



CRM Systems and Deal Sourcing

A Special Report produced by Preqin and LexisNexis Enterprise Solutions

September 2011

Methodology:

Buyout firms across the world were sent a copy of the survey, which covered three main areas:

- Deal flow orientation.
- Deal sourcing methods.
- CRM software in deal sourcing.

The survey contained a mixture of multiple choice questions and those which required written answers. The results are based on 63 responses.

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Introduction

Following the onset of the financial crisis the private equity industry saw a significant drop in the value of new deals and exits being made by buyout houses. The whole of 2009 saw just \$94bn in new deals worldwide, equivalent to just 15% of the value that was seen in 2007.

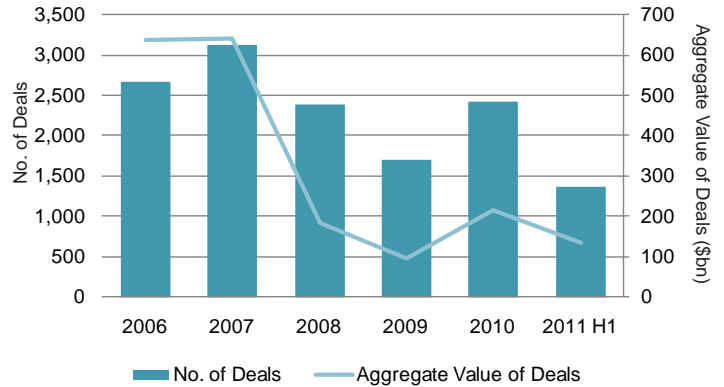
As Fig. 1 shows, although there has been improvement in the volume and value of deals being made in more recent quarters, we are still a long way from the record-breaking values seen in earlier years.

With fund managers understandably holding back from making new investments due to both market turbulence and a lack of financing options, the amount of dry powder (i.e. capital that has been committed but remains uncalled by buyout firms) available to the many managers that raised bumper funds in 2007 and 2008 remains high.

Although the volume of dry powder available to the industry is 31% down from the historic high of \$495bn in 2009, and currently stands at \$391bn (see Fig. 2), funds with a 2007 vintage year account for 22% of the total, while 2008 vintage funds hold 28%, as Fig. 3 shows. As the vast majority of firms employ a five-year investment period, the pressure to put this capital to work is therefore rising as investment deadlines grow ever closer. This has increased competition for deals significantly – especially as the fundraising market recovers and new capital becomes available to fund managers with fresh vehicles.

In these competitive times, the ability of fund managers to effectively source, manage and execute deals has become more important than ever. In order to better understand how these conditions are affecting the market and the ways in which firms are operating, LexisNexis Enterprise Solutions teamed up with Preqin in order to provide insights into the latest industry developments, including: current market perceptions, sourcing methods, and the importance of CRM software solutions in managing deal flow.

Fig. 1: PE-Backed Buyout Deals, 2006 - H1 2011

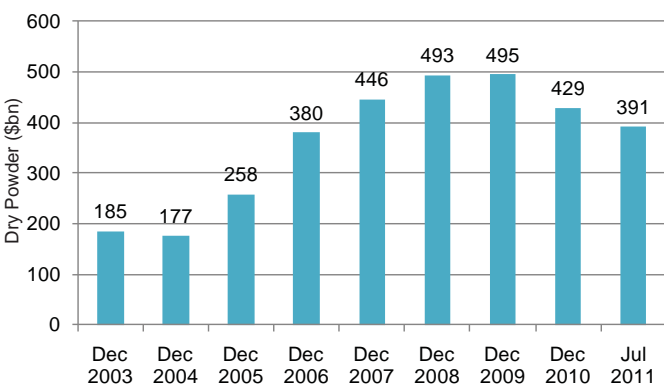


Source: Preqin

LexisNexis Enterprise Solutions is a leading provider of a range of software solutions to the professional services sectors, with its LexisNexis InterAction platform being utilised by leading private equity firms worldwide.

