Episode 4
Getting Acquired: Selling Your Business, with Pratik Patel

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Pratik Patel: [00:00:00] There's a lot of people that think, you know, the entrepreneurship world is glamorous and you're your own boss and you don't, you know, you're independent. But believe me, there's a lot of dark days that come with it. So if you're prepared for that, the good and the bad that come with it, um, it may be the world for you, right? Um, and if you're not prepared for that, that's okay. You know, entrepreneurship is not for everybody. I always say it's a special breed of people to be an entrepreneur.

Rushab Kamdar: [00:00:31] Welcome to The Business 360 Podcast where we will take a 360 degree view of all things business in under 30 minutes. I'm Rushab Kamdar, an international entrepreneur. And in my travels, I've been in temperature so cold that Fahrenheit and Celsius were the same number. Go ahead, Google it.

What's going on, Business Heroes. This is episode four. And if you can't tell by my voice, I'm starting to get used to this whole podcasting thing. And this episode, we will talk about what you need to know if and when you sell your business. And to all of your dreamers out there, who may have not yet started a business or sold their business, make sure you listen to this episode so you know what to expect. The worst thing we can do is assume. You're going to hear me say this a lot. Don't live in the world of assumptions. So with that, let's get to it.

The dream of many entrepreneurs is building a business, making money, and then having a successful exit. And for those entrepreneurs that are interested in exiting their business or specifically being acquired, there's probably a few things you should know. Before even getting acquired, an entrepreneur usually goes through something called capital raises.

And if an investor is even interested, the entrepreneur is going to receive something called term sheets. After several rounds of capital raises, an entrepreneur may receive a buyout proposal. And if the proposal is accepted, the acquiring company will go through something called due diligence. So today on The Business 360 Podcast, we are welcoming someone who successfully sold his company to a large multi-billion dollar corporation.

And he's gone through the capital raise, term sheet negotiation, and due diligence process. My guest is Pratik Patel, the founder and president of RideKleen now owned by Cox Automotive, a multi-billion dollar leader in the automotive space with consumer-facing brands such as Kelley Blue Book. RideKleen is a sustainable mobile car care company that predominantly serve the car share market.

And over the course of five years, before even RideKleen was acquired, Pratik was able to rapidly grow his company to serve six major US markets, raise institutional funding, and generate 125% average year over year revenue growth. Pratik, I'd like to welcome you to The Business 360 Podcast.

Pratik Patel: [00:02:52] Awesome. Rushab, thank you so much. I'm happy to be here and what an intro. So I appreciate that. And I'm definitely looking forward to, um, you know, chatting about my journey a little bit and hopefully helping other people that are watching this as well.

Rushab Kamdar: [00:03:05] Absolutely. So that's the goal, right? We wanna give aspiring entrepreneurs or even existing entrepreneurs a window into what many people who have gone down this journey and experienced some crazy things can actually share. So let's get right into it. First thing is I talked very briefly about RideKleen. So why don't you tell us a little bit more about RideKleen and the industry that you serve?

Pratik Patel: [00:03:29] Absolutely. Yeah. So, you know, RideKleen was born in 2013, primarily as a mobile car washing business. So, you know, everything you can do at a local carwash where you drive through, we were able to do it mobily, um, but in a very eco-conscious manner using steam cleaning and dry wash applications. So, you know, our primary focus was really working with a lot of car share companies when we, early on, when we first started. And, um, as I started to learn more and more about the industry and kind of where these fleets of the future are going, I really wanted to kind of evolve the business into what it is now, which is a mobile car care company. And car care company includes washing, maintenance, logistics, you know, anything that we can do to help fleet operators maintain their vehicles.

Rushab Kamdar: [00:04:14] You just laundry listed a bunch of things that RideKleen does. To me, that explains that your business is very operational heavy, especially with labor. You know, there are hurdles in raising capital and pitching to investors who view operational heavy businesses as challenging businesses. What was the hurdles that you faced when you were pitching to investors and trying to raise capital?

