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Strategic vs. Financial: A Side-by-Side Comparison

Leaders of founder-owned businesses likely know that the buyer universe essentially breaks down into two main categories—strategic buyers, who focus on synergies and operational integration, and financial sponsors, who emphasize cash flow generation and growth potential in the underlying market.

For any founder-owner looking for an optimal outcome in a liquidity event, it's a good idea to know your audience and its motives. Here's a short primer:

Transaction Consideration	Strategic Buyer	Financial Sponsor
Valuation Potential	Driven by estimated revenue and cost synergies (e.g., the ability to cross-sell products/services and eliminate redundant operations)	Focused on future market opportunity, platform potential (with eyes toward M&A pipeline), and the company's available debt capacity
Process Speed	Typically, slower to move depending on transaction experience and navigating internal "red tape"	Willing and able to move with an expedited timeline
Time Horizon	Long-term outlook focused on integrating the acquired asset into existing business	Typically, a 5-year hold period; can be much longer if sponsor is a family office investor
Equity Incentives	Dependent on employee compensation practices of acquirer but typically limited equity upside	Based on pay for performance with attractive management incentive programs
Capital Structure	Typically, all cash with the potential for stock consideration; will evaluate using debt capacity	Cash up front inclusive of debt with expectation of equity rollover from management
Management Expectations	Transition of some target company management expected within 1-2 years	Management continuity is strongly preferred

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The table above illustrates that strategic buyers and financial sponsors think and operate quite differently. Understanding this is essential for company leaders as they consider initiating outreach in the run-up to a liquidity event.

While these general rules of thumb are helpful, buyer dynamics change all the time—especially during moments of economic volatility. This guidance can better equip founder-owners with key insights into buyer behavior, enabling them to interact discerningly—a key to selecting the right partner.

William Blair Founder-Owned Business Advisory Team:

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

Sam Longenecker
+1 312 364 5237
slongenecker@williamblair.com