

## WHAT DO THESE BUSINESSES HAVE IN COMMON?

V8 Supercars, MYOB, Golding, Rebel Group, Red Rooster, Eagle Boys Pizza, Pacific Brands, Just Group, Wridgeways, G&S Engineering, Strongform, Bullivants, Plessey, Ausreo, Instant Access, Hastie, Integrated Packaging, Cochlea, PBL Media, Hoyts Group and Link Market Services.

Answer – they are, or have been, wholly or partly owned by a Private Equity firm.

## WHAT IS A PRIVATE EQUITY FIRM?

As defined by the Australian Private Equity & Venture Capital Association Limited ([www.avcal.com.au](http://www.avcal.com.au)), “Private equity is investment typically in unquoted companies that are considered to have high growth potential, with the aim of building and improving them over a period of years and then exiting the investment at a higher value.”

Private Equity Firms are investment managers specialising in these investments, using funds obtained from a variety of sources including private, retail and institutional investors. Such investments are generally made with a defined timeline for exit (typically 3-5 years) and a strong focus on capital growth.

## HOW PRIVATE EQUITY CAN BENEFIT YOUR BUSINESS

Private equity firms present a credible way forward for a business.

- They have access to large amounts of capital
- They are unlikely to be experts in your industry and will generally need you or a manager to run the show
- They are strategic investors and bring an overview of the big picture and its future direction
- They are usually well connected, providing access to opportunities that may otherwise not be available
- They are sophisticated investors, well organised and have established processes regarding both acquisition and sale of businesses
- They require the business to have strong management, including financial management, so usually require insertion of a CFO where one does not already exist in a business
- They are geared for a well-planned and structured exit for all who want to, and therefore gear all investment decisions around maximum bang for bucks.
- They want to exit safely and cleanly, usually by either IPO (which is not considered a strong option in today's market) or trade sale to a major corporation.
- They bring a lot of expertise that you and your team might not otherwise have available to you.
- They require formalisation of systems and reporting, both for themselves and also to prepare for the subsequent owner.
- They want to build major corporations with the owner's input, to make substantial capital profits all round.
- Some may require the existing owner retain a share of the business for both security and as an incentive so everyone benefits in the second stage, not just them.
- They are generally led by teams with significant business experience and acumen.
- They are highly reputable organisations and present a relatively low risk option for owners if they don't proceed after completing due diligence.

They generally bring overheads to the business that might not otherwise be necessary, however these corporate overheads will be part of commercialising the business for major corporate life after their and your exit.

Most PE players have relatively similar models, where the main difference is in their relative size and preference for either majority or minority investment. They take an ongoing management fee from the business, and often place a strong focus on reinvestment of profits for growth – with a view to maximizing the value of the business upon exit. If an owner chooses to retain an interest alongside the PE firm, they will often be given the choice of matching additional PE capital injections to fund further growth, or to dilute their interest and own a smaller piece of a larger pie.

Each PE firm has their own minimum investment criteria, with most generally looking only at standalone businesses with an Enterprise Value over \$10M or which can become one in the short term. The thresholds may be lower if part of a roll-up of complementary businesses.

Supertrac has established relationships with many PE firms and corporate advisory firms who also provide valuable intermediary and introductory roles.

Contact us to discuss whether your business would be suitable for Private Equity investment.