

The Endgame, Episode 8 Transcript

[00:00.0]

We're back bringing you a fresh episode of the Endgame, Israel's tech M&A podcast. I'm your host, Sophia Tupolev in the studio with Zeevi Michel, our resident venture capitalist, Israel's number one deal commentator, and a serial tech entrepreneur himself.

Today, we're joined by Amit Pilowsky, managing partner of KeyOne Capital, a growth stage venture fund with a portfolio that includes companies like FundGuard, Cheq, and recent SuperPlay mega-exit, a tidy \$700 million deal there.

Not bad at all.

You've also established Ace Capital, you're a growth fund, but now you have an early stage fund also.

[00:33.4]

Exactly. Focusing on defense tech and aerospace at the early stage. I love that.

National project, right? Very cool.

Soon we'll be investing in 2,000 pound bombs made in Israel.

Please don't make me cut that. Okay.

And you spent 17 years as an investment banker at Goldman Sachs.

And you also started the Israel operation of Goldman, you were saying.

[00:57.8]

Amazing.

Very cool. Amit, thank you for being here.

Thank you for having me.

It's great to have you here. I've also been following your writing, actually.

Surprising [laughter]

Well, it's in English.

It's very good. You've got a great new series of articles for growth stage startups considering outbound M&A specifically, on keyonecapital.com.

[01:16.8]

We'll put that in the show notes for our listeners. And today we will be taking a look at startups, both as target companies and as acquirers themselves, how M&A can be used as a strategic tool. And we'll start by better contextualizing investment banking and discuss the value bankers can create for startup founders, both on the buy and the sell side.

[01:42.9]

Wow.

What an intro. Sophie, you always amaze me.

I really invested in that one. You always amaze me with these intros.

Amit, super fun to have you here. Thank you for coming.

We're very excited today.

We have Amit, who spent 17 years at Goldman.

Goldman is a giant, so they do everything but in the context of investment banking, if you remember, many times we've talked about the shadow players that exist in the world of M&A. And in every episode we try to bring a different angle. One of the functions that we felt was the least understood or the least known here in the Israeli ecosystem is really investment banking or investment bankers.

And the name itself is also confusing.

People are sure because there's a bank there, so the guys give money.

[02:33.7]

And usually it doesn't happen that way.

So this is great. We tried to bring investment bankers to the show.

For some reason, they don't seem to want to talk...

Like the corp dev guys, they like to be in the shadows, I don't know why, Amit is smiling, maybe he knows why they prefer not to be on the front of the whole thing.

[02:51.6]

So we'll start with a few questions, and I think the first question is What is your definition of an investment banker. As far as a startup is concerned. And again, in the context of startups, technology companies, not I don't know, Netafim wants to buy Whatever, less relevant, I think. First of all, thank you for inviting me.

[03:08.7]

It's a pleasure to be here. You're asking a great question.

I'll try to break it down simply. The day-to-day role of an investment banker, and when I think of investment bankers, I think of the ones who live in New York, the ones who live in London, those who talk with the market, in the IPO context or who talk with the acquirers of companies. After all, in the end, most startups want to realize their value one way or another, and those bankers talk to those acquirers, those potential buyers, on a daily basis, on a weekly basis.

What does this mean?

A good banker who covers some sector, some segment in the market, knows the potential acquirers, talks to them, they want to hear what he/she has to say.

[04:04.7]

What does the banker have to say to them? General observations on the public markets, general observations on the M&A markets, but also what opportunities are popping up that they ought to look at now.

[04:19.8]

So I'll give an example of a typical conversation between investment bankers, let's call it in New York or San Francisco, with a strategic buyer. So this conversation could be, listen, last week I met two very interesting companies, they're small, they're early but worth being on your radar.

[04:44.5]

Why is it worth looking at them,

Because in another year or two, they will be very, very relevant to you as buyers.

Now, if it's a good banker with high credibility and a close relationship with the party on the other side, then they may also ask for an intro, or next time they goes to a conference and says, wait, the guy from Goldman or Morgan Stanley, it doesn't matter where, told me about this company, I want to meet them.

[05:09.3]

And suddenly you start to build relationships that you grow over the years.

And this is a part of how investment banks can be, might be, very useful for startups.

So for me, I'll go back to your original question, what is the role of an investment banker?

[05:26.3]

To be the link, this link between startups, whether it's an IPO or M&A, in a way that can also start five years in advance.

Now, it's very interesting what you're saying, I was interested to know, that banker who goes and talks, day-to-day talks to the corp devs of all the strategics, of all the potential targets, when he goes and has that conversation and says, look, I met a company last week, "Company X", is "Company X" necessarily already the bank's client?

Or not?

That's exactly what I want to clarify.

Great question, because in fact, in order to become a client of an investment bank, any investment bank, there needs to be a concrete transaction.

[06:12.3]

And I'll go back to what we said earlier, building relationships with the market, and by the way, the market is also potential buyers, they need time to get to know the company, to follow their development and say, wow, I met you a year ago and I meet you now, and I see the delta, it interests me, and I will continue to follow you, it takes time.

To show up and say to a company, "Hey, do you want to acquire me?" When they have no context, the probability is simply lower.

[06:39.8]

So I go back for a moment and say, starting a relationship with potential buyers can take five years, seven years, three years. Also with the IPO market.

In the end, we can talk about the mechanics of IPOs, there, there are investors who underwrite the investment.

[06:57.3]

It is also good for them to get to know the company in advance, and they are happy to do it.

The Fidelity guys of the world, the Wellington guys of the world, and so on.

So, in fact, the banking relationship will be formal only at the time when the company goes down the exit path.

[07:15.6]

This happens five years down the line.

So all these relationships, you're right, it's based on, there's something convenient for everyone in that that's not formal.

Great.

So here's tip number one, we haven't started the episode yet.

Tip number one for entrepreneurs, also at the beginning of the journey, if you suddenly get an email from an investment banker, certainly with a Goldman label, but also with other investment bankers, who say, guys, we want to talk.

[07:39.0]

Here's a great opportunity to start the relationship in an informal way, with the same buckets we talked about earlier.

Those potential buyers, there are many ways to try to get to know them over the course of the process.

We talked about it, one way is to go to conferences and create the relationship yourself.

Here's another way, talk to the banker, even at the beginning of the relationship, it's not formal, there's no commitment.

