

How Business Owners find the Right Partner to Invest in their Business

The founders of Financial Aid Services (FAS) contemplated retirement, they decided to pursue the sale of their Company with a buyer who would appreciate and reward their company's 30-year legacy and the value they created. Selling FAS, a leading provider of consulting services, interim staffing and processing services to colleges and universities' financial aid and student business services offices, was a difficult decision for the Founders (who served as CEO and CFO). Over the Company's three decades in business, they developed close relationships with their employees, contractors, customers, and industry stakeholders.

The Company hired a boutique investment bank to find a buyer for their Company. Ideally, they wanted a buyer who would serve as an investor first -- purchasing a majority stake in their business -- and then secondly serve as a business partner who would uphold the business' uncompromising integrity and reputation established over 30 years. Furthermore, they wanted the FAS team to be guided with the resources to succeed in growing the business.

"We knew selecting a buyer was one of the most important business decisions we would make, and we were determined to take our time to find the right partner," recalled one of the Founders. They didn't realize at the beginning of their journey how it would evolve but, in the process, they discovered keys to finding the right partner to invest in their entrepreneur-led business. Here are their nine keys:

1. **Relationship Orientation** – Video conferences and remote meetings are a necessity in a (post) pandemic world, but it is critical sellers determine if the parties like and respect each other enough to enter a productive long-term relationship similar to a marriage. Buyers who want to establish a personal relationship are also providing a healthy sign of emotional intelligence that will continue post close.

RELATIONSHIP ORIENTATION. One prospective buyer, while organized with questions and pre-call agendas, insisted on multiple meetings to understand the business, unique differentiating characteristics, the Founders' goals regarding a transaction and to display their experience in investing in similar businesses at a similar stage of evolution. These multiple touches enabled this prospective buyer to truly get to know this buyer and to establish a sense of personal trust, the foundation of any functional relationship.

2. **Flexibility** – Each seller has his/her own unique needs and concerns. Many buyers want to pressure sellers into adapting to their (the buyers') deal structure and operating cadence post close. To build a productive foundation for the new relationship, it is much better for buyers to thoroughly understand the seller's needs and concerns and develop a customized deal structure. Sellers can screen out those buyers that aren't sensitive to their needs and concerns.

FLEXIBILITY. Over time the Founders wanted to retire but they also wanted to be involved in transitioning at their own pace. Some buyers prefer to move quickly, and some buyers are more methodical. But one buyer was willing to work with them in a more open manner, such that the Founders would communicate their thinking over

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time and then decide when to retire. This example of flexibility and transparency indicated this buyer was truly flexible and a good match to their philosophy. Fortunately for the Founders, this level of flexibility and transparency has reemerged throughout the relationship with this buyer.

- 3. Market Understanding** – While it is true there are general business principles that apply to all businesses, today's markets are hyper competitive, global and in many cases treacherous. Sellers benefit by finding buyers who have deep experience in their industry or in closely related industries. This knowledge allows buyers to make an impact quickly and avoid costly delays or mistakes. Sellers should record insightful comments about their business from a market perspective from each prospective buyer. Later in the process sellers can use this information to rank prospective buyers. Additionally, early in the process, ask each buyer to describe their view of the business and the market. Pay attention to the depth of knowledge displayed both on your business and industry.

MARKET UNDERSTANDING. The world of financial aid in higher education institutions is highly complex and impacts nearly every area of an institution and its mission. FAS was built with deep subject matter expertise and a differentiated level of understanding regarding all aspects of managing a financial aid office. The Company needed a financial partner who understood this and, while executing growth initiatives, would retain this deep subject matter expertise. This level of understanding and sensitivity can only come with prior sector experience.

- 4. Certainty to Close** – No matter the circumstances, selling a business is time consuming and disruptive. There are many circumstances where sellers spend months pursuing the sale of their business only to have the process fail, sometimes at the 11th hour. Sellers, therefore, must be vigilant in assessing prospective buyer's certainty to close or the likelihood that the buyer will be able to follow-through with, and honor commitments outlined in the Letter of Intent (LOI). Some leading indicators of a prospective buyer's certainty to close are:
 - The amount of work the buyer does prior to providing commitments (IOI's and LOI's) to the seller.
 - The level of understanding the buyer exhibits regarding the business.
 - The experience the buyer has in completing transactions on time and consistent with indicated terms.

