SUCCESSION PLANNING STRATEGY GUIDE

Sell to an Investor

Texas Capital Bank
Private Wealth Advisors

Selling to a financial buyer or private equity group can be an ideal strategy for the right business at the right time under the right management. Successful businesses with plans for growth are highly attractive investments. This transition strategy takes a long view of the business and typically journeys through two phases — the first when the buyer takes controlling interest of the company and the second when the original owner and the investor sell to another investor or to an industry buyer. To ensure a successful transition, management should consider both phases.

The Pros & Cons of This Strategy

The first step to planning for any type of business exit strategy is to envision the future and all of the possible outcomes. Based on your own thoughtful evaluation, ask yourself how the many stakeholders inside and outside the business are likely to react before, during and after the transition. **Which strategy will best deliver your desired outcome?**

PRO Because investors are focused on the financial results of the business, they typically require current ownership and management to stay on and continue running day-to-day operations. This means the business gets an infusion of capital, ownership gets a partial payout and leadership has continuity of compensation income.

CON It's important that ownership and management are both part of developing the vision that is sold to investors, because if they lack the desire to deliver that vision, it can have serious consequences for the business and its employees.

PRO While financial buyers like private equity groups may lack expertise in your industry and cannot add valuable infrastructure or insight, they do provide additional capital for expansion and growth — in exchange for future profits.

CON When a company takes on investors, it typically creates a board with controlling interests and sometimes opposing opinions to the previous management team. Before selling to an investor, ownership should consider whether they and the management team will be willing to acquiesce to the new majority owners when they disagree.

ASK YOURSELF:

Are ownership and management committed to leading the business into the future?

ASK YOURSELF:

Is ownership prepared to give up majority control of the business?

Tips for This Strategy

Invest in Your Investor.

Finding the right buyer typically takes time. Knowing what to look for, or rather look out for, can mean the difference between increasing your profits and wasting your time. For example, an overzealous investor may expand the business too quickly, stretching operations so thin it damages the brand's reputation and, ultimately, its profitability. A financial advisor familiar with your business can help you evaluate the track record of potential investors and gain access to stakeholders from previous companies the investor has acquired.

Scale Your Success.

It goes without saying that investors are interested in companies that are profitable and stable. Equally important is the perception of growth. Demonstrating an impressive yet realistic strategy for scaling the business will be paramount to investors, as is management's ability to deliver on it. Businesses entertaining a sale to an investor must be prepared to essentially do what has already been done — build and manage a successful enterprise — but on a much larger scale. The good news is the right investor should be more than willing to fund your work.

Be Open to Change.

While investors typically keep ownership and management on, they get final say. Be prepared to let go of ideas and people that aren't living up to the investors' expectations. In fact, before the sale is complete, it's likely the potential investors have already identified a few ways to help the company get to the next level. Getting to the heart of what those ideas and expectations will be is an important part of the negotiation process.

Have a Plan for Phase Two.

The mandate of financial buyers and private equity groups is to buy and sell businesses. Regardless of how successful the first phase of the transition is — e.g., the business has flourished, profits are soaring — a time will come when the investors want out. At that point the fund will be liquidated. This is typically the point in the journey where previous ownership exits. If the business is sold to a larger player, it can also mean a complete overhaul of management. Whatever the next phase is for stakeholders, planning for it with financial advisors will be critical — preferably in Phase One.

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Ready to Get Started?

Our succession planning experts are ready to help.
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