WHITE PAPER

The modern investment banker

A guide to streamlining deal processes and ensuring positive client outcomes

Letter from the executive

Before cofounding DealCloud, I spent the start of my career in investment banking. During this time, I was excited to learn the ins and outs of corporate finance, mergers and acquisitions, and various business models. As excited as I was, I also recognized that the job of an investment banker is quite complex and inefficient. One particularly harsh truth struck me: More than 50% of deals don't close, or otherwise fall short of expectations.

From analyzing pre-mandate deal-dynamics through finding buyers, making the pitch, and closing the deal, there's a high likelihood for mistakes and failures in any transaction. Since most business owners only ever close one transaction in their lifetime — and often have no idea how intensive the process can be — the advisor has a critical responsibility to create a thorough yet streamlined process on the client's behalf. That, as any investment banker will tell you, is easier said than done.

As the responsibilities of an investment banking professional change, so does the market. Modern-day M&A advisors must understand a more diverse set of sectors and keep tabs on an increasingly fragmented buyer pool, all while maintaining business owners' trust and confidence.

In today's competitive environment, it's critical to understand the ways that the most successful and effective investment-banking firms are navigating the evolving marketplace, leveraging technology and data, structuring their teams, and marketing deals. We hope this white paper acts as a helpful guide to help you ensure the best outcomes for your clients.

- Ben Harrison, co-founder and chief revenue officer
DealCloud, an Intapp company

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Introduction

It's no secret that private equity's trend toward dry powder — that is, investors holding substantial amounts of cash or other highly liquid assets in reserve to take advantage of rapid investment opportunities — is here to stay. The supply of privately owned, family-backed, or well-performing businesses in the United States is grossly outnumbered by the demand for such assets. In fact, there's currently an estimated $1.4 trillion in cash reserves — an all-time high level up 13% year-over-year. Dry powder, in combination with the fragmentation of lower-middle and middle-market buyer types, has caused complications for investment bankers and M&A advisors who sit squarely in the middle of the dealmaking process.

Even the most sophisticated investment banking firms are struggling to keep up with the number of entrants into the industry. Perhaps the most formidable new player is the strategic acquirers/corporations who continue to bring unmatched buying power to the negotiating table. In some cases, strategic acquirers are on the prowl outside of their core industries and sectors. Most people are likely familiar with Amazon's acquisition of Whole Foods, but would you have guessed that John Deere was the recent acquirer of a machine-learning company? Since it's not just Fortune 1000 companies seeking acquisitions anymore, private equity's share of deals is at an all-time low.

Meanwhile, all of the same complexities of an investment banker's day-to-day job, such as building and maintaining the seller's trust, coordinating NDAs and other legal requirements, as well as ensuring that the books are solid before going to market, remain. So, when an engagement is won, what is the first step? The emergence of various technologies has in many ways increased the average investment banking professional's likelihood of finding a buyer for their deal, but there is so much more to the process than that.

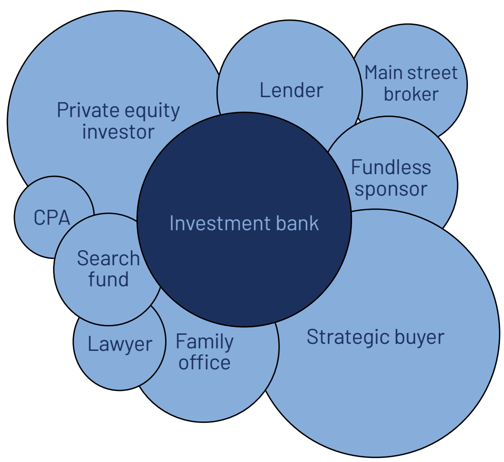
In this white paper, we will summarize the technology and productivity best practices that modern-day investment bankers and intermediaries follow as a means of managing this ever-changing market. We will also examine the ways these tips and tools increase access to the growing volume of players, impact overall efficiency, and promote more thoughtful deal process.

Market coverage

Gone are the days of the simple buyer-seller-advisor deal. The showcases seem never-ending: After competing against potentially dozens of other intermediaries (including CPAs, main-street brokers, and law firms) to win an engagement, bankers are tasked with navigating vast investor/buyer pools.

