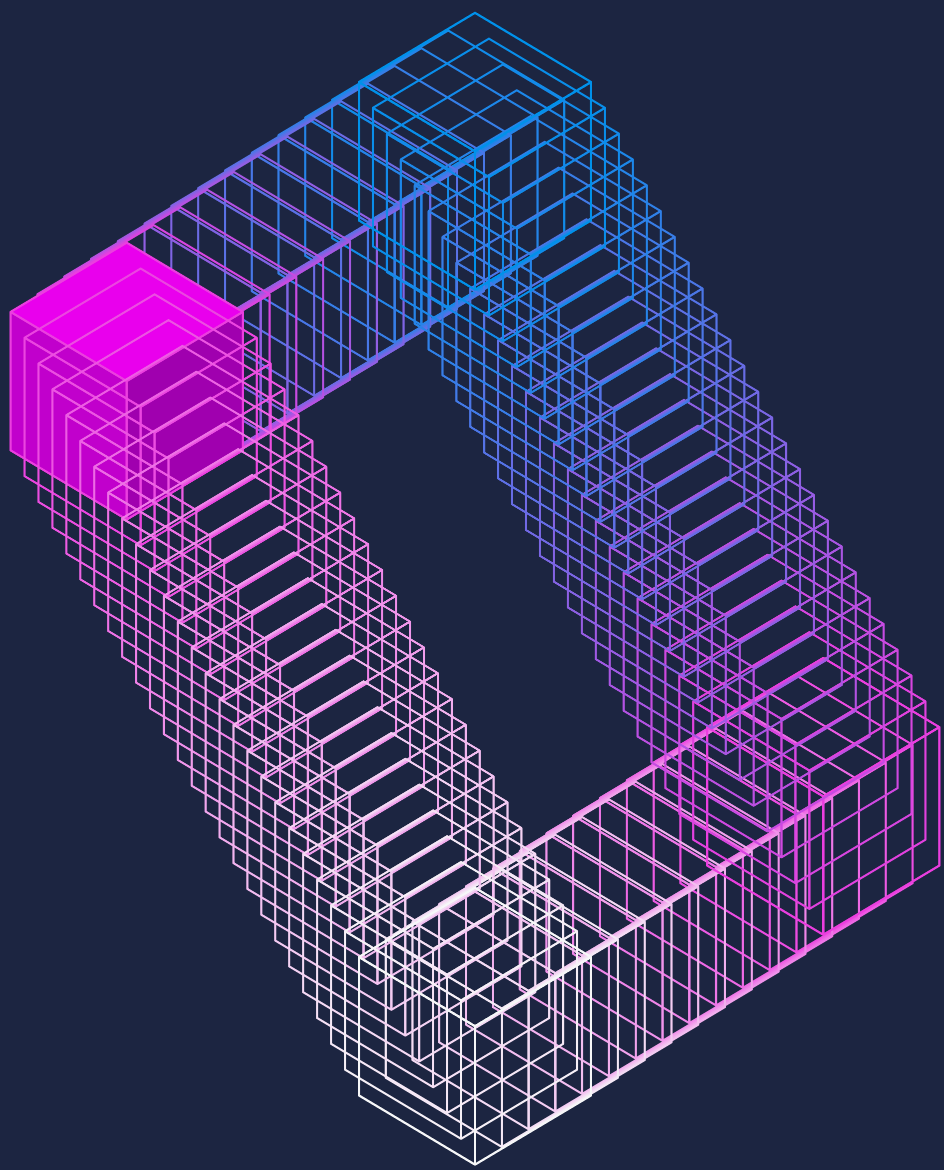
GROW WHERE YOU'RE PLANTED:

Using Data to Get More From Your Portfolio



SOURCESCRUB

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INTRODUCTION

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As deal volume and value continue to shrink, leading firms are looking beyond traditional sourcing and platform investment tactics for more innovative and strategic ways to deploy capital, generate returns, and drive growth. And there's no better resource to help them achieve this than their existing portfolios.

