Driving a Successful Liquidity Event

By Michael Ramich

Although M&A markets have improved since the economic recession, companies seeking a "liquidity event" via sale to a strategic or financial buyer still face a challenging environment. Recently I have spoken to many entrepreneurs and investors eager to capitalize on a market uptick and consider a liquidity event. While there are exceptions, my partners and I hold the philosophy that liquidity events rarely happen by chance, but rather take careful planning, preparation, and execution to become reality. If achieving a successful exit is a goal, the odds of success increase dramatically when management and investors devise and implement a game plan to drive liquidity.

Establish the Objective and Construct the Game Plan

Long before the expected exit, effective liquidity planning begins with a straightforward discussion of the desired outcome that will be mutually attractive to key stakeholders. Among other things, you should determine what value you are trying to build, what time horizon you are facing and what involvement you want post-liquidity. Management and investors should work to reach consensus on what an acceptable outcome will be.

With key stakeholders aligned in the pursuit of a shared objective for your company, you can build a game plan to reach it. The game plan should:

- State the strategic and financial milestones the company needs to hit to reach the objective
- Establish the necessary pacing to reach these milestones within the desired timeframe
- Uncover capability gaps and address how they will be filled
- Identify potential sources of liquidity and strategy for cultivating them

Prepare to Market the Company

With your company executing on its game plan, stakeholders can be confident that it is building value toward the established liquidity objective. Since capital markets can't be timed, you must always be preparing to go to market in the following manner:

- Run the business "diligence ready" – Report and manage to the metrics that buyers are going to be focused on, have financials audited annually, and keep your legal and corporate records complete and accurate.
- Monitor company performance versus capital market activity – Watch for signs that you need to consider selling sooner (or later) than the game plan prescribes.
- Get to know the right investment bankers for your company and be ready to hire them - A good investment banker positions the company, drives the process, and avoids the "one-off" process that puts the company at a disadvantage.

Execute the Sale Process

Once you've kicked off the sale process, vigorous execution is required to ensure a successful outcome. The company should focus on:

- Maintaining business performance – Don't take your eye off the ball. Nothing threatens a deal more than slumping results.
- Hosting dynamic management meetings with buyers - Go all out to connect with prospective buyers personally and show them why they should be excited about your company's prospects. This is your best chance to turn them into deal advocates.
- Delivering clear, concise, timely responses to diligence requests – Say what you do and do what you say.
- Driving the investment banker – Deal experts have multiple demands on their time and need to be managed to deliver results. The squeaky wheel gets the grease.
- Being prepared for unexpected twists - A normal part of any deal with no need to overreact.
- Keeping options open – The best deals happen when you are truly willing not to sell.
- Remaining focused on the prize – Remember the goal is to drive a liquidity event that meets the shared stakeholder objectives, not win each and every point. Don't miss the forest for the trees.
- If you and your company have been preparing and planning a liquidity event for the past several years, you may conclude that today's market offers a good opportunity to market the company. If not, completing a transaction in this still challenging market may hold a lower probability of success. Regardless, there is no better time to step back, revaluate the company, establish shared objectives, and implement a game plan to drive your future successful liquidity event.

Michael Ramich is a Partner of Frontier Capital, a Charlotte-based growth equity firm focused exclusively on technology enabled business services. Within the past eighteen months, Frontier has provided growth and liquidity capital for four new portfolio companies and is actively pursuing new investments for its $250 million Fund III. For more information, please visit FrontierCapital.com.