William Blair

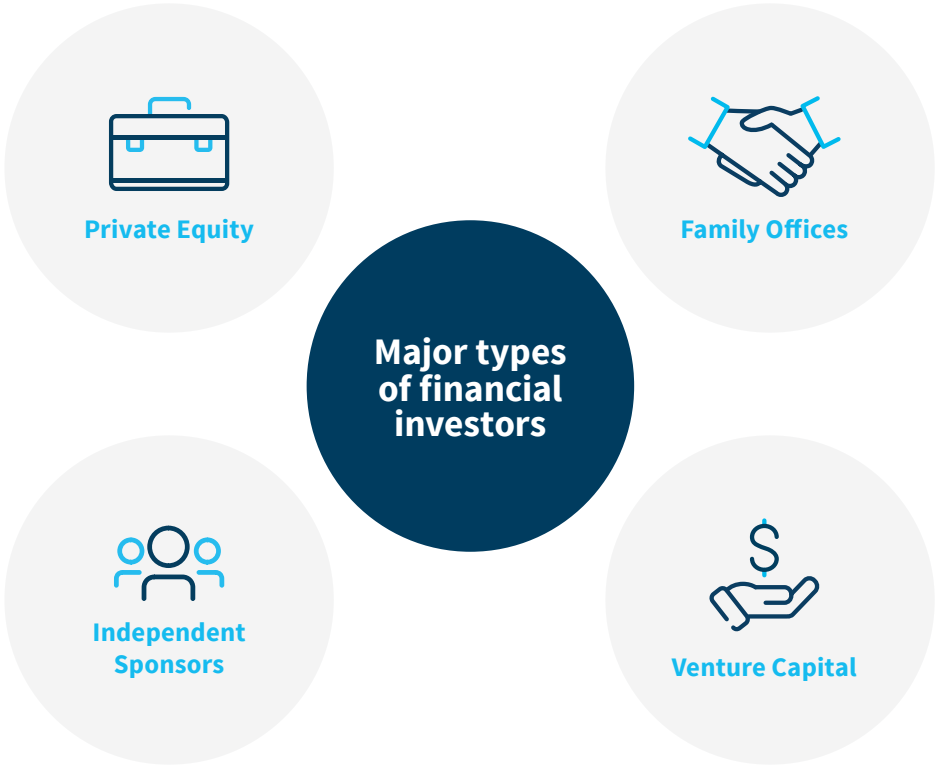
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A Primer on the Different Kinds of Financial Investors

An important part of understanding the universe of capital providers is understanding the range of potential investors. While no two are exactly the same, they can generally be categorized by the type of capital they provide, the industries they focus on, the amount of capital they deploy, and the time horizon of their investments.

Company leaders considering a capital raise or liquidity event should study these nuances and the four major types of financial investors. On the following page, we explore the types of financial investors, their approaches, and debunk some common misconceptions.



A Premier Advisor for Over Nine Decades

Since 1935, William Blair has guided owners of closely held businesses and their trusted advisors through monumental decisions. Our relationship-driven approach empowers owners to maximize the value of their businesses—and turn that capital into an enduring legacy. We invite you to contact us to discuss the ways we support and advise business owners and help our clients capitalize on the tremendous opportunities available to them today.

	Overview	Key Point	What Is Often Misunderstood
Private Equity	Also known as financial sponsors, these firms are more hands-on operationally than other firms, often take on significant debt when buying businesses, and typically target an investment hold period of three to seven years. The investment strategies can involve both control buyout and non-control equity transactions.	Private equity provides value-add capabilities to their portfolio companies to help with growth acceleration, operational improvement, and human capital management. Many firms provide in-house resource management teams and operating partners that can help create an M&A acquisition playbook or help launch new products and services.	The private equity community is historically associated with corporate raiders and asset stripping from the 1980s and early 1990s. However, firms can rarely achieve a positive return and future success following those models, and actually want to partner with management teams and retain top talent through incentive structures that align the company with the firm's investment thesis. Most private equity firms are growth-focused, which means that rather than only looking to cut costs or staff, they focus on growing revenue and recruiting key executives as companies scale and further professionalize.
Family Offices	Often established by families that generated substantial wealth from building and operating their own companies, family offices are known for long, open-ended hold periods. They're also known for being extremely flexible as it relates to whether their investments are for either a minority or a majority stake. And, given their own histories, they are especially interested in partnering with founder/family-owned companies.	Given their longer hold periods, family offices are typically conservative when it comes to debt and are less concerned with timing the economic cycle. They tend to invest in industries that they understand, and they are known for respecting the legacies and cultures of their partner companies.	Family offices are sometimes viewed as less experienced, but many have M&A investment teams that mirror sophisticated private equity investors. Concerns about family offices' inability to compete in a sale process are misplaced as they can outbid other buyers and move expeditiously given the right opportunity. The average private equity firm is bigger by headcount and typically chases more deals, but that just means family offices are more selective in where they spend their time.
Independent Sponsors	Sometimes called "fundless sponsors," this group raises money on a deal-by-deal basis (as opposed to receiving capital commitments for a defined fund strategy) from private equity firms, family offices, and high-net-worth individuals.	Independent sponsors can provide greater flexibility when it comes to deal structures and investment horizons, customized to a business owner's liquidity objectives. They're known for targeting lower middle-market companies and for seeking to provide first institutional capital to privately held businesses.	While deal-by-deal capital raising can be difficult, many independent sponsors have established investor networks and proven track records. Additionally, the common criticism that independent sponsors are middlemen is misplaced, as select firms bring operational expertise and industry experience, taking active portfolio-management roles in a company's new phase of growth.
Venture Capital	VCs focus on early-stage, high-growth companies with longer-term investment horizons and operate under a 10-year lifecycle. Their strategy revolves around providing growth capital and pursuing a range of opportunities at any given time. As a result, they tend to be more operationally passive than private equity investors.	Strategic board guidance, executive leadership development, access to relationship networks, and help with recruiting top talent are potential benefits of partnering with a VC fund. Their investor networks can be valuable in securing funding in subsequent rounds and can provide connections with other portfolio companies, creating synergies to accelerate growth.	VCs invest well beyond the technology and software sector as their key criteria is growth potential—and finding disruptive businesses within large total addressable markets. It's also wrong to generalize and say that VCs only invest in less mature companies, as they target businesses across an array of investment stages (e.g., pre-seed, seed, Series A).

The above doesn't touch on strategic buyers—whose acquisition strategies largely revolve around synergies and operational integration—but it provides a general overview of the large categories of financial investors.

Understanding how these investors broadly think and operate is important for any company considering a capital raise or liquidity event. Please don't hesitate to reach out to our team to learn more.

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