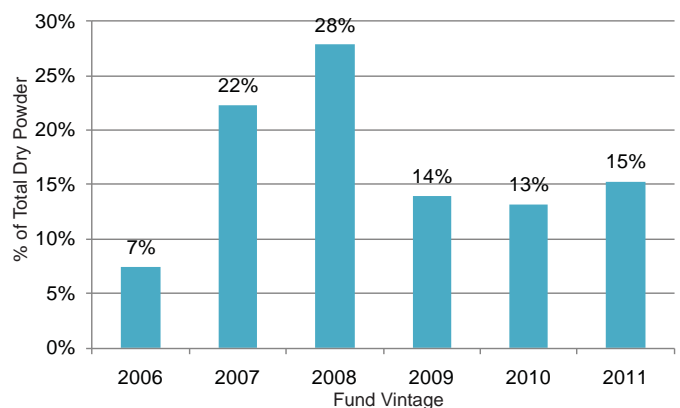
Preqin is the alternative assets industry's leading source of data and intelligence, providing comprehensive information via online database subscriptions and hard copy publications.

Fig. 2: Buyout Firm Dry Powder, 2003 - 2011



Source: Preqin

Fig. 3: Current Buyout Firm Dry Powder Split by Vintage Year



Source: Preqin

Deal Flow Orientation

Monthly Considerations

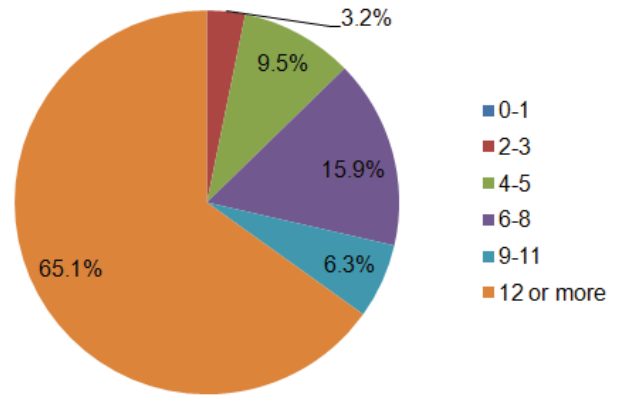
Two-thirds of respondents examine 12 or more deals on an initial first-stage basis each month, and an additional 22% review between six and 11. Clearly the number of deals being examined will vary somewhat based on the fund size and strategy, but the results indicate that there is a healthy pipeline of opportunities at present.

Of course, opportunities are only viable and worth pursuing if the fund managers feel that they have the ability to add value based on the potential cost of acquiring the company. When it comes to how many of these potential opportunities are examined on a more in-depth basis, there is greater variation in the number of deals evaluated closely each month; 43.5% analyse two or three, while 11.3% stated that they study 12 or more closely. A breakdown of results is shown in Fig. 5.

There are currently 202 buyout firms on the road seeking an aggregate \$166bn in capital for new vehicles globally. With so many firms out there chasing limited available capital from institutional investors, it is extremely important that they are able to differentiate themselves from the competition. Key to this consideration is the ability of fund managers to show that they are experts in sourcing deals, with an excellent proprietary deal flow source and effective evaluation techniques.

Our analysis shows that when it comes to sourcing these deals, around one-third of firms find 40-60% of their deals through proprietary deal flow and almost a quarter (24%) source 60% to 80% in this manner; see Fig. 6 for the full results. Respondents were given the opportunity to discuss the issues surrounding deal flow orientation, and a number stated that sourcing proprietary deals was problematic in the current market. One middle market firm stated that "sourcing true proprietary situations is always a big challenge. You can only be successful if you have a great network in relevant industries and an excellent reputation in market with owners, advisors, banks, etc."

