, Well, look, you have a million clients, and we could make a dollar for every client that you have.

If you had our software, right? So like, how is our service product or offering monetizable to the [00:10:40] acquirer? What value does it bring to them in real dollars, right? In real revenue and real profit. And if you can paint that picture, then you can start the conversation and buy versus build. You can say, look, you could just buy us and have this profit right away.

Or you can go out there and try to recreate the wheel. And maybe it works and maybe it doesn't. And it's going to take you years and millions and people. And. [00:11:00] So buy, acquire this business instead of building it, right? And so characterizing the company we represent is the missing puzzle piece to a larger enterprise.

that's where there's tremendous value. And I think that's a defensible metric versus, you know, we were trading at a thousand times the amount of hot dogs we sell on a Tuesday [00:11:20] night or whatever, like the, you know, thing is. And I just heard so many of them over the last few years that, and a lot of them, Don't carry as much weight as they once did.

And so if you can defend it either on your own numbers internally or on the value to the prospective acquirer, it's hard to make those arguments against it. Right. There's not as many holes you can poke [00:11:40] in it.

Hall T. Martin: You do. So not every startup that goes out to be acquired actually gets the transaction done.

what are some common deal breakers that startups should be aware of? What, what kills these deals?

Arthur Petropoulos: So, I mean, look, I think. Reasonable valuation expectations can be that, but look, that's always in the negotiating and whatnot. [00:12:00] But I think from a, an avoidable issue perspective is, I think that sometimes the founders can have, you know, we call it the man with a thousand arms or the woman with a thousand arms, right?

It's like they're doing too many things. So even though the fundamentals of the business makes sense and it's getting market. Acquisition because that one person [00:12:20] does so much that the acquisition comes with, you know, a five year employment contractor or, you know, something that the founder says, well, I wanted to sell the business that my whole point of this wasn't to just turn my business into a job, but if that person is kind of the key woman or man risk in the business, then that [00:12:40] can be the linchpin from which an acquirer will say, look, we're only going to buy it if we have this person because.

That's what we need, right? I mean, even like, I think it was Mark Laurie when he sold jet. com to Walmart, like he had a pretty lengthy, you know, agreement to stay there because he was just conceived as that pivotal to the business. Now, you know, you got a billion dollars, so, or [00:13:00] several billion, not so bad to sit around for a few years, but, The point being is I think people don't contemplate that if they have that key person risk, it is going to translate into a longer transition period, and oftentimes that's not what someone wants. And so that's been one issue. And then. I think the [00:13:20] sales element or, more broadly processes not being well defined within a business can have an impact on value or an impact on structure in a way that can kill a deal.

And so what I mean by that is, let's say you're selling a business and your business is a, you know, a, uh, again, a software company. Now, if I [00:13:40] said to you, How do you get clients for your software company? And the answer is, well, you know, we do some direct email and direct LinkedIn and, uh, you know, some mailings and affiliates and, conferences and we get clients.

Well, I'd say, well, how certain are you that you're going to get more clients, right? What is the, what are the metrics behind that? What does that funnel look like? What are the steps? What are the [00:14:00] probabilities of each step? What's the pull through rate? if someone can't define that really well, then someone's going to say, okay, well, look.

We'll give you X dollars today and Y dollars tomorrow if sales stay at this and all of a sudden it becomes it's a highly structured deal in the sense that there's a lot of at risk capital after the closing. And someone again says, well, look, I was selling this [00:14:20] company to de risk, but I can't de risk if all of the So much of the consideration is predicated on future sales, which I'm going to have less control over.

And so if we go to a company and we say, as they're preparing to sell, well, what are the metrics? If somebody says, well, we have five people doing outreach to potential customers, they have 100 phone calls a [00:14:40] week. It turns into 10 meetings. It turns into X clients. If it's repeatable, definable, defensible, sustainable, then.

It's much more easy for an acquirer to say, Okay, I get it like this works. It's well laid out. There's a blueprint. So again, a lot of it comes down to again. People process in that way. Are there processes to find [00:15:00] if you can instill confidence in a post transaction existence of the business without you?

That's where. There's a lot of value and I think that's what mitigates some of these, some of these deal killers. So those are two main things that can really create kind of a, uh, heading off of a deal and, and, and things we try to prepare for prior [00:15:20] to being in the market.

