CORWYN:
Private equity has billions ready to invest and buy businesses, but most owners still walk away with regrets. Why is that?

ERIK:
So the answer is yes. It's a function of how it's structured, right? Sometimes, again, it goes back to sometimes there are qualitative things that matter or things that matter to a seller after that person has left, right? So, for example, we're looking at a business right now, and the sellers are older folks, and they're in their 80s, they want to retire. But there are some folks in the business that are in their 40s and 50s, and to them, what's really important is some of the terms around how the management team is treated once we go. So part of what we're working out is they said, hey, could we allow some of those people to put money into the next ownership, into the equity cap structure, and or could there be a bonus pool or an equity long-term incentive plan that allows those folks to have a good creation of wealth on the next go-round of a liquidity event.

So that's the people that are selling it aren't going to partake in that, but the people that are left behind, it's important to them that they treat those people right because they've been working with them for 30, 40, 50 years in some cases.

CORWYN:
So good morning, guys. Great morning. Welcome to another fabulous episode of [Exit Strategies Radio Show]. Hey, I am your host.

Yeah, that's who I am. I'm your host, Colvin J. Mudd, the broker and owner of the [Exit Strategies Lowcountry Group], in beautiful North Charleston, South Carolina. I'm trying to speed up how quickly I say that thing, and sometimes we like to give it to you real slow, but sometimes we got to give it to you fast because we're trying to get this thing here in before it's all over with. So guys, I am super duper stoked and excited this morning.

Y'all know how I like to bring that energy because look here, we got to be grateful for the days that we got because some people ain't got the days that we have had. Ain't that a word right there? So look here. Today, we're going to be talking about something specific. I always got to give a shout out to those who listen to us faithfully, though. My mama out there in Mont's Corner, y'all, look at y'all, keep her lifted in prayer.

For my folks all the way back to Hollywood, what you know no good. My people in Mary Mullins, thank y'all so much for tuning in. Pastor Vanderbilt Evans Sr., his wonderful bride, Miss Sandra Evans, and that dude will jack me up if I don't put that senior on his name. That dude really will jack me up.

Y'all ain't seen him try to pick me up off the ground. And look at him, McKellar's and McHugh's and everyone in between, guys who tune in, who see me in the streets and say, hey, Cole, when I'm listening, I really appreciate you. So today, this is what we're going to tell you about. So

we're going to be talking about private equity, right? So private equity has billions ready to invest and buy businesses, but most owners still walk away with regrets. Why is that? So today we have expert in the field with us today, Mr.

Erik Wiklendt. He is the managing partner with Spaceside Equity, and he is going to be here today or he is here today to help us to get a better understanding so we can make better decisions and live a life with no regrets. So today we're talking about what really happens when you sell your business and how to make sure you don't leave not only money, but you also don't leave your legacy on the table. So Erik is responsible for sourcing, executing and in managing investments and works closely with companies through acquisition and growth. Spaceside focuses on industrial and manufacturing businesses.

So if this is your arena, great. But still stay tuned, if not, because there's nuggets in today's show that will help you to navigate this process for yourself. Now, they are known to help people navigate complex deals and drive value after the transaction. So let's touch on why this matters. This matters for business owners, for investors and even those building companies right now.

So understanding how deals actually work can be the difference between building wealth or, quote unquote, leaving it on the table. Erik, welcome to Exit Strategies Radio Show. How are you doing on today?

ERIK:
I'm doing well, Corwyn. Thanks for having me. Appreciate it.

CORWYN:
So, Erik, I've given you a little bit of a drum roll and some thunder, as we like to say around here sometimes. So I'm going to let you bring the light and tell people what it is that you do from a high level.

ERIK:
Yeah, sure. Thanks a lot, Corwyn. I work at Spaceside Equity and we execute what I would call a fix and build strategy in the middle market for manufacturing and value added distribution businesses.

