

The Endgame, Episode 6 Transcript

[00:00.5]

This is The Endgame,
Israel's Tech M&A podcast. I'm your host, Sophia Tupolev. In the studio, as always with Zeevi Michel, our resident serial entrepreneur, commentator, extraordinaire and personality hire. Wow. Bringing us experience selling off his own companies, buying others, and now as a VC at a large European fund.

[00:21.4]

How's my intro? Incredible. Wow. Every time I am impressed how it sounds more accurate than reality. Now you intro me. Ah, wow. [nervous laughter] On the spot? Okay. Yep. We're here in the studio with Sophia Tupolev Luz, the brains behind the show, Other than being the best M&A podcast host in the world, Sophie She is also also the best media, branding, and IR person that I know in the Israeli tech world.

[00:59.7]

And it's great that she's here with us. I'm sure you're going to cut that, right? Yeah, I think I'm going to cut that part. You totally threw me for a loop there. All of a sudden you come in and you're reading from the paper you prepared and all of a sudden you're telling me to intro you out of nowhere! Okay. It's my job to make you uncomfortable.

[01:20.9]

If a merger is like a marriage, today's show is going behind the veil, so to speak. Today we're talking about the persona least known to founders, but with the most influence on their deal, corporate development. We're joined today by Michael Calev, a seasoned corporate development executive with a fascinating background that spans economics, investment banking at Morgan Stanley, and now deep involvement in the world of cybersecurity for the last seven years. He's seen acquisitions from all sides, including leading Perception Point's 2022 acquisition of Hysolate.

[01:51.2]

Later, he had a key role in the 2024 acquisition of Perception Point by the American cybersecurity giant, Fortinet. This experience gave him a broad understanding of deal dynamics and the M&A landscape. We're talking today about how the need for deals originates, the process of identifying target companies and the role of corporate development in the modern tech landscape.

[02:12.5]

Zeevi. what is corporate development and why should founders care? So what is corporate development, not to be confused with business development, a mistake that I made myself at the start of my career, so business development is all about generating new opportunities for the company, While corporate development is about how to broaden the company's footprint, through strategic transactions where the company can acquire another entity, And there are different ways to do this, But in most cases it's about acquiring a majority stake, in the activities of a company that might be complementary, or a new market, a new geography, and many, many more reasons why a company would want to acquire another company.

[03:02.5]

The corporate development function, in my opinion, its whole point, and KPIs, and we'll ask Michael in a moment, In the end, how his work is measured and in what he got his bonus for, Uh, like any employee in an organization. In the end, the goal is to do transactions, and deals, in which the company you work for, acquires other companies.

[03:22.4]

That's my definition. I don't know if that's the right definition, I don't know You covered it quite nicely, I can relate to that. I also like to shorten it a little bit, because of my background I look at business development, as a nice word for sales today, maybe some would disagree with me, but that's one approach, and corporate development is actually a nice word for inorganic growth.

[03:45.6]

This can come as an M&A like you said, it can also be partnership or joint development, internal initiatives, but that's how I see these things. So Michael, why do you think your job is so poorly understood by founders and why all the secrecy if you know.

[04:03.4]

Ultimately, everybody's job is to create shareholder value. So why make it so mysterious? Why not just be, you know, upfront This is a great question. In Israel there are lots of roles in the world of M&A that are a bit less known. Investment banking is a great example. If you ever say in Israel that you are an investment banker, they will think that you are a bank teller many times, it is something that is not really understood.

[04:25.1]

In fact, the word banker, people think that they are supposed to invest in you. But they don't bring in the money, just a reminder. People like that take money,

but they also bring money. We should talk about this, by the way. Do entrepreneurs use investment bankers, or not? And why? That is a whole separate topic. I think this comes from, maybe my only explanation for why corporate development doesn't like to share or talk, it's because there are elements of founder ignorance that can be used to your advantage, Wow. For example, If a founder is less knowledgeable about how to do M&A you can sometimes use it for your own benefit even though I don't believe in this as a long-term strategy and definitely not in recurring transactions- it's not relevant. I did corporate development in a smaller company, in terms of acquisitions - Perception Point where I am is 120 people, and there is are corp dev teams for companies with tens of thousands of employees.

[05:14.8]

The team that acquired us at Fortinet was an entire team of corporate development people, so the dynamics are obviously very different, but I think that if you can balance out the information flow, everyone is happy in the end. So I think that's my goal in this podcast. That founders listening will have a better understanding of how the other side thinks. And maybe they can do better for themselves and their returns, of course but also for the sake of their employees.

[05:38.4]

At the end of the day, you want the product to succeed, you don't want to sell and have them delete the company after two years, That's a big part of the corp dev job. We will try to leave enough time in the podcast to talk about what's called PMI, Post Merger Integration, which is not something we really mentioned in previous shows, because we always talk about how to get to the endgame.

[06:01.2]

But the next phase is also super critical, because there are a lot of deals, they are built on earn outs, and all kinds of escrows, and all kinds of money on the side. That there is some backup for the success or failure of the transaction. Yeah. And now a message from our sponsors.

[06:18.8]

Well, Zeevi and I are actually the sponsors bootstrapping this thing, so this is a message from us. If you love the show, subscribe on Spotify, YouTube, and Apple. Did you know that we also publish executive summaries for founders? Head on over to The Endgame, Israel's tech M&A podcast on LinkedIn for more.

[06:35.0]

And now, back to the show. We're back from our commercial break. And I just want to actually ask you. So like, what are your KPIs in your job? Like, what do you get your bonus on? What are you trying to achieve? Cause I think it's hard to talk about, you know, post merger integration or, you know, these topics without understanding, what are

you motivated by in your role, right?

[06:56.2]

So I think that by definition corp dev, there are all kinds of different set ups but corp dev reports to CEO, and when you're talking about reporting the CEO, you're actually talking about KPIs that are more strategic in essence. It means that you need to look at how the process and the sale or acquisition that you executed, contributed to the general strategy of the company, but if we take it one level down.

