

HOW PRIVATE EQUITY SPONSORS WORK WITH DEAL ADVISORS ON NEW PLATFORM PURSUITS

SOMETIMES YOU REALLY NEED A RIVER GUIDE



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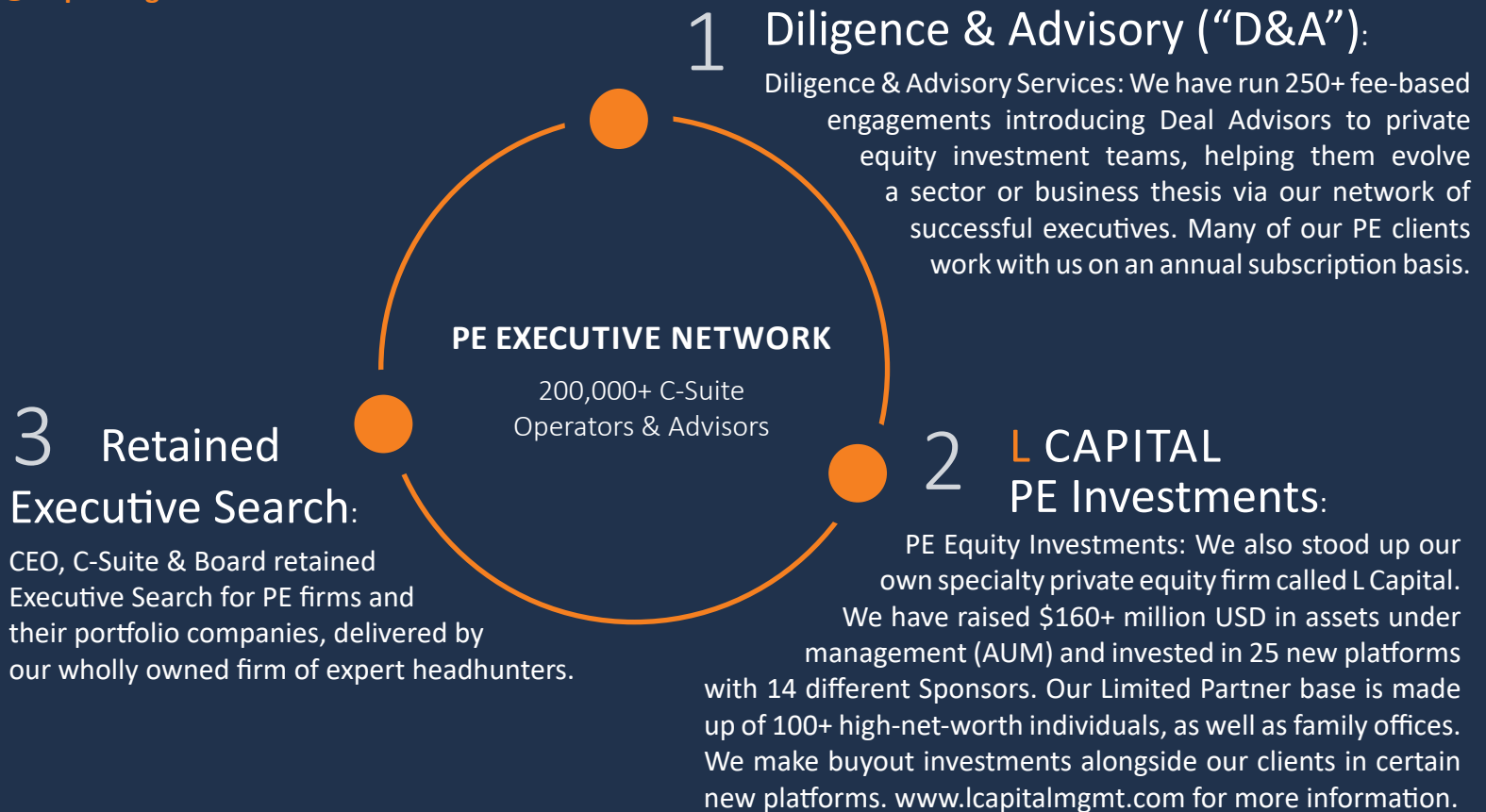
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OUR PLATFORM

We are a professional services and investment platform trusted by Boards, financial sponsors, and their portfolio companies.

For more information or inquiries about this paper, please contact Michael Misiaszek directly at michael.misiaszek@lcapitalmgmt.com



PROLOGUE:

PRIVATE EQUITY'S GIG ECONOMY

There is a “grey workforce” (quite literally) of former executives who are hired *ad hoc* by private equity (PE) firms to help them develop theses, take on due diligence tasks, and close on new investments. This so-called “Deal Advisor” model has gained popularity in recent years, ushering in a new way for PE General Partners (GPs) to differentiate and compete. **Increasingly, Sponsor Investment Committees (ICs) are requiring that Deal Advisors be attached to all deals that get IC approval.** What was once an episodic “side hustle” for semi-retired executives or CEOs in-between roles is now a burgeoning standalone business model.

To our knowledge, no other service provider has surveyed how PE Sponsors work with these Deal Advisors (aka “River Guides”) on new platform pursuits (we are happy to stand corrected, see References, slide 43). Contrary to a topic like CEO compensation—a well-explored area of study—the **Deal Advisor engagement model lacks a formulaic set of rules and best practices.** Herein lies the problem statement.

Our starting point was to explore this topic with hundreds of current and former CEOs and Independent Board Directors who have seen the full PE pre-deal lifecycle—from a twinkle of an idea to a consummated, newly minted portfolio company. Invariably, this caliber of executive has enjoyed demonstrable career success. Many have led PE-backed portfolio companies to a great exit. Some were industry luminaries for global 100 corporations in a prior life. Our interviews focused on those who had been formally engaged by a deal team to assist with thesis development and/or due diligence. A subset of these Deal Advisors were subsequently hired to the go-forward portfolio companies once the deal closed.

We also canvassed PE deal professionals, from lower-middle market to large-cap, to study the model from the alternative vantage point. While PE has a sprawling definition, we limited ourselves to control investments only (i.e., buyout).

To follow are 17 figures covering themes such as:

- Who are these Deal Advisors?
- What do they do exactly?
- How and where do they add value?
- How do PE firms reward and compensate Deal Advisors?
- How do these “hired guns” feel about this working arrangement with PE Sponsors?

TARGET READERSHIP

This paper is aimed at:

Private Equity General Partners (GPs), specifically, Managing Partners, MDs, deal team members and PortOps. This study addresses how to work with and compensate executive Deal Advisors. It is also a handbook for those PE Sponsors looking to create sophisticated Deal Advisor programs. While skipping ahead has its perils, there is a summary on slide 39 & 40.

Executives (CEOs, CXOs, Operating Partners and Independent Board Members) looking for an outline on how to best partner with PE and structure your time. This includes aspiring up-and-comers, perhaps L1s reporting to a CEO.

Limited Partners (LPs) interested in the “secret sauce,” i.e., what makes one PE firm different from the rest? This includes commentary on PE sourcing methods, diligence processes and decision making.

WHAT IS A DEAL ADVISOR?

DEFINING THE ROLE

PE firms have been tapping credible senior executives since the earliest days of buyouts. However, the formalization and acceleration of Deal Advisor programs is a relatively new phenomenon. On one level, the term “Deal Advisor” is subjective and could be anyone that a PE firm deems valuable to a transaction.

Deal Advisors are thought partners to investment teams during the pre-acquisition phase of a new portfolio company. Their contribution runs the gamut from idea generation to market mapping to thesis formation to confirmatory “gut checks.” They are the proverbial “A players” that bring valuable insights to accelerate deal conviction or, in some cases, deal caution. They leverage their relationships to open doors, identify attractive targets, or use industry knowledge to source proprietary deals. They fill a gap that third-party service providers alone cannot cover. **Naturally, it is a finite pool—one that is simultaneously in high-demand and difficult to access.**

Another way to define the role is to consider what they are not. Deal Advisors are not simply functional specialists or industry mavens for rent on expert network marketplaces. They are not available for tactical assignments for a few hundred dollars an hour. They are also not business generalists that sit on PE firm Advisory Boards imparting wisdom from up high. They are not to be confused with Operating Partners, tasked with implementing the value-creation plan and jumping from PortCo to PortCo. They are also unlikely to have a day job given the bandwidth required to run alongside deal teams.

Deal Advisor “Acid Test”

SKILLS & EXPERIENCE

- Nearly every Deal Advisor has gained blue-chip experience and climbed the corporate ladder to a senior role. Many also have had one or more “wins” in successful PE-backed portfolio companies (every Sponsor would feel immediate comfort with those who have produced a 3x+ MOIC in a previous life).
- Deal Advisors are acknowledged as foremost thinkers and business leaders in their respective markets. They often have 20+ years of operating experience in a sector/industry, boast deep industry ties, and offer instant credibility/brand recognition.
- They bring a successful track-record of executing inorganic growth, meaning closing multiple acquisitions and integrating them effectively. After several years of transformation, top- and bottom-line growth and newfound operational structure, they secured a lucrative exit (and ran a crisp sales process).
- After success as a CEO, Deal Advisors often will stay current by sitting on one or more public company Boards. (Most PE firms will find public-company Board Director experience reassuring when “diligencing” a Deal Advisor’s reputation.)

TRAITS & ATTRIBUTES

- Strategic and bright enough to whiteboard a thesis with a sophisticated audience. Whatever criticism may be levied at PE professionals, they are smart.
- Numerate and knows their way around a financial model.
- Ability to navigate the complexities of a transaction and know the rhythm of a deal.
- Charismatic and influential with all relevant stakeholders. They bring immediate gravitas.
- Only learning curve is the specific deal situation/dynamic.
- Ego in check. Only a subset of personalities know how to contribute appropriately in a new transaction setting. Deal Advisors must be able to match the intense pace and work ethic of the investment team. Organ rejection can occur if a Deal Advisor is slow to respond on nights and weekends or turns up to a meeting ill-prepared.
- They will be intellectually curious and creative. Even though they may have been the go-to authority previously, they are still open-minded to new approaches.

THE EVOLUTION OF PRIVATE EQUITY DEALMAKING: THE “CLIFF NOTES”

With roots that trace back to merchant banking in the 1800s, a lot has changed in PE over the last few decades. **The asset class has ballooned and now accounts for nearly 10% of US GDP.**¹ While a gross simplification, here is a timeline:²

1970s- 1990s

Emergence of the LBO

The beginning of a proven business model. Private capital and bank debt combine to buy household names... Barbarians at the Gate.

Private markets were relatively inefficient; there were loads of opportunities with embedded value.

Firms primarily dependent on financial engineering. With a wide margin for error, lawyers and bankers could structure their way to outsized returns.

Often, PE firms assumed that acquired management teams were “good enough.”

2000s

Major Growth

“Golden Age” of PE from 2003–2007 following dot-com bubble + burst. PE rationalized the landscape and valued companies based on the fundamentals of growth and profitability.

Generalist LBO firms raised multi-billion-dollar funds. In 2000, there were approximately 1,400 global PE firms managing ~\$570 billion of assets.³

CEOs were still given a fair amount of autonomy, although PE Boards became more demanding. Upgrading management became commonplace.

