The Business Finance Guide

Private equity
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Private equity invariably supports quite well established businesses. Which have demonstrated profit and a market, but are looking for some sort of gear shift in terms of what they can achieve.

So this is really about scaling up a quite well established business proposition. This could be, for example, in the retail or restaurant sector, by expanding the number of outlets, or by creating a much larger export dimension to what the business is doing.

Generally speaking a private equity buyout would involve a close to or absolute controlling stake in a company, normally alongside a management team. So the management team might own a third of the business, the private equity might own half of the business, and some other parties might own the remainder. It's a much more substantial commitment in terms of ownership than other models.

A verge large proportion of private equity transactions come from founders or family owned firms who have made a success of the business, think they've done what they can with it, and are looking to either find a new partner or to hand the business over in a condition where someone with deeper pockets can help take the business to another level.

One of the benefits of private equity is that you are not subject to the level of scrutiny or quarterly results that is inevitable if you list on the stock market. So there is more time and more space in which to develop a business plan. Particularly if you want to engender change such as rapid expansion, this may feel like a relatively safe harbour in which to do so.

The downside is that you don't have the sort of permanent funding that stock market listing can offer you. It is a different sort of business proposition, but they are not incompatible.

The level of investment varies according to the size of the business. 85% of private equity investment is actually in the SME market, those with 250 employees or less, so you are probably looking at cheque sizes from £10m to £50m depending on precisely the nature of the business and agrees valuation. At the top end, you may be looking at hundreds of millions and billions, but that is very much the exception rather than the rule.

A typical private equity investment will last between 4 and 6 years, but this depends on the sector, the state of the economy, and when is the best time to sell. During that time, there would be very active board seat management.

Generally when an exit comes there are three possible forms. This might come in the form of a trade sale, or a sale to another institutional investor, or a stock market listing of some form.