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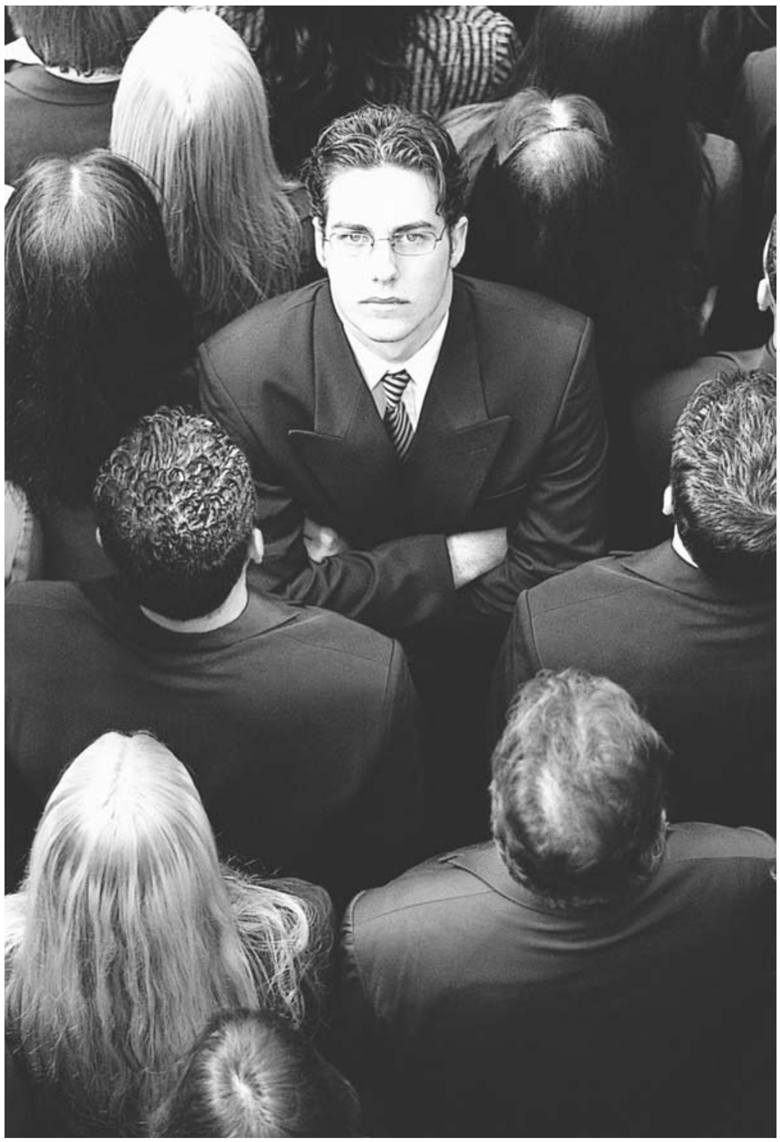
Getting Noticed In the M&A Market

To an investment banker who has been through the deal wars, capturing clients hinges on three essential elements — relationships, relationships, relationships. And, as in most businesses, a key component of running a successful investment banking operation lies in building and nurturing client relationships — attracting new clients but also pleasing your existing client base.

By Brent Shearer



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Veteran dealmaker Frank Novak, Managing Director at mid-market shop The TransAction Group and a player in hundreds of deals, agrees, saying, "It all boils down to referrals and relationships."

To get an idea of the best practices for reeling in clients, *Mergers & Acquisitions* spoke with a number of deal pros to find out how they market their services and differentiate themselves from the competition. The assumption is that if you don't have clients, all the razzle-dazzle of your financial engineering skills won't matter.

"The thrill of this industry is doing the deals. If you're not working on live transactions, you start to go stale," says Daniel Lach, Managing Director of Beaufort International.

Some dealmakers think it's by no means a given that even the most aggressive, savvy bankers are slick self-marketers. "We're all good at spreadsheets and valuations, but bankers often are not trained in the fine art of selling themselves. They don't learn it in business school," says Mark Borkowski, President of Mercantile Mergers & Acquisitions Corp., a Toronto-based brokerage firm specializing in the sale of privately owned businesses.