A deal process that used to look like this:

Now looks like this:



The expanding orbit around investment bankers is more difficult to navigate than ever, especially because much of the industry's manual, time-intensive day-to-day activities — emails, phone calls, meetings, road shows, and conferences — remains the same. This makes investment bankers the target of constant investor phone calls and check-ins, and a high-priority meeting for buyers (and sellers) during conferences.

Aside from the business owners themselves, investment bankers are often seen as the most valuable players in a deal because of the way they weave the entire process together. Although some investment bankers may be able to successfully close deals by relying on years of experience and deeply rooted relationships, the most successful among them take a systematic approach to both inbound and outbound business development. This allows for a more holistic coverage model of potential buyers, not just the traditional ones like private equity firms.

What is holistic coverage?

Holistic coverage refers to bankers' pursuit of a complete understanding of the entire universe of buyers, not only for a particular deal but for every deal that their firms could potentially intermediate. With thousands of potential buyers in the market, even the largest investment banking teams struggle to achieve holistic coverage; smaller boutique firms feel lucky to cover a quarter of the market. But this doesn't have to be the case.

In an increasingly complex and fragmented dealmaking environment, holistic coverage is achieved when an investment bank casts a perpetually critical eye onto the following factors:

- How the firm spends its time
- What activities (e.g., email campaigns, calls, conferences) are most productive
- Which relationships are most fruitful
- Which previous deals have been the best fits for the firm
- Which deal-marketing activities help build further coverage
- Which sponsors have been contacted for prior deals, and why they engaged or passed
- Which relationships can be triangulated (i.e., used as links to new deals or relationships)

Holistic coverage starts with strong technology infrastructure

Today's top firms, when compiling the initial list of acquirers, evaluate several variables, including whether the company had ever pursued an acquisition in this industry, its past behavior in prior deals, and whether there is a real angle to help management teams achieve their goals. Harnessing these analytics is key to bankers' ability to generate premium outcomes for their clients. The most successful firms are those who embrace this trend, invest in the technology to support these efforts, and learn to work smarter rather than harder.

Working in traditional ways is often slower and less efficient than adopting new technology, even if the old process previously yielded successful results

Talent and teams

There are a few different approaches to dividing and conquering responsibilities to achieve holistic coverage, each of which comes with its own merits and disadvantages:

Organizational structure	Pros	Cons
Division by industry	• Helps maintain deep relationships with buyers with industry expertise • Encourages team members to become experts in a given area • Allows team members to attend industry-specific events conferences	• Complicates the rules of engagement when encountering generalist buyers and investors • Discourages other team members from learning about the industry • Creates confusion when dealing with hybrid technologies, such as medical technology or commodity logistics
Division by region	• Helps maintain deep relationships with buyers in certain locations • Focuses your team's time on local economies • Allows team members to attend more location-specific events and conferences	• Causes some regions to be left out or not receive as much attention
Division by client engagement	• Lets your team members form extremely close relationships with clients • Allows greater referral networks to flourish	• Heightens the chance of departing team members taking relationships with them • Raises the possibility of losing institutional knowledge about the industry and its business complexities when team members leave
No division	• Allows your team to assign roles and responsibilities on an ongoing, flexible basis • Encourages the emergence of a merit-based system • Helps the team view ownership of projects and as a team goal	• May cause adjustment difficulties for team members who have only had experience with other organizational structures

Ideally, your firm would find an appropriate organizational structure, or perhaps some balance of all of the above scenarios. Some deals call for deep industry knowledge, and specialization is the key to a closed deal; for others, relationships reigns supreme. Simply put, the firm and its team members need to remain nimble and accept change as reality.

Regardless of structure, business development efforts need to be organized, consistent, and supported by the right types of technology. Additionally, your firm should have an eye for appropriate personality traits and characteristics during recruitment and hiring processes. Without the right mix, the firm will fail to provide the best possible outcomes for clients.

