



Beyond Debt Banking on Private Equity to Fuel Clients' Growth

By MILTON REEDER

As a commercial banker, you pride yourself on serving your clients. But sometimes their dreams just can't happen with your bank's lending guidelines. By opening your clients' eyes to the world of private equity, you can support their growth ... and make them a loyal customer.

A banker is part of a business owner's team of trusted advisors, along with an accountant, lawyer, and other professional advisors. Guiding your clients as they grow can be very satisfying... until you find your hands tied by your bank's lending guidelines. You know your client has what it takes, but sometimes debt capital can't support the growth on its own. For the more growth oriented of your clients, private equity (PE) may be the solution. While most small to medium companies do not qualify for this source of finance, some do. If your clients are among those few, they may find PE is the best solution as they take their company to the next level.

The PE industry offers funding to growing businesses in return for a slice of equity, an ongoing business mentoring relationship, and a seat on the board. The complex industry includes funds with a range of objectives, such as buyout funds, hedge funds, venture funds, growth capital funds, and dedicated capital from wealthy individuals. This article will look at how your clients can benefit from growth capital.

A PE firm pools money from institutional and high net worth investors in one or more funds to make investments in what are referred to as "portfolio companies." In the case of firms such as Accent Capital Partners that specialize in growth equity, the portfolio companies are selected for their ability to offer exceptional growth potential. The events that trigger the need for growth capital are not limited to internal growth, they may include acquisition, buying out a partner, or restructuring. The investor not only receives an equity stake, often 40 to 65%, but also becomes an active member of the board and may place other professionals whose expertise would be valued on the board.

As their banker, you are well positioned to help CEOs recognize when their debt:equity ratio is about to limit their future growth. However because PE is not for all firms, it's important to understand the basic underwriting criteria so that you are not suggesting a transaction that a

About Accent Capital Partners

Accent Capital Partners specializes in growth equity for established small-cap and mid-cap companies (\$5 to \$50 million in value) involved in business services, light manufacturing, and real estate and finance.

We aim for long term relationships with our portfolio companies, so we invest in companies with top quality management that have a drive to succeed coupled with a vision of how to do so.

We are based in the Bay Area and can be reached to discuss your clients' private equity needs at 415.981.7200 or at www.accentcapitalpartners.com.

Beyond Debt

Banking on Private Equity to Fuel Clients' Growth (con't)

client may not be able to do. The companies that successfully tap PE have three things in common:

- Most important is that the business can be grown rapidly. PE firms demand risk adjusted rate of return, so a business owner must show growth. The more visible the growth track, the easier it is to raise the capital.
- Solid management is also critical. After all, the PE firm is not going to run the business. They must rely on management to execute the agreed upon growth strategy.
- Finally, the CEO/owner must be willing to cede some control. It may be possible to sell a minority stake in the business but that happens less often than not.

If a client of yours meets the criteria for PE, he or she will find it offers flexible financing that can range from convertible debt to common stock. Many business owners also find that the professional executives who take a seat on the board or offer ongoing mentoring are as critical to the future of the company as the funding they receive.

Introducing your clients to the idea of PE can open up their mind to all sorts of strategies that had seemed out of reach. With an investor behind them, companies can consider strategies as wide ranging as acquisition, expansion into new markets, or the buyout of a partner. Without endorsing any particular firm, you can give clients the names of PE firms that may be interested in their industry. The introduction will jump start your client's ability to test the waters. PE firms, always in search of companies to sponsor, are willing to meet with companies that meet their basic criteria to discuss the potential for financing their growth.

Unlike venture capitalists, PE firms specializing in growth equity typically don't invest only in "flavor of the month" industries. Some love non-tech, simple companies; others focus on retail, business services, or some other sector they know well. The bottom line is that any company that has a clear path to growth in most industries may find a PE firm willing to invest in its business. That said, most firms specialize in firms of a particular size or in a particular stage of growth.

Connecting your client with a PE firm does not eliminate its need for your bank's offerings, it expands it. Almost all PE transactions involve the use of additional debt, as the PE firm will be aiming to maximize its return through leveraging the equity it adds. Also, treasury functions at the company are likely to become more sophisticated so selling other cash management products may be appropriate. With the addition of more equity, professional board members and a well crafted growth plan, the credit of your client should improve following a PE transaction.

In the long run, private investment increases the role of the commercial bank: you now become part of the team advising a larger, rapidly growing firm. Perhaps the biggest favor you can do for your best clients is to open their eyes to the possibilities that thinking outside the box can offer.