2022 saw a **36% decline in deal value and 12% decrease in volume**. However, this dip came on the heels of record-breaking global M&A activity in 2021, with **nearly $6 trillion in transaction volume and more than 63,000 deals**. This means most firms' portfolios are chock full of fresh investments that are ripe for optimization.

As SourceScrub's CTO Jon Dodson says, "It never hurts to grow where you're planted. How can you help your current clients or portfolio companies improve their performance and, by default, your own? Optimizing what's already working and maximizing the value of your current investments will give you a strong head start when the market picks back up."

Knowing where to focus your limited resources and attention is easier said than done — especially in times of such uncertainty. However, data can provide the objective certainty dealmakers need to zero in on the initiatives and opportunities that will deliver the best results and position them for post-slowdown success.

Unfortunately, **recent research shows** that nearly 60% of firms still fail to use data to do more than answer basic, ad hoc questions. This guide will break down how firms can harness data in a consistent and strategic way to get more from their existing portfolio investments.

MAXIMIZE ADD-ON OPPORTUNITIES

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Not only has deal volume slowed, but many firms are also facing extremely wide valuation gaps, meaning that platform investments are no longer worth what they originally paid for them. Platform companies represent foundational investments that firms make in high-growth industries or emerging categories. They typically have decent market shares, resources, and revenues.

In contrast, "**add-ons**" refer to investments firms make in smaller companies and industry players to help enhance the worth and accelerate the growth of existing platform acquisitions. The value and goals of add-ons can be broadly categorized into 4 buckets:

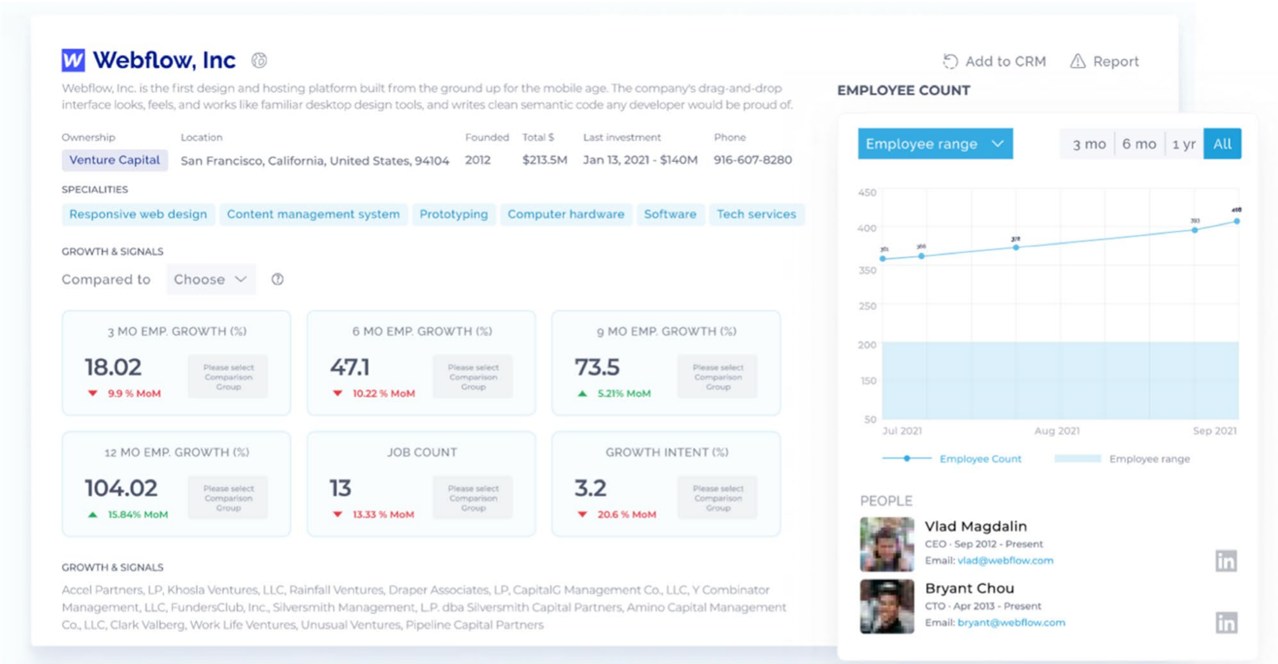
1. **Revenue growth:** Absorb a complementary add-on into a platform company to accelerate growth by acquiring its revenues and migrating its customers over.
2. **Market entry:** Accelerate a platform company's entry into a new channel or its total addressable market by acquiring a smaller company with existing or potential market share.
3. **Geo expansion:** Expand platform company reach into new territories by acquiring a smaller company with an existing regional presence.
4. **Product functionality:** Sell more through an existing channel by adding additional product functionality to the mix, as well as cross-sell through this new channel.

