

KEYNOTE INTERVIEW

Putting data, branding and creativity at the heart of sourcing



*Prioritizing data and process in sourcing has played out well through the past 18 months, say managing director **Christen Paras** and vice-president **Dyana Baurley**, business development professionals at MiddleGround Capital, which deployed their first fund in only three years*

Q How does MiddleGround Capital approach deal sourcing and what are you currently seeing in terms of challenges and opportunities as a result of that approach?

Dyana Baurley: Deal origination has been a top priority of our firm since day one – DealCloud, our CRM, was the first big investment MiddleGround made. Sourcing doesn't exclusively fall on the business development team; we foster a culture of sourcing that brings our investment team and operators into our sourcing channel coverage strategy. Additionally, we build data-driven, repeatable processes that can sustain dealflow in any market.

No one forecasted covid for 2020,

SPONSOR

MIDDLEGROUND CAPITAL

coming out of what was a small industrial recession in 2019 – factors that led to limited, quality dealflow in the early days of deploying a brand-new fund – or the ensuing avalanche of deals in the market today that has led to constrained resources on the execution side. Each of these environments requires a different type of sourcing. The only consistency in the market is inconsistency, so building a repeatable sourcing strategy is crucial.

Christen Paras: Even though we are an industrials-focused firm, we have

developed investment theses in certain verticals we find particularly interesting. We have dedicated internal resources to those projects, brought in consultants, identified the highest-growth markets with the most attractive opportunities that best align with MiddleGround's investment strategy, and marketed our findings to dealmakers.

The first two thesis areas have been in mobility and infrastructure and their respective supply chains. Within mobility, we're focused on the most disruptive trends transforming the automotive industry – namely electrification of the powertrain, vehicle lightweighting for fuel economies and battery range extension and connected car and autonomous

driving technologies. Within infrastructure, we're focused on renewable energy; energy storage; distributed power generation; and fortification of our aging power grid, water and wastewater systems, and telecom networks.

A year ago, when industrial dealflow was at a multi-year low, we were able to access limited processes and put significant capital to work. During the height of the pandemic, four of six deals we closed related to our mobility and infrastructure theses and were only marketed to a select group of sponsors. Today, with so many deals in the market competing for sponsors' attention, sellers are hyper-focused on certainty of close, so the fact that we have done all that work and built conviction amongst our investment committee means we can move quickly and be more competitive than peers.

We have more thesis projects underway – from a sourcing perspective, this is yet another repeatable process.

Q How can firms integrate technology and data into their processes and infrastructure to enhance deal sourcing effectiveness?

DB: Leverage your technology partners as much as possible. Get to know your relationship managers; they are the experts in their space fielding hundreds of client requests. I routinely ask what they view as best practices. They are the experts in their tool, so work collaboratively to find a new way to look at the data that fits your strategy. There's a missed opportunity if you have a technology partner and aren't speaking to them regularly.

CP: MiddleGround has roots in Toyota, so the concept of continuous improvement permeates everything we do. On sourcing, we are always looking to augment our data analysis and incorporate it into our decision-making processes. Often, it involves bringing on new data sets.

One of our data providers is Sutton Place Strategies, which helps us understand which intermediaries are trafficking the most relevant deals and whether they

closed. There are over 800 institutions that have closed at least one deal that broadly hit our criteria since 2018, and then you have all the individuals within those institutions. Being able to prioritize our time on those that focus on what we do is hugely beneficial. We have been designated a top quartile deal originator by Sutton Place, so we can also measure how effective our sourcing strategy is relative to our peers.

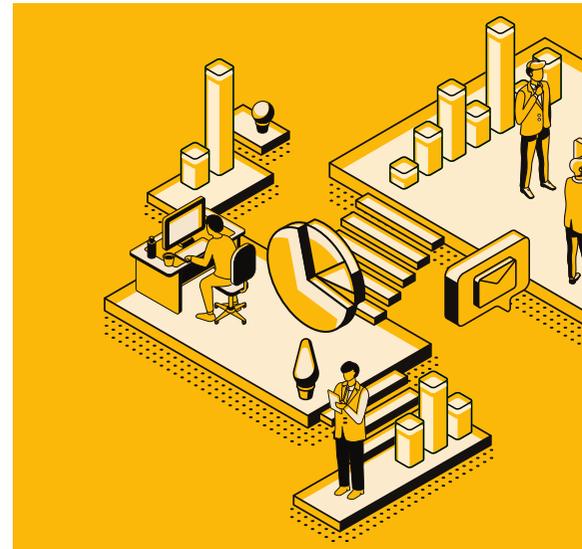
We constantly evaluate new technology platforms and their product pipelines to see if they fit our needs. It's important to stay on top of new technologies, but we balance that with our team's bandwidth. Technology resources are only effective if we have the people to manage them. The good news here is that we are now hiring two additional business development professionals onto our team, including one role that will be purely data-driven and analytical in nature.

Q How can firms address their ESG priorities through sourcing?

DB: MiddleGround was founded on the principle of leaving companies better than we found them. We want to be a role model for ESG practices in our market. Over the last year we have become a signatory to the UN Principles for Responsible Investment and put in place key performance indicators to track and measure our ESG actions, ultimately creating a baseline for future growth in ESG.

