



Search Success Factors

Survey of Searchers Who Closed a Deal

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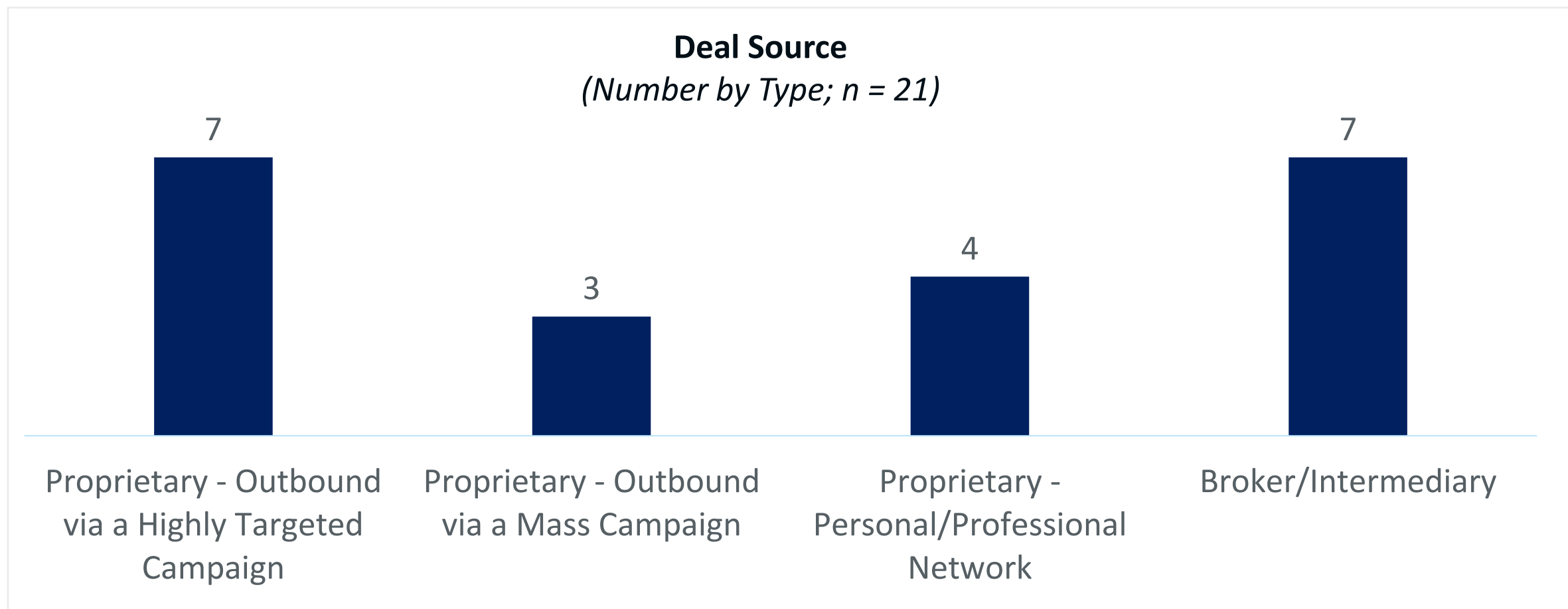
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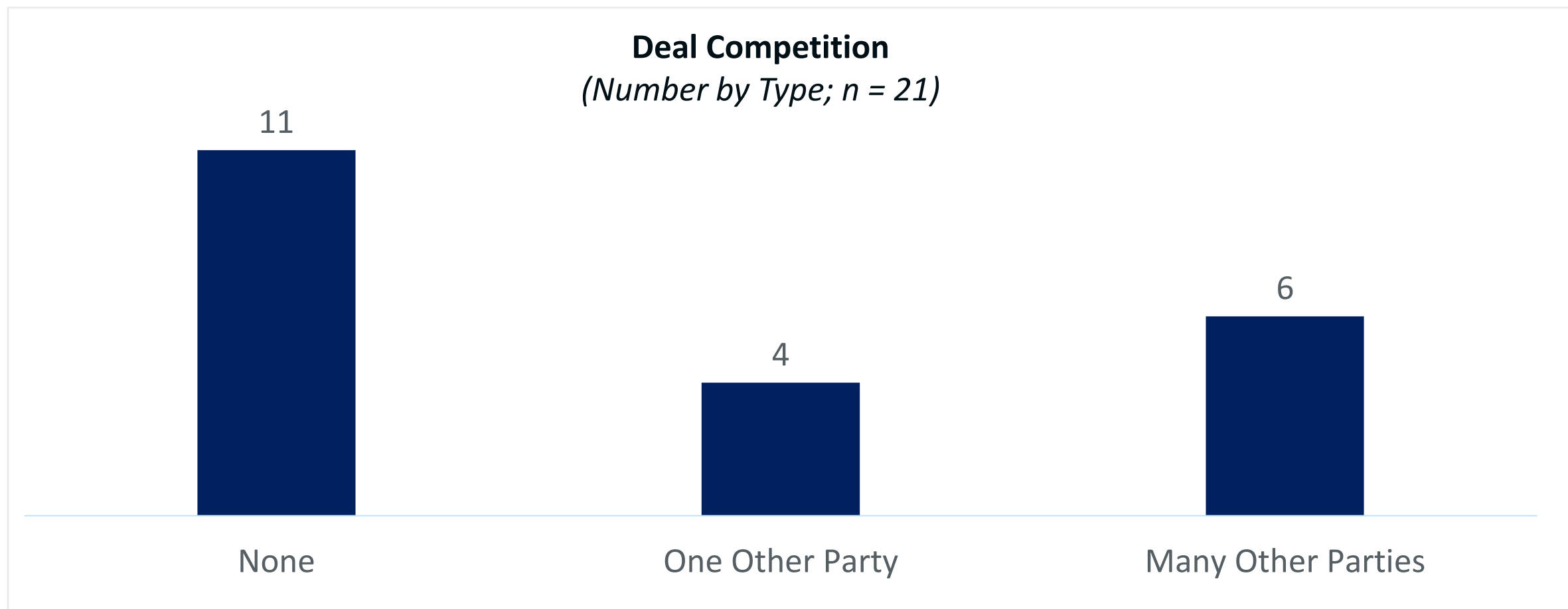
We surveyed 20+ searchers who closed a deal in the past year

