Kilpatrick

Insights: Publications

Meet the Dealmakers | Brian Axelrad

September 25, 2024

MEET THE DEALMAKERS

Brian Axelrad

Brian Axelrad co-leads Kilpatrick's subpractice teams for Emerging Company and Venture Capital clients MASC subpractice teams for Emerging Company and Venture Capital clients as well as for Search Funds and Entrepreneurship Through Acquisition (ETA) clients. There are two main aspects to Brian's practice. First, he works with early-stage companies and venture capital investors, advising clients on strategic and milestone transactions and often serving as day-to-day outside general counsel. Second, Brian helps form search funds and then works with their principals (referred to as 'searchers') to identify and complete acquisitions.

Brian serves clients from a wide variety of industries, from traditional manufacturing to tech and software. He uses his business education and experience to provide actionable and pragmatic advice at every stage, from formation and startup through growth to exit. Brian often coaches and guides his clients as they explore different strategies, transactions, and opportunities. He has earned a reputation for creative goal-oriented outcomes, efficient and effective problem solving, and technical expertise.

You are well known for your work with early-stage companies and venture capital investors. But you also have many search fund clients. What are they?
With search funds, instead of starting a business from scratch, entrepreneurs acquire a business that already exists, then operate it and often grow it. It's also referred to as 'entrepreneurship through acquisition' which highlights both the entrepreneurial aspects of search funds, but also that at its core, it's M&A. In what's referred to as 'traditional' search, the searcher would raise a committed and funded capital pool in a small fund (the "search fund") to stake the searcher during the course of searching for a business to acquire. You can think of it as a miniature version of private equity or a cousin of independent sponsors transactions. The key difference between ETA and private equity or independent sponsors, though, is searchers buy a business that the searcher intends to run rather than install management and continue doing more deals. That's the key hallmark of the ETA model.

Are you seeing any trends in ETA activity?
Historically, search funds have been launched by recent graduates from a small handful of top business schools. One trend is that ETA is attracting

more 'mid-career' type professionals, who may be 5-10 years post-graduate school and/or industry veterans. We're also seeing ETA activity pick up across all industries. While the classic search fund acquisition targets were "old economy"-style industries like manufacturing or trades businesses, there's now growing interest among investors to fund search fund transactions in the technology and software industries – or tech enabled businesses if not exactly tech or software. In fact, in 2023, the target of the largest domestic search fund acquisition was a software compliance business. Our team represented the search fund in that deal.

To that end, the size of individual deals more generally has been increasing over the last five years, too. Traditional ETA deals are now pushing further upstream in the lower middle market to the point where we're seeing ETA deals double or triple the size of six years ago.

What do you like about working with search funds?
For traditional search funds, we get involved while the client is raising capital to form and launch their fund so there's a lengthy period during the engagement where we get to know them well. Many searchers come to ETA with limited deal experience and everything that's involved in acquiring a business. So, I often serve as a guide or a coach through this process that's new to them.

Another great aspect of working in this space has been the phenomenal growth in the ETA community, and I'm very proud of the part we've played along the way. We've contributed not only as advisors to individual search funds but also as educators. Personally, I've been a panelist and presenter at various conferences and programs, including events hosted by Harvard Business School, Chicago Booth School of Business and Kellogg School of Management, Michigan Ross School of Business, MIT Sloan School of Management, and the Southeast ETA conference. In fact, two of my clients will be teaching a business school course on ETA next Spring and we've been fortunate to work with them on their search fund journey as they've developed their own expertise over the years.

You built your search fund practice at HMB Legal Counsel, which has recently merged with Kilpatrick. What makes Kilpatrick a good platform for this practice?
The added breadth and depth of Kilpatrick is very advantageous for growing our practice to match the growth in the search fund space. In particular, combining Kilpatrick's strength in technology and IP with our expertise in ETA allows us to meet the increasing search fund interest in technology and software.

A lot has been said about the millions of Boomer business owners who are looking to retire. ETA will be well positioned to appeal to a growing number of post-grad and/or mid-career professionals who want to chart their own course toward business ownership and see ETA as an opportunity to work for themselves. Having a firm like Kilpatrick as a platform will ensure we can meet the demand and continue to grow our practice in the space.

I've also noticed an intangible benefit from experiencing the merger with Kilpatrick. It has given me a personal glimpse into what a seller, so to speak, will experience. At HMB, we were a smaller firm, grappling with our future and our own succession challenges. And now, I see firsthand the value of how an acquisition – or merger – fits into a potential succession plan, and how essential it is to find the right merger partner, or in the case of acquisitions, the right buyer.

Can you tell me about the impact investing work you have done outside of your legal practice?
Absolutely. For a little over a decade, I was involved with the Beyond Capital Fund. It's a non-profit that made for-profit investments in early-stage startups in India and East Africa. The startups they supported were principally focused on healthcare, waste and sanitation, renewable or sustainable energy, and financial services that focused on financial inclusion and access to capital. I served as the Chief Investment Officer, a non-legal role that allowed me to use my business training in vetting potential investment opportunities. This is quite similar to the due diligence that I help my search fund clients conduct, too.

What drew you to the non-profit/for-profit model?
I wanted to be involved with an organization that supported business success coupled with important non-business outcomes that made people's lives better. While there's absolutely nothing wrong with being charitable and supporting traditional non-profits, I think that injecting a startup mentality into a non-profit's mission can drive a lot of positive change. Startups attract people who are eager to invest and grow. Combining a non-profit mission with economic incentives creates a model that can do good, but also produce self-sustaining, even profitable, revenue at the same time. These two things are not mutually exclusive and don't have to be in conflict with one another.

We have a lot of experience in advising clients who are looking to deploy capital to achieve great social outcomes along with profitability. For example, in the search fund space, entrepreneurs often find a business that was doing fine, but they are willing to invest resources and grow it in a way that the current ownership is not doing. Moreover, there are also people who see ETA as an opportunity to take innovative approaches to workforce development and other community initiatives. Earlier this year, the ETA conference at MIT Sloan was themed Impact through Acquisition and focused on impact as a potential strategy in ETA. It was really gratifying to see these areas of my work converge and to be involved in a small way. Still not enough people are seeing the opportunity for impact in the search fund space, but we certainly do and look forward to helping more searchers go in that direction.

To learn more about Brian and the firm's nationally recognized M&A Team, please visit *ktslaw.com*

Related People

Brian H. Axelrad

t 312.606.3242

baxelrad@ktslaw.com