[07:59.4]

The banker learns to get to know you, on the way he goes and does his job, he goes to the strategics to talk and says, I saw this company, it's super interesting, maybe you should get to know it.

Here's a great way, so tip number one, don't ignore the emails from the investment bankers, I think it happens quite a bit, but take the call, try to understand, and also be very clear with the banker, say, for now we're not looking to raise, for now we're not looking to sell, it's okay, he'll still do his job, and start that potential relationship with the buyers and so on.

[08:29.9]

I totally agree with you, I want to take it one step further and say, by taking this email and saying, let's meet and get to know each other, a few things happen that can be very beneficial to that startup person. One, you hear business, you hear some gossip, you hear some analysis, input on the market, that I'm not sure you have, just from sitting here in Tel Aviv, even physically, and more than that, there's a day-to-day of building a business, you're not busy now understanding the trends in the M&A world that you might learn something from.

[09:03.2]

But no less important, it's a way to get to know the bankers, and to see who's really in the flow of the information, who's really good, who really has input, because building this relationship model is on a long-term basis, it creates a situation where, let's say, we're building this relationship model 5, or 3, or 7 years before the liquidity event, when we get to that event, there

will already be one or two bankers that you say, okay, they really have the relationships and I want to work with them, and you're not falling into the event as, okay, let's choose something based on league tables, or some other marketing thing.

[09:43.2]

I think it brings us back to the question of brand awareness, and really being there at the top of the funnel, we're talking about this all the time. It surprises me how much we talk about this topic, but in my role as Communications, I'm looking at how we can be sure that the right people know us, the people that we need to know us.

[10:02.2]

How early does it start with the bankers?

Great question.

The issue of brand awareness is something that... let's define it, brand awareness is not on the side of customers, it's on the side of the acquirers.

I want to give an example of how important brand awareness is, and what does brand awareness mean, so we have a company called FundGuard, they do accounting for asset managers.

[10:30.9]

there was an acquisition in the field -- by a company called BlackRock, which is a very natural buyer, down the line, for FundGuard, I hope many years ahead, because the company has a really unusual growth potential.

BlackRock acquired a company called Prequin, many of the players know them, Prequin is a data aggregator of private assets.

[10:55.9]

Prequin chose an investment bank, in this case Goldman, really, it's not related to my example, just in case. And when Goldman, I just know the deal from talking to some friends - who are ex-colleagues, that know the details, so when they started the process, because for Prequin brand awareness was very, very clear and very good, Goldman put out a phone call to 10 potential buyers, I can't say the names, but they're all names you know.

[11:31.9]

The smallest player has a \$50 billion market cap, the biggest player is a multiple of that. They put out a phone call to the CEO's of those companies, and said, we're going into a process, are you interested or not interested? And everyone said, we're interested.

Now, 10 out of 10, CEOs of multi-billion companies, who say, I want this asset.

[11:52.1]

They knew them. They knew them, they knew their value proposition, they had a view that said, I know I want this business and I'll be ready, And Goldman knew it.

Because the work they did for Prequin, to be fair, it took Prequin 20 years, but what did it translate to?

[12:13.0]

That's the question, why is it important? So they put out a phone call to 10 chief executives, they're all big CEO's, they're all busy! they all said, I'm clearing my desk for this. and we're now making sure that this will happen, and of course, corporate development teams, and so on and so forth. The company, this is all public information, the company sold for almost 14x ARR.

[12:33.6]

14 times ARR for a company growing by 20% that everything it does is data aggregation, it doesn't happen every day, it happens... The bankers earned their fees, you mean. The bankers earned their fees, and the company did excellent work in the brand awareness, and if they had not done this work, Goldman would not have had 10 CEO's to call up.

It would have been, hey, I have something to tell you.

[12:55.8]

I have some data aggregator...

I'll talk to the corporate development, if it's relevant, he'll talk to me.

So this point is critical. But how many times, really, a founder, I don't know, in the early stage, in the growth stage, will even receive an email from a banker?

It sounds like a dream.

[13:11.9]

Suddenly someone from Goldman wants to talk to me, it's the ideal scenario, right?

Right, right.

Okay, but I think it's... I'll go back to the example of Prequin, it's a process that takes many years, but I guess at the beginning, maybe it wasn't a Goldman banker, maybe it was a slightly smaller banker, a smaller bank, but even for smaller banks, there is a lot they can contribute with and help.

[13:35.1]

At every stage, there is its banker set, and I'll give an example.

You are a CEO of a company, doing a B or C round, and you want to raise \$50 or \$100 million. You can do it alone, and it's totally fine, you can do it with a banker.

[13:53.0]

Goldman will not take the mandate, it's a little too small, but there are great bankers at these scales who will be happy to help, and we as Key1, we invest in B, C, D rounds, we also do later rounds, and we started to get to know bankers in the field, in Europe, in the United States, and suddenly we discover that there are all kinds of banks, whose brand may be less well-known, and I can say the names, I'm not sure people will say, oh, wow, and they are completely in the flow, and they really help.

[14:22.3]

So I think that first of all, it doesn't have to be Goldman, Morgan Stanley. That's one. Two, how

do we even get to the point where bankers start to say, hey, I want to meet. And I think that here, it goes back to your point earlier, of the issue of brand awareness, is to participate in conferences, is to present what we do as a start-up in the best way.

You have a podcast, we set up a growth fund, we all need to create brand awareness.

[14:53.5]

So every company needs to take this into account and remember that it's an integral part of the everyday activity of the company.

It's not, okay, when I get to a D round, then I'll deal with it. No, you can work on it already in your A round. And there are some companies that do it really well, and we see more and more bankers, and this is an important point, we see more and more bankers from abroad, in these scales, which are relevant to B/C/D rounds.

[15:20.4]

They're coming here, they're looking for business. And some of them are great banks, names that we all know.

Great. Now, once again, note that there's another point here, we, of course, the podcast is The Endgame, and we're talking more about M&As, or liquidation transactions, and the like, but what Amit is saying here, not a few times, certainly in later stages, B, C, D, E, there's also the option to use bankers for fundraising.

It's less what we're talking about right now, but here's a great opportunity, if you've reached this stage, to really work with a banker, to understand if it was good or not, and then create the relationship, really, maybe one day, up to the IPO, or at least the M&A, so it's a great way to check who to work with.

