

1. Where Deal Sourcing Fits in the M&A Process

Deal Sourcing Defines M&A Success

- Most failed M&A deals fail because the "**wrong target**" was selected initially.
- Perfect "**financial analysis**" means nothing if the company lacks strategic value.
- "**Deal sourcing**" identifies potential targets before serious evaluation begins.
- This occurs before NDAs and before accessing detailed company information.
- This module covers building "**target lists**" to making first contact.

Why Sourcing Matters More Than You Think

- For PE firms and banks, deal sourcing is daily operational activity.
- PE firms build relationships with management to create future deal opportunities.
- Investment banks maintain coverage lists of 1,000s of companies to spot sellers.
- Corporate acquirers face different challenges than financial buyers do.
- Most companies pursue M&A periodically as part of strategic initiatives only.
- Your sourcing process must be disciplined and focused on strategic objectives.
- Weak pipeline with irrelevant deals wastes management time and dilutes focus.
- Strong pipeline with aligned targets increases probability of successful transactions significantly.
- The quality of deals you evaluate determines deals you ultimately close.
- Everything in M&A starts with finding the right targets first.



1. Where Deal Sourcing Fits in the M&A Process (Part 2)

⚠ The Two Failure Modes in Deal Sourcing

- Companies fail at "**deal sourcing**" in 2 ways.
- 1st failure mode: no pipeline at all.
- Teams wait for opportunities vs. building target lists.
- Reactive approach = only see competitive auction deals.
- You miss "**proprietary opportunities**" where sellers aren't marketing.
- 2nd failure mode: cluttered pipeline with irrelevant deals.
- Teams review interesting opportunities without advancing strategic objectives.
- Tech companies review healthcare deals without asking about synergies.

🔍 Sourcing as a Filtering System

- Effective deal sourcing operates as systematic filtering.
- Start with broad target universe from investment criteria.
- Apply "**strategic filters**" to create prioritized company list.
- Contact attractive targets through outreach or intermediaries.
- Decide which banker opportunities deserve further evaluation.
- Filtering happens before committing resources to analysis.
- Well-designed sourcing ensures you evaluate targets with "**strategic fit.**"
- Poor sourcing wastes weeks analyzing wrong companies.
- Sourcing discipline determines M&A effectiveness over analytics.