If you work for a bulge-bracket firm, you have lots of channels for attracting clients. You can provide research (which is still a draw despite recent securities-based controversies), you can lend them money, IPO them, take them private, or sell them other products. All these channels grow out of your role as a trusted adviser to senior management. But for most mid-market advisers, it's a different story because the options aren't so diverse.

Whether they work as a solo act, at a small firm, or even at a large mid-market firm, mid-market bankers have fewer ways of attracting clients than their bulge-bracket colleagues. But it's still vital to draw clients in because they are the ones who pay the bills.

So it becomes the responsibility of nearly everyone who is a mid-market m&a intermediary to figure out how to highlight their capabilities to attract and retain clients. If anything, this aspect of doing deals has become even more competitive, as Novak acknowledges in stating: "One thing that's changed in the business over the years is that everyone's a rainmaker now."

For m&a intermediaries, the key to reeling in and retaining clients boils down to developing and nurturing relationships.

Marketing After the Shakeout

Today's cutthroat battle for clients has its roots in recent economic history. When the dot.com economy went bust, a lot of bankers were reassigned or fired. Carnage in the telecommunications and other sectors also helped slash headcount at the big firms.

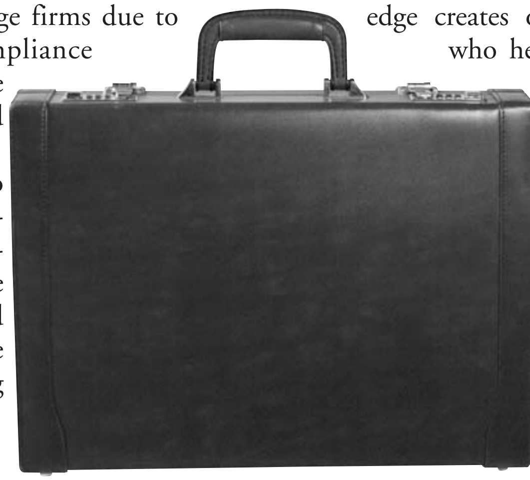
"In the last few years, we've seen a flurry of new investment banking boutiques in reaction to the downsizing on Wall Street," says Tom Cibotti, Principal at Covington Associates, which focuses on health care and technology deals. He adds that the combination of a more competitive environment and a more sophisticated end user has made the marketing of a banker's skills even more crucial.

"People are getting smarter about who they invite to bake-offs," he says. "They're more willing to go outside their geographical area to look for talent."

Another wave of bankers, more senior for the most part than the immediate casualties of 2000, are trying to elbow their way into the middle-market

game. These m&a specialists left large firms due to increased administrative and compliance demands that were instituted after the Enron, WorldCom, Tyco, and Adelphia Communications scandals.

Both classes of bankers have had to modify their large-firm client attraction and retention tactics to a middle-market model. What follows are some tips for career mid-market bankers and former bulge-bracket players who have entered the chase for deals involving smaller companies.



Specialist Versus Generalist

Many deal pros contacted by *Mergers & Acquisitions* contend that it's important to specialize.

"If you're a small mid-market firm, you have to specialize," says Nathaniel Burgess, Senior Vice President at Corum Group, which specializes in sales of privately held software and information technology companies. "For the most part, generalist m&a dealmakers don't survive the first cut."

We're all good at spreadsheets and valuations, but bankers often are not trained in the fine art of selling themselves.

A problem for would-be generalists is that the first question that pops out of a prospective client's mouth is, "Why should I work with you when there are a number of bankers who know my industry inside out?" says Patrick Hanraty, President of Daedalus Financial Group in Philadelphia.

Yet some mid-market bankers defend the generalist approach. For one, Borkowski doesn't believe in specialization as a general strategy. "Even among the big banks, there are a lot of generalists. It's better to be opportunistic and take whatever comes in the door," he says.

Another proponent of the generalist approach is m&a pro Gary Roelke, Executive Managing Director at Corporate Finance Associates. He says that even though 70% of the executives at his firm have deep industry knowledge, most are willing to juggle deals in different industries. "You have to hedge your bets. It's a cyclical world so in order to keep your skills current, you have to be opportunistic."

But specialists argue that it makes sense that a key component of most bankers' approach to attracting business is to concentrate on sectors they know well. "Industry knowledge creates opportunities," says Patrick Hurley, who heads MidMarket Capital Advisors in Philadelphia.

