

Empowering Entrepreneurs: A Conversation with *Shark Tank's* "Mr. Wonderful," Kevin O'Leary

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ENTREPRENEUR, INVESTOR AND business titan Kevin O'Leary—also known as "Mr. Wonderful" on ABC's hit show *Shark Tank*—started a software business in a basement with a \$10,000 loan and then sold it to Mattel in a \$3.65 billion deal. Today he is worth more than \$400 million.

In this exclusive interview with *COMMERCE*, Kevin O'Leary discusses why he became an entrepreneur; his best investments; the principles he applies to daily life and business; his three "simple" rules for investing; his thoughts on economic growth and job creation; and the need to curb the government's over-regulation of businesses on the local, state and federal levels.

Unleashing the Inner Entrepreneur.

"I got my first job as an ice cream scooper while in high school. I wanted the job because the girl I was chasing worked across the hall, and would be able to see me. On my second day, the owner, who was a woman, told me that I had to scrape the gum out of the Mexican tiles. I told her I couldn't do that. I didn't want the girl across the hall seeing me doing that. I was an ice cream scooper, not a gum scraper. Well, she fired me. It was a powerful moment in my life because I realized that she had that control over me because I was an employee. I vowed that day that I would never work for anyone again, and I never have."

Best Shark Tank Investment. "The highest IRR, and my very first royalty deal, was with a Boston-based family



business called Wicked Good Cupcakes [which sells decadent cupcakes in glass jars]. I decided to fund it by creating a commercial kitchen for them, but not taking any equity. I did not want a minority position in a family business and wanted to come up with a royalty deal. It's amazing that you can take a commodity, put it on *Shark Tank*, and the platform is just so powerful with 10 million viewers per week, that even a cupcake gets differentiated."

Red Flags that Signal Risk. "People keep coming up with consumer products, like hot sauce, for instance. Hot sauce is a multi-billion dollar market, but it has been around for decades. It's extremely difficult to get shelf space. So they are not really bringing new innovation into the market. I look at it and say to myself that regardless of the entrepreneurs, the chances of success are limited at best because it's very hard to say that your hot sauce is

"Being an entrepreneur is all about achieving personal freedom," explains O'Leary. "What you get with success is the ability to do whatever you like, wherever you like and whenever you like."

unique and proprietary when there are thousands of other hot sauces."

Spotting a Winner. "I prefer to invest in the entrepreneurs who have failed at one point because they understand that business is extremely hard and that the road is rocky and full of treachery. That to me is far more interesting than someone who comes out and says, 'I've never done this before, but I have a great idea.' The chances of success are very low because you learn from your mistakes and your failures. I love teams that have had a long history of both success and failure. Then, of course, I look at the product and determine if I can create a market where I do not have to steal market share."

Evaluating the Entrepreneur vs. the Idea. "A great idea is a great idea. If I feel that I am at risk because of the entrepreneur, I structure a control deal, and we agree to an execution plan. If they can't meet it, I will simply swap them out. Great management is fungible. I have lots of entrepreneurs working for me. If they do not deliver and cannot meet certain targets, then you have to realize the reality of the situation. They retain their shares, but they need to step out of the way of being managers. I am constantly looking for better managers in all of my businesses."

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A Leadership Challenge. "It's a competition. This 'kumbaya' or 'save the baby whale of the managers' has to end. The truth, in business, is there are winners and losers. I do not have time for losers. You need managers who understand that they can pivot. They need to know how to move and be flexible and be very focused on delivering results and figuring out what's working and what is not working."

Data IDs the "Great" Entrepreneurs. "In December of 2014, I had about 27 portfolio companies across *Shark Tank* in private equity investments. The auditor suggested to me to do a study across the investments that were returning capital and use that information in my future investing. I thought that was a great idea, so we did the study. What I determined that I had not noticed was that all of my returns (not some, but all) were businesses owned or run by women. I thought that was really interesting."

Women Deliver ROI. "What attributes did women have in small cap/big cap businesses that are showing such a performance? When you think about it, there's an old adage that says: 'If you want something done, give it to a busy mother.' There is some truth to that. It may be that time management skills are really paramount in managing big cap businesses. I am not trying to have a gender debate, but the performance really speaks for itself. I am very skewed towards women entrepreneurs because of the fact that their performance has been absolutely spectacular."

