



## SILVERCREST ASSET MANAGEMENT GROUP

# THE CHALLENGE OF SHAREHOLDER LIQUIDITY



**SEÁN O'DOWD**  
MANAGING  
DIRECTOR

One of many challenges facing family businesses is how to address the various liquidity needs of shareholders. With publicly traded family businesses, this issue can be resolved simply by selling shares in the open market. But for privately-held family businesses, alternatives must be considered. Too many family business owners of privately held companies believe that the only way to generate real liquidity is to sell the business entirely. Thankfully, this is not the case. There are several ways

to provide liquidity to shareholders of privately held family businesses without giving up control of the family business and its legacy. To identify the right liquidity alternative, we must consider two key factors: the amount of liquidity needed; and the importance of keeping the family business legacy for future generations. The list below highlights high- and low-level liquidity alternatives. In general, higher liquidity alternatives reduce control of the family business. However, only a complete sale of the company results in giving up the family business legacy entirely—a major financial and emotional consideration for multi-generational family businesses.

### HIGH LEVEL LIQUIDITY ALTERNATIVES:

- Sale of the company
- Partial sale of the company
- Initial Public Offering (IPO)

### LOW LEVEL LIQUIDITY ALTERNATIVES:

- Employee Stock Ownership Plan (ESOP)
- Redemption plan
- Special dividend
- Dividend distributions

In exploring each of these alternatives, we must keep in mind that the time, involvement and cost of outside advisors and legal counsel can vary a great deal. Many family business owners find just the process of identifying, selecting and managing the appropriate advisor daunting.

### SALE OF THE COMPANY

If the family business's shareholders believe now is the time to sell, and future generations are either not interested in, or unable to run the company, then this is the preferred alternative. The sale of the company will not only generate the highest level of liquidity, it will likely generate the highest valuation for the business as the valuation will include a premium for control of the company. The process to sell a business can be time consuming for company managers and will require the hiring of an M&A advisor to run the process.

### PARTIAL SALE OF THE COMPANY

In some situations, a family may wish to sell only a portion of the business to generate liquidity and to access capital from a minority partner that can also provide strategic, operational or financial expertise. A partial sale will not generate the highest valuation for the family business but will provide meaningful liquidity. Also, a partial sale can be used as part of a two-step sales process to become better acquainted with the investor/partner before selling control of the business at a later point. A partial sale will require an outside M&A advisor and can take time to find the right partner/investor.

---

*To identify the right liquidity alternative, we must consider two key factors: the amount of liquidity needed; and the importance of keeping the family business legacy for future generations.*

---

### INITIAL PUBLIC OFFERING (IPO)

Another alternative that will generate significant liquidity is an IPO, which will allow a family business to sell equity through a public offering on a stock exchange. A family business can decide how much ownership to give up in an IPO and can therefore maintain control if the family desires. However, public markets will now determine the valuation of the company's shares and a great deal of information related to the family business (SEC filings, etc.) will become available to the public. Investors and analysts on Wall Street will also scrutinize the company's performance on a quarter by quarter basis. This process can be time consuming and will require the hiring of an investment bank to list the shares and handle regulatory issues.

### **EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)**

The sale of equity in a family business to an ESOP provides liquidity to the family and allows employees of a family business to participate in the ownership of the company. The formation and management of ESOPs is highly regulated, and the costs of compliance and management of an ESOP are considerable. Given the specialized nature of this alternative, ESOP advisors are usually hired to handle the transaction.

---

*The sale of equity in a family business to an ESOP provides liquidity to the family and allows employees of a family business to participate in the ownership of the company.*

---

### **REDEMPTION PLAN**

A redemption plan gives shareholders an opportunity to put their shares back to the company, on a periodic basis (usually annual), at a valuation determined by a third-party valuation expert. Typically, the number of shares allowed to be put to the company is modest (i.e., 2% to 5% of total shares). This alternative provides liquidity to individual shareholders seeking liquidity. Outside advisors' involvement is narrowly defined and limited in this situation.

### **SPECIAL DIVIDEND**

For some family businesses, a high level of cash on the balance sheet or an under-leveraged balance sheet can provide a one-time special dividend to shareholders to meet their near-term

---

*For some family businesses, a high level of cash on the balance sheet or an under-leveraged balance sheet can provide a one-time special dividend to shareholders to meet their near-term liquidity needs.*

---

liquidity needs. With this alternative, the family business must have the financial capacity to provide the special dividend and shareholders need to understand that this is a one-time occurrence and distinct from the regular dividend.

### **DIVIDEND DISTRIBUTIONS**

Regular dividend distributions remain the traditional method of how privately held companies provide liquidity to shareholders, however, it is not uncommon for private companies to pay rather modest dividends relative to their publicly traded peers. If shareholders' liquidity needs are relatively low, then a review of current level of distributions can be done to see if dividends could be increased to meet liquidity needs.

These liquidity alternatives do not have to exist on a stand-alone basis and can be used in combination to satisfy the liquidity needs of shareholders of family owned businesses, which are often complex. It should be comforting for family business owners to know that there are liquidity options that do not result in the loss of the family business legacy. Each of these alternatives will require guidance. Silvercrest now has the in-house corporate finance capabilities to address these liquidity concerns and any other related family business issue with the recent hire of Seán O'Dowd as managing director and family business advisor.

This communication contains the personal opinions, as of the date set forth herein, about the securities, investments and/or economic subjects discussed by Mr. O'Dowd. No part of Mr. O'Dowd's compensation was, is or will be related to any specific views contained in these materials. This communication is intended for information purposes only and does not recommend or solicit the purchase or sale of specific securities or investment services. Readers should not infer or assume that any securities, sectors or markets described were or will be profitable or are appropriate to meet the objectives, situation or needs of a particular individual or family, as the implementation of any financial strategy should only be made after consultation with your attorney, tax advisor and investment advisor. All material presented is compiled from sources believed to be reliable, but accuracy or completeness cannot be guaranteed.