[16:02.1]

Second point, we don't necessarily need Goldman Sachs. As they say, I look at Europe, we have a banker for every field, we have a banker for every deal size, sometimes it's good to work with a company that's a boutique, in the pharma field, for deals up to \$50 million.

[16:21.5]

Why? Just like Amit said, they have the potential acquirers' ear for this type of deal. They already know, they're familiar, and they don't necessarily have to go to Goldman, plus, add to that, the fact that the banks are very, very large, there's a threshold under which they won't work with you at all, and that really leads me to the business model of investment bankers.

[16:40.3]

I think that it's not that clear either. It's not clear to entrepreneurs, it's not clear many times, and sometimes to investors, to VCs, how the model works. As a VC, I've heard quite a few boards that come and say, leave it, these guys are just taking 2% from us. That's usually the line I hear a lot, both from entrepreneurs and VCs here in Israel.

[16:57.6]

So maybe you can explain to us a little better how the model works, and then what do you think

of this approach, saying no to that 2%.

Yeah. I'll try to clear my biases from my previous life. The model is, first of all, success-based.

[17:12.8]

You need to understand that. That is, there is no accumulation of fees with no deal. And I think this is a point that needs to be included

Because, unlike any other service provider that the company works with, management consultants, accountants, lawyers, usually the clock is ticking and the fees tick up, and these are not small numbers.

[17:35.3]

Investment banks only work success-based. That is, no deal, no fee. And that's part of the reason that if there is a deal, then they take more. Because they take some risk upon themselves that they can work for half a year or a year and nothing will happen in the end. And I can say, even at Goldman, a lot of deals that, or part of the deals that they try to do, do not happen.

What is that in percentages?

[17:55.3]

not just at Goldman, in general, from your knowledge of investment banking? How many from the first stage, the beginning of the funnel, really, of the investment banker, in the end, reaches a deal? As a mandate. As a mandate, yes, yes, yes.

That there is a mandate and... Let's explain what a mandate is for a second.

Okay. A mandate means that the company says, okay, we're on our way to a deal, it doesn't matter if it's fundraising, M&A, IPO, any deal.

[18:15.2]

They sign what is called an engagement letter. It's a letter that explains exactly how the commercial agreement works between the company and the bank. Like you're going to buy an apartment and you sign an agreement with an agent. Until you've signed with the agent, they can't... But it's also something that gives them, the banker, the power to act on your behalf and to do different things.

[18:34.1]

So you can have a full mandate or you can have a partial mandate, right? There are different ways. Right. Most banks are... I'll say, at Goldman, wouldn't take a partial mandate because it's very difficult to execute well for a deal in those conditions. I don't recommend it.

[18:49.6]

I think it's not good for the company. But yes, it can be... it will be partial, but usually it will be... So this is a high-trust relationship. Exactly. If you don't trust, don't do it. So first of all, we set up the commercial agreement in an engagement letter.

[19:08.7]

We get started. If I had to estimate, what percentage of deals that are engaged, formal engagement, how many of them are happening, it's hard to say, because it's very dependent on the sector, on the period.

Of course. The period can vary, but it can easily be 50%.

[19:25.2]

Wow. Of course, there is a tendency for it to be higher, but it can easily be 50%. And how many of the companies that you started a dialogue with at the end, the banker decides it's not for him? Because here too, in the end, to get to the very nice numbers that you describe I imagine, you don't take every company.

[19:45.2]

It's not every company that knocks on the door and says, Hello, Goldman, I'm Zeevi, with the company Aleph Bet Gimel Dalet, come represent me.

Yes. I don't know what the number is, but it's in the high 90s. That is, more than 90% of the companies that we were in contact with, even if it was a long-term relationship, we didn't always want to take this mandate.

[20:08.7]

Why? Where and how does an investment banker decide not to take a mandate when something

is on the table, saying let's go? Because he asks himself, what is the probability that I will be able to do a deal here? And if the probability is, in my opinion, below 75%, or below 60%, it's not...

[20:29.4]

It's not worth getting up. It's not worth doing this work. But is there also a question of, because the way that I'm starting to see the picture by what you're saying, is that the investment banker is oftentimes the adult in the room, in the transaction. No offense to anybody else in the room.

[20:44.8]

But is there also a question of founder credibility and looking at the person and how much you can really work with them?

Because a lot of these people are at the beginning of their careers, and that's the only thing they've ever done. So... I'll take the point you made, which is super true, and I'll break it down into two parts. One, for me, it's the adult in the room.

[21:02.1]

I'll say... I'll call it something else. I think in the end, an investment banker, that's his business. He does it day in, day out. An M&A transaction or IPO It's a very, very complex situation, very nuanced, and... Experience speaks. And...

[21:18.6]

When you, as an entrepreneur, are looking for a bank to work with, you need to feel that there's

someone who's very, very experienced to navigate the complex situations. I'll go back to the example we started with, with BlackRock - Prequin.

[21:35.3]

To get that 14x, you need a lot, a lot, a lot of expertise. It's not just a bunch of CEO's who want the deal. There were... There were a few decisions, you don't need to know their nuances, that only an experienced banker could make. So I think the experience here plays a very, very important role.

[21:52.4]

But... That's the second part of what you said. In the end, the person selling the company, the person telling the story, building trust on the acquirer's side. That's the management. The banker does the setting of the stage. They help refine the equity story. They make sure the sequence is right and that the competitive M&A tension is built.

[22:13.1]

But in the end, who tells the story? That's the founder. In other words, a little... The banker... Suddenly, analogy came to my mind, and maybe I'm completely wrong, but he's like the party planner. He makes sure that all the relevant parties come to the party. Puts makeup on the band.

[22:32.2]

He makes sure that it looks good. But in the end, the one doing the sell, whether it's interesting or not, it's the entrepreneurs, it's the management. In the end, they're the center. In other words, the banker only guides the process. He will really make sure that everything happens in the optimal way, but it's not up to him to sell the company.

[22:51.3]

Right. I'll stay with the analogy of the party planner. The banker, a good banker, He'll be the producer. But he'll also be the one who manages the show while he's sitting in the control box. The producer. He's giving the orders, Now dial it up, now dial it down, and that's the story.

[23:07.8]

Amazing. I like that better than the real estate agent analogy. I hate that analogy. I agree. So tell me, why doesn't it catch on in Israel? [Laughter]

Great question I'll start with a disclaimer, because I agree with you.