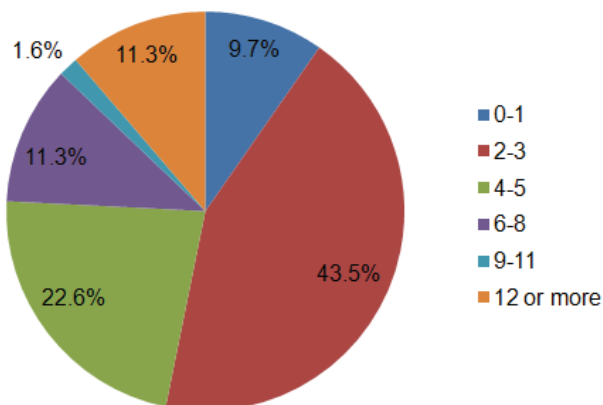
Fig. 4: Number of Deals Reviewed Each Month



Source: Preqin

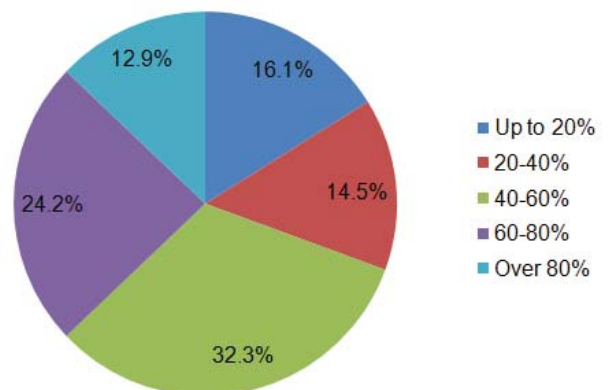
It is clear that the pressure on firms to put capital to use and the rise in the number of active players in the market has made it more challenging to source proprietary deals as competition has become more intense, and the methods utilized to source deals grow more sophisticated. It is therefore vital that firms are able to evolve their practices and maintain their ability to generate proprietary deal flow. This is important not only from a deal flow perspective, but also for those firms currently with a fund in market or considering a new offering in the near future. Institutional investors in private equity are conducting increasingly deep due diligence with both existing and potential new fund managers as they look to form stronger relationships with only the very best firms. Demonstrating the ability to independently source profitable deals as a core competency is therefore essential in keeping existing investors satisfied and securing commitments from new investors, in addition to identifying the best opportunities at the best prices.

Fig. 5: Number of Deals Receiving Close Analysis Each Month



Source: Preqin

Fig. 6: Proportion of Opportunities Sourced through Proprietary Deal Flow



Source: Preqin

Current Market Conditions

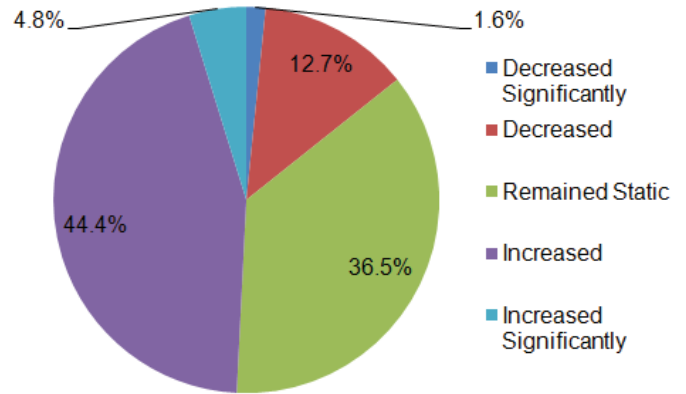
The results of our study suggest that the deals market is relatively buoyant, although opinions on the change in deal flow over the past 12 months varied quite significantly. The highest proportion of participants, 44%, stated that their deal flow had increased over the past year and an additional 5% claimed that this increase had been significant. Just over a third, 37%, felt that it had remained static, while 14% felt that the flow of deals had decreased in the last 12 months.

