Paul Winkels

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SPEAKERS

Steve Divitkos, Paul Winkels

S Steve Divitkos 00:00

Paul, welcome to the show.

P Paul Winkels 00:02

Thanks, Steve. Pleasure, pleasure to join you. Thanks for having me on.

S Steve Divitkos 00:06

It's great to have you on. And we'll get to why I particularly appreciate you joining me right now, given the circumstances, but maybe you can illuminate. Please tell us a bit more about yourself your search fund and where you currently find yourself in the broader search process.

P Paul Winkels 00:22

Yeah, happy to. So I guess I've maybe got a little bit of a different background versus what's completely typical. Rather than having a an MBA, and then being in banking or private equity or consulting. Instead, I'm a CPA by trade, probably a little later stage, career wise, I guess translation, I'm a bit of an old fart. And I've been an operator and a number of different businesses, sort of different sizes and different industries over the years. So I launched Clio Capital Partners, which is the fund in around May June of 2022. And is structured as a traditional fund. Although I guess with a bit more, maybe of a concentrated number of investors versus what you probably typically see, they will often been based in Canada, which is where I'm situated. And in terms of where we sit in the search process, we were fortunate to recently acquire a great business called Allied Threaded Products, or what you hear called ATP for short. We closed the bid a month and a half ago. And ATP is a master distributor of industrial fasteners. So that's studs and nuts, bolts, gaskets, things like that. We directly import most of our products, we also have the ability to cut the fasteners to size and make other modifications before they're sold. So some light manufacturing. And we operate from three facilities, we've got the sort of HQ in Ontario, and we're also in Alberta and British Columbia, and sell all across Canada. So yeah, that's sort of me and the fund.

S Steve Divitkos 02:08

Hence, my appreciation for you joining me as month and a half into the CEO seat. If somebody asked me to join a podcast, within my first two months of running my newly acquired company, let's just say I would not be as generous with my time as you're being with me. Let's jump right into it. You've recently acquired, you've gone through the entire search process. So you bring a very unique perspective. The question that I'm asking all of our guests today is knowing what you know, now, if you could redo the first 90 days of your search, what might you do differently?

P Paul Winkels 02:48

Yeah, and it's a great question, and I'm gonna be a great service to, to your listeners, I guess, maybe the first one, and in no particular order. But the first one has, I just be more judicious with my time and right out of the gate. And that's probably, you know, a very common piece of advice in terms of like a general theme. But more specifically, I'd be pickier earlier on with which with which opportunities I spent time on. I think early on, I took an approach of let's go to brokers, M&A advisors first, and then sort of pivot a little bit to the proprietary side. When I first did that, in retrospect, I saw a lot of kind of what I call Deadwood deals, right essentially deals that probably everyone under the sun already passed on, the businesses has already been sitting on the shelf for sale for a long time. Or maybe it already been repeatedly brought to market and then taken off market and then brought back to market. And it was okay to think of these deals as kind of opportunities to cut my teeth and learn. But I think in retrospect, I ideally, I would have recognized earlier on that there probably are deadwood for good reason. And I would have wouldn't have spent as much time on him as I did. You know, I think about if I was being completely honest with myself at the time, I think I knew these deals weren't ever going to be a fit. I'm certainly guilty of sometimes confusing, being busy with being productive, even if it's not truly moving the ball down the field. And you come to the realization that stems from brokers and M&A advisors, there are marketing documents first. Which I think I always understood, but what I didn't really fully appreciate was that you know, once you get under the hood, once you're past the SIM and looking deeper into the business, reality is pretty well almost always worse than than what was originally presented. So, if you see a deal breaker in the SIM, it's probably best to walk away it's only gonna get worse in your in your time is your most precious resource. So, I guess the punch line there like I have to sum it up, you'll come up with your own rapid fire filters and you'll be confident and comfortable with the fact that it's okay to respond with quick and polite no's, even in those very early days, the first sort of 90 days when you start seeing some deal flow.

S Steve Divitkos 05:10

Let me just ask you a quick follow up question on that. I think being judicious with your time is good counsel, particularly when you've got two years to close a transaction. I wonder how do you balance that with the importance of getting repetitions or practice under your belt talking to business owners talking to brokers making offers early in your search process? Are those two things mutually exclusive? Like how did you balance those two seemingly conflicting considerations?

