PFINGSTEN

Exit Options

The benefits of selling to a private equity firm

For owners of privately-held businesses, selling their business will be one of the most important decisions they'll ever make. After all, owners only get one chance to put a price tag on the years of time and effort poured into their business.

In addition to maximizing proceeds, owners typically grapple with issues such as rewarding loyal employees, negotiating their own ongoing role in the company and maintaining the business' legacy.

In today's M&A market, private equity firms are capturing an increasing portion of the overall activity due to their aggressive pricing and customized transactions that meet business owners' noneconomic goals and objectives.

PRICING

Historically, an owner wishing to maximize the company's price sold to a strategic buyer that could justify paying a premium amount because of anticipated synergies from staff reductions and merged operations.

In addition, the strategic buyer's large size provided access to substantial amounts of inexpensive capital.

Meanwhile, sales to private equity firms came mostly from owners willing to accept a somewhat lower price in exchange for a private equity firm's ability to satisfy some of their noneconomic goals.

As the prominence of private equity firms has increased, so, too, has their access to equity and debt. The need to put this capital to work has resulted in competitive bidding by many private equity firms, mitigating the pricing disparity between private firms and strategic buyers.

NONECONOMIC BENEFITS

In addition to being aggressive payers, private equity firms also offer a seller other benefits.

▪ More Flexible Structures

For companies with significant growth and profit potential, a recapitalization — in which the owner sells a majority of the business to a private equity firm for cash while maintaining an ownership interest — is an ideal strategic solution. Because a growth-oriented private equity firm seeks to double or triple the size and value of a company during the course of its ownership, when the business is subsequently sold — typically five to seven years later — the owner can enjoy another significant payday. The owners' combined proceeds from the two transactions often exceed what they would have enjoyed had they initially sold the entire company.

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▪ Business Continuity

Often, a primary concern for the seller is the company's continuity and its place within the community. A strategic buyer often downsizes a new acquisition and merges it into existing operations. Conversely, private equity firms generally want to retain the existing operations and work force and even grow the company, leading to new job openings and enhanced career opportunities for employees.

▪ Rewarding Loyal Employees

Most private equity firms create an equity program to allow key executives to purchase or earn equity ownership in the newly acquired business. In addition, a private equity firm can generally be more flexible in designing performance-based incentives to attract and retain key employees. Providing a financial upside for key employees is a way for owners to say thank you for years of hard work and loyalty.

▪ Creating A Customized Role

Many owners strongly prefer to focus their efforts on activities that they enjoy, but have had to spend years as a wearer-of-many-hats. For owners who wish to remain with the business post-closing, a private equity firm can provide the flexibility to customize their role and time requirements going forward.

The ability to be more aggressive buyers, combined with the willingness to meet an owner's noneconomic goals and objectives, continues to make private equity acquirers an attractive option for many sellers.