[23:23.7]

In Israel, this is much less developed than in other countries. I'll just say that yes, there is an investment banking industry in Israel that is not small. And if you think about it, among the top 10 global banks, I think that off the cuff, I think that everyone has a presence here.

[23:43.8]

Some of their presence is very significant. I can say that for Goldman Sachs, we established the

Israel presence here, me and my partner Sarel, we are three partners with Danny who joined us two years later. We established the activity here in 2007-2008. Within a few years, and for several years, Goldman Israel was the top five country for Goldman in Europe, more than I'm talking, P&L, dollars.

[24:10.1]

Not in terms of and not... So what it means is that there is activity here. I will say that it is concentrated with a few larger players. So to your point, in the world of start-ups, it almost doesn't exist. And then you ask yourself, why doesn't it exist?

[24:27.0]

And I think it's a combination of a bit of Israeli mentality that if I can't do it alone, if I need help to do such a simple thing to raise \$100 million, anyone can raise \$100 million. The answer is no, I don't think anyone can raise \$100 million. And I don't know if...

[24:45.1]

I don't know how much the board is in the business of taking a flip of a coin and seeing if the founder manages to raise the same \$100 million or not, but I think there is a bit of a mentality that if I need help, maybe it's some kind of sign of weakness. Usually, lawyers and accountants say we can help, and they really do know how to help, but not necessarily in the same way.

[25:07.1]

So I think it's a bit of a question of some kind of mentality and education. And the other half, I think it's related to the fact that in smaller segments, there are fewer banks. There is less flow of meetings.

[25:22.7]

So if you're a pre-IPO candidate, all the big banks have met with you as many times as you want, and they all stand in line.

You talked about brand awareness, so brand awareness is on the side of customers who want your product. It's on the side of potential buyers, to use the example of Prequin, it's on the side of banks who want your business, it's to create brand awareness.

[25:44.6]

We hear it from the banks because some of them come to meet us.

It's good for us, because we hear about deal flow in Europe, where we also invest.

It's good for them if they hear about opportunities here, our portfolio companies and things like that. And when I ask you, why don't you have a presence here, even a few times a month, or per quarter in Israel, it's always one step, one step behind what's happening in London.

[26:08.0]

And why? There are fewer startups in London than in Tel Aviv. Hands down. And I think it's related to the fact that there's a perception that Israeli entrepreneurs don't go to banks at this stage.

[26:23.1]

They don't want the help. It's a waste of time.

Exactly. And it's also a bit related to engagement. I see how easily, or they tell me how easily they get meetings in Europe, and how hard it is for them to get meetings in Israel. I think there's some kind of missed opportunity here that if startups are a little more open, let's say boards start saying, okay, let's do some de-risking for the deal and take a good banker that you trust, that he's proven, everything's fine.

[26:49.5]

But you do de-risking, it'll cost me the 2% or 3%, But it gives me a better valuation, a higher probability that I'll be able to raise the money. More credibility. Exactly. There's so much - opening up to potential acquirers as well. Even though you're currently in the fundraising process, the banker can already start talking to colleagues at the M&A stage.

[27:10.1]

There's a magic number, which I hear from the bankers, of, for less than \$1.5 million, we're not lifting the pen. You're smiling. In fees?

In fees, exactly. Okay. Is that a number that, every time I say, let's work with a banker, they always say, for less than \$1 million, he doesn't open the laptop.

[27:30.9]

Is that the number, really? Every bank has its own number. The number for Goldman is a significant multiple. But the answer is yes, and I'll explain... So maybe that's one of the reasons why founders don't want to take the banker, let's say, we're not talking about fundraising, but about M&As. They say, okay, if it's a deal for \$30, \$40, \$50 million, why should I pay someone \$1-2 million of that?

But, again, we're going back to the role of the banker.

[28:00.9]

The banker's role is, first of all, to help with the deal, to get a deal to be a deal, and while doing the deal, to really try to maximize the outcome, for the side that he represents. Sometimes he also represents the buyer. I'm talking about that, because we didn't talk too much about this point, where a banker gets into the picture when he represents potential buyers.

[28:19.4]

So maybe that's one of the reasons, why people are afraid to pay a lot of money, without really understanding what the potential return is, they're going to get. Maybe after this episode, they'll understand better. I think you hit a critical point, and it's very, very true, because at the end of the day, these aren't small numbers.

[28:36.7]

It's not \$10,000. It's not \$100,000. It's in the millions. Between a million, two, three. And I think you need to try to understand what the value is, what the role is, that a banker can represent for

you. whether you are buying or selling. And I think that you gave the analogy of a real estate agent. If you leave a meeting with a banker, saying, he's like a real estate agent, he's not the one for you.

[29:09.6]

If you leave the meeting saying, okay, this is a banker who can bring me, I'll go back to Prequin, to the phone calls, to the ear of all the relevant CEOs. That's one.

Two, he can create a process for me, where I will shine.

[29:29.0]

Yes, I have data aggregation, it's not the sexiest. I saw the equity story, you say, whoa. Now, that's a lot of the banker's work.

Usually for this part, it's three or four months of preparation. Because you have to polish it, and polish it, and there are a lot of opportunities.

[29:45.5]

That's the second part. The third part, which is critical, is building M&A momentum, building tension in the deal, so that everyone who participates understands that if he's not going to step up, he'll be out of the process.

[30:02.0]

That it's exactly the same as we recommend to our founders, when they go and raise money, to create momentum. The fundraising must take three weeks, meet with everyone at the same time, create some kind of deal dynamics, otherwise it stretches out, and a high chance it won't happen. So, founders, you're doing an amazing job in everything related to raising money, the same thing happens in M&A.

[30:21.1]

It's exactly the same dynamics you need to create, it's exactly the same process you need to polish, it's just that this time it's a lot harder to get there and send an email to Sequoia, Sequoia might somehow answer. Trying to send an email to BlackRock's CEO and expect him to answer, waste of time. Right.

[30:36.9]

Right, because Sequoia is in the business of answering emails from startups. One more thing I want to touch upon. In the end, a good banker can also conduct negotiations on deal terms, for you, in a way that you, when I say he's a good banker, I'm very, very confident, and he can do it better than the entrepreneur, or probably everyone on the board.