A few simple ways modern investment banking teams remain nimble include:

- Defining market coverage strategy clearly
- Referencing market coverage strategy in internal meetings
- Establishing success metrics, such as number of closed deals, number of new relationships made, or relevant and measurable statistics in order to gauge overall program health
- Using success metrics as a catalyst for revisiting market coverage strategy regularly (quarterly, monthly, or as needed) to ensure it remains optimally effective
- Hosting regular team meetings to ensure cross-team communication and encourage deal-to-deal synergies
- Encouraging and mandating the use of technology to track business-development efforts and deals
- Strengthening new-hire onboarding processes by adding comprehensive systems-specific training (e.g., email platforms, CRM, data repositories)

The importance of data

Plain and simple, relying on your own data no longer provides full coverage of the market. In reality, the top of the funnel is much wider (and grows wider every day, with new entrants into the market) than it was 10 years ago. Investment banks need to integrate market intelligence with their own data in order to properly qualify buyers and investors for their clients.

Choosing data providers is an incredibly important decision. Although data providers such as Hoovers and Data.com offer very large volumes of contacts, their relevance to the private equity and investment space is less than clear. Data providers such as DataFox, a driver of private company sourcing for investment professionals, and Sutton Place Strategies (SPS), an award-winning provider of actionable data for private equity and M&A professionals, are led by industry veterans and focus solely on private capital markets.

Whichever vendors you choose, avoid the pitfall of thinking of data as a solution in and of itself. Rather, when members of your team use software to make data (both proprietary and purchased) actionable, that data becomes critical to business-development and deal-sourcing efforts.

Use technology to transform proprietary and third-party data into actionable intelligence

Transforming data into actionable intelligence

Here's one example: Combining a closely-held data source of, say, private equity buyers in the manufacturing industry with a purchased list covering same category is only useful if it includes actionable data. Examples of actionable data include buyers' EBITDA minimums, as well as information about which portfolio companies are acquisitive, which may be sold in the years to come, and which sub-industries are of keen interest.

These types of insights aren't necessarily available in off-the-shelf lists; they require a focused set of inputs and regular maintenance in order to be successful. Once implemented, however, these insights can be used for predictive analytics, and can help your firm structure everyday activities with data-supported actions aligned to your business-development goals and objectives.

Here are a few simple steps for setting up an actionable data framework at your firm:

1. **Collect regularly**

   The first step to creating actionable data is to make sure that every touchpoint is logged. Although you may not think that your golf outing or conference attendance is valuable, it may eventually be the missing link. Get your team in the habit of logging every type of business-development activity in your CRM so that no data can be overlooked.

2. **Store accurately**

   It's important that your records remain clean and that your team regularly weeds out superfluous data that could potentially clog your CRM. Thoroughly reviewing data can be taxing on your team's time and resources, but it's important to complete blank fields and remove duplicates. In the weeks leading up to implementation, even one hour of data cleansing per day can significantly reduce the amount of dirty data in your CRM.

3. **Hypothesize wisely**

   Every firm has deals that they're particularly proud of. Considering yours, what were the business-development activities that helped lead to that deal closing successfully? (If you don't have this information logged in a CRM, jot down as many details as you and your team can remember.) Take those activities and turn them into a hypothesis: "I think that if we do more of X, we will probably achieve Y."

4. **Test effectively**

   Put your hypothesis to the test, starting small. Consider running an experiment, such as: "If our firm's team members attend five new healthcare industry events in the next six months, I expect we will gain more than 50 new high-quality buyer prospects." Be sure to clearly define the hypothesis including a time frame and as many metrics as you can confidently support. Also, be sure to state a specific goal, such as: "In six months, I want to run a report that shows me five new healthcare buyer contacts I can introduce to Project Falcon."

Harvesting more insights from your data can yield tremendous returns for your firm, but that's only possible when you have buy-in across your team. Make a concerted up-front effort to train team members on the importance of proper data inputs so that the outputs become even more impactful over time.

Effective deal marketing

As mentioned earlier, there are many reasons that deals fall apart: a difficult company or industry fundamentals, large valuation gaps between buyer and seller, low internal rates of return, and lack of attractive exit opportunities. Though some of these issues are unavoidable, investment bankers hold a great deal of power both in steering the deal process in the right direction and in defining the goals of the client early on.