[07:20.1]

In the end, my job is to bring the best deal at the best price I can. With the creation of the most value that I can. That's my goal, to maximize the value that we get for the least money. I'm simplifying that very clearly. In order to do that in a good, and smart manner, there is the PMI component, that corp dev will often take on, to make sure that the day after this thing is worth something.

[07:43.2]

Statistics are crazy between 70 to 90 percent of the deals just don't work out. They fail. And why? Either they paid too much, or by the way, that is our KPI, to reduce the price, to a realistic place, that doesn't mean that the founder walks away unhappy, But that is a major component.

[07:58.9]

And the second part, that the integration and the day after will be efficient and correctly executed, as much as possible. When I worked with the other side recently in our acquisition, An integral part of the work was to look at every single job function and understand where they would move, by how much, and how to retain them so that on the day after the deal would work efficiently for the other side, and when we had been the acquirer, this was also an integral part of the process.

[08:21.6]

Now- what do I get my bonus for? If the company is acquired for a lot then obviously you see some upside. because that's the work. But beyond that there are your personal motivations. Maybe we will talk about that today, maybe that's another reason corp dev people don't like to talk -- there's also an ego component here. Respect. To successfully acquire a company is a big deal.

[08:40.4]

[Sophie interrupts] no yeah it's extremely complex. [Michael] it can also be very moving. I am really driven by this part. To acquire a company and make it work well inside of another organization, makes me ecstatic. I really enjoy it. Wonderful.

[08:57.1]

How many emails and how much inbound were you receiving from companies in, say, a year, that wanted you to consider acquiring them? The difference between inbound and outbound. Great question. First of all, let's split inbound to two. There's inbound that comes from tiny companies, which is more common, and the other kind of inbound is bankers. That's when they tell you they represent company x doing y, "let me know if this is of interest," and that inbound is based on my title and industry. I've gotten - well, of course after you acquire a company suddenly you are slammed with inbound, I'm sure founders know the feeling themselves, after you raise money, everyone wants to invest, yes and also, all the service providers start approaching you. Do you need this or that, cleaning services, everything under the sun.

[09:51.6]

After I sold my company, I got endless moving companies talking to me like Exactly. [laughter] What are you not moving offices? You got acquired so.... you must be moving. Exactly! So the same thing, There is this effect, the herd, after you acquire a company, You get so many bankers reaching out to you. Ok, this is an active acquirer. In those years after the acquisition, we were getting at least one opportunity a month. And we were a small company. That's a lot!

[10:12.7]

In larger companies, bankers are talking to you, There are bankers that only focus on pushing deals to corporate development. And then your job is to filter them out. From your experience, from your past and your own network, other corporate development execs and other companies, what are the statistics outbound vs. inbound?

[10:30.0]

So if there is a project, you are, from my experience-- if there is a project you know you are going to be working on, then you work only on that. And you make sure you get there. And you pay attention to outbound. It's much more outbound. If there isn't an active project and you can be opportunistic, you are not approaching anyone. Not at all. Because you want to focus on what's really important. And your inbound can be off the rails. Sometimes once a week you're getting opportunities coming in. Let's talk about the outbound.

[11:07.2]

In the end, who's the originator of the project, what it's called? Who within the organization? Uh, who's the one that comes and says, Okay, we need X, And then they're coming to you. I assume the process is ongoing, we're coming to you.

[11:22.3]

And then you start looking, you start doing the search, so usually who is the person in charge, I guess in a small company it's a little different, but let's try to answer as if it's a small

company and a big company. In general, these decisions are really the most strategic, it comes from the CEO, the board, the key executives, the majority the majority of these decisions are made after an internal strategy process.

[11:48.1]

Acquisitions built purely on opportunism have different dynamics but if we are talking about a process. What happens is that there is actually an internal mapping or an internal strategic process in which we try to identify weaknesses and strengths. The decision comes at the end-- the CEO is the one who makes the decision and who gives the instructions. The CEO says we want to pursue this. Are there discussions and dynamics between the board, yes it's always there, everyone's talking about the strategy, but you guys like to talk about PE's. PE's - a play that they love is taking one company type and think how it can be connected with another one and made bigger. and that is their expertise- that's what they push- so it can also come from your investors. But from my experience, both as a banker and as a corporate development person, the decision is coming from the CEO. He says, let's go, and we start looking. And then, the question is, how do you do it. And this is where you get the strategic process - that I really believe in-- and there is a methodology there are a lot of them, but one I really connect to is always starting with mapping your company's strengths. You can do a whole SWOT, but just start with your strengths And try to understand, what assets do you have, in the organization. The minute you understand what you have, You can understand what you lack, or what you need to shore up. That is where it is best to start. That is the methodology I always use. Start with what you know how to do. Then ask the question, what I don't know how to do or where I would like to go. As soon as I can answer that, I can start an outbound M&A process, now, it's an internal process, no one knows about it, What does that mean? Looking at the market, to understand the competitive landscape, Who are the leaders, who is less significant, who is better, who is just a brand-- all of these things are what you need to do. Now how do you do it? I always start with talking to people. I just ask people, what they think about certain companies, Your coworkers, inside the organization?

[13:35.2]

Yes, and it's a small market. Developers always know other developers at other companies. And they will know what's important over there. A very important function for us was the CTO and the VP R&D for these things - They know everyone, So you use their knowledge, They can say, which companies are good and which are not. So after you've done that strategic mapping, And we start feeling out the situation, then we go to the next phase which is building a target list. Basically, this could also be endless. Dozens of companies, that meet some kind of investment or buying criteria.

[14:10.6]

You mentioned that it is usually for a majority stake, I'm asking if I can get 100 percent majority or a full acquisition. 100 percent I'm going to be working with Excel because I'm a banker. I'm working with an endless list of companies and I'm starting to map them according to a matrix, what's a match, what's not.

[14:30.3]

in the end, in the end, in the end,
you're trying to create a valuation framework. It's down the road, but it's
always something that's good to have. So now let's do a cut,
and let's say, and I'm a founder... What's my way, in your opinion, um,
A, to appear in this matrix, and B, how can I increase my chances that
my place in this matrix will rise?