Pratik Patel: [00:04:34] So I think the first and foremost thing is getting in front of the right audience, right? Obviously, like you mentioned, RideKleen is a very operationally intensive business. And I think one of the learning lessons I had was when I was out raising capital and pitching investors, I didn't always do a good job of doing my diligence on that investor in that audience to understand that this is something they would have an appetite for.

So making sure you understand your audience, and are you spending the right amount of energy in the right areas, pitching your company essentially? Right? And then the other piece of this is I think that as an entrepreneur, the investors are really, are really betting on you. You're the jockey, right? They're betting on the jockey, not the horse. Uh, they need to believe in you before they believe in the business. And I think that's where I found my most success, you know, because I've had multiple encounters with investors when I was raising capital back in 2014, 15, and a lot of them came to me and said, "You know, I never thought I'd be interested in a mobile carwash, but hearing you talk about it and hearing your excitement about it is what got me interested." Right? And so I think that's really, the first two hurdles is understand your audience, who you're spending energy with. And then also make sure you show that passion you have for the business because that passion will start to resonate with the audience as well. And that's, what's going to get their first immediate interest.

After that, it's whether or not they want to involve themselves in operational intensive business or not. But first they got to believe in you.

Rushab Kamdar: [00:06:00] You're a front of these investors and they like you and they want to invest in you. They're going to throw something called term sheets at you. So why don't you give a little explanation on what term sheets are, and then maybe some of the unique types of term sheets that you received from interested investors.

Pratik Patel: [00:06:15] First of, getting to the point of getting a term sheet ,right, from an investor is, uh, an accomplishment itself, right? Because that means you've kind of overcame some of those initial hurdles. You peak the interest of somebody enough for them to be able to open up their wallets. So that's an accomplishment. Um, now the next challenge is getting through to term sheet process, and really what the term sheet is is it's, you know, one, it could happen one of two ways. Usually it's the lead investor that provides you a term sheet to say, this is what I'm willing, this is how I'm willing to invest in your company. And a lot of that's going to be valuation. What are maybe some of the special terms they would get as an initial investor? Um, you know, what are some of their rights that they would have in the business when it comes to managing it day-to-day or potentially just being a completely silent investor, right? And so, um, so that's really what a term sheeting encompasses.

Sometimes, you know, a company does put out a term sheet when they are raising capital and, and if, usually happens at a more mature stage for a business. Um, I think when you're a startup, you're typically opening up around, but you're looking for someone to lead a term sheet. So that's going to typically come from that investor side. And to answer your second part of the question, you know, I think that, um, we definitely have encountered a bunch of different, um, you know, mechanisms for taking in investment back in the day. I would say we've pretty much seen everything from convertible debt structure all the way to straight equity, you know, and buying in RideKleen. And so, um, you know, I'll kind of, I'll give an example of what we did in our first round. We took on a structure called the KISS. It's very similar to a convertible debt, but it does give, uh, an investor equity over a certain period of time once that time passes.

And I think though the advantage of that is you don't really have to worry about valuation today, especially for startups. Because the truth is you don't really know what your company's valued at an early stage, right? It's, it's all based on what someone's willing to buy in for it really. And so I think that, that, you know, the term sheet that we took on was a KISS, which really was a two year, almost like a two year term where someone would invest capital there's some type of a cap on what the valuation would be for the business in two years.

And then they would convert at that rate, um, whether it's a better term for them. Um, you know, if I raised the money later on and there was a down round, then I would have to then convert them at a lower valuation, or even as the company was exceeding the valuation we talked about, they'd be capped at a certain level. So that's kind of the advantage for an investor to get in early, um, with a startup versus buying in later on. So that's the structure that we took on.

Rushab Kamdar: [00:08:46] For those entrepreneurs that are maybe scared a little bit, you hearing these terms and maybe are not that familiar with convertible debt structures or any of this jargon, you know, what would you say to them if and when they were to receive any term sheets?

Pratik Patel: [00:09:00] One is definitely do your homework prior to you, you as the entrepreneur have to take full responsibility for your company and what decisions you make, right? Uh, financially, operationally, whatever it is. So do your, do your homework on some of the basic term sheets that you can expect from investors. Course, always have an attorney do reviews on documents and, you know, and I'll use an example of something that occurred with RideKleen.