A Tale of Two Specialists

A common thread in the career paths of many mid-market deal pros is having spent time at a big investment bank when they were younger. And when they decide, or are forced, to set up their own shop, they are likely to work in the industry they were exposed to at the larger firm. "Most bankers get comfortable with a particular industry or see a large amount of potential in one and decide to work in that sector," Lach notes.

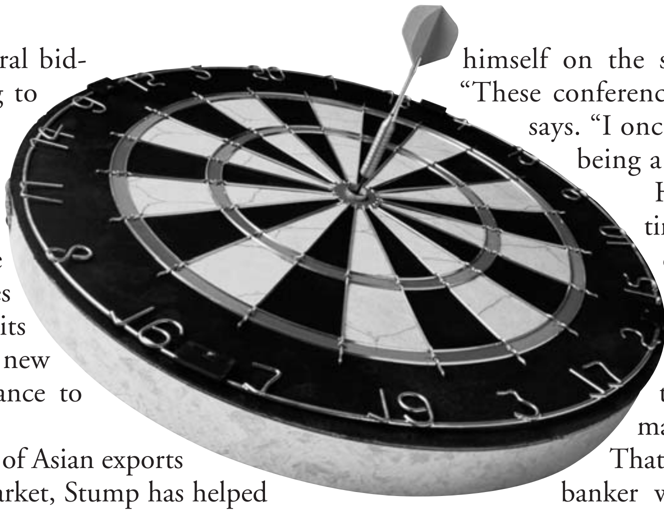
In his case, Lach, who now specializes in fire protection and security deals, says that a similarity in the companies he deals with is that they are run by engineers. An engineer himself, he says intermediaries are often best able to communicate with business mangers and owners with whom they share a professional discipline.

"Engineers have a straightforward way of approaching things and this helps me when I'm talking to them about deals," he adds. It's probably the same for those with training in law or accounting in their interactions with buyers or sellers who come out of those professions, he notes.

Charlotte, N.C.-based Stump & Co., another mid-market specialist, works primarily in the furniture industry. Managing Director Tim Stump says he specializes in two ways: by sticking to furniture and by representing only sellers.

It's important for would-be specialists to choose a business that is consolidating but still has enough players to generate deals, he asserts. By representing sellers only, Stump says his firm profits from broader access to furniture business owners because they know that the information they share won't be disclosed until they give the go-ahead. "We have the numbers on everyone, but owners know we won't disclose anyone's financials until we are authorized by them to do so."

Bankers that represent sellers also enjoy a much greater likelihood of getting paid, because most deals are done on a completion-fee basis. It's safer to represent a



seller rather than one of several bidders since there is only going to be one successful buyer.

But while a banker can think of himself as a specialist, it doesn't mean he isn't open to new opportunities outside of his specialty. Stump notes that even as his firm keeps its focus narrow, it will enter new business areas if there's a chance to service clients.

Because there's a tidal wave of Asian exports affecting the U.S. furniture market, Stump has helped clients set up joint ventures with Asian manufacturers that are seeking a toehold in the U.S. market — a business that is slightly outside of his normal operations.

> **The best poker players don't play every hand, so as dealmakers we have to have patience and restraint to play only when we're going to win.**

Once he does a deal with an Asian partner, he adds, the firm will try to figure out a way to build on that success by doing more business with the partner, even if it takes him outside of his customary niche.

Another advantage to specialization, Stump says, is that it allows him to take into account non-price issues. "In selling private businesses, price is only part of the equation." With his deep industry knowledge, he says he can address such sensitive issues as post-sale family involvement, the deal's impact on current employees, and effects on the community where the business is based.

Whether the days of the generalist banker are fading is not clear, but Lach says he finds that it's harder to work as a generalist.

Trolling for Business

Nearly all dealmakers queried on marketing say they used conferences, trade shows, and other industry gatherings to prospect for clients. Interestingly, though, there are a number of different approaches to fishing for business at these meetings.

Borkowski says he tries to talk to people at every booth and make inquiries about businesses that might be for sale. In order to encourage the people he meets to supply him with leads, he mentions that if a lead turns into a sale for him, he'll pay a finder's fee to the person who supplied the tip.

Another trick of the trade Borkowski employs is to get himself on the speakers list at the conference. "These conferences are starved for speakers," he says. "I once sold a trade show as a result of being a speaker on its program."

