



BUY-SIDE ACQUISITION TARGET FUNNEL: HOW MANY TARGET ASSESSMENTS ARE REQUIRED TO CLOSE A DEAL?

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How many targets “looks” are required before a buy-side mandate moves toward a closed deal? The answer to this question is dependent on many factors including industry sector, sector consolidation factors, the quality of the targets, preparedness of the targets and the preparedness and sophistication of the acquirer. While a typical buy-side funnel may include north of 100 applicable targets, not every target progresses toward full-blown due diligence. Still, off-market buy-side targets are frequently less-than-prepared for a buyer to come knocking. Consequently, buyers are frequently required to do more preliminary digging when no [sell-side representation](#) is present.

Unlike the sell-side, buy-side funnel prospects and processes can be more nebulous and difficult. They require sifting through large numbers of potential targets, many who may have little interest in being acquired. Working through the funnel from top to bottom, buyers may sift through 100 to 200 prospects, immediately eliminating half or more by pre-arranged investment criteria. Once this occurs, buyers may perform additional research on the targets, further

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eliminating a large number of prospects. After performing extensive outside research on many potential targets, the buy-side investment banker or internal business development representative is likely able to schedule actual meetings and discussions with half or less of those that meet all the desired criteria. Once this funnel is narrowed, a small handful (and sometimes zero or one) actually even make it to a Definitive Agreement or Letter of Intent (LOI).

Even if a potential selling target meets all a buyer's desired criteria, the potential of connecting with a seller that is willing to chat and discuss a potential transaction has a probability about as high as any other cold call. A broad-process is required to truly seek out all the potentially available targets. Similar to the sell-side, a broad process ensures buyers open up the broad market of strategic options.

In short, there is rarely such thing as the "perfect target." Like the dating world, even if you do find the perfect target, s/he is likely not to have any interest in you. The perfect "targets" are likely to have more than one suitor somewhere in their recent past. The entire goal of a buy-side mandate is to source quality, off-market deals. The current market includes a large number of buyers with very deep access to dry powder. The supply-demand equation is currently a bit out of balance with many institutional funds and private equity groups salivating after the best deals. The likelihood of finding something off market, let alone something inexpensive is not only low, it is becoming less likely in today's market. Good deals have become more expensive and more difficult to source. Consequently, the expected number of potential targets and the ultimate time required to source and close a matching deal has become even more extended of late.

Some buy-side mandates can [sift through hundreds of potential targets through a buy-side process before consummating a deal](#). It is a path which requires a great deal of patience. When the stars eventually do align, growth by acquisition options can be an efficient method for scale.

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