[14:53.5]

To the top of the list? I'll ask you a follow up question. This is when you want to sell or just test
the waters? These are two different scenarios. Both. Ok. So when you are trying to just get a
sense, I think that you have to be in the right places. And work at that. Um, the title of this
podcast is The Endgame, I also heard a little bit of what you're talking about, there's
a difference between the day-to-day and the end goal, or one of the end
goals of this company You have to work at it. At the endgame.

[15:24.1]

You can't just expect that I, as a corp dev will just show up one day and land in your inbox
without you having done anything. Like a process or any type of work in this area. One
example? Basic things. Go to conferences. Go to events you're invited to.

[15:40.2]

There are meetups, go to them, this helps. We are in the Israeli ecosystem, so there is the cyber
community, join them. The fintech community, be in fintech. AI and everything.
You need to be in the right places at the right time and you will get your name out. Get your
name out. Now, it's not, I'm not saying be a salesman, that's also okay, But make sure people
know who you are. I think this is a very, very important
tip from day one, because it's a very, very long relationship.

[16:06.3]

The M&A process is very long- Sure, I've seen two and a half months and there are also those
who say two weeks, I personally haven't done those yet, there are also processes that take
two years, you have to be aware of it. And just like you build relationships
with VCs or PEs over the years, build relationships with your potential acquirers too. With the
potential acquirers.

[16:26.0]

With those who may one day acquire you. That's what we're talking about all the time. There
should always be conversations
with those buckets we talked about. The people that we can work
with now because we're complementary. So, for example I'm sure you talk to your BD person
and ask who you have relationships with today.

[16:42.6]

who do we partner with or already have integrations with with them, it makes our lives easier. So those are exactly the places where, as an entrepreneur, besides the fact that it creates a lot of business for you, it's also one of the very, very, very, very clear paths, that you have as an entrepreneur, to the endgame or a potential acquisition. People you're already working with. A partnership is an amazing way to make a connection.

[17:11.0]

Oh wait, let me stop you for a second, because when you say partnerships, you know, why, I heard, um, let me go back for a second. I should probably not tell you this, but I'm very creepy and, for the last few months, I've been reaching out to corporate development people on LinkedIn, just DMing them cold at all of Israel's major acquirers.

[17:26.7]

[Zeevi] I don't know if we're going to put this on the podcast or not, [Sophie] but No, like, I feel like I should be honest about it. [Zeevi] But I know you're creepy, Sophie. I'm super creepy, so, so, going back to the story, I basically have been cold reaching out to every major acquirer anyone with a corporate development title I don't know who they thought I was or what I was up to but you know I just want to shout out to the kind folks who responded to my questions a number of them actually responded and um, we can't name them obviously, but like 30.

[17:55.0]

[Zeevi] 30. So 30 corporate development people agreed to talk to Sophie, it's amazing. So one of the people that I talked to actually said, you know, there's also, uh, we had a phone call, and he said, you know, sometimes with partnerships it's a tricky situation because why should I buy the cow if I'm getting the milk for free?

[18:12.9]

So what about partnerships, like, how do you do that? I always say that there is a place, that at some point the company understands, let's say that, uh, that a partnership is happening, at the right scale, but then at a certain point you understand you're creating a little monster. What do I mean by monster? So all of a sudden, the partnership is a giant thing, And if you don't acquire them someone else will, And you'll miss out on an opportunity, and often you're making money together. Let's say, if the start up or the company that you're doing the partnership with, succeeds and grows, it's possible that you actually have to take advantage of the timing in order to acquire them at a reasonable valuation before someone else, sorry, before someone else takes it, and that's dramatic.

[19:02.9]

Um, I can tell you about dozens of examples, including our competitors who worked on very long partnerships with large companies. Giants in their industry, they were in partnerships, for a year, or two, or three, and at a certain point they understand that the ARR is growing at a rate that if they don't make a move someone else will. And then not only did I lose the partnership but that good valuation. But so entrepreneurs shouldn't be concerned if a potential acquirer wants to do a partnership with them it's not really like.

[19:32.0]

Cutting their chance of doing a deal. It's a good opportunity. They should take it. And it's not limiting them, what you need to understand is that it's not limiting them, to only being acquired by the partner. So, basically, from what we are hearing is that your partner's competitors are potential acquirers as well. Absolutely.

[19:48.2]

It's a fine line that you need to take care of. By the way, it's the job of both the founder and the corp dev on both sides, or whoever created the partnership. You need to understand that every decision you make will have consequences. Try to broaden, as much as you can, Try to keep that margin of error as wide as possible. That is my recommendation. If you've done a GTM partnership It's a slim chance that you've limited your pool of acquirers. But if it's a technology partnership that is so woven into your product, that's a slightly different problem and you need to think outside the box to neutralize that. Let's take a look at the simplest examples, if you're sitting on a certain infrastructure and now you can't copy it to any other acquirer, so you've limited yourself, but if you're doing something that's more hybrid or more fluid, then you expand the possibilities, so that's the dynamic that needs to be found between them, but I, from my experience, most go to market partnerships less limit you, in terms of acquirers. I want to quickly ask you about the criteria that goes in that matrix, because you know, as an outsider, I've always heard that, you know, why do companies get acquired?

[20:56.3]

They get acquired for their underlying asset, which is their technology, their talent, or their customers. I guess that's a little simplistic. Is there more to the story? Uh. At a high level, that is always true. That is why I like to start with the strengths. So I can - as soon as you understand your strengths you can understand your weaknesses.

[21:15.4]

the most significant advantage in this methodology in my opinion and then you build the matrix accordingly. There are things that are general, for example, I'm not willing to pay more than x because that's the budget I have and I'm not willing to have a team in a country that I don't work with or things of that nature. These are things that are very, very general, they are always true.

