

How to Attract Proprietary Deal Flow



Meghan Daniels Axial | November 3, 2016

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Irena Blind, TSG
Consumer Partners



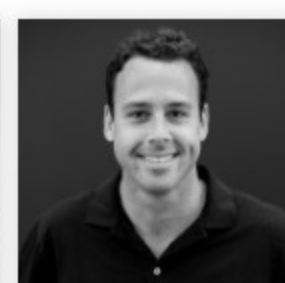
Harpreet Padda,
Founders Advantage
Capital



Eric Starr, CapX
Partners



Valerio Forte, H.I.G.
Capital



Peter Lehrman, Axial

Proprietary deal flow is the holy grail of most investors' sourcing efforts. But proprietary deals — those that come outside an auction, in which only one investor is brought to the table — are increasingly few and far between.

"Proprietary deal flow isn't dead, but it is rare," said Peter Lehrman, Axial founder and CEO, who moderated a recent panel on a subject at [Axial Concord](#).

A Multi-Faceted Approach

Proprietary deals can come from an existing relationship or a new contact who proactively finds your firm.

To increase proprietary deal flow, "we have a multi-pronged approach," said Harpreet Padda, Senior VP & Co-Head of Investments of [Founders Advantage Capital](#), a Canadian investment firm employing a passive and permanent capital approach while providing a disproportionate share of growth to their investee partners. "In-person meetings are a core strategy for us to get the word out, but we also optimize our web presence to augment that strategy."

To increase inbound deal flow, "the first step is to define who you are and what you do," said Eric Starr of [CapX Partners](#), a senior lender for middle market businesses.

It's important to "have a good understanding of what your firm is offering and what makes you unique, and communicate that as effectively as possible," said Padda.

Clearly lay out your investment focus and value-add on your website and other channels (social media, deal sourcing networks like Axial, etc.). Highlight closed transactions and include industries of interests and what size deals are in your strike zone to show new contacts how they might work with your firm.

Then, focus on distribution. Content marketing and search engine optimization (SEO) make it possible for more people to find your firm organically on Google; display ads can build out the top of funnel by surfacing your firm to new contacts; email marketing can keep you top of mind with existing contacts. (An in-house marketing function or consultant can help you execute on this strategy — here are [three essential questions](#) to consider first.)

Building Relationships

Reciprocity is also key to building out the top of the funnel. "Referrals are our currency among professionals. We don't say no to deals, we say 'It's not for us but you should get in touch with...'" said Starr. "That's part and parcel of our strategy."

For a specialized firm, it's particularly important to maintain relationships with sell-side advisors and businesses, said Irena Blind of [TSG Consumer Partners](#), a leader in strategic equity for middle market consumer companies. "When a deal outside our industry comes to us, we refer them to other people. If it's a brand we're very interested in, the only reason we wouldn't proceed is if it's too small." In this case, said Blind, TSG will in some cases refer the company to earlier-stage investors, "with an eye toward being their next wave of capital 2-3 years from now."

"If they're not in major need of capital right now, we stay in close contact and help provide feedback and guidance as they develop as a company. From a size point of view, the transaction can become right within 12 months," said Blind.

Winning Semi-Proprietary Deals

Many deals today are somewhat proprietary — between a broad auction and a limited process, in which a few potential capital providers compete over price and terms.

"We try to differentiate ourselves by listening," said Padda. "We ask, 'What matters to you?' Since we're a leaner organization, we can be nimble and customize our offerings. We also are transparent with our partners when it comes to our financial model."

Flexibility is key for CapX Partners as well, said Starr. "We're never going to fill the equity gap — that's not what we do. But when it comes to debt, it's all about being flexible and finding a solution that solves the biggest problem within the capital stack." Being assertive doesn't hurt either: "When we see a deal we like, we price aggressively to win."

Valerio Forte of H.I.G. Capital, a global private investment firm, added that team structure can also make a difference. "While we're generalists and we do transactions in all sectors, we recently aligned all our professionals across industry verticals — not only so that they can execute in that area, but so that they can engage in a better conversation. Our industry specialists can better understand what a company is looking to achieve financially and operationally, and demonstrate how we can be good partners."