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Liquidity Options Without Giving Up Control of Your Business

Business owners are frequently faced with capital or liquidity needs, but many don't want to give up control of their company. Capital is often needed for growth, strategic acquisitions, or for personal liquidity—and today's robust capital markets afford business owners much more flexibility than ever before.

Merits of Non-Control or Minority Recapitalizations

- Provides meaningful, partial liquidity to shareholders
- Maintain control and key decision-making
- Opportunity to participate in continued growth
- Benefit from new investor's expertise and additional pool of capital
- Investment from high-quality fund could increase future marketability of the business
- Potential to maximize valuation of the business

That process starts with a few important questions:

- Are there shareholders who want partial liquidity or total liquidity?
- Would my company benefit from capital to accelerate growth or to make a strategic acquisition?
- Do we want a partner with value-added industry expertise, or would we prefer a passive investor?
- How much longer do we want to own and control the business?

Once company leaders answer those questions, they can begin evaluating potential partners willing to make a non-control investment. Non-control-oriented funds have boomed in the past few years, fueling demand for minority recapitalizations and enabling business owners to maximize the valuation of their company without selling control. As owners begin to approach this market, they should think about what makes an optimal partner for their business as there are many to choose from.

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.

Diverse Pool of Capital Providers

1. Private Equity and Growth Equity Investors

Seek minority stakes in high-quality companies led by strong management to help drive value through active involvement, often deploying three- to five-year hold periods

Benefits	Considerations
This is a deep pool of investors whose involvement can add value by way of operating expertise, industry contacts, or additional capital. Additionally, working with a high-quality equity investor provides validation to attract other investors down the line.	Investors in this category will likely seek a preferred security that is senior to common stock. They also may seek governance rights in the form of board representation and specified approval rights.

2. Family Office Investors

Formed by families who deploy their own significant capital resources, family offices vary in focus and approach and typically have long, open-ended hold periods

Benefits	Considerations
The long hold periods can make a family office a good fit for a business owner with a longer-term strategic vision. Family offices also tend to be collaborative and flexible with financing. They are known for being more hands-off operationally than private equity firms, but often have areas of expertise where they can be a value-add.	Family offices are not as active investors as traditional private and growth equity firms. They may engage in fewer transactions each year, target smaller investment sizes, and move slower in a transaction process.

3. Pre-IPO Crossover Investors

Target category leaders that have plans to go public in the next 12-18 months in hopes that the investment will lead to a role as a significant post-IPO shareholder

Benefits	Considerations
Having a public investor on the cap table prior to going public is significantly beneficial to IPO performance. In addition, pre-IPO crossover investors are more passive than their counterparts in private equity.	Many of these investors will only invest in companies that have a clear line of sight to a near-term public offering. They are unlikely to stretch on valuation compared to the public markets because they can invest in either market.

4. Minority-Focused Hybrid Funds

Formed to make minority equity investments, typically targeting internal rates of return in the mid- to high teens and comfortable foregoing full equity upside for downside protection

Benefits	Considerations
The funds provide the least dilutive capital if the company performs as expected, and they typically do not ask for heavy governance rights. These investments can often be structured with a fixed rate of return and no valuation mark.	Funds will seek downside protection in the form of more structure on the preferred security. Additionally, they are typically industry generalists less likely to provide strategic value by way of sector expertise.

Finding the Right Partner

While companies' specific needs vary, most want the same thing from a non-control investor—a trusted partner who shares values and growth aspirations with company leadership and helps execute on that strategy. That kind of partnership is the best way to maintain a company culture while further realizing a company's growth potential.

For more information, please contact:

Brian Friedman
Head of Private Capital Markets
+1 312 364 8797
bfriedman@williamblair.com

Andrew Hansen
Founder-Owned Business Advisor
+1 312 364 5439
ahansen@williamblair.com

Sam Longenecker
Founder-Owned Business Advisor
+1 312 364 5237
slongenecker@williamblair.com

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