There is evidence that increased pressure to put capital to work is affecting pricing and the flow of potential new deals, with a number of respondents stating that they felt deal flow had been inconsistent, and the marketplace was very competitive. One respondent noted a “rise in the number of PE participants in auctioned deals, and prices they are willing to pay in the face of disappearing funds from expiring investment periods.” This would certainly explain why over half of those taking part in the study believe that assets are overpriced, with a further 14% feeling that that they are significantly so.

A number of respondents also stated that high value expectancy was a problem for them in the current deals marketplace – owners and advisors are aware that they are in a sellers’ market, and are capitalizing on increased demand by raising prices. All of this has the potential to erode future returns, which will cause concern amongst institutional investors. The ability to source deals through proprietary channels and form strong relationships with potential acquisitions at an early stage is therefore more important than ever in protecting fund IRRs and improving a firm’s ability to differentiate itself from the competition.

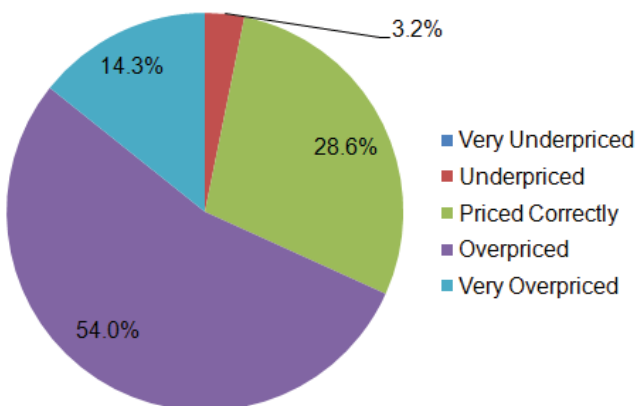
More than half of those participating in the study believe that potential acquisitions are correctly leveraged at present, while 15% believe them to be underleveraged. In a dramatic turnaround from the immediate post-Lehman environment, just over a quarter (27%) stated that over leverage is a problem in the current market.

Fig. 7: Perception of Deals Pipeline Change over the Past 12 Months



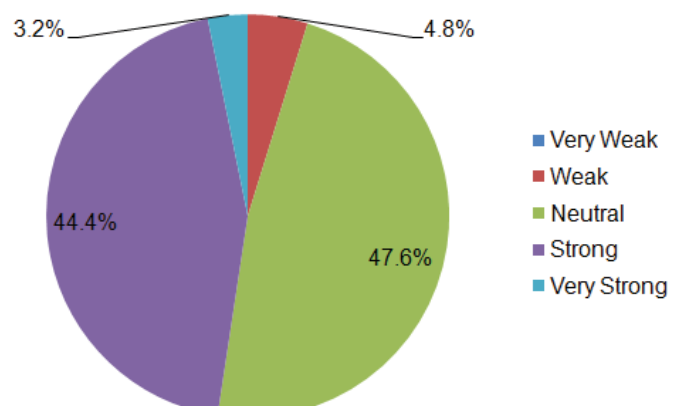
Source: Preqin

Fig. 8: Pricing Perceptions for Current Opportunities



Source: Preqin

Fig. 9: Perception of Overall Outlook for Doing Deals



Source: Preqin

Deal Sourcing Methods

Networking and Personal Relationships

Personal and business networks were the most commonly cited sources of deals; some respondents rely solely on networking, while others use a combination of networking and other research methods.

A number of firms cold-call, while others gather information from publications, intermediaries and financial advisors. One respondent stated: "We build and maintain relationships and contact with national and boutique intermediaries, attending networking events, and maintaining and developing industry-level relationships."