[21:35.2]

But then there's always one level down. For example, where I come from, cyber, it was important for us to find cloud companies. Since we were a cloud company. So we wouldn't be buying an on-prem business. Totally different operation. That seriously narrows the target list. Let's say we want companies doing AI innovations. More than the buzzwords we need the actual tech. I'll look for companies that have AI baked in to the tech.

[22:04.0]

If they're older generation, that's out immediately. They might be amazing companies selling in the millions but they just do not match my criteria. So all the tech things need to be broken down a level. And we need to look at what is important. Where I come from, email security, there are a lot of fields. and one of the things that used to interest us, was how do we take our capabilities and put them in another place, web security.

[22:38.3]

So what did we ask ourselves? Would we be able to take the technology and integrate it into another application. This is also a complicated question. Can we understand if the other tech can support new connections. These are the conditions I go through to decide which company is the best. In the end, it's a funnel If any salespeople are listening, There is a top of the funnel and it's like, say if you sell to SMBs and your customer conversion rate is 1% on a huge funnel, the percentages in M&A are more complicated because the pool is much smaller - dozens of companies - [Zeevi] in the best case - [Michael] in the best case. Dozens is like "infinity." And you can always end up with nothing. You can say that I don't have a goal at the moment to buy, and that's okay.

[23:29.4]

The worst thing is to do a deal that you don't want, that you have to do. That's awful. Because the board obliges you to buy a company worth over 200 million. That's an example. That's awful. Because everyone ends up unhappy and you have to tick a box. In sales you don't get this, because you want as much as possible, you need to sell.

[23:50.5]

We had someone on the show recently and he spoke about the contribution margin. Surely in the world of cyber when we see those deals, that from the outside, sometimes look outrageous,

because you say how can a company with x million in ARR be acquired for 100x revenues. illogical figures. So that guest here was talking about the contribution margin, so the acquirer looks at the target and does the math internally to understand how much upside or benefit they'll get from acquiring the target. And in most cases, surely in cyber, The profit does not come from the existing customers.

[24:33.7]

That's right, that's right, the customers are another asset and not necessarily THE asset. I also put a little bit in the sidebar what went on here in the crazy days of 2021, 2022, which is- But also in 2024. I say that I'm not sure that everyone who did these deals is the most satisfied, but.

[24:51.7]

I don't know if you want to quote me, but in 2024, uh, we're still going to quote you. That's exactly what we're going to do. But in 2024, you're right, there are deals, because that's exactly the internal value, let's call it, I don't know, the incremental value is much higher than what it sometimes looks like in the top line.

[25:10.8]

For example, my ability to buy a company is going to shorten my internal timeline and all the internal chaos of developing in-house. And I might not succeed at building it in-house. In larger companies - innovation is not always their strong suit. sometimes its maintaining something existing or making it stronger.

[25:30.7]

Bringing something new requires a different kind of thought process. Sometimes with larger companies it's not just a question of innovation it's also the process, so a 20-person start up moving quickly putting out four versions a day, for two and a half customers, they're just releasing versions all day long. Versus a very, very large company that in the best case releases a version once a year, not because its employees are less good, less competent, but because there are internal processes here, there is a consequence to everything you do.

[25:57.1]

And so many times you're right when big companies, the buy vs. build or the build vs. buy, is one of the criteria. I know some of the companies that first of all always try to build. Only if they fail is when they start the search, which is very strange, it's obviously in many big companies, um, but yeah.

[26:16.1]

By the way, in deal dynamics, but I'm not sure if anyone here has covered the topic but you always have to, as a seller and as buyer, you have to also identify the functions within the organization. At the end of the day you're acquiring the company from the founder and their investors, but also the management - when you do a management presentation, you can tell if the potential acquirer is really interested in your company or not by looking at the job functions. For example, in the world of tech, I'm sure there are people who come and represent their company and suddenly the acquirer's CTO or VP R&D joins the meeting and says we can do this ourselves.

[26:54.0]

This is a dynamic that needs to be managed, you are aware of it and know how to approach it differently. The CMO- if you prove your credibility in your conversions, sales funnel, the marketing funnel sales funnel, Recognition from the market, they are ticking a box But R&D might very well be coming from a different place.

[27:14.1]

They might be asking why buy this, if my team is super strong and can DIY. So you really have to understand the dynamics here and act accordingly. And that is part of the corp dev job. Internal communication. This is very interesting, it is a very nice point, I want to summarize this for our listeners, which is actually the point that many times the corp dev, has internal work inside the house, to convince the C levels, or to work with the C levels, and to explain why the transaction is the right transaction, surely in the world of tech, in most cases it would really be convincing the VP R&D, or CTO, of the idea that it is still more appropriate for us as a company, not to build it, but to acquire it. I agree with you completely, I have an example where the person, if they're listening, will know it's about them, I will say it carefully, they got an invitation to come, to travel to somewhere in Europe for some M&A discussions, I only saw the agenda, and I told him, no, this is not serious, it won't happen.

[28:13.1]

So he said, how do you know, and I said look who's invited here to the meetings. You'll see that the CEO and you, the founder, are going to have barely an hour in the 48 hours you are there. That's not going to happen. I agree. In the end, these deals are based on people, and these people are often the CEO, the entrepreneur, the people they call the shots.

[28:34.2]

And if you don't have the face time with them, you've got a problem. Of course in a bigger organization you might see a head of a

business unit rather than the CEO. But you need the decision maker, the buyer, that can authorize the deal. You need as much face time as possible with them to increase the chances of a deal happening. And if you know the person from before, of course that helps you a lot too. Personal contacts are important here too. I want to change topics here and ask you a question. What is the most cringeworthy thing founders have said to you as corp dev?

[29:06.3]

We've heard and I know - we Israelis believe in ourselves so much, has anyone ever come and said they won't talk to you because you're not the CEO or called you a paper-pusher? I'm intentionally using that language - So at that level, it has not happened to me personally, but I have heard "If the CEO isn't coming, I'm not coming." and "So I'll send whatever representative from my side," Many times they'll send someone not relevant at all. Because, by the way, sometimes it's a mistake and they send business development. And you're trying to understand who's really who And it's completely not the same thing, and they're there talking to you about sales and partnerships and tactics, but you're there for a different conversation, that has happened to me. I have to say I have never felt, maybe it's a title thing, I never felt someone was brushing me off .