- Two-thirds closed a deal sourced through a **proprietary search**, mostly **targeted**
- Two-thirds of deals came from **industry-focused searching**, one-third **opportunistic**
- While this points to the pay-off potential of **targeted proprietary searching**, searchers also had success in parallel track sourcing from **brokers** (33% of closed deals) and **personal networks** (20% of closed deals), sourcing channels that have a high return on time
- Mostly **non-competitive deals**... only one-third of closed deals were against multiple parties
- Proprietary deals are far less likely to be **competitive** (only 4/14 were competitive vs. 6/7 for broker deals)
- Searchers **used time efficiently**... generally discussed valuation on the 1st or 2nd call... only met the owner after several more calls... median time to signed LOI was 6 weeks... median time under LOI was ~5 months
- Half of deals don't have **equity gaps**... of those with gaps, 1/3 of the equity, on average, was from gap investors... take note if gap is materially larger than this...
- Only one-third of deals were materially **renegotiated**
- Half of searchers point to their **deep relationship with the seller** as being the critical success factor to closing

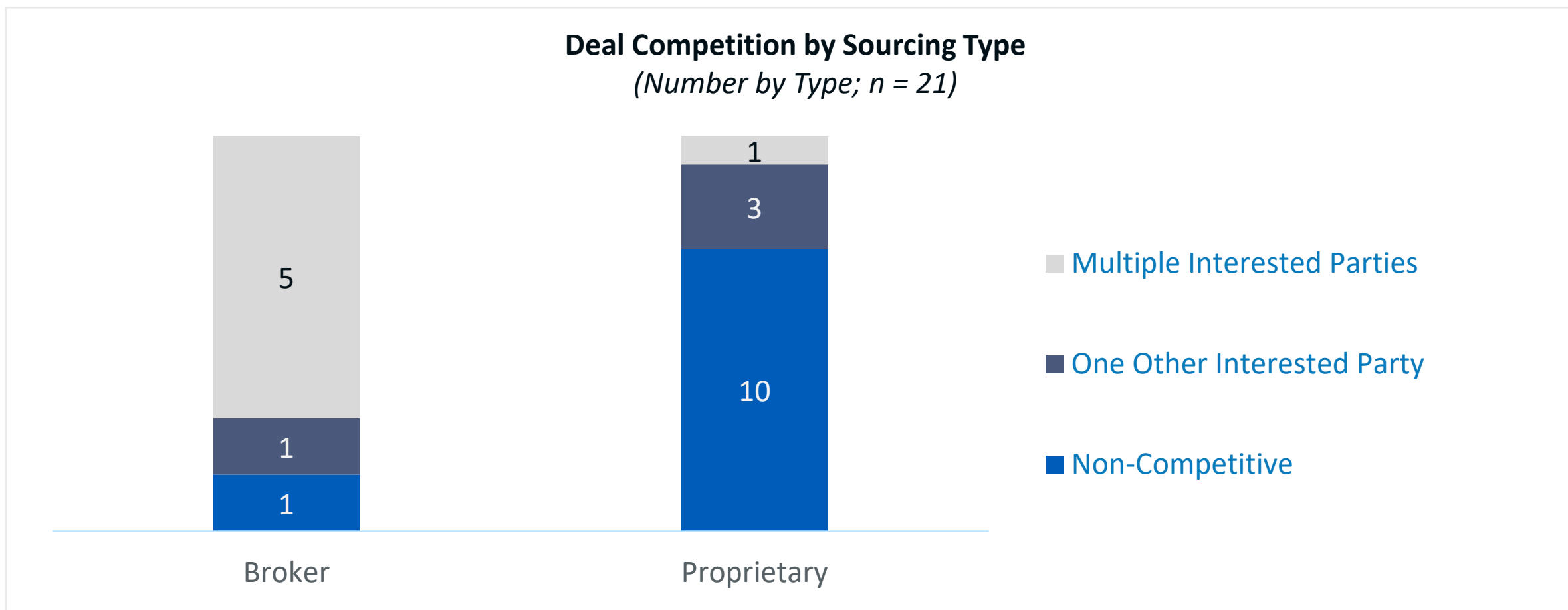
While proprietary sourcing drove most deals, one-third of deals were sourced from brokers



