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Non-Control Capital for the Middle Market

Take Steps to Minimize Your Fear of Working With an Outside Firm to Make a Deal

STORY BY Mark Scott from *Smart Business Dealmakers*

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BETH HAAS, PARTNER

Business owners often find it very difficult to accept external advice, even when it's for something as significant as the sale of their company.

"A lot of companies will be owned by families or by entrepreneurs and they'll have a banking relationship, but that's probably it," says Beth Haas, a partner at Cyprium Partners. "Inviting some outside institution into their company or on to their board is something that can be challenging."

Haas and her team manage a fund on behalf of multiple investors and deploy capital into middle-market companies that have a range of needs from funding a new facility to acquiring a competitor or buying out a shareholder. They could also be thinking about estate planning, wealth diversification or some other need that requires additional capital. What they don't want to do is sell their business.

"They want to continue to own it in some capacity and continue to run it," Haas says. "That's where we come in to help figure out what the investment should be. Part of what we try to do is help understand what their objectives are and really try to structure a transaction that is going to be suited to the particular needs of the business. Every deal looks a little bit different."

In this Dealmaker Q&A, Haas shares her thoughts on how to find the right vehicle to obtain the necessary capital for your business and how to work through any anxiety you may have over working with an outside firm.

Where is a good place to start when your company needs capital?

You may be doing this for the first time and you don't even know what choices are available to you. It can be something that takes some time to get your arms around. This is why it's important to talk to a number of different people to try to find an investor or partner that can be a good fit. It's not a one size fits all. It's about finding a firm that can become a trusted partner.

At that point, the key for an adviser is to get in a room with the decision-makers and ask the right questions and really listen to their answers and try to figure out what's important for your particular team or situation.

If you are worried about the cost of capital, it may make sense to structure the investment as debt where you'll have more security. There are more restrictions around what a company can do, but the interest rate is going to be somewhat lower because it's safer capital. If you want a lot of flexibility and you're expecting a lot of growth and you want a partner who is going to be aligned with that and help you invest for the future, it may make more sense to get some equity capital, which is going to be more flexible and maybe have a longer term view in terms of the investment horizon.

Can you share an example of how you've worked through this process with a client?

There was an investment we looked at a number of years ago with a company owned by a husband and wife. The company had undergone a period of very significant growth that outpaced the systems and infrastructure in the company. They needed some capital to support that growth and they were being advised to bring someone in to help them grow up as a company. We spent a lot of time talking to them and it was presented to us as an equity investment. We walked them through that and got to know the business and helped them make a plan for the things that needed to happen to help the company's systems and personnel grow to support



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the tremendous growth they were experiencing. At the end of the day, they got cold feet about the notion that someone else was going to be a shareholder in their company.

How did you respond to this setback?

The husband and wife had always owned the business. They really liked us and they liked the plan, but they got nervous about bringing in a shareholder. So we took a step back and came up with a debt structure that still met their needs, still satisfied our return parameters and was a lot more flexible and responsive to that concern they had about the shareholder base. We took that back to them and it was the first of two different deals that we did with them. The company opened a bunch of new facilities, they did an IT implementation, they completed a couple acquisitions and it turned out to be one of the best relationships we've had at the firm. That's a deal that could have fallen apart had we not been able to pivot a little bit and really understand the concerns of the owners. I always like to point to that as to why as advisers, we need to be a little bit flexible and agile and make sure we're really listening to the people on the other side of the table.