M&A ANALYSIS

Accelerating deal origination in acquisitions

Deal origination is the foundation of any successful acquisition-led growth strategy and, at a time when many companies are considering M&A as their main route to growth, having solid, efficient deal origination processes in place has never been more vital.

The process describes how to source M&A opportunities and other investment prospects and is the first step in setting potential deals in motion.

Beyond this generic definition, deal origination processes can vary, with buyers using them to generate acquisition leads for strategic expansion or to identify existing opportunities on the market.

There are several ways of conducting the deal origination process, including:

- Through a dedicated in-house specialist or team
- Using third-party intermediaries including buy-side M&A consultants
- In conjunction with an outside party, such as investment bank or private equity firm

Whatever way companies may choose to approach deal origination, one of the most important aspects of the process is to have a robust pipeline constantly moving.

Waiting for an opportunistic acquisition is less likely to result in a successful outcome.

Technology is becoming an increasingly important part of the process, meaning companies can utilise new, data-driven technology to locate and analyse potential acquisitions.

While it is of course crucial to balance speed with an analytical approach and quality due diligence (in order to prevent targeting the wrong deals), a quick deal origination process can be central to an efficient, successful acquisition strategy.

Benefits of quicker deal origination

There are a wide range of benefits to quicker deal origination, providing the approach is also focused and well thought out. Fundamentally, of course, it can help businesses to execute deals at pace, which will be paramount if a buyer is looking to build a scaled-up acquisition programme in which one deal quickly follows another.

By identifying, initiating and closing deals at speed, buyers will then be primed to rapidly move on to their next potential acquisition.

Speed does not equate to impulsiveness. Not for a moment are we advocating anything other than a considered, thoughtful approach. A company's deal processes become more efficient with time and experience, not through impetuous decisions.

Identifying potential acquisition opportunities as quickly as possible will also mean that buyers are best placed to beat potential competitors to deals. If, for example, a buyer's acquisition strategy is based on targeting off-market acquisitions of companies in financial distress, then having methods in place to identify the early warning signs that a company is struggling means that they will be able to act on the opportunity more quickly.

With the UK currently seeing huge levels of business distress amid rising costs, huge debt piles and flagging consumer confidence (there are currently estimated to be close to 610,000 UK businesses in significant financial distress), an accelerated deal origination process will give buyers the best chance of fully reaping the rewards.

Finally, building a reputation among both vendors and intermediaries as a serious, efficient, trustworthy and highly qualified buyer often leads to a greater number of acquisition opportunities further down the line.

How can buyers improve and accelerate their deal origination?

One of the main ways that a buyer can develop a quick deal origination process is to build an extensive, far-reaching network of contacts that can help them to source a wide array of potential deals.

By utilising both online and in-person networking, an acquisitive company can create a contact book encompassing everyone from investment advisers and sector experts to vendors and insolvency practitioners.

This can enable a firm to garner insider information on potential acquisition opportunities, gain referrals to business owners that may be open to an acquisition, stay abreast of M&A developments in specific sectors and develop a reputation as an active, well-connected and trusted buyer.

As crucial as it is to develop a network of third-party contacts to help source deals, one cannot rely on this alone, particularly if you are part of a big corporation, or are making regular acquisitions. An aggressive acquisition strategy really requires a dedicated deal origination specialist or team. This is something that a company with the necessary resources often does in-house.

A buyer (or the buyer's team) ought to be constantly working on progressing deals and, over time, establishing a process in which multiple deals are being sourced and carried out at once. This is far more proactive than just relying on outside information and tips to inform and dictate acquisition plans.

If a company doesn't have the facilities to operate a dedicated in-house origination team but is still looking to incorporate dedicated deal origination services into its acquisition strategy, there are consultants and brokers (including investment bankers) that can offer this as a service.

There are many online sources that can assist with deal sourcing, including LinkedIn, Google, Mergermarket, Capital IQ, Offmarket Lens etc. We'll come back to this soon.

Gaining the backing of an investor, such as a private equity firm, can also be advanageous in more than one respect.

With private equity backing, buyers will, of course, benefit from an injection of capital which will significantly bolster their acquisition warchests.

In addition, they will also unlock an invaluable source of expertise, advice and information on potential deals, with many private equity firms now operating with large, sophisticated deal origination teams focused solely on sourcing deals for businesses in their portfolio.

You can find out more about how to attract private equity backing for an acquisitive growth strategy in this BSR insight.

Whether you are pursuing a startup acquisition, or are a key member of an organisation looking to expand, we need to make an assumption, to keep within the scope of this article, that you will have an overall vision and acquisition strategy in place.

For without this, you will be operating with a scattergun approach, which will not produce a high quality deal pipeline.

A clear thinking, proactive approach can only be possible with a defined acquisition strategy. Proactive acquisitions are empirically more successful than reactive acquisitions.