Whole new platform companies were stood up and run by “backable” CEOs with a vision to buy up dominant market share within their niche.

2010s

Mass Specialization

With global quantitative easing, capital continued to pour into PE. IPOs continued to decline, while private market M&A increased.

With so many new PE firms created, LPs realized they needed to focus on manager selection. GPs now understood they had to differentiate themselves during fundraising by specializing in sectors, strategies (e.g., distressed vs. value vs. growth) and stage of company.

Operating Partners and value-creation playbooks became widely accepted as a way to accelerate operational transformation.

With more efficient markets, deal teams realized they need special “angles” on deals to put money at work. Just outbidding everyone else at an auction was (and still is) a recipe for disaster. GPs started to formalize Advisory Boards and EIR programs and add more Independent Directors.

2020s

Hyper Competition

The field has now grown to more than 10,000 PE firms and over \$3 trillion USD of assets.³

Challenges manifest in numerous ways: i) Increased emphasis on proprietary deal flow; ii) Compressed diligence timelines and resource constraints; iii) Deal teams are inundated with inbound leads; how to qualify in or out?; iv) Most assets which are for sale have some room for optimization. Unfortunately, incumbent leadership teams are often ill-equipped to execute investment plans, leading to unacceptable underwriting risk.

It now takes a village to get a deal done (per the next slide).

SEGMENTATION OF THE DILIGENCE ECOSYSTEM: BUYING THIRD-PARTY EXPERTISE

PE firms cannot thrive on their own. The supporting PE ecosystem is simultaneously getting bigger and more defined. GLG, considered by most to be the original “expert network,” was founded in 1998 on a novel idea at the time: Commercialize freelance expertise to investors and companies worldwide. Today, PE networks are estimated to spend approximately \$2.3 billion with ~120 global expert networks⁴. Through our lens, independent Deal Advisors sit a click or two higher in altitude and are the next logical phase in the evolution.

	SERVICE PROVIDERS		INDIVIDUALS		
	INVESTMENT BANKERS	CONSULTING FIRMS	PE ADVISORY BOARD / THE FIRMS' NETWORK	EXPERT NETWORKS MARKETPLACE	INDEPENDENT DEAL ADVISORS
Core Value Proposition	<ul style="list-style-type: none"> - Good market intel - Strong asset-specific knowledge 	<ul style="list-style-type: none"> - Primary and secondary research - Validate assumptions in CIM 	<ul style="list-style-type: none"> - Direct access - Inexpensive - Known entities 	<ul style="list-style-type: none"> - Fast, inexpensive, transactional access - Abundance of tactical insights 	<ul style="list-style-type: none"> - Tailored to each pursuit - Covers the entire deal lifecycle
Strategic Insights					
Altitude					
Sourcing Ability					
Affordability					
Industry Knowledge					

ADVISOR ARCHETYPES: HIGH STAKES AROUND THE DEAL TABLE

The Chairman – Semi or fully retired executive looking to stay engaged. 2-3x CEO. Would join the Board as a regular Chair or even Executive Chair (providing contingency planning and an insurance policy for investors). Some agree to be interim CEO for up to a year while a CEO search is run.

The Backable CEO – Recently “on the beach,” likely riding out a non-compete after a PE-backed exit. Still motivated to work full-time and enjoys running a company. Not quite wealthy enough to retire, or they tried retirement and are tired of golfing. They can step in and run the target company upon deal consummation.

The Domain Expert – CEOs, GMs or Product/Strategy leaders that have spent 20+ years in a specific field or functional area. Useful when studying trends, regulatory environment, competitive landscape, customer challenges, value chains, etc. Examples include the effects of how AI will disintermediate labor or the bottleneck on supply chain post-COVID.

The Power Sourcer – Likely a recent CEO who is well-connected, a Corporate Development leader, Chief Strategy Officer or former banker who brings a fresh view of the M&A landscape and can identify actionable opportunities. They are primarily used for their Rolodex in that specific sub-sector. They attend all the conferences and bring an analytical view on potential industry consolidation. If the thesis envisions an aggressive roll-up, they may be invited to join the Board to help with market mapping.

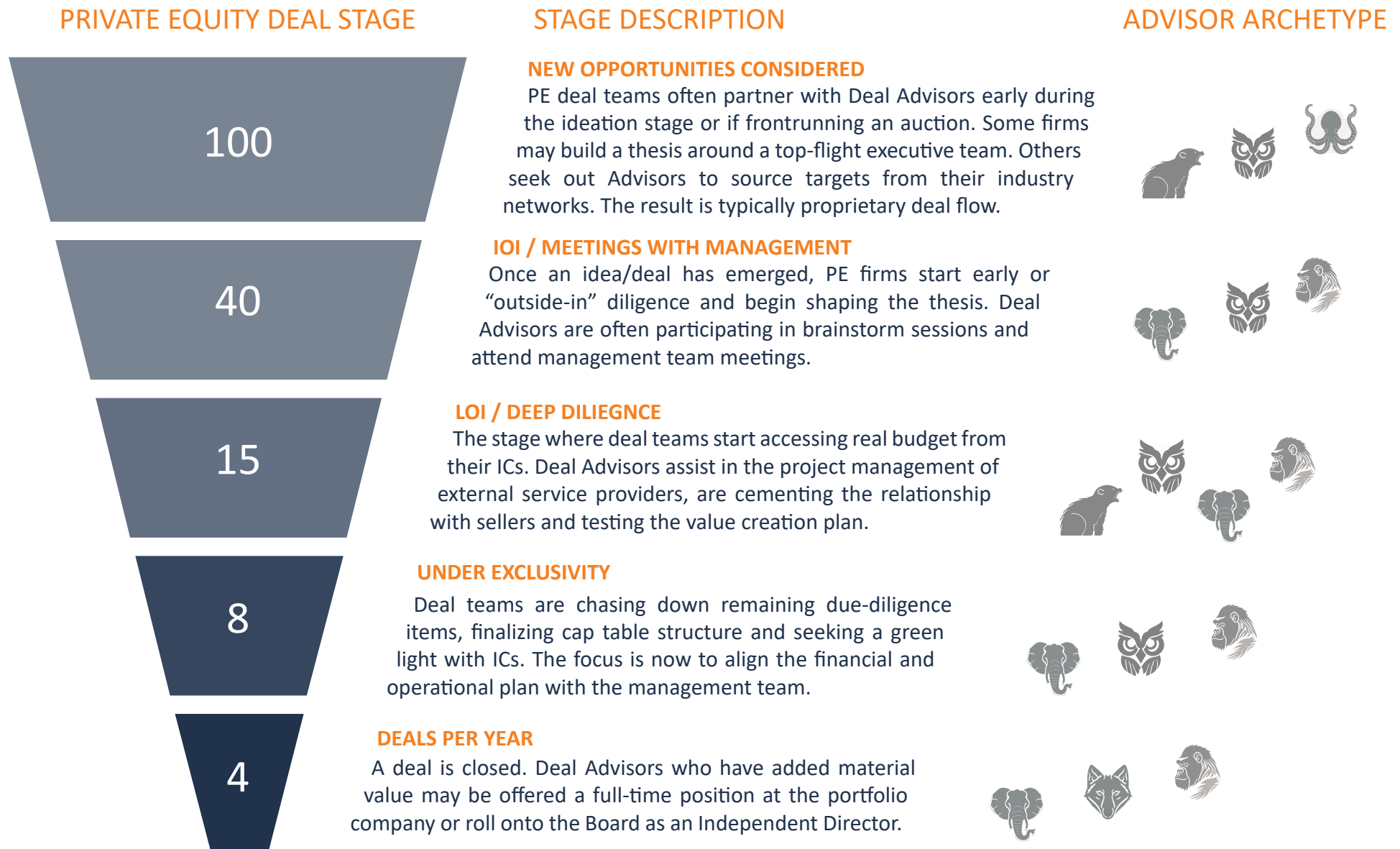
The Former Founder – The entrepreneur who has taken their business from zero to market contender. They have an unparalleled understanding of their products and customers.



(Please forgive the personification)

DEAL ADVISORS AND THE DILIGENCE LIFECYCLE: PRIVATE EQUITY'S MENAGERIE

Illustrative Private Equity Deal Funnel and Typical Deal Advisor Engagement, by Stage.



SURVEY METHODOLOGY:

TRICKIER THAN YOU MAY THINK

As a professional services platform specializing in Private Equity (Pre-Deal Diligence & Advisory + Retained Executive Search + PE Investments as L Capital), **we interact with thousands of C-Suite executives and run paid engagements for 40+ PE Sponsors per year.** However, only a small subset of these executives have ever assisted a PE firm with deal sourcing or diligence activities. It's an even smaller group when focusing on those that have worked on successful transactions. We canvassed our broader network to create a sample of Deal Advisors (and by extension, the deals they worked on).

All surveys were conducted between 2021–2023. We also supplemented our primary research with insights borrowed from hundreds of advisory and search projects completed across our platform. While perhaps not statistically significant from a scientific perspective, these insights added observations, anecdotes and hypotheses from a sophisticated pool of senior players. Per the acknowledgements section, we cross-checked our findings with PE investment professionals who engage with Deal Advisors daily.

Our survey spans sectors and industries—from cyber-security software to dog food; from elevator parts to P&C insurance. The dataset comes primarily from North American deals. We imagine these trends are happening worldwide but note that this paper takes a US-centric view.

For good or for bad, we self-authored this content and cooked up the cartoon designs—there are no ghostwriters here.

PE stakeholders would tend to agree that Deal Advisor engagement and compensation models are difficult data sets to study (if not entirely inaccessible). Several factors feed into this:

The concept of the Deal Advisor is evolving in real time. Few PE firms have developed fully baked approaches. More generally, firm cultures and philosophies around human capital tend to be heterogeneous.

PE dealmaking is inherently secretive. Once an investment is announced, many of the transaction's participants will issue their own press releases, but Deal Advisors are constrained by NDAs and rarely advertise their PE relationships/involvement.

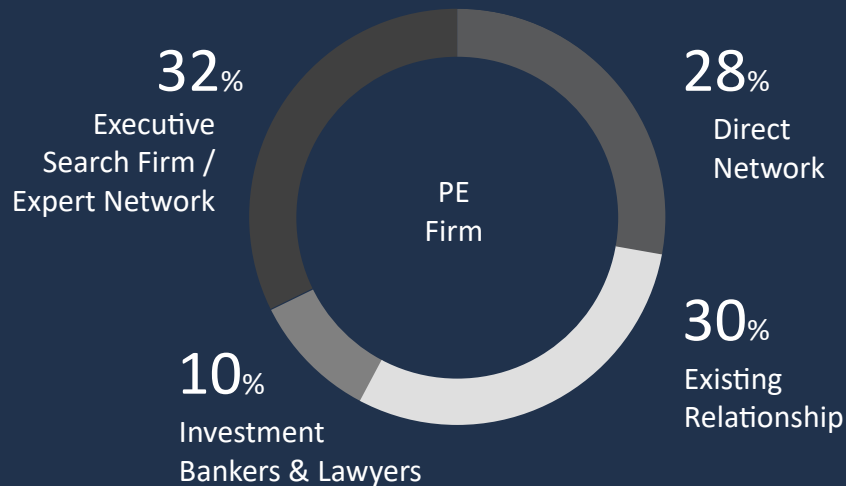
Deal Advisors are individuals, not institutions with marketing departments. They are incognito and fly under the radar.