Different Approaches. "Women set goals that are more achievable within shorter timeframes. They are able to delegate very well and set targets for people. Think about the success of Honeyfund. One of my rock star CEOs, Sara Margulis, runs it. It's the number one site in America now that provides gifting for honeymoons. We are processing about \$300 million a year now. Tracey Noonan and her daughter Dani, another set of women, are running Wicked Good Cupcakes and have done nothing but just continue to execute over the years. The results speak for themselves. I look at those

performances, as well as many others, and it's clear that these are all different sectors, different geographies, and just completely different businesses. But the one commonality is women ownership or management. Clearly, we are not utilizing women enough in corporate America. It's a huge mistake, and one that I won't make again."

A Conservative Portfolio that Pays Dividends. "I am the chairman of an ETF company, O'Shares Investments, which I created so that I can invest my own capital and that of my family trust in a way that I want. I am a very conservative investor with my balanced capital. I only invest in dividend-paying stocks because over the last 40 years, more

Negotiation Tactics and Strategy. "I teach my entrepreneurs to be honest. You have to be able to tell them the good and the bad about business and service. Part of being a great salesman is knowing that honesty builds relationships. It does not mean you have to be a weak negotiator. Great deals are created when both sides feel they got a tough deal. That means the value has been created for both sides. The art of negotiation is that you do not get what you want, but you get what you negotiate. It's something you learn over time. Great deals make both sides cringe. That is what matters. I work with my entrepreneurs on doing deals. I love doing them. One great thing about



than 70 percent of the market's returns came from dividends, not capital appreciation. I follow three rules of investing that have saved me as an investor: never put more than five percent of your portfolio into any one name; never put any more than 20 percent into one sector; and never buy a stock that doesn't pay a dividend."

Unlocking Economic Growth and Job Creation. "The problem we have now is that we are overregulated on the city, state, and federal levels. There is too much regulation that is holding back small business; 80 percent of the jobs coming out of the typical recession in the past have been in small business. The regulations are insane. Our tax rates are crazy and not competitive. I am spending more money on lawyers with just trying to comply with all of the ridiculous regulations on small business. So I am not employing people. I am employing lawyers."

being a 'Shark' is that everyone returns your calls. It's just fantastic. I can open doors for companies in ways I never imagined."

Following a Passion to Financial Success. "I am passionate about wine. I've been a wine collector for decades. I have five cellars around the world. I trade wine. I am a member of the Confrérie des Chevaliers du Tastevin, a secret wine society in Burgundy, but not so secret anymore because I keep telling people about it. If you look at the wine industry, 97 percent of wine sold in America is under \$12.99 a bottle, and most of it is absolute crap. And I thought to myself, 'Why does it have to be crappy?' So I decided to create O'Leary Fine Wines. If I put my name on it, it's going to be spectacular because I know how to make good wine, blend good wine, and know what good wine is. On QVC, we sold about \$500,000 worth of wine in four minutes,

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and it's also going into Costco, which is the largest buyer of wine. I choose my partners very carefully."

Being Called Mr. Wonderful. "We think it started when some other 'Shark' was being facetious about one of my aggressive offers. I show up at places now, and people do not even call me by name. They just call me 'Mr. Wonderful.' There is a certain sanity to it because it's true. I am the only 'Shark' who tells the truth, and that's just wonderful!"

Editor's Note: COMMERCE asked the following New Jersey accounting firms, banks and law firms to offer their best practices for entrepreneurs, and share a success story that shows how they helped a client company to thrive and grow.

ACCOUNTING



Marcum LLP

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Understandably, entrepreneurs are more focused on implementing an idea and growing their business in the initial years, but neglect their accounting and tax filing responsibilities. Often, we are hired to correct some of those previously made mistakes. In one case, we advised a startup company that sold computer software, with sales representatives in several states. They were unaware they had a nexus in many states and were therefore required to file franchise tax returns and sales and use tax returns. On their behalf, we filed voluntary disclosure applications to bring them into compliance in states in which they were delinquent. As they hired new sales representatives in additional states, we registered them, as applicable. The company continued to grow and was recently sold to a public company. Now we work with the parent company. We often help our clients correct past mistakes with respect to their tax filings, or change the structure of their entity by converting them from a partnership to a corporation or vice versa. We also advise them on their various state tax filing requirements and register them as needed and apply for all applicable federal and state tax credits or other incentives.