[31:02.6]

And deal terms, it's not just a price, it's a condition of payment, it's reps and warranties, it's a lot of things. You have to know it, and you have to know how to handle it, and the lawyers can do part of that, the legal side, good lawyers, good lawyers with an especially commercial mindset, the commercial side is usually more critical, if not always more critical, than the legal side, and

we see, we saw during our careers, I'm talking about myself and my partners, In deals, when there isn't someone very, very strong, on the other side, the advantages you can take, without them even realizing it, are significant, and the hindsight is good, so I think that's the value that bankers can give, and now, in this context, let's ask ourselves, is a million dollars, two million dollars, no matter what the fee, does it justify itself?

[32:06.1]

Sometimes it does, and sometimes it doesn't. I think the foundation here is to find a banker, that you say, they can bring this value, across, we showed four significant pillars here, and if the answer is no, move on to the next banker, or do it yourself.

[32:23.1]

You know, I have to be honest, when we started the show, I was really thinking about startups, and the founders that are in our community, about people who are getting ready to sell their company, right? And thinking of them as target companies and what do they have to do, how can we best prepare them along the way?

[32:38.8]

Actually, the more shows we do, the more we hear about outbound M&A, and startups that are actually acquiring other startups, and even if

they're acqui-hires, you know, two people, three people, whatever, or just tech, but it's actually a thing, and it's something I didn't know a lot about, probably because I spent most of my career with earlier stage companies until my last role, and that just wasn't on the table.

[33:01.7]

I'd love to get into that with you guys. Zeevi?

Yep. So really, as Sophie said, we hear more and more companies that are reaching certain levels, or certain scales, that understand that maybe there are inorganic growth opportunities, that is, something that's not in-house, they're definitely an option that's worth checking out.

[33:23.6]

So now, the conversation in the next few minutes is mainly about startups at this level, guys that are already CEOs, probably around A, B, C, they probably have a CorpDev function back home that works for them. In most cases, they probably don't have a CorpDev function at home.

[33:40.9]

No, of course they don't. They're startups. They're relying on their investors, they're relying on their board, they're doing, the CEO is doing it himself.

Now, for Michael, last week, he worked at a company, he was a CorpDev, at a startup. But Michael is a rare, rare unicorn. Doesn't matter, so here, never say never. Okay, never.

[33:56.0]

Sorry, I'm... we're answering your own questions. Exactly. So what do you think is the right path there? I mean, also there, what would you recommend startups to do? Also in terms of funding,

where do they get the capital from? It could be that your balance sheet is so good that you have no issue- Maybe a few little tips, also to startups, how does he work with his existing investors?

[34:18.2]

And also, how does he start the process? Does he take a banker? Does he take a banker alone, on his own? Does he already have a target function that he wants to acquire? And then what do they do? And what happens if, in the case of the target function, suddenly there is a banker? I'm just involved in a deal right now, that the acquirer, made an offer for one of our companies, and now we're looking to take a banker.

And what the acquirer said, if you take a banker now, it will require me to take a banker on my side, it will complicate the deal for me, what do we do then?

[34:47.6]

So... Okay, great. So I think that's a very timely question.

Because... Actually, there is a moment in time now when we believe there will be many opportunities for start-ups to buy other start-ups.

[35:02.6]

This moment in time came from the fact that many companies were established here, both in Israel, in the United States, and in Europe. We're talking about 2019, 2020, 2021. Some have proven, or built some very interesting technologies, they even proved a certain product market fit, but they are not a stellar performer in the portfolios of those funds.

[35:28.7]

And we see, especially in light of the pace of fundraising by the VCs in 2022, 2023, and 2024, which was a little bit lower, that a lot of VCs just come and say, okay, we'll back our winners, and the others, up for grabs. And in fact, that means that there are a lot of companies - and some are great.

[35:47.9]

Their investors simply are not able to invest, at the moment, in everyone equally, or similarly, or so on.

And it creates a situation that there are a few companies, the not so great ones, that anyway, no startup might want to buy, the not-so-excellent ones, that receive non-stop funding, or sufficient funding, but those that are actually good, but not good enough to receive internal funding, and therefore need to think ahead. And now the question is, who buys them?

[36:18.5]

There are basically two types of buyers. One is a strategic, who doesn't really want to buy small companies. A strategic would usually prefer to pay 10 times more for a three times larger company, where the risk is lower, than to pay less for a company that's hit or miss.

It's not their business.

The head of corporate development, he doesn't want to come to the CFO and say, you remember we put down \$20 million or \$50 million in the company, okay, it's closed.

[36:46.8]

Because it didn't work, the experiment didn't work. It's not a conversation that anyone wants to have, and they certainly not in a public company.

It's a very, very bad discussion. And so there is a not-so-small group here, of companies, some of them really high-quality, very good entrepreneurs, who have found themselves in a situation where they need to choose.

[37:04.6]

And in this place, the natural buyer is actually a startup. And it can be a startup that is older, it can be a startup that is more or less at the same level, only that it has the backing, and you have the opportunity to make connections. And that's why I think this topic, at the moment, and I guess this at the moment, is the year, two years from now.

[37:25.2]

At the moment that the funds will start to fill their pockets, there will already be more competition for the same companies, for the same middle segment. If you're listening in 2030, that's not relevant. Exactly. So first of all, where is there a conviction that it's the right time for founders to stop for a second and ask themselves, do I have opportunities of this kind? In my field.

[37:49.1]

I'll jump straight to your question, and then I want to go back to the strategy, to your question of, wait a minute, how do I fund this? And it's usually, kind of like, I just took half a year to close my C-round, I'm not in the business of doing a D-round right now.

[38:05.1]

For a good deal, there's funding. The funding can come from existing investors, usually, we'll be happy to invest in any of our portfolio companies that found a good deal, we'll put the money on top of our pro-rata, I'll be the first to say, I'm sure we're not the only ones.

[38:22.8]

There are other funds that say, wait a minute, there's an opportunity here, and I'll give, there's an opportunity here to put money in a company because it's making an acquisition, it makes sense: and I'll give an example of a company that is the new joiner in our portfolio, a European company, actually, named Holidoo.

[38:39.7]

Where in Europe?

In Germany. A company that's headquartered in Germany. A German company, guys. I'm just kidding, I'm just kidding, I'm kidding. That...Sophie asked to put in a little more effort.

Sorry. So it's a European company, Holidoo.

A company, exactly like the story, a company, a different start-up, a bit smaller, a bit younger, that reached a crossroads of, well, either I sell it or I don't, and then, I'm not sure I'll have any more funding.