Deal Advisors, in testament to their value, are often repurposed by the same PE firm(s). As such, the terms in their contracts are rarely renegotiated from project to project. This creates a paucity of data over time. There is little transparency and virtually no market benchmarking taking place.

Not every Deal Advisor wants to be paid the same way. Executives have input and preferences on how to receive remuneration. They have varying motivations. Some are risk-averse and seek in-year cash, while others bet on long-term economics in the form of all equity, or a blend of both.

HOW PRIVATE EQUITY FIRMS FIND AND SELECT DEAL ADVISORS: IT'S A VIRTUOUS CIRCLE

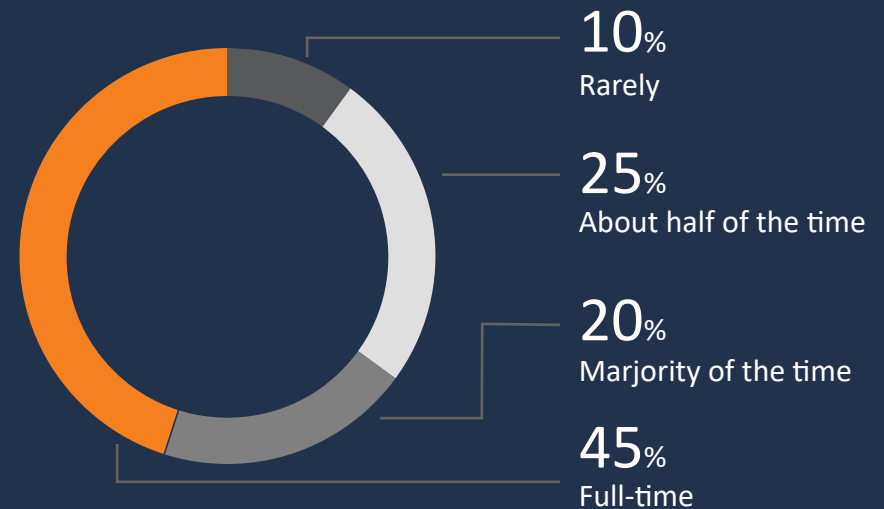
FIGURE 1: How did you get introduced to the PE firm?



It's common for PE firms to source Deal Advisors from their own network. Opportunistically, they are often executives being repotted for a different use case, namely hunting for a new investment. Others are found as a by-product of retained Executive/Board Director searches for existing PortCos or occasionally via other service providers eager to curry favor.

Existing relationships may suffice in the earlier stages of a deal, but often there are diminishing returns as due diligence transitions to industry specific considerations. It's human nature to turn to those that you trust and like. Unfortunately, these days it's all about finding a differentiated angle. A former CEO, but five-years removed from the market, may already be past their "sell-by-date", despite a winning smile and great golf game.

FIGURE 2: Over the last decade, how much of your career has been spent working with Private Equity Sponsors or for portfolio companies?



PE deal teams are habitual. A common refrain on any PortCo job spec (certainly at the C-suite) is prior experience working within the PE ecosystem. The implication, rightly or wrongly, is that executives who have completed a tour of duty within a PE setting will bring an understanding of the transformation playbook, the operating cadence, the data-driven reporting, etc.

This dogma is also well-represented in the Deal Advisor community. Investors are most likely to pursue PE-savvy executives who are stage-appropriate. Similarly, Deal Advisors think of themselves as serial PE specialists. The result is a virtuous circle. Public company executives and VC-backed founders offer a wealth of industry-domain knowledge and experience, yet they are still often viewed as "uninitiated" and naïve at the PE deal table.

WHAT DEAL ADVISORS CARE ABOUT:

IN PART, IT'S FOR THE THRILL OF THE CHASE

FIGURE 3: What primarily motivated you to take this calculated risk (hunting for a deal) and work alongside a PE Sponsor?



“When you’re an executive at a portfolio company, most of your time is dedicated to keeping the train running. The dealmaking on the PE side is where the fun stuff happens. I love seeing the process from a different vantage point.”

– Senior Corporate Development Executive
from Digital Payments, now PE Advisor

“The earlier you get involved in a deal, the more influence you will ultimately have on the success- based economics and co-investment. You can also shape your ideal role.”

– Multi-time CEO from B2B Environmental Services, today consulting in public and private companies

Executing a defined strategy as an FTE from “dusk til dawn” over a four-to-five-year hold period is a grind. Hanging out with sophisticated deal professionals, forming the thesis, scribbling on whiteboards and talking strategy at a decent restaurant is often the most attractive piece. It is important to remember that any former CEO who has the track record to impress a PE firm is almost by definition independently wealthy. The Deal Advisor model maximizes flexibility, and to quote Voltaire, “Work spares us from three evils: boredom, vice and need.” Respondents cited numerous benefits, including:

- Maintain market knowledge
- Get involved in the early stages of deal formation
- Leverage industry relationships and stay connected
- Enjoy being part of a team again (that feeling of camaraderie)
- Exercise managerial and operational talents
- Mentor the next generation of executives
- Participate in upside without a long-term commitment
- Capture capital gains tax advantages and expense write-offs
- Network with PE (often working with several different Sponsors), leading to a full-time role or sitting part-time on Boards

“At this stage in my career, I am not looking for the ‘safe bet.’ I’m not interested in a few hundred bucks an hour. I want higher risk, higher reward. Plus, shareholder and Board meetings are about growth and strategy...sounds like fun.”

– 2x PE-Backed Software CEO, currently Senior Deal Team Advisor

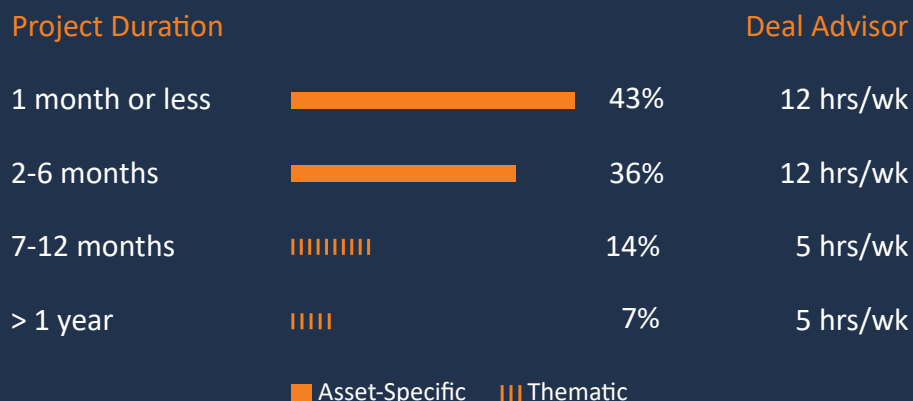
USE CASES FOR DEAL ADVISORS:

THE EBBS AND FLOWS OF MARKET CYCLES

“In my experience, the deal team already has conviction about the industry and has a teaser on the company. That’s when they bring me in. It’s often most productive to have a conversation around something that’s actionable vs academic.”

– Former CEO in Hospitality and 11x Board Member

FIGURE 4: How long had the PE Deal Team been looking at the sector or industry before you were engaged?



Generally, Deal Advisor engagements fall into one of two categories:

Asset-Specific: These are engagements built around an actionable company or target list. They tend to be competitive processes with defined timelines and binary outcomes. The value-add from a deal advisor is invariably tactical infill because the initial thesis has been created and there are a finite number of weeks until the deal is won/lost.

Thematic: These engagements typically start at the sector level and incorporate some degree of macro analysis. They are more strategic, perhaps even academic, in nature. Thematic Deal Advisors help investment teams forecast trends, identify white space, and scope out markets in an effort to hone in on specific targets. They have longer, undefined timelines and a spectrum of outcomes. Advisors are hired to bring real-world perspectives and explore the art of the possible. Otherwise, these hypotheses can meander and become bridges to nowhere.

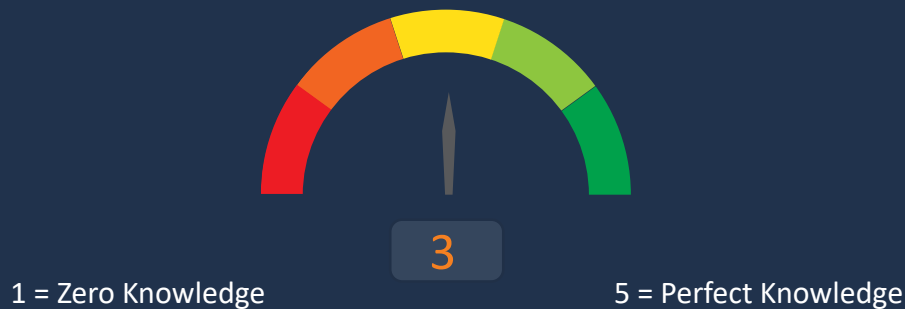
Surprisingly, for all the PE firm positioning around “top-down” approaches, the truth is, **the majority of deal teams are still reactionary in the way they operate.** Approximately 80% of Advisor respondents said they were hired late-stage to execute on a “live” deal versus participating in early ideation. This is partly driven by the behaviors of ICs who are more likely to allocate budget to tangible opportunities (how Deal Advisors get paid). The result is partnerships between Sponsors and Advisors that tend to be more episodic.

More broadly, with the recent tightening of credit markets and difficulty securing leverage, PE firms have had to get creative when building their deal funnel. **We have seen a shift towards more Thematic Deal Advisor engagements as of late** (a reversal of the trends in Figure 4). However, only a subset will survive when new platform M&A financing picks back up. Some firms will retreat to their comfort zones and wait for the book. It remains to be seen which ones will stay purist researching their way to new deals.

One apparent correlation: **Deal Advisors who have been engaged earlier (i.e., pre-LOI) report overall better experiences and improved outcomes.** In contrast, for those engaged late in the game, these situations were more stressful and akin, in some ways, to a turnaround. Survey Respondents pointed to multiple instances where PE Sponsors had misinformed views around a particular thesis assumption, leading to (what we will coin as) “diligence debt.”

DEAL TEAM DOMAIN KNOWLEDGE: THERE'S ALWAYS A LEARNING CURVE

FIGURE 5: Rate the deal team (1-5) in terms of their Day 1 sophistication with regards to the target:



When PE firms are exploring a new market or sector, and navigating a learning curve, Deal Advisors are the thought leaders and have broad impact.

ICs can be cynical when their deal professionals venture into new areas and prefer the beaten path in most cases. It takes years to feel confident on where to play in a new market (think of all the dinners, conferences and glad-handing necessary to build a network). When a firm does decide to enter a new vertical, Deal Advisors are helping teams focus on the right auctions (e.g., they can toss out ill-founded ideas) and directing resources towards the most important diligence topics. Their track records in their respective niches offer some degree of early downside protection to ICs. These insights are not easily accessible via other channels.

“They had done their homework...but simply hadn’t looked at enough companies in this space to know where the value was buried.”

