
WHAT YOUR FUTURE BUYER MAY BE LOOKING FOR FROM YOU (NOT YOUR COMPANY) IN YOUR EXIT



Owners who think about exiting their business should wonder who the future owner will be and what will they be interested in when acquiring the business. These future buyers will consider both the company that you run as well as, potentially, how you run it in making their determination of the value of your business and, in fact, whether they want to make the acquisition at all. This newsletter is written to help owners understand some of the personal traits that professional buyers look for when purchasing a business – items that go beyond the company, its prospects and management team and its profitability.

Who are ‘Professional Buyers’

There is a world of professional investors called Private Equity Groups (PEGs). This is a formidable group of buyers in today’s marketplace as the overall desire of investors to purchase privately-held

businesses has grown. Typically a wealthy individual or institution will allocate a portion of their total investment portfolio (stocks, bonds, etc.) to the purchase of privately-held companies. And, to serve that need of investors, Private Equity Groups have formed and grown in number over the past few years, to serve as a facilitator and manager of the private businesses that they purchase.

If you are looking at an exit that involves an external buyer, in all likelihood Private Equity Groups will be a part of your process, either seeking to acquire your business as a ‘platform’ company or as an add-on to an existing ‘portfolio company’ that they own. In either case, these PEGs often are also looking for owners to stay with the business for some period of time to assist with growth plans.

Leading Personality Traits that PEGs Look for In Owners

PEGs are looking for solid 'investments' (not just lifestyle companies) to own and run. These include businesses that show promise for future growth, solid management, solid and repeatable earnings, low customer concentration and a host of other factors. However, before a PEG will invest, they are also typically looking for certain traits from a business owner.

Ability / Desire to Learn and Grow

A Private Equity Group that purchases the equity in your company will do so because they see the opportunity for growth. Typically, the PEG will see an opportunity for growth that the current owner cannot see so easily. The PEG brings to the 'investment table' experience with owning and running numerous privately-held businesses. Therefore, the PEGs often-times have considerable experience with making changes to a business to help with that growth.

However, what most PEGs also know is that owners often make horrible employees. Owners have been doing things their own way for so many decades that the idea of change is often hard to grasp. So, an owner who can demonstrate a desire to learn and grow will be sought out by the

Private Equity Groups. By contrast, an owner who is too set in their ways and resists change will often discourage a Private Equity Group from making an investment or a privately-held company.

Trying New Things

A PEG should serve the role of a 'progressive innovator' for your company. What this means is that the PEG should bring to the business ideas on how the company can change and grow. However, these changes should happen over time – not all at once. The saying that applies is that you should not try to 'boil the ocean', meaning that changes should happen incrementally. However, an owner who is not willing to try new things will not do well with an investor who is looking to innovate in order to grow the business.

Willingness to Enforce Accountability

One of the elements that private equity brings to a company is enhanced professionalism of the business. Often times this translates into accountability at all levels of the organization. For the typical owner of a private business, the personal relationships that exist within their employee base make it difficult to enforce accountability. And,

therefore, parts of a privately-held business will typically be run in a sub-optimal manner because of the owner's willingness to overlook certain items and not hold employees accountable.

PEGs look for owners who are willing to enforce accountability on the path to growth and greater profitability. This can be difficult for a number of owners to adjust to.

Concluding Thoughts

When considering the big picture of your business exit, you may think about the idea that either someone will run your company after you or the company will cease to exist. And, if you do not have family or management who have the ability to (and / or can afford to) run the business after you, then an external buyer / investor may be needed. And, if you consider Private Equity Groups amongst those who may own your business next, you may want to think through your willingness to learn and grow, to try new things as well as to change the manner in which you run parts of your company in order to determine if you are a solid candidate for a professional investor.

We hope that this newsletter is helpful in having you think through who a future owner of your company may be and what they may be looking for from you.

If you have questions or would like to explore these ideas further, we'd be happy to connect. Reach out to Ed at ed@egwealth.com



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