



INSIDE A DEAL

The Founder, The Banker and The Buyer -- Three Perspectives on How a Private Equity Deal Gets Done

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IN THE FOLLOWING PIECE, RYAN MILLIGAN, PARTNER AT CHICAGO-BASED SOFTWARE PRIVATE EQUITY FIRM, PARKERGALE, MIKE TRASATTI, CO-FOUNDER AND CEO AT DEALERBUILT AND BILL LAMM, MANAGING PARTNER AT PRESIDIO TECHNOLOGY PARTNERS SHARE AN UNFILTERED PERSPECTIVE ON THE PRIVATE EQUITY DEAL EXPERIENCE.

The wide-ranging conversation centers on ParkerGale's partnership with DealerBuilt, a leading provider of dealer management software for auto dealers, and offers an insider's view of how a deal gets done. It touches on rarely answered questions like: does likability between investors and founders matter, how can boutique PE shops stand out, and should a founder ever just trust their gut.

Read on for more from the deal trail.

ON BUILDING A RELATIONSHIP WITH A BANKER, BEFORE YOU NEED CAPITAL.

MIKE TRASATTI
Co-Founder & CEO,
DealerBuilt

I met Bill when I didn't know what an 'investment broker' was. At the time, he said we were too small for him. But we stayed in touch. He watched us grow up through all the fumbles and successes, and we even put together an engagement letter a year before we were ready. Then one day I called him and said: *it's time*. We hit an inflection point – and were struggling to find out how to allocate capital between growth and relevancy. *When there is an intersection of opportunity and anticipation, you know you're ready.*

ON WHAT A BANKER IS LOOKING FOR BEFORE REPRESENTING A FOUNDER/BUSINESS.

BILL LAMM
Managing Partner,
Presidio Technology
Partners

There are big league companies and minor league companies. Big league companies are ready for a transaction, whether that is a sale, a growth capital raise or a combination recapitalization. For us, they need to have between \$10 million to \$150 million of recurring, subscription revenue. Companies with less than that are generally still in the minors. When we met DealerBuilt, they were Double A. We stayed in touch because of the sector. Doing vertical

application software in the ERP sector is a sticky business with high retention rates, high price points and long-term customers. This line of business has great metrics, like LTV to CAC. *We look for these because investors and company buyers look for these.*

ON PREPARING TO FUNDRAISE AND WRITING A 120(!) PAGE CIM.

MIKE TRASATTI We executed the agreement and I go, “What do we do next?” We’re lean, running a growing business and don’t have any extra time. Bill said it was going to be tough...and he only gave us half the story. The hardest part is collecting all the data points and cobbling together information. When you peel back the onion you don’t realize all the layers of data that exist within your company. You need a great banker team to push and offer foresight and guidance. Our original business plan over a decade ago was 40 pages...we ended up with a 120 page CIM! It was emotional.

BILL LAMM This part is more art than science. You can take a “rubber band finance” approach where the company gives you financial statements and a few other things and you put a rubber band around it and ship it out. Basically telling investors: figure it out and give us your best bid. On the other extreme, you can prepare, figure out the business and try to preempt the questions that you’re going to get. You want to present a powerful, compelling story that excites people. But you need to stay factual, accurate and cover red flags or concerns.

ON WHEN A BANKER SHOULD SPEND TIME UP-FRONT ON DISCOVERY AND DILIGENCE.

BILL LAMM The answer is decidedly when you have a competitive process and lots of potential buyers. If you wait until after you’ve selected an investor or buyer and things don’t go well, then you have to go back to the market – and people know something is wrong. Yes, preparation is long, tedious and arduous with a lot of legal documents and investigation. But it’s invaluable to get the outcome you want.

ON WHY YOU SPEND TIME UP-FRONT ON DISCOVERY AND DILIGENCE (CONTINUED)

RYAN MILLIGAN

Partner,
ParkerGale

This timing is also helpful for us on the private equity side. We'll look at hundreds of potential transactions per year and do just two. The quicker we move through company information and understand if it meets our parameters and offers a higher-probability of fit, the more intent we are on convincing them that we'll be the right partner going forward.