*– Former CEO of Automotive Parts Manufacturer,
PE Operating Partner and 6x Board Member*

Where PE firms already have institutional knowledge (i.e., “muscle memory”), Deal Advisors are infilling around a known framework and have narrower mandates.

Deal teams are great at pattern recognition, but inevitably, market landscapes change. Perspectives from prior investments go stale. Existing niches get over-farmed.

The best PE firms leverage their collective experience in a market to forecast disruption, disintermediation, customer behaviors, changes in regulatory and technology shifts, etc. But they also know not to rest on their laurels and assume nothing changed in a familiar sector they once understood. Deal Advisors are hired to validate early thesis work, weave in direct market or functional intel around specific knowledge gaps, and offer original thinking around what is new.

With the current M&A slowdown, we are even seeing some PE firms return to the proverbial well, buying back former PortCos they only recently took public.⁶ Why?

- Because they understand the inner workings of that asset. “River guides” can be subsequently hired to bring a fresh outlook.
- Shares in public companies once owned by PE have fallen well below the price at which they initially floated, presenting a chance for the firms to buy them back cheaply.
- Public companies often obsess with quarterly reporting and get blinkered by near-terms pressures, so there is an opportunity to innovate.
- Trading as a public stock is expensive and requires overhead.

“The [generalist] firms will admit they don’t know what they don’t know. They often only have broad views of the sector or industry but need more color. At their core, they are the financial experts.”

– Enterprise Software President and Serial Deal Advisor

DEAL ADVISOR INTERACTIONS: HERDING CATS ON BOTH SIDES OF A TRANSACTION

FIGURE 6: With whom did you interact internally at the PE firm?

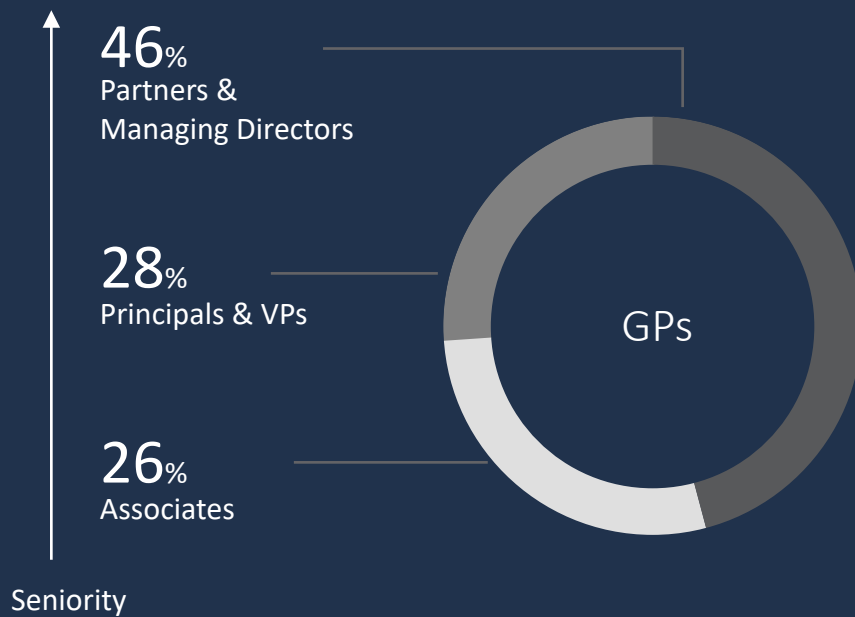
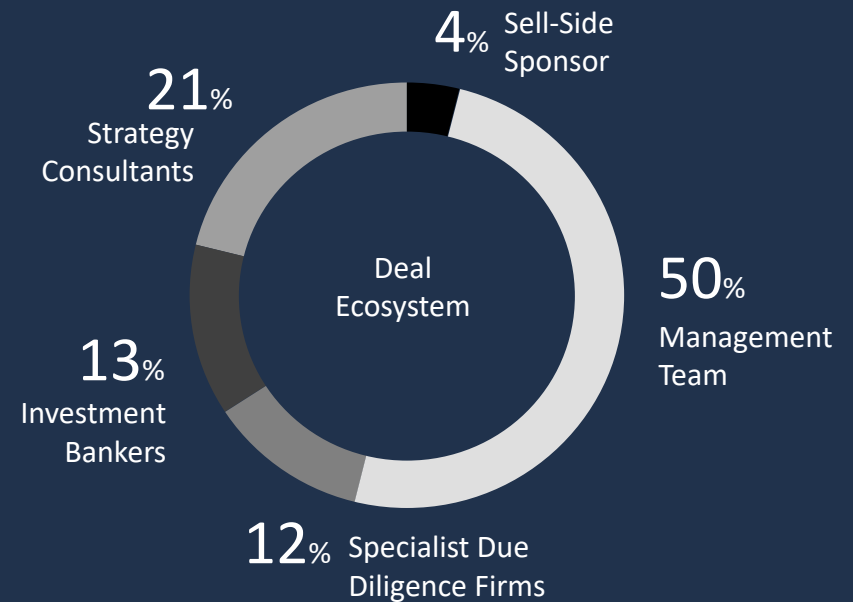


FIGURE 7: With whom did you interact externally?



“The bigger the deal, the more you see the senior members of the firm.”

- Vertical SaaS COO and PE Deal Advisor

“My relationship and the interface is with the MD. But obviously the junior team is doing most of the heavy lifting. The problem is, they know the numbers but have essentially no industry experience.”

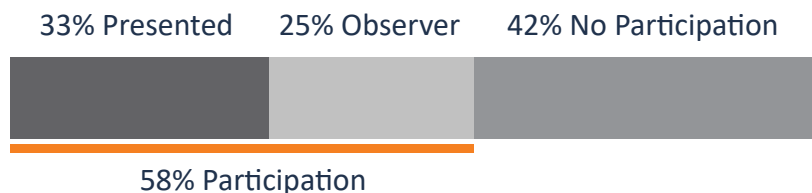
- Multi-time Deal Advisor in Middle Market PE, and Former CEO in Gov Tech

“I was presented to the sell-side as an Advisor. The elephant in the room was who was going to run this thing. I’m sure the seller was wondering ‘is this hired gun going to be my boss... or colleague?’ The situation was delicate. I spent a lot of time easing the tension in the early days.”

- Former CEO of Plastics Manufacturing PortCo, now PE Deal Advisor

DEAL ADVISORS AND INVESTMENT COMMITTEES: GUT-CHECK TIME

FIGURE 8: What was your experience with investment committees? Did you attend and present?



“I felt like an extension of their team. There was an inner circle of senior decision makers at the firm, so the dynamic worked well. I didn’t really get a full picture of the deal until I went to the IC and saw the different workstreams come together.”

– Medical Device CEO who took his PortCo through IPO

“Meeting the IC was by far the most interesting part of the whole transaction.”

– Recently retired CEO from PE-backed Comms BPO Provider

“The Partner on the deal was collaborative. That approach made it easier going into IC sessions. Overall, the IC was a bright group financially. They understood the core drivers of the deal and how assumptions would change the value of the company. However, their grasp of the product, solution and what the company did was underwhelming. Mile-wide and an inch deep when it came to domain knowledge.”

– Retail Technology Executive and Senior Advisor to PE

“Whether I present at IC is situational. If the investment thesis depends on something that I can directly impact (e.g., digital transformation) then I get invited in. But only in that instance. Otherwise, I tend to be a spectator.”

– Former CEO in Healthcare Services, and now seasoned Independent Board Member (Public & Private)

The fate of a given deal is governed by investment committees (ICs)—typically Founders, Senior Partners and Managing Directors with tenure who decide which deals proceed through the funnel and which die on the vine. If the thesis presented is cogent and resonates with the committee, then budget is granted for further due diligence. Deal Advisors therefore help with the initial feasibility study. There is brand equity being borrowed from heavyweight experts in order to convince ICs to explore a more nascent thesis and spend budget (especially useful for PE up-and-comers to gain internal credibility). For deals that progress to a formal bid, sometimes the third-party expert is invited back. Ultimately though, all PE firms are a hierarchy, and the IC, (just like the Supreme Court), weighs up all arguments in private, then announces its decision.

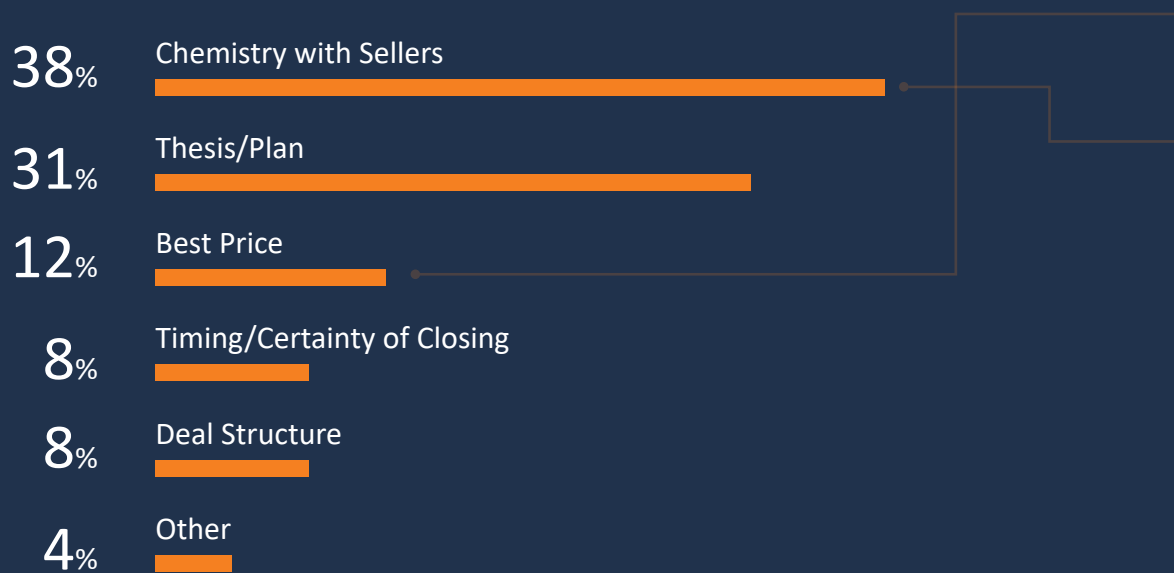
Deal Advisors are being used as a sounding board. As LPs want to see detailed and thoughtful GP underwriting, some ICs have embedded Deal Advisor consultation into their standard best practices as a matter of course. But it can be a complicated dynamic. **IC meetings often double as an interview setting for Deal Advisors, who are interested in serving on the Board or management team of NewCo.** Beyond the trove of diligence materials and financial models, Committee meetings allow the firm’s senior leadership to form an independent assessment on the caliber of the Deal Advisor in front of them. By the same token, Advisors are not going to perjure themselves and be sycophantic in front of an IC. Their legacy and reputation is on the line and associated with their recommendations.

In addition to the rationale of a given deal and its market potential, there is also the reality of how much to pay for that asset. ICs will be reading body language as well as hard data. As the price tag gets eye-watering, the level of conviction from a senior industry expert is going to weigh on their decision.