What that means is we go out and raise funds to invest in privately owned businesses. We buy those manufacturing and value added distribution businesses, and usually we're looking for businesses where there's some opportunity for improvement, either fixing part of what's going on or just building it, growing it via acquisition or organic activities. And that's our strategy. We're targeted there at businesses between $50 million and $500 million in revenue, probably $2 million and $50 million of EBITDA. And we'll buy those businesses, structure them appropriately, hold them for five to seven years and then exit them once we've improved the profitability or what we call EBITDA.

CORWYN:

So when people, let's work to demystify because people have such misinformation and are being miseducated out here as such. It's alarming to me at times. So when people hear private equity, what do they usually, you believe, any of that, Erik, misunderstand?

ERIK:
I think the biggest, what people misconstrue the most about private equity is what private equity is and is not and how it goes about its business as an industry. A lot of people think that private equity just comes in, buys a business, fires a people, breaks business and then kind of walks away. A lot of times that's not what we do.

The purpose of private equity is any business we buy, we want to make it better. And that's especially true at SpaceSide. That's really where we're focused and had to be at our firm, a firm of operators built by operators for operators, which is a little bit different than maybe some other PE firms that are a little more financially or financial engineering focused. But that's where we're a little bit different, I would say.

CORWYN:
Okay.

So in this whole matter, obviously for private equity to consider, and you guys work, you work, I'll say in tandem, I'll use that word at least for the time being until I come up with a better one. But you guys work in concert. Matter of fact, there's the better word, concert with the owner as far as how to, you know, assist coming in the transitions and things of that nature. So from your experience, what separates a good deal from a bad deal for the seller?

ERIK:
Yeah, exactly. And you're right.

I mean, one of the benefits of private equity is that we can be a lot more flexible, how we deploy capital and how we structure deals. So that could oftentimes be very valuable for sellers and depending on to whom they're selling. And there's kind of two main groups, you know, when you sell a business, one or one are called financial sponsors. Those are generally private equity folks. And then the other are called strategics.

So that would be an existing business. Usually you're thinking about like larger publicly traded businesses when you say strategics, but it's an existing business that's going to buy the business and integrate it into their existing business and try to bring out synergies. Interestingly enough, I've done both. I did corporate M&A for Eaton corporation for a few years. And then I've done private equity for the last 15 years.

There's definitely a lot of similarities, but there's also some differences there. But what's valuable about private equity and for sellers is depending on what's important in a deal to them, private equity can work with them to get what they want. And there's usually kind of two groups of things that are important. Part of it's quantitative and part of it's qualitative. The quantitative

things are things that everybody thinks about and they're kind of obvious, right? It's the purchase price.

It's the deal structure relative to earnouts or seller's notes. And a lot of times there are tax consequences for a seller in terms of how a deal is structured. So that's in there, there's more qualitative things that come to mind as well, which are, you know, the legacy of the business oftentimes is important. If there are family members in the business, that's oftentimes important. A lot of times the community in which the business operates is really important.

Things like those that you can try to quantify them, but they're more qualitative in nature and they require a lot of discussion and understanding between a buyer and seller to make sure all those things are done right in a way that everybody can live with the deal.

CORWYN:
Makes perfect sense. So what I just heard you say there, Erik, is that it's not always just about the price, that it's also about the structure. Does that make sense?

ERIK:
That's exactly true. And for a lot of sellers, how the deal gets done and the legacy they leave behind is very, very critical to them.

CORWYN:
Makes perfect sense. So let's kind of shift the narrative a little bit here, talking about why deals fall apart. Obviously there is such a thing as paying points and trying to do mergers, acquisitions, those types of, and if you will, private equity deals. So let's touch on that and the reality. So what are the places where most deals fall apart?

ERIK:
Yeah, in one word, truth and honesty.

So with each other and getting a deal done, it's a several month process and it's not easy, frankly. There's a lot of work to be done and there's a lot of things to understand. And so starting from a place of common understanding and then working toward that goal is really, really critical. And I think that good, strong, direct, open, honest communication is the anecdote to that sort of situation where deals fail because the reality of the matter is if you're direct, open, and honest about what's important, both parties are direct, open, and honest about what's important, then if you can have those discussions, a deal can be found because common ground can be found. But that I think is the biggest thing.