Hall T. Martin: had quite a few startups that listened to this show.

What would be your top three pieces of advice for them preparing for an M& A transaction?

Arthur Petropoulos: Sure. So I would say one, have things well defined in the sense of the things we keep hammering on about, right?

And so people process product, have that. Really, [00:15:40] really, really well defined in terms of what is there today. The second part is paint the picture for tomorrow, right? Like when you go to sell your business, do you think you would get a better reception if you said to somebody? Hey, you want to buy this thing?

It's got a great future. And they say, what is the future? And you say, don't know. Look at what we have. You think of it, right? [00:16:00] Or if you said, here's what the future looks like. We get this. If you deployed this much capital into the business for these endeavors, for these objectives. Here's how we would grow the business.

Here's how you'd get more market share. Here's how it would all trickle down to profitability. And here's what your exit value would be when you sell the company 5 to 7 years from now, right? And so if [00:16:20] you know the objective of the perspective acquirer for the business, and you can kind of back into what their thesis may be, and look, they might take a slightly different look at it or think of different catalysts.

But I'd say Know what it is today, paint the picture for tomorrow, and have that as crystallized as possible, because that gives someone the [00:16:40] blueprint, it takes a lot of the heavy lifting off their shoulders, and then I'd say number three, and this just isn't selling our own book, right, but have the right team as you proceed into the exercise, because it is a battle, it does take some time, it takes some hard negotiating, it can be done Relatively painlessly, but you need to know what to look out for and [00:17:00] what not to so whether you hire a company like ours Uh, or whether you find someone that you think is better suited for it either case It's awesome but I do think it's key to have the right team members and the right advisors along the way because Look, it's not an exercise that you do many times And what we say to people is if you wouldn't sell your house by yourself You definitely shouldn't sell your business [00:17:20] by yourself.

And so that's just our Are 2 cents of advice, but those are the 3 areas know what you have, know what it could be to somebody else and then have the right people to kind of effectuate the process and that will get you a good outcome.

Hall T. Martin: So, for my next question, I'm going to go off script a little bit. We hear a lot about AI and how it's changing the industry today.

[00:17:40] What is your prognosis for AI in your space and M& A work? How do you think it's going to impact that?

Arthur Petropoulos: AI is useful and will continue to be more useful. Just like, you know, it's funny, we always joke that, like, in terms of maximizing values for companies, there's always these kind of key things that get, we call it, like, seasoned or sprinkled, right?

And [00:18:00] so, like, Five years ago, if it was like a manufacturing company and something was automated or, you know, or something was additive, we'd say, you know, people would sprinkle 3D printing on the company. And all of a sudden it was worth more. And then we'd say the same thing with, uh, you know, crypto and NFTs and blockchain, right?

Like everything was blockchain. It was like, uh, what do you do? We sell pizza, but it's [00:18:20] blockchain. It's like, oh, awesome. And then we, you know, so today it's like AI, right? And so like, Yeah. People are sprinkling it all over, you know, and it's like, Hey, you know, I just bought a bag of apples that was created with ai, generative, you know, bags for the apple.

So point being is, it is permeating, but what is AI really, [00:18:40] it's a, it's a better version of automation for certain activities. And so it does largely exist. I think the concept of it being generative or intuitive, that it can think of ways to solve things, I think will continue to evolve. But at the same time, it's like, look.

Our business isn't that different than any others. It's an, it's an aggregation of different [00:19:00] activities that all come together to create an optimal outcome for our clients. And so what you've seen over the last 10 years, and a lot of businesses is like, say. businesses used to just be all W 2 employees, and then they'd have some contractors, and then they'd have some vendors, and then they'd have some software, right?

They're all different leverage points along the process for different [00:19:20] components of the process. And so I think AI is just the furthering of that in each of those respective components. So I don't expect that I'm going to be turning to my right to an AI robot and saying, hey, do this deal. And then it just magically happens.

But if one of our analysts can use AI assisted, which we already do, [00:19:40] AI assisted research for who might be a prospective acquirer or who may be a prospective, you know, capital, if that allows our analysts to oversee five transactions. Versus 2 transactions, because they can use the AI assistance to be more productive.

Well, then that assists our business. And so I put it in the same category as [00:20:00] vendors or software. It's a leverage point that allows more productivity. And so we looked every way we can to keep implementing it, implementing it to help our activities so that it ultimately helps our clients. But do I think that.