Sought-after Deal Advisors put a premium on their time and want to align themselves with credible firms. They will mull over both the competence and the political power of the team presenting the deal. It is not just what is being recommended to an IC, but who is doing the recommending.

THE VARIABLES THAT LEAD TO CONSUMMATED DEALS: IS PRICE A FALSE OBJECTION?

FIGURE 9: In your opinion, what were the primary factor(s) that led to winning the deal?



“PE deal teams can, at times, appear stiff and distant. On a bad day, they have arid personalities and seem distracted. Having owned multiple businesses across industries allows me to connect with other Founders and management teams. I’ve been to the dance before, and I’ve sat on their side of the table. I talk their language.”

– Multi-time CEO in Industrial Services, now on the beach working sporadically with his former PE firm

“Other bidders brought their strategy consultant presentations. In addition, we brought the subject-matter expertise; we saw things that others missed. That depth created trust with the founder.”

– Private Equity Software CEO, 5X Board Member, former Senior Investment Banker

“My industry relationships opened the door initially. The promise of my ongoing involvement helped convince [sell-side CEO] that we were the right partners to go with.”

– P&C Insurance CEO and Chairman (he actually sourced the deal)

All traditional PE auctions are going to be competitive on **price**, especially with Sponsor-to-Sponsor trades. That’s a given. Sometimes though, the intangibles are where transactions are won or lost.

According to our survey, “**chemistry**” with the seller is particularly important in at least two scenarios:

- 1) Buying a Founder-owned business: Founders and management teams want alignment with their prospective new owners, so that their legacy is preserved. They want to protect their employees and culture (no one wants to be egged in the street).
- 2) Corporate divestitures: Corporate sellers want a go-forward plan that minimizes risk and disruption to their business. Their biggest fear is a botched sale that alarms shareholders and hits their market cap. Deal certainty therefore becomes paramount.

Modern firms are self-aware and know that lack of chemistry can kill a deal. **Hundreds of working hours and a seven-figure due-diligence budget may go down the drain if they don’t form a connection in the initial stages.** Theoretical modeling of outcomes can only go so far.

Deal Advisors (especially former CEOs) have charisma and credibility with sell-side management teams. They can break the ice and expedite rapport in the room. They understand the industry jargon and lingo. Ultimately, sellers go with buyers they like.

TAKING A CLOSER LOOK AT DEAL ADVISOR IMPACT: TURNS OUT THAT THE ROLE CHANGES OVER TIME

PRE-DEAL

FIGURE 10: What do you regard as your own highest and best value during due diligence and the bid process?



“The seller zeroed in on my sector experience and my enterprise customer relationships. I knew the competitive set inside and out. I understood their entire supply chain. Several of [target’s] managers once worked for me.”

– Industrial Manufacturing and Distribution CEO, Board member

“I was the one pressure-testing the management team on their sales pipeline and whether they were going to hit their annual targets. I knew exactly where to dig in.”

– 2x InsurTech CEO

“I have found that assessing management is the most important part of the pre-deal Advisor mission.”

– Multi-time CEO from Infrastructure Software

At the ideation/thesis stage (months, potentially years, out from an actual deal), PE firms are soaking up industry knowledge. In parallel, they are gaining access to potential end-user customers and alliance partners to verify the market. The result is an initial list of assets that might be affordable and actionable.

POST-DEAL

FIGURE 11: For those Deal Advisors that continued the engagement post-closing (i.e., independent Board Director or 1099 Consultant), where did you focus?



“I’m an active Board member. To me that means working closely with the management team and can speak ‘Operator.’ It often means acting as the ‘buffer’ between the management team and the PE Sponsor.”

– Industrial Manufacturing and Distribution CEO, Board member

“Certain LBO deals I have seen involve a company which can go all the way. Deal Advisors can make equally powerful Board members in its preparation for future IPO. These same profiles are useful for committee chairs and members, once publicly traded.”

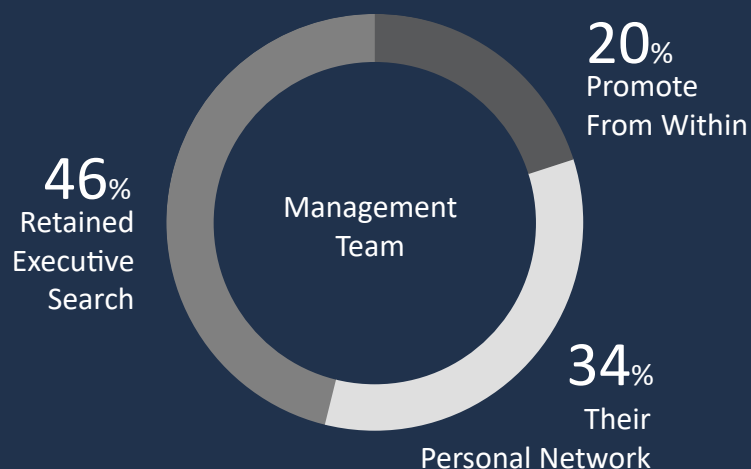
– Seasoned Board Director (Public & Private Companies)

It’s lonely at the top as a PortCo CEO. Operating Partners can be a great sounding board for management teams, but ultimately, they work for the Sponsor. Deal Advisors are well-positioned to mentor teams given the relationships they have built during diligence. As Independent Board Directors, they impart wisdom as successful elder statesmen and offer guidance beyond a rote playbook.

Survey respondents who stepped onto the Board post-closing reported an average contribution of 20 hours per week during the first ~3 months of a new acquisition. The time commitment scales down as the company settles into a rhythm.

DEAL ADVISORS AND PORTCO MANAGEMENT TEAMS: A-PLAYERS KNOW A-PLAYERS

FIGURE 12: Were you involved in replacing the CEO or other C-suite executives during the first 12 months of ownership? If yes, how did you source the executives?



*“Our thesis was centered around rolling up a fragmented market. One of my former GMs was a lawyer turned operator and ran one of my larger business units. I knew he could execute on this highly acquisitive strategy and tapped him as a first time CEO. I became the executive chairman. **The deal team was excited about that combination.**”*

– F100 Industrial Tech GM turned PE PortCo Exec Chair

*“Our backed CEO had great relationships. He brought in his prior CFO before closing. **The Board was able to build some trust before we assumed ownership.**”*

– F50 Insurance Executive, who is now a PE-backed CEO

Invariably, one of the first challenges PE firms face post-closing is replacing or upgrading key leadership roles at the PortCo. The CEO, CFO and CRO are often under the most scrutiny. Boards spend an enormous amount of time and energy getting these roles right.

According to Bain & Company’s 2023 Global Private Equity Report⁵, which surveyed hundreds of PE deal professionals, successful PE firms do two things exceptionally well when it comes to talent decisions: i) they practice discipline when linking roles back to the value creation plans; and ii) they take action quickly. PE professionals overwhelmingly agreed (92% of respondents) that waiting too long to make management changes resulted in company underperformance and lower IRRs.

A Deal Advisor turned independent Board member at NewCo can be a useful asset when, per Figure 12, hiring for a pivotal role. They are both seasoned and judicious when vetting/mentoring existing leaders. They tap their networks for trusted talent and adopt the role of player/coach in an interim capacity. **More than anybody on the Board, these Deals Advisors (particularly those who have been CEOs), are able to assess operational competence and organizational efficiency.** In this regard, they can draw on a wealth of general management experience. They help design KPIs for the CEO and assess the performance of their direct reports.

“In a former life, I was GM of the Americas for a dominant player. Many of the top executives in my sector did their apprenticeship there. I was able to recruit three leaders [for PE NewCo] from my own network.”

– Media & Broadcasting Executive, now hunting for a deal alongside a major LBO Firm

REFLECTING ON DEALS:

CLAIRVOYANCE IS NOT 20/20

Completing due diligence can be like unraveling a cryptic prophecy. The real discovery happens once the new owners get the keys. Upon reflection, respondents pointed to several “lessons learned.”

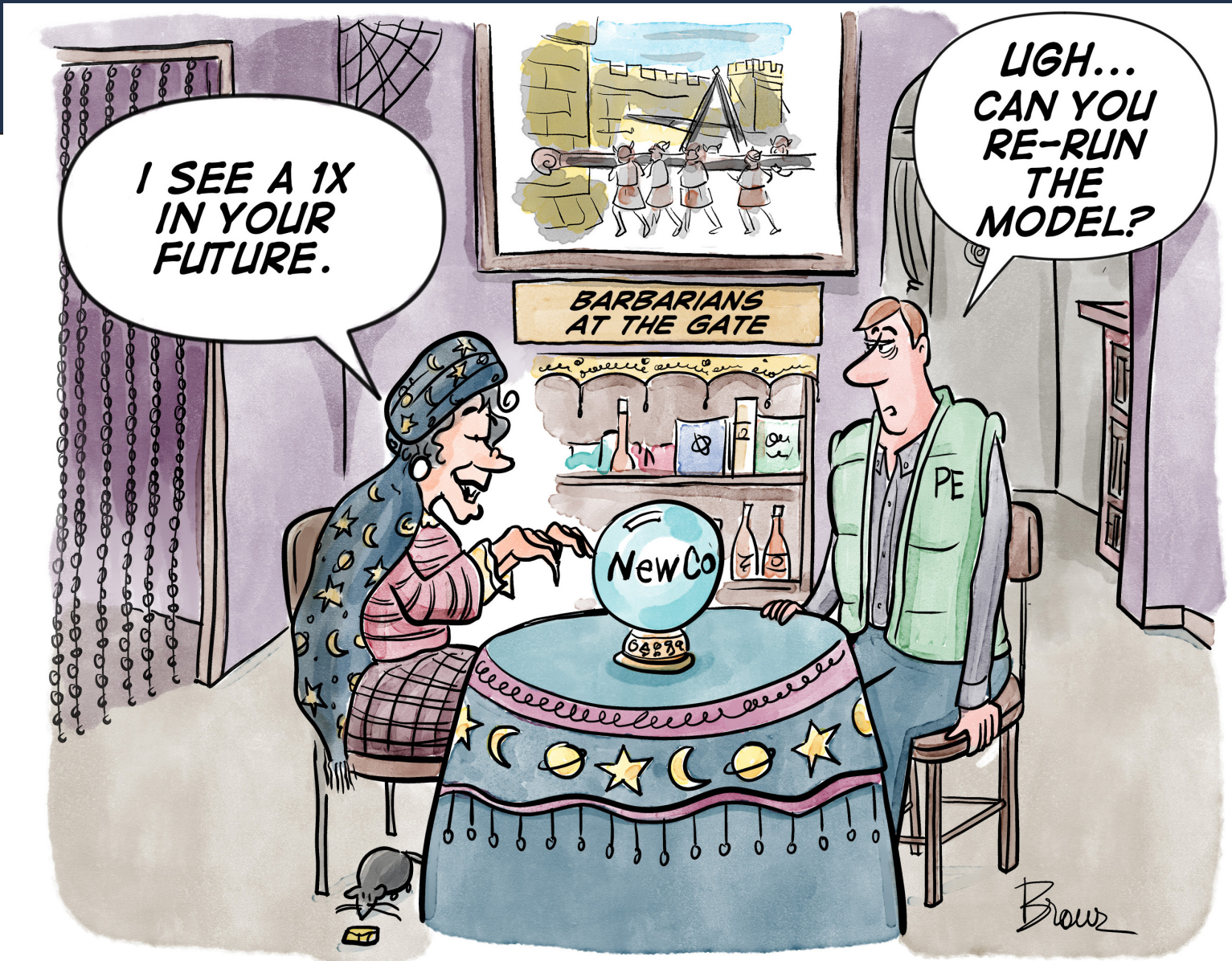
Post-acquisition, and with the benefit of hindsight, what could have been done better? Select anonymized quotations follow:

“The Sponsor was obsessed with IRR and a quick return. That is a great message for owners, but most employees are not [major] equity participants. There was a misstep in our positioning and communication with management. We should have been less Wall Street and more Main Street.”