He maintains that by merely getting his name in the brochure of a conference, an m&a intermediary gains instant credibility among the attendees.

Borkowski also recommends taking a "date" with you as you make the rounds of the trade show. That partner can be a lawyer, another banker who can offer services that the m&a intermediary doesn't provide, or some other type of deal pro. This approach has the effect of broadening the range of services that Borkowski can offer.

Other mid-market m&a intermediaries approach trade shows and conferences in different ways. Burgess says his method to conferences is to know whom he needs to speak with before arriving on site. That way he can focus on them and try to schedule meetings before the show.

Targeting decisionmakers at the event by sponsoring a VIP lounge or other exclusive gathering place is an approach that Lach likes. "We want them to have to have a special membership. We want to pitch to board members, CEOs, and business owners."

But he adds that mid-market firms have to be careful in picking their spots for show sponsorships as well as publication advertising. "We all have limited budgets, so you have to choose carefully," he notes.

Capturing Potential Clients' Mind Share

One of the key components of building the kind of relationships that lead to business is getting the attention of potential clients. And just as they are split on the special-ist/generalist approach, dealmakers have different views on how to achieve this goal.

Most bankers would agree with the assertion by Houlihan Lokey Howard & Zukin Managing Director Scott Adelson that, "Most mid-market businesses have lawyers and accountants, but only a few have investment bankers."

There are any number of ways to get the banker's number on the same Rolodex as the other professional service providers.

Alan Gelband, Principal at Alan Gelband & Co., a New York-based m&a firm, says he likes to approach potential clients by coming up with an idea and presenting it to them. His activities as an investor feed into his activities as a dealmaker. “If you're an investor it makes it easier to understand the needs of potential buyers,” he states.

Another banker who tries to approach clients by bringing them ideas is Ian Caulfield Smith, Principal at Business Transition Advisory in Toronto. “It's good to contact an organization with a live deal in hand or with an idea so they see you are bringing them something of value,” he says. Even if the original idea doesn't turn into a transaction, he adds, it will establish a relationship, and the next time the contact has discretionary business, he or she will think of him.

Burgess says that contacts will get a sense in the first two or three minutes whether you've done your homework on their business. If you don't know your stuff, it doesn't matter how much you wine and dine them.

Adelson stresses the importance of dealmakers doing the basic block and tackling of learning the target's business in order to make a successful pitch. “Personal chemistry matters, but it should be combined with industry knowledge.”

The combination of a more competitive environment and a more sophisticated end user has made the marketing of a banker's skills even more crucial.

Some intermediaries advocate using any opportunity to keep your name in the minds of potential clients. “I like to use any excuse, whether it's telling them you've appeared in an article or sending a card that you've moved,” says one dealmaker.

He figures that since any meeting is likely to be remembered for only a month, it's important for the intermediary to find other ways to touch people.

Lach disagrees with this approach, saying that it's easier to get access to people if they know you're bringing them something. “People are very sensitive about whether there's any valid reason for a call. You don't want to be perceived as someone who's just snooping around for information.”

Pros and Cons of Loss Leaders

Another issue dealmakers differ on is the use of loss leaders, or offering clients some services for free in order to gain consideration for subsequent assignments.

Borkowski is a proponent of giving away some services in order to become known among potential clients. “I'll do a free expression of value,” he says. “This really pisses off the accounting firms because they charge $3,500 to $5,000 for this.” He says he's willing to print up such a report, which he notes is accurate within 2%, and present it to a business owner.

Lach takes a different tack, saying that if a banker has been able to carve out a niche, he doesn't have to give services away. “The Goldman Saches of the world don't give things away, why should we?”

As mid-market dealmakers contemplate their strategies, there are no right or wrong ways to approach clients. It's more a question of using the techniques that are right for a given dealmaker in a given situation.

And even as m&a intermediaries agonize about how to achieve the deal flow levels they want, the intricate process of attracting clients has some aspects no dealmaker can totally control.

Even with all the planning in the world, Gelband notes, there is still an element of luck in acquiring clients. “You have to be known, but you also have to be known at the right time.”

Other bankers note that even if it may seem counterintuitive, an important part of marketing yourself is knowing when to hold back. “The best poker players don't play every hand,” says Caulfield Smith, “so as dealmakers, we have to have patience and restraint to play only when we're going to win.” ■