[39:08.5]

A deal that makes a lot of sense. They would need, to our regret, only \$20 million, thereabouts. That's what you... It makes sense, commercially? It makes sense in terms of GTM? it makes sense in terms of technology, it makes sense in terms of staff, there's so much...

[39:23.7]

You're absolutely right. Every deal, with its nuances and characteristics, in this case, geographic expansion, which made a lot of sense, and synergies. So the deal makes sense economically and strategically, which made a lot of sense, because it complements their geographical reach.

[39:39.4]

The deal economics made a lot of sense, because there's synergies, and the price is attractive. That's part of the reason why they did it. Otherwise, why waste the time? So they found us and, What would you recommend to that entrepreneur who comes to buy? Use more cash, or use more equity?

[39:55.1]

another element of value? maybe he has more equity to give, he has different preferences on investments, sometimes it's better to use cash, let's give you cash, so you can use cash, so what's the advice here? The whole issue of funding the deal is a whole world.

[40:12.8]

The default on the other side will always be, almost always be, to use cash. I'm a fund and have been sitting on investments for 5, 7 years, I need to return cash to my investors, If I'm going to buy stocks in a company I don't know, I need to do diligence on the acquirer, so paying in stocks is much more complex, but it depends on the situation.

[40:32.9]

For the cap table, because sometimes the entrepreneur will come and say, okay, I'll have some carve-out in cash, I'd rather get my share in equity. We talk a lot about conflict of interest as part of M&A. There's a cap table, there's an owner of a company, there's an institutionals, there's a BA, there's investors, there's early employees, there's entrepreneurs, everyone in a transaction that is, once again, worth a billion dollars, everything is fine.

[40:59.6]

Everyone is happy, and there's probably not too much conflict of interest. In a deal for 20-30 million dollars that the company has been running for 5 years, I assume that the cap table doesn't look at this deal in the same way, and everyone has their own desires.

[41:14.7]

So how do you overcome that? And by the way, another question, is the company that did the acquisition, going to use an investment bank? So from the point of view of the acquirer Sorry to go back to the banking thing again, but I think we'll try to understand the dynamics of when I

say, hmm, I think I want to buy companies, is it right for me to take a bank that will help me in the process and know that I don't have a corp dev in-house, reaching out to targets, Or maybe you say, only once I know I have a possible target, only then open up the whole issue of M&A.

[41:45.6]

So you actually bring up a critical question about how to approach this? It's a world that is usually unfamiliar. Any entrepreneur will do it when it's their first time, and even if the same entrepreneur did it three times, it didn't make him an expert. I don't feel like I'm an expert in M&A.

[42:02.5]

And I did it for 17 years, day in, day out, hundreds of deals, This world is super complex. After 17 years you don't define yourself as an expert in something? We define ourselves as experts after 17 days. The more I learn about any field, the more I realize I don't know anything.

[42:20.2]

So I think... I would take a step back and put myself in the chair of the entrepreneur and ask myself, I'm sitting in my office and I say to myself, I'm listening to this podcast, I understand there are opportunities and maybe I have an opportunity to do one or even two acquisitions.

[42:40.5]

By the way, we have a portfolio company that has already done two acquisitions. It's possible. In order to build an M&A strategy, and I intentionally use the word strategy because it's not random, it's not opportunistic. When it's random and opportunistic, the probability of success drops significantly.

[42:58.8]

It has to be a strategy. For both sides, the probability of success. For the acquirer and the target, the day after. Not opportunistic, dunno. and... 100% correct. And in order to build a strategy like any other strategy, you need to invest in it the thinking, the resources, the time, in order to build an internal organizational process that at least prepares the organization for this moment.

[43:22.6]

And that includes, first of all, as a manager, understanding what an M&A process is. It's some kind of obscure box, a bit of a black box. You have to learn it, and you can learn it. Of course, banks would be happy to teach, and a few conversations with a few bankers, will already begin to produce a picture, listen to podcasts with people who have done this in the past.

[43:43.3]

First of all, a CEO, an entrepreneur, needs to build a picture and say, OK, I understand what it is, and I'm not afraid of it. After that, you need to go to the board and talk to the board and say, look, I think there's an opportunity because, moment in time, and I've seen these companies, and I want to do it properly.

[44:01.5]

Are you with me? Now, there will be boards that will say, 100%, run, and there will be boards that will say, whoa, wait, that's great, so maybe here you need some kind of education process. After there's an alignment between the board initiatives, because it's really a strategic thing, it's not a small thing, let's say there's an alignment and there's an OK, we go back to the organization and build the team, and the team is, first of all, a CFO who plays a very significant role.

[44:26.2]

If there's a corporate development and usually there isn't, sometimes it can be a Chief of Staff who takes a role in this event. But we build the internal organizational process - the management needs education too - on what M&A is. Because when the process starts, everyone in the management takes a part.

[44:49.4]

Everyone is recruited. The CFO has a very significant role, we can talk about it, but also HR needs to give the input.

R&D, every part of the organization, After there's an alignment, the founders, the board, the management, and everyone sees there's an opportunity, and we're going to devote the energy and the time, I'm not talking about 90% of the energy and the time, I'm talking about the right amount, we get a process started. And someone needs to own of this process, whether it's the CEO, or the CFO, or the head of corporate dev, but there's a process, and it's a structured process, of scouting for deals, of talking to bankers, of building a picture of where we see M&A needs to play a role, if there's a universe of companies that can be bought, at the level of the company's product, at the level of the shareholders, if it's one of the companies in the middle segment that we talked about earlier, or not.

[45:46.2]

And after there's alignment, and identification of and some kind of engagement with a target, and you feel there's a conversation here, like the buyer that came to your portfolio company, there was some kind of engagement here. And there are two sides to it. It can make sense.

[46:01.9]

Now it's up to the mechanics of how we do it. Back to your question, whether you need a banker or not. So I think the answer is, of course, like everything else, it really depends. If it's a \$10 million deal, it's probably hard to justify a banker that's good enough, that would really help.

[46:20.6]

There are four things that a banker, at least, that a banker can help with. For a fee of \$100,000, it's a bit hard to bring that quality. So it's a question of deal size. It's a question of, if there's a banker on the other side, And yes, this friction is not always good.