“The seller was very tight-lipped on customer relationships and wouldn’t give us the full list no matter how hard we pushed. There clearly was a two-way trust issue. We should’ve done more around this red flag.”

“After closing, there were things we wished we would have picked up on during due diligence. It was a function of us not asking the right questions and wandering off the main road. We sort of expected certain issues to be volunteered by the seller. Now we’re more explicit with disclosure requests.”

“It was impossible to get any customer references—that was a clear warning sign. But we (and by “we” I am being generous) were so focused on closing that we chose to look past it.”



I SEE A 1X
IN YOUR
FUTURE.

UGH...
CAN YOU
RE-RUN
THE
MODEL?

BARBARIANS
AT THE GATE

NewCo

PE

Browz

WHILE MOST DEAL ADVISORS CONSULT PERIODICALLY, SOME GO FULL-TIME: WEIGHING-UP GOING EXCLUSIVE

According to Deal Advisors

- Steady monthly retainer cash fee and budget for expenses.
- “Home Base,” meaning use of an office and meeting in-person. Little things like having business cards with the Sponsor’s logo carries weight.
- The opportunity to build broader relationships across the firm leading to repeat business. This could be in the form of another deal team where they bring unique expertise. For example, one Deal Advisor was originally hired for their depth in HVAC for clean rooms, but 6 weeks in, another MD was impressed with their prowess in consolidating ERP systems (generating a new and separate engagement).
- Most Advisors are willing to have an initial discussion with a PE firm for free. However, eventually, there comes a tipping point if the relationship becomes too one-sided. Some PE firms have mixed reputations for lack of follow through. Formalizing the arrangement creates accountability on both sides.
- Some respondents who signed up for longer-term retained commitments felt the dynamic changed over time. On the one hand, by becoming a captive resource, they became more integrated (and therefore trusted); but on the other, they felt like “mere” employees at crunch times.
- Some PE firms are pretty sanguine about letting Deal Advisors work with other Sponsors. Unless there is a direct conflict-of-interest, polygamy is generally okay. Sticking with our Greek mythology theme, others can be jealous gods. With an exclusive relationship comes opportunity cost. In one instance, a Deal Advisor was working with an emerging PE firm going after an Electric Vehicle battery manufacturer. A month into diligence, a dominant PE firm (with a decade of experience investing in the space) decided to stalk the same asset. The Advisor told us, “As soon as I heard, I knew that our chances would be almost non-existent. It became clear I was riding the wrong horse.”

According to PE Sponsors

- **By locking in a commercial relationship with the best Deal Advisors, the deal team is taking that brain-power off the market by bringing them in-house. Failure to do so risks losing a competitive edge to another firm.**
- Quite often, there is scope creep after working with Advisors. PE firms collect valuable perspectives, which can be repotted to other theses. The Advisor's content and knowledge may add value to existing PortCos.
- Of course, all PE firms would love to have infinite Deal Advisors on staff 24x7. There is just the small matter of cost. The harsh reality is that the unit economics do not support perfect Advisor programs with an expert for every space on the chessboard. Even by weighting the compensation on the back-end, multiple retainers add up to a high monthly burn. For this reason, we see most retainer relationships capped at 6-12 months. By the one-year mark, PE firms will have usually exhausted all reasonable avenues to close on a given opportunity, and the deal team will have wrung out all ideas and "network access" from the Deal Advisor. These failed pursuits then lie dormant until there is a shift in the market or a new approach takes shape.
- By going exclusive, deal teams and Advisors have more time to collaborate and ramp up before key diligence milestones (versus scrambling to build a bench days before the management meeting). Deal Advisor respondents repeatedly commentate that they wish they had been called in earlier versus inheriting a deal-in-motion. Procrastination risks missing valuable insights.
- **Having an elite Deal Advisor associated with the firm further propels its brand and sphere of influence.** The ROI is bigger than the binary outcome of an individual deal.

DEAL ADVISOR COMPENSATION

Again, for the avoidance of doubt, the following dataset is based solely on Deal Advisors who participated during diligence and where the result was a newly consummated platform deal. The caveat to remember is that only a small portion of these pursuits close, and most Deal Advisors are relieved of their duties early on.

THE ECONOMIC MODEL OF A PRIVATE EQUITY FIRM: INSIDE BASEBALL

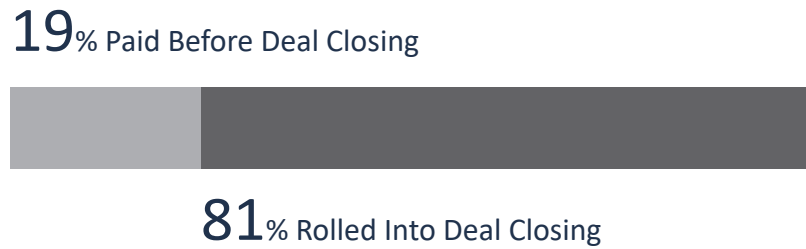
PE firms have to balance thorough market coverage with prudent cost containment. Understandably, due to the industry standard for PE economics (2% management fee, 20% carried interest), they make their money primarily from successfully exiting companies. **The upside is therefore backloaded in the form of “balloon payments.”** PE firms are left to wrestle with minimizing expenditures upfront, including how and what to pay Deal Advisors.

Outline of Fees and Expenses Charged by Private Equity Firms ^{7,8}

	PE FIRM/GENERAL PARTNERS	LIMITED PARTNERS	PORTFOLIO COMPANIES
GP/ FUND-LEVEL EXPENSES	<ul style="list-style-type: none"> - Management fees: 2% of committed capital annually, usually steps down over the investment period. LPs are putting pressure on GPs to lower this annual “tax.” - Audit/tax/fund administration expenses: Annual expenses related to operations of a fund. - Organizational expenses (one-time): Out-of-pocket costs incurred when forming a fund, including legal, travel, accounting, etc. 	<ul style="list-style-type: none"> - LPs pay their pro rata share of management, audit/tax & fund administration & org expenses. GPs will repay these costs from exit proceeds (depending on the LPA). 	<ul style="list-style-type: none"> - No real exposure at the firm/fund-level.
DEAL-SPECIFIC FEES/ EXPENSES	<ul style="list-style-type: none"> - Broken-deal expenses (one-time): Diligence costs related to unsuccessful deal pursuits. Includes legal, market studies, third-party consulting, travel & accommodation, etc. - Acquisition and disposition fees (one-time): May be charged by fund managers for term sheet structuring/negotiating. 	<ul style="list-style-type: none"> - Broken-deal expenses are passed on to LPs and later paid back via exit proceeds (as part of the returns waterfall). 	<ul style="list-style-type: none"> - Break-up fees (one-time): When the seller or target company terminates the contractual purchase agreement in order to accept a higher bid (or the asset never trades). Monitoring fees (annual): Fees charged by the PE firm to its portfolio companies for ongoing oversight. The bigger the PortCo, the bigger the fee. There are now strict rules governing what is allowable. - Board of Directors’ cash compensation (annual): Base salary plus performance bonus—range \$50k to \$150k. - Company-specific initiatives: Executive search fees, ongoing consulting, etc.
EXIT/ PERFORMANCE	<ul style="list-style-type: none"> - Carried interest (“Carry”): GP receives a share of profits—typically 20% after return of contributed capital and repayment of fees and expenses accrued. - Exit fees: Charged by the PE firm upon the successful exit of the investment. 	<ul style="list-style-type: none"> - Most LPs receive 80% of profits and pay 20% “performance tax” (carry) to GPs subject to preferred return. LPs may also be charged an exit fee depending on performance. 	<ul style="list-style-type: none"> - Management teams participate in equity upside via management incentive pools (MIP). MIPs are typically 8% -12% of the total equity pool (mega-buyout will be closer to 5%, growth equity up to 15%).

THE TAXONOMY OF DEAL ADVISOR COMPENSATION: ALMOST ENTIRELY “AT RISK”

FIGURE 13: What percentage was paid during sourcing/diligence and what percentage was paid out of deal closing fees?



PE firms have different preferences when it comes to paying out of management fees or transaction closing costs, and Deal Advisors can be engaged as 1099 independent contractors (most common) or W2. Nearly half of all Deal Advisors are engaged without a pre-existing compensation structure. The norm is for a PE firm to start with a past contract and repurpose that template. Per below, there are several compensation components.

“There was no pre-set structure. They said, ‘we know you and you know us—we’ll figure something out.’ I trusted them because of our prior experience together, and frankly, I didn’t have my own frame of reference.”

– Multi-Time Hospitality CEO and now PE Deal Executive

How Are Deal Advisors Rewarded?

DEAL ORIGATION COMMISSION	“Finder’s fees” for originating a deal idea or presenting actionable target companies to PE firms. One favored structure is the Lehman formula or a modified version.
CONSULTING FEES	Cash fees earned for pre-deal consulting time (hourly, daily, weekly, monthly). If executives are actively sourcing new opportunities, a monthly cash retainer may be put in place (with a defined end date, usually 6-12 months).
DEAL SUCCESS FEES	Cash bonuses awarded to Deal Advisors upon closing. This could be a flat fee, percentage of transaction enterprise value, or percentage of equity value. Can be directly rolled into the co-invest.
BOARD/MANAGEMENT SALARY	Traditional cash salaries for full-time management or independent Board Directors.
EQUITY AWARDS/STOCK OPTIONS	Shares awarded by the lead PE firm in the target company once a deal is consummated. Usually only considered if there is a formal, ongoing role with the PortCo.
OPTION TO CO-INVEST	Executives will frequently request the ability to make a <i>pari passu</i> (i.e., fee-free) investment alongside the PE Sponsor. This is their own money and separate from earning an equity award (although they sometimes choose to convert cash fees accrued into co-invest). No hard and fast rules exist. Most firms are comfortable with personal co-invest of up to \$1M. Surprisingly perhaps, even for mega buyout deals, no-one (per our research anyway) seems to have been allowed to invest more than \$1M.

COMPENSATION RANGES:

NO ONE-SIZE-FITS-ALL

Deal Advisor compensation is not a one-size-fits-all endeavor. In addition to studying structure, we set out to see what variances exist in PE from lower-middle market to large cap buyout (see Figure 14). The PE firms we surveyed had AUMs spanning ~\$700 million (USD) to ~\$500 billion (USD). Naturally, mega buyout firms who raise tens of billions tend to go after the largest deals and will have access to sizeable budgets. **Even so, overall Deal Advisor remuneration does not grow proportionally with AUM or size of deal.** There is a floor and a ceiling like most industries, but perhaps a tighter spread given i) the shorter-term/part-time nature of the engagements, ii) PE's inclination to defer payments until an outcome is known.