As previous Director of Business Development for Serent Capital and SourceScrub's own Co-founder Tyler Fair **said in a recent interview**, "It's a good time to focus on add-on acquisitions. In a lower valuation market, this will help bring down your overall entry multiple. If you bought a platform company for 10x revenue, ask yourself where you can deploy additional capital into your portfolio through add-on acquisitions at lower multiples than what you paid for your platforms."

The President and Founder of a major mid-market growth equity firm agrees: “Spend more time focusing inward on the portfolio and optimizing the performance of ‘what you have.’ Focus on add-on acquisitions – smaller, proprietary deals are often less impacted by general market slowdowns than platform / banked deals.”

However, while mapping market landscapes, researching potential opportunities, and pinpointing the right targets has traditionally been a time-consuming and tedious process for platform investments, it becomes much harder when add-ons are involved. Because these companies are usually small, early stage, and bootstrapped, there is often little to no public data readily available for them. Firms are forced to dredge the recesses of the internet searching for accurate and up-to-date information — a process that’s even slower and more stressful when you’re up against a rapidly changing market.

Fortunately, new technologies are able to quickly comb through and cross-reference tens of thousands of conference lists, industry guides, and other sources to surface the entire universe of bootstrapped businesses. The latest deal sourcing platforms also make it easy to filter and sort through these opportunities based on platform companies’ acquisition criteria and key **data signals** that accurately indicate bootstrapped business growth, revenue, and investment readiness.



A sample company profile featuring multiple data signals in SourceScrub.

For Example...

As Boathouse Capital's M&A Director, Steve Dressel took on the initiative of discovering highly specific add-on opportunities for existing portfolio companies. However, finding reliable revenue and operating data for growth-stage companies not actively seeking investment wasn't easy.

Steve now starts the sourcing process with SourceScrub's deal sourcing platform. He uses the tool to surface and compile lists of relevant add-ons based on a unique combination of data signals including employee growth and last funding date. He further ranks and prioritizes top-performing targets using the tool's custom scoring functionality.

"SourceScrub has completely transformed my sourcing efforts," shares Steve. "It makes finding companies that match specific thesis criteria or add-on requirements a much more direct and efficient process than I ever thought possible."

Since using SourceScrub, the firm has not only improved its sourcing productivity by 50%, but also increased won add-on deals by 50%. "I love it when an executive comes to me with a list of 5-10 potential add-on companies," tells Steve, "and I'm able to turn around, log into SourceScrub, and come back to them with 30 more names almost immediately."

[READ THE FULL SUCCESS STORY]

OFFER COMPETITIVE INSIGHTS

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Boathouse is just one of many firms successfully harnessing data to pinpoint prime add-on opportunities. A leading PE group integrates data from across systems and sources to develop custom models that it then uses to surface add-ons that match portfolio companies' acquisition criteria. The result? **A 3x increase in deal volume**.

But this is just the tip of the iceberg when it comes to the kind of competitive insights that data-savvy firms are able to offer portfolio companies and use to bolster shared success. Other data science capabilities give current investments the ability to predict customer expansion rates, pinpoint key growth sectors, and much more.