P Paul Winkels 05:41

Yeah, I do think it's important to try and get that deal flow ramped up quick, because as you said, we all make some dumb mistakes, and you make them early on and hopefully learn from them. I just happen to have a few where it probably went a little further than it should have, you know, and I'm talking specifically broker deals. Not only having discussed with a broker, you know, a couple of calls, but also going to see a facility and things like that. And while there's value to those, a lot of the work you can do early on, in terms of getting your sea legs under you is kind of more desktop work. There is value in going to visit facilities and meeting potential sellers face to face. But that's also super time consuming, to prepare for those correctly to travel to wherever you need to go, that's a huge time suck. And that part in particular, you know, go through as many things as you can like, just be a machine, chew through them, as many as you can, as early as you can. But be okay with with shelving, those pretty quickly, don't feel a need or an obligation to take things to the second or third stage just because you can.

S Steve Divitkos 06:51

What did you learn about including investors and when to include investors, because one of the mistakes that I made during my search is actually remember the specific deal in question. I got all excited about a company, I spent probably a month with the seller, and I sent my investors a very pretty well formatted 20 page memo, they found a very diplomatic way to tell me that I was crazy. And I should never spend time on this thing. Yeah. And I think what I learned from that process is I probably should have spent like two days with the seller and sent my investors a two page memo was spelling mistakes all over it just to lean on them and their context and pattern recognition, to tell me, hey, don't spend any more time on this. Because that would have saved me, you know, several weeks. So that was the lesson that I extracted what, what was your approach to looping and investors? And would you would you change anything in that regard, if you could kind of do it all over again.

P Paul Winkels 07:47

Um, you know, it's probably going to depend a little bit on what funds investor mix looks like, but I'd be pretty confident to say in any fund with, you know, more than kind of single sponsor type fund, any fund where you've got multiple investors, they're not all going to be equal sounding boards. And that's not necessarily a comment on quality, it is a comment on what the preference of an investor is. Again, I had a pretty concentrated fund a small number of investors, but there are differences in sort of how much those particular investors like to weigh in. But I would suggest going earlier, and often, if you have a SIM and you've read it, and you can sum it up in half dozen bullet point email, why not pick up the phone. If you've got that kind of report, if you've got, you know, if you got to fund with 10 investors, there's probably two or three that are sort of more approachable or more generous with their time, focus on focus on them. And I'd say the same thing, try and get to those quick notes quickly, because a slow no is the worst possible worst possible outcome. And like you said, all of us in the early days are relatively new to this, unless you've sort of come from a high volume private equity background, it's pretty new to you. It's okay to, again, make some those dumb mistakes, just do it with the least amount invested and start talking to investors early because, quite frankly, if they don't like the deal, it's probably you know, do not pass go anyway. So even if you fall in love with it, you're only one one person at the table anyway.

S Steve Divitkos 08:33

Yeah, there's that great saying, be a quick No, and a long Yes. Which I love. Okay, let's get to change number two.

P

Paul Winkels 09:27

Yeah. So, and this one, some of it kind of only revealed itself pretty recently to be, but if I go back in time, I think I'd do a better job or try and do a better job of explaining to my network. What I was trying to accomplish when I launched the fund. And as I mentioned before, I've been around the block a little bit more than the typical searcher. I'd like to think I've built a pretty robust network over the years, and I thought that I'd done a pretty decent job of explaining to that network what I was trying to accomplish when I first launched Clio Capital. But in retrospect, I don't think I did as good a job as I should have. I got feedback, months after launching, you know, comments like, oh, how's your startup going? Or, you know, if you got any hot stock tips for your work in your investment fund, and other similar kind of comments and questions to say, wow, they really do not get what I'm doing. And even when we closed on our deal, I had a few people who saw, we had a LinkedIn news release, and few of them commented to me, oh, hey, why don't you take a job? I thought you started your own business, or, oh, I guess your venture didn't work out. And other kinds of comments like that just said, well, like, in fact, that had worked out, right. We acquired a great existing business, exactly what what we've set out to do, and it was evident, I just didn't properly communicate what I was looking to do in the first place. And that the reason this matters beyond just ego, I guess, is it I think it may have possibly hindered some access to more of those, I guess, kind of hidden opportunities, right? Businesses that could have been referred to me by former colleagues, or customers, or suppliers, or even even in friends and family. And I think pretty well everyone who spent some time in the ETA ecosystem can probably reference cases where it was a network connection that either identified a prospect or provided the inside track on a deal. So I guess the lesson I try and take from that is be clear and loud about what you're trying to accomplish when you're launching a fund. And then continually screaming from the hilltops for everyone to hear, because you really don't know where the next great deal could come from.