FIGURE 14: What was your overall remuneration?

	GROWTH EQUITY	LOWER MIDDLE MARKET BUYOUT	MIDDLE MARKET BUYOUT	BULGE BRACKET/ MEGA BUYOUT
HOURLY	\$500	\$500	\$500 - \$1,000	\$1,000
DAILY	\$2,500	\$3,000	\$4,000	\$6,000
MONTHLY	\$25,000 - \$30,000	\$25,000 - \$30,000	\$25,000 - \$30,000	\$25,000 - \$30,000
EQUITY	0.5% - 1.5%	0.25% - 1.5%	0.25% - 1%	0.1% - 0.3%

“I’m mindful of pricing myself out of deal situations. Ultimately, I don’t want them to hesitate to call.”

– Sell-Side M&A Advisor and Serial Board Member, a CEO prior

“I must admit, I just put a wet finger in the air and came up with a random day rate. There was no market research or frame-of-reference. I just picked \$4,000 a day, and I’ve never really thought much about whether that is actually a fair market rate.”

– Former Corporate Executive from Automotive Advising on IoT to Various PE Sponsors

“I only ever seek adequate compensation to reflect my value (obviously subjective). I didn’t ask for any compensation for pre-deal work, which was rarely more than a few of days here and there. I knew there would be a true-up in my favor if the deal closed.”

– 2x CEO (both big wins selling to Strategics) now in his 70s, has sat on 30+ Boards of various scale

TOTAL CASH COMPENSATION: PRACTICALLY POCKET CHANGE

"I generally don't charge firms during diligence. The amount of money I'm going to make from consulting fees won't change my life. I'd rather have them not think twice about using me because they're going to true-up and make me whole on the success piece. Those fees come out of one-time closing costs not GP management fees, so paying me is a rounding error."

– GTM Executive and multi-time PE Board Member

FIGURE 15: What was your total cash compensation (excluding equity) during the sourcing and diligence phase of your engagement? (Total cash compensation is defined as Professional Fees + Deal Success Fees.)

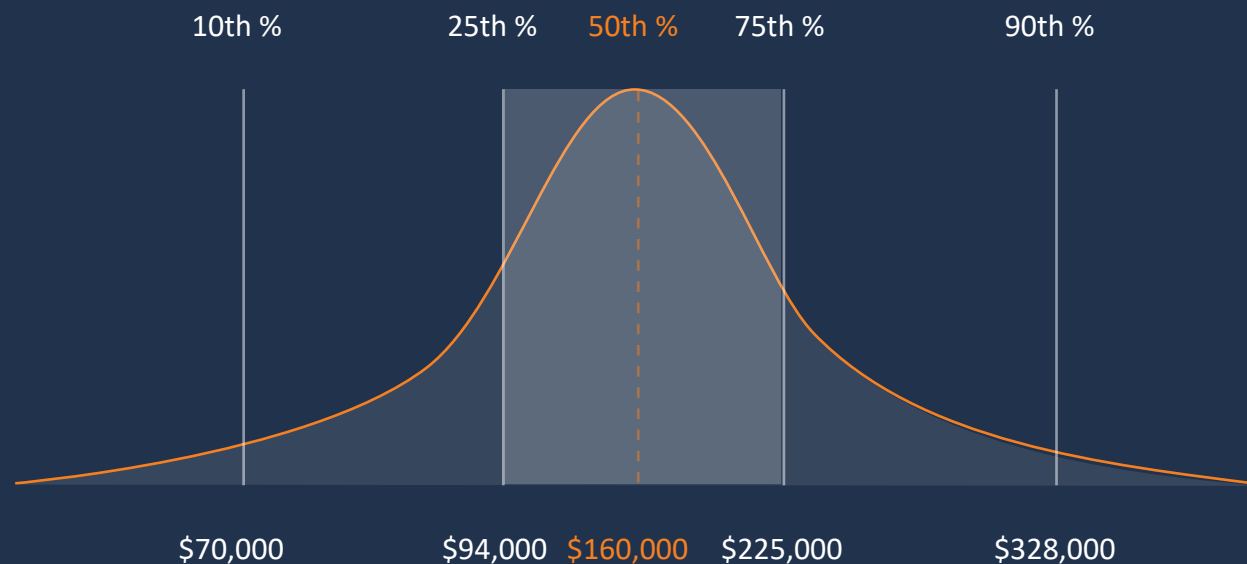


Figure 15 illustrates the distribution of total Deal Advisor cash compensation. Pay rates are set, in part, via precedence using *ad hoc* Consultants and Advisors on a 1099 basis. Most firms like to take Deal Advisors for a “test drive” before ever discussing cash fees (i.e., two to three calls/meetings prior to putting paperwork in place). It can be a delicate dance. **Deal Advisors are building the relationship and demonstrating value early on, but risk leaving all negotiating until the end** (which can lead to unfavorable or lopsided agreements).

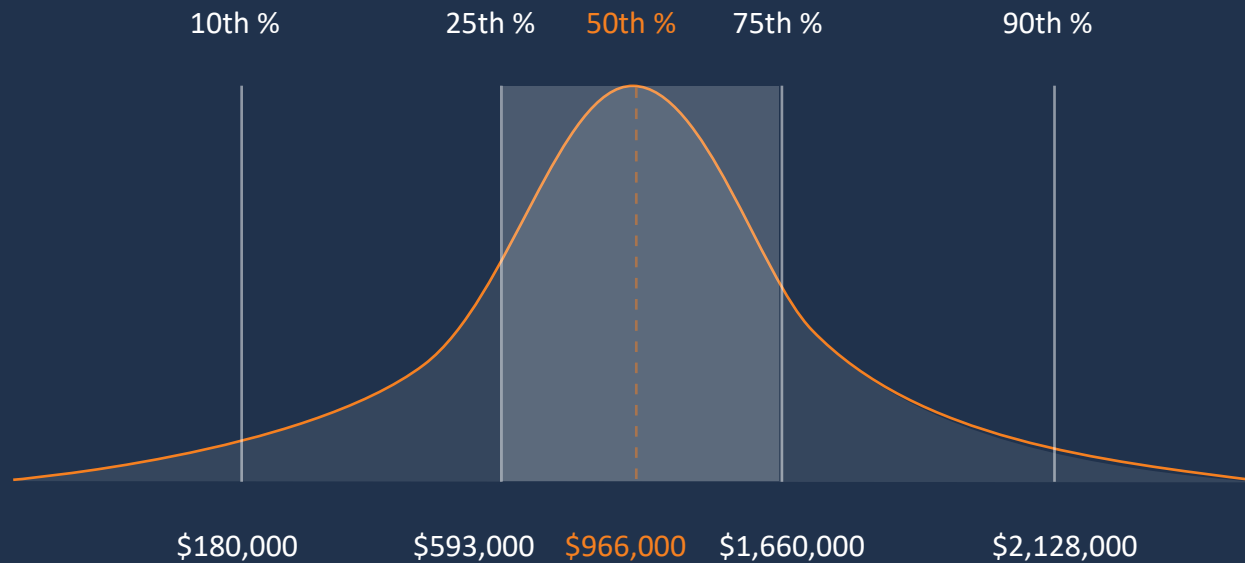
In some cases, the population of semi-retired senior executives are also getting picked up as sub-contractors working alongside the big strategy and restructuring consulting firms. One respondent commented that they work with PE sparingly because tier- one strategy consulting firms pay them \$8k per day (2x their usual day rate) working with blue-chip clients. As a side-by-side comparison, at \$40k per week, executive Deal Advisors have real opportunity costs to consider.

EQUITY RANGES: DOLLARS AT WORK (DAW)

“I drill into a few things when it comes to the equity component. Being pari passu with the Sponsor in terms of preference and structure is the priority. That’s where we start. Then it’s the vesting components and comparing to their various returns’ assumptions—I’ve had a few surprises in the past. I also like to convert my accrued cash fees into equity so I can top up ‘dollars at work’ in the deal. Most firms are relaxed about this.”

— PE Advisor and Operating Partner in Cybersecurity

FIGURE 16: What was the estimated total equity value received at entry? In USD vs BPS



Several survey respondents cited **discounting their consulting fees or foregoing the cash component altogether in an effort to build or expand their PE relationships.** The more experienced/active Advisors are positioning themselves for more “at bats,” which in turn increases the probability of a consummated deal (therefore unlocking equity options, co-invest, etc. at closing).

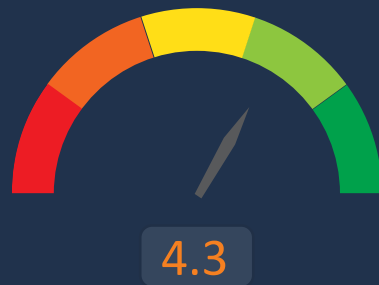
Figure 16 illustrates the distribution of total Deal Advisor equity (expressed as dollars at work at entry). This includes equity value awarded at deal closing + fee-free co-invest but excludes the additional equity they may earn from the MIP if they stay on with the PortCo.

Cynically, some Deal Advisors call it “sweat equity.” **There is zero upside unless value is created.** When a thesis is first presented to a Deal Advisor, many will have a visceral reaction as to whether they want to get involved and see the asset’s long-term potential. **The overall alignment with the team is perhaps the most critical factor when it comes to an Advisor’s willingness to participate post-closing.**

DOES PRIVATE EQUITY PAY FAIRLY (AND COMPETITIVELY)?

GENERALLY, YES, BUT IGNORANCE IS BLISS

FIGURE 17: When you consider your value-add and contribution to the deal, how would you assess your overall compensation?



1 = Severely Underpaid

5 = Extremely Generous

“I felt the package they put together recognized my expertise and time invested. It didn’t feel formulaic.”

– Cybersecurity Executive, PE Operating Partner and 6x Board Member

“PE firms can afford to be stoical about losing the vast majority of deal pursuits. As an Advisor, being reliant on a single deal is fraught with risk. I was initially approached about a specific situation. I broadened the discussion to how to think through the whole sector, and that quickly led to a monthly retainer. We can now sit on the same side of the table analyzing a deal with the knowledge that our interests are aligned.”

– CEO on the beach with expertise in wealth management brokerages

At first glance, Figure 17 might suggest that, despite being a black box, Deal Advising operates as a reasonably efficient market: Buyers and sellers consistently finding common ground at the negotiating table. However, we admit that our survey responses cannot be extrapolated across the entire market. There is obvious selection bias in our results. For every successful pursuit, there are thousands of abandoned deals across PE in any given quarter. Consequently, **there is a trail of Deal Advisors who have yet to get a “win” with a Sponsor.** Our view is that Figure 17 would be trending yellow to orange if we widened the pool of survey respondents to include those that only worked on unsuccessful pursuits.

