

MIDDLE MARKET Growth

// SPECIAL EDITION

M&A BUSINESS DEVELOPMENT PROFESSIONALS TO WATCH

Who you need
to know in
private equity,
investment banking
and corporate
development





The Evolution of the Business Development Role



BY BILL MATTHEWS
Partner and Co-founder,
BraddockMatthews



ERIN CARROLL
Partner, BraddockMatthews

As limited partners have raised allocations to private equity at record levels and fund sizes have increased, private equity firms have become more institutional. One result of that maturation process is that firms have created and carved out specialized functional responsibilities previously performed by deal professionals. Perhaps the greatest example of this over the last decade has been the development and evolution of the business development function, the role within private equity firms dedicated to deal origination. Years ago, only a few firms, such as The Riverside Company, Audax and Platinum Equity, had dedicated business development professionals. Today, while firms continue to develop and define the function in their own way, the business development role within private equity firms has become a widely accepted part of the industry.

There are a number of themes and developments that reflect the evolution of the function.

Earlier Adoption

First, the business development role is adopted earlier in a firm's life than ever before. In fact, it is now common for a firm raising an inaugural fund to have a dedicated business development professional and, in many cases, a small team. In 2016, approximately 25% of first-time funds (\$250 million+) established a dedicated business development effort within the first year of (or before) closing their inaugural fund, according to research from Pitchbook and BraddockMatthews. These included leading private equity firms such as Gemspring Capital and Align Capital. That number steadily increased in the following years and in 2020, approximately 83% of first-time funds (\$250 million+) established a dedicated business development effort within the first year of (or before) closing their

inaugural fund, including firms such as American Pacific Group, Crest Rock Partners and Teleo Capital.

Naturally, as a result of the commitment to a dedicated business development function, there has been a significant increase in the number of business development professionals in dedicated deal sourcing roles. Within a five-year period (2016-2021), we estimate the number of dedicated PE BD professionals, across all levels of seniority, has quadrupled. With the expansion of the BD talent pool, we have seen a meaningful shift by firms to recruit experienced BD professionals to lead their firm's origination efforts. For the first-time funds raised in 2020 that established a BD effort, 100% of people recruited into those positions were current PE BD professionals, whereas in 2016, only 33% of the professionals had previous PE BD experience.

Specialization

Another aspect of the evolution of the business development function is that the roles themselves have become even more specialized. In recognition of the fact that it is nearly impossible to cover every intermediary or company in every industry, at every size and in every geography, many firms today are building teams and assigning distinct coverage responsibility. Increasingly, we are seeing firms creating teams with dedicated industry sector responsibility. Sectors such as healthcare and technology often seem to be given dedicated responsibility, but many firms, in particular those that have separate sector investment teams, also have separate business development professionals for each sector. Other firms assign coverage responsibility by geography; many want their BD professionals to live and work within their assigned geography, where they can more easily develop a network and embed themselves in the



We estimate the number of dedicated PE BD professionals quadrupled between 2016-2021.

community. Still other firms have separate coverage responsibility for bulge bracket or upper middle-market intermediaries and smaller boutique firms, often referred to as “the long tail.” Finally, some firms have separate individuals or teams covering companies directly (often via direct outreach) and others covering intermediaries.

Compensation on the Rise

Firms increasingly are demonstrating a true commitment to business development and dedicating more resources to the function, including through technology resources and more sophisticated, customized solutions.

Their commitment is also reflected through human resources, as revealed by our 2021 PE BD Compensation Survey, an annual survey of private equity business development professionals in the U.S. Nearly 40% of heads of BD said they had plans to expand their BD team within the next 12 months, with 70% noting it would be at the associate/analyst level. Importantly, firms are dedicating resources in the form of increased compensation. Our survey results point to a consistent increase in compensation, in particular for those professionals who have demonstrated experience in the role. For example, the average annual compensation (salary plus bonus, not including carry) for a business

development professional with six to nine years of experience in the function increased by 33% from 2015 to 2020. More startling, the average annual compensation for business development professionals with 15 or more years of experience increased by 75% over that same time period.

Finally, as the business development role has become accepted within the private equity world, it has become an attractive career opportunity for bright young professionals. We estimate that the number of private equity business development professionals in the U.S. has increased by more than 300% over the past five years, in large part because young professionals view the role as substantive and meaningful. They see that in many cases it is an important and integrated part of the investment process at the firm, and they see firms dedicating more resources to the function. They are often told that the function is “partner track” and, importantly, they see the hundreds of others in the function that have developed a successful career. //

BILL MATTHEWS is a co-founder and partner at BraddockMatthews, with nearly 30 years of experience in executive search, financial services and law. He works on recruiting senior investment professionals and non-investment professionals (including roles in investor relations, business development, portfolio operations, talent and finance) for GPs and LPs in private capital.

ERIN CARROLL is a partner at BraddockMatthews with over 20 years of experience in executive search and financial services. She spends the vast majority of her time working closely with private equity firms to recruit top talent to their teams, including investment, investor relations, business development / deal sourcing, talent, finance, and portfolio operations professionals.