If a buyer has done sufficient work prior to extending commitments and if they truly understand a seller's business, material surprises shouldn't impact the price or timing of a closing.

CERTAINTY TO CLOSE. FAS was pleased with the cross section of prospective buyers that their investment banker introduced to the Company. Most buyers were engaged and asked good questions. The founders noticed a couple of the groups seemed to ask more insightful questions displaying a level of preparedness and experience not seen with other buyers. They performed their own analyses; often building upon data supplied by management. Their questions indicated a familiarity with professional

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service firm business models and with higher education. They understood the unique impact that seasonality has with revenue patterns and were conversant in the trends impacting deans, provosts and CFOs of colleges and universities and understood the differences among different institution types including community colleges, four-year universities, HBCU's, and others. The prevailing buyer exhibited the most work prior to submitting an LOI, understood their business and industry which resulted in the sale process succeeding without surprises.

5. **Alignment is key** - The seller must probe deeply to uncover the prospective buyer's core strategy relative to how they intend to approach growing the business. No sophisticated buyer invests in a business without a thesis on where they see the business heading once they own it. It is therefore essential that buyers and sellers communicate and develop alignment. Buyers who understand how critical this alignment process is to a successful long-term relationship make this process of alignment easy, quick, and straight forward. Sellers should ask prospective buyers their vision of the business. Sellers should not accept generic responses as buyers who have submitted a proposal should have a vision for the business under their ownership.

ALIGNMENT IS KEY. Shortly following the closing of the transactions FAS senior leaders and their new buyer met for two days in FAS's Atlanta headquarters just down the street from the stadium of the 2021 World Series Champions. There was the standard onboarding discussion of meetings, key performance indicators (KPI's), and reporting, but the one aspect of transitioning that surprised the Founders was how much attention their new partner focused on aligning strategy. Each functional leader discussed his/her goals for the year in addition to the primary initiatives they were pursuing to achieve those goals.

The partner helped to frame different growth scenarios and facilitated a collaborative discussion on what additional development initiatives made sense to pursue, what KPI's would signify success, timing goals and initiative ownership. They discussed external resources that could be helpful given the FAS team was at 100%+ capacity as they were headed into their late summer busy season. The Founders were pleased with how in sync they felt with their partner prior to these sessions and this sense of partnership increased significantly after these initial alignment sessions.

6. **Experience in onboarding entrepreneurial businesses** – Businesses that are led by entrepreneurs are fundamentally different from businesses that are owned by institutional investors. The transition from an entrepreneurial-led business to an institution-owned business can often be complex, as the requirements for institutional partners and their constituents are typically not present in an entrepreneurial or founder-led business. It is essential, therefore, that sellers make sure prospective buyers have reference-tested track records in helping management teams adjust to being owned by an institution. It is vital they can clearly demonstrate their prior investments have NOT lost the secret sauce, core values and differentiated business culture that led to the business' success. The best ways

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to assess is speaking with references, which should be seller-owners and CEOs of the buyers' portfolio companies and discussing with buyers their detailed plans to provide the resources required post transaction.

ONBOARDING. FAS is a highly successful industry leading business. But management didn't utilize extensive KPI's, budgets, strategic plans, nor require bank and investor reporting or the completion of an audit. Their team was already tired from juggling a busy summer season and supporting the diligence process related to the sale of the business. So, they knew a litmus test to this budding relationship with their new partner was going to be the level of patience the partner had with them, and their team post close. To the satisfaction of the FAS management team their new partner provided resources to augment the team to help provide the information needed.

- 7. Functional expertise** – Some sellers want to remain actively managing the day-to-day of their business and find a partner to work to accelerate growth while others want a partner to help identify and transition a new leader to manage the company. Many sellers recognize they have gotten to a point in their business' growth where they need help reinventing their sales force or changing their go to market strategy. Regardless, it is critical that the buyer have a proven and reference-tested track record of accomplishing the key functional improvements that the seller has identified are necessary to grow the business, maintain or expand profitability and retain the Company's business culture. When assessing if a potential partner has the expertise to help, a seller should review the buyers' websites. Do they convey themselves in a compelling manner? Who does their website market target? Research who specifically they recommend will help with the messaging. Probe into this person's track record and ask to see examples. It isn't necessary to do this for everything the seller thinks their business needs, but sellers should do their diligence in one or two of the most important areas of desired improvement.

