William Blair

williamblair.com

The Unique Perspectives of Investors and Company Leaders in a Liquidity Event

It's critical that all parties involved in a liquidity event—specifically, interested investors and leaders of companies—work to better understand each other. Finding that understanding is especially challenging when the company in question is owned by its founder and/or a family with a deep history with the business.

This isn't meant as a criticism of those businesses or of the investors who are interested in them. It's simply that both groups have very different backgrounds and perspectives. The following seeks to lay out some of the differences in how each group views some common and important elements of the liquidity event process.

Debt Skeptical Versus Opportunistic

Having built their companies from the ground up, founders likely remember the days of making personal guarantees to the bank—putting their homes, cars, or other assets up as collateral for start-up funding. Paying off those early loans is a huge milestone that can often evoke an emotional reaction for both the individual and the company. The idea of taking on new debt later might cause anguish, regardless of whether it is beneficial for the business and value creation.

Conversely, investors (e.g., private equity firms) are tasked with deploying other people's money. They view debt as one of several financial resources to help acquire, grow, transform, and ultimately achieve a return, from operating company investments. Indeed, financial investors—whose chief goal is to make money for those who have committed capital to their firm—understand financial structures and options through an objective lens and can quickly discern between personal and business risk.

Small Group of Advisors Versus a Vast Network

Founders and investors also typically have a very different appreciation for the role of advisors in a transaction. Many founders have a small circle of individuals comprising family members or long-time personal attorneys and accountants. They have historically been sufficient at guiding the founder and/or family through filing incorporation documents, tax returns, and sometimes more rigorous corporate events. However, the comfort with these long-standing advisors can lead to a hesitation to change when it

A Premier Advisor for Nearly 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.

comes to the challenges that arise during a capital gain transaction (due diligence, tax and transaction structuring, legal representations, etc.).

Put another way, founders often (and somewhat understandably) prefer working with partners who almost view the business as if it's their own. But outside advisors with a greater depth and breadth of knowledge and experience—and, critically, objectivity—can be a tremendous advantage in negotiations with potential investors.

It's common for investors to work with an array of experts, often hiring them to provide domain expertise, execution ability, and data-driven insights on their future investments and to solve challenges with their existing companies. Diverse, experienced, objective, skilled advisors are integral to an investor's success, creating a long-term and trustworthy relationship.

As it is both best practice and a requirement from their own funders, investors interested in acquiring a founder- or family-owned business will likely be supported by a substantial team of outside advisors, which can put the founder at a real disadvantage for achieving the best possible outcome.

Long-Term Plans Versus Long-Term Perspectives

Day-to-day operations are the focus for many founders, who likely did as much executing as leading in their company's early days. Founders typically don't emphasize financial projections and operate under the assumption that they will run their company indefinitely—with minimal thought given to enterprise value or investment returns.

Investors can bring a lot to the table when it comes to long-term planning. Whether the move is an outright purchase or a growth investment, investors (and their advisors) can work alongside company leaders to build a 3- to 5-year outlook.

Multiple Versus Singular Points of View

A company leader might intuitively know that more resources could grow the business but be reticent to make the investment, given their risk threshold as an equity holder. If they're the family's steward over the company, they might wonder whether a financially dependent relative prefers continued regular payments instead of a large, but also final, windfall after a sale. And as someone who works at the company, they might debate whether the right outcome for the team remains under the family's ownership or without them involved. Navigating these sometimes-conflicting concerns can be daunting.

Investors, on the other hand, have a clear perspective—their goal is to make attractive financial returns on behalf of their investment partners. Put another way, an investor has one seat at the figurative table and a singular focus, whereas a company leader likely has more to consider.

This is just a quick sampling of how investors and company leaders diverge in how they think about things—a divergence that stems from the simple fact that the two groups start from very different places. Achieving mutual understanding is key to the best outcomes for both sides in any liquidity event.

To learn more about how founder-owners can best work with investors, please don't hesitate to contact us:

Sam Tinaglia
Partner
+1 312 364 8086
stinaglia@williamblair.com

Andrew Hansen
Strategic Partnerships Manager
+1 312 364 5439
ahansen@williamblair.com

"William Blair" is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States. This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being "Eligible Counterparties" and Professional Clients). This Document is not to be distributed or passed on at any "Retail Clients." No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.