[46:38.1]

For example, in your company, you bring a banker, so on the other side, they need to bring a

banker. It will delay, complicate the deal, and maybe you take someone behind the scenes who doesn't go beyond the bar, but you pay what you need so that you can do the song and dance the best way.

[47:00.2]

So I think if you have to have a banker to execute, I think that, in general, in this middle segment, the size of the deal won't really allow, I'd say, in most cases, to take a good enough banker.

[47:15.3]

I think it goes back to preparation. If there is good preparation within the organization, then I think you can do it, but there needs to be good prep. Otherwise, what will happen is management will do all the work, you will find a target, you will want to make the acquisition, and the board will say, it's not good enough.

[47:36.2]

And it's a shame because it's half a year or a year of waste of energy. And focus. Defocus, exactly. My concern is when I think about founders that maybe just hit the growth stage and they're thinking about maybe some outbound M&A, they start maybe acquiring companies here and there, one, two, three, whatever, but that's all on the way to them eventually maybe getting acquired or going public themselves.

[48:01.5]

My biggest concern is what mistakes are they going to make along the way that are going to mess up their own due diligence once they're at their own liquidity event? And I mean anything from I'm not talking about like being stupid with the IP or something like that, but can you maybe think about where should founders be most careful as they're making acquisitions of their own to not mess up their own eventual acquisition?

[48:26.9]

So there are many things. You're talking about an important point here because in the back of our minds Do you have an example of someone who fucked up? Do you have an example? Please tell us. You don't have to use names. We can bleep it out. The problem is there are so many examples.

[48:44.4]

We all say most acquisitions don't succeed. There's a statistic by McKinsey, and now you're working against a statistic that doesn't look good and it's almost self-evident. Surely, if it's a big enough acquisition and it's not a good situation.

[49:01.5]

you're making an acquisition, it wrecks you for two years just to fix an error that you shouldn't have made. All this stuff, these people don't want to come work for you now. I think there are two places where acquisitions fail. In my opinion, there are two main ones. And of course, there

are many more sub-reasons.

[49:18.7]

The first one is that it's not the right acquisition. The acquisition was not made for the right reasons. And in the end, an acquisition is a strategic tool. It's not a tactical tool. The bigger it is, the more significant it is. And even a small deal, a small acquisition, is still strategic because the contributions that the organization needs to make, both at the acquisition stage and at the integration stage, are very significant.

[49:38.9]

So it's not something that you do, you don't wing it. Even when you're a big corporate, and in my years at Goldman, I've worked a lot with big corporates, even on small acquisitions, they invest the same funds, the same energy, the same everything, like in big transactions. The scale of the acquisition doesn't affect that.

[49:55.0]

So I think that first of all, the mistake that I've seen in my career that happens when an acquisition doesn't go well, it's not done for the right reasons and I think it's so critical to dive deep into the why when you're doing this. And it has to be very, very clear why you're doing the transaction.

[50:14.3]

The second thing is what you said about PMI, Post-merger Integration. To combine two organizations is complex, because an organization is a complex thing. Even a startup at stage C has 100 to 200 employees.

[50:31.6]

It has offices in a few places. It has a culture. It has a way of working. The same is true for startups, even if they are smaller. When the target has 20 employees, 40 employees. And I put aside the technological complexities of optimizing the technology even in the day-to-day operations.

[50:51.6]

The CFO needs to close the books. The target works with one system. Just to get this thing integrated, takes a month out of the CFO team's life. So the second mistake that we've seen a lot over the years is that the PMI was not done well enough.

[51:08.9]

It was not done intensively enough and carefully, because there are some conflicting interests in some places. And because it's such a complex issue and because we believe that we need to look at it in a clear and fundamental way, we need to build a process to build a PMI process if we need advisors, if we need advisors who know how to help, and we need to do it before the deal is closed.

[51:41.6]

And this is part of what is not entirely clear. And to build a PMI plan, it sometimes takes months. Now, it's true that between signing the deal and the final closing, it can take a month, three, six, sometimes there is some regulatory period, but at the signing point, the board needs to ask the CEO what the PMI plan is, show it to them, and not, "we'll be okay." And this "we'll be ok" is a place where a lot of times deals don't go well.

[52:09.2]

Now, I put my hat as an entrepreneur, okay, I'm an entrepreneur, round C, my situation is wonderful, 100 employees, 200 employees, everything works according to the plan. Why should I even get into these things now? I'm 100% focused on one thing, as we said, it's different when Google acquires a company and in the end it doesn't succeed.

[52:30.0]

It's another company out of the thousands of companies they buy, not interesting. For me, I'm an entrepreneur. It's my first company, second, I don't know what, most of the chances that I myself wasn't in an M&A situation on the other side, it happens, not a little, right? So why should I get into this thing?

[52:47.2]

So much, I listened to you talk and I say, oh boy, let me focus on what I know, I can understand, maybe there are a few elements that I can connect to, one element is really that the opportunity is exactly a bullseye, whatever it is, if it's the GTM or the technology, so that's one story.

[53:08.2]

The second story, is maybe also some elements of ego, as an entrepreneur, as a CEO, it's very nice to come and say, I bought a company, these are the places that maybe I will go to very, very small deals, as Sophie said, maybe some acqui-hire, some nice piece in the newspaper, Zeevi's company bought Moshe's company, again, give them names, no matter what, it's clear to everyone what was there, and wonderful.

[53:29.3]

But it sounds very scary to me, and it's contrary again to Google, Microsoft, Amazon, that they have full teams, full divisions, the PMI happens in a superb way. Michael sat here and explained to us how everything worked in an organized way so as not to really get to the point where the deal would fall apart.

[53:47.5]

Great question, because I think at least for me, the answer to it is pretty simple. If it's not a bullseye, and if the risk exceeds the opportunity, because there are a lot of risks here, and we've already mentioned it, don't do it.

And it means you have to kiss a lot of frogs, and maybe finish by saying there's nothing that makes sense.

[54:10.9]

But it's a bit like you, I go back to your description, you have a founder, C-round, you have some kind of roadmap, for you to do something that is a strategic, additional, on the current roadmap, it has to be very, very, very critical. Either it's such a big opportunity, or if you don't do it, the risk is very high, and then you decide, together with the board, like if we're now doing more geos, more product, more something.

[54:43.6]

To me, it's the same threshold, and even higher. Because when you do more geos, and it's internal, you have very, very good control of the process, of the budget, of the rate of building the strategy, the risk you take, because you build the risk on the way.