Compensation correlates with effort once an investment is successful and when a Deal Advisor can capture some upside. But then again... as laid out in slide 15 (What Deal Advisors Care About), it is seemingly not just about the money. Deal Advisors, who were once hardball negotiators in past CEO roles, are already wealthy. **They are intellectually curious... but not necessarily economically rational.** If they were, they could be a white-labeled “brain-in-a-box” aiding strategy consultants or filling up on public company boards with steady RSUs/PRSUs.

The pain point seems more to do with the emotional disappointment and fatigue versus the loss of pay when a deal falters. Our own belief is that PE deal professionals are accustomed to a low win ratio. Their economics are not affected by wasted efforts and roadkill. For the deal team, there is always the next one. Ultimately, Deal Advisors get paid on the tiny subset of deals which transact. Even after two failed attempts to close on an investment, exhaustion sets in. One respondent told us that he keeps score of “return on invested time” as his primary metric for success.

FEEDBACK FROM PE PROFESSIONALS

WHAT PE PROFESSIONALS SAY ABOUT: THE WORKING DYNAMIC WITH DEAL ADVISORS

“Your cover page cartoon says, ‘Sometimes you really need a river guide.’ At our shop, we always hire a river guide. Our issue is quality control. Too often, the senior deal partners are rolling out contacts of theirs from the last decade. It’s not quite calling your boss’ baby ugly, but you get my drift... it’s awkward.”

– Principal, B2B Services deal team, upper middle-market firm

“I was amused by the “Is Price a False Objection?” [Slide 20]. I’m not surprised that’s what people think and say. It’s a little naive. The reality is that good sellers are great at making you feel loved. And they use that chemistry to drive you to the highest price.”

– MD doing B2B services at generalist buyout firm

“Deal Advisors provide the insights we need for business development. While we have deep relationships with brokers and bankers covering the sectors we like, more and more we have brought sourcing in-house. Deal Advisors act as trainers for our investment team and give real-world clinics on industry trends, jargon and competitive sets. They help script out the pitch and role-play how Q&A will go. I can think of two deals in our current fund (originated by an Associate and VP, respectively) who got the owner’s attention by coming across as especially competent and informed. Each time the seller remarked on how those early, content-rich conversations got us to the table”.

– Founder and Managing Partner, LMM Tech Sponsor raising its third Fund

“Some deal teams appreciate tough love and listen accordingly; others are more arrogant and hellbent.”

– MD covering data infrastructure

“While everyone else was talking about how to find more margins, we were talking about how to break into new markets. Our Deal Advisor enabled that discussion.”

– MD at LBO firm focused on “value deals” in consumer durables

“If you need a Deal Advisor to bolster your credibility, you have no credibility. You have to be able to support the deal thesis as if you had no Deal Advisor. We seek inputs from the usual expert networks in order to confirm our own hypothesis. What can be incredibly valuable, albeit I’ve only ever seen it once, is when one chances upon a senior player from that industry who brings a contrarian view and fresh thinking, i.e., their own hypothesis.”

“I think your paper could further emphasize just how specialized needs are becoming. Take my world (healthcare) for example: I don’t want an Advisor from generalist healthcare; it’s not good enough to know a thing or two about behavioral science; I want the world authority in outpatient clinics for eating disorders. I use the term ‘key and lock’ meaning there is one unique person who fits our need. That stated, I don’t let perfect be the enemy of good. Invariably, we compromise based on availability.”

– Head Operating Partner turned middle-market Deal Professional (in healthcare services)

WHAT PE PROFESSIONALS SAY ABOUT: THE RISK OF DEAL ADVISOR PROGRAMS

*“The WORST thing about Deal Advisors is that they only get paid and offered future work if the deal closes, so **they are invariably positively biased to do any deal**. It’s like what Upton Sinclair said: ‘It is difficult to get a man to understand something, when his salary depends on his not understanding it.’”*

– Head Operating Partner turned middle-market Deal Professional in healthcare services

*“I am sometimes alarmed and surprised how a Deal Advisor is quickly given a ton of credibility/loud voice with very little vetting of their qualifications. For all the “good” Deal Advisors I have met (and I have interacted with several), I have also encountered a few really bad ones. Often, the decision to bring them on was mostly based on the resume (e.g., they worked for a long time in the industry, they were CEO of a competitor, etc.) with insufficient consideration of their performance, skillset and the era when they were working in this field. **Some Operators do not make great Advisors and the lesson can be learned ‘the hard way’ when they are suddenly in the spotlight. I see more risk with Deal Advisors than is readily acknowledged.** Generally, deal teams rarely have a great ability to screen for true effectiveness. I’m biased as a former operator myself, but I feel that sometimes deal teams (most of whom have zero line-management experience running businesses) rush into signing up Deal Advisors simply because they’ve been a CEO with a competitor. **Deal Advisors need to be cross- checked, and thoroughly interviewed, not just rolled-out as the guru.***

*Furthermore, Deal Advisors can sometimes have a ‘hammer looking for a nail’ mentality. They get retained to do a deal, leading to a positive bias on all potential deals because it’s the only real way they continue on. I’ve seen some lose objectivity and it can lead to my first point—ineffectiveness and a bad underwrite. It’s nice to read that many Deal Advisors in the survey are not basing their actions solely on economics, but often, even if it’s about intellectual curiosity, they aren’t going to have the mindset of wanting to pass on this near-term opportunity for something unknown down the road. **It’s a bias that can be hard to overcome**—sort of circles back to the point of having involvement from Operating Partners who aren’t incented to get a deal done or else.”*

– Lead Operating Partner at \$20B AUM LBO firm

WHAT PE PROFESSIONALS SAY ABOUT: PAY AND COMPENSATION FOR DEAL ADVISORS

“Why the hell would we cannibalize our own economics and give away equity when we can just pay a cash fee?”

– MD focused on security deals at a large tech LBO firm

“There is some affect to a Deal Advisor saying it’s all about intellectual stimulation. Sure... keep pulling the thread and you will discover that it’s also always about the money.”

– MD at NY-based middle-market buyout firm

“I must admit, I jumped straight to your compensation segment, because we are in negotiation with a senior dude who brings a lot of industry know-how. As I flip through the rest of the paper, I think you’ve made the point effectively on the reason Deal Advisors are here to stay. My recommendation is for you to continue your research and send around periodic updates on pay data. I know I would use it as a point of reference and find that valuable.”

– Partner covering industrial technology investments at a middle-market buyout firm in NY

“Your paper is not representative of how most Deal Advisors get paid. Which is why you wrote it, of course. Our standard freight is zero cash but a \$250,000 USD deal success fee, which we then convert into equity at the PortCo. Would we pay more to get higher-quality horse flesh? Probably, if certain of their value.”

– MD at well-known financial institution with a PE arm, based in San Francisco

“We write checks in the \$100M - \$300M USD range, which I will define as classic middle-market control PE. When we look at the overall spend with third-party service providers, whatever an individual Deal Advisor charges us is pretty much immaterial. A Q of E report alone costs \$4M USD. If the Deal Advisor is actually strategic in outlook, then I am not price sensitive.”

– MD at enterprise software focused buy-out firm

EVOLVING BEST PRACTICES

Programmatic operational value creation was (and still is) a central tenet from 2010–2020. In part, this imperative gave rise to the role of Operating Partners and heavy investments by PE firms in PortOps. Best practice for PortOps transformation is largely understood and homogenous today. Perhaps this decade’s new frontier revisits buying the right new platform in the first place. If so, PE firms must become even more specialized for each and every new platform deal. **Simply being reactive is unlikely to produce the outsized returns.**

PE is becoming more dependent on CEOs and senior executives to differentiate around deal sourcing and value creation. A decade ago, it would have been most unusual for an outsider to be invited into the hallowed halls of the IC. **We predict that more ICs will make Deal Advisor participation mandatory. However, Advisors are influencers, not decision-makers. ICs will draw from a wide range of inputs irrespective of strong opinions from heavy hitters who have worked in that niche.**

PE firms are signing up Deal Advisors earlier in their deal pursuits. Having a single “in-house” executive to cover multiple corners of the market and every functional area will no longer be viable (see above comment regarding specialization). If senior experts are going to become deep, but temporary resources, then each firm is going to have to weigh up the design of Advisory Boards. Our sense is that generalist Advisory Boards will increasingly be used for external optics, and credibility, and on occasion, may be able to originate a deal. Finding Deal Advisors will continue to be a “just in time” practice by generalist funds—maintaining an exclusive and fixed Advisory Board is expensive and clunky.

During fundraising, we expect LPs will diligence the quality of a given GPs senior executive network. They will stress test a PE firm’s assertion that they have unique access and the deepest relationships with relevant potential Deal Advisors.

The more compliant-driven the market, the greater the need for PE to work with operators who understand policy nuances. Highly regulated and complex industries such as healthcare and consumer financial services have barriers-to-entry, which represents risk to a naïve investor. Domain experts (who predict future trends) may be retained to advise on various theses, and indeed help out with existing PortCos. The better the domain expert, the more likely multiple arbitrage will occur.

As the saying goes, 80% of value comes from the top 20%. Deal Advisors are certainly in the top 20%, and this paper is really about the top 1%. The ROI can be great. There is growing demand to access and lasso these elite executives pre-deal, while supply remains artificially constrained (as noted on Slide 15, Deal Advisor networks are a virtuous circle). **PE firms are likely to start paying a premium.** This means more leverage for Deal Advisors when structuring agreements; however, payment will be backend-loaded in the form of meatier success fees and higher co-investment sums in new platforms, versus bigger up-front cash retainers.

The market for Deal Advisors is still relatively nascent and lacks transparency. **Compensation is often not commensurate with true Advisor impact or value** (one of the hallmarks of an inefficient market). Additionally, only a fraction of the best qualified Deal Advisors are ever contacted in time, forcing PE firms to settle for who is available and “good enough”. Many senior executives are too wealthy or busy to bother with a risky deal pursuit, but positioned and incentivized correctly, more might choose to take up Deal Advising.

We expect nearly every PE firm has considered executing “backable” CEO programs. Going forward, with the advent of “theses battles,” specialized expertise becomes paramount. However, in the rush to identify and retain the best former CEOs in their respective markets, **PE firms (and/or their service providers) will need to develop comprehensive protocols to vet and qualify Deal Advisors on the fly.**

ACKNOWLEDGMENTS:

OUR SOURCES AND COVERAGE ACROSS PRIVATE EQUITY

We would like to THANK the friends of our firm who participated in this survey: CEOs who have been Deal Advisors (respondents) as well as our clients (investment professionals). The contents of this paper were drawn from those with experience from these leading PE Sponsors:

Accel-KKR	HGGC
Actis	KKR
Alpine Investors	Kohlberg & Company
Apollo Asset Management	Marlin Equity Partners
Bain Capital	New Mountain Capital
Banneker Partners	Potentia Capital
BayPine	Serent Capital
Bridgepoint Group	Spectrum Equity
Cerberus Capital Management	Stellex Capital Management
Court Square Capital Partners	Sumeru Equity Partners
CVC Capital Partners	The Carlyle Group
Five Arrows - Rothschild & Co.	The Wicks Group
Francisco Partners	Thoma Bravo
GI Partners	Vector Capital
Golden Gate Capital	Warburg Pincus
GTCR	Welsh, Carson, Anderson & Stowe
H.I.G. Capital	ZMC

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OUTTAKE

