William Blair



5 Questions to Expect from Outside Advisors at the Beginning of a Liquidity Event

For leaders of most founder-owned companies, selling a business is an emotional decision, something they'll likely only do once in their lives. Even bringing in an outside investor for growth capital is something that doesn't happen very often for most businesses.

As a result, initiating a liquidity event can be daunting, and outside advisors can play critical roles in helping businesses navigate the complicated process. The following list includes potential questions that advisors are likely to ask company leaders at the beginning of a liquidity event and the rationale behind them.

1

What are your objectives for the business, and for yourself?
It might be hard to fathom for someone who has spent years, and perhaps their entire adult life, building a company, but business goals and individual goals aren't always synonymous. Initiating a liquidity event is often the point when business and individual goals necessarily diverge, which is part of why a smart advisor will ask the question.

Thinking through objectives can benefit owners by introducing a new perspective, especially if they haven't yet decided whether they want to lead the business going forward. To find that out, an advisor might ask: What would you like to spend your own time doing? For example, one individual might want to stay in the big chair but needs capital to grow the company. Another might be ready to move on, feeling as if they've taken the company as far as they can. The answer is important because it helps find a good match in an investor or buyer.

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2

Do you have preferences when it comes to investor or buyer category?
Some owners might begin the process with an idea of a preferred buyer or investor, but many do not, and they might only have a surface-level understanding of important investor nuances, like the differences between financial and strategic partners. In addition, the array of available investors and tools they deploy changes constantly.

The question above is another with a dual purpose: it brings out important pieces of information and it helps to educate about available options. For instance, a strategic investor (i.e., a company in the same or related sector) often wants to buy an entire company, provided it fits into a broader business plan. Financial buyers (i.e., private equity) will typically acquire most, but not all, of a company, placing a bet on its business plan and management team. There are also hybrids, like portfolio-backed private equity companies, which have their own business plans but operate with financial resources from investors. Regardless, asking and possibly informing about potential investors is an important step when thinking about the right type of partner for the business.

3

Do you have any hesitations when it comes to a particular investor or buyer?
Part of the idea here is to draw out whether anyone has already been knocking on an executive's door about investing or buying. But it's also about determining whether the owner considers certain investors as off the table.

For example, such a party might be a long-time competitor who has been locked in a struggle with the company for years. A smart advisor will ask the question and the owner might realize that the intense competition made both sides stronger. Learning that can lead to begrudging respect or even mutual admiration—and that can sometimes lead to a surprisingly strong match.

4

Are there any timing considerations?
This question is mostly about determining whether any internal or external events could affect the overall timeline. Maybe the owner's reasoning is simple—they want to retire as soon as possible. Or maybe they don't want to be the one to cover the cost and incur the risk of a new facility or geographic expansion. Perhaps they know such an investment will be necessary in 18 months and want to retire early enough to position someone else more inclined to bear the business execution risk.

In such a case, the right partner could be a group that has experience with similar projects. Indeed, it's not uncommon for a new party to enter the picture, evaluate the need, and offer up an alternative or more efficient solution (i.e., reconfiguring an existing floor plan as opposed to building a whole new structure).

5

What do you have as far as projections for the business?
Founder-owned businesses typically focus on day-to-day operations and don't have extensive forward-looking projections (i.e., a 3- to 5-year forecast). What many consider projections, others consider them goals, in part because strategic planning takes time and resources. Regardless of whether a business says it has projections, the next step for an advisor is basically the same.

To help management prepare financial projections or to check the accuracy and depth of what they already have, the advisor will dig deeper. This often entails determining what each customer is buying and planning to buy, and comparing the costs associated with delivering the products and services while factoring in any required capital expenditures, among other considerations. The process that stems from the initial question helps the advisor assess the business, its infrastructure, and its leadership.

These are just some of the important questions that allow advisors to become more fluent in the desires of the owners and the nuances of the business. Examining these questions about these questions and answering honestly and thoughtfully will lead to strong alignment between owner and advisor to ensure the best outcome for all parties involved.

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