

Choices, Choices

Selecting the right private equity firm

As a business owner, you must evaluate numerous factors above and beyond purchase price when selling your business. If the potential buyer is a private equity firm, selecting the right firm is critical to ensure your economic and qualitative objectives are met. You should consider the following factors and questions in your selection process.

CORE VALUES

Shareholder value is a basic principle of every private equity firm. Will the firm create value through financial engineering or by building a better business? Is the firm capable of balancing the needs of its shareholders with the long-term interest of your customers, employees and suppliers? Does the firm have other core values, such as teamwork, integrity and professional conduct?

CULTURAL FIT

Cultural fit is a key factor in the ultimate success of any acquisition. How closely does the firm's culture fit your company's culture? Do the principals come across as intellectually superior, arrogant or autocratic? Or, do they treat you, your managers and employees with respect? Is the private equity firm capable of creating an environment where ownership, management and employees are viewed as one team pulling in the same direction?

ACCESS TO CAPITAL

All reputable private equity firms have access to capital. However, does the firm have sufficient capital to close the transaction and support your company's growth strategy and operating needs?

NONMONETARY CAPABILITIES

Another important factor should be the private equity firm's ability to bring something to your company in addition to capital. Does the firm possess industry knowledge? Do they have relationships with advisers, directors and strategic partners that will benefit your company? Will they provide corporate finance advice and services without charging exorbitant fees? Do they possess legitimate operating capabilities that your managers can use as a resource to help them through challenges and rapid growth?

CAPITAL STRUCTURE

Most likely, you and your management team operated with a conservative capital structure. What type of capital structure does the firm plan to use post-closing? Will the capital structure provide your managers with enough flexibility to achieve operational and growth objectives? Will there be sufficient equity in the capital structure to weather economic cycles and changing business conditions?



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TRACK RECORD

Past investment returns are a potential indicator of successful future investments. Has the firm made successful investments in the same industry or similar industries? Are the firm's historical returns ranked in the top quartile of comparable private equity firms? How did they achieve those returns?

When selling your business to a private equity firm, choosing the right firm is one of the most important decisions you will make. In order to ensure your economic and qualitative objectives are met, you need to thoroughly assess each prospective firm's core values, cultural fit, access to capital, nonmonetary capabilities, capital structure and track record.

To assess these factors, you should meet the principals of the private equity firm and check references from lenders, attorneys, accountants and other professional service providers who have done business with the firm. In addition, you should speak with other business owners that have sold their businesses to the firm, and management teams that have worked with the firm.