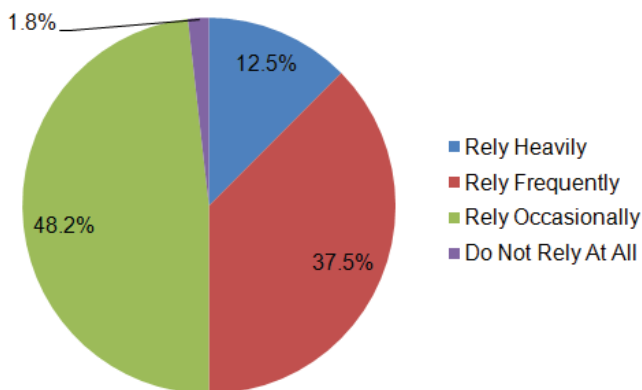
Given the importance of personal relationships in sourcing and winning deals, effective management of these relationships is imperative. 80% of participants stated that they already use a CRM system for relationship management, or would use it for this purpose if they were to invest in one. CRM systems are therefore considered a valuable tool for efficient relationship management in buyout firms.

A very small proportion of participants, 2%, do not rely at all on referrals for deal flow. 13% rely heavily, while the remaining firms rely to varying extents. Respondents were invited to discuss how they manage their networks of referrals, and there were a range of responses. A number use CRM systems. One respondent stated: "We have a CRM of over 150,000 contacts being managed by a large team of deal originators," and another said: "We use a CRM database and have a dedicated business development team."

A number of firms have business development teams; one respondent said: "We have full-time business development professionals that cultivate this network." Other firms make regular calls, maintain spreadsheets, or visit in person.

Almost two-thirds of participants have a varied referral network; 59% stated that their network comprises accountants, lawyers, advisors and a management pool. Advisors form part of referral networks

Fig. 10: Extent to Which Firms Rely on Referral Networks to Source Deals

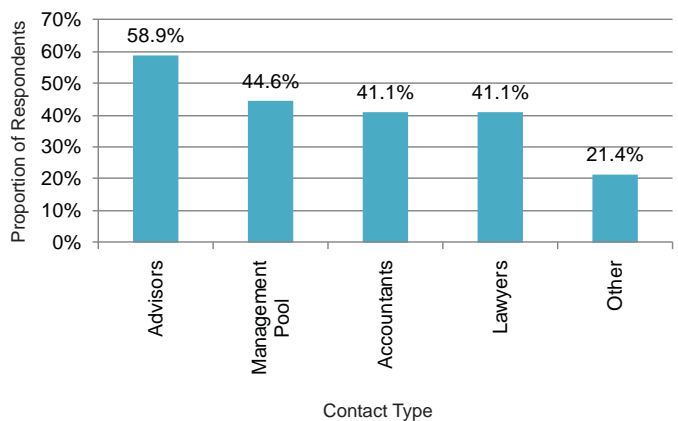


Source: Preqin

most frequently and 61% indicated that their network includes such members. A full breakdown of results can be seen in Fig. 11.

Aside from those already mentioned, some firms include other contacts in their network teams. Former colleagues, industry and horizontal networks, corporate sellers and brokers were all listed by number of participants. More than 60% of participants believe that personal links with target companies are desirable when it comes to sourcing deals.

Fig. 11: Breakdown of Referral Networks



Source: Preqin

Personal Relationships and Winning Deals

The survey results suggest that personal relationships are of the utmost importance when it comes to sourcing deals. As previously discussed, a significant number of participants rely on personal and business networks when looking for deals, and almost two-thirds feel that links with target companies are invaluable. It is not surprising therefore that personal connections and relationships are imperative when it comes to winning those deals. When asked if they had won a deal in the past based on a personal relationship, just 6% of participants stated that they had never done so, meaning that the vast majority, 94%, have won deals as a result of personal relationships on at least one occasion. As shown in Fig. 12, 46% stated that they had done so a number of times, 22% frequently and 9% very often; over three quarters, 77%, have therefore successfully won deals based upon personal relationships on a regular basis, proving just how important such connections are when it comes to winning deals.

Respondents were then asked to discuss the ways in which this might change as the deals market becomes more competitive. Responses were varied.

