Panel Summary: Getting to Exit – Essential Learnings from CEOs

During B. Riley's annual Institutional Investor Conference, a number of panels took place, covering a broad range of relevant topics, including best practices to ensure a successful sale and exit from your business.

Organized as a collaboration between B. Riley's Executive Search and its Securities Research teams, the panel featured speakers who had successfully travelled this journey, with these CEOs sharing their experiences and insights, from early-stage start-ups through to publicly traded companies.

Moderated by **Scott Bontempo**, CEO of Bontempo Advisory and former Operating Partner at Welsh, Carson, Anderson & Stowe, the executives sharing their stories included:

- **Raj Sabhlok,** Operating Partner at Bessemer Ventures
- **Shawn Lipman**, Former CEO of Feedonomics
- **John Ho**, CEO of Landsea Homes

Key takeaways:

1. To optimize team performance and culture, PE firms need to build high-performing teams by prioritizing talent management and post-acquisition integration.

- It's not just about hiring people or developing cutting edge products and services, what's required is enhancing these elements to create exceptional outcomes.

- The true differentiator lies in the ability to build fantastic teams and elevate good talent to exceptional talent. This involves strategic talent management and development beyond the basics.
- PE firms often focus heavily on metrics and financial aspects of acquisitions, and frequently overlook the importance of talent and culture.
- PE firms need to invest more in understanding and nurturing the “magical piece of the DNA” of their acquired companies, to ensure successful integration.
- Missteps in realigning organization charts, such as letting go of key cultural figures (the “DNA glue”), can destabilize the organization and lead to the loss of high performers, institutional knowledge, and intellectual property.

2. A strong culture directly impacts client retention, employee satisfaction, and overall value creation. Happy and motivated employees lead to better client retention and higher productivity, which ultimately increases the business’ value.

- A strong culture enhances performance across all functions, from product development to customer service and accounting. Ignoring this can lead to mediocre outcomes, even if other aspects of the business are managed well.
- Culture should be instilled from the inception of the company. Embedding cultural values from the start ensures that these values and norms are integral to the company’s growth and its operating model.
- Key attributes of a healthy organization, from a cultural perspective, include minimal politics, clarity, good morale, high productivity, and low turnover.
- To foster these attributes, companies should reverse engineer their practices, principles, and behaviors to align with these cultural goals.

3. Team evolution, specialization, continuous evaluation, and strategic shifts are essential as companies grow.

- There is a need for cultural diligence during the acquisition process – this includes evaluating employee reviews, client feedback, and understanding the broader impact of potential layoffs or changes post-acquisition.
- Teams that started with the company must evolve significantly to meet the needs of a maturing company.
- Companies need to be proactive and continually assess the team composition to ensure business goals remain on track.

- This evolution is crucial for adapting to new challenges and ensuring the company's continued success in a dynamic market.

4. As a company evolves through its life cycle, it is critical to adapt leadership roles and leverage investor experience to guide companies through the different growth stages, ensuring the right talent is in place to meet new challenges and achieve success.

- As companies mature, they require specialized skills to handle increased complexity, geographic expansion, and different types of capital.
- Certain team members may need to *get off* at different floors if they are not suited for the next stages of growth.

5. As part of evaluating management during an acquisition, it is important to understand the various perspectives and strategies of potential buyers. Emphasis should be placed on careful timing with respect to involving employees, thorough due diligence, and a collaborative approach to align with new investors for the long-term success of the business.

- Investors often evaluate the leadership team when considering an acquisition, as they recognize that strong management is crucial to the ongoing success of the business. However, the depth of this evaluation can vary significantly depending on the type of buyer.
- PE firms may have different approaches to evaluating and integrating management. Certain investors believe they can replace existing management, while others are more interested in retaining and leveraging the existing team.
- Keep employees out of the acquisition process as long as possible to avoid causing unnecessary anxiety and speculation, which can disrupt operations.
- Post-LOI, management teams often undergo a form of "audition" where their capabilities and fit with the buyer's strategy are closely evaluated. This process helps determine which members of the team are retained and which may be replaced.
- For privately held companies, the personal connection and loyalty to long-standing employees can add complexity to the decision-making process during an acquisition. Owners must balance their desire for a good exit with the need to ensure their employees' futures are considered.
- A lack of understanding or misalignment with the buyer's plans can lead to post-sale disappointment. First-time sellers may not fully appreciate the implications of who buys their company, beyond just the financial aspects.
- Founders who approach the acquisition as a partnership opportunity with their new investors tend to fare better. Being part of the solution and working collaboratively with the new owners can facilitate a smoother

transition and better outcomes for all parties involved.

6. Sound corporate governance, meticulous preparation, and a strong executive team all play an important role in optimizing a company for a potential exit. Running the business with the assumption that it will eventually be sold, while maintaining robust systems and processes, can significantly ease the transition and maximize the value derived from the sale.

- The right governance structures and board composition can significantly influence the ability to run the business effectively. Competing interests and agendas among shareholders, board members, and management must be managed carefully.
- The business should always operate under the assumption that you will one day be sold. This includes having organized processes, systems, and naming conventions in place. Proper documentation and structured data can simplify the due diligence process, reducing disruptions and maintaining business continuity during the sale.
- Ensure that key talent remain focused on running the business rather than getting bogged down in due diligence. This minimizes the risk of business performance declining during the sale process, which could negatively impact the valuation and success of the exit.
- A well-coordinated executive team can demonstrate the company's readiness and operational efficiency to potential buyers.
- A transparent and well-documented planning process reflects positively on the management's capabilities and the company's overall health.
- Companies should strive to balance their growth initiatives with exit readiness. This means investing in scalable processes and governance structures early on, which will pay off during due diligence and negotiations with potential buyers.

Should you wish to explore further or hear how companies and CEOs have benefited from best practices particularly in regards to talent during their exit, please connect with Alistair Ross at aross@glassratner.com, SVP and Partner, GlassRatner

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