A deal pipeline is really shaped like a funnel. There are far more prospects going in at the top end - by some estimates 100 times more. That is a lot of time spent going through Information Memorandums and subsequent follow-ups.

Keeping this ratio in check requires well-defined screening and staged approval checks.

This process prevents companies from entering the pipeline if they do not align with higher-level strategic considerations that were set-up at the outset of the acquistion campaign.

TTM Healthcare Solutions is a €100 million turnover healthcare services firm based in Ennis that supplies staff to the NHS, HSE and HSC (NI).

In August 2022, the company, which is 50 per cent owned by Dublin-based private equity firm Broadlake Capital, completed the double acquisition of workforce management platform ROTA and workforce specialist MMA Healthcare Resourcing.

Broadlake helped define TTM's growth and acquisition strategy, which in this case was double-pronged. To become a fully fledged heathcare solutions company it needed to invest in technology and to broaden its sales and staff-sourcing reach into international markets.

As a private equity firm, Broadlake has its own dedicated origination team. The firm obviously has an extensive network of contacts, though this doesn't mean it doesn't also work with third parties.

With clear investment criteria, Broadlake also reached out to corporate finance teams and accountancy firms.

One of these firms, Optima, had two companies on their books, ROTA and South African headquatered MMA Healthcare Resourcing, that they knew would interest Broadlake and made the introductions.

The private equity house saw immediately that the fit was right and moved swiftly towards completion of both deals.

TTM foresees technology making a significant impact on the way workforces will engage with employers in this highly evolving market. Rota's technology manages clients' requirements for multiple site locations as well as a multi-disciplinary workforce. Through ROTA, they are able to produce real-time management information both internally and for their customers.

MMA gives TTM added reach into overseas markets, and allows them to source healthcare staff from South Africa, India and the Philippines. MD, Paula McDonnell, says, "With these acquisitions, we are able to offer a menu of services from talent and workforce management, international workforce solutions, healthcare process outsourcing and now workforce management technology."

Paul Quirk is an ex-banker who in 2021 embarked on a self-funded search to find a profitable mid-sized business to buy. Paul also runs the Buy and Build podcast which he set up partly to expand his own knowledge of how to effectively acquire, then grow a company.

By his own admission, Paul flailed around at the outset looking at many businesses across a wide range of sectors. His investment criteria were somewhat loose, which meant his search process was bound to be quite inefficient.

Paul made contact with many business brokers; he sourced businesses himself using tools that enabled searches via turnover, industry sector and profitability; and he used some of the higher quality business sales aggregator sites, including Business Sale Report.

Along the way, the entrepreneur requested and received over one hundred Information Memorandums (IMs) and made 15 subsequent offers. Nearly a year into the search, there was only one serious contender that almost made it to completion, though the deal died in the final due diligence phase. Back to square one.

At this point, Paul reviewed his investment criteria and tightened up his industry focus into the home improvements sector.

He discovered that the UK housing stock is the oldest and least energy efficient in Europe, with 60 per cent of houses failing to meet new minimum energy conservation requirements. Paul decided that if he could buy the right company, this sector could prove resilient through any macro-economic headwinds.

Once acquisition criteria are tightly and comprehensively defined, the deal originlation process will quicken, with the pipeline holding higher quality leads that will be easier to compare against one another.

Towards the end of 2021, Norfolk-based accountants Larking Gowen listed 'Project Jasper' on the Business Sale Report. This was a summary of information on a business – Amber Home Improvements Ltd - that they were instructed to market. Amber is a regional retailer and installer of windows, doors, conservatories and orangeries based in East Anglia with revenues of £4 million and EBITDA of around £650k.

Paul, a Business Sale Report member, spotted the opportunity as soon as it was listed and, as the business' activities and financials both fitted well with his revised investment criteria, he wasted no time contacting Larking Gowen to sign an NDA to receive the IM.

Nine months later and the deal was finally done, with a few hiccups surrounding financing on the last stretch . Nevertheless, Paul is very happy to finally be the owner of what he calls 'such a great business'.

It took Paul 20 months from starting his search to getting his first acquisition over the finish line.

Entering this industry at the outset of a crisis in fuel and heating affordability could well be fortuitous for entrepreneurs like Paul, as householders will see investments in measures to improve insulation like double glazing pay off over a far shorter period.

The Institution for Government (IFG) think tank has also recommended that the government launches a major programme to reduce energy use, including boosting insulation, saying that by doing so it could reduce Britain's household energy costs by £27bn in 2023.

Aside from the formal structure through which a buyer carries out deal origination, there are also numerous methods they can adopt and incorporate into their processes to enable them to find and execute deals more quickly.

One fundamental exercise that can ensure a buyer only identifies potential acquisitions which truly fit with its model, is to create a detailed, granular profile of the type of businesses that they are interested in acquiring.

