

KEYNOTE INTERVIEW

Mission-critical sourcing approach



*The role of mid-market business development has been transformed as competition continues to heat up, according to three of MidOcean Partners' managing directors, **Dan Ryan**, **Elias Dokas** and **Daniel Penn***

Q What role does business development play in sourcing and how has that evolved over time?

Dan Ryan: The role has evolved significantly since I first occupied the seat in 2009. At that time, there were far fewer private equity firms, fewer intermediaries, and investment professionals tended to rely on a dozen or so close relationships for sourcing high-quality opportunities. The business development function, where it existed at all, was typically more of a marketing or book-collecting role.

Today, as sponsors seek to develop functional areas of expertise to support investment activity and value creation,

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the role of dedicated business development has become a critical function and a partner track at many mid-market firms. A successful business development professional will be someone who can effectively represent their firm with bankers, lenders and business owners. They will have a senior voice internally and can act as air traffic control around pipeline management. That person will typically have held senior-level investment banking or private equity execution roles and has served on boards of directors. Overall, we are seeing

a much more sophisticated approach to sourcing and business development than a decade ago.

Q How has covid impacted the role?

DR: Clearly, there have been fewer office visits, and the conference circuit is virtual, at least for now. However, people have generally become more accessible. Bankers, business owners, other private equity firms and vendors all seem more willing to schedule a call. I still believe the strongest relationships are cultivated in person, but in many ways, it has become easier to cover the market through the pandemic.

Q What is MidOcean's approach to sourcing and business development?

DR: We believe that the optimal sourcing model today combines sector expertise, longstanding relationships and a commitment to leveraging data and technology. The business development function plays an important role in bringing those three concepts together. MidOcean was an early adopter of the thesis-driven investment philosophy, which dates back to the late '90s when we were a part of Deutsche Bank's private equity business. This approach allows us to build credibility in the market within our sub-sectors of interest, and hopefully our focus and operating talent lead to preferred buyer status. One of the key components of our business development function is to ensure that the market is well aware of our power alleys within business services and consumer, particularly as they evolve and our investing and operating teams grow.

This thematic approach also helps build conviction internally so that we are prepared to move decisively when it comes to our priority targets. The market is seeing record levels of deal volume, and a targeted, thematic approach with real pre-established conviction allows us to cut through the noise and dig in deep and early on with the opportunities that present the best risk-adjusted returns.

We are proud of the fact that 65 percent of our platform investments have been sourced on an exclusive basis, with another 20 percent via limited auctions. As our market becomes increasingly competitive, with valuations in many sectors at all-time highs and sale process timelines condensed, the quality of our relationships with deal sources and business owners has become a significant contributor to our ability to close the right deals.

Q What role does technology play in sourcing, and is this changing?

DR: I have always been a big believer in data-driven sourcing. It allows us to evaluate more opportunities from a greater number of sources without compromising our focus or pipeline management.

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DAN RYAN

“Our operating partners play a critical role in every facet of our investment process”

DANIEL PENN

Through data tracking and regular internal reporting, we are able to make more informed decisions on capital deployment and we can better assess our own sourcing efforts to optimize pipeline conversion and resource utilization.

A cloud-based CRM is a must. I've used DealCloud and Salesforce over the years. Both can be highly effective, and both have made recent enhancements that allow for API integration with other datasets like Pitchbook. I've found visualization tools like Tableau can help bring the data to life, while private company databases like Datafox, SourceScrub or Grata can be useful for market mapping and building target lists. I'm a people person, which is why I like the social side of this job, but I'm also a stats junkie, so I probably get more excited about this stuff than most.

Q Can you give an example of how your thematic approach played out in the sourcing and execution of deals?

Elias Dokas: We started looking at the human capital space as we came out of the last recession more than 10 years ago. The industry was just starting to evolve as companies were more comfortable outsourcing their workforce and employees were more comfortable working on a contingent basis. It was the very beginning of the gig economy that we know today. This market was still very fragmented, creating a huge opportunity for a firm like ours.

We focused on businesses in areas such as IT and cloud computing, as well as the higher-end areas of pharma, life sciences and engineering, rather than blue-collar roles. The margins and candidate lifetime value are better, and we are able to provide greater value-add to our clients in these segments. We also discovered the importance of combining staffing and consulting capabilities, a model that also leads to higher margins. We identified these trends early, which were critical factors to our successful investments in Global Knowledge, System One and The Planet Group.

Part of our playbook for these human capital investments was a focus on M&A.

System One and Planet completed a total of 13 acquisitions between them, which was important for scaling these businesses, improving margins and driving growth. The combination of our M&A strategy, expanded service offerings and operational improvements, which all led to meaningful EBITDA growth, allowed us to turn \$150 million of equity in three human capital businesses into over \$850 million.

Q What role do operating partners play in your sourcing strategy?

Daniel Penn: Our operating partners play a critical role in every facet of our investment process. These are highly talented and experienced individuals that help us dig deep into sub-segments and allow us to get to exclusivity more quickly, and ultimately help us win business.

Management teams see the value-add we can bring and how we can help them achieve and exceed their growth targets. At the same time, sellers know that we have a defined thesis with highly relevant operating resources, so we are viewed as a knowledgeable and credible buyer. Operating partners make it easier for us to get comfortable with a company and conduct due diligence quickly, and also enable us to develop a concrete value creation roadmap, adding to that crucial early conviction.

Q Can you give an example of where operating partners were particularly important to securing a deal?

DP: A great example is an investment we made last year in Full Speed Automotive. I have spent a decade looking at the automotive aftermarket services space, which benefits from a large installed base with more than 280 million cars in the US. Demand is non-discretionary and the market is highly fragmented, creating a great opportunity for roll-ups.

We have spent a lot of time exploring the various sub-segments over the years, including quick lube, car wash, general repair, collision repair and tire services. Last year we brought on an operating partner



Q Staffing is clearly a key area for you. How are you approaching sourcing your next deal in this space?

ED: There are real advantages to being a repeat investor in a given theme. We have probably looked at more than 100 add-ons in staffing over the years, so we are well aware of many businesses in the market. Some of these may have matured into potential platform investments over time. We work hard to develop relationships with key constituents in the space and our historical involvement means that we often get an early call on opportunities.

We are very proactive about building relationships and, in particular, focus on speaking with founder-led or closely held businesses. A lot of these founders and management teams want to remain invested and share in the upside through a minority position. They really care about who their next owner is and are focused on what we can add on M&A, strategy, business development, operational improvement and talent upgrades. They want a partner that can help get them get to the next level, which they often can't do on their own. These are the opportunities that we focus on, rather than sellers that are just looking to exit for the last dollar.

to help us in this space – Marc Graham has a 35-plus-year history in automotive aftermarket services, most notably as CEO of Jiffy Lube and more recently Take 5 Oil Change.

Marc helped us refresh all our thematic work and build a defined view of where to focus our time. As part of that, we began conversations with Full Speed. Having someone with Marc's experience and reputation undoubtedly made us a compelling buyer. Additionally, having a mentor like Marc serve as chairman created significant appeal for management. We were able to complete our due diligence in a short timeframe and quickly entered exclusivity.

Since we acquired the company nine months ago, we have been busy executing on the defined value creation strategy developed in partnership with Marc. We have focused on procurement, the efficient use of IT, better training, driving car counts and pricing. We have also made investments in franchising, new store builds and M&A, having already made 17 add-on acquisitions. Finally, with another operating partner, DJ Jenson, we initiated a new branding exercise. In short, having our operating partners involved gives us greater internal conviction and credibility with sellers and management, whilst allowing us to formulate and execute on disciplined and effective value-creation plans. ■