After the Ink Dries, with Zach Coopersmith of Leading Ridge Capital

by **Jaime Romero** on April 12, 2011 in due diligence, leading ridge capital, private equity

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*In partnership with the team at Leading Ridge Capital Partners, an AxialMarket member since 2009, we are covering a topic that gets little coverage despite its critical importance both to business owners and private investment firms: **post-transaction strategic planning and implementation**.*

When a private equity firm steps up to the plate to buy a company, they need to have a plan for how they are going to create value from the investment. Value can and often comes from financial engineering, but in the case of certain private equity firms, value is created by actually helping the management team improve the business **operationally**.

If due diligence has been thorough, the private equity firm should have a good sense for what it can expect to achieve in terms of performance gains and the timeline over which those gains are achievable. Less clear is what the company's management can expect from the Private Equity firm.

To gain some insight into what happens after the ink dries on a deal, we talked to Zach Coopersmith, a partner with Leading Ridge Capital Partners, a private equity firm that targets middle market companies with less than $50 million in revenue with specific expertise for businesses in the asset-light logistics, business services, and distribution categories.

In many cases, Leading Ridge's chosen portfolio companies are still being run by the founder or the second generation and have reached a certain threshold of performance without being able to surpass a growth ceiling, either in terms of product or revenue. "They often have strong operations but the founder is not a good salesperson or the founder is good at sales but not a good manager of larger numbers of people," says Coopersmith. "We are not turnaround specialists, so we are not coming in to fix major structural problems with our companies, but we do often find a significant number of opportunities for business improvement." Although each of Leading Ridge's post-deal plans are unique to the needs of each portfolio company, Coopersmith provides a window into the firm's key priorities in the first several months following the closing.

Systems-based infrastructure to support growth. When Leading Ridge purchases a company, it must often implement systems necessary to support the next level of growth, such as human resources practices, more sophisticated financial measurement systems, a stronger sales and business development function, a credit facility, and processes for holding people accountable for results.

"This is the time to get under the hood and evaluate appropriate benchmarks and key performance indicators. We are aiming for rapid but controllable growth and expansion," says Coopersmith. "We need to make sure there is infrastructure that can support those goals." For example, if the company improves the sales function, it also needs to make sure customer service doesn't suffer as the company expands its customer base.

Such changes play out in ways small and large. For example, during due diligence, Leading Ridge found that one portfolio company was planning to pay cash for a new piece of equipment that promised to double output. When the deal closed, Leading Ridge and the new management team delayed the purchase long enough to negotiate better pricing and arrange for equipment financing to minimize the impact on the company's cash position.

Effective management. For these efforts to succeed, Leading Ridge recognizes the importance of a strong management team. Depending on the circumstances, the firm will either partner with existing management or bring in new management talent. In the latter situation, the firm tries to retain the company's former management to ensure an overlap of at least six months to ease the transition. "Having no overlap between the outgoing and incoming management teams is not ideal, but you can overcome that by learning as much as possible about the company during due diligence and before the former owners or managers exit the business," says Coopersmith.

Although existing management can provide insight into company operations after the closing, starting fresh with a new management team can often reinvigorate a company after the closing. "It can be difficult to change a culture without changing senior management and starting with a clean slate," says Coopersmith. "This sends a clear message that things are going to change, ideally for the better, and that in many cases the status quo is no longer good enough."

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As a smaller private equity firm that focuses on only a few portfolio companies, Leading Ridge can focus on each company and its needs. “Our companies need different things from us at different times,” says Coopersmith. “Our focus is on being a partner of the CEO and being ready to pitch in and supplement the management team in a variety of ways whenever necessary.”

Communication. Once the long-term management team is in place, Coopersmith emphasizes ongoing communication regarding short-, medium-, and long-term goals. “We need management to understand what the firm wants and expects,” he says. “Clear concise communication can solve a lot of problems. The trick is to find the balance between too much and too little.”

For example, if the firm wants weekly cash flow reporting and the CEO wants to provide additional reporting on actions plans or specific initiatives, that needs to be clear to both the firm and the management team up front. “The CEO needs to provide the information and data that the PE firm expects based on mutually agreed upon metrics and dashboards,” says Coopersmith. Anything beyond that should be discussed and negotiated beforehand.

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