Again, if you were to put it into one word, it's truth and common understanding that sometimes causes deals to fall down. And when I say truth, there's the buyer's truth, there's the seller's truth. And what needs to happen through communication is it needs to be a shared truth and with the shared truth, you have a shared deal and a deal gets done, in my view.

AD:
Guys, what I'm hearing today is simple. It's not just about the deal. It's about the strategy behind the deal. Let's take a quick break. And when we come back, we're going to continue this conversation about building value, protecting what you've built and creating a legacy that lasts. You found a perfect property. You've got the vision. Now you need the capital. At MelliFund Capital, we specialize in funding real estate deals for investors who want to build, blip, or hold, and don't have the time to chase after banks. Whether it's new construction, a fix and flip, or long-term rental, we offer simple terms, fast approvals, and access to private capital. We even work with manufactured housing projects because we know what it takes to build value from the ground up. Simple. You bring the deal, we bring the money. Visit mellifundcapital.com or call **843-619-7038** to get pre-qualified today. MelliFund Capital, we fund what you build.

CORWYN:
So in this process, what do you think is probably one of the things or what are sellers not prepared for overall, like entering into this type of, like you said, the truth, so what are they not prepared for many times when they enter into these types of transactions?

ERIK:
Yeah, I think the biggest challenge as a seller, and by the way, I've been both a buyer and a seller, so I'm gonna, this is a little, maybe some self-criticism as well, but it's reality, right? Like all of us that have built a business, we think our baby that is the business is the most beautiful, perfect baby out there, and sometimes we don't want to be told maybe our baby has an ugly toe or something, and I guess that doesn't feel good, right? But I think again, back to that theme of truth, being, before you're even honest with the buyer, the seller, the person across the table from you, you've got to be honest with yourself.

And it requires a little bit of, think of that business almost as the baby, right? And you need to be honest about what that baby looks like and what it is. So that's really helpful. And I would say that's the thing that sellers need to especially understand if you haven't done it before. It's a bit of a brutal process from the perspective that people that are gonna look at your business, they're gonna do it, a lot of professional investors anyway, we're gonna look at it from a dispassionate third party standpoint, and the challenge with that is that when you're doing that as a dispassionate third party investor, you're looking at all the risks and the negatives, cause you're thinking about how to mitigate those, right? And you can mitigate them in two ways. One is with valuation and the second is with the legal documents and how those are structured.

So third party professional investors, that is our focus is what is the downside here, what is the risk, how am I going to lose out on this or whatever? As a result, that comes through during due diligence when you're talking to a seller and you're asking a lot of questions or, and or pointing out things cause you need to understand them so you can mitigate the risks associated with a deal. So it's not a personal issue. And a lot of times folks that do this professionally, we do it. We look at a lot of businesses over the course of a year, probably at Spaceside, we'll look over at over a hundred and there are a lot of firms that we'll look at over a thousand. So it's not a personal thing.

It's just, we got to get through the process. And a big part of that process is understanding the downside risk and how to mitigate it. So how that comes out though, is the seller will sometimes feel like you're calling my baby ugly. It's not, I'm calling your baby ugly. It's I'm trying to understand if your baby has a birthmark or something that we just need to be aware of so that we can understand what we're dealing with.

CORWYN:
So Erik, you might not remember this man, but it used to be ugly baby contest. So, so everybody at one point in time, everybody ain't have a pretty baby, but I look, I can, so what I just heard you say in that is, is essentially where the biggest risk is to the pain point in reality is misaligned expectations. That sounds about right. Yes. That's a good point.

So let's shift up again. So strategy, thinking strategically, choosing the right buyer. Is there a why as to why sellers shouldn't just take what is deemed to be the highest offer?

