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DEAL SOURCING:

# BROADENING YOUR NETWORK

December 2013

Edited by Charles Wallace



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A private equity professional recently stood at a whiteboard in his office to demonstrate to The Deal how his firm sources deal flow. There was a list of more than 100 companies on the board. After a search process lasting several months, the banker explained, he had whittled the list down to just five candidates. After visiting each of the companies and speaking with management, he had compressed the list to just two prospective targets. After much reflection, he finally winnowed out the winning candidate. “It was a very, very long process,” he said wearily.

By all accounts, deal sourcing is one of the most arduous and labor-intensive parts of the mergers and acquisition process. According to a recent industry study, the average investor in a private company studies over 80 firms before making a single investment. Each investment required the man-hours of three full-time employees.

What are the best ways to increase deal flow? Attending conferences and developing social networks with intermediaries are successful approaches and are employed by many private equity firms. Using an online platform at the start of the process is often an efficient way to maximize the number of potential targets while efficiently using manpower resources.

Scott Budoff, a partner at Briarcliff Manor, N.Y.-based Saw Mill Capital, a private equity (PE) firm that focuses on the middle market, says that in an average year, his firm closely studies 300 to 500 companies to produce just two to three deals.

According to Budoff, his firm uses a combination of online and offline resources to generate deal ideas. “You want to fish where the right kind of fish are swimming so that you are catching more candidates in your net,” Budoff says.

Among the tools Saw Mill uses is a massive proprietary database of 2,000 sales intermediaries nationwide that handle the type of deals the firm is looking for.

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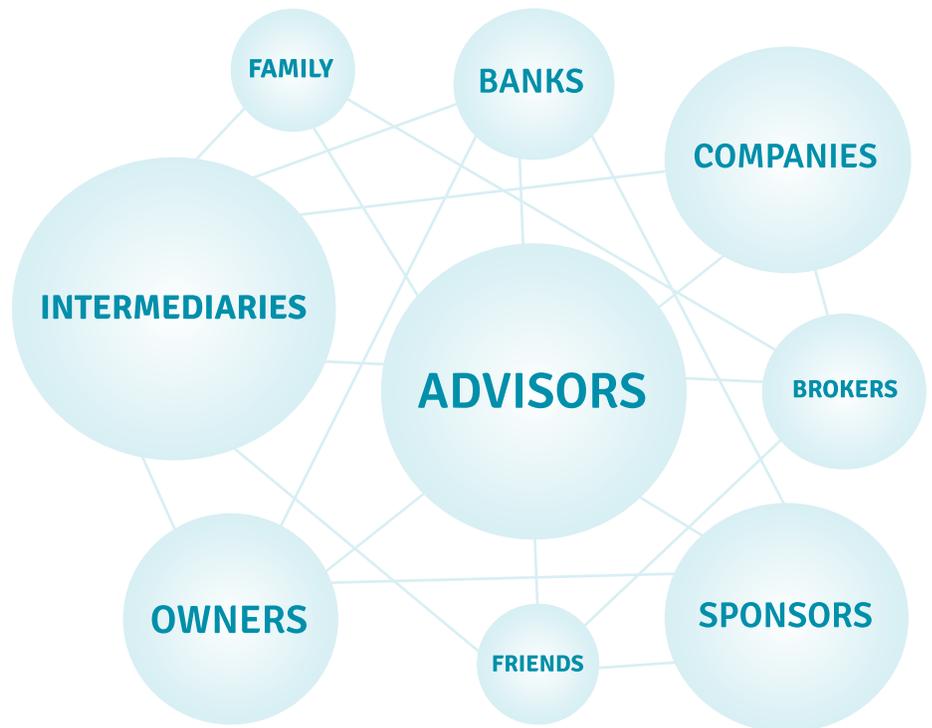
## DEAL SOURCING : BROADENING YOUR NETWORK

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“You want to fish where the right kind of fish are swimming so that you are catching more candidates in your net”

*Scott Budoff, Saw Mill Capital*

## Traditional Deal Sourcing Network



Every member of the firm is assigned a contact on the list and works to generate deal flow from the intermediaries.

The intermediaries who have a track record with the firm get frequent meetings at conferences and other venues, while those less well known are telephoned regularly. He said they get a lot of mileage attending events hosted by the Association for Corporate Growth.

Although the industry study indicated that many PE firms now are hiring staff dedicated solely to generating deal flow, Budoff says that Saw Mill doesn't believe in that approach. "We have concluded that there's a lot of benefit to having the deal team that is pursuing a transaction be the same team that sourced the transaction and built that relationship with their investment bankers," he says.

Budoff says that it is very hard in today's marketplace to do a proprietary deal because "there are very few people running businesses at the size that we invest in that don't have advisors and consultants that are knowledgeable enough to suggest that there be some form of (auction) process."