ON WHAT TYPE OF INVESTORS COMPANIES SHOULD GO AFTER.

BILL LAMM

The customer's goal here is paramount to answering this. DealerBuilt's founders wanted to raise some growth capital and take chips off the table. They didn't want to sell the business. That itself directs our conversations (away from strategic acquirers, for example). Then there are other factors: what sector is the company in, how big are they, what are the growth and profit profiles. These help us zero-in on investors of an appropriate fit. Then we layer in trade-offs, like how much confidentiality does the client want, or is price the primary driver. In this case, we ended up with a targeted list of 50-60 investors for outreach.

MIKE TRASATTI

I told Bill, "I don't know capital markets." So I definitely put my trust in him. But I made it clear that we should structure the transaction so that whoever bids really wants to be in this business. We're just getting started. That was my mindset and needed to be an investor's too.

ON WHY ENTERTAINING EARLY INVESTOR OUTREACH WAS IMPORTANT.

[According to Presidio, there were 50 to 100 names that had reached out to DealerBuilt to do business directly in advance of this deal.]

MIKE TRASATTI

Entertaining calls was part of my education process. I allocated sixty to ninety minutes every week for about a year and took a half hour with each investor. When it came time to move ahead, I already had familiarity and perspective.

ON WHAT BANKERS AND FOUNDERS ARE LOOKING FOR IN AN INDICATION OF INTEREST (AN “IOI”).

BILL LAMM Nobody had access to Mike at the time. We wanted him focused on building the business. But we did have over ten IOIs. What we look for primarily is *who has done the work, who is serious and authentic, and who is aligned in terms of transaction type and growth planning.* Price is obviously important, but we want to understand who is genuinely interested in teaming with a client’s leadership.

MIKE TRASATTI I focus on the same thing I always do: trying to fit that peg of what’s next to keep going in the same trajectory we were already going. At some point, you put aside the quantitatives, because there are many, and ask, “*Who do you like?*” Anyone going down this path should stick to the convictions that got you to where you are. They will get you through the process.

ON REVISING A BID TO BE MORE COMPETITIVE.

BILL LAMM We were going to invite four to six investors to come meet the company and told ParkerGale, “you’re below the cutoff.” We encouraged them to get more aggressive and put themselves in a position to meet the team because it seemed like a great mutual fit.

RYAN MILLIGAN We submit bids that we have conviction behind, but ultimately we like to get walked up during the process as our conviction grows. There is a better deal cadence when the management team, company and performance take us up, versus starting too aggressively and having to risk a drop in price.

ON THE DANGER OF CARELESS BIDS AND BACKING OFF INITIAL OFFERS.

BILL LAMM There are firms with a reputation for throwing out lots of IOIs with high numbers to get meetings and not sticking to them. There is value in our market for sticking to your guns and doing what you say you’re going to do.

ON WHAT AN INVESTOR IS TRYING TO ESTABLISH DURING THE FIRST COMPANY MEETING.

RYAN MILLIGAN

When we met the management team, we're essentially selling "how we do our work" the whole time. I am trying to establish credibility by asking good questions and hopefully emerge as someone the founders would like to work with. We also want to show how we're different. Our partners, team, approach and personality are different than others in the space. That needs to come across.

ON NAVIGATING FIT CONCERNS – AND AN IMPORTANT REFERENCE CHECK QUESTION.

MIKE TRASATTI

I actually asked why we were meeting with ParkerGale given early questions around transaction fit. But the positive was that you were direct. You also made it clear that you didn't like to lose when you found a deal you liked. That stuck with me. In that meeting, I started asking, "why not ParkerGale?" I also reached out to a ParkerGale reference with a simple ask: Did we just find the one private equity firm with this operating approach? The reference was absolute is saying yes it is as described.

ON HOW BOUTIQUE PRIVATE EQUITY FIRMS CAN DIFFERENTIATE THEMSELVES.

BILL LAMM

ParkerGale is not the fanciest household name. There are firms who have big, decades-old brands. *But you competed on genuineness, authenticity, sincerity and being knowledgeable about the business.* To some people, that matters a lot. This means less if you're selling 100% of the business. But when founders are investors and looking for two bites of the apple, finding cooperative, thoughtful, value-added investors is important.