For instance, **TA Associates** developed an algorithm that analyzed the clients of its portfolio companies in the B2B tech space over a 3-year period. During that time, the algorithm learned how to identify which clients are most likely to grow their accounts with 96% accuracy!

However, to uncover and deliver this kind of intelligence, firms must adopt the latest data and corresponding technology, both internally and externally across their portfolio companies. Don't have the right tools in place? Now is the perfect time to start implementing them. In fact, **EQT's Head of Digital Growth Alexandra Lutz confirms** that her firm's own digital transformation initiative earned significant recognition and credibility among its portfolio companies.

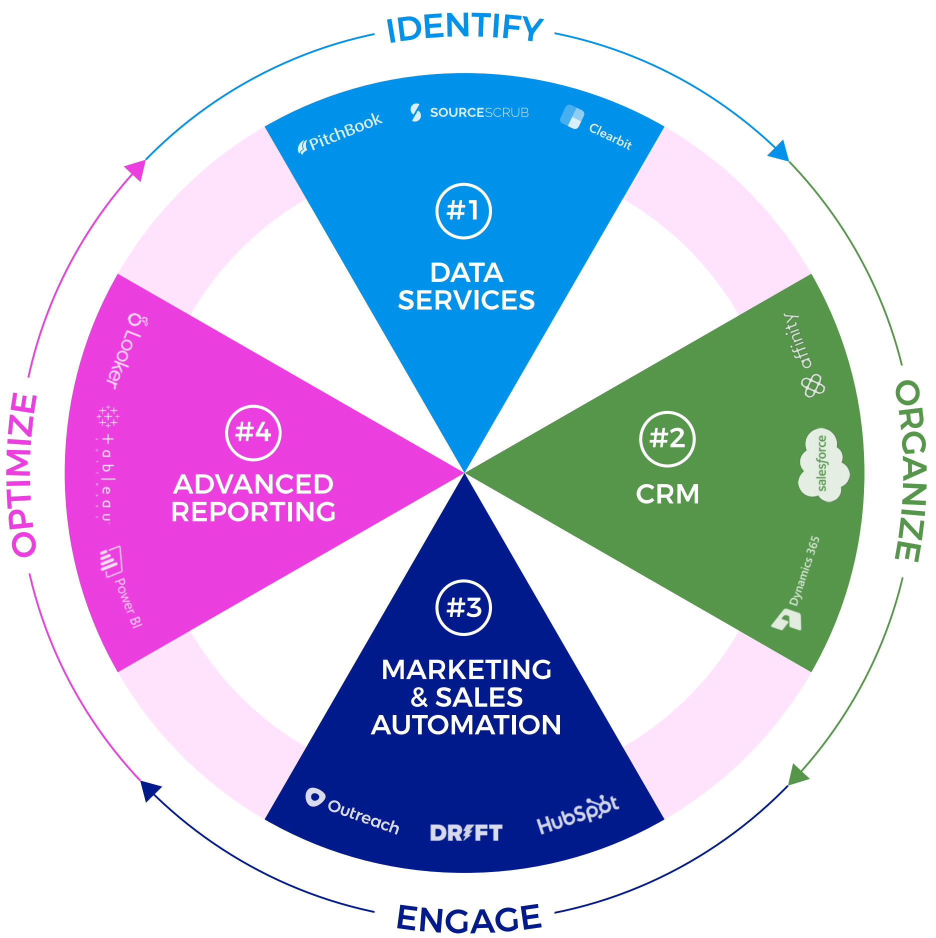
While every firm uses a unique assortment of technologies, there are four core components in most top **dealmakers' tech stacks**:

1. **Data Service Providers:** Provide info that helps identify, understand, and reach potential investment targets.
   Examples: Pitchbook, SourceScrub, ZoomInfo