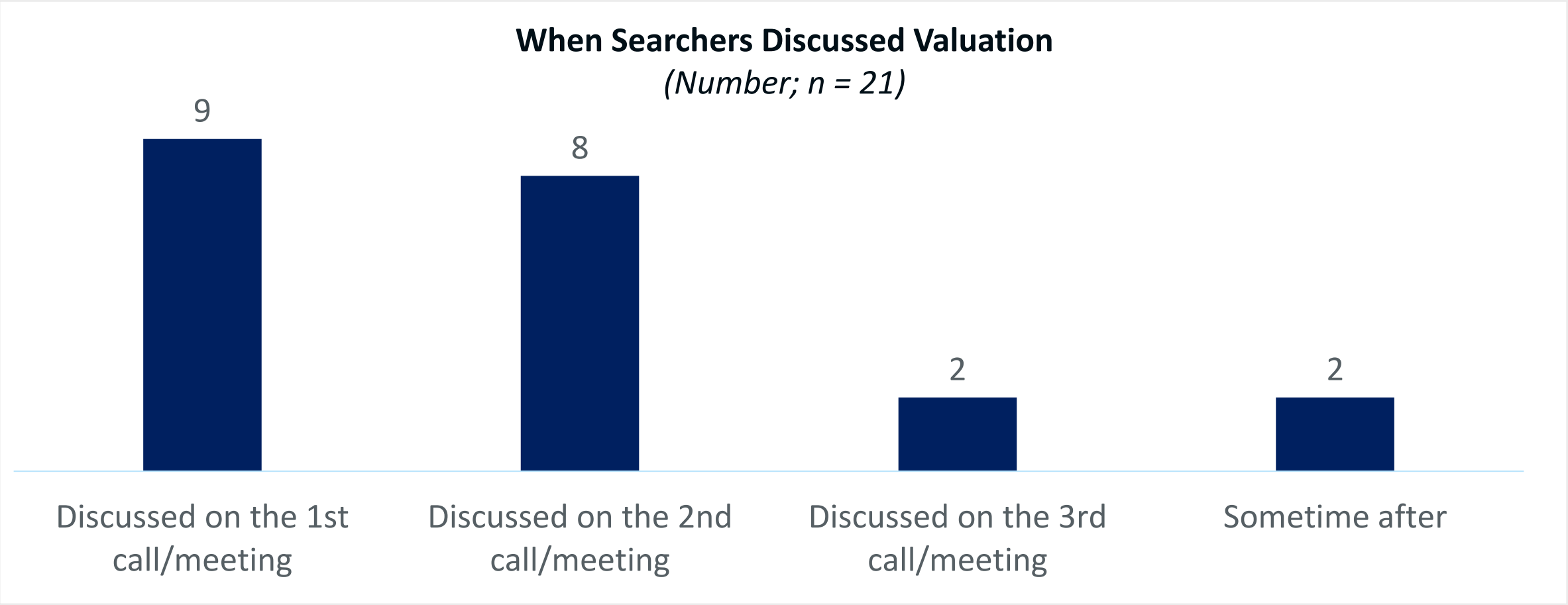
Mostly non-competitive deals with only one-third involving multiple parties



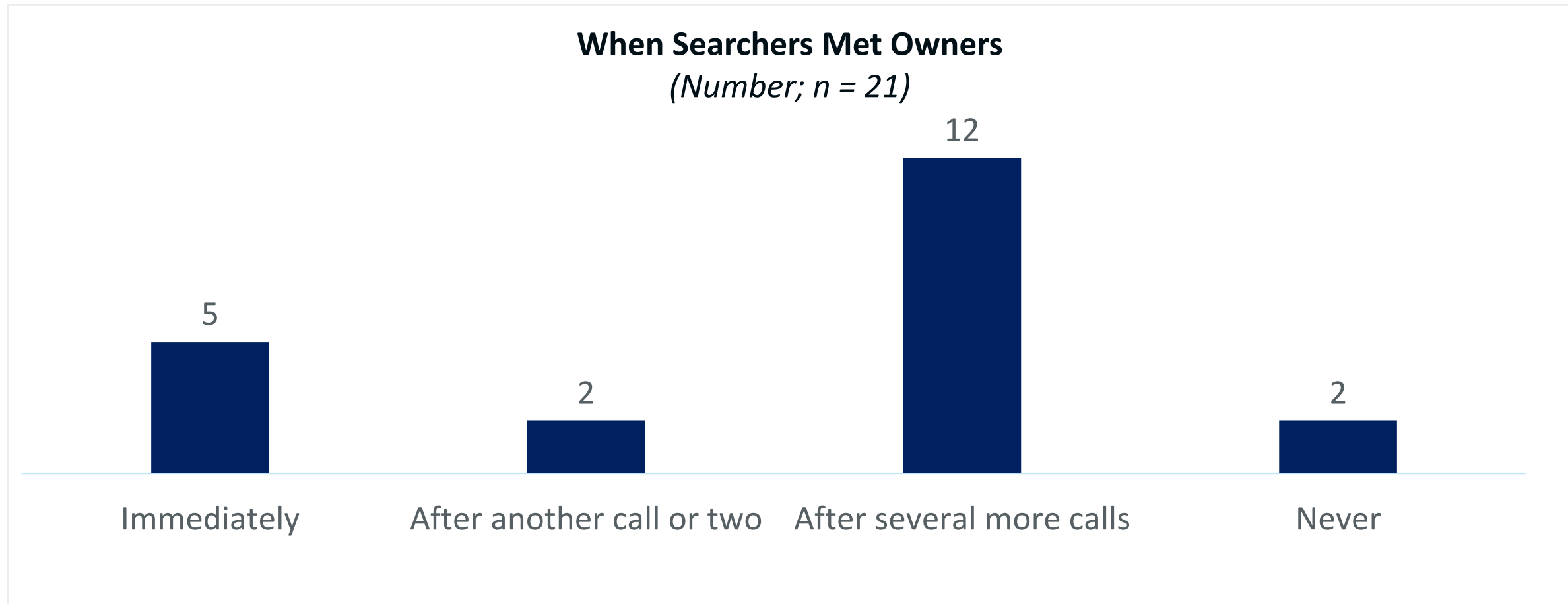
Proprietary deals are far less likely to be competitive: only 4/14 involved other parties (and only 1/14 multiple parties)