[29:59.0]

That's an advantage, but I can say, If you understand what corp dev is, you will not do this, because it is a mistake, it is a dramatic mistake, Why? You reduce your buyer options and you are not prepared the next thing, you just make a real mistake. In the end, in the end, in the end, you have to think about your ultimate goal with the company, you want to go IPO? You will also need a strategic that will think about you. You want to sell?

[30:25.5]

Why would you want to cut your options like that. And look, it is a small community. We know each other. I think that someone once told us, I may not sign off on the deal as a Corp Dev, but I can totally tank the deal. You can be the one who goes back to the CEO, and says, listen, with these people it's not worth doing a deal.

[30:46.2]

But if you're gonna actually kill the deal, what is the line that you have to say internally to kill the deal? I think that if you're a CorpDev and you don't have a say if you're doing the deal or not, you're in the wrong place. That is not real corporate development. IMHO. At the end of the day, that is literally the job. To come and do the sign off, mostly I mean someone can always overrule you, and say no we want them, you're not seeing it, But it's in a place of a conversation. Where are my red flags in a deal? People who you think won't fit the organizational culture on the day after. People who are coming to cash out, It's okay, but you need to know about that. it's the worst, in my opinion in my worldview, don't be disingenuous. It doesn't help anyone. Looking at the company that we acquired, Hysolate.

[31:34.5]

The CTO, a founder, he's an amazing person that I really appreciate. He came in order to work, he came to go the extra mile, also in the company after it was acquired. and there is a reason that the product we acquired is such a great product. He was committed to this 24/7. He never changed his entrepreneurial personality even though he became a CTO in a company that was no longer his.

[31:59.2]

These are things you were looking at in the deal. For our listeners it is important to understand, that Corp Dev spends so many hours with the entrepreneurs, with the team, and so on, that's one of the things he's trying to do an assessment on for the acquirer. If people, the day after, what will happen to them? Are they still going to be committed?

[32:14.4]

Do they still want this thing to succeed, even though it's no longer their company? And again, sometimes they still have a percentage in the company, sometimes not a percentage, it's a merger, it's not just acquisitions, they get stock, so there's interest in the new company also succeeding, and so on, but I mean, it was a very nice insight in my view, for founders not to forget that the between the conversations and the analysis of what a person will do in the future is super critical, throughout the M&A process. I also want to say that in CorpDev, you also analyze - I really connect to what you said - there is a qualitative analysis here.

[32:49.6]

In the end, there are reasons. I don't know if all the 30 corp devs that you talked to, I guess I'll jump ahead a little and say that 100 percent of them are from a certain financial background, okay? In my humble opinion. Maybe I'm off by a bit. To be a good corp dev executive, you need to understand the finance side of things, and you need to know how to read the numbers.

[33:09.5]

And most of them are bald too. That's right. Where was, what did you say? They're all bald. I don't know, some are women... Or in the process of losing hair. And some of them are women. I want to focus our conversation because we have, honestly, when I was preparing for the show, I thought, Oh God, this is going to be like one of those eight hour podcasts where you can't leave and you're just stuck in the studio.

[33:30.0]

So we have to get all the questions in like a minute. [Chatter about Thailand, doing a Part 2] A lot of people need a financial

background and they need to understand the numbers and how things work, but there is a qualitative element that is very, very critical, this is true in all areas of life, but also in the worlds of M&A, there are a lot of sensitive elements in it, you also need to map them, including the culture fit, I'll give you an example from my world.

[33:59.8]

I remember that I was an entrepreneur and one of my mentors once came to me and said, listen, Zeevi, it doesn't matter what VC you go to, you're big, small, and so on. You have a person who greets you at the door when you enter the office. He is no less important than the person you're there to meet. Okay, the same person who greets you at the door, even if it's to tell you, let's go into this room, sees if you want to drink something, they are no less important, and your attitude towards them needs to be, identical to the attitude you have towards the person you're going to meet in that office.

[34:32.3]

And that's exactly, I think it's a very nice analogy, to what Michael is trying to say here right now, that Everyone is important in the process. There is so much importance to every single little detail of the interactions As the founder or as the target company, vis-a-vis the acquirer.

[34:50.7]

Every interaction is important. And not only the Excel. And the technology. It's about the dynamics between the people. What we heard here, very clearly Michael said, how can I kill the deal? He won't say, I don't like Zeevi. But he will say, I don't think he is fit for our organizational culture the day after.

[35:08.5]

So, it's basically the same thing. And here's the reason why not to do the deal. Or, he's an a\$\$hole. Right, so he won't say it like that. That's exactly what we are trying to translate here. He won't say, I don't want to do the deal, because Zeevi is an a\$\$hole. But a good, political statement - about company culture, or "they" will not fit our company culture, and now as the acquirer, as the CEO of a company that acquired companies, I don't want that.

[35:37.2]

The day after, I want the smoothest transition, let's enjoy the fruits of this whole thing. The deal itself, It's 10 percent of the process as the acquirer. Um, recently week we heard some stories of startups that are raising money to do acquisitions.

[35:57.0]

Can you talk a little bit about that? Yes. So the truth is that it's something that I, it's a very, very good area that is, in general, sometimes it is difficult to raise money. As the valuations are not like they used to be, the money is less free, let's call it that.

[36:13.7]

And one of the ways you can raise money and this is not illegitimate, but to think about whether inorganic growth is actually a solution for you to grow and succeed. And many times if you have investors who are more sophisticated, the credit they give you for raising money around an acquisition is greater.

[36:33.3]

Also because they have experience with this. That is their job. Also the job of identifying good founders, VC is a complicated space, But one of the things they know how to do, is acquiring companies and try to connect them. Who is the best at that? Private equity. This is a great area of expertise.