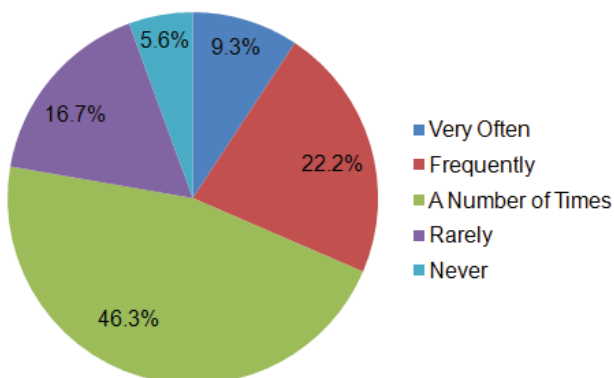
A couple of participants suggested that they will be expanding their teams; one stated: "We will invest in establishing and maintaining relationships and hire people with extended relationships," and another said: "We will be bringing on people focused solely on sourcing."

A number were keen not to overstate the importance of relationships in sourcing deals. One said: "The key component of personal relationships is to be the first person in the door. To the extent they exist at an auction I believe they can break a tie, but typically a seller will not accept a much lower valuation just because of a relationship." Another stated: "They are obviously more important. However, most of the time in the end what matters is price and PE organization."

With competition rising, the influence that networking and personal relationships can have on the ability to effectively source deals is changing. Although there is a realization that these factors alone are unlikely to win a deal, there is a widespread acceptance and belief

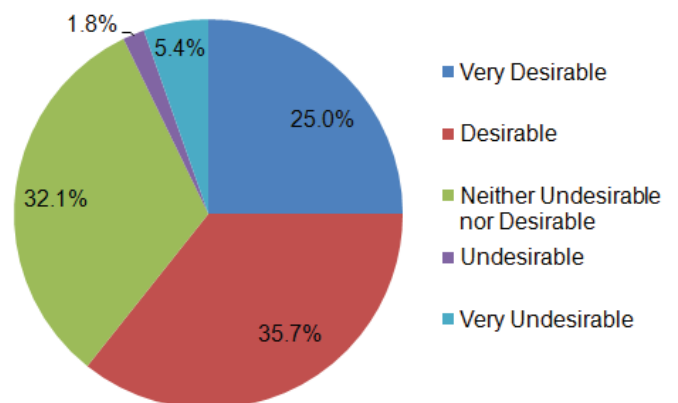
that they are valuable in a number of different ways – especially in enabling a firm to be the first to get a foot in the door and therefore have more scope to consider and drive the direction of any future bidding process.

Fig. 12: Frequency with Which Personal Relationships Have Been Used to Source Deals



Source: Preqin

Fig. 13: Desirability of Personal Links with Target Companies



Source: Preqin

CRM Use in Sourcing Deals

The Importance of CRM Software

The final part of the survey looked at the firms' current use of CRM software, its importance in deal sourcing, and whether or not those firms that are not currently using a CRM system are considering adopting one in the future. In total, 57% of respondents indicated that they are currently employing CRM software within their organization.

44% stated that CRM usage is important or very important. It is important to note that these results are indicative of all respondents, and not just those currently employing a CRM system. A full breakdown of the results is shown in Fig. 14.

While overall perceptions of the importance of CRM solutions are somewhat mixed, an overwhelming 85% of participants that are currently utilizing CRM have seen some level of benefit in the use of a CRM system, while only 15% have registered no benefit.

In some cases where benefit is not being seen, the usage is sporadic or not company-wide. One respondent said: "Its use is spotty. It is difficult to be disciplined in keeping up to date," while another commented: "I'm the only one that uses it." From these responses it appears that achieving buy-in is the key factor in reaping maximum value from the implementation of a CRM system. Changing attitudes to working practices is never straightforward, and it is therefore essential that firms are implementing the right kind of software which can be integrated into current working practices in order to effectively harness the full potential of CRM to add value to the deal sourcing process.