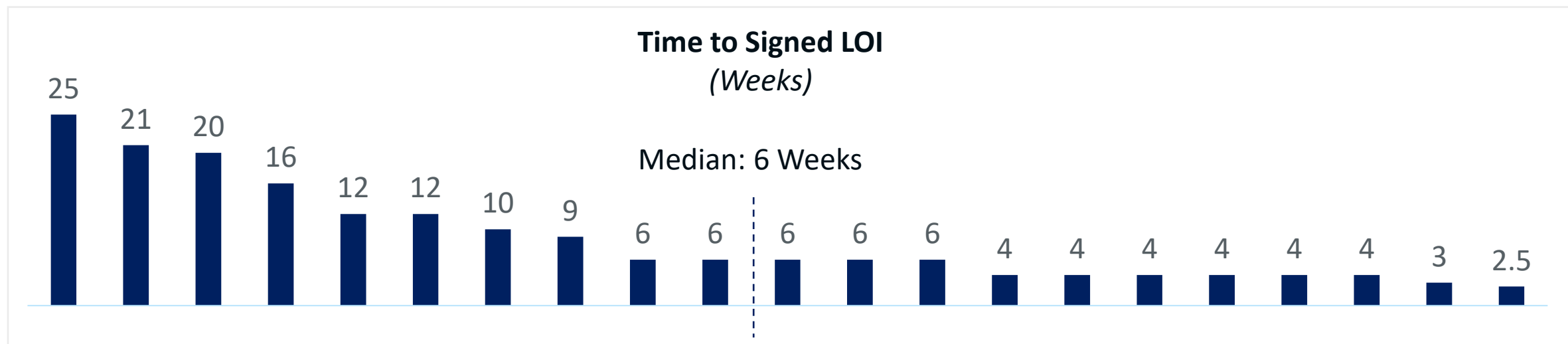
Searchers used time efficiently – 80%+ discussed valuation immediately...