2. **CRMs:** Organize all information around current and potential customer contacts, interactions, and relationships.
   Examples: Salesforce, Dynamo, SugarCRM

3. **Sales and Marketing Automation:** Help teams coordinate, personalize, and automate prospect engagement at scale.
   Examples: HubSpot, Marketo, SalesLoft, Outreach

4. **Advanced Reporting:** Analyze large amounts of data from across sources to generate deep, proprietary insights.
   Examples: Looker, Tableau, ThoughtSpot



Many of the tools in the modern dealmaker's tech stack are also great choices for their portfolio companies' technology ecosystems. "During the initial stages of COVID, we amped up technology, like PowerBI, at our portfolio companies so that we could have a real-time view of what was happening," [says Jessica Ginsberg](), Managing Director of Business Development at LFM Capital. "Seeing actual data, in real time, helped us to act faster and stay on top of ever-changing circumstances at our partner companies."

The more you're able to benchmark metrics like growth rate across your portfolio, the more accurately you're able to assess and determine the potential of future investments. Learning what drives results for your portfolio companies helps firms create proven playbooks they can use to steer all investments toward success.

Offering competitive insights, especially during times of market uncertainty, also serves to bolster post-slowdown fundraising. "A lot of times, GPs buy businesses and put in the minimal value," **says Mary Hunt, Principal at RCP Advisors**. According to Mary, what LPs want to hear from reference calls instead is, "This person was in there with me, in the trenches, in good times and bad."

GENERATE MARKETING OPPORTUNITIES

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According to M&A veteran Charles Shannon, one of the most valuable ways dealmakers can spend "downtime" during market slowdowns is to ramp up marketing efforts and increase visibility among target investments. This helps keep your firm top of mind once valuations rise and companies are ready to transact.

"When markets pull back and engagement rates slow, marketing activity becomes a priority in order to keep your pipeline strong," **he says**. "The cost of advertising both online and offline decreased during those periods and I doubled down. Sponsorships, conferences, email blasts, etc. — all were leveraged with capital saved and earned during hot market periods."

What sort of messages resonate most and help firms maximize the return on their marketing investments? While dealmakers have historically been the main subjects of their own outreach, MiddleM Creative Managing Director and marketing guru **Tricia Forbes recommends** showcasing what you know about and can do for target companies instead. And the more personalized these messages are, the better.

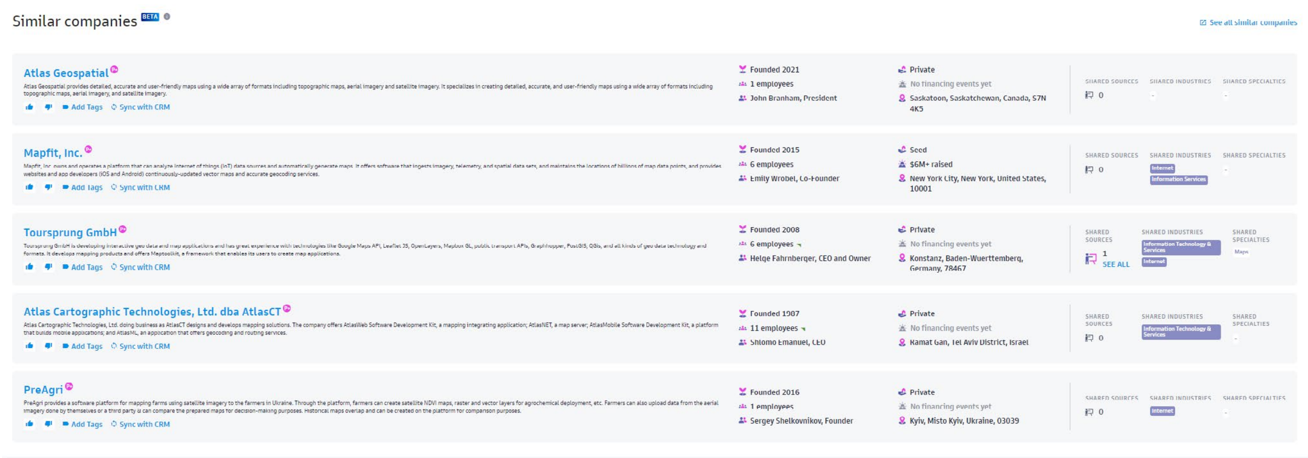
"We've seen firms really put a lot of resources and energy into creating thought leadership content that's based around their unique experiences and value-add," says Tricia. "They tell stories and talk about the way they've impacted portfolio companies."