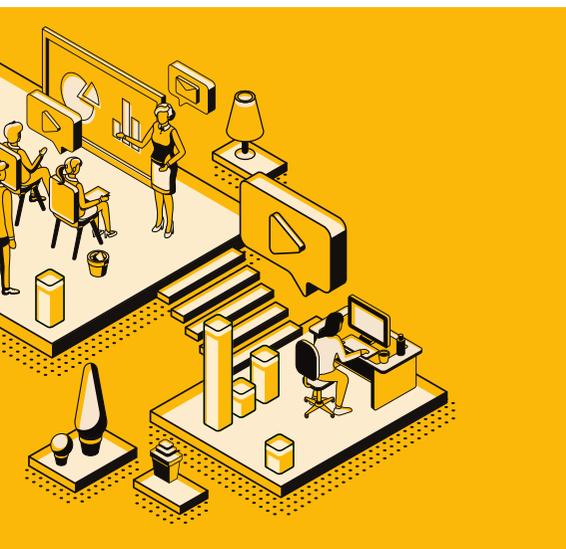
ESG has become integrated early on in our sourcing conversations. We ask a lot of questions around the environment, working conditions, employee compensation and so on. We evaluate deals based on the ESG opportunity they present in addition to the other criteria that make a MiddleGround deal.

CP: We are not afraid of a heavy lift on the ESG front. Where other sponsors may shy away because of extreme environmental issues, poor conditions at a plant, or workforce attrition, we know we can make tangible improvements. One of our founders, John Stewart, started as an hourly line worker at Toyota, so it's



“Transparency is the cornerstone of our relationship management strategy with everyone—investors, portfolio companies, business owners, and intermediaries alike—and marketing is a great tool to promote transparency in a differentiated way”

CHRISTEN PARAS



important to us that production workers get paid a decent wage and work in good conditions. As an example, we are implementing a minimum \$15 hourly wage across our portfolio. We often identify issues that prior owners have not thought about or have not been able to prioritize. We can drive improvement for workers and their companies and communities that can also drive value for our investors.

Q How important is branding when it comes to mid-market deal sourcing?

DB: Our brand is everything. We are just three years old and have done 10 deals to date, so we share updates with our network not only on our transactions but also on volunteer work and successes of our employees, we want the market to get to know us outside of the usual deal announcements.

As a young fund in a crowded industrial market, our founders have made marketing a key differentiator from day one. We have a sophisticated LinkedIn strategy and have developed a specific voice for our website that we hope sets us apart from the crowd. Our approach is to be a bit lighthearted and not take ourselves too seriously, which resonates with our culture around the office.

Once we're in a deal process, we build a strong reputation and maintain our credibility. We don't re-trade our bids, our deals close within our initial IOI range and

“The only consistency in the market is inconsistency, so building a repeatable sourcing strategy is crucial”

DYANA BAURLEY

we have closed 100 percent of our signed LOIs. Building credibility takes time; maintaining credibility takes practice. We want our community to know that when we submit a bid, we plan to close a deal. We aren't just throwing things at the wall to see what sticks.

CP: Intermediaries put together buyer lists, and there are some sponsors they have worked with once and won't work with again. We want to be a name that always gets circled, not crossed out. Likewise, when we speak to founders and source deals directly, our core values – not just in terms of process but also in terms of ownership and stewardship – really resonate.

Marketing and branding are underutilized in private equity, often due to compliance concerns. Transparency is the cornerstone of our relationship management strategy with everyone – investors, portfolio companies, business owners, and intermediaries alike – and marketing is a great tool to promote transparency in a differentiated way.

Q Finally, how has covid changed deal sourcing approaches over the past 18 months, and what lessons have been learned for the future?

DB: When covid hit, the entire “traditional” BD playbook went out the window. Weekly travel to various cities

ground to a halt, in-person conferences disappeared, and deals were pulled from the market. We had to pivot.

We introduced a cyclical city-focused approach, where we replicated the historical calendar of conferences that would take us to different parts of the country. There was no reason we couldn't maintain our usual cadence without the conferences and events. We pulled historical attendee lists and pivoted the 2020 BD calendar to just be a virtual coverage strategy, rather than in person.

CP: Coming out of worst months of covid, we started testing market appetite for small events by hosting our own. We made use of covid testing and outdoor spaces to build comfortable environments for our partners. The pandemic has given us the opportunity to think creatively about how we engage with different groups.

The last 18 months also challenged us to think creatively about the deals we saw. We can't control which deals come to market, but we can evaluate deals through a different lens. We spent time with different groups – restructuring teams, smaller banks with only add-on-sized deals, buyside advisors, etc – to generate more deal volume. One result was that we saw more deals that were more distressed in nature. We are not value buyers and don't do turnarounds, but we were able to see some of these businesses, namely Dura Automotive and Shiloh Industries, for what they could and should be despite their challenged balance sheets. Dura and Shiloh aligned perfectly with our Mobility thesis, and the Value Creation Plans we identified were right in our operations team's wheelhouse. Our ability to remain flexible and think strategically ultimately led to a record breaking 2020 for MiddleGround from a capital deployment perspective.

We're building brand that helps us put capital to work consistently in any market. Our data-driven, repeatable sourcing process allows us to be agile, taking a different approach to how we view deals when necessary. If anything, covid pushed us to be even more creative and add to our BD strategy. ■