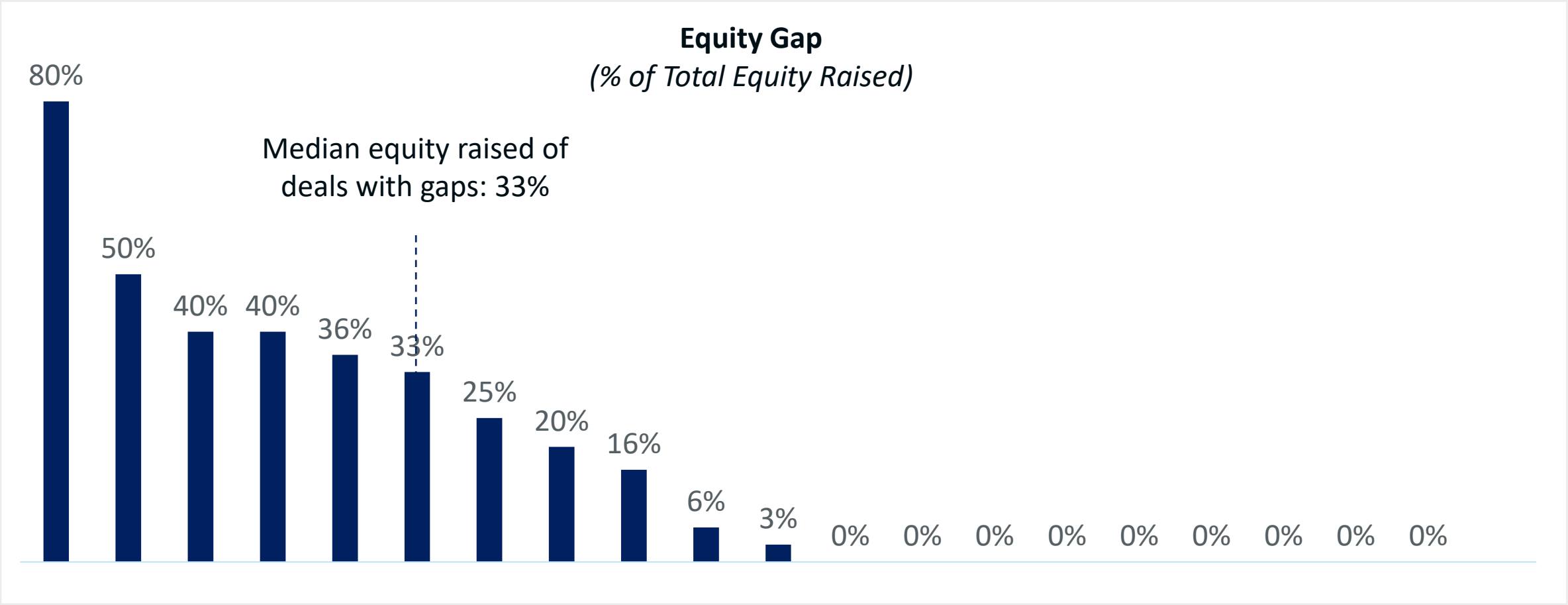
... waited to visit owners until after several calls (and after discussing valuation)...



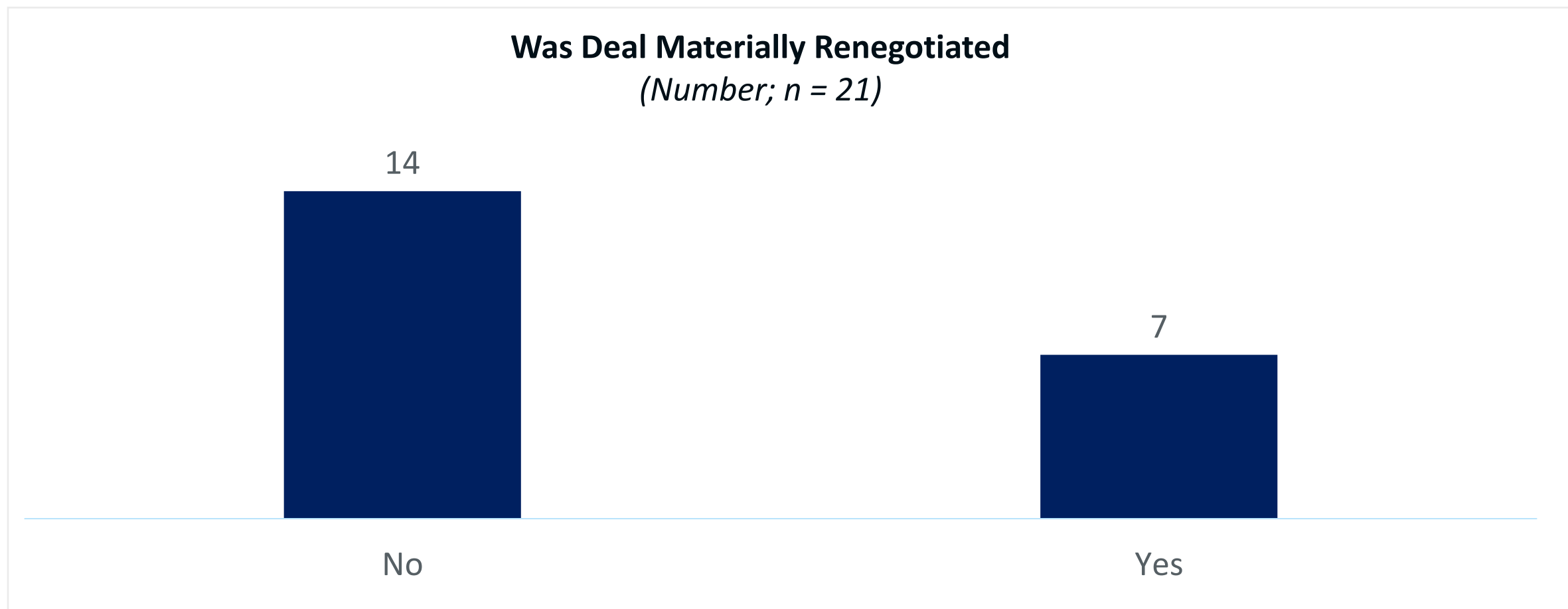
... And signed LOI's in 6 weeks on average; 5 months to close