[36:50.9]

Private equity is a financial institution in itself, hopefully we'll bring some people from PE to come and talk to us, and present their perspective, because it's really an interesting perspective. We said it in the previous episodes, at least in Europe, 70 percent of the tech transactions are financial bodies, private equity, while in Israel, it's less common. less known, we'll have to bring some here.

[37:11.3]

But startups - they don't have a corporate development executive in there. Well, my job function - in a startup? That's rare to have. You'll see my function more in more classic, or larger companies. My experience here comes from two places, one, that the CEO I reported to about, he did successful transactions in the past.

[37:36.8]

He understood the value of planning ahead, he also had some management principles that are related to how to raise money, and how to sell the company if you need to do that. That's why we had my job function. This role can totally be filled by someone from the management, often it will fall on the CEO, he might also give it to a CFO and have that activity there. VP Finance, if you have one. Highly relevant. What I am trying to say, though, is that You have to understand that another path to fundraising or even more importantly, to increase the value of your company, is M&A.

[38:17.6]

and the M&A doesn't have to be \$500 million dollars. Sometimes, you buy 3.5 people, How big does a start up have to be

to be able to think about inorganic growth through M&A?

[38:34.8]

So I think it's less of a question of company size - it's a question of maturity. Your brand has to exist, You have a proven Go to Market, you know what you want. that your company's core is stable and you know how to sell it, and only then can you think about expanding your offering. If you don't know how to do your own work, or your mission, I recommend waiting with these other things. Don't try to bite off more than you can chew.

[39:05.7]

What are the tips for founders or start up CEO's who are starting to acquire other companies? Or other teams? What can they do if they don't have corporate development in-house? Who helps them? So, ok, so it's really about building an ecosystem. So I think that you already have assets inside the organization that can help you, and you also have stakeholders that are interested in the success of the company.

[39:29.6]

So the first thing you can use is your management. I really, really recommend it in these contexts, with the CTO, in the context of software, at least I did it with people who are very connected, very familiar, know what is important and many times they are the engine of the growth of the company.

[39:46.4]

I doubt that companies will acquire sales organizations or things like that so I emphasize the tech, and don't be embarrassed to ask your investors for help. Your investors know a lot, a lot of companies, they have deal flow. They know what's going on outside. They can identify good teams. They might bring you the right opportunity. That you wouldn't have known about. So that matchmaking. It's important. And my suggestion is, talk, talk, if you have the opportunity, talk to as many companies as possible, it won't happen, there won't be a deal here, it may be that you are not a good match, but at least you increased the network.

[40:19.8]

But I go back to the question, because if your job is a full and very rich field, you can say that, um, full of nuances, full of, you know, Buying a company is maybe different than making a sales deal, right? So if a CEO does not come from a financial background or if a CEO has never done anything related to M&A, who does he need around him or her?

[40:43.6]

Who do they need around them to make this successful? Because we're just going to start. Get out there and start making deals. No, so maybe here, there is a whole other job function worth mentioning. Maybe it would be for bigger companies, but that's the world of investment banking. That can really help. By the way, investment bankers like to work with you on things along the way to help them get to your lucrative deal in the end, that is where the big money is, and that's where I don't know if you'll bring an investment banker into the show but I'm not wearing my investment banking hat here although I'd be happy to discuss that as well, but using advisors, it is not a bad thing, founders don't want to pay maybe but it's okay sometimes you need someone to help you do the best deal and sometimes outsourcing in some sense, someone who is a trusted advisor, it can be good.

[41:29.8]

By the way lawyers, in corp dev, in the corporate world, they're great options to help you too. They also know a lot of companies. I just think that if you know a good banker that you can rely on, it's not a bad idea. I would like to make a distinction between how to target the potential targets, between - you've identified the target, you want to do the deal, and how you make the deal happen.

[41:52.9]

Here, I think, uh, where a lot of CEO's will have a gap, and they themselves have never been on either side, and so there is a lot of importance in using lawyers, certainly lawyers, because they are always busy with transactions, buying and selling, and they represent both the buyers and the sellers.

[42:12.8]

I'm sure when you have a lawyer you've worked with for a long time and you know them and trust them. And so far, your investors and your board, in the end, in most tech companies, there are very good board members, very good people, VCs, some of whom were entrepreneurs themselves, some of whom sold companies in the past.

[42:28.2]

They were in the deals with their portfolio companies that sold. We had a VC here recently that sold 30-40 companies, They have a lot of experience. That is the type of person who should be helping you, you don't need to go outside and bring people you don't know, but inside the house, there's a very, very high chance, you have people who can help you.

[42:50.0]

But in the end, don't forget, you're the CEO, you're the one in charge. The day after the PMI, no one will help you anymore. It's, it's already on you. Let's talk about this for a second, because you talked to us about the Day After. How much is this your responsibility as

corporate development leadership.

[43:07.3]

The day after, I mean. The way I see the job and I think every corp dev that wants to do thorough work, you have to understand that the acquisition is a step in the process, it's really not the end. Perhaps for the entrepreneur, sometimes it's the end.

[43:24.3]

For the acquirer, it's really just the beginning, I would say. So for the acquirer, there is an endgame, even wider and larger than that of the entrepreneur. They need to, with regard to KPIs, one of the more important things is to measure the success of the merger or acquisition over time.

[43:42.4]

When we acquired Hysolate, way before the company was acquired, still in the management presentations stage, we call it. We created a PMI plan with four thresholds. With four points in time. 30 days after the closing, 60 days. 90 days. And 1 year.

[43:59.0]

Why is it so busy at the start and finish? Because there are processes that take time. But there are things, that if you don't take care of at the start, they just won't happen. It is a very very small margin of error. One wrong move and suddenly the team is dissatisfied and you have a catastrophic issue where you've lost an asset, [Zeevi] that you just paid for dearly.

[44:18.7]

And it creates deep frustration and a gap both of the companies and their teams. In the PMI process I like to also work according to a methodology, and maybe this will be repeated, I like to create tranches, put many many sub-topics in there, It's easiest to divide these by function. Marketing, sales. R&D, product, customer success You map the functions and create a GANTT so you map out all the key initiatives.

