



TRANSACTION RISK
MANAGEMENT

Strategies for Protecting Owners and Capital Investors

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WHITE PAPER

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GIVEN THE GROWING IMPORTANCE OF SOPHISTICATED RISK MANAGEMENT FOR STRATEGIC TRANSACTIONS, HYLANT'S TEAM FOCUSES ON TAKING A HOLISTIC VIEW TO REDUCE UNCERTAINTY DURING COMPLEX TRANSACTIONS, PROTECT THE SAFETY OF INVESTMENTS AND MAXIMIZE FINANCIAL RETURNS.

Myra Klein, CFO at a fast-growing \$30 million company, has been working late for weeks on the planned acquisition of a smaller competitor. Just when she thought her workload would lighten, she's grappling with a thorny technical tax issue related to the transaction. Myra doesn't realize it, but her counterpart at the \$3 billion company four buildings away solved the identical issue with help from a risk management consultant.

Roger Cartwright led his midwestern manufacturer through buyout talks with a West Coast competitor. The numbers look right, and the cultures seem compatible, but something is gnawing at Roger's gut and he can't quite put his finger on it. Eight months from now, he'll discover a hidden liability within the other company's executive benefits that turns what he thought was a brilliant move into a bad deal.

Eric Randolph has managed the Corbett family's office for nearly three decades, earning the trust of three generations. One of the younger Corbetts is urging Eric to make a significant investment in seed funding for a company started by a former Stanford classmate. The pitch deck is impressive, but Eric knows little about the industry and has always invested the family's funds in established concerns, so he's hesitant to move forward.

As Complexity Grows, Risk Management's Value Grows

The three scenarios described above involve vastly different organizations and situations, but all could be addressed by tapping into the knowledge of professionals with experience in identifying and managing risks related to transactions.

As the volatility and complexity of investment and financial markets continue to increase, the world's largest companies have embraced risk management as a central element of strategic planning. Leaders of those companies have drawn upon the sophisticated risk management expertise available to them to ensure the success of strategic transactions such as mergers and acquisitions (M&A).

Top managers at middle-market companies and sources of private equity such as family offices generally haven't had a high level of awareness of the risk management resources available to help them make decisions with greater confidence. That has been changing as people who have gained experience in well-known enterprises transition into leadership roles in smaller settings. These businesspeople have been accustomed to developing growth plans and making decisions informed by data, finance and risk issues—and they've brought that knowledge into their new roles. However, the resources they have used in their past roles may no longer be practical choices because of budget constraints or a lack of interest on the part of large consulting firms.

Fortunately, other resources are available to these comparatively smaller organizations. As an example, Hylant has enhanced the capabilities of its M&A and Transaction Solutions team to bring a higher level of risk management expertise to previously underserved organizations.



Resources Are Available for Middle-Market Companies

Even though smaller companies lack the scope and capitalization of Fortune 1000 members, many of the challenges they face are fundamentally the same. Take the scenario about the tax issue Myra and her larger-company counterpart have both encountered. While the two financial leaders are working with different numbers of digits, both would benefit from the same counsel. It comes down to a question of whether that counsel is accessible and affordable to growing firms like hers.

The nation's roughly 235,000 middle-market companies have long been underserved when it comes to risk management expertise. Given the growing importance of sophisticated risk management for strategic transactions, Hylant's team focuses on taking a holistic view to reduce uncertainty during complex transactions, protect the safety of investments and maximize financial returns.

Unlike brokers whose primary motivation is insurance placement, the Hylant M&A and Transaction Solutions team brings professionals with extensive corporate experience together to study a company's needs and recommend strategies to transfer or mitigate risk.

Broadening Risk Analysis Beyond Compliance

A central element of the services delivered by the Hylant team is a proprietary, comprehensive risk analysis that evaluates a company's risks and how it is applying its human and financial resources to address those risks. Instead of taking a limited view of risk built around compliance, the team drills down deeply to discover opportunities for meaningful changes. Recognizing that companies have access to a limited amount of resources and must deploy those in the most efficient ways to maximize value, the team uses this strategic process to break down internal silos to both quantitatively and qualitatively identify and deal with all of the potential risks.