The goal of marketing a deal should not only be to define the company's stature in the market, or in a given industry. The goal should be to clarify the business's full financial picture, its deal motivations, its pre-and post-deal management structures, as well as other key considerations regarding the post-deal transition. Even if your firm doesn't employ a dedicated marketing manager, the following tried-and-true tactics are extremely effective in helping your firm make a great impression with everyone — your client, your existing contacts, and even potential buyers who pass on the deal.

1. **Do your research**
   Given the competition in the market and demands from limited partners, both specialist and generalist buyers are bidding on more deals that are outside their typical strike zones. Successful bankers find ways to weed through these types of buyers by having their entire teams gain deeper sector understanding.

   A broad knowledge base can act as your first line of defense in protecting clients' best interests. Using your knowledge of the industry, the client's motivations, and the deal itself, you need to thoughtfully craft a list of buyers that clearly demonstrates your expertise. When doing so, go deeper than stating the firm. Identify individuals on the buy side with particularly relevant experience.

2. **Track your "no"s**
   In the first few weeks of marketing a deal, be sure to track even those buyers who opt to pass. Although a "yes" is great, a "no" offers another valuable data point. When a buyer declines a deal, the advisor has an opportunity to gather feedback that could help the business make corrections or adjustments. A negative response also provides the bank with deeper insights on buyers' investment criteria, which can be used to inform future transactions.

3. **Keep the clients informed**
   Although it seems simple enough conceptually, keeping clients informed can prove quite challenging in practice. A deal's first weeks and months on the market involves so many moving parts that, from time to time, the client can be left in the dark. Its critical to establish best practices — including regular calls and meetings to communicate progress.

4. **Tighten up your paperwork**
   The analyst team may not necessarily be sitting at the negotiating table, but they're often helping with the issuance of nondisclosure agreements and other important deal paperwork. If you're a lean firm, you may not even have these resources available to you. The most sophisticated and well-respected investment banks are those that not only execute on these processes in a timely and concise manner but that also track the exchange of documents in real time. With the help of technology, it's extremely easy for investment bankers to quickly identify each buyer's progress through the deal-paperwork stages.

Conclusion

More than ever before, investment bankers play a more crucial role in the success of every deal. Dry powder is at an all-time high, new and spin-out funds are forming daily, and nontraditional acquirers — such as family offices, sovereign wealth funds, and pension plans — are joining strategic buyers in becoming more acquisitive. The fact remains, though, that most company executives will only complete a strategic transaction once in their career, making trusted advisors a critical component in the successful outcome of a deal.

As the importance of the investment banker's role increases, so do the complexities. Covering the market holistically requires the knowledge of and coverage strategy for dozens of new firms, sufficient data to understand what types of deals those firms prefer, and the right team structure to manage relationships and execute successful outcomes. With more competitors competing for the attention of investment banking clients, technology offers the critical path for modern investment bankers to become more efficient.

In the current climate, it's critical to leverage the right technology infrastructure and data sources in order to properly identify potential buyers, manage your process, communicate with clients, and generate reporting and analyses. The right data set combines proprietary information and well-defined licensed data, all underpinned by technology that transforms data into actionable information.

Technology can also act as an equalizer between firms of different sizes. Technology offers a way for boutique advisors and firms with lean teams to compete more effectively, increase customer engagement, and win more mandates.

The DealCloud difference

DealCloud allows investment banks to execute mandates seamlessly. Advisors and intermediaries who use DealCloud can expect configurable deal processes backed by high-power support from a team of deal professionals.

DealCloud supports the day-to-day needs of advisors and intermediaries, including:

- End-to-end activity tracking
- Relationship management
- Sponsor coverage
- Deal origination
- Fee estimation and tracking
- Industry group management
- Targeted buyer lists

More than 600 firms use DealCloud because of the ways it adapts to meet the complexities of modern dealmaking and business-development teams of all shapes and sizes. Our dedicated teams can provide blueprints for streamlining your dealmaking process, letting you focus on ensuring optimal outcomes for your clients.

To learn more, visit dealcloud.com or contact info@dealcloud.com.