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# Increased Use of Technology Platforms to Broaden Networks

MORE THAN

**40%**

OF DEALMAKERS

currently use an online deal network to support deal sourcing

OF THEM, MORE THAN

**85%**

OF SELL-SIDE PROFESSIONALS

have marketed at least one deal online in the last 12 months

MORE THAN

**50%**

OF BUY-SIDE PROFESSIONALS

AND

**40%**

OF SELL-SIDE PROFESSIONALS

have closed a deal that was sourced on an online network

MORE THAN

**70%**

OF DEALMAKERS

report that online communities of M&A professionals are making deal-sourcing more efficient

Source: Intralinks global survey of more than 2,400 M&A professionals, September 2013.

According to a recent survey of M&A professionals, about 40% reported that they are using online deal sourcing to increase deal flow. About 50% of that group reported that they have successfully closed a deal using just technology.

Tony Hill, director at Intralinks DealNexus™, an online platform that has been compared to the match.com of the M&A world, says finding a proprietary deal has been made easier thanks to two tools on the Intralinks DealNexus™ platform: the private process and the buy-side mandate.

Using the private process feature, an investment banker or M&A advisor taking a deal to market is presented with an intelligent buyer list based on user-submitted investment criteria. The banker can then share his deal profile with as many or as few buyers as he wants. "Because it is a limited process by design," Hill says, "the private equity professional wants to get as many of those as possible because they are not shopped deals."

On the other hand, the buy-side mandate allows private equity firms or acquisitive corporations to broadcast a specific set of acquisition criteria to every advisory firm on the platform. "The logic behind the buy-side mandate is that it can attract deal flow which has not even been posted to the Intralinks DealNexus™ platform yet," says Hill.

Intralinks DealNexus™ currently has about 5,000 companies on the platform, divided almost equally between buy-side and sell-side companies. They include investment banks, M&A advisory firms, merchant banks, corporations, PE groups, family offices, lenders, and a few search funds. About 25% are financial buyers and the other 25% are strategic buyers. It features almost exclusively deals in the middle market, with revenues ranging from \$5 million to in excess of \$500 million.

Intralinks DealNexus™ offers dealmakers two separate but complementary tools. One part is a networking site that is a bit like LinkedIn.com, where dealmakers can connect to other members, build their network and send private messages back and forth.

The other part is the deal marketplace side, or what is actually the matchmaking part. When a banker wants to take a deal to market, he creates what Intralinks DealNexus™ calls a blind deal profile, a one-page teaser that captures the basic information about a deal. The seller can add as many as 10 deal-related documents to the profile.

Intralinks DealNexus™ then uses a suitor-matching algorithm to generate an intelligent buyer list that not only tells the prospective seller who the potential buyers are but why they were selected. The banker then has a choice using the platform's control panel to discretely share the deal profile with either everyone on the generated list or a more

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Hill says the firms that generate the most deals on the platform are those who use it the most. By manicuring their company profiles, buy-side firms ensure that their investment criteria is perfectly stated, which not only improves match quality but also signals that they are an engaged buyer.

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select group, such as one potential buyer in every city. “We’ve compressed it all into one elegant push-button interface that really simplifies a lot of the existing tedious and repetitive phone calls, emails and faxes,” Hill says.

PE firms can use the system actively and/or passively. On the passive front, they set up deal alerts – basically, saved searches that scour the platform for matching deals and then notify the PE firm in real time when a new match has been found. PE firms who want to be more active in their deal sourcing will issue buy-side mandates. The firm enters what it is looking to buy and sends that information out to 2,500 investment bankers. Often, within minutes, they start getting pinged by bankers who say, “We happen to represent somebody right now who fits your bill.”

Both PE firms and strategic buyers use Intralinks DealNexus™ as a safety net to make sure they are not missing deals that hit their sweet spot. Some choose to be passive members and set up automated deals, so that anytime a match takes place, they get an email that notifies them along with some of the deal’s details.

Hill says the firms that generate the most deals on the platform are those who use it the most. By manicuring their company profiles, buy-side firms ensure that their investment criteria is perfectly stated, which not only improves match quality but also signals that they are an engaged buyer. By using the platform often, buy-side firms gain an understanding of who is active in creating deal flow and they figure out ways to draw attention to their firm.

“Buyers are the ones who love the platform most,” Hill says. “If you’re a private equity firm, your job is to find as many deals as possible that meet your investment thesis.”

On the sell-side, the key is in creating quality deal profiles. The more information that is in the deal profile, the more interest it will get from the buyer base.

So far, the online platforms have avoided providing any information on valuation or due diligence. These are conversations that take place offline after the initial match has occurred.

“Our core focus right now is to facilitate and make more efficient the process of finding the right buyer and efficiently engaging with that buyer or multitude of buyers,” Hill says. “It’s a destination where dealmakers, even if they’re not actively running a deal, they’re still talking to one another, and building networks. That’s been the key to the success of Intralinks DealNexus™.” ■

*For more information about Intralinks DealNexus™, visit [dealnexus.intralinks.com](http://dealnexus.intralinks.com)*