This involves establishing set parameters on factors such as the size of business they'd be interested in acquiring (whether defined by headcount or turnover); financials i.e. operating margins, EBITDA or perhaps undervalued assets; the sector(s) or sub-sector(s) that they are looking to acquire in, a specific region that potential targets should be based in; the type of products or services it sells; or the type of customer/client base that a business serves. See Appendix I.

Establishing a profile at the outset of an acquisition drive can ensure that buyers and their advisors spend less time sifting through businesses that are unsuited to the acquisition model and can find and act on the right opportunities at greater speed.

This kind of approach is one that has become far more viable given the proliferation of deal origination technology and online tools over recent years. Buyers can now supplement their deal origination with resources such as aggregation platforms and tools such as data analytics, enabling them to set a clear profile for potential

Using Off-market Lens for more efficient deal origination

Off-market Lens is a new online tool from BSR that allows buyers to quickly and efficiently identify and analyse potential acquisition targets. With the Lens, you can search off-market businesses by criteria including turnover, profit, location, industry and other, more granular parameters to identify and examine businesses that fit your acquisition model.

Once you have selected your search criteria, Off-market Lens produces a list of relevant companies as a CSV file which can then be converted into an Excel spreadsheet for you to download and peruse. The spreadsheet will offer a full breakdown of each business' financials, as well as a range of other relevant information, saving you the time and money that might otherwise be wasted trawling through individual businesses on Companies House or wading through pages of irrelevant information.

The Lens enables you to quickly identify off-market business opportunities and cut out the middleman by going directly to the owner. In an environment in which deals are happening quickly and competition for acquisitions is intense, this can save you invaluable time and make sure you're working constructively on your next acquisition, rather than spending days chasing the agents representing a business that's been put up for sale or trying to stand out to administrators looking to sell an insolvent business.

When conducting an acquisition directly with an owner, you are also dealing with someone who has an inherent interest in securing the best deal possible and getting it over the line quickly. Whereas agents are paid retainer fees, owners are paid when their business is sold. This means that, providing the deal terms work for both parties, they have no reason to stall and you can close the transaction as quickly as possible.

The Off-market Lens' records are regularly updated, meaning that all the information is recent and relevant to your search. The BSR team keeps track of each company's financial performance over the past three years, meaning you can also see how well it has performed over recent years and whether it's on an upward growth trajectory or struggling (and perhaps heading towards financial distress).

In our experience, deal origination is a numbers game and, once you've established your criteria and identified companies that fit your profile, reaching out to as many owners as possible gives you the best chance of ultimately making successful acquisitions.

acquisitions, conduct detailed analysis of specific companies to gain deeper insights and more accurately identify suitable targets.

Buyers can also utilise technology and online tools to create databases and detailed watchlists of potential future acquisition targets. By doing this, businesses can always be looking ahead to their next acquisition and monitor or remain in contact with firms that have been identified as potential targets. Such an approach will be vital if a company is looking to build an acquisitive growth strategy with a strong pipeline of potential and in-progress deals.

When looking to source deals quickly, proactivity is key and one of the most proactive approaches that buyers can take is to develop an acquisition strategy that focuses on identifying off-market opportunities.

If a buyer can identify companies that might be open to an acquisition or (in the case of distressed acquisitions) are demonstrating early warning signs that they might be heading for insolvency, then they can move more quickly to pitch themselves to the owner and potentially do a deal directly, rather than dealing with middlemen when a company formally puts itself on the market or enters administration.

Finally, buyers should also take note of the deal origination processes of competing buyers and consolidators in their industry. Taking an active interest in how competitors go about sourcing their deals can help a company to see what other buyers are doing right or wrong and adjust their own processes accordingly, while also gaining greater oversight of M&A trends in their sector.

By locating off-market business opportunities and contacting owners before a business is brought to market, you can stay several steps ahead of the competition (or even cut them out completely). Even if the terms of an acquisition aren't agreed immediately, making direct contact with an owner early on establishes a rapport and can greatly increase your chances of closing a deal further down the line.

With business distress soaring and M&A offering one of the main routes to growth in an increasingly gloomy economy, having solid deal origination processes in place will be vital for buyers. More pressingly, however, the intensifying competition to acquire the best targets (distressed or otherwise) means that buyers need to move quickly and decisively to secure deals.

An acquisition strategy that combines close scrutiny, proper due diligence and a comprehensive profile for potential acquisitions with a quick, efficient deal origination process will ensure buyers have the best chance of finding the right deals. Ultimately, securing a sustainable path to growth through acquisitions is the surest way to stay ahead of the competition.

Appendix I - Some of the key criteria when screening M&A targets

Industry and the target's position in it and size (sales, assets, market value)
Strategic capabilities
Profitability and other financial factors (i.e. debt)
Risk exposure (regulatory, product concerns)
Asset type - whole company or parts? Real estate, natural and/or human resources?
Intellectual property (client lists, patents/trademarks, relationships)
Quality and likelihood of management to remain with the company
Current ownership
Culture and organisational fit