Letting portfolio company founders and operators do the talking makes this tactic feel even more credible and genuine. For example, try creating blog Q&As with portfolio company management teams or video interviews featuring executives from your recent wins.

SourceScrub CEO Jim Obsitnik elaborates, "Dig into the specific resources your firm brought to the table, why you stood out compared to competitors, and what made these companies want to become part of your portfolio. Turn it into conference handouts and presentations, post it on social, include it in your outreach emails — the possibilities are endless. Then find companies that are similar to these recently won investments, and get this material in front of them."

> **"SourceScrub's Similar Companies feature accurately produces lists of similar companies that are strongly correlated based on a range of attributes. The multi-source approach gives the model the ability to more deeply understand what a company actually does so we end up with better lists of comparable companies."**
>
> **—Christie Klauberg, Vice President at Francisco Partners**

While good firms have no issues finding owners and operators willing to talk, getting these marketing materials in front of the right people at the right companies still presents a challenge. Trying to manually match companies using information from their websites and traditional, unnecessarily rigid industry classifiers such as NAICS or SIC codes is a time-consuming and often inaccurate process. Fortunately, [data from the leading deal sourcing platforms]() can help.



A sample similar companies ranking in SourceScrub.

These platforms use human-in-the-loop machine learning to analyze extensive datasets from across multiple sources, comparing company attributes such as business descriptions, industries, product offerings, and business models. Sophisticated classification algorithms apply industry designations that are more accurate and adaptable, allowing companies to belong to multiple industries based on their complete range of markets and activities. The results are then ranked according to how precisely each new company matches the original.

Highly accurate executive contact information is returned for each company — including those that are bootstrapped. These tools also allow dealmakers to subscribe to real-time alerts for key company events that may indicate investment readiness, such as new executive hires or media coverage. Attaching marketing materials to communication acknowledging these compelling events means firms are sending not only the right messages to the right people at the right companies, but at the right moments as well, drastically increasing response rates.

NOURISH TO FLOURISH

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The market may be slowing down, but top firms are charging ahead and finding ways to innovate and improve. Deepening domain expertise, optimizing core processes, and strengthening outbound origination helps dealmakers deploy capital, generate returns, and drive growth.

But one of the most immediate and impactful areas firms can focus on is maximizing the value of their existing portfolios using the three strategies outlined in this guide:

1. **Grow platform companies by identifying more of the right add-on opportunities**
2. **Offer deep competitive insights that improve portfolio and firm performance**
3. **Market portfolio-related content to the right people at the right companies**

SourceScrub's deal sourcing platform helps leading firms like Boathouse Capital and Francisco Partners go beyond traditional sourcing and platform investment tactics to grow where they're planted. With its unmatched database of bootstrapped companies and industry-leading, deal-ready data standard, SourceScrub enables dealmakers to pinpoint the right add-ons, generate proprietary insights, run targeted marketing campaigns, and more.

Ready to harness data and technology to get more from your existing platform investments? **Schedule some time for us to show you how SourceScrub can help!**

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ABOUT SOURCESCRUB

SourceScrub is a market-leading Deal Sourcing Platform for investment and M&A firms looking to research, find, and connect with founder-owned companies. Founded in 2015, SourceScrub provides deal-ready data, purpose-built tools, and on-demand data operations to give firms a decisive advantage so they never miss a deal.

Learn more at ***www.sourcescrub.com***.

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