The CEO Advisory Partner Program
Because It Isn't a Level Playing Field

The CEO Advisory Partner (CAP) program is a search fund CEO's coach and advisor during a sale process. The ROI is enormous, and after years of building value, why would you want to leave any of that hard-earned value on the table? The CAP program builds upon one of the Five Skills of Great Leaders: a willingness to seek and take advice.

In looking at potential paths to incremental investment performance, a simple question emerged: *Can we do better on portfolio company exits?* What if a 7.0x exit had been a 7.4x exit? The math is compelling: Assuming typical leverage, even a small increase in an exit multiple will have a meaningful impact on investor returns, and given the typical search fund waterfall, the impact to the CEO is worth well over $1.0 million.

Volume v. Quality

The investment banking institutions that crank out transactions at our tier of the market are oriented first and foremost around volume. Meanwhile, the best bankers promote up to larger deals and more prominent firms, leaving the less experienced bankers or those who were not promotable for search fund transactions.

Running a great sales process is about executing on 100-plus incremental decisions including: selecting the best investment banking partner; negotiating the banker agreement; holding the investment bank accountable throughout the process; strategic positioning of the company; and how best to present that thorny customer concentration issue. It's about doing a little better at the 100-plus tactical decisions that are made along the way. Unless you have deep pattern recognition, which only comes from lots of "reps," there is no way for a CEO to optimally manage the quality of these decisions when the CEO wants quality and the banker wants quantity.

The investment banker does not have the same incentives as a shareholder. An investment bank's internal economics are driven by quantity, not quality, and they have no meaningful economic upside in a 7.4x multiple versus a 7.0x multiple, when measured against the advantages of moving to the next assignment.

Not a Level Playing Field

There is also an imbalance of transaction experience between the seller and buyer. The selling CEO has gone through a limited number of exit processes in their career. Meanwhile, private equity firms and strategic buyers are serial acquirers, always in the market and in possession of better information regarding transaction trends, terms, and other potential targets.

Since nearly every search fund CEO is going through their first exit, we have an inexperienced CEO managing a lower-quality banker who is quantity driven, without the support of a sole sponsor team. This is not a formula for maximizing the chances of a 7.4x return.

The Team Matters

Deciding whether to use an investment banker, and if so who to choose, will have a *profound* impact on “good” versus “great.” We have countless examples of mediocre bankers making poor decisions that impacted value, and a similarly large set of examples where skillful bankers added value far in excess of their fees.

Selecting a banker is a skill, just like hiring a manager. And while there are steps to improve the process, there is no replacement to having someone by your side who has helped select hundreds (literally) of banking teams.

Meanwhile, the selection process is made more difficult because the best bankers promote up to larger deals, and often with more prominent firms, more or less graduating from the search fund market. This leaves you often faced with a rain-maker partner who is fronting for the less skillful banker who will be doing all the work.

The CAP Program

FTF has discovered a cohort of top-tier experienced investment bankers who are retired and know the system inside and out. These are folks who want to keep active and stay in the game but don’t want to be investment bankers anymore. They want to mentor, guide, and advise—and spend time on the *other side*, using their decades of inside experience.

The mentor works directly with the CEO and brings two skills to the party. First is quality control; they know better than the CEO what constitutes excellence and can communicate that standard to the bank in a way a search fund CEO cannot. Second, they offer a degree of wisdom to the day-to-day process that only comes from decades of experience. They help the CEO make those 100 tactical decisions well, maximizing the chance of a 7.4x return.

Specific advisory duties include:

- Banker selection
    - Best banks to approach, and the best banker within those organizations
    - Assist with interviewing bankers
    - Advise on engagement letter negotiation

- Early-stage process
    - Advise on data room population (confidentiality issues, priorities, etc.)
    - Quality control of marketing materials
    - Reviewing buyer list

- Mid-stage process

    - Quality control of diligence responses
    - Quality control of management presentations
    - Review outbound bid solicitation letters
    - Help the CEO/Board evaluate first-round bids

- Later-state process
    - Evaluation of bids
    - Advise on legal matters and deal structure
    - Monitor from transaction through closing

The CAP program is part of being with FTF, and we strongly encourage you to consider it if you are even thinking about a significant transaction.

Your Partners at FTF

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