You know, we will be supplanted by, you know, uh, Terminator 2 [00:20:20] style cyborgs. Probably not. But we'll see. That's the fun part of it.

Hall T. Martin: Well, thank you for that. Well, in the last minutes that we have here, what else should we cover that we haven't,

Arthur Petropoulos: I would just say, I think that the concept of selling a business or securing capital can be a bit more [00:20:40] daunting than many perceive.

And I think that they think, A, it's a binary outcome or B, it's kind of this like. Yeah, walking the plank situation. And so what I mean by that is, yes, you can sell 100 percent of your company or yes, you could keep 100 percent and just borrow money and keep all of the equity. But one should think of it as a [00:21:00] continuum more than a binary.

And so there's opportunities to sell minority shares of your business, a majority and retain a part of it. And so many structured debt with equity kickers and preferred equity that has debt like products. And so there's so many different forms. Okay. Uh, shapes, forms and fashions that that can that can come [00:21:20] into these situations that what we say is Somebody should really be defining what their ideal outcome is, right?

Like what is the future that you want to have? So whether that's still working with the company whether it's being completely out of it And so when we work with prospective clients We say let's define what you want as kind of the future state first And then we can back [00:21:40] into what that is. And I think that makes it more You know, understandable and defensible.

And so, that's a big part of, uh, of kind of the way we look at it. And I also think to the second point of this kind of point of no return is, if somebody says, I want to sell my business, , And we start a process to [00:22:00] evaluate that and to go out there and have conversations. If the ultimate result is not what the client wants, there's never a gun to their head to sell the business.

And we do it in such a way that it is discreet and that the whole world doesn't know. And I think what people think is that the moment they have one phone call saying, I may want to sell my business, that like immediately their employees, competitors, and [00:22:20] clients all find out. And so if these processes are done correctly, then It should be announced that a transaction happens at any point they want to after the transaction happens, but at the same time, if nothing comes of it, or they don't want to, then the world should not know that anything was ever being contemplated.

And so, from our perspective, [00:22:40] we always say to prospective clients. It's not as daunting of a thing as you may think it is. It's a thoughtful exercise, a thoughtful process to evaluate. And if there's a good thing to be done, we do it. But, you know, I think the personification of investment bankers and M& A advisors is like, it's They always say it's like asking a [00:23:00] bartender if you need a drink or asking a barber if you need a haircut and that's the opposite of the antithesis of what we want to do.

We evaluate, we see what's out there. If it makes sense, we really want to pursue those things aggressively and negotiate to the best we can. And if it doesn't make sense, then we don't do it. And that's. I think when we do our job well is when we give the right advice [00:23:20] and and elucidate or bring light to all of the possible options, whether they are something that ultimately gets pursued or not,

Hall T. Martin: that's great information.

So how best for listeners to get back in touch with you.

Arthur Petropoulos: Sure, so two fold, uh, I'd say, one, feel free to check out our website, hillviewps. com. [00:23:40] Uh, actually three fold, right? So, hillviewps. com, and they can see, kind of, clients. We've got some videos on there as well. An overview of, kind of, our process and view of the universe.

On the site, they could schedule some time with us and to linked in is kind of another means of a lot of our discussions and inbound. Uh, I'll reach is, uh, anyone feel free to [00:24:00] connect with me or our company and reach out. And then, lastly, from a content perspective, we do have a YouTube channel. If you type in Arthur Petropoulos and YouTube, you'll find 100 plus videos where we kind of tackle a lot of the things and if.

People listen to it. They'll hear some of the refrains that I've been, waxing on about here is that we, we have a lot of videos with [00:24:20] a lot of topics that come up in a lot of our conversations about when to sell a business, how to sell a business, how to find capital types of capital and all sorts of different subject matter.

So I'd say to anyone, feel free to check out the content and then feel free to reach out to us, whether through the website or LinkedIn. And we're always happy to chat with people. Thank you.

Hall T. Martin: Great. We'll include those in the show notes. We want to [00:24:40] thank you for joining us today, and hope to have you back for a

Arthur Petropoulos: follow up soon.

Yeah, likewise, Paul. I apologize for the, uh, the, uh, technical mishaps and, uh, me being a bit of a Luddite, but otherwise, this has been a great conversation. I appreciate the time and look forward to, uh, coming back here.