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Lead Left Interview – Phil Seefried

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This week we chat with Phil Seefried, founder and CEO of Headwaters MB, which recently announced a strategic transaction with Capstone Partners in which Capstone was the acquirer. The new firm is called Capstone Headwaters. Both Headwaters and Capstone were founded in 2002. Capstone Headwaters provides investment banking services to entrepreneurs, owner/operators and business-owning families in the middle market. Now with dual headquarters in Boston, MA and Denver, CO, the firm is comprised of over 150 investment bankers and has 16 US offices, 2 international offices, and partnerships with 18 firms covering 30 countries.

The Lead Left: *Phil, thanks for making time for us today. First of all, congratulations on your just-announced merger with Capstone Partners.*

Phil Seefried: Thanks, Randy. John Ferrara [Capstone's founder and now CEO of Capstone Headwaters] and I have been talking about doing this for a while. He's a business builder and very strategic about our industry. He's also all about building the right culture internally. I like to think that I'm the same way. You know, there are a lot of mergers in our industry. Most unfortunately end up weakening internal cultures due to institutional differences with the firms. Not here. We feel that these two teams are kindred spirits.

TLL: *And it's truly a people business.*

PS: Yes, the people are everything but what is most important is how they work together and how their platform supports them. It is the responsibility of leaders to create a platform that people love being a part of and can achieve great success together. John has done that at Capstone and we are very proud of our culture at Headwaters too. This is the key driver of the combination.

TLL: *How long has this transaction been in the making?*

PS: Probably five years. About two years ago we started considering it more seriously. The actual process took over a year. In turned out after looking at each other's 1-3 year business plans, we had similar objectives but complementary initiatives. We were investing in sponsor coverage and private wealth referral efforts. John was building on a successful consulting/restructuring business and creating a more potent outbound direct calling effort. It was obvious that creating multiple business generation capabilities in parallel would serve our bankers well.

TLL: *What drove the deal?*

PS: There were three basic reasons. First, we have very similar strategies: we focus on the same market and had plans in motion that were very complementary as previously discussed. Secondly, we had both achieved decent scale to our businesses. We were started to see our recruiting slow – it is harder to attract talent in a busy market like the one we have now. We had the infrastructure to support a bigger effort, but we needed great people to leverage those resources. Finally, when we did our industry team mapping, we found we had very little overlap! Even in the large sectors, the subspecialties were highly complementary. So the pieces fit together amazingly well.

But would the cultures work? We ended up finding a lot in common with people at both firms. They are all about winning for their clients and they enjoy working together. They focus a lot on teamwork, as we do. Like us, they are very transparent with good internal communication. Transparency leads to trust. Plus, while it was helpful that John and I had a long relationship, our senior teams also had long histories together. Our head of banking (Jack Maier) was John's first boss! We've hung out together and get along well. So we finally said, "We have to do this!"

The teams have been working together "under the tent" since last summer. We had bi-weekly calls on operations, product materials, sector mapping, etc. – working on integration issues. Lots of companies talk about integration planning; in this case, Capstone led the effort in a very programmatic and dedicated way. Our bankers are up to speed and will not be distracted, which is critical in serving our clients.

TLL: *Good stuff. So what does the world of 2018 M&A look like for you?*

PS: There are two vectors we think about: market activity and the competitive landscape. Activity from private business owners is up. Baby boomers want to sell their companies, but have succession issues. There's a transition wave ahead that we need to handle.

Finally the low rate environment matters. Sellers don't go into FAANG stocks; they invest proceeds into fixed income. So 0.01% is not attractive. At the low end of the middle market if you sell at six times it just doesn't work. So maybe as rates rise that will grow deal supply even more.

TLL: *How do you view the competitive landscape in M&A and debt advisory?*

PS: Everyone's getting more efficient with better information. With nearly sixty managing directors, we're as big as anyone now. There is an imperative to scale in order to be more competitive on the better transaction opportunities. The amount of information flowing through our combined firms is huge and we have the culture of sharing to benefit all.

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