Firm-Wide CRM Usage

While some respondents have found achieving company-wide buy-in for CRM to be a challenge, others have successfully implemented it across their organizations. One respondent stated: "It was put in place at the earliest foundation of the firm. [We have] invested heavily to build what we have. Our entire BD and M&A organization has access

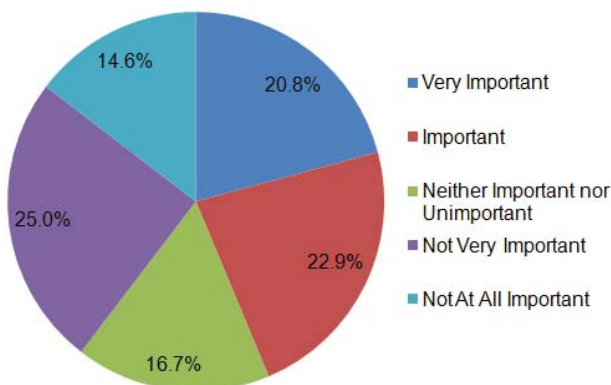
to our CRM," and another said: "It is used by every firm member to track deal flow and contacts," a factor that effectively enables employees to leverage each others' interactions and relationships. Other uses for CRM systems include logging meetings, maintaining client contact details and marketing purposes. A number of firms indicated that they are currently in the process of implementing their CRM systems and are training staff accordingly.

The Future of CRM

52% of those that do not currently have a CRM system are considering investing in one, and of these respondents, 57% intend to do so within the next six months. The timeframe within which these firms intend to invest in such a system is shown in Fig. 15. Our study would therefore suggest that within the next 18 months, just under 80% of buyout firms will be utilizing a CRM system.

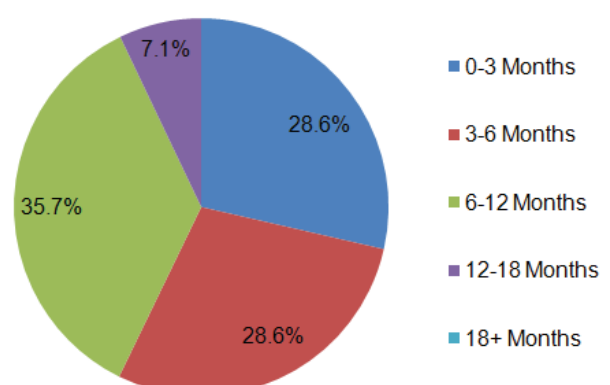
While we may realistically expect some rebalancing in the supply and demand stakes for buyout firm deal flow, helping to stabilize prices in future, the significant increase in the number of active firms in recent years means that competition is likely to remain intense. For firms operating in this shifting landscape it will be vital that their existing practices in managing relationships and sourcing deal flow are regularly assessed in order to ensure that they remain best practice. Our findings indicate that firms are increasingly seeing CRM as a means of leveraging networks and relationships, helping them to move quickly and better organize their deal flow opportunities. Although utilization of CRM is not in itself going to result in better deal flow, in such a competitive market it could certainly prove to be an effective tool in providing the extra insight necessary for firms to make better decisions more quickly.

Fig. 14: Importance of CRM Systems in Organizing and Tracking Deal Flow



Source: Preqin

Fig. 15: Timeframe within Which Firms Anticipate Employing a CRM System



Source: Preqin



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Preqin private equity provides information products and services to private equity and venture capital firms, fund of funds, investors, placement agents, law firms, investment banks and advisors across the following main areas:

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- Uncover potential investors and deals.
- Improve the deal flow process.
- Track investments and investment options.
- Effectively manage current deals.

Offering 360 degree views of contacts and the deals relating to them, the solution helps private equity firms to establish links between people and organisations, revealing subtle inter-relationships among clients and contacts that can be leveraged to increase revenue, reduce costs and make sound investment decisions. Today, a number of organisations such as 3i and Catalyst Corporate Finance use LexisNexis InterAction.

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