When we took on this term sheet for the KISS investment, you know, the goal for that investment was to have, and, uh, have the investors put in capital now. And then there will be some trigger in two years as that note matures, that they would then convert into having equity in the business based on their valuation cap. What happened was there was a term in that KISS structure where if the company was sold or there was a change in management in under two years, they actually have a, um, a guaranteed rate of return on their money, uh, at some multiple. And, and actually we, you know, about a year in, uh, from raising that capital, we, we ended up exiting the company, which was unexpected.

Um, so, you know, one of the things that triggered from that, uh, acquisition was this payout to the investors. So just understand what you're signing before you actually sign something. Because I think, um, the biggest thing is here is, is that we all know how hard it is to raise capital. So when there is a term sheet in front of you and there's investors ready to write a check, your first inclination is to take it and take the money and start, you know, uh, growing the business. But just remember what you're signing up for and understand it because later on, you may see things that pop up, which you didn't realize could, um, you know, trigger some type of in an event for these investors as well.

Rushab Kamdar: [00:10:37] Just because someone is investing in you doesn't mean take the money. It's a two-way street, it's essentially a marriage. Take your time, make sure it's a right fit. Uh, make sure that it's a true partnership. Uh, so these are really, really important points and I'm glad you actually brought that up.

You went through capital raises, you got some investors, and then as you just mentioned, unexpectedly, you are in a process potentially getting acquired by Cox Automotive, which I mentioned is a multi-billion dollar entity. Why Cox

Automotive? Why did you guys feel that your, it's the right time to exit? Or why did you feel Cox Automotive was the right fit?

Pratik Patel: [00:11:12] Yeah, well, you know, Cox Automotive is a long standing company in the automotive industry. A big presence, you know, with a lot of the clients that we typically service as well. As I did my reverse due diligence on Cox through this whole process, I understood what they were trying to get into for the future and it kind of was very aligned with the RideKleen roadmap and how I envisioned this company growing as well. So one, I think it was a great fit as far as the business roadmap and what the future, um, you know, hadn't stake for both of us. And then also at the same time, you know, you have to valuate, uh, evaluate the culture of the company, which I felt was a great fit for RideKleen. And how I've grown the company over the years, I feel like that that kind of resembled what Cox has done over there, you know, a hundred years that they've been in business. And so, um, so I think those are some of the things that I felt would make it a good fit. Um, and of course, you know, just having the capital. Right now being part of a multi-billion dollar corporation, they are willing to invest the capital. You don't have to spend the time going out and raising money. Yes, you have to make business cases internally to make sure that, you know, finance and CFO sign-off on your investment case. But, um, but it's a different, it's a very different beast when you're, when you're trying to go out there raise capital from investors.

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Rushab Kamdar: [00:12:25] Yeah. Due diligence is something that I've mentioned in my introduction. You know, a lot of entrepreneurs are glamorized by getting acquired. But they're unaware to what this dreaded due diligence process is. You talked about you doing due diligence, which essentially is doing your homework on Cox Automotive. Well, what was the homework they had to do? And you and what are the, what was the process for you? Maybe if you can explain that a little bit.

Pratik Patel: [00:12:48] Those were some definitely rough times for me. Um, you know, as an entrepreneur and, and then running RideKleen and going through that diligence process. Because, you know, as I went through that, I still had to maintain and run the company. So it was almost like doing two different jobs at the same time.

I think the due diligence process can be as easy as you set it up from the beginning. And what I mean by that is if your goal was to eventually exit the company, um, at some point, and that's kind of the mindset that you started out with, you want to take the necessary steps from the beginning to keep your house in order so that when the due diligence process comes, it's a lot easier for a lot of the, um, the processes to transpire versus trying to, at the last second, put the, all the pieces together, right? Everything from financing, accounting, to your operations, having things documented, manuals, having an HR process. I mean, these are all the things they will dive into. Because the reality is is they, one, they believe in the leadership, but two, what are they buying, right?