ERIK:
So the answer is yes, it's a function of how it's structured. Right. So I don't know if you ever had like a aunt or uncle or maybe your parents did this to you, but maybe you remember back in the day, like my parents would mess around with my sister and I, right.

If our grandparents gave us a candy bar and we're going to share it. And my dad would be like, all right. One of you gets to cut the candy bar and then the other one gets to have first choice of the half. So you're going to cut that candy bar right down the middle, or at least the prisoner's dilemma, I guess, would tell you to do that so that it's, it's as fair as possible. And I think that's the thing you got to understand, right? It's one of those things, right? It's like, Hey seller, if you want to pick the price, that's fine.

But then I want to, but I'll pick the terms then and or vice versa. So that's kind of the two halves of the candy bar are the price and the terms. And in my analogy, anyway, they need to kind of be fair and work together. So that's the thing that matters when you start thinking about things. And sometimes, again, it goes back to sometimes there are qualitative things that matter or things that matter to a seller after that person has left.

Right? So for example, we're looking into business right now and the sellers are older folks and they just, they're 80 in their eighties. They want to retire, but there are some folks in the business that are, you know, in their forties and fifties. And to them, what's really important is some of the terms around how the management team is treated once we go. So part of what we're working out is they said, Hey, could we allow some of those people to put money into the next ownership, into the equity cap structure? And or could there be a bonus pool or an equity long-term incentive plan that allows those folks to have a good creation of wealth on the next go round of a liquidity event? So that's the people that are selling it aren't going to partake in that. But the people that are left behind, it's important to them that they treat those people right because they've been working with them for 30, 40, 50 years in some cases.

And so we are going to do that. And again, it goes back to there's the valuation part and then there are terms parts. So if we can work that out so that it's an equal sort of a situation so that everybody wins, that's what sellers are oftentimes thinking about and good firms and good funds, and they'll work with sellers to be flexible around those deal items and find a solution that works for everybody.

CORWYN:
So my takeaways from that about being flexible to make things like that happen, getting the right structure, but also that long-term impact. And that's huge.

That's huge, Erik. So I want to get into, and this is just what you guys do different. What separates Erik, you and Spaceside Equity from many others, which is what happens after the deal closes that most sellers don't expect, and if you kind of piggyback onto the back of that, tell our listeners about your fix and build approach, if you don't mind.

ERIK:
Yeah, exactly. So we have a fix and build port co-value creation system, and it's a two-phase approach.

Phase one is very much focused on operational improvement and improving EBITDA margins. And then phase two is all about build and building and growing, which is all focused on growing the top line. And we'll do that using a very systematic framework process driven approach. So over the 20 years we've been doing Spaceside, we've come up with lots of tools and frameworks to execute those activities, and in our system, in our port co-value creation system, there are 27, I guess, think of it as like a football playbook, what I'd call like 27 plays that we will run. And each one of those plays has, as you would guess, like a diagram, just like you would see in a football playbook and how we run it, and then there's a bunch of activities that are done.

So again, back to like using footballs analogy, each person, it'll football be 11 people, each person has an assignment and standardized work they should do, and it's very structured and it's meant to be consistent and constant over time and those tools that are in Excel and PowerPoint and project plans and all that stuff, that is how those plays get executed in a very structured way. So for us, it's a show, not tell sort of a thing, because we'll go in and we'll look at a company and we'll use that system to find three to five of those 27 plays that we're going to execute on in five to seven years that are going to improve the business. And then we'll do it in that very systematic tool and process-driven approach where we can say to like a management team, Hey, if you don't know how to do, this is how we've done it in the past, and it's kind of like paint by numbers, right? It's like how to do it very simply and clearly so that they don't have to reinvent the wheel, so to speak, when we're trying to do these things. Now, if they've done these kinds of activities before, which is great if they have, because then they're not learning from scratch, but if they haven't, we're prepared to help them and coach them on how to do that. So

that's how it works for us is we'll start by doing phase one, which is the operational improvement and even our margin improvement phase.