Half of deals had equity gaps; of those with a gap, median gap was ~33% of equity; generally not >50%



Only one-third of deals materially renegotiated between signing of an LOI and closing



What were the top issues you had to overcome to close your deal?

Themes

1. **Keeping process moving**
2. **Working with lawyers**, especially if seller has unsophisticated counsel
3. Figuring out **working capital**
4. **Gaining seller trust** in deal structuring (incl. explaining value of seller note)
5. **Filling an equity gap**
6. **Bridging valuation** if performance changed while under LOI

Searcher Quotes

- *"Seller was extremely slow throughout the legal process - keeping him motivated was tough."*
- *"The sellers used a small-time lawyer who thought he knew more than he did and kept pushing for things that weren't market or changing terms that had already been agreed to with the sellers in revisions to documents."*
- *"Because of the extreme seasonality of the business, the working capital negotiation was especially challenging."*
- *"Getting sellers comfortable that they would get their money under the Seller note on time (being junior to the bank and having no real recourse)."*
- *"A somewhat surprising last-minute equity gap. Whether I misread the room or not, I essentially had a full-unit investor optout somewhat unexpectedly."*
- *"The business was materially off from its projections for the year we acquired it, which meant we needed to change our capital structure and reissue PRNs."*

What do you think the critical success factors were to sourcing and closing your deal? (1/2)

1. **Building an excellent relationship** with the seller
2. **Perseverance**, persistence
3. **Using time efficiently** – getting to LOI quickly and quickly identifying deal killers
4. **Getting help** from others
5. **Willingness to look past deal warts** and/or creatively structure around issues
6. **Being authentic**

What do you think the critical success factors were to sourcing and closing your deal? (2/2)

- *“**Building a relationship** early in the LOI process so that we could weather the storm of negotiating.”*
- *“**Getting to know the biz owner and being myself.** We have similar values.”*
- *“**Talking to everyone I knew** about the search process and **asking for referrals.** Never giving up despite last second resistance by a few investors.”*
- *“**Perseverance** and creativity around structure.”*
- *“**Being focused and authentic.** Building a great relationship with the sellers that enabled us to get through tough moments in diligence/negotiations.”*
- *“**Persistence,** emotional intelligence, relationship management, selling the owners and the investors, and time managing that process.”*
- *“Far and away it was **rappport with the sellers,** particularly the one who was most influential among all of them.”*
- *“I think I was **willing to see through some things** that would have distracted another buyer from the opportunity (seasonality, difficult broker, revenue variability, challenging seller's wife, NWC, etc.). I tried to focus on the long-term and see the short term as a pain to overcome in order to get to what I believed was an attractive business model/platform.”*
- *“**Persistence,** not giving up.”*
- *“My approach was always, to **have a low bar for signing an LOI,** but being very quick to identify deal-breakers and kill LOIs before I spent too much time/money on diligence.”*
- *“**Spending time with the selling family** to build trust meant we could work through issues.”*



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