Consider how the team assists a company like Roger's that is considering a major acquisition. Using a risk-focused due diligence process, the team analyzes a long list of impacts an acquirer should be aware of, including those related to property insurance, employee benefits, retirement plans, key employee compensation or life insurance.

Once risks have been identified and quantified, the team can draw on Hylant's expertise to build insurance solutions and place policies that effectively transfer risk to third-party insurers. The team can also design bespoke forms of insurance capital to facilitate transactions when other forms of capital are unavailable.

While insurance may play a role in their recommendations, instead of treating it as an expense, the team will evaluate coverage as an investment decision. After all, insurance decisions affect the company's financial capacity, and managers need to consider the internal rate of return on what they spend.

Preparing for the Next Stage in a Risk-Abundant Era

America's middle-market companies—along with the 16 million smaller companies that hope to move into the category—have long been the growth engine of the nation's economy. The double economic whammy of COVID-19 and social unrest has the leaders of many of those companies taking a more focused look at the foreseeable future.

Given the inherent limits of organic growth, the obvious strategy becomes some sort of transaction, whether that's cashing out by selling the company or identifying other companies that appear to be somewhat distressed and undervalued, making them excellent acquisition targets.

Whether a company is currently on the buy side or sell side, there's increased awareness among middle-market CEOs and boards of the value and importance of having a strategic risk management adviser as part of the deal team. Wise leaders seek expertise capable of looking beyond valuation and operational







Analyzing Opportunities in an Uncertain Economy

In the uncertainty of today's economy, even otherwise healthy companies struggle to find their footing. Whether it's a need for a significant capital infusion to provide a bridge to more stable times, or a recognition that this is an excellent time to capture opportunities for competitive advantages, many of these companies are in search of private funding. Those conditions create tremendous opportunities for private equity sources and family offices that have capital ready to invest.

At the same time, the instability of the economy and the potential pitfalls lurking in companies have been increasing awareness of the value and importance of having strategic risk management counsel as part of the investor's team of trusted advisers. The role of risk management counsel in these situations is to look beyond valuation and operational issues to identify factors that may significantly reduce the anticipated return on investment, and then to devise strategies to transfer, eliminate, or otherwise mitigate the risks.

The Hylant team brings professionals with extensive corporate, private equity, and family office experience together to assess and help structure these transactions.

Also Serving the Unique Needs of Family Offices

As corporate structures and deals become more complex, gaining an independent view of the inherent risks before proceeding with decisions is prudent. That's particularly true for family offices, given their long-term goal of preserving and growing the family's financial legacy. Whether they're seeking such growth through investments in commercial organizations or preparing to make significant outlays to support philanthropic objectives, they need to protect their assets.

Insurance may seem to be one obvious strategy. However, few commercial insurance brokers have experience in serving the unique needs of family offices and may not even be able to communicate effectively with them.

While family offices have great confidence in their business managers or other professionals they have entrusted to protect assets, like Eric, those professionals may not be completely comfortable with complex transactions or familiar with all the risks associated with a particular company or industry. That's where counsel from professionals who specialize in risk management issues, have deep experience in both commercial and private insurance programs, and who are familiar with the challenges and nuances of the family office environment becomes critically important.

For example, a family may be considering an investment in a company whose industry involves inherent environmental issues. Experienced risk management counsel will examine the specific risks associated with the company's business and can identify and recommend strategies to transfer the exposure outside of the deal. They'll work with the family's attorneys to protect both the investment and the assets.





Discover How Hylant Can Inform Your Decision-Making

The growing emphasis on risk management as a leadership function and access to new risk management tools bring a new perspective to decision-making related to special transactions and everyday operations. The Hylant M&A and Transaction Solutions team gives companies access to that expertise when they need it most.

Learn more about how we help organizations like yours reduce the uncertainty of complex transactions, protect their investments and enhance their returns by contacting our team today.

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