And then once we have the business set up for growth as a platform, then we really like to grow it by doing acquisitions, by doing organic activities, like launching new products, entering new markets, entering new geographies, entering new channels and things like that. And we've of course have systems and processes for all the second phase as well, but by doing that, the idea is like we would buy something and after a five to seven year hold period of working with the management team and who could be also the part of the seller as well, we would try to double or triple the profitability of that business over that five to seven years and then look for a liquidity event after.

CORWYN:
So Erik, this is where I want to make it real. And for our listeners, guys, this is where rubber meets the road. So Erik, I'm going to ask you this question.

If, you know, any of our listeners, someone listening right now is building a business and we want to tell them what they should be doing today to prepare for an exit later, most times we build a business again, it's our baby and we never think that we're going to retire or quote unquote leave our baby. And if they are considering or kind of looking at that, what's the thing that they should be focused on making sure is right, meaning what should it be focused on fixing now so they're prepared for exit strategies, pardon the pun, later?

ERIK:
Yeah, there are a few things there Corwyn. Number one is scalability. And what that means, it's a nice word, but what it really means is that you have the systems processes and people such that the business can grow on autopilot. Now you're going to obviously be there and be doing things if you're the owner and usually the seller, like you're probably going to be one of the C level folks, the CEO or the COO or the CMO or the CFO, something like that.

But what you want to think about is how do you create a business that's scalable, that can continue to have sustainable, profitable growth without you being there if not needed, or such that you can work on other things, right? You work on the business versus in the business. And that's a really important thing is scalability such that if a business has scalability, you can fuel it with more people and opportunities such that the business can grow in sales and can grow in profit and grow in cashflow. Number two, I would say would be around making sure that the business has kind of the right, I'll call it the right bones. So there are certain things that matter there, like in sales and marketing and go-to-market strategy. You don't want a business that's overly concentrated in one customer.

You don't want one customer to be more than like 20% of the profit of the business or 20% of the cashflow. The reason being is that, think about that discussion we had back at risk a few minutes ago, the problem with concentration of one customer is if you lose that one customer, it puts the financial solvency of the business in crisis potentially, if that customer's too big. And

investors look at that and don't like taking that sort of risk. So that's important as well. The other thing too is around operations.

You want well run manufacturing plant for us, manufacturing plants and supply chains. But if it's a service business, service locations, or if it's a software business, the ability to code applications and things like that, you want to be operationally excellent at how the business creates the product or service that you're offering as a solution to the customers, that matters as well because that goes back into scalability. So I would say those are three of the biggest things, scalability, customer concentration, and operational excellence to hit on a few, there are others as well, but those are some very important key themes.

CORWYN:
So Erik, we've quickly gotten to the end of today's show. So if you don't mind, how can people reach you? How can they connect with Speyside Equity?

ERIK:
Yeah. If you go on our website, it's speysideequity.com. Speyside is spelled with an S P E Y. It's from the River Spey in Scotland. And if you go on my LinkedIn, you can find me there as well. And my email and also my phone number are available on my LinkedIn.

CORWYN:
If people want to reach out. Awesome. Erik, I want to thank you for taking time out to be on with us today. And for our listeners, guys, let me give you these takeaways.

Number one, don't wait too late, building a business. Don't wait till quote unquote your days, if you will, are just about over before you start planning your way to get out, be intentional and make sure that you understand the game before planning. So understanding how these transitions, how these types of transactions work with special equity partners. Here's my final message guys. What we're hearing today is simple.

And this isn't just about selling a business. This is about protecting what you build. And too many people wait until the very last minute, not realizing that the real value is creating long before the deal ever happened. So creating that value ahead of time. So if you're building something right now, don't just think about growth.

That's what we all focus on. Think about the exit again, pardon the pun, but think about the structure and think about the legacy that you are leaving behind. Now for our listeners, y'all know how I feel. You know what I say? You can always put the two of those things together and I give it to you this way, which is number one to tell you that I love you. Number two to tell you that I love you.

Number three to tell you that I love you because we always are going to look forward to seeing you guys out there in those streets.