[44:52.1]

Let's take something that is very simple, marketing, it's just not [Sophie] why is it easy no not because it's easy work, it's just something that is intuitive. R&D is a little bit more complicated, but it also depends on the company, but there is the question of unifying all the collateral, right? This is something that's a job, and you have to think about it from day one, what message you're sending, if I acquired a company that does tech a little differently I have to change my content, I have to change their content We have to decide what logo we are using. For us was it going to be Hysolate by Perception Point or just Perception Point. All these decisions must be made very quickly. And these decisions need to be made with reason. You need to decide what

you're doing. There are also a number of different approaches. There is Blue Wash for example. They used to say about IBM.

[45:35.4]

They used to come and everything would become IBM, and good luck. And there is another approach that says hold off, you have a year, You're you, we are us. Slowly, we'll check and decide. But you need to make the decision Even before you acquire them, so this is successful, and you have to track this. I'm saying this as corp dev. From the point of view of the entrepreneur This is your opportunity to ensure, that what you fought for during the transaction, is actually going to happen.

[46:01.7]

And this is something material. You took care of your employees, right? Make sure they are satisfied. It didn't end when the money hit your bank account. There are employees you have to take care of now. They were following you for years. Take care of them. That's also an integral component. I had the opportunity to do this on both sides of the table. To think about what is happening the day after. Super important. That would be my recommendation. To every entrepreneur. To understand that your responsibility for a successful integration does not stop at closing. Maybe we will direct that question to you, Sophie. You were involved in that acquisition recently, the company was acquired, you were in the executive leadership, All the PMI started, and I don't know how many of the things were defined in advance, It's interesting to hear your perspective, As someone who was just in this process yourself, and in PMI.

[46:47.5]

Was it managed properly? What happened there? I would say that, you know, without being able to speak about the details of what was going on in the, uh, integration there, [Zeevi, jokingly] I thought that was the goal of the podcast. [Laughter] well, I can just say that, you know, the The question of, you know, how do we do the logo?

[47:04.9]

And, you know, we were UserWay, we became UserWay, comma, a Level Access company. Do you capitalize the "A", do you not capitalize the "A" in "A Level Access company?" And, you know, we, that's what we became. And that was a decision that was made with a lot of foresight, with a lot of thinking that seems like something so small, but it actually, I was in charge of the publications that came out of the company, the content, as you call it, and everything had to be suddenly co-branded.

[47:29.7]

And then the messages had to be aligned so they weren't going to collide with each other. And the sales teams, what do they say? Oh, you were acquired by this other company. Now what, like, what, what do they say? Do they have scripts? So I

would say that, you know, in those,
in those processes, you really have to kind of triage whatever is most urgent.

[47:47.2]

But there are a lot of challenges and
I think that the internal communication is where these things can be, you know,
at risk, let's just say. So that I think is worth investing in and understanding that you're all on the
same side -- now. The day that you acquire a company, You are still the partner of the other
company. And sometimes, if you structure it properly the interests can align, you'll have
earn-outs, you have other tools to create additional alignment, for continuing to push the day
after. It's very critical - This is one of the reasons why corp devs don't like to talk...

[48:25.8]

they want to create alignment of interest on the day after. Let me ask you the question another
way. We're still before the acquisition, okay? Before. We've already gone so far beyond in this
discussion. Let's go back to the process of the M&A. There's already a dialogue between you
and the entrepreneurs,
and we see that the process is progressing as it should, and so on.

[48:48.7]

I've always felt when I was on the
side of the target company, there's a certain point at the beginning
of the path, that the corp dev is still cautiously checking you out. They are still looking at you
critically. Then as you go through the process they warm up, And then there is suddenly this
moment, the tipping point, where, Boom, you're on the same side. At first we're not really on the
same
side, and then at some point, I'm speaking as an entrepreneur, we're going up, going up, going
up, there's a point, and then at this point, I noticed that the demeanor
of the corp dev changes completely.

[49:26.1]

He's convinced that we want to do the
deal, that we need to do the deal. And from that point, we're
suddenly going shoulder-to-shoulder. Up to this point, it's you checking me
a lot more, once we get there Is this true? Totally.

[49:41.7]

Am I seeing this the right way? It always surprised me, I always remember the transactions that
I was
involved in, it was like, Oppa, there it is. This is the point, and from
here on out, we're in it together. It's mine to lose. That's how I looked at
it as an entrepreneur.

[49:57.5]

I'm very, very aligned with what you're saying. I'll start with this. First of all, I liked the move you used to explain this. That it's like this. Because it's not linear, this thing. It's not that it's built like this, it goes, comes back. It goes up, it goes down, it goes up, it goes down.

[50:13.4]

It's a very, very complex process. But I agree, in the end there's this tipping point that you cross it, and then the Corp Dev stops being the inspector and starts being the one who needs to get the deal done. Once you get to a certain level of conviction in the deal, That is where the interests flip and go from making sure it is a good deal to ensuring it happens. Let's make sure this thing works the way we all want it to.

[50:44.7]

Let's make this thing happen. That's exactly the point. I want the listeners, I want you to understand. As an entrepreneur, there's suddenly a point in the process, where suddenly you have a partner. Inside of the acquiring company. Really, he's a part of everything. His interests and KPI's, are suddenly becoming dependent on you.

[51:04.1]

Because he has a conviction, an internal conviction in house, and so on And his goal is to really get you to the finish line. And this is a really important point. While you're doing this dance, with the Corp Devs, and with the company, if you're currently in a process, this is a super central point.

[51:20.1]

Because once you've reached this point, as the founder you need to change your view, and become a little more, suddenly you have a real partner, you have an ally in the company, you can open up a bit more about what's on your mind a little more to open up about your misgivings that you may have in the process, and suddenly the corp dev who is again, an employee of the acquiring company, but he is suddenly, in there with you.