[54:59.7]

It starts from the bottom. One person, one, two, three, ten, in the new geography, unlike now, 100 workers in Holland.

Nice. I don't even know what the laws are in Holland, I don't know how to fire people in Holland, for those who don't know, it's very, very difficult to fire people in Europe, so these are things that I don't even consider when I go and buy a company.

[55:23.2]

If you don't consider this stuff, don't acquire. You need to be completely sure and completely stitched up. It's exactly at the same level, at least, as it would be if you were deciding to open a presence in Holland.

You would do all the checks, and tax advisors, and HR and so on, and so on, and you would go to the board and say, Holland is important and strategic, these are the risks, this is how we deal with them, at M&A time, it's the same thing.

So why do acquisitions?

[55:48.3]

Because let's say you decided to open a presence in Holland, and you need to get there to make the impact you want, you need to get to some critical mass, 10 million in sales, 50 million in sales, 20 employees, I don't know what, if you have the opportunity to buy a company that is, let's say, as you said, a total bullseye, that's it.

It shortens your five years of work.

So it's worth thinking about it.

Another question that came to mind, we always talk about the different types of acquirers, so we talked a little bit in this episode about acquirers that are what we call the strategics, where the strategics go into two big buckets, the large ones like Google, Microsoft, and so on, as well as start-ups themselves that are acquirers, start-ups that are older, maybe a little more advanced, but for me, still in the category of the strategics.

[56:32.8]

Another very central bucket that exists in the world, and as I said, statistics show that in Europe about 70% of the deals that happen are by non-strategics, that is, people who are either the old

P.E.'s themselves, or P.E.-backed companies, which is part of some sort of play. How do you see this perception?

[56:50.5]

Why, in your opinion, is this less known in Israel, happening less in Israel? And also here, where your experience from Goldman as a banker comes into play, that is, to work with an org like a P.E., that's what they do best, acquiring companies all day long.

[57:06.5]

completely different than working with a org that does deals once in a while. So how did the dynamics change as a function of the acquirer itself? You touch on a critical point here, because we've just talked about P.E.s, and P.E.s are almost not thought of in the range of potential buyers.

[57:25.1]

Right. In Israel.

In Israel, you're right. And what you need to understand about P.E.s is, first of all, in this category, there's a ton of money, we're talking about trillions of dollars, that are looking to be invested in the next two or three years, that's the mandate.

[57:41.5]

So there's a lot of money that's willing, not just willing, wants to be deployed.

The problem with P.E.s, in the perception of founders, and maybe a bit rightly so is that they're more price-sensitive than strategic.

Two reasons. One, they don't have synergy.

[57:58.7]

And two, their cost of capital is higher than that of a strategic buyer. So why waste time? I think that this perception is true in essence, but it's a little bit misleading, because there are quite a few P.E.s. And I'll take Thoma Bravo as a very, very good example.

[58:17.9]

Great example. Not only are they able and willing to make acquisitions in the world of technology, and these are control transactions. Only in technology. And at multiples, sometimes higher than 'strategics'. And then you have to ask yourself, how is that possible?

[58:35.3]

What silly fund does deals at a higher multiple than a strategic buyer? I'll start at the end.

Thoma Bravo has excellent performance. So they probably know what they're doing. And when they find a company that they like, they're willing to take a little risk in the price, considering the fact that they go in there, a day after in teams, and often change the strategy.

[59:01.0]

They continue the go-to-market. They make acquisitions, because they know how to do it for the

company. And by doing so, they raise its value in a very efficient way, because they have a lower multiple in the acquisitions they make, and other synergies, and so on. And in fact, when thinking of an acquirer like Thoma Bravo, and they're not the only ones, of course, they are an acquirer that is not only reasonable and good for the company, also in terms of the price and the ability to get the value, they are very, very relevant.

[59:26.3]

So your question is the right one. Why do we see less of this in Israel? We usually see the Thoma Bravos with the Iron Sources. We saw a bit of Thoma Bravo, we saw some Vista, a little Primera they're doing a little bit of deals here, you're right, but not...

Not in volume. Not in volume, as you would expect, compared to the number of companies we have here.

[59:43.4]

Right. And I think you named the right ones. I want to characterize the very good examples you gave. They're all global players. And everyone has reached Israel one way or another. For Primera there is a representative here, Thoma Bravo is already operating here. This is a privilege global funds have.

[60:03.3]

So when you see P.E. driven M&A here, they are a kind of mainly they are global funds. What's the problem? They need big deals. Primera, which bought BioCatch, or bought control of BioCatch, they put a check for hundreds of millions of dollars.

[60:20.9]

That is the minimum check, in order to move the fund. If it were a \$100 million check for the best deal in the world, Their mathematics don't math. Now, for the small-medium funds, there is no activity here. So to run a fund, to go and for example, to go and do a deal in Mozambique, not that I'm comparing Israel and Mozambique, or even In Holland. Let's just say Holland.

True, and the first question I ask myself is why am I seeing this deal?

[60:54.6]

All local funds saw it. All the European players saw it. And now I'm see the deal, so not for me. And then it's really easy for me, as a fund manager, to say, it's not for me. I think that's part of the reason we don't see... After all, most of the deals are not Iron Source size. They're not BioCatch size.

[61:11.6]

So it indicates that the engagement here, in terms of the founder, needs to be with the mid-size funds, so it's very complex. A good way to get to those funds?

Investment banks. Because banks talk to them all the time. And I think it's a good question for a meeting with a banker, ask them, who are the active funds in our segment?

[61:30.9]

Because in the end, for the small funds, there's some product, some specific fit for some sector or some stage, who are the players at our levels? So I think where does it lead? It leads to the fact that maybe you need to know P.E. funds that sit in the US, that are in the mid-market, call it a billion dollars AUM and less, How do you get to them? Talk to bankers.

They talk to banks all the time.

[61:55.1]

Exactly. I think that's a very good summary for our conversation, no? I love that you brought it back full circle.

Really. Very, very nice. This has been another great episode of the Endgame, Israel's Tech M&A podcast for founders and startup leadership teams.

[62:10.5]

Turns out on both sides of the deal table.

Indeed. As we're learning, this podcast has a life of its own. If you're still listening, I encourage you to follow the show on LinkedIn, subscribe and follow wherever you get your podcasts and tell us what you think. Amit, thank you so much.