If they are, if they're simply buying just customers from you, but then there's really no process to maintain it and now scale it up, and there's no repeatable model there, they're really, they're really not buying much, right? So they're gonna make sure that there is actually an infrastructure in place in the company before they, before they acquire it. So that's really part of the due diligence process.

Rushab Kamdar: [00:14:07] And how long did the due diligence process last for you guys?

Pratik Patel: [00:14:10] You know, for RideKleen, it, I'd say it was about a six to seven months total, and the initial two to three months was a lot of conversational pieces. Um, a lot of presentations, lot of getting to know each other. Right? So it was more about, um, understanding, uh, for them it was more about understanding me and what I, what, you know, what I've done with company and where I see it going and how I would fit into the Cox culture, right? I think that was their initial diligence.

And then the next three months was the real, um, nitty gritty. Right? Let me see your books. Let's take a look at your processes. Let's take a look at how many employees you have. How did you recruit them? How did you hire them, right? So that's where all that started to come in. So I'd say overall, the entire process was about six to seven months, but again, that can vary, right?

Company generating $500 million of revenue and you're going through acquisition that could take a year and a half. So it depends on your size. Right?

RideKleen was probably one of the smaller acquisitions, but even that took about six to seven months.

Rushab Kamdar: [00:15:10] Due to COVID, the car share market is one of the few markets out there that has taken a huge blow with everyone staying at home and quarantining. How's RideKleen pivoting? Maybe under the helpful hand of Cox Automotive and especially in this now new contactless world?

Pratik Patel: [00:15:26] You know, it's been a learning lesson for us this year as well. Uh, you know, we, we've always been kind of heavily focused on the car share industry. That's how we built our business. And there was always a risk if we didn't diversify, which we had started to do last year, thank God. Um, because you know, these are, these are some of the challenges that you would face when you're focused so heavily on one segment. Car share today has really declined drastically, but some of the things that we're doing here as, as a service provider is, well, one is we're targeting, you know, obviously some of the traditional fleets as well, not just new mobility customers.

And then the other thing that we did here at RideKleen was, outside of just servicing, what can we do one as our part to kind of help fight this pandemic, um, and two, also, you know, generate a new vertical stream, vertical stream for revenue for us, right? We created this program called Pure Protect, which was really designed to provide products to a lot of our customers that don't necessarily need our services, or it doesn't make sense for them to add on our services for vehicles sanitisation, uh, but they can simply buy the solution from us.

As an agile entrepreneur, you know, as we saw this industry start to decline and, and COVID hit in February, March, we quickly, uh, made some decisions to pivot a different model, which was not just, you know, providing services, but also being able to sell products. Um, and so that's just an example of, you know, entrepreneurship. You always, whether you're part of a big company or not, especially when you're on your own, you gotta be ready to pivot when it's needed.

Rushab Kamdar: [00:16:56] What advice would you give aspiring entrepreneurs?

Pratik Patel: [00:16:59] Everybody has different skill sets and experiences. So I'll go off of, you know, what I've experienced through my journey with RideKleen. The biggest thing that entrepreneurs face out there is that uncertainty of the future, right? Of if I get into this business, is it going to work? You know, what's, how am I going to raise capital? How am I going to, you know, get to my end goal for the business, whatever that is.

And the biggest thing that I can say is, there's a lot of people that think, you know, the entrepreneurship world is glamorous and you're your own boss and you don't, you know, you're independent, but believe me, there's a lot of dark days that come with it. So if you're prepared for that, the good and the bad that come with it, um, it may be the world for you, right? It um, and if you're not prepared for that, that's okay. You know, entrepreneurship is not for everybody. I always say it's a special breed of people to be an entrepreneur. And the other piece of that is. I think a lot of people do have what it takes to be an entrepreneur, but they just can't get over that fear. Right? The fear of possibly leaving a job that they're may be a secure in right now, and taking that leap of faith. You got to believe in yourself. I look at, I left my job full time to run RideKleen, you know, in 2013. And there was a lot of unknowns. Best move that I made in my career was doing it full-time. It's hard to do it when you're one foot in one foot out.