[51:46.9]

Totally, I agree and there is an element of let's think together, how do we both come out of this in good shape, both the acquirer and the target, how do we do this in the best possible way. I really identify with what you are saying, about the deal dynamics there. It's really a critical process.

[52:03.7]

I wanna end our show with just one really important question. Wow, went by so fast. Well, we, next time we're gonna block six hours. Six hours, [Laughter in the group] I have very, very, a question that I'm dying to ask you what actually, it's two-sided, right?

[52:20.7]

So what do you wish founders would do differently and what do you wish other corporate development people would do differently to get better outcomes in these deals What an excellent question. In a perfect world? Maybe a bit less defensive, less secrecy, out there? around this event. Things would be out in the open more. Fewer games, you could say.

[52:43.0]

You're saying in the dynamics vis-a-vis the founder. Not being out there in the media. Yeah, no no no. Simcha, when he was here, was talking about how during the M&A process, founders leak info to the press, even though it's not closed yet. And after this, they leak info over and over again, so that's not what this is all about.

[52:59.7]

Oh yeah, if you wanna kill a deal especially with a public company, I'm particularly with an American public company, Feel free to leak information to the press. It shows a major lack of trust. You know, that is what founders can maybe improve in-- don't think - I say this from both sides of the table. Going out publicly before it's time?

[53:23.4]

It's always a mess and it doesn't serve anyone, there's some mysterious idea that this is how I'm going to increase the value of the company. But it only displays a lack of trust on both sides. That's maybe what founders can improve in. And as for my colleagues? I'd be happy to see a bit less games, That things would be more direct and to the point at the start-- It's okay to say that we are in a relationship.

[53:45.0]

Just say that you are in a long relationship, maybe that's the place I'd look at. My question for the end is - I always - you said that one of the constraints in a deal, is, what's the size of the envelope So you start the process knowing that, you have say, 100 million dollars or 50 million dollars et cetera, you said part of your KPIs is of course to get the deal done, but also at the optimal price for the acquirer, that's just the economics of dealmaking, and yet, I am always interested to learn what those gaps are. I remember the size of the envelope when I was working for the acquirer, vs, the ultimate deal size, Of course it didn't exceed it, We would have needed approval to go above that limit, That's also something we have mentioned as a tip for founders, try to get the info from the corp dev to get a feeling for the of course your role is not to reveal the number, but once you know, there is a point that if you go too high, I'm sending you back to the CFO, CEO. And maybe it happens but maybe you say no.

[54:54.7]

But there is definitely a threshold where you don't need to go back and get approval. So you don't have that issue. It's always interesting, what's the delta, I always wondered with myself

how much more I could get have gotten The truth is, that's the part I like to compare the most to sales.

[55:12.3]

I think often you need to provide an offer and you're in the inner dynamics of what price do I give, because you're not, you have no idea what's on the other side and you say. How do I find how do I calculate the budget without him telling me to get lost. So yes it is a very fine line. I will give you tips and then we can talk about the delta.

[55:34.5]

One, use agents to find out what the other side has in mind, and read what the acquirer has done in the past, very carefully, look at the valuations, the scale. Not a bad idea to go and talk to founders they acquired in the past, but do gather some intelligence here.

[55:53.0]

Many times, well, I can say from my own experience, the numbers start high and then they slide down to where you wanted. But are we coming out offering the top number? As a banker too, obviously the answer is no but my question is really how much more could have the founder have gotten?

[56:15.9]

Do they leave a lot of meat on the bone? Or in most cases no, transactions are going to max out at your number From my view in the free market things tend to balance out, and the founders don't feel like they leave a lot of money on the table.

[56:32.4]

Sure some deals are opportunistic. And that is a bit of a different world, and this is all about deal dynamics and it's the job of the corp dev to understand the state of the target company, and whether you can maximize your value-- that's the best I can say. See? They still have secrets.

[56:48.1]

Yeah, why are you so secretive? I have to say that this part of the job, of the corp dev, of the banking, of all these dynamics, in the end it comes down to the fact that sometimes it's very difficult to get a real valuation, so you have to feel things that are a little bit beyond, and maybe, this is the secret sauce of the job.

[57:07.6]

Great. Valuation is [chatter] for the listeners [interrupts] Wait a second. It's in this context, sorry Sophie, in this context, I remember when in 2014 my company was acquired, a couple months later I tried to find out and find the deck where they made the business case on my company!

[57:32.4]

To see how much meat I had left on the bone. Unfortunately, not a small amount.... In my first deal that is, quite a bit but then I learned, and hopefully we all improve over time. But my question was from my personal pain haha Did you sell your first company alone? Alone. Alone.

[57:49.3]

I recommend to everyone, to take advice. But these are scars you get from not doing this the first time. You can only learn from your own experience. And sometimes paying that 1% is constructive. but that's a topic for another show. Thank you so much. This has been a delightful episode

of The Endgame, Israel's Tech M&A podcast, with personality hire Zeevi Michel, Thank you.

[58:11.1]

Thank you. And Michael Calev from the world of corporate development Pulling back the curtain. What's Calev? [chatter about Michael's last name in Hebrew] That went way over my head, but I want to close up the show.

[58:26.9]

So, you know close up the shop for today. We got a lot of work ahead of us We got another eight hour episode to plan with Michael to come back. Hopefully after your trip to Thailand.

Thank you so much for being with us today. This has been absolutely jaw-dropping and insightful in so many ways. Looking forward to seeing you again back in the studio, and if anyone's still listening and wants to follow us on LinkedIn, that is the best way to get your updates.

[58:49.8]

And don't forget to subscribe to the show wherever podcasts are sold. Agreed. And, the amazing Sophie has got us a website, and you can also find executive summaries for founders there, beautifully written, short and to the point. at the highest level I've ever seen, Forgot about that.

[59:06.6]

And I recommend all our fans to check out our Substack and get our show notes! And it's all the key insights from each show. Definitely worth a read. Amazing. You're getting really good at marketing.

[59:23.5]

That's a wrap. Thank you guys so much. Bye bye.