ON A DEAL-BREAKER STEP THAT MOST FOUNDERS IGNORE.

MIKE TRASATTI

I threw Bill a curve ball when I said, "I'm not partnering with anybody until I see how they live." I wanted to see investors' offices because those little things are the best indicators of how you treat people in your company. There was no chance of moving forward until I saw the home of the people I was partnering with.

ON BALANCING CERTAINTY TO CLOSE, PRICE AND DEAL FIT.

BILL LAMM Traveling around is a lot of work for Mike and his team. And, frankly, it is a lot of work for investors and my team too. Nobody wants to go through this and watch it fall apart. Sure, it took an extra month for the team to make visits, but it is important that the marriage works out.

Some parties move their bids higher or lower. But the goal is never to get the maximum bid from all the people who submitted IOIs. It's finding the balance of the best partner at the best price.

Yes, certainty to close is of critical importance, but you're not going to take the low bidder just because the likelihood of the deal happening is higher. We are looking for the right mix of great price, great fit, thoughtfulness, value-added partnership and a high likelihood of close. ParkerGale did a great job of showing these.

ON TRUST AND GUT-INSTINCT WHEN DOING A DEAL.

RYAN MILLIGAN We had planned an onboarding five days after the target close date. But, as often happens in transactions, dates slipped and the two dates coincided. Even though the deal wasn't closed, we still got on planes and started onboarding with DealerBuilt -- *during* the closing! After three or four hours, our teams stop and get on the phone to approve the transaction. Money starts moving, we share a few hugs and get right back to it.

MIKE TRASATTI Of course, Bill was like, "You're doing *what?*" But doing business on a handshake was nothing new to me – and it's been pretty good to me so far.

OUR BEST ADVICE

- ✓ GOAL IS NOT TO CLOSE ON THE MAXIMUM BID FROM ALL WHO SUBMITTED IOIS. FIND THE BEST PARTNER AT THE BEST PRICE.
- ✓ I'M NOT PARTNERING WITH ANYBODY UNTIL I SEE HOW THEY LIVE. GO TO THEIR OFFICES. THAT IS THE BEST INDICATOR OF HOW THEY TREAT THEIR PEOPLE.
- ✓ FOR A BUYER, STANDING FOR SOMETHING MATTERS. PARTNERS, TEAM, APPROACH AND PERSONALITY NEED TO COME OUT IN THE PROCESS.
- ✓ AT SOME POINT, YOU PUT ASIDE THE NUMBERS, BECAUSE THERE ARE MANY, AND ASK, *WHO DO YOU WANT TO WORK WITH?*
- ✓ IN TERMS OF A TRANSACTION, WHEN THERE IS AN INTERSECTION OF OPPORTUNITY AND ANTICIPATION, YOU KNOW YOU'RE READY.



ABOUT PRESIDIO TECHNOLOGY PARTNERS

Presidio Technology Partners delivers trusted strategic and corporate finance advice to leading software, internet and business services companies. Our data-driven, unconflicted, client first advice produces superior results for high growth companies and their CEOs and owners. Presidio advises founders, owners & CEOs on mergers, acquisitions and capital raises. We represent software & Internet companies in five core industries: Automotive, Insurance, Real Estate, Healthcare, and Government Services. Automotive SaaS is a key vertical for Presidio.



ABOUT DEALERBUILT

DealerBuilt is an automotive Dealer Management System with an emphasis on Consumer Experience. With a full suite of software modules and countless third-party integrations, our clients are empowered to take complete control of their DMS. We want our dealers to feel confident in the software that touches every part of their dealership.



ABOUT PARKERGALE

ParkerGale Capital is a private equity fund based in Chicago that buys profitable, founder-owned technology companies and corporate carve-outs where the firm's operating resources can have a meaningful impact on the outcome. ParkerGale also hosts the private equity industry's only podcast, the PEFunCast on iTunes and Google Play. **For more information, please visit www.parkergale.com**