S

Steve Divitkos 11:42

No, it's such an interesting observation. I've never heard that one. But I think there's a lot of wisdom there. Let me ask you a follow up question. And it's only tangentially related to what you just said. But I'm so curious what your experience was, when you were talking to business owners, and you were introducing yourself and what you were trying to do, to what extent did you describe yourself as a search fund, versus describing yourself as something else? Because I found that when I introduced myself as a search fund, inevitably, the seller didn't know what that was. So I tried to explain it. And I would often watch their eyes glaze over. And I kind of felt as if I lost the meeting. As a result, I then experimented with introducing myself as an entrepreneur who's looking to buy a business. And I found that that just resonated much more cleanly. I'm curious what your experience was, in terms of how you describe what you were doing to business owners?

P Paul Winkels 12:37

Yeah. Yeah. And it is different versus the sort of M&A community where you can say I'm a search fund, and they get it, and either enjoy dealing with search funds, or they don't, and you can move from there. But with the business owners, I think there's always value in showing that you're one of their kind, right, that there's a natural natural kinship there. For anyone with a fund where they do have a decent depth and breadth of operating experience, I would almost probably lead with that, right? And you can share war stories of times you've struggled to make payroll or you were trying to grow the business or trying to get bank financing to expand or you lost a customer and any things like that. And it doesn't have to be in kind of a a salesy way, but really just a way to build rapport and give them a greater sense of comfort that when they hand the keys over if they hand the keys over that you have a decent grasp of what you're doing. And you know what it's like to be no pun intended, in the trenches.

S Steve Divitkos 13:44

Yeah, yeah. Yep. I think that makes a lot of sense. Okay. Last but not least, change number three.

P

Paul Winkels 13:52

So this one, I have actually had a hard time trying to encapsulate it in a single sentence. But really, that searching for a business to acquire is a really bizarre period of time from a, like a socialization standpoint, from like a personal standpoint. And I think that's particularly true for those of us who operate funds as a solo principle, right, as opposed to having a partner. Really, from day one, maybe they predate zero. There's some pretty long periods of isolation, kind of days on end where you have only very superficial conversations day to day with your brokers or proprietary prospects or interns that are helping you. And for those of us who spent their careers working in teams, where you're regularly speaking with colleagues and having ongoing conversations, what's happening in their lives beyond just what's in the office or grabbing lunch with customers or suppliers. That's a really big shift. And maybe COVID gave us all a little bit more of a taste of it. halation but but even at the height of COVID, I was still constantly on zoom in teams calls with colleagues and partners. And there was always the usual chitchat, and watercooler talk even even if it took place in more of a digital setting. But that plus that proprietary side of searching also includes some really bizarre social dynamics. And when you boil it down to its essence of direct outreach to business owners is actually a really strange interaction, right? You know, pick up the phone, send an email, meet them in person, hey, my name is Paul, we don't know each other. I know only a very little bit about your business on this business is the thing that's probably intimately important to you. It's like another child or an extension yourself. You you may have little interest even selling your business, but how about you sell it to me? And I don't think I have appreciation for just how peculiar an interaction that, that could be. But yet, you know, became a conversation I'd have all the time. And so I don't know if I have a tidy precise piece of advice to glean from this early days observation, but I guess I'm simply raising it kind of as a point to be aware d toof a watch out for. And kind of allow yourself more normal social time with friends, like, try and take vacations, maintain your social hobbies, stay in contact with others who've raised funds and are in the same boat. And look, as I said before, I had a great set of investors, always able to listen and give advice and be sounding boards. And while that isn't exactly the same as the chitchat, most of us are probably used to from from working in teams for years, it definitely helps. So I guess the takeaway is to surround yourself with good people, because there's an element of isolation to this process. So friends and family investors, you genuinely should have a good support network around you.

S Steve Divitkos 16:57

It's such an important point. You know, people often intuitively understand that it's a very lonely process for solo searchers. But what people what is less than two it is, can also be lonely with a partner. I mean, perhaps it's less lonely, but you know, instead of a single person feel lonely, the duo themselves can feel lonely. And it doesn't preclude the importance of friends and family and peer networks and investors and mentors. So I think that's really, really well said. And ultimately, some of the stuff that you think about when your head hits the pillow at night, you're not necessarily worrying about, should I get fixed rate debt or floating rate debt, you're worried about these types of things. So I appreciate that sentiment. Paul, we really appreciate your time today. I know you've been in the CEO seat for a month and a half. So you've obviously figured out everything that you're going to do and if that's the case. I'm sure you're well ahead of base case already. Thanks so much for taking the time to join us. We really appreciate it.

P Paul Winkels 18:00

Yeah, my pleasure Steve, this was a lot of fun. Thanks for inviting me.