Rushab Kamdar: [00:18:18] Thank you, Pratik, for being a guest on The Business 360 Podcast and offering such a valuable advice. And I look forward to having you on here again.

Pratik Patel: [00:18:26] Absolutely, Rushab. Thank you so much. This is great.

Rushab Kamdar: [00:18:31] The dream scenario for many entrepreneurs falls under three categories. One having a successful business. Two having a successful exit, and three going IPO. Now let's quickly talk about the first and third one. Having a successful business simply means making money and having a comfortable life and are living on your own terms.

Going IPO means taking your business public. The upside is being financially set. The downside is everything you do in your business will be for the financial benefit of your shareholders. Now let's talk about having a successful exit, which is an interesting one, because in my opinion, if you're starting a business with the intent to hopefully sell it one day, then you're chasing the dollar.

Your eyes are on the wrong target. But let's say you build something and it draws interest where a larger company wants either you, your business idea, your technology, your intellectual property, your customer base, and so on, and they offer you a buyout. In other words, they want to acquire you. Now, let's say you're open to selling your company.

Well, you may be wondering what happens next. Do you think the buyer just says to you, how much do you want? And you give them a price and they say, okay, you sign a contract, you shake hands, and the money's in your account. You're on an island, celebrating your success, and life is good. That'd be nice, but the truth is it's a little more complicated than that.

And on this show, we don't like complicated. We like simplified. So let's do that. I'll tell you the three points every entrepreneur should know when possibly getting acquired. The first point, know your value. This is so important. Entrepreneurs can go two ways on this. Entrepreneurs either undervalue themselves or overvalue themselves.

Undervaluing their company is a very common thing for first-time entrepreneurs who are selling a business. And this is because the idea of not having to grind, getting a buyout, seeing more money than they ever have before, and adding that "I've been acquired" notch on the belt, clouds your judgment. Also, entrepreneurs sometimes feel like if they don't take the offer, they will miss out on the deal. Now, entrepreneurs that overvalue themselves think that they are worth more than they really are.

I've heard from so many aspiring entrepreneurs, who haven't even created the product or service and are still in the ideation phase, say to me that they have a billion dollar idea. Listen, everyone has a billion dollar idea. Hell, why billion? I have a trillion dollar idea. Give your idea any value you want as long as it helps you sleep at night. Just know that when you wake up and you look into your bank account, the next morning, it's going to be the same as it was yesterday.

If you don't have anyone on your team that can accurately value your business using financials and cashflow projections, then hire a third party company to do this for you. There are many of them out there. Now, the second point to know when getting acquired is to understand the dreaded due diligence phase.

What does that mean? Companies that are in the process of buying you out will have MNA lawyers dig deep into you and your company. The due diligence process can average 60 days, but don't be surprised that it lasts even longer. The due diligence phase is an in-depth look at your business, contracts, finances, operations, systems, industry, employees, outside investors, on-hand debt, and your personal life.

You will be asked to provide all types of documentation. It will be hundreds of pages so make sure you're organized. During this phase, it would be in your best interest to have your own lawyer handle all of this for you. The worst part of the due diligence phase is the restrictions that are placed on you by the buyer.

You cannot raise any additional capital, either in the form of investments or debt. So before you sign anything, make sure you have enough money to operate your business for at least six months without having to take on any additional funding from outside resources. Under the due diligence phase, you cannot sell your company to anyone else. That also means you cannot sell additional shares of company stock.

And finally, the third point you should know about a buyout is the transitional terms of the sale. This means you should know if the buyer is acquiring your entire company, only your contracts, your technology, your patents, your customers, or you.

Also, is your company being bought outright, meaning you take the money and you're out, or will you be part of the package required to stay on and lead the company. Now, if you're staying on, you should find out if the company will be rolled into the buyer's organization and brand, or will you be allowed to operate as a standalone. Next, find out if the buyout requires any operational changes such as new websites, email addresses, technology and systems, HR and admin protocols, and employee retention. So there's a lot that can go into selling your company. The worst thing you can do is have an assumption of what it will be like. Do your research and be prepared so there are no surprises.

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