FUNCTIONAL EXPERTISE. The Founders were attempting to expand the size and scope of the consulting and interim staffing team and project management capabilities. The Company's partner, responded by leading multiple sessions to develop a Value Stream Map (e.g., following six lean principles) of the process, identifying key process constraints, non-value-added activities, and opportunities for technology to reduce the amount of work being performed by FAS's management team and its consultants.

- 8. Resource leadership** – All institutional buyers claim to have resources (internal or external consultants) to support their investments. But throwing expensive consultants at relatively small businesses without the proper leadership is often ineffective and costly. Buyers need to train entrepreneurial-led management teams to properly utilize these resources and actively participate as "general contractors" to ensure consultants execute their projects with the proper scope, budget, and deliverables. Ask buyers to provide examples of "value-add" projects. Probe to understand whether the buyer simply introduces consultants to their portfolio company management teams or if they guide the development of the scope

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of work and then make sure the team members can balance running the business and participate in the project to pursue project actions efficiently.

RESOURCE LEADERSHIP. The Founders recognized the opportunity for certain enhancements in marketing specifically regarding the upgrading of the website and social media presence. Their new partner introduced the FAS team to one of its external marketing resources and helped to structure a project and participate throughout the duration of the project. The external resource, a leading expert in neuromarketing, worked well with the entire senior team who were eager to learn and apply neuromarketing methodologies to FAS.

The team is currently engaged on numerous enhancements and the Company has already benefitted from improving campaign response rates.

Another example of the new partner providing value, was on the consulting operations side of their business. Simply stated, the supply of consultants dictates how much business the Company can pursue during the year. FAS had struggled to attract qualified new consultants to grow its team of top-notch financial aid advisors. The team identified this as an issue during the pre-close process and again at the two-day alignment session directly following the close. The new partner assisted by reviewing the job description, job ad postings, recruiting process, and engaged with FAS management to collaboratively revise the approach to recruiting top consultants. The result was a 300% increase in qualified candidates which enabled them to hire the additional consultants required to support the business.

- 9. Trust...do what you say you are going to do** – Trust is the foundation of any productive relationship. Without it, collaboration and teamwork are not possible. The most important determinant of whether a seller-buyer relationship will be a value add to the business is whether the seller and their management team can enter and maintain a trusting relationship with the buyer. It is essential to find a buyer where trust can be developed (early in the process) and maintained through close and beyond. One way to develop and/or earn trust is to do what you say you are going to do. The smallest most basic acts -- showing up to video conference calls on time and returning emails responsively, can get you there. Selecting a buyer to shape the future of the seller's business is an extremely important decision. Vetting prospective buyers through reference checking is the best way to determine whether the buyers have a track record of doing what they say they will do and this kind of behavior shapes whether they can be trusted.

TRUST. The Founders, their management team, and their buyer (now referred to as their "partner") have developed a relationship that is built on trust. The Founders and Company pride themselves to always do what they say they will do, and it has been refreshing to receive the same consideration from the buyer.

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FAS has succeeded in finding, in Millpond, the right Partner to achieve the objectives of their Founders and the Company and these key steps serve as a roadmap for any seller contemplating a new partner.

About Millpond Equity Partners:

Millpond completed a transaction with Financial Aid Services in May 2021. MEP is a lower middle-market private equity firm with specialization in the Education sector. They teamed up with FAS founders and management to develop and implement a focused strategy, using a collaborative approach to drive equity value creation in their business.

Millpond has invested in education companies since the mid-90's. Their active education portfolio includes Financial Aid Services, TouchMath, Science Interactive Group and Pharmacy Development Services.

Jeffrey Tobin, a partner at MEP, currently serves as Director of Financial Aid Services (FAS) and has nearly 30 years of experience as a private equity investor and operating executive in middle market businesses and leads Millpond's value-creation process.

About Financial Aid Services:

Financial Aid Services (FAS) has served higher education for over 30 years with a focus on private (non-profit) and public institutions. Located in Atlanta, they provide processing support, consulting, and other services to assist colleges in improving operational efficiency, student satisfaction, and regulatory compliance in financial aid and student business services.

FAS' more than 60 full-time, part-time, and project-based staff average 28 years of experience in the profession. Together